

# The 2011 PERAC Annual Statement

**James Tivnan**  
**Deputy Chief Auditor**



# Chapter 32, Section 20, (h)

(h) Each board shall annually, on or before May first, file in the office of the public employee retirement administration commission the financial statement of the system which is required by the provisions of paragraph (c) of subdivision (1) or paragraph (e) of subdivision (2) of section twenty-three. Investments of the system shall be carried at values determined by the commissioner in accordance with the requirements of paragraph (b) of subdivision (1) of section twenty-one.

# Chapter 32, Section 20, (i)

- (i) Each board shall prepare annually a report which shows the financial condition of the system as of December thirty-first of the previous year in a manner which can be easily understood by the members of said system. Such report shall contain information showing the financial transactions of the previous year, statistical information with reference to the membership of the system, a summary of the findings of any timely audit reports, a summary of the board's investment policy, a summary of the system's investment portfolio as of December thirty-first of the previous year, and information with regard to the system's most recent actuarial valuation including the unfunded actuarial liability as of the valuation date. Each board shall file a copy of its report with the governmental unit in which the system is established. A copy of the report or a summary thereof shall be made available upon request to each member of the system and to other interested persons.

# When is the Statement Due?

- Per statute: Must be completed, signed, and received by PERAC by May 1, 2012 (Tuesday)
- Obtain signatures at scheduled board meeting in April
- Document needs to be substantially completed by early April – Cashbooks and Pre-close Trial Balance submission date – March 1, 2012

# If You Can't Make the Due Date

- Compose a letter to Joseph Connarton, PERAC's Executive Director.
- Extension may be granted for 30 day period.
- You must provide particulars so we can assess the level of assistance required.
- You will also be required to reasonably estimate an ultimate filing date.

# You are Not Alone!

- Upon your request, PERAC will assign an auditor to visit you on site to help. He/she will be your local auditor.
- The auditors can help determine if it is a vendor or accounting issue
- They are in a position to know the general practices used by most administrators
- Help desk available for e-mail inquiries:  
[AnnualStatement-2011@per.state.ma.us](mailto:AnnualStatement-2011@per.state.ma.us)

# What we do to help

Publish and provide each year, booklet and on CD:

- Preparing the Annual Statement; step by step instructions
- Sample Annual Statement; displays source information and cross references line by line
- A blank Annual Statement

# Signature Page

We, the undersigned, members of the Board of Retirement certify under the penalties of perjury, that we are the official board members of said retirement system, and that on the thirty-first day of December last, all of the herein-described assets were the absolute property of said retirement system, free and clear from any liens or claims thereon, except as stated, and the following statements, with the schedules and explanations therein contained, annexed, or referred to, are a full and correct exhibit of all the assets, liabilities, income and disbursements, changes in fund balances, and of the conditions and affairs of the said retirement system on the said thirty-first day of December last, and for the year ended on that date, according to the best of our information, knowledge, and belief, respectively.

- Designate the Chair on your signature page

# Balance Tests

- Reconciles previous year assets to current year
- Reports all receipts and disbursements totals in current year results
- Reports that all debits (dr) and all credits (cr) are classified and included in the results for the current year
- Provides a mechanism to identify transactions that do not balance

# Assets and Liabilities (A&L)

- Arranged (generally) by relative liquidity
- Assets classified by type of investment
- Investments valued at fair market prices or roughly equivalent
- Includes current accounts receivable that are expected to be reasonably recovered
- Includes some expenses paid currently that will be recovered in a subsequent accounting cycle (prepaid)
- Includes some expenses incurred but not yet paid for: accounts payable

# Prepaid Expenses – #1350

- Most commonly available for insurance
- Provides a better match for the expense provision with the period that benefits
- Applies to multiple period premiums; service contracts; security deposits, etc.
- Not expected to significantly change the accounting process for most systems
- Not without controversy, correct prior periods expensed

# Fund Balances

PERAC maintaining the distinction between the specific funds

- ASF: all accumulated contributions and interest applied during membership, Supplemental membership schedule included
- ARF: all accumulated ASF balances transferred, less annuity benefits paid out, plus cumulative interest applied from Pension Reserve Fund (PRF)
- Military Service Fund (MSF): all accumulated contributions from employer on behalf of deployed servicemen and women, plus interest
- Pension Fund (PF): all accumulated appropriations received from participating units less pension benefits paid out
- PRF: all cumulative investment income derived from activities, less expenses of operations

# Avoid Negative Fund Balances

- PF benefits paid out exceed receipts
- PF is depleted to a negative (Debit) balance
- PERAC Appropriation Letter authorizes transfer from the PRF to the PF to offset
- Revisit prior Appropriation Letters to accumulate transfers
- If insufficient, contact PERAC Actuarial Unit

# Assets and Liabilities

- They MUST equal!
- Three years are presented, the better to identify trends
- Better to view the investment mix and diversification risks
- If all assets are pledged to pay benefits, why bother to maintain separate funds?

# Changes in Fund Balances

- Report beginning balances of all funds from prior year
- Report all receipts totals by fund category
- List all interfund transfers and apply totals to each respective fund
- Report all disbursement totals by fund category
- The calculated results should agree with the fund balances reported on the A & L page (2)

# Receipts

Report all receipts generated by the specific funds

- ASF: all contributions deducted from members' compensation, should reconcile to their W-2's, and members' summary activity statements, currently provided on file from payroll department include all transfers in, make up payments and contractual agreements, rollovers for creditable service purchased plus interest accrued this year (.2%) on balances established at prior year end
- ARF: interest accrued based on 3% annual rate (.25% monthly) on net position including retirements
- PF: all appropriations received from participating units, 3(8)c reimbursements from other system for your retirees, reimbursements from the state for COLA's paid to retirees eligible (1981-1996) plus lump sum workers compensation settlements
- MSF: all contributions from employer on behalf of deployed servicemen and women, plus interest accrued this year (.2%) on balances established at prior year end
- Expense Fund (EF): any special appropriations designated for this specific purpose, plus an allocation designated to cover the operating costs of the system for this period
- PRF: all investment income derived in the current period from activities, plus reimbursement from federal grants, special appropriations, interest not refunded and miscellaneous income not otherwise classified

# Workers' Compensation Settlements – #4840

Past practices have been inconsistent

- Offsets to pension benefits paid
- Adjustments to the appropriation
- Offsets to the EF

Use for any distributions related to Workers' Compensation settlements. This account will close to the PF.

# Disbursements

- Report all disbursements generated by the specific funds
- ASF: all refunds provided to members, all transfers out to other systems
  - ARF: the annuity portion of benefits paid out to retirees plus refunds paid for the portion of annuity funds unrecovered prior to death (Option B)
  - PF: the pension portion of benefits paid out to retirees, survivors, disability and death benefits, 3(8)c reimbursements paid to other systems for their retirees, COLA benefits paid to retirees eligible from reimbursement from the state for COLA's (1981-1996) plus benefits paid to eligible beneficiaries in certain cases
  - MSF: any contributions returned to an employer on behalf of deployed servicemen and women who leave the retirement system
  - EF: all funds expended and designated by category and classification to cover the operating costs of the system for this period

# Stickiest Current Issues

- Post-retirement reinstatements
- Actuarial interest on buybacks
- COLA's Reimbursed by Commonwealth - #4899 and #5752
- Professional Services - #5315
- Education and Training - #5320

# Reinstatements Post-Retirement

- Section 105 increasingly popular option
- Must payback all retirement benefits received
- Plus buyback interest, currently @  $\frac{1}{2}$  the actuarial assumed rate
- Funds recovered should offset the expense previously charged (Annuity Portion #5750, Pension Portion #5751)

# COLA's Reimbursed by Commonwealth - #4899 and #5752

- 105 systems reported receipts from the state (#4899)
- 12 systems reported corresponding disbursements for benefits to be reimbursed by the Commonwealth (#5752)
- The state is relying on each system to update their records for the “attrition” factors.

# Professional Services – #5315

- Independent actuaries, fees to perform actuarial valuation
- Independent CPA firms:
  - fees to perform audit services specific to retirement system
  - require an engagement letter to justify
  - proportion of fees related to city/town fiscal audit
- Outside consultants: financial; bookkeeping; management (not investment-related)

Consider separate reporting to conform to new legislation

# Education and Training – #5320

- Registration fees: conferences, seminars, and lectures
- Tuition, classes and courses attended
- Publications, books, magazines, periodicals
- Professional literature

Does not apply to travel, hotel room deposits, reservations, etc. (they remain in #5719)

# Investment Income

- Reports income in the form of interest and dividends received from investments during the current period
- Securities litigation settlements usually included in dividends
- Commission recapture derives from the recovery of funds previously charged by various brokers involved in securities transactions

# More Investment Income

PERAC maintains a distinction between:

- Gains and losses realized as a result of an arms length exchange transaction between two unrelated parties
- Gains and losses that are unrealized resulting from pricing and value changes that are reported in similar market conditions but do not involve an actual exchange transaction

# No More Investment Income

The normal requirements of the system operations are deducted from the net investment income:

- Statutory interest applied to balances established in the members' ASF & MSF
- Interest applied on retirees' balances transferred into the ARF (3% annual; .25% monthly)
- The operating expenses of the system applied to the EF

# Membership Schedule

- Discloses additions and subtractions to the active membership from the prior year to the current year by group
- Discloses additions and subtractions to the retiree, beneficiary and survivor membership from the prior year to the current year by retirement type category and group

# Schedule A

## Details of Accounts Receivable/Payable

- Assign a date to all values listed
- Total reported for Accounts Receivable must equal the amount disclosed on Line #20 on Page 2
- Total reported for Accounts Payable must equal the amount disclosed on Line #22 on Page 2
- You are not limited to the accounts listed on the page

# Schedule 1

- Report the activity during the calendar year for all cash/bank/checking/demand deposit accounts used during the year
- Beginning balance, deposits, withdrawals, interest and ending balances for all accounts
- Include interest accrued at current year-end

# Schedule 2

Short term investments: bills, commercial paper, CD's, term deposits, cooperative shares, etc.

- Report the activity during the calendar year for all accounts used during the year that restrict withdrawal to specific notification, time, maturity, prerequisite transaction, agreed-upon limitations
- Acquisition date, cost, withdrawals, interest and ending balances for all similar accounts
- Include interest accrued at current year-end

# Schedules 3A, 3B and 3C

## Fixed Income Securities

- Owned at year-end (3A)
  - Includes maturity dates, beginning & ending value, gain/loss, interest received, due & accrued
- Acquired during the year (3B)
  - Includes date, broker, commission paid, accrued interest and cost basis
- Sold or matured (3C)
  - Includes date, broker, commission, prev. market value assessed, sale proceeds, realized gain/loss, interest

# Schedules 4A, 4B and 4C

## Equities and shares of common stock

- Owned at year-end (4A)
  - Includes # of shares owned, price per share, beginning and ending value, unrealized gain/loss, and dividends received
- Acquired during the year (4B)
  - Includes # of shares acquired, date, broker, commission, and cost basis
- Sold during the year (4C)
  - Includes # of shares sold, date, broker, commission, proceeds, realized gain/loss, and dividends received

# Schedule 5

## Schedule of Pooled Funds

- Previous market value assessed or cost
- Acquired this year or since value assessed
- Reinvested in fund
- Realized gain/loss
- Unrealized gain/loss
- Redeemed or sold
- Dividends or distributions
- Ending fair value

# Schedule 6

## Summary of Investments owned from other schedules

- By category
- Current ending fair value
- Interest due and accrued
- Interest paid on investments acquired
- Commissions paid upon acquisition
- Unrealized gain/loss
- Realized gain/loss
- Investment Income

# Don't Wait Forever!

- Alternative investments/Private Equity and Real Estate: PP's; REIT's; LLC's; lag or extend filing financial results subject to final audit, appraisal or other reasons
- Do not delay filing your Annual Statement based on pending information from these sources
- If the information is not available within a reasonable time frame, use the latest available and so notate on Schedule 5
- Use the most recent available financial results (11 months; Q-3; Sept 30; etc.)

# Premises and Equipment

Compose a capitalization policy, determine a useful life, spread recovery over future periods, new account numbers available

- Acquired building, office condo, etc.
- Leasehold improvements, renovations
- Furniture and fixtures
- New software application, conversion costs

# Don't Forget!

- Include Schedules 1 – 6 as attachments to your filing
- Your custodian usually provides these in Excel format
- ARF Interest calculation worksheet
- Don't hesitate to ask for help, that's what we're here for
- Follow the protocol requesting an extension

# Keep Up the Good Work

- The overwhelming majority of systems file in an accurate and timely manner, and meet or exceed contemporary PERAC standards
- The number of audit findings referencing deficiencies in the Annual Statement have been virtually eliminated
- The current 2011 Annual Statement Review Guidelines Checklist is available upon request