

# Preparing the Annual Statement 2011

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**Public Employee Retirement Administration Commission**  
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You may leave messages for any member of PERAC's Audit Staff at telephone extension 924 in our Somerville offices.



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Preparing the **Annual Statement** for the year ended **12.31.2011**

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# Instructions

## Annual Statement Submission Date

The Annual Statement for 2010 must be completed, signed, and returned to the Public Employee Retirement Administration Commission (PERAC) by Tuesday, May 1, 2012.

## December Cashbook and Pre-Closing Trial Balance Submission Date

To ensure that all accounting is current, all retirement boards must submit their December Cashbook and Pre-closing Trial Balances to PERAC by Thursday, March 1, 2012. If your board is having difficulty adhering to this deadline, please contact the PERAC Audit staff at extension #924.

## PERAC Auditors

A PERAC auditor will be assigned to work with each retirement board to provide technical assistance as needed. For answers to questions about the Annual Statement via e-mail, please send your inquiries to:

[AnnualStatement@per.state.ma.us](mailto:AnnualStatement@per.state.ma.us)

## Reminders

### Reinstatements to Service

We are seeing an increasing number of retirees returning to active membership. Section 105 allows such persons to pay back all retirement benefits they have received to date plus buyback interest and rejoin the system, and once the five year requirement for reemployment is met, they qualify for a recalculated retirement allowance. In the absence of a new account number to separately account for the funds recovered in this manner, we continue to advise you to offset the benefits paid out in the current year by the amount recovered in the current year. We recognize this distorts the 1099R and pensions paid reconciliation process. Section 5 (1) (g) allows certain retirees to rejoin the system, currently by paying back the retirement benefit received without interest and without requiring five years of reemployment before recalculation. Effective April 2, 2012, they will be handled in the same manner as the Section 105 reinstatements.

### Actuarial Interest Applied to Buyback Agreements

Please exercise caution in evaluating the application of actuarial interest that is equivalent to the assumed rate of return in your system's most recent actuarial valuation, or the related one-half of the actuarial rate of return that applies to established buyback plans. It is becoming increasingly expensive to finance the purchase of creditable service. After April 2, 2012, members must complete their buyback plans within one year (April 2, 2013). Consequently any buyback agreements entered into after April 2, 2012 must reflect the full actuarial interest rate assumed for any portion of the repayment beyond one year.

### Supplementary Schedule of Members' Balances in their Annuity Savings Account

It is critical to spend some extra time reconciling the ASF Supplemental Schedule with the ASF balance in your general ledger. Failure to complete this reconciliation is a very common error in the Annual Statement preparation process. You are now required to provide PERAC with a complete supplemental schedule for members' Annuity Savings Fund (ASF) activity for the year. The objective is to identify and limit the discrepancies between members' contributions and the general ledger activity. Changes made to the membership records are frequently not reflected in general ledger transactions.

Another complication in reconciling the ASF with the general ledger is the treatment of buyback agreements. Please review all of the arrangements in place for members who are buying back eligible creditable service. If the financial terms are specific, stated in writing, and formalized by both parties; they are equivalent to a binding contract and should be included as Accounts Receivable (#1398) and included on Schedule A. However, only the actual funded portion included in the individual member's Annuity Savings Fund balance is subject to regular interest. As a result, an additional line should be inserted into the Supplementary Schedule to reconcile that total with the general ledger. Remember, if this is your second year recognizing these legitimate assets, your prior years' assessment should be adjusted only for the difference between the prior and current years' ending values of the buybacks

included in #1398. Additional information is provided on Page 15 of the latest edition of PERAC's Accounting Manual for Massachusetts Public Pension Systems.

### **Avoid Negative Fund Balances**

Benefits paid out of the Pension Fund commonly exceed receipts from appropriations, reimbursements from the Commonwealth for COLAs, 3 (8) (c) reimbursements and the settlement of Workers Compensation Claims. As a result, the Pension Fund is often depleted to a negative (Debit) balance. The annual PERAC Appropriation Letter usually authorizes a board to transfer an amount from the Pension Reserve Fund to the Pension Fund (PF) to offset the negative fund balance. If the current letter does not provide an amount sufficient to bring the PF to a positive (Credit) balance, you are encouraged to revisit prior Appropriation Letters to accumulate transfers authorized in those periods. If a negative balance is not offset from those sources, please contact the PERAC Actuarial Unit for authorization to transfer an amount sufficient to bring the Pension Fund balance to zero or a positive (Credit) balance.

### **Prepaid Expenses – #1350**

We note that only a dozen systems identified and reported provisions for this type of asset in 2010. While insurance is the most common form of this type of financial arrangement, we identified deposits apportioned for rent, security deposit, unused postage or an inventory of office supplies, envelopes, election materials, un-mailed or preprinted notices to members or retirees, newsletters in process and similar items if their value is substantial. Remember to match the recognition of the expense provision to the period identified with the use of the material. If you had previously expensed an item similar to those referenced above, you should consider adjusting your ledger to include the item as a prepaid and offset the expense category applied in the prior period (i.e. DR #1350 Prepaid Expenses; CR #5312 Rent Expense).

### **Workers' Compensation Settlements – #4840**

We note that in 2010 about half the systems reported some distributions related to Workers' Compensation lump sum settlements. Please continue to use this account for any and all of these settlements from third party carriers or self insured claims managers.

### **COLA and Survivor Benefits Reimbursed by the Commonwealth – #5752**

In 2010, every system reported the receipt of funds from the state for members who receive COLAs for the period from 1981 through 1996. These were correctly accounted for in general ledger #4899. However, only a dozen systems reported the benefits paid to retirees who qualify for these reimbursements from the state separately using the established Account #5752. The expectation is to compare the amount paid out to the amount reimbursed and determine if they were consistent. The overall lack of reporting indicates the recordkeeping for retirees in this category has not been maintained, and the assumption is that the COLAs paid to these retirees are included in the Pensions Paid reported in account #5751. You are reminded to make an extra effort to reconcile the remaining retirees surviving under this program to the records provided by the State Retirement System. We will be monitoring compliance reporting in Disbursement Account #5752 during the filing season of 2011.

### **Professional Services – #5315**

Chapter 176 of the Acts of 2011 imposes additional provisions relating to the contractual relationships with professional service providers. Many systems use the services of independent actuaries, auditors, and similar management consulting professionals to evaluate their operations and business practices. Account #5315 was established to report the fees paid for these and similar services. The new legislation specifically identifies investment, actuarial, legal and accounting services. Investment services are currently reported separately through Accounts #5304, #5305 and #5307. Legal services are currently reported separately through account #5308. It is likely that we will be establishing new account numbers for the 2012 Annual Statement filing period. These will include a separate account to report the fees paid for actuarial services rendered as well as an additional account for reporting

accounting services rendered either in connection with an audit or for any similar consulting engagement. These additions will allow us to provide a more comprehensive report on retirement board professional services. The current report (2009) is available on the PERAC website.

### **Education and Training – #5320**

You are reminded to use Account #5320 to report the costs associated with the newly required continuing education requirements for board members as well as those enhancing the knowledge and skills of retirement system staff. These expenses would include the fees associated with attending seminars, lectures and the tuition for qualified education courses, as well as subscriptions for publications and similar educational materials. Please do not include travel expenses associated with attending educational events. Those costs should continue to be classified in Travel #5719.

### **Municipal Early Retirement Incentive Program**

Section 66 of Chapter 188 of the Acts of 2010 established an Early Retirement Incentive Program (ERI) for municipal employees. There are many facets to this legislation and this limited accounting guidance should not be construed as a definitive analysis. If your system receives funds from an employer related to such a plan, the receipt should be CR to #4894 Pension Fund Appropriation.

### **Capitalize Expenditures Allocated to Premises and Equipment**

Each system should establish a formal policy for capitalizing the acquisition of assets whose benefits extend over future accounting periods. In the event your system has acquired a building, office condominium, made substantial leasehold improvements or incurred substantial renovation costs, acquired a new software application or incurred substantial costs during conversion, several additional general ledger accounts have been created to more properly track these activities. Please contact the PERAC Audit Unit directly to properly classify these transactions.

### **Schedule A**

Please continue to assign a date to all values listed as Accounts Receivable and Accounts Payable in Schedule A to inform interested parties as to the potential recovery or settlement of these obligations. Please remember to consider carryover balances in these categories. The total reported for each category on this page must equal the amount disclosed on line #20 and #22 on Page 2 of the *Annual Statement*.

### **Schedules 1–6**

If your custodian prepares Schedules 1 through 6, please examine them carefully to determine the schedules are complete and in the prescribed PERAC format. Please include the results of both PRIT Cash (#1198) and the PRIT Fund (#1199) on Schedule 5. They are considered to be pooled funds for purposes of this Annual Statement.

### **Annuity Reserve Fund Interest (ARF) Calculated**

Please enclose the worksheet that discloses the factors used to calculate the Annuity Reserve Fund (ARF) interest reported with your *Annual Statement*.

### **Annual Statement Balance Tests – #4 Fund Change Difference**

This calculation requires you to add all Credits allowed as a result of Interfund Transfers to the Total Receipts number. You are now required to add all Debits allowed as a result of Interfund Transfers to the Total Disbursements number. The difference should result in the same number as calculated in the previous test. This calculation supports the reliability of the numbers collected and disclosed in this *Annual Statement*.

### **Signature Page**

Please specifically identify the board member who is currently serving as the chairperson by including the title next to their typed name.

# Steps to Complete the Annual Statement for 2011

## Step One

Prepare a pre-closing General Ledger.

## Step Two

Prepare a pre-closing Trial Balance. Keep a permanent record for your file.

## Step Three

Prepare a Cash Reconciliation utilizing bank statements for all cash accounts as of December 31, 2011

## Step Four

*Complete the Supplementary Membership Schedule*

- A. The beginning balance in the ASF for 2011 must equal the ending balance on 12/31/10.
- B. Total deductions for 2011 must equal the totals in December General Ledger Accounts #4891, #4892, and #4893.
- C. Use the published interest rate of 0.2% for 2011 (PERAC Memo #2/2011). Credit with interest all member accounts that carried balances as of December 31, 2010 and were not refunded, transferred, or retired.
- D. Determine transfers to other systems (#5756) and refunds to members (#5757). Remember, the refunds to members include some that are likely at the 3% rate for those qualified under the new rule. Pay particular attention to this in reconciling the ASF ending balance in Step Twelve.
- E. Transfer current year retirements from the ASF to the Annuity Reserve Fund (ARF).
- F. Make transfers to the PF for Section 12B items.
- G. Transfer to the PRF all account balances that have been inactive for more than ten years and any interest not refunded (#4822).
- H. Completion of all steps listed (A–G) lead to the ending balance at December 31, 2011. Please reference the manual adjustment that may be required for buyback agreements in process mentioned above.

## Step Five

*Complete the Special Military Service Credit Fund*

- A. The beginning balance in the MSF for 2011 must equal the ending balance on 12/31/10.
- B. Total additions for 2011 must equal the totals in December General Ledger Account #4890 (or #4880 if your old Chart of Accounts retains that option).
- C. Use the published interest rate of 0.2% for 2011 (PERAC Memo #2/2011). Credit with interest all member accounts that carried balances as of December 31, 2010 and were not refunded or retired.
- D. Determine if any of these members retired from your system or another system. Remember, these funds were not contributed by the member and should NOT be refunded or returned to the member.
- E. If a member has left the system, contributions made by an employer can only be used to offset future appropriations. This can be accomplished by an interfund transfer from the MSF to the PF.
- F. Transfer current year retirements from the MSF to the Annuity Reserve Fund (ARF).
- G. Completion of all steps listed (A–F) lead to the ending balance at December 31, 2011. Remember, you are required to maintain specific membership records for each member that you receive contributions from an employer on their behalf. This is equivalent to the requirements to maintain individual ASF member records. The total of these subsidiary records should agree with the ending balance in this account.

## Step Six

Calculate the ARF interest by multiplying the balance in the Fund at the end of each month by .0025. Begin with the balance as of **December 31st of last year**, and use the balance in the Fund at the end of each month through **November 30th**.

**Step Seven**

Complete the Investment Schedules. Investments that were traded in 2011 but not settled until 2012 must be included in the *2011 Annual Statement*. Offset entries can be made to Accounts Receivable or Accounts Payable.

- A. Determine the accrued interest.
- B. Adjust all investments to market value as of December 31st.
- C. Determine the current year investment income.

**Step Eight**

Reconcile the Schedule 5 provided by the custodian by comparing the activity reported by the investment managers. If not available within a reasonable time frame, use the latest available and so notate.

**Step Nine**

Determine Accounts Receivable and Accounts Payable and make appropriate Journal entries. All receivables and payables must be listed and dated on Schedule A of the *Annual Statement*. Pay particular attention to carryover amounts included in the general ledger balance.

**Step Ten**

Make the adjusting entries as indicated in the Year-End Adjusting Entry Section of this guide on Pages 13 and 14.

**Step Eleven**

Prepare an Adjusted ("Before Closing") Trial Balance. Enter the appropriate figures into the *Annual Statement* using the before closing trial balances. Complete Investment Income (*Annual Statement*, Page 6) first. Next, complete Receipts (*Annual Statement*, Page 4) and Disbursements (*Annual Statement*, Page 5), using the balances before closing, with the following exception: Use the amounts from the bottom of Investment Income (*Annual Statement*, Page 6) for Receipts (*Annual Statement*, Page 4, 1(e), 2 (a), 4(b), 5(b), and 6(e)).

**Step Twelve**

Complete Statement of Fund Balances (*Annual Statement*, Page 3) next; enter the Ending Balances from last year for the Beginning Fund Balances. Next, take the totals of the Receipts and Disbursements for each Fund from *Annual Statement*, Pages 4 and 5. List all interfund transfers on the bottom half of *Annual Statement*, Page 3. Do not treat interest refunded as an interfund transfer. It should be noted as a Receipt on *Annual Statement*, Page 4, line 6c. You should aggregate similar interfund receipts, transfers, and disbursements. For example, all transfers from the ASF to the ARF made on account of retirement must be listed as one total. The detail at the bottom of Page 3 must equal the interfund transfer amounts at the top. Finally, by adding the Beginning Balance to the Receipts and interfund transfers (if negative, subtract), and subtracting the Disbursements, you will have the ending balances for December 31st.

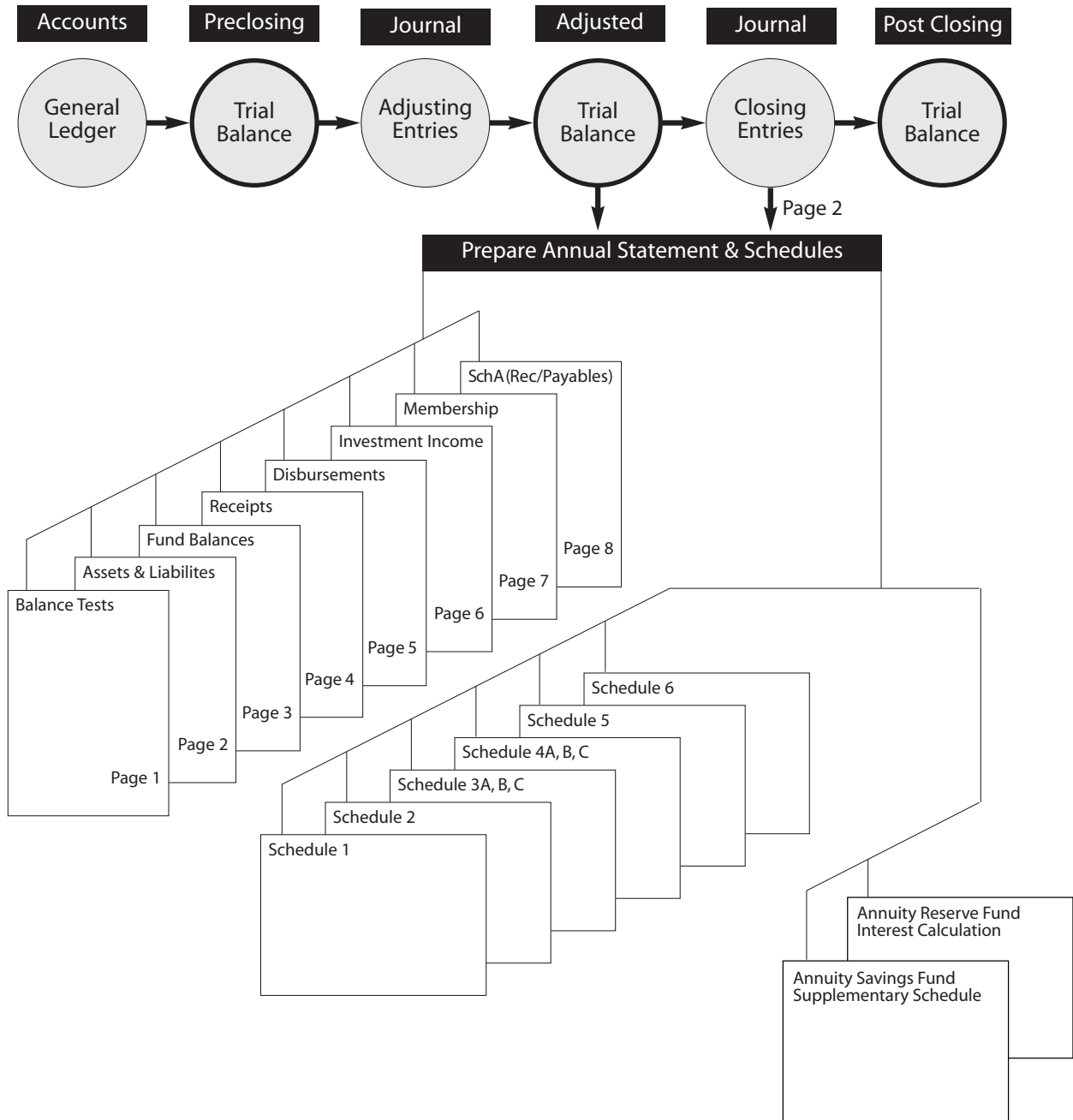
**Step Thirteen**

Next, make the closing entries as indicated on Pages 18 through 19 of this guide. The fund balances must agree with balances on the Statement of Fund Balances (*Annual Statement*, Page 3). If they do not, there is an error that must be corrected.

**Step Fourteen**

Prepare a Post-closing Trial Balance. Please provide PERAC with a copy of your Pre-closing and Post-closing Trial Balances and all adjusting and closing journal entries.

# Chart 1: The Annual Statement Preparation Process



# Ledger Accounts

## General Ledger

The General Ledger is the final product of the year-end accounting cycle. The General Ledger is the continuous record of entries made throughout the year to the specific asset, liabilities, and operating accounts. The General Ledger is the official recorded document of the status of the retirement system's accounts. It must be an accurate and up-to-date reflection of assets and operating accounts.

## Listing of Accounts

A listing of all Ledger Accounts follows. On this page, all the Control Accounts are listed. All Operating Accounts and the fund to which each Account closes are included on the following page.

## Control Accounts

<b>Assets</b>	<b>Balance</b>
1040 Cash (Bank Name and Acct. No.)	Debit
1041 Cash (Bank Name and Acct. No.)	Debit
1042 Cash (Bank Name and Acct. No.)	Debit
1043 Cash (Bank Name and Acct. No.)	Debit
1100 Individually Owned Short Term Investments	Debit
1101 Pooled Short Term Funds	Debit
1170 Equities	Debit
1172 Pooled Domestic Equity Funds	Debit
1173 Pooled International Equity Funds	Debit
1174 Pooled Global Equity Funds	Debit
1180 Fixed Income Securities	Debit
1181 Pooled Domestic Fixed Income Funds	Debit
1182 Pooled International Fixed Income Funds	Debit
1183 Pooled Global Fixed Income Funds	Debit
1193 Pooled Alternative Investments/Private Equity	Debit
1194 Pooled Real Estate Funds	Debit
1195 Pooled Domestic Balanced Funds	Debit
1196 Pooled International Balanced Funds	Debit
1197 Hedge Funds	Debit
1198 PRIT Cash Fund	Debit
1199 PRIT Core Fund	Debit
1350 Prepaid Expenses	Debit
1398 Account Receivable	Debit
1550 Interest Due and Accrued	Debit
2020 Accounts Payable	Credit
<b>Funds</b>	
3293 Annuity Savings Fund	Credit
3294 Annuity Reserve Fund	Credit
3295 Special Fund for Military Service Credit	Credit
3296 Pension Fund	Credit
3297 Pension Reserve Fund	Credit
3298 Expense Fund	Credit

## Operating Accounts

<b>Receipts</b>		<b>Balance</b>	<b>Close to</b>
4820	Investment Income – Control Account	Credit	3293
			3294
			3295
			3297
			3298
4821	Investment Income Received	Credit	4820
4822	Interest Not Refunded	Credit	3297
4823	Paid Accrued Interest on Fixed Income Securities	Credit	4820
4825	Miscellaneous Income	Credit	3297
4840	Workers' Compensation Settlements	Credit	3296
4884	Realized Gain/Profit on Sale of Investments	Credit	4820
4885	Realized Loss/Loss on Sale of Investments	Debit	4820
4886	Unrealized Gain (Change in Market Value)	Credit	4820
4887	Unrealized Loss (Change in Market Value)	Debit	4820
4890	Contributions Received from Municipality on Account of Military Service	Credit	3295
4891	Members' Deductions	Credit	3293
4892	Transfers From Other Systems	Credit	3293
4893	Members' Make Up Payments and Redeposits	Credit	3293
4894	Pension Fund Appropriation	Credit	3296
4895	Pension Reserve Appropriation	Credit	3297
4896	Expense Fund Appropriation	Credit	3298
4897	Federal Grant Reimbursement	Credit	3297
4898	3(8)(c) Reimbursements from Other Systems	Credit	3296
4899	Received from Commonwealth for COLA and Survivor Benefits	Credit	3296
4900	Member Payments from Rollovers	Credit	3293
<b>Disbursements</b>			
5118	Board Member Stipend	Debit	3298
5119	Staff Salaries	Debit	3298
5304	Management Fees (Expense Fund)	Debit	3298
5305	Custodial Fees (Expense Fund)	Debit	3298
5307	Investment Consultant Fees (Expense Fund)	Debit	3298
5308	Legal Expenses	Debit	3298
5309	Medical Expenses	Debit	3298
5310	Fiduciary Insurance	Debit	3298
5311	Service Contracts	Debit	3298
5312	Rent Expense	Debit	3298
5315	Professional Services	Debit	3298
5320	Education and Training	Debit	3298
5589	Administrative Expenses	Debit	3298
5599	Furniture and Equipment	Debit	3298
5719	Travel	Debit	3298
5750	Annuities Paid	Debit	3294
5751	Pensions Paid	Debit	3296
5752	COLAs Paid	Debit	3296
5753	Chapter 389 Beneficiary Increase Paid	Debit	3296
5755	3(8)(c) Reimbursements to Other Systems	Debit	3296
5756	Transfers to Other Systems	Debit	3293
5757	Refunds to Members	Debit	3293
5759	Option B Refunds	Debit	3294
5829	Depreciation Expense: Building	Debit	3298

# Pre-Closing Trial Balance

Each month, after all entries have been posted to the General Ledger, a list should be made of all ledger accounts and their balances, with the debits listed in one column and the credits in another column. The total of all debits must equal the total of all credits.

The pre-closing trial balance summarizes all transactions that have occurred during the year. The pre-closing trial balance also updates previous balances in asset accounts with the activity that has been booked and reflects current year-end balances of those accounts.

The pre-closing trial balance on the next three pages represents sample trial balance totals for the full year up to this point in time.

## Chart 2.1: Pre-Closing Trial Balance Report as of December 31, 2011

<u>Description</u>	<u>Account Number</u>	<u>Debits</u>	<u>Credits</u>	<u>Ending Balance</u>
<b>Assets</b>				
Cash	1040-49	x		
Individually Owned Short Term Investments	1100	x		
Pooled Short Term Funds	1101	x		
Equities	1170	x		
Pooled Domestic Equity Funds	1172	x		
Pooled International Equity Funds	1173	x		
Pooled Global Equity Funds	1174	x		
Fixed Income Securities (Market Value)	1180	x		
Pooled Domestic Fixed Income Fund	1181	x		
Pooled International Fixed Income Fund	1182	x		
Pooled Global Fixed Income Funds	1183	x		
Pooled Alternative Investments	1193	x		
Pooled Real Estate Funds	1194	x		
Pooled Domestic Balanced Funds	1195	x		
Pooled International Balanced Funds	1196	x		
Hedge Funds	1197	x		
PRIT Cash Fund	1198	x		
PRIT Core Fund	1199	x		
Prepaid Expenses	1350	x		
Accounts Receivable Control Account	1398	x		
Interest/Dividends Due & Accrued	1550	x		
	<b>Sub Totals</b>			
<b>Liabilities</b>				
Accounts Payable	2020		x	
	<b>Sub Totals</b>			
<b>Fund Balances</b>				
Annuity Savings Fund control Account	3293		x	
Annuity Reserve Fund	3294		x	
Military Service Credit Fund	3295		x	
Pension Fund Control Account	3296		x	
Pension Reserve Fund Control	3297		x	
Expense Fund	3298		x	
	<b>Sub Totals</b>			

## Chart 2.2: Pre-Closing Trial Balance Report as of December 31, 2011

<u>Description</u>	<u>Account Number</u>	<u>Debits</u>	<u>Credits</u>	<u>Ending Balance</u>
<b>Receipts</b>				
Investment Income Control	4820		x	
Investment Income Received	4821		x	
Interest Not Refunded	4822		x	
Paid Accrued Interest on Fixed Inc. Sec.	4823		x	
Miscellaneous Income	4825		x	
Workers' Compensation Settlements	4840		x	
Profit on Sale of Investments	4884		x	
Loss on Sale of Investments	4885	x		
Increase in Market Value (Unrealized)	4886		x	
Decrease in Market Value (Unrealized)	4887	x		
Contrib. Rec'd for Military Service	4890		x	
Members' Deductions	4891		x	
Transfers from Other Systems	4892		x	
Members' Make Up & Redeposits	4893		x	
Members' Payments from Rollovers	4900		x	
Pension Fund Appropriation	4894		x	
Pension Reserve Appropriation	4895		x	
Expense Fund Appropriation	4896		x	
Federal Grant Reimbursement	4897		x	
3(8)(c) Reimbursement from Other Systems	4898		x	
Received from Comm. for COLA & Sur.	4899		x	
<b>Sub Totals</b>				
<b>Disbursements</b>				
Board Member Stipend	5118	x		
Staff Salaries	5119	x		
Management Fees	5304	x		
Custodial Fees	5305	x		
Investment Consultant Fees	5307	x		
Legal Expenses	5308	x		
Medical Expenses	5309	x		
Fiduciary Insurance	5310	x		
Service Contracts	5311	x		
Rent Expense	5312	x		
Professional Services	5315	x		
Education and Training	5320	x		
Administrative Expenses	5589	x		

## Chart 2.3: Pre-Closing Trial Balance Report as of December 31, 2011

<u>Description</u>	<u>Account Number</u>	<u>Debits</u>	<u>Credits</u>	<u>Ending Balance</u>
Furniture & Equipment	5599	x		
Travel Expense	5719	x		
Annuities Paid	5750	x		
Pensions Paid	5751	x		
COLAs Paid	5752	x		
Chapter 389 Beneficiary Increase Paid	5753	x		
3(8)(c) Reimbursement to Other Systems	5755	x		
Transfers to Other Systems	5756	x		
Refunds to Members	5757	x		
Option B Refunds	5759	x		
Depreciation Expense: Building	5829	x		
<b>Sub Totals</b>				
<b>Subsidiary Accounts</b>				
Regular Pension Payments	9001	x		
Survivorship Payments	9002	x		
Ordinary Disability Payments	9003	x		
Accidental Disability Payments	9004	x		
Accidental Death Payments	9005	x		
Section 101 Benefits	9006	x		
Other Pension - Non-Contributory	9007	x		
Cash Income	9010		x	
Short Term Investments Income	9011		x	
Fixed Income Securities Income	9012		x	
Equities Income	9013		x	
Mutual/Commingled R/E Fund Inc	9014		x	
Mutual/Commingled Venture Cap	9015		x	
PRIT Cash Fund Income	9016		x	
PRIT Core Fund	9017		x	
Commission Recapture	9020		x	
Pooled Fund	9021		x	
Invest Income Credited to Members' Accts.	9030		x	
Invest Income Credited Annuity Reserve Fund	9031		x	
Invest Income Credited Military Service Fund	9032		x	
Excess Investment Income	9033		x	
Investment Income to Expense	9034		x	
Pension Paid Subsidiary Control	9100	x		
Investment Income Subsidiary Control	9110		x	
Prior Year Due and Accrued Control	9200		x	
<b>Sub Totals</b>				
<b>Grand Totals</b>		\$	\$	

# Year–End Adjusting Journal Entries

## Journal Entries

Journal entries are to be numbered consecutively and dated. An explanation should be provided for each entry. The debits and credits for each entry must equal. All journal entries must be posted to the appropriate ledger account in the General Ledger.

## Adjusting Journal Entries

Make adjusting entries to reflect activity such as unrealized gains and losses, and fund transfers. This activity must be documented to accurately reflect the status of operating accounts and transfers between funds. Such adjusting entries should be posted in the same month in which the activity, to which they relate, occurs. Adjusting entries must also be made to correct errors in previously posted activity.

---

To close out Interest Due and Accrued, as of the **previous** December 31st:

<b>a</b>	DEBIT Investment Income Control	(Ledger #4820)
	CREDIT Interest Due and Accrued on Fixed Income Securities	(Ledger #1550)

---

Make the following journal entry for Interest Due and Accrued, as of December 31st of the **current** year:

<b>b</b>	DEBIT Interest Due and Accrued on Fixed Income Securities	(Ledger #1550)
	CREDIT Investment Income Control	(Ledger #4820)

---

When unrealized gains or losses (changes in market values) occur, or are reported in the Investment Manager's Monthly or Quarterly Report, an entry must be made to reflect that increase or decrease in market value.

To record unrealized gains:

<b>c</b>	DEBIT Equities (or appropriate investment)	(Ledger #1170)
	CREDIT Unrealized Gain ( <b>Increase</b> in Market Value)	(Ledger #4886)

To record unrealized losses:

<b>d</b>	DEBIT Unrealized Loss ( <b>Decrease</b> in Market Value)	(Ledger #4887)
	CREDIT Fixed Income Securities (or appropriate investment)	(Ledger #1180)

For members who retire during the month, transfer the member's account from the Annuity Savings Fund (ASF) to the Annuity Reserve Fund (ARF). The member is no longer active, and no deductions or contributions will be taken. Upon retirement, the Annuity portion of the Member's pension will come from the Annuity Reserve Fund.

To transfer balance in ASF to ARF when a member retires.

<b>e</b>	DEBIT Annuity Savings Fund	(Ledger #3293)
	CREDIT Annuity Reserve Fund	(Ledger #3294)

---

Determine whether there are any Accounts Receivable due to the system. Accounts Receivable typically arise from investment exchanges that have not been settled, funds due from members' contributions that have not been received, and the unpaid portion of the Appropriation due for the fiscal period. Enter all Accounts Receivable on Schedule A.

To record Receivables:

<b>f</b>	DEBIT Accounts Receivable	(Ledger #1398)
	CREDIT the appropriate corresponding accounts	
	For example: #4891 Members' Deductions	
	Or #4884 Realized Gain on Sale of Investments	
	Or #4894 Pension Fund Appropriation	

---

Determine whether there are any Accounts Payable the system is obligated to others. Accounts Payable typically arise from investment exchanges that have not been settled, funds due to vendors or owed for professional services that have been rendered or billed but not paid. Enter all Accounts Payable on Schedule A.

To record Payables:

<b>g</b>	DEBIT the appropriate corresponding accounts	
	For example: #4885 Realized Loss on Sale of Investments	
	Or #5305 Custodial Fees	
	Or #5308 Legal Expenses	
	CREDIT Accounts Payable	(Ledger #2020)

---

### Adjusting Entries: Errors

In any given month, it may be necessary to make adjusting entries to correct errors found in the previous month's journals or account funds, etc. Please check the typical balance (debit or credit) for the account you are correcting.

# Chart 3.1: Trial Balance Report as of December 31, 2011

Dr. = Debit      Cr. = Credit  
 ● = Adjusting Journal Entries    ■ = Closing Entries

Description	Account Number	Pre-closing Trial Balance	Adjusting Journal Entries	Adjusted Trial Balance	Closing Journal Entries	Post Closing Trial Balance
<b>Assets</b>						
Cash	1040-49			Sch 1		
Individually Owned Short Term Investments	1100			Sch 2		
Pooled Short Term Funds	1101			↓		
Equities	1170		Dr. ●	Sch 4A,B,C		
Pooled Domestic Equity Trust	1172			↓		
Pooled International Equity Funds	1173			↓		
Pooled Global Equity Funds	1174			↓		
Fixed Income Securities (Market Value)	1180		Cr. ●	Sch 3A, B, C		
Pooled Domestic Fixed Income Fund	1181			Sch 5		
Pooled International Fixed Income Fund	1182			↓		
Pooled Global Fixed Income Funds	1183			↓		
Pooled Alternative Investments	1193			↓		
Pooled Real Estate Funds	1194			↓		
Pooled Domestic Balanced Funds	1195			↓		
Pooled International Balanced Funds	1196			↓		
Hedge Funds	1197			↓		
PRIT Cash Fund	1198			↓		
PRIT Core Fund	1199			↓		
Prepaid Expenses	1350			↓		
Accounts Receivable Control Account	1398		Dr. ●	Sch A		
Interest/Dividends Due & Accrued	1550		Cr. ● Dr. ●			
<b>Sub Totals</b>						
<b>Accounts Payable</b>						
Accounts Payable	2020		Cr. ●	Sch A		
<b>Sub Totals</b>						
<b>Funds</b>						
Annuity Savings Fund Control Account	3293		Dr. ●	Various	■ 1 ■ 2 ■ 12	
Annuity Reserve Fund	3294		Cr. ● + Cr. ●	↓	■ 3 ■ 12	
Military Service Credit Fund	3295			↓	■ 9 ■ 12	
Pension Fund Control Account	3296			↓	■ 4 ■ 5	
Pension Reserve Fund Control	3297			↓	■ 6 ■ 12	
Expense Fund	3298			↓	■ 7 ■ 8 ■ 12	
<b>Sub Totals</b>				Page 3		

### Chart 3.2: Trial Balance Report as of December 31, 2011

Description	Account Number	Pre-closing Trial Balance	Adjusting Journal Entries		Adjusted Trial Balance	Closing Journal Entries	Post Closing Trial Balance
			Dr. = Debit	Cr. = Credit			
Dr. = Debit      Cr. = Credit ● = Adjusting Journal Entries    ■ = Closing Entries							
<b>Receipts</b>							
Investment Income Control	4820		Dr. <b>a</b>	Cr. <b>b</b>		<b>10 11 12</b>	
Investment Income Received	4821		Dr. <b>h</b>		Page 6	<b>11</b>	
Interest Not Refunded	4822				Page 2	<b>6</b>	
Paid Accrued Interest on Fixed Inc. Sec.	4823				Page 6	<b>10</b>	
Miscellaneous Income	4825				Page 2	<b>6</b>	
Workers' Compensation Settlements	4840				Page 4	<b>5</b>	
Profit on Sale of Investments	4884				Page 6	<b>11</b>	
Loss on Sale of Investments	4885				Page 6	<b>10</b>	
Increase in Market Value (Unrealized)	4886		Cr. <b>c</b>		Page 6	<b>11</b>	
Decrease in Market Value (Unrealized)	4887		Dr. <b>d</b>		Page 6	<b>10</b>	
Contrib. Rec'd for Military Service	4890				Page 4, 5	<b>9</b>	
Members' Deductions	4891				Page 4	<b>1</b>	
Transfers from Other Systems	4892					<b>1</b>	
Members' Make Up & Redeposits	4893					<b>1</b>	
Member Payments from Rollovers	4900					<b>1</b>	
Pension Fund Appropriation	4894					<b>5</b>	
Pension Reserve Appropriation	4895					<b>6</b>	
Expense Fund Appropriation	4896					<b>8</b>	
Federal Grant Reimbursement	4897					<b>6</b>	
3(8)(c) Reimbursement from Other Systems	4898					<b>5</b>	
Received from Comm. for COLA & Sur.	4899					<b>5</b>	
<b>Sub Totals</b>							
<b>Disbursements</b>							
Board Member Stipend	5118				Page 5	<b>7</b>	
Staff Salaries	5119					<b>7</b>	
Management Fees	5304					<b>7</b>	
Custodial Fees	5305					<b>7</b>	
Investment Consultant Fees	5307					<b>7</b>	
Legal Expenses	5308					<b>7</b>	
Medical Expenses	5309					<b>7</b>	
Fiduciary Insurance	5310					<b>7</b>	
Service Contracts	5311					<b>7</b>	
Rent Expense	5312					<b>7</b>	
Professional Services	5315					<b>7</b>	
Education and Training	5320					<b>7</b>	

(continued on Page 16)

### Chart 3.3: Trial Balance Report as of December 31, 2011

Dr. = Debit      Cr. = Credit  
 ● = Adjusting Journal Entries    ■ = Closing Entries

Description	Account Number	Pre-closing Trial Balance	Adjusting Journal Entries	Adjusted Trial Balance	Closing Journal Entries	Post Closing Trial Balance
Administrative Expenses	5589			Page 5	7	
Furniture & Equipment	5599				7	
Travel Expense	5719				7	
Annuities Paid	5750				3	
Pensions Paid	5751				4	
COLAs Paid	5752				4	
Chapter 389 Beneficiary Increase Paid	5753				4	
3(8)(c) Reimbursement to Other Systems	5755				4	
Transfers to Other Systems	5756				2	
Refunds to Members	5757				2	
Option B Refunds	5759				3	
Depreciation: Building	5829				7	
<b>Sub Totals</b>						
<b>Subsidiary Accounts</b>						
Regular Pension Payments	9001					
Survivorship Payments	9002					
Ordinary Disability Payments	9003					
Accidental Disability Payments	9004					
Accidental Death Payments	9005					
Section 101 Benefits	9006					
Other Pension - Non-Contributory	9007					
Cash Income	9010					
Short Term Investment Income	9011					
Fixed Income Securities Income	9012					
Equities Income	9013					
Mutual/Commingled R/E Fund Inc	9014					
Mutual/Commingled Venture Cap	9015					
PRIT Cash Fund Income	9016					
PRIT Core Fund Income	9017					
Commission Recapture	9020					
Pooled Fund	9021					
Invest Income Credited to Members' Accts.	9030					
Invest Income Credited Annuity Reserve Fund	9031					
Invest Income Credited Military Service Fund	9032					
Excess Investment Income	9033					
Investment Income to Expense	9034					
Pension Paid Subsidiary Control	9100					
Investment Income Subsidiary Control	9110					
Prior Year Due and Accrued Control	9200					
<b>Sub Totals</b>						
<b>Grand Totals</b>						\$

# Year–End Closing Entries

## Closing Entries

Before you close out the subsidiary accounts to their proper funds, use their balances to compile the Receipts and Disbursements Pages of the *Annual Statement*. Once this has been completed, you may make the following closing entries:

<b>1</b>	DEBIT Members' Deductions	(Ledger #4891)
	DEBIT Transfers from Other Systems	(Ledger #4892)
	DEBIT Member Make Up Payments & Redeposits	(Ledger #4893)
	DEBIT Member Payments from Rollovers	(Ledger #4900)
	CREDIT Annuity Savings Fund	(Ledger #3293)
<b>2</b>	DEBIT Annuity Savings Fund	(Ledger #3293)
	CREDIT Refunds to Members	(Ledger #5757)
	CREDIT Transfer to Other Systems	(Ledger #5756)
<b>3</b>	DEBIT Annuity Reserve Fund	(Ledger #3294)
	CREDIT Annuities Paid	(Ledger #5750)
	CREDIT Option B Refunds	(Ledger #5759)
<b>4</b>	DEBIT Pension Fund	(Ledger #3296)
	CREDIT Pensions Paid	(Ledger #5751)
	CREDIT 3(8)(c) Reimbursement to Other Systems	(Ledger #5755)
	CREDIT COLAs Paid	(Ledger #5752)
	CREDIT Chapter 389 Benefits Paid	(Ledger #5753)
<b>5</b>	DEBIT 3(8)(c) Reimbursements from Other Systems	(Ledger #4898)
	DEBIT Received from Comm. for COLAs and Chapter 389 Paid	(Ledger #4899)
	DEBIT Pension Fund Appropriation	(Ledger #4894)
	DEBT Workers' Compensation Settlements	(Ledger #4840)
	CREDIT Pension Fund	(Ledger #3296)
<b>6</b>	DEBIT Federal Grant Reimbursement	(Ledger #4897)
	DEBIT Pension Reserve Appropriation	(Ledger #4895)
	DEBIT Interest Not Refunded	(Ledger #4822)
	DEBIT Miscellaneous Income	(Ledger #4825)
	CREDIT Pension Reserve Fund	(Ledger #3297)

*(continued on Page 19)*

<b>7</b>	DEBIT Expense Fund	(Ledger #3298)
	CREDIT Board Member Stipend	(Ledger #5118)
	CREDIT Staff Salaries	(Ledger #5119)
	CREDIT Management Fees	(Ledger #5304)
	CREDIT Custodial Fees	(Ledger #5305)
	CREDIT Investment Consultant Fees	(Ledger #5307)
	CREDIT Legal Expenses	(Ledger #5308)
	CREDIT Medical Expenses	(Ledger #5309)
	CREDIT Fiduciary Insurance	(Ledger #5310)
	CREDIT Service Contracts	(Ledger #5311)
	CREDIT Rent Expense	(Ledger #5312)
	CREDIT Professional Services	(Ledger #5315)
	CREDIT Education and Training	(Ledger #5320)
	CREDIT Administrative Expenses	(Ledger #5589)
	CREDIT Furniture and Equipment	(Ledger #5599)
	CREDIT Travel	(Ledger #5719)
	CREDIT Depreciation Expense: Building	(Ledger #5829)

<b>8</b>	<b>THIS ENTRY IS ONLY FOR SYSTEMS THAT STILL HAVE AN EXPENSE FUND APPROPRIATION</b>	
	DEBIT Expense Fund Appropriation	(Ledger #4896)
	CREDIT Expense Fund	(Ledger #3298)

<b>9</b>	DEBIT Special Fund for Military Service Credit	(Ledger #4890)
	CREDIT Special Fund for Military Service Credit	(Ledger #3295)

<b>10</b>	DEBIT Investment Income	(Ledger #4820)
	CREDIT Paid Accrued Interest on Fixed Income Securities	(Ledger #4823)
	CREDIT Realized Loss/Loss on Sale of Investments	(Ledger #4885)
	CREDIT Unrealized Loss	(Ledger #4887)

<b>11</b>	DEBIT Investment Income Received	(Ledger #4821)
	DEBIT Realized Gain/Profit on Sale of Investments	(Ledger #4884)
	DEBIT Unrealized Gain	(Ledger #4886)
	CREDIT Investment Income	(Ledger #4820)

Close the Investment Income Account to the Annuity Savings, Annuity Reserve, Expense, and Military Service Funds for the amount of interest required for these funds, with the balance going into the Pension Reserve Fund:

<b>12</b>	DEBIT Investment Income	(Ledger #4820)
	CREDIT Annuity Savings Fund	(Ledger #3293)
	CREDIT Annuity Reserve Fund*	(Ledger #3294)
	CREDIT Special Fund For Military Service	(Ledger #3295)
	CREDIT Expense Fund**	(Ledger #3298)
	CREDIT Pension Reserve Fund	(Ledger #3297)

\* Use the worksheet on Page 20 for the calculation of interest for the Annuity Reserve Fund.

\*\* Transfer the exact amount that will result in a zero balance in the Expense Fund.

# Annuity Reserve Interest Calculation

Enclose a copy of this calculation with the *Annual Statement*. To calculate interest required for the ARF (3294), begin with the balance on December 31st of the prior year. Subtract from that balance any debits such as annuities paid (5750), option B refunds paid (5759), and any transfer resulting from a surplus in the ARF (3294). Next, add any credits such as transfers from the ASF and any transfer resulting from a deficit in the ARF. Then multiply each monthly balance by .0025. Lastly, enter the total of the **12 months' interest** as an adjusting entry, and add it to the balance of December 31st of the statement year.

	<b>Debit Balance 5750</b>	<b>5759</b>	<b>Transfers Out</b>	<b>Credit Balance 3294</b>	<b>Transfers In</b>	<b>Balance</b>	<b>x .0025</b>
December 31st (Prev Yr.)							
January 31st							
February 28th							
March 31st							
April 30th							
May 31st							
June 30th							
July 31st							
August 31st							
September 30th							
October 31st							
November 30th							

DEBIT Investment Income (Ledger #4821)  
 CREDIT Annuity Reserve Fund (Ledger #3294)

## Chart 4.1: Post-Closing Trial Balance Report as of December 31, 2011\*

<u>Description</u>	<u>Account Number</u>	<u>Debits</u>	<u>Credits</u>	<u>Ending Balance</u>
<b>Assets</b>				
Cash	1040-49			
Individually Owned Short Term Investments	1100			
Pooled Short Term Funds	1101			
Equities	1170			
Pooled Domestic Equity Trust	1172			
Pooled International Equity Funds	1173			
Pooled Global Equity Funds	1174			
Fixed Income Securities (Market Value)	1180			
Pooled Domestic Fixed Income Fund	1181			
Pooled International Fixed Income Fund	1182			
Pooled Global Fixed Income Funds	1183			
Pooled Alternative Investments	1193			
Pooled Real Estate Funds	1194			
Pooled Domestic Balanced Funds	1195			
Pooled International Balanced Funds	1196			
Hedge Funds	1197			
PRIT Cash Fund	1198			
PRIT Core Fund	1199			
Prepaid Expenses	1350			
Accounts Receivable Control Account	1398			
Interest/Dividends Due & Accrued	1550			
	<b>Sub Totals</b>			
<b>Accounts Payable</b>				
Accounts Payable	2020			
	<b>Sub Totals</b>			
<b>Funds</b>				
Annuity Savings Fund Control Account	3293	<b>2</b>	<b>1 12</b>	
Annuity Reserve Fund	3294	<b>3</b>	<b>12</b>	
Military Service Credit Fund	3295		<b>9 12</b>	
Pension Fund Control Account	3296	<b>4</b>	<b>5</b>	
Pension Reserve Fund Control	3297		<b>6 12</b>	
Expense Fund	3298	<b>7</b>	<b>8 12</b>	
	<b>Sub Totals</b>			

\*Keep as permanent record for audit purposes.

## Chart 4.2: Post-Closing Trial Balance Report as of December 31, 2011\*

<u>Description</u>	<u>Account Number</u>	<u>Ending Balance</u>	
		<u>Debits</u>	<u>Credits</u>
<b>Receipts</b>			
Investment Income Control	4820	10 12	11
Investment Income Received	4821	11	
Interest Not Refunded	4822	6	
Paid Accrued Interest on Fixed Inc. Sec.	4823		10
Miscellaneous Income	4825	6	
Workers' Compensation Settlements	4840	5	
Profit on Sale of Investments	4884	11	
Loss on Sale of Investments	4885		10
Increase in Market Value (Unrealized)	4886	11	
Decrease in Market Value (Unrealized)	4887		10
Contrib. Rec'd. for Military Service	4890	9	
Members' Deductions	4891	1	
Transfers from Other Systems	4892	1	
Members' Make Up & Redeposits	4893	1	
Member Payments from Rollovers	4900	1	
Pension Fund Appropriation	4894	5	
Pension Reserve Appropriation	4895	6	
Expense Fund Appropriation	4896	8	
Federal Grant Reimbursement	4897	6	
3(8)(c) Reimbursement from Other Systems	4898	5	
Received from Comm. for COLA & Sur.	4899	5	
<b>Sub Totals</b>			
<b>Disbursements</b>			
Board Member Stipend	5118		7
Staff Salaries	5119		7
Management Fees	5304		7
Custodial Fees	5305		7
Investment Consultant Fees	5307		7
Legal Expenses	5308		7
Medical Expenses	5309		7
Fiduciary Insurance	5310		7
Service Contracts	5311		7
Rent Expense	5312		7
Professional Services	5315		7
Education and Training	5320		7
Depreciation Expense: Building	5329		7

(continued on page 22)

\*Keep as permanent record for audit purposes.

## Chart 4.2: Post-Closing Trial Balance Report as of December 31, 2011\*

<u>Description</u>	<u>Account Number</u>	<u>Ending Balance</u>	
		<u>Debits</u>	<u>Credits</u>
Administrative Expenses	5589		7
Furniture & Equipment	5599		7
Travel	5719		7
Annuities Paid	5750		3
Pensions Paid	5751		4
COLAs Paid	5752		4
Chapter 389 Beneficiary Increase Paid	5753		4
3(8)(c) Reimbursement to Other Systems	5755		4
Transfers to Other Systems	5756		2
Refunds to Members	5757		2
Option B Refunds	5759		3
Depreciation Expense: Building	5829		7
<b>Sub Totals</b>			
<b>Subsidiary Accounts</b>			
Regular Pension Payments	9001		
Survivorship Payments	9002		
Ordinary Disability Payments	9003		
Accidental Disability Payments	9004		
Accidental Death Payments	9005		
Section 101 Benefits	9006		
Other Pension – Non-Contributory	9007		
Cash Income	9010		
Short Term Investments Income	9011		
Fixed Income Securities Income	9012		
Equities Income	9013		
Mutual/Commingled R/E Fund Inc.	9014		
Mutual/Commingled Venture Cap	9015		
PRIT Cash Fund Income	9016		
PRIT Capital Fund Income	9017		
Commission Recapture	9020		
Pooled Fund	9021		
Invest Income Credited to Members' Accts.	9030		
Invest Income Credited Annuity Reserve Fund	9031		
Invest Income Credited Military Service Fund	9032		
Excess Investment Income	9033		
Investment Income to Expense	9034		
Pension Paid Subsidiary Control	9100		
Investment Income Subsidiary Control	9110		
Investment Income Subsidiary Control	9130		
Prior Year Due and Accrued Control	9200		
Prior Year Due and Accrued	9210		
<b>Sub Totals</b>			
<b>Grand Totals</b>		\$	\$

\*Keep as permanent record for audit purposes.

# Notes

