



2024

ANNUAL STATEMENT TRAINING



Scott Henderson, Deputy Chief Auditor | PERAC
January 22, 2025



Monthly Accounting Basics

- Each month, match investment assets to either
 - Manager statements
 - Pooled funds
 - May be quarterly
 - Custodial report
 - Actively traded
 - Stocks (equities)
 - Bonds (fixed income)



Monthly Accounting Basics - Cash

- Did last month's reconciliation agree with the trial balance?
 - Explained difference
 - Simple recurring timing issue?
 - Likely no adjustment necessary
 - Adjustment to ledger necessary?
 - Unexplained difference
 - Research with Treasurer
 - Once explained, same as above



Cash Adjustments (1)

- Old checks
 - First move to Accounts Payable
 - Debit Cash, credit #2020
 - If check reissued
 - Debit #2020, credit Cash
 - If not reissued after a while, write it off
 - Debit #2020, credit #4825 Miscellaneous Income



Cash Adjustments (2)

- Bank errors (small)
 - If cashed for lower amount
 - Debit Cash, credit #4825
 - If cashed for higher amount
 - Debit #5589 Administrative Expenses, credit Cash
- Any other small variances in the reconciliation handle similarly



Cash Adjustments (3)

- Be careful with retiree payroll
- If gross is entered, do not worry about end checks (withholdings)
 - Taxes
 - Insurance premiums
 - If withholding for 91A overearnings, enter the deduction in #4841
- Direct deposit bounced back?



Returned Direct Deposit

- Money going out already part of gross posted to # 5750/5751/5752
- First adjustment — put the money back
 - Debit Cash, credit #2020
- Second adjustment — when check issued
 - Debit #2020, credit Cash



Supplemental Schedule

- What is it?
 - List of everyone with money in the Annuity Savings Fund
 - Starts with balance at end of prior year
 - Columns for money coming in and going out
 - Columns for member accounts moving from/to another fund
 - Column for interest
 - Ending balance



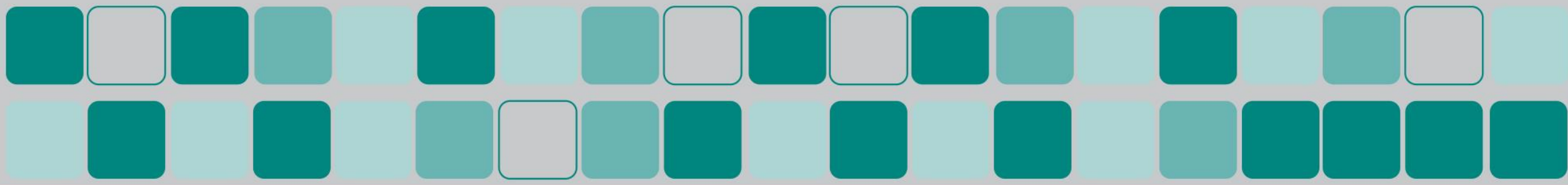
Supplementary Schedule *(Continued)*

- Want to check against accounting at least quarterly
- Some columns are more than one account
- Ending balance should be zero for refunds, transfers, and retirees
- Can't check schedule ending balance until year's accounting is finished



As The Year Goes Along

- Send monthly accounting to PERAC
 - Trial balance
 - Cash receipts
 - Cash disbursements
 - Adjusting journal entries (non-cash)
 - General ledger
- Timely submissions required



What Do We Do?

- Keep running total of debits and credits
- Add entries from current month's receipts, disbursements, and adjustments
- Compare year-to-date total with debits and credits on current month's trial balance
 - If you are contacted, the sum is not working out
 - Did you revise an older entry, or add a new one in a prior month, and not tell us?



Memo #24/2014

- About correcting errors in accounting records
- Do not revise previously submitted cash books
- Fix any errors in the current accounting period



Late Manager Statements

- Takes longer to get values for investments that are not equities or fixed income
- Do not hold up monthly accounting to wait for these
- Enter accounting in the month the statement is received
 - Not the end of the period covered by the statement



Finally Reach December

- First do “normal” accounting
- Are there any accruals?
 - Receivables: money due the system that is received in the future
 - Member contributions from 12/29 payroll that are deposited 1/3
 - Payables: money owed by the system that is paid in the future
 - Bills for December received and paid in January



End of Yearly Accounting Cycle

- December — besides normal accounting and payables/ receivables there are also some once-per-year entries
 - Unrealized gains and unrealized losses for non-pooled investments
 - Interfund transfers
 - Negative pension fund
 - 10-year inactives
 - Interest Due and Accrued



Unrealized Gains, Unrealized Losses (Non-Pooled)

- Posting from custodian's summary sheet
 - Unrealized gains/losses netted
 - Get actual numbers from inside report or
 - Schedules 3A and 4A
 - Total increase is gain
 - Total decrease is loss



Interfund Transfers

- Pension Reserve Fund to Pension Fund
 - Done to avoid a negative Pension Fund
 - Ledger balance should be a credit or \$0
- Non-vested members inactive for 10 years
 - ASF account goes to the Pension Reserve Fund
 - Section 11(3) of Chapter 32



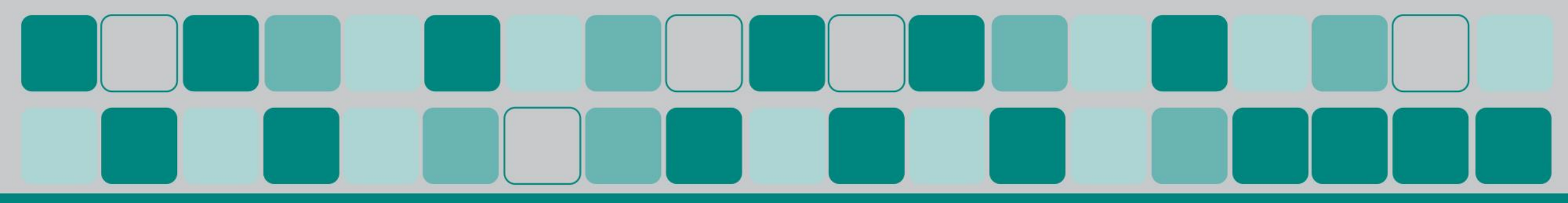
Interest Due and Accrued

- Do I even have this?
 - Schedule 3A from custodian
 - Possibly on Schedules 1 and 2A



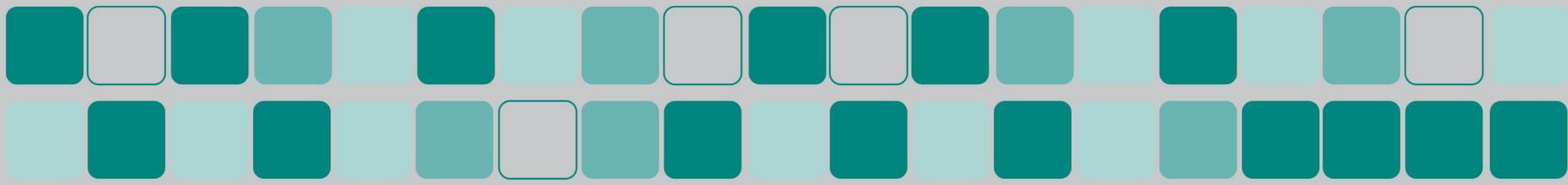
Interest Due and Accrued *(Continued)*

- I do have this. What are the entries?
- Get rid of last year's #1550 balance
 - Debit #4820, credit #1550
- Establish this year's balance
 - Debit #1550, credit #4820



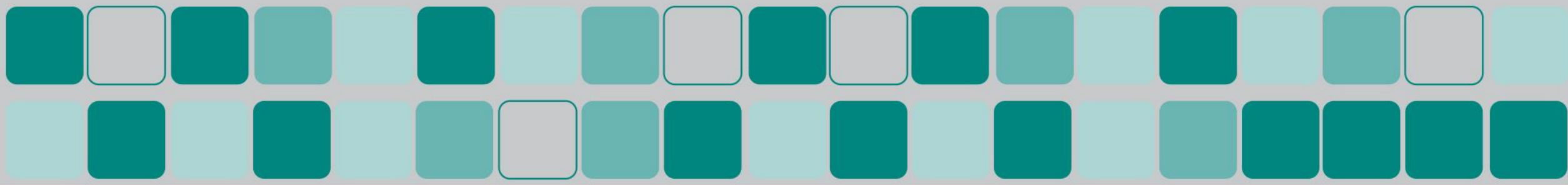
4820?

- What's #4820 for? Why don't we use #4821?
 - #4820 is the Investment Income control account
 - Year-end close: all income, gains, and losses go here
 - Fund interest comes out of this account
 - When the income is received, it is booked to #4821.
 - Lowering #4821 would throw off matching schedule totals



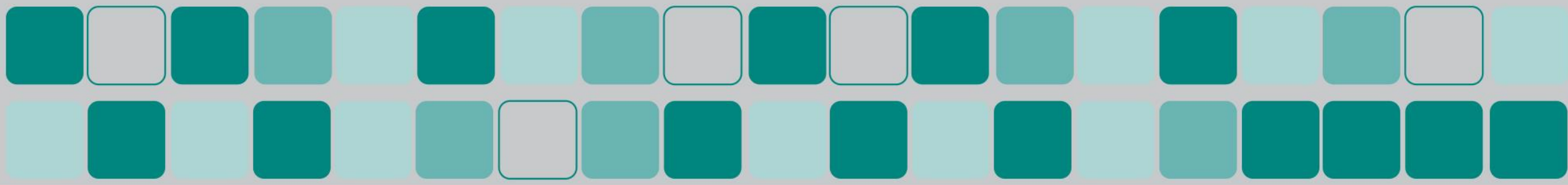
After Accruing and Once-Per-Year Entries

- Trial balance is the “pre-close” trial balance
- Most of these amounts will show up on the annual statement
 - Fund balances will not be finalized yet



The Closing Process

- Accounts in the 4000s and 5000s close to one of the six funds
- Started year at zero, have balances at end of December
- Putting the ending balance in a fund restores accounts to zero for the following year



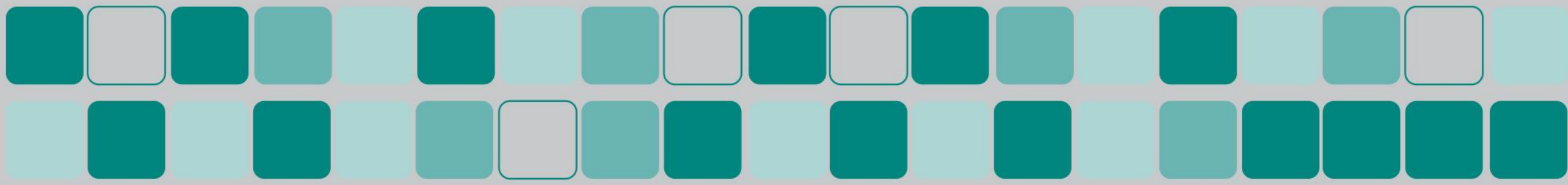
Post-Close

- Trial balance after close called “post-close”
- Funds now have balances that will be on annual statement
- Receipts and disbursements should all be zero



The Statement Itself

- There are no format changes for the 2024 Annual Statement
- No new accounts
- No new schedules
- To see a blank Annual Statement on our web site
 - About PERAC ➔ PERAC Units ➔ Audit ➔ Training Materials ➔ **2024 Annual Statement**
 - **Sample Annual Statement shows which numbers in the statement should be the same**



Balance Tests (Page 1)

- Three different ways of looking at the year's activity.
- The result should be the same number for all three.



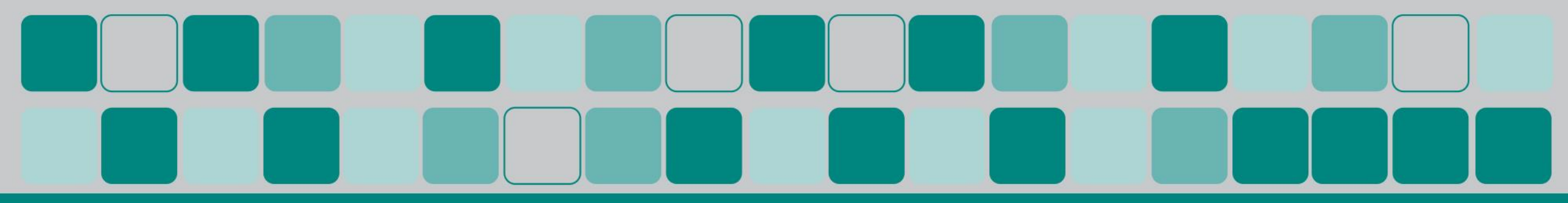
Balance Tests (2)

- My balance tests do not have the same result. How does this get fixed?
 - Did all accounts close correctly?
 - Produce post-close trial balance.
 - All accounts starting with 4 or 5 should end at \$0.
 - Is Investment Income breakdown entered correctly?
 - 4821 total on Investment Income page should match the #4821 closing entry
 - Is there part of an entry made to a non-existent account?
 - Put in #5303 instead of #5304



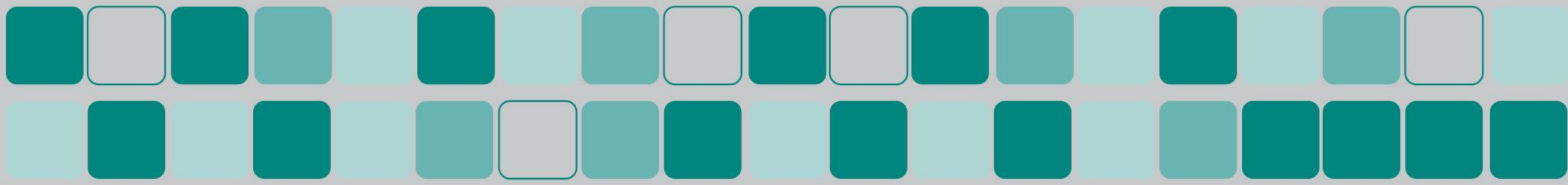
Balance Tests (3)

- My numbers are different, but the reasons on the prior slide don't apply.
 - Look at the year's accounting entries.
 - Any entry using a fund (#3293-3298) for the debit must also use a fund for the credit and vice versa.
 - Does not apply to closing entries - those are half and half, by definition.
 - For examples of what not to do, continue to the next slide



Examples Of Balance-Test-Wrecking Entries

- Very old and unidentified \$1,000 receivable needs to be written off
 - **Wrong:** debit #3297 Pension Reserve Fund, credit #1398 Accounts Receivable
 - **Right:** debit #5589 Admin Expenses, credit #1398
- On a refund forgot to book interest not refunded
 - **Wrong:** debit #3293 Annuity Savings Fund, credit #4822 Interest not Refunded
 - **Right:** debit #5757 Refunds, credit #4822



Assets and Liabilities (Page 2)

- Top part is assets broken down by investment type and liabilities
- Bottom part is fund balances



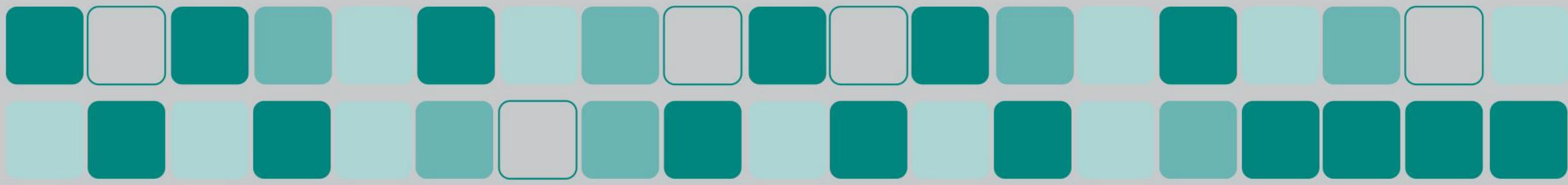
Annual Statement (Page 3)

- 2024 Fund activity
 - Top half has totals by fund
 - Bottom half lists each individual interfund entry
 - Goal is to match the interfund transfer column in the top half



Next Three Pages

- Receipts
- Disbursements
- Investment Income
- Amounts should match the account closing entry in the general ledger



Membership Counts (Page 7)

- Actives and retirees by group
- Changes in status during the year



Schedule A (Page 8)

- Receivables at the top
 - Listed by account number
 - Put dates for all
 - Buyback receivable use 12/31/2024
- Payables on the bottom
 - Listed by account number
 - Put dates for all
- Both sections have blank rows for investments
 - Can use for other purposes too
 - Voided checks



Schedules 1-7

- Financial info matches front part of Annual Statement
- Who produces these?
 - Schedule 1- both custodian and Board
 - Add local bank accounts
 - Schedules 2, 3, and 4- custodian
 - Schedules 5, 6, and 7- Board
 - Ignore custodian's schedule 5



Reviewing Your Own Annual Statement (1)

- Asset and Liability page

- Market values should match:

- Schedule 1 for cash
- Schedule 2 for short-term investments
- Schedule 3 for fixed income
- Schedule 4 for equities
- Schedule 5 for pooled funds
 - Easier to check when pooled funds in same account are grouped together



Reviewing Your Own Annual Statement (2)

- Investment Income page

- 4821 Investment Income total comes from Schedules 1, 2A, 2C, 3A, 3C, 4A, 4C, and 5
- 4884 Realized Gains total comes from Schedules 2C, 3C, 4C, and 5
- 4886 Unrealized Gains total comes from Schedules 2A, 3A, 4A, and 5
- 4885 Realized Losses total comes from Schedules 2C, 3C, 4C, and 5
- 4887 Unrealized Losses total comes from Schedules 2A, 3A, 4A, and 5



Reviewing Your Own Annual Statement (3)

- Schedule 7 amounts also show up on
 - Disbursements page
 - 5304 Management fees
 - Schedule 5 management fees might not match Schedule 7 when paying via invoice
 - 5305 Custodial fees
 - 5307 Investment Consultant fees
 - Investment Income page
 - 4701 Carried Interest
 - 4702 Equalization expense
 - 4703 Miscellaneous Investment expenses



Reviewing Your Own Annual Statement (4)

- Schedule 6 contains amounts for market value, investment income, and all gains and losses
- All numbers come from Schedules 1-5



Reviewing Your Own Annual Statement (5)

- #5751 Pensions Paid

- If the row above Regular Pension Payments has a number, that should match the breakdown total.



Supplemental Schedule (1)

- Try to balance throughout the year
- How deductions should work
 - **Paydate 12/27/2024**- contributions should be on 2024 Supplemental Schedule
 - **Paydate 1/3/2025**- contributions should be on 2025 Supplemental Schedule
 - Does not matter that the check covers pay for days in December



Supplemental Schedule (2)

- A couple different formats- the following may be their own columns
 - Additions
 - 4891 Member deductions
 - 4892 Transfers from other systems
 - 4893 make-ups/re-deposits
 - 4900 make-ups/re-deposits via rollover



Supplemental Schedule (3)

- Reductions

- 5757 Refunds

- If applicable reconciliation should take 4822 Interest not Refunded into consideration

- 5756 Transfers to other systems



Supplemental Schedule (4)

- Interest
 - This is not handled in the accounting until the year-end closing process
- Transfer to Annuity Reserve
 - New retirees during the year
 - If a retiree is restoring active membership, this is a negative number



Supplemental Schedule (5)

- Transfer to Pension Fund

- Active member dies with no spouse but dependents and a \$12B will be paid
- Member who received total incapacity workers' compensation retiring
 - Described in §14(1)(a)
 - Transfer made only if allowance will be increased
 - Superannuations will not be increased
 - Accidental disabilities already at 75% cap will not be increased
 - This will be a negative number on the schedule.



Supplemental Schedule (6)

- Transfer to Pension Reserve

- Includes 4822 Interest not Refunded
- Disability retiree with excess interest because the retirement date goes back years
- 10-year inactives
- If a 10-year inactive is returning to service or taking a refund, this is a negative number



Supplemental Schedule (7)

- Current Year balance
 - Grand total should equal 3293 Annuity Savings Fund
 - If there is a receivable for service purchases, this will need to be added to the schedule's total to match the ledger



Upload Rules

■ Required Documents

- Annual Statement (must be READABLE PDF format)
- Schedules 1-7 (must use the template in PROSPER)
- Supplemental Schedule (must be READABLE PDF format)
- Accounting Close Interest (must be READABLE PDF format)
- Post Close December Trial Balance (must be READABLE PDF format)
- Post Close January – December General Ledger (must be READABLE PDF format)

■ Only If Applicable

- Investors and Consultants (must be READABLE PDF format)
- Other Docs



Schedules 1-7 Template Do's & Don'ts

- Do download the schedule template from PROSPER
- Don't reuse a schedule from a prior year
- Don't make any changes to the schedule template
- Don't add any tabs or columns to the schedule template
- Do contact us if you come across an issue and feel like you need to make changes
- You can copy and paste into the schedule template but don't override any of the formulas (the greyed-out columns and rows)



If You Need An Extension

- Send a letter or email to Bill Keefe, PERAC's Executive Director, and cc Caryn Shea, prior to May 1, 2025
- Extension may be granted for a 30-day period
- Particulars as to why you need the extension must be provided
- You are also required to estimate an ultimate filing date



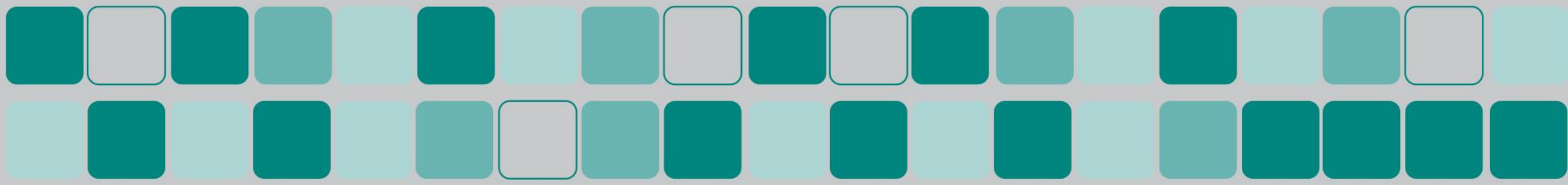
Auditor Review of Annual Statement

- Reviewed for consistency and completeness
- Annual Statement in ‘Under Review’ status
 - Questions/Comments will be added by the Auditor in the Notes section
 - An email is also sent with the Questions/Comments included
 - Corrections should be made, and answers can be added in the Notes section
 - Submit again - there is no need for the Board Members to sign again



Auditor Review of Annual Statement *(Continued)*

- Once it is resubmitted it will go into the Submitted bucket again
- The auditor will check the resubmission and if okay move it to the Final Review bucket
- Once in Final Review it is reviewed by a senior auditor and
 - if okay, it's moved to the Completed bucket
 - if there are questions, it's sent back to the auditor to follow up with the board and the process continues until it is moved to the Completed bucket



Questions?

