

2017

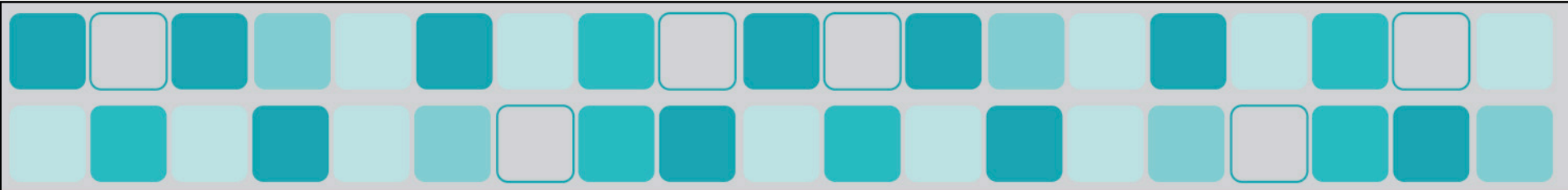
# ANNUAL STATEMENT TRAINING: NEWBIES ONLY

Calendar Year 2017



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PERAC

Winter 2018



## This Is For Whom?

- No accounting knowledge prior to working at current position
- First, maybe second Annual Statement



# Monthly Accounting Basics

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



# 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

- 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 *(Continued)*

- 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 *(Continued)*

- Be careful with retiree payroll
- If gross is entered, do not worry about end checks (withholdings)
  - Taxes
  - Insurance premiums
  - If withholding for 91A purposes, enter check to board 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 money 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)
- 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

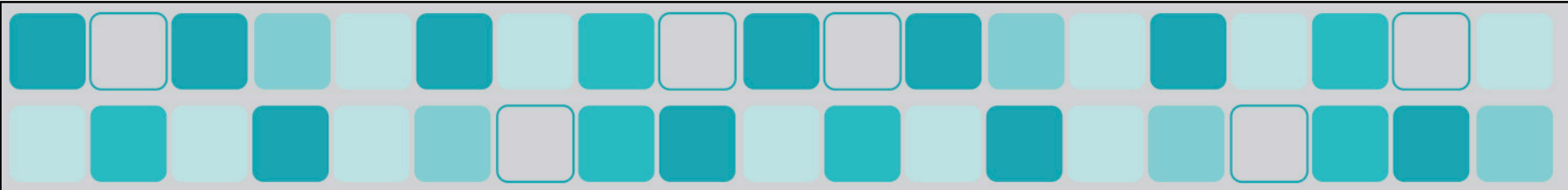
- First do “normal” accounting
- Are there any accruals?
  - Receivables: money due the system that is received in the future
    - Member contributions from 12/29 payroll that are deposited 1/3
  - Payables: money owed by the system that is paid in the future
    - Bills for December received and paid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



## After Accruing

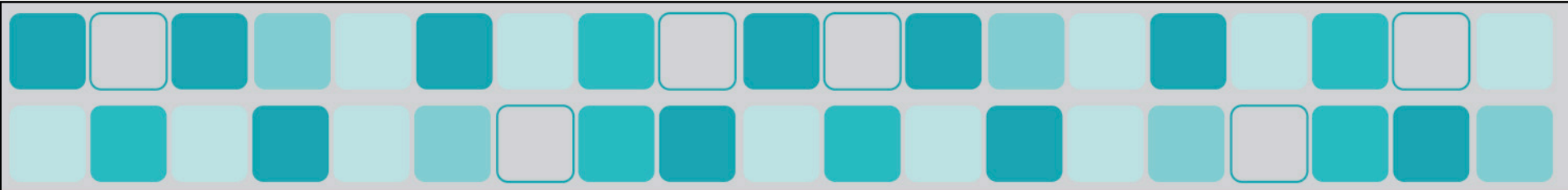
- Trial balance is the “pre-close” trial balance
- Most of these amounts will show up on the annual statement
  - Fund balances will not be finalized yet





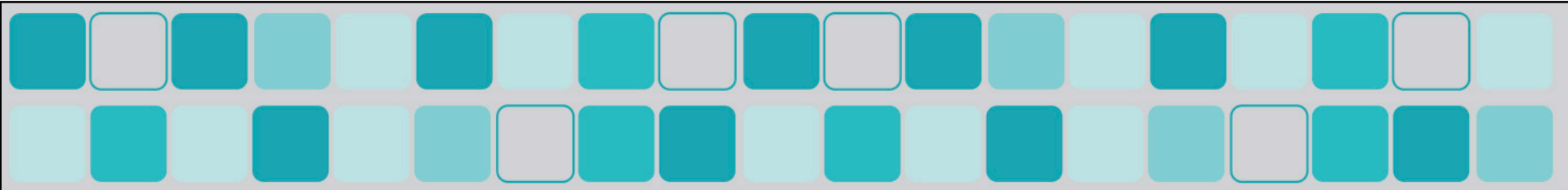
# The Closing Process

- 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



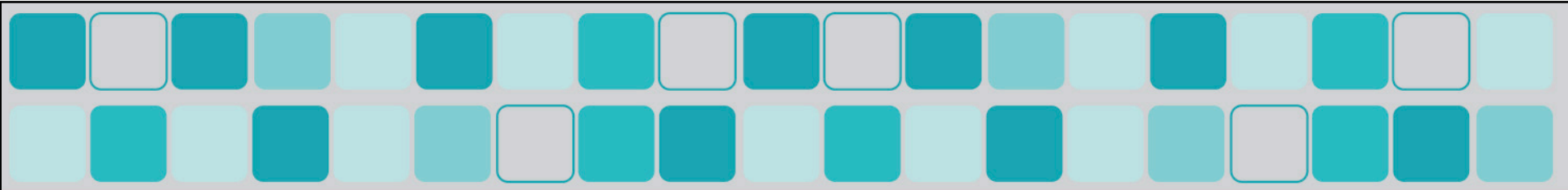
# Annual Statement

- Next set of slides will canter through the pages



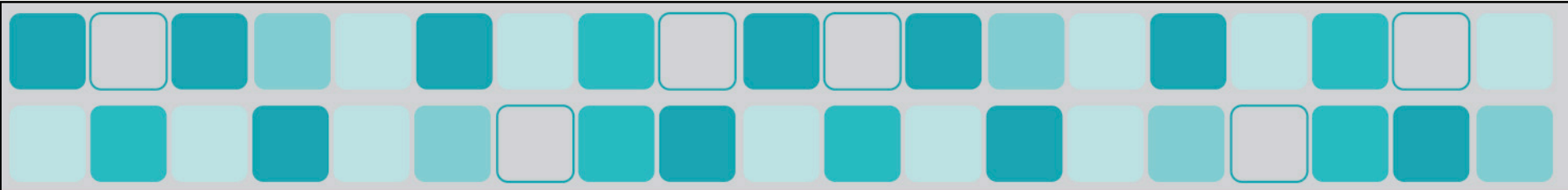
## Signature page

- Space for all 5 board members to sign
- Enter term expiration date if applicable
  - Elected members and fifth member have them
  - Ex-officio does not
  - Second member (typically governing authority appointee) may or may not



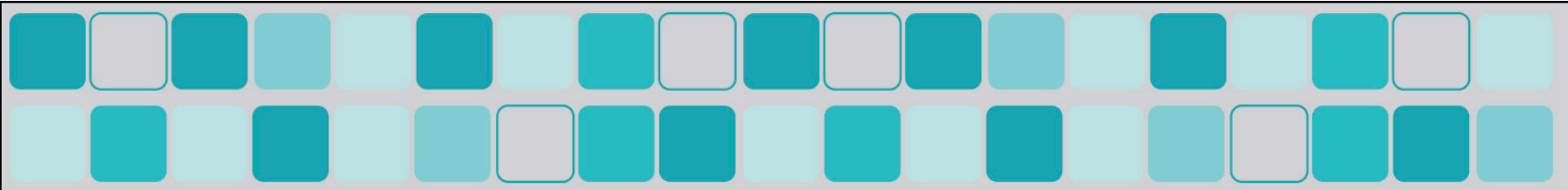
## More On Signature Page

- List of investment managers
  - If not enough spaces, attach the full list
- Consultant and custodian
  - May not have these if in PRIT



# Balance Tests

- All 3 should have the same result
  - If not, something is very wrong



# Financial Information

- Assets and liabilities
  - By asset class
  - By fund
- Fund activity during the year
  - Make sure all fund-to-fund transfers are included in the bottom portion



## Financial Information *(Continued)*

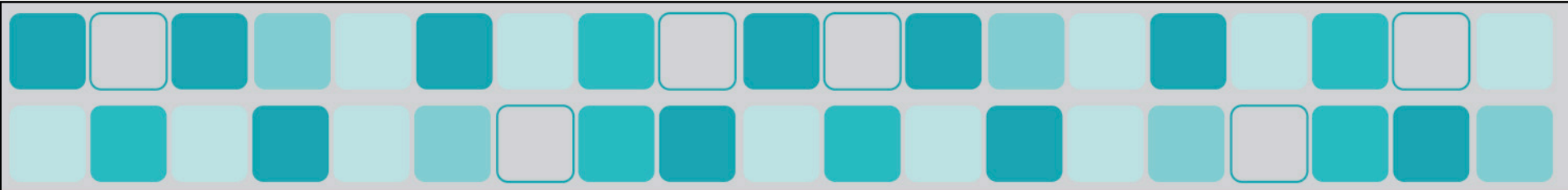
- Receipts
  - Please avoid negative amounts
  - Do not use #4825 Miscellaneous Income for disbursements; use #5589 Admin Expenses
- Page also includes income allocated to each fund
  - When in the process is this determined?





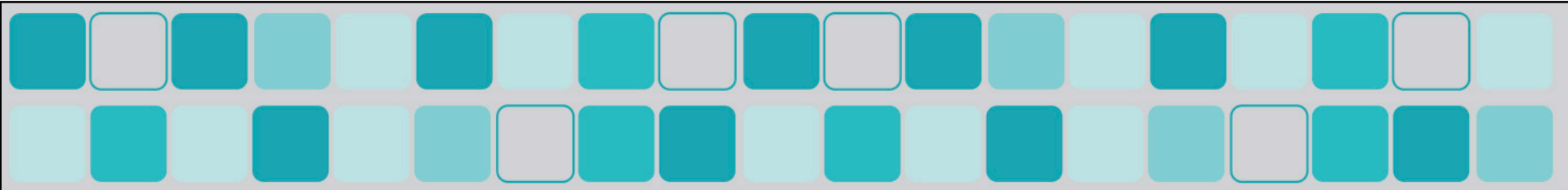
## Financial Information *(Continued)*

- Disbursements
- Investment income
  - Excess income to Pension Reserve Fund will be negative if investment returns do not cover required income
- All for last three years
  - Do you see any unusual patterns?



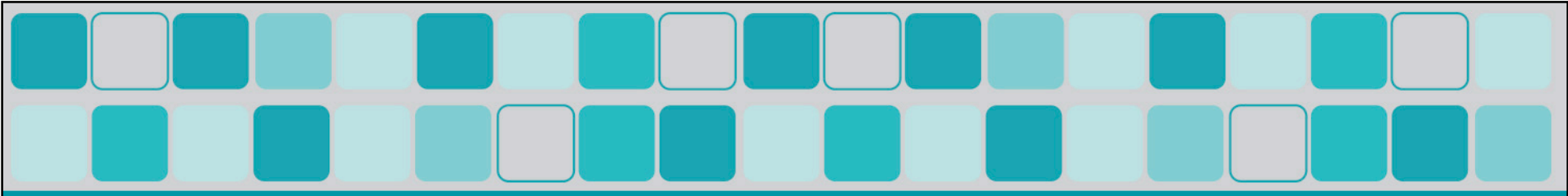
# Membership Count

- Active count
- Retiree count
- Movement during the year



# Schedule A

- Top half is receivables
  - Investment-related ones go in the blank spaces
  - Also use these lines for expected-to-be-retained retirement allowances
- Bottom half is payables
  - Again, blank spaces for investments
- Date each one
  - Do any go back several years?
  - Any unexplained amounts?



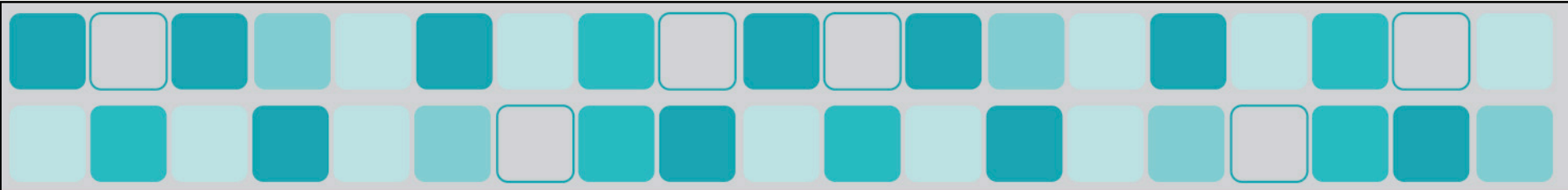
# Investment Schedules

- Schedule 1 is Cash
  - Local bank accounts
    - All accounts, including zero-balance
  - Manager cash
    - Used when buying/selling assets
  - Custodial cash
    - Moving cash from board to manager and vice versa



## Investment Schedules *(Continued)*

- Schedule 2 is Short Term Investments
  - Rarely used
- Schedule 3 is actively managed Fixed Income
- Schedule 4 is actively managed Equities
- Both 3 and 4 have A, B, and C
  - A: held at end of year
  - B: bought during the year
  - C: sold during the year



## Investment Schedules *(Continued)*

- Schedule 5 is Pooled Funds
  - Try to arrange by ledger number
  - Have subtotals for each asset type
  - PRIT is a pooled fund
- Schedule 6
  - Bits and pieces of schedules 1-5



## Investment Schedules *(Continued)*

- Schedule 7 is Investment Fees
  - Managers
  - Consultants
  - Custodians



# Supplemental Schedule

- Discussed earlier
- At end-of-year should also compare ending balance to Annuity Savings Fund balance in ledger



# Rhetorical Question



- Can somebody who has never produced an Annual Statement give any useful tips on the topic?
  - The next set of slides are an attempt to do just that!



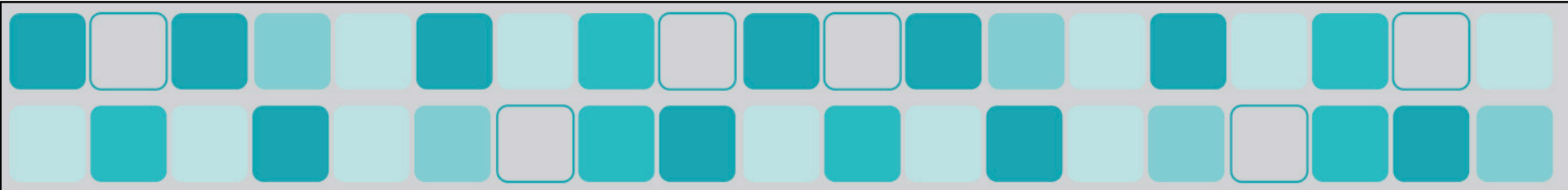
# Sub-Accounts

- Can be created for any account
- Useful for separating information
- Board has three pooled alternative investments in #1193
  - Use 1193-01 for alt A
  - Use 1193-02 for alt B
  - Use 1193-03 for alt J



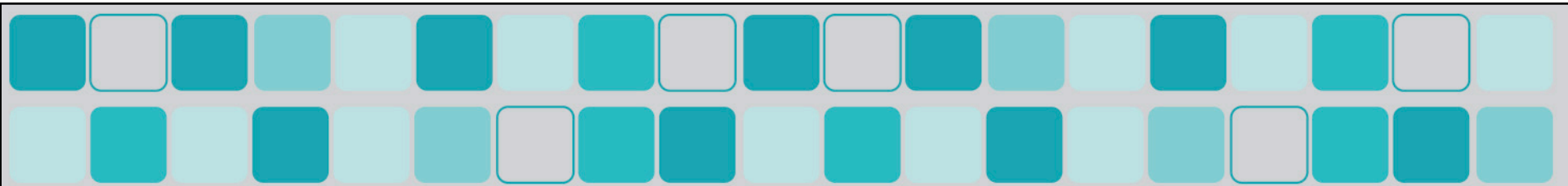
## Sub-Accounts *(Continued)*

- Handy for income, gains, and losses
  - If you have 15 managers, use 15 sub-accounts under #4821, 4884/5/6/7
  - Easier if the same sub-account refers to the same investment
    - The Dart-Throwing Monkey investment company is 4821-12, 4884-12, 4885-12, 4886-12, 4887-12
- Also use for fees
  - 5304-12 is the surprisingly high fee for Dart-Throwing Monkey



## Why Do This?

- Schedules 5 and 7 are both arranged by manager



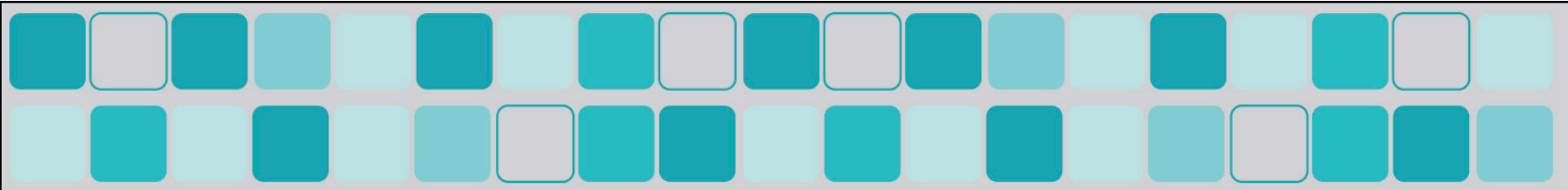
## Investment Schedule Tips

- Rather than trying to create 5, 6, and 7 at the end of the year, update all three when new information is received
- Same tip applies to the local bank accounts on Schedule 1



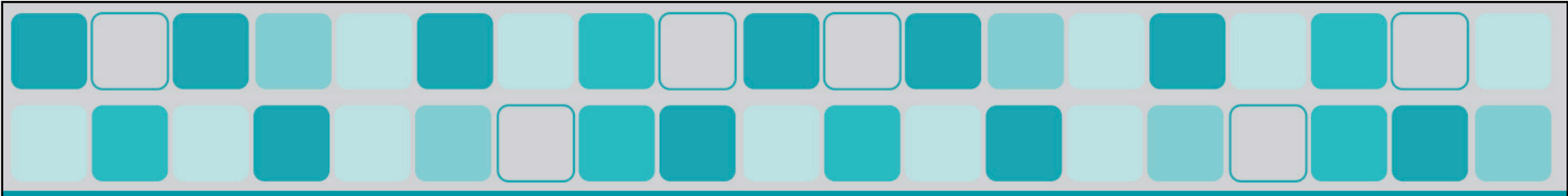
# Manager Fees

- All managers on the list at the front of the annual statement should be on Schedule 7
- “They don’t charge us a fee.”
  - If true, put \$0 on 7
  - If false, get fee amount



## No Fee Info

- Sometimes it is correct that there is no fee
- Typically investments that start as a 10-year commitment
  - If extended an additional year or two to wind down there is often no fee



## No Fee Info *(Continued)*

- What if there are fees, but the manager does not put them on a statement?
- We tell administrators to do one of the following three things





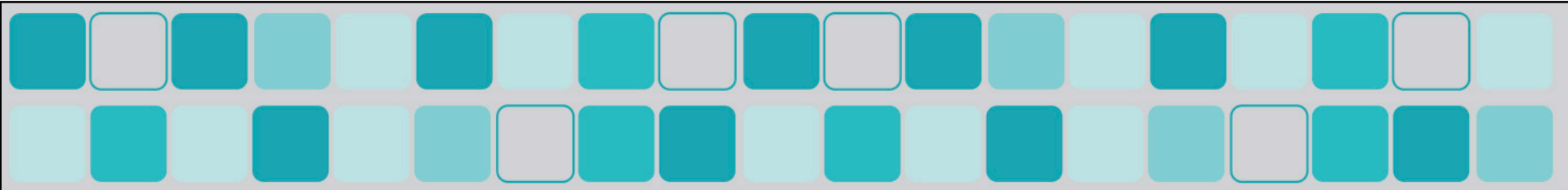
## (1) Finding Fee Info

- Get the signed contract
  - Locate the section on fees
  - Calculate it yourself



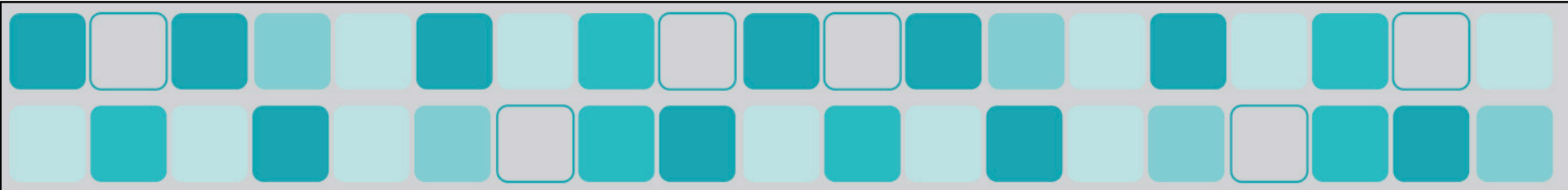
## (2) Finding Fee Info

- Contact manager directly and ask
  - During audits I have come across emails stating the fee



## (3) Finding Fee Info

- Enlist the aid of the board's consultant
  - Consultant reports will sometimes show fees
  - How do they get that number?



## Now That You Have The Fee

- What is the accounting entry?
- #5304 is the Debit
- Credit?
  - Not cash
  - Not the asset (assuming you match the market value on the statement)



## The Credit Is ...

- #4821 Investment Income
  - Manager has buried the fee
  - Had to reduce income or gain; or increase loss
  - To standardize what boards do, auditors will tell you to increase income



## Do You Have SEI?

- SEI will fill out Schedule 7 and send it to you each quarter
- Fees beyond the management fee are OCIO (Outsourced Chief Investment Officer) Fee
- Use #5307 for those
- Individualized help from PERAC?



# Did I Forget Anything?

- Annual Statement due May 1
- Contact us if you need an extension
- To submit electronically
  - Scan in a signed copy
  - Send through Interchange (like actuarial data)
  - Website: <https://ics.Mass.Gov/dynic>
  - Email: [annualstatement@per.State.Ma.Us](mailto:annualstatement@per.State.Ma.Us)