

Scott Henderson, Deputy Chief Auditor | PERAC

February 15, 2024

ANNUAL STATEMENT TRAINING



The Statement Itself

- There are no format changes for the 2023 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 ➔ **2023 Annual Statement**

Slide 2



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

Slide 3

NOTES:



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

Slide 4

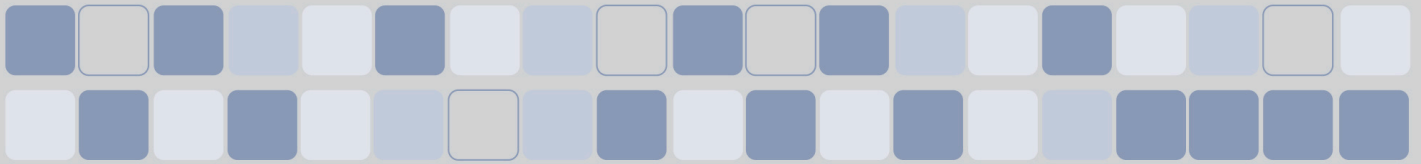


Interfund Transfers

- 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

Slide 5

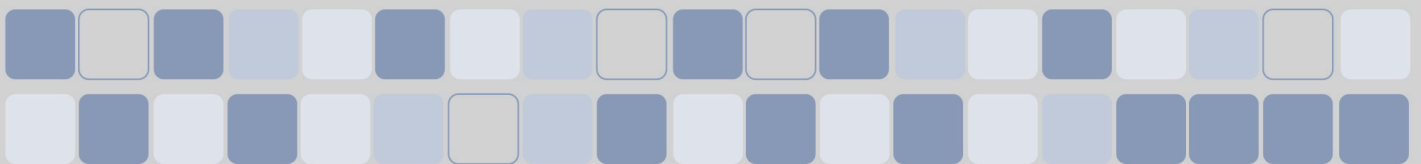
NOTES:



Interest Due and Accrued

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

Slide 6

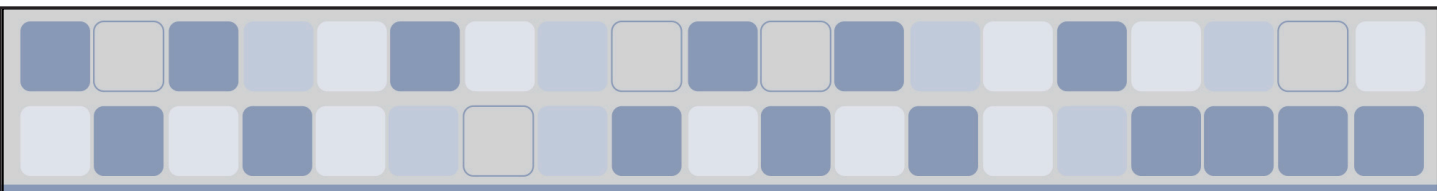


Interest Due and Accrued *(Continued)*

- 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

Slide 7

NOTES:



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

Slide 8

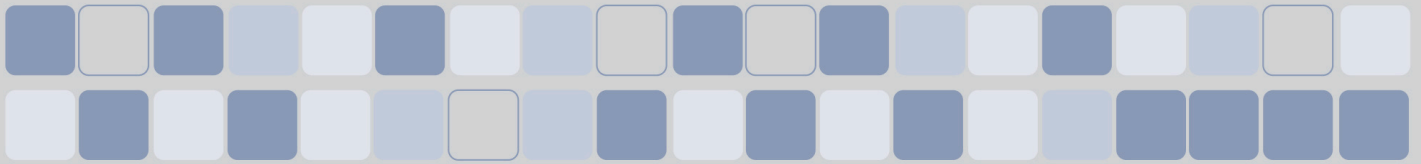


Popular Question

- General Ledger #1350 Prepaid Expenses
- Boards renting office space might have a security deposit in there
- If prepaying software cost, debit #1350 and credit cash in 2023

Slide 9

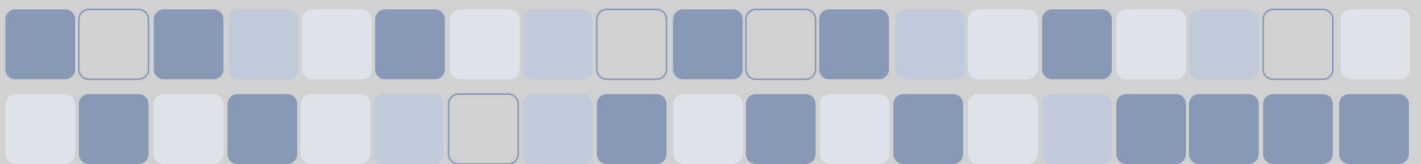
NOTES:



Popular Question (Continued)

- Entry in 2024 and perhaps future years
- Debit #5311 Service Contracts
- Credit #1350

Slide 10



Balance Tests

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

Slide 11

NOTES:



Balance Tests (Continued)

- 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

Slide 12



Balance Tests (Continued)

- 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

Slide 13

NOTES:



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

Slide 14



Annual Statement Manual Entries

- Interfund transfers
 - Top half has totals by fund, produced by software
 - Bottom half lists each individual entry
 - Goal is to match the top half for all funds

Slide 15

NOTES:



Annual Statement Manual Entries

- Schedule A
 - Receivables at the top
 - Listed by account number
 - Put dates for all
 - » Buyback receivable use 12/31/2023
 - 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

Slide 16



Schedules 1-7

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

Slide 17

NOTES:



Reviewing Your Own Annual Statement

- 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

Slide 18



Reviewing Your Own Annual Statement *(Continued)*

- 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

Slide 19

NOTES:



Reviewing Your Own Annual Statement *(Continued)*

- 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

Slide 20

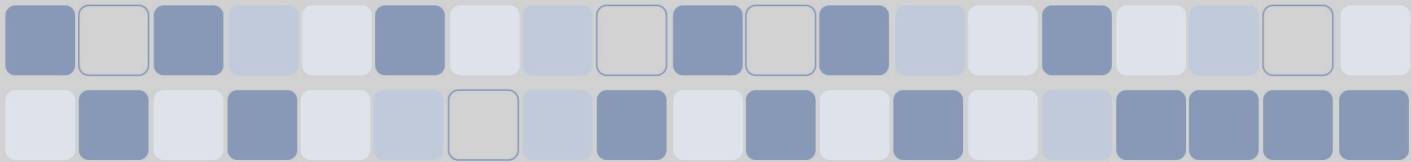


Reviewing Your Own Annual Statement *(Continued)*

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

Slide 21

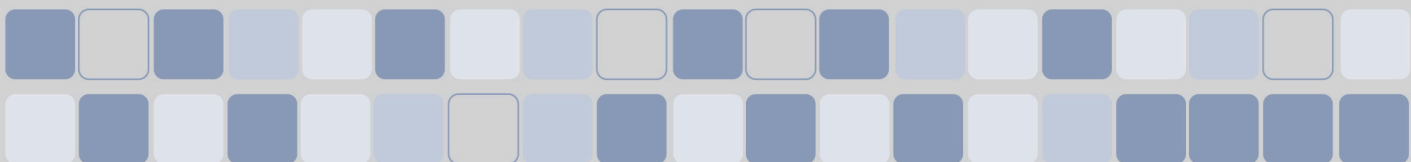
NOTES:



Reviewing Your Own Annual Statement *(Continued)*

- #5751 Pensions Paid
 - PTG Boards
 - Top row amount should match the breakdown under it – often did not
 - Top amount comes from ledger
 - Breakdown comes from the monthly payrolls
 - Manual adjustments to retiree’s record not made

Slide 22



Supplemental Schedule

- Try to balance throughout the year
- How deductions should work
 - **Paydate 12/29/2023**- contributions should be on 2023 Supplemental Schedule
 - **Paydate 1/5/2024**- contributions should be on 2024 Supplemental Schedule
 - Does not matter that the check covers pay for days in December

Slide 23

NOTES:



Supplemental Schedule *(Continued)*

- 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

Slide 24



Supplemental Schedule *(Continued)*

- Reductions
 - 5757 Refunds
 - If applicable reconciliation should take 4822 Interest not Refunded into consideration
 - 5756 Transfers to other systems

Slide 25

NOTES:



Supplemental Schedule *(Continued)*

- 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

Slide 26



Supplemental Schedule *(Continued)*

- 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.

Slide 27

NOTES:



Supplemental Schedule *(Continued)*

- 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

Slide 28



Supplemental Schedule *(Continued)*

- 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

Slide 29

NOTES:

Questions?



Slide 30

COMMONWEALTH OF MASSACHUSETTS

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