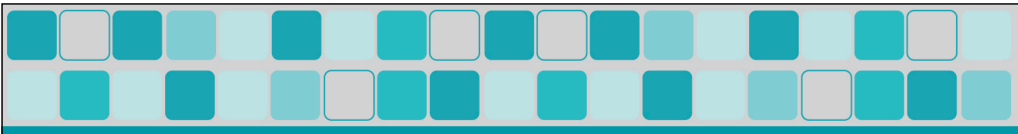


ANNUAL STATEMENT TRAINING

Calendar Year 2016



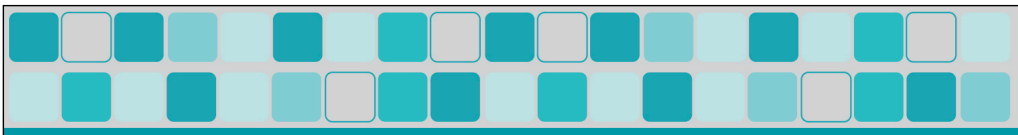
Caryn Shea | Chief Auditor
Scott Henderson | Deputy Chief Auditor
PERAC
Winter 2017



Who Does What for the Annual Statement?

- Signature Page
- Balance Tests
- Assets & Liabilities
- Changes in Fund Balances
- Receipts
- Disbursements
- Investment Income
- Schedule A, AR, AP
- Membership statistics
- Supplemental Membership Schedule
- ARF Interest
- Directly provided primarily by the vendor application

2



Supporting Schedules

- Schedule 1: Cash, all bank accounts
 - Add local banks to Custodian Schedule 1
- Schedule 2: Short term invested funds
- Schedule 3, A, B, C: Fixed Income Securities
- Schedule 4, A, B, C: Equities, managers

3

NOTES:



System Created Schedules in Excel

- Schedule 5:
 - Pooled Funds
- Schedule 6:
 - Summary of Investments Owned by Category
 - Schedules 1-5 aggregated
- Schedule 7:
 - Summary of Investment Related Fees for ALL Managers/Vendors listed and doing any business during the year with the Board



Due by May 1, 2017

- Monday filing deadline
- Do you establish a schedule to meet the multiple filing obligations for early 2017?

NOTES:



2016 Year End Closing Schedule

Form 1099R's completed, received by recipients	1/31/2017
Form 1099R's finalized: <ul style="list-style-type: none">• Filed with IRS by mail• Electronically filed with IRS*	2/28/17 3/31/17
December Cashbook and Pre-closing Trial Balances	3/1/2017
Final 2015 Post-closing Annual Statement complete	3/31/2017
Submitted to Board for signatures	April monthly meeting
Final Version due at PERAC	5/1/2017

Help desk available for e-mail inquiries: AnnualStatement@per.state.ma.us

*To file electronically, you must have software that generates a file according to the specifications in the IRS Publication 1220.

6



Reading Material Available

- **Preparing the Annual Statement;** step by step instructions
 - **Sample Annual Statement;** displays source information and cross references line by line
 - **A blank Annual Statement**
 - **Annual Statement Review/Guidelines**
- ➔ Available on the PERAC website, www.mass.gov/PERAC

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NOTES:



If You Need An Extension

- Compose a letter to Joseph Connarton, PERAC’s Executive Director prior to May 1, 2017
- 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



Electronic Filing Option Available

- Interchange File Transfer website
<https://ics.mass.gov/DynIC>
- Recipient email: AnnualStatement@per.state.ma.us
- Annual Statement
 - Formats acceptable: .xlsx, .xls, .csv and .pdf

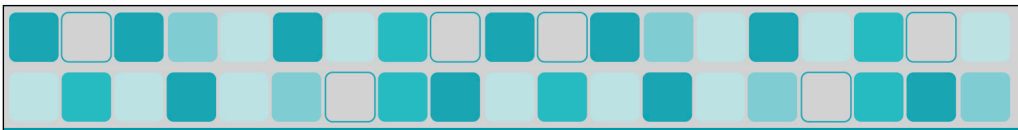
NOTES:



Signature Page and Board Minutes Confirmation

- Even if a Board submits the Annual Statement electronically, original signatures are still required
- Board minutes should reference the Annual Statement presented, approved
- Excerpt should be mailed with the Signature page
- Identify the Chair, identify the terms

10



The Usual Suspects

- Supplemental schedule total did not agree with the ASF on the balance sheet
- ARF calculation not included
- Signature page submitted, missing or incomplete information
- Realized/Unrealized Gains/Losses did not agree with Schedules attached

11

NOTES:



Changes In Fund Balances

- Upper portion and Lower portion of page
- All interfund transfers must be listed (lower portion)
- Must agree with the totals reported in the upper portion



Avoid Negative Fund Balances

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

NOTES:



Commission Recapture and Settlement of Securities Litigation

- The original intent to distinguish from invested funds
- Trend declining to recapture commissions
- Securities litigation, active and passive
- Combine these two sources of income

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Schedule A

- Accounts Receivable and Accounts Payable
 - Use the date column to record the original date of the receivable or payable
 - Confirm that the amounts are not a carryover from a prior year
 - If there is a carryover, is it still a valid receivable or payable?
 - The totals should be in agreement with the amounts reported on the Balance Sheet

15

NOTES:



Schedule 5

- Should have 4 separate columns for gains/losses
 - realized gains
 - realized losses
 - unrealized gains
 - unrealized losses
- If custodian only showing one net figure, do not use

16



Schedule 5 *(continued)*

- Fee info
 - same as schedule 7 for pooled funds
- Does formula work?
 - yes if fees are netted out
 - not if paid by separate check from local bank
 - remove fees from formula

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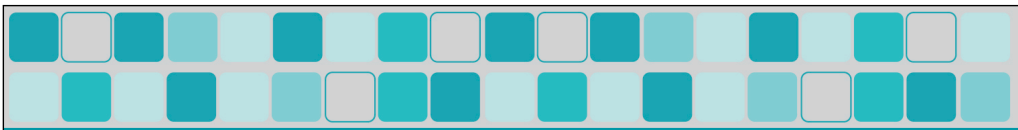
NOTES:



Schedule 7

- Have you noticed we have been publishing these in one report?
- New this year:
 - column for end of year market value

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Schedule 7 *(continued)*

- Managers with multiple funds
 - show each fund's fee separately
- Easier to track with sub-accounts
 - 5304-01
 - 5304-02
 - 5304-25

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NOTES:



Carried Interest

- What is it?
 - oversimplified, it is both income and a fee
- Shows up in alternative investments (sometimes with different names)
- If return is large enough, some goes to the general partner from the limited partners



Carried Interest *(continued)*

- Current (2016) accounting
 - do not put in 5304 with other fees
 - include with other losses
 - add a footnote to schedule 7 stating the amount

NOTES:



Carried Interest *(continued)*

- Future (2017 and beyond) accounting
 - We're working on it
 - separate account?
 - accrued vs charged?
 - recallable?

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Schedules 5, 6, and 7

- Done in Excel by bored staff
- Keep running totals throughout the year
 - once December is entered you are done
- Use sub-accounts (so important we mentioned it twice)

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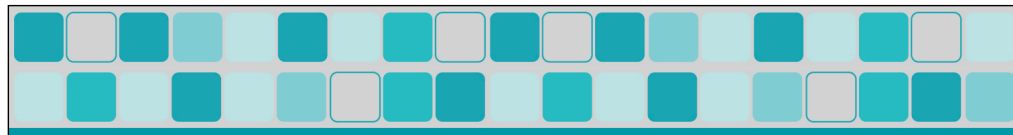
NOTES:



Tips for Board Review

- Review Annual Statement for Completeness
 - Are all Statement pages completed, including the Signature Page?
 - Are all 7 Schedules completed and attached?
 - Is the Annuity Reserve Fund Interest Calculation included?
 - Is the Annuity Savings Fund Supplementary Schedule included?

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Tips for Board Review *(Continued)*

- Review the Annual Statement Balance Tests
 - 1 - Asset Balance
 - Are the amounts used in agreement with the corresponding amounts on the Assets & Liabilities page, the Receipts page and the Disbursements page?
 - Is the result in agreement with the current Total Assets on the Assets & Liabilities page?
 - 2-4 - Asset, Income and Fund Change Difference
 - Is the difference between the current and previous years Assets, Income and Fund Change the same amount?

25

NOTES:



Tips for Board Review *(Continued)*

- Compare balances reported on the Annual Statement to the pre-close trial balance
 - all should agree except for the Fund balances
- Review cash account
 - Is the amount comparable to the last two years?
 - Is the amount in agreement with your investment objectives, is it within your asset allocation range?
 - Does it agree to the total reported on Schedule 1?

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Tips for Board Review *(Continued)*

- Review Accounts Receivable/Accounts Payable
 - Do the amounts reported on the Asset & Liability page agree with the amounts on Schedule A?
 - Are the dates of the AR/AP's recent, or are they carried over from a previous year?
 - Question any carry overs
 - AP - why hasn't it been paid? Could it have been paid and accounted for incorrectly?
 - AR - why hasn't it been received? Is it still a valid receivable? Could it have been received and accounted for incorrectly?

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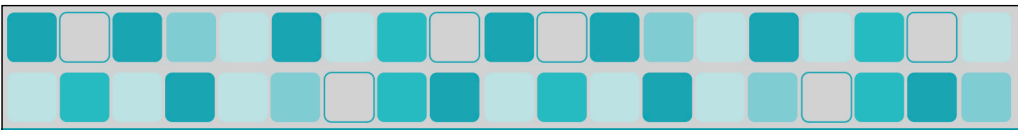
NOTES:



Tips for Board Review *(Continued)*

- Review the Investment Related Fees
 - Do the Management Fees, Custodial Fees, and Consultant Fees on the Disbursements page agree with the amounts reported on Schedule 7?
 - Are these fees in accordance with your contract terms?

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Fee Increase

- Is this due to better reporting or are your fees increasing?

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NOTES:

COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission

Five Middlesex Avenue, Suite 304 | Somerville, MA 02145

Phone: 617-666-4446 | Fax: 617-628-4002

TTY: 617-591-8917 | Web: www.mass.gov/perac

