

# Preparing the Annual Statement 2013



**Commonwealth of Massachusetts**  
**Public Employee Retirement Administration Commission**  
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**John Shea**, *Auditor* | **William Walsh**, *Auditor*

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 **12.31.2013**

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# Instructions

## **Annual Statement Submission Date**

The Annual Statement for 2013 must be completed, signed, and returned to the Public Employee Retirement Administration Commission (PERAC) by Thursday, May 1, 2014. The compliance rate with this due date has not been satisfactory. An extension to file may be allowed for a limited 30 day period. You should address a letter request directly to PERAC's Executive Director Joseph Connarton. This letter must include specific issues that prevented compliance with the due date as well as your best estimate for ultimate completion. This will help us focus on those factors to develop additional training options to improve timely filing of this vital information.

## **December Cashbook and Pre-closing Trial Balance Submission Date**

To ensure that all accounting is current, all retirement boards should plan on completing and submitting to PERAC their December Cashbook and Pre-closing Trial Balances by Monday March 3, 2014. If your board is having difficulty adhering to this deadline, please contact the PERAC Audit staff at extension #924.

## **Help Is Available**

A PERAC auditor will be assigned to provide technical assistance to any retirement board that requests this service. Questions related to completing the Annual Statement can be submitted via e-mail. Please address your inquiries to: AnnualStatement-2013@per.state.ma.us

## **Investment Expenses Reported on Schedule 7**

Most Boards included the new Schedule 7 with their 2012 filing. This schedule summarizes all investment related fees: management fees, consultant fees and custodial fees. Use a separate line for each vendor. The fee assessed, accrued and/or paid associated with that vendor for each quarter of the year is required. The results reported on this schedule should be compared with the general ledger.

Please do not ignore the request to disclose the payment method. The options available are "C" for payment by check, "W" for payment via a wire transfer or similar electronic disbursement and "N" for fees reflected in the Net Investment results reported by the managing entity or partner.

Some Boards are having difficulty confirming the fee when it is included in the investment results on a net basis. Direct contact with the manager or references to the subscription documents have had encouraging results in these cases.

Note that Schedule 7 is required to be completed and submitted for all systems, including those that are completely invested in the PRIT Core Fund managed by the PRIM Board.

## **Buyback Installment Plan Interest**

Many systems experienced a significant increase in the option provided to existing members to purchase prior creditable service. There are many facets to this legislation and PERAC Memo #23/2012 provides the official guidance on this topic. Interest should be applied at the same rate used to calculate the original amount reflected in the installment plan agreement. Systems should calculate a fixed payment option that includes the applicable interest factor over the entire buyback term. Accounts Receivable as well as the supplemental schedule should both reflect these adjustments for interest applied. Additional information is provided on Page 15 of the latest edition of PERAC's *Accounting Manual for Massachusetts Public Pension Systems*.

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

It is a requirement to provide PERAC with a complete supplemental schedule for members' ASF activity for the year. This remains a very common oversight in the Annual Statement filing process. The Annuity Savings Fund (ASF)

Supplemental Schedule must reconcile with the ASF balance in your general ledger. Each component of the column totals that comprise the Supplementary Schedule should agree with the respective general ledger summary results. You should include all contributions withheld in 2013 even if you did not receive those funds until 2014. The objective is to match the contributions reported on the members W-2 form with the additions recorded on the supplemental schedule.

Another complication in reconciling the supplemental schedule with the general ledger is to maintain the distinction with the funds applied to the individual member's Annuity Savings Fund balance subject to regular statutory interest. This commonly applies to the subsidiary records related to buyback agreements in progress. An additional line inserted into the Supplementary Schedule is commonly used to reconcile that total with the General Ledger.

### **Board Membership**

Municipal government restructuring has resulted in changes to the composition of local Retirement Boards. The traditional titles that accompanied the ex-officio position, city auditor or town accountant, do not translate so clearly in the current organization chart; for example several Finance Directors now serve on Retirement Boards. It is important to identify the duties and responsibilities assigned to these positions. The characteristics that have kept the Treasury functions separate from Retirement Board responsibilities should continue to be maintained.

### **Reinstatements to Service**

We continue to observe an increase in retirees returning to active membership. The account number to report the receipt of funds that apply to the recovery of the Annuity portion of benefits recovered is #4750 Annuity Recovery To Reinstatement. The account number to report the receipt of funds that apply to the recovery of the Pension portion of benefits recovered is #4751 Recovery of Pension from Reinstatement. An interfund transfer is required to complete the reinstatement that involves a transfer between the Annuity Reserve Fund and the Annuity Savings Fund to reinstate the members accumulated contributions prior to his original retirement. #4750 Recovery of Annuity from Reinstatement will close to the Annuity Reserve Fund balance #3294. #4751 Recovery of Pension from Reinstatement will close to the Pension Fund balance #3296.

### **Recovery of Overearnings Paid Back**

The account number to report the receipt of funds that apply to the recovery of the Pension portion of benefits recovered as a result of the 91A filing process is #4841 Recovery of 91A Overearnings. #4841 will close to the Pension Fund balance #3296. The recovery of funds due to overearnings under 91(b) should similarly be reflected in this account.

### **Anti-Spiking Refunds**

After calculating the allowance, if the result requires a refund under the Anti-spiking provisions of the statute, record the refund using #5757. Then transfer the remaining balance to the Annuity Reserve Fund balance #3294.

### **Professional Services**

Chapter 176 of the Acts of 2011 specifically identifies investment, actuarial, legal and accounting as well as auditing services as falling within the Section 30B procurement provisions. Retirement boards should report fees for actuarial services to Account #5316. Accounting services rendered in connection with an audit or for any similar engagement should report fees to Account #5317.

### **Avoid Negative Fund Balances**

Benefits paid out of the Pension Fund commonly exceed receipts for established systems. As a result, the Pension Fund is occasionally depleted to a negative (Debit) balance. The annual PERAC Appropriation Letter includes a reference that authorizes a board to transfer an amount from the Pension Reserve Fund (PRF) to the Pension Fund (PF) to offset the depleted 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 unused 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).

## **Changes In Fund Balances**

The Statement of Changes in Fund Balances is designed to display the summary results of system operations. It requires the specific reporting of all transfers between the various funds. These relate to retirements during the year as well as any other required statutory transfers between funds. The specific transfers reported on the lower portion of this schedule should be reconciled to agree with the results reported in the upper portion of this statement.

## **COLA and Survivor Benefits Reimbursed by the Commonwealth – #4899 and #5752**

Every system correctly reported the receipt of funds from the Commonwealth for members who received COLAs for the period from 1981 through 1996 in general ledger #4899. The reporting reflected in Account #5752 was designed to provide a valid comparison of the progression in reimbursing the cost of this program. This does not currently occur. The preferable method remains to record only the portion of the COLA benefit that accrues to the specific individuals remaining eligible for reimbursement from the state. This information more accurately reflects the progress toward the ultimate attrition of this program.

## **Commission Recapture/Litigation Income**

There was a decided decline in the activity reported under the Commission Recapture category under Investment Income #4821. We recognize there is an ebb and flow to the recovery of commissions from brokers related to this classification. We continue to encourage a distinction between Commissions Recaptured from trading and income related to funds invested.

Funds recovered from litigation related to securities trading transactions should be reported as equivalent to dividends or more specifically income from equity holdings.

## **Formulate a Capitalization Policy**

You are encouraged to establish a formal policy for capitalizing the acquisition of assets whose benefits extend over future accounting periods. Several additional general ledger accounts have been created to more properly track these activities. Additional information is provided on Page 10 of the latest edition of PERAC's Accounting Manual for Massachusetts Public Pension Systems.

## **Schedule A**

Dates should be assigned to all values listed as Accounts Receivable and Accounts Payable in Schedule A. This may assist evaluating the likelihood of recovery. The total reported for each category on this page must agree with the amounts disclosed on Line #20 and #22 on Page 2 of the Annual Statement.

## **Schedules 1-5**

The custodian generally provides each system with a summary report of Schedules 1 through 5 in an Excel file format. Reconcile these schedules with your general ledger results reported within your financial statements. The schedules, especially Schedule 5, should reflect the prescribed PERAC format included in the Sample Annual Statement for 2013.

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

Please remember to include the worksheet page that discloses the factors used to calculate the Annuity Reserve Fund (ARF) interest reported with your Annual Statement filing.

## **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 2013

## 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, 2013

## Step Four

*Complete the Supplementary Membership Schedule*

- A. The beginning balance in the ASF for 2013 must equal the ending balance on 12/31/12.
- B. Total deductions for 2013 must equal the totals in December General Ledger Accounts #4891, #4892, and #4893.
- C. Use the published interest rate of 0.1% for 2013 (PERAC Memo #9/2013). Credit with interest all member accounts that carried balances as of December 31, 2012 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 7/1/2010 rule change. 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, 2013. 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 2013 must equal the ending balance on 12/31/12.
- B. Total additions for 2013 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 0.1% for 2013 (PERAC Memo #9/2013). Credit with interest all member accounts that carried balances as of December 31, 2012 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, 2013. 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**. Remember, all retirements must be recorded as transfers from the ASF to the ARF within 30 days of the retirement date.

### Step Seven

Complete the Investment Schedules. Investments that were traded in 2013 but not settled until 2013 must be included in the *2013 Annual Statement*. Offset entries can be made to Accounts Receivable or Accounts Payable.

- A. Determine the accrued interest that applies to fixed income securities but could also include interest bearing bank deposits.
- B. Adjust all investments to market value as of December 31st. Your custodian is the primary reference source for these values.
- C. Determine the current year investment income. General Ledger #4821. Remember, PERAC requires disclosure of the investment income by source. Six categories are suggested. See Step 11 below.

### 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 from a prior year 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 the Annual Statement, Page 3.** Do not treat interest not 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.

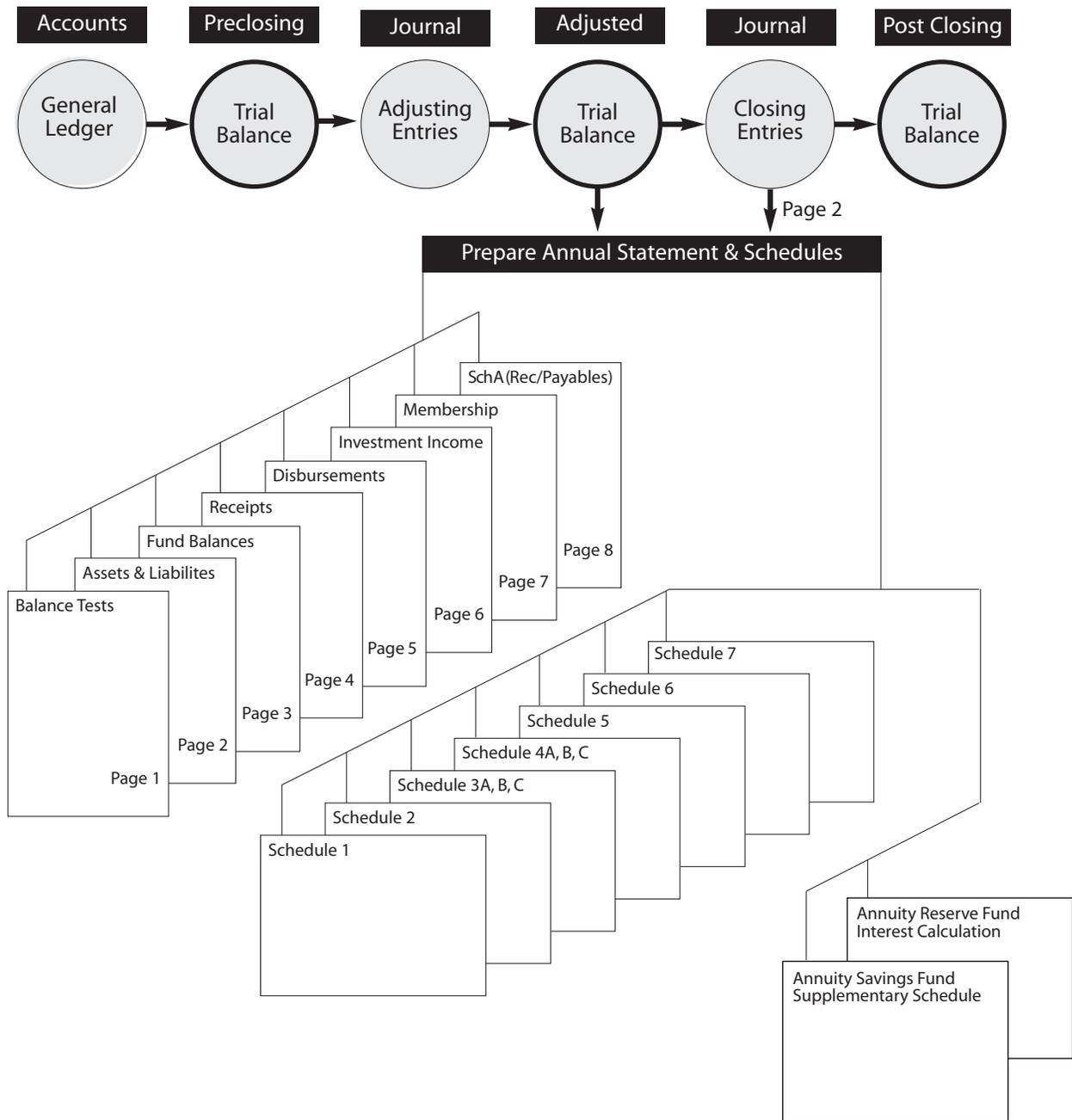
### Step Thirteen

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
4750	Recovery of Annuity from Reinstatement	Credit	3294
4751	Recovery of Pension from Reinstatement	Credit	3296
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
4841	Recovery of 91A Overearnings	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
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
5316	Actuarial Services	Debit	3298
5317	Accounting 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, 2013

<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, 2013

<u>Description</u>	<u>Account Number</u>	<u>Debits</u>	<u>Credits</u>	<u>Ending Balance</u>
<b>Receipts</b>				
Recovery of Annuity from Reinstatement	4750		X	
Recovery of Pension from Reinstatement	4751		X	
Investment Income Fund	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	
Recovery of 91A Overearnings	4841		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	
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		
Actuarial Services	5316	X		
Accounting Services	5317	X		
Education and Training	5320	X		
Administrative Expenses	5589	X		

## Chart 2.3: Pre-Closing Trial Balance Report as of December 31, 2013

<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.

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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, 2013

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 Funds	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, 2013

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>Receipts</b>							
Recovery of Annuity from Reinstatement	4750				8		
Recovery of Pension from Reinstatement	4751				5		
Investment Income Control	4820		Dr. a Cr. b		10 11 12		
Investment Income Received	4821		Dr. b	Page 6	11		
Interest Not Refunded	4822			Page 2	6		
Paid Accrued Interest on Fixed Inc. Sec.	4823			Page 6	10		
Miscellaneous Income	4825			Page 2	6		
Workers' Compensation Settlements	4840			Page 4	5		
Recovery of 91A Overearnings	4841			Page 4	5		
Profit on Sale of Investments	4884			Page 6	11		
Loss on Sale of Investments	4885			Page 6	10		
Increase in Market Value (Unrealized)	4886		Cr. c	Page 6	11		
Decrease in Market Value (Unrealized)	4887		Dr. d	Page 6	10		
Contrib. Rec'd for Military Service	4890			Page 4, 5	9		
Members' Deductions	4891			Page 4	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		
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				Page 5	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			
Actuarial Services	5316			7			
Accounting Services	5317			7			
Education and Training	5320			7			

### Chart 3.3: Trial Balance Report as of December 31, 2013

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)
	DEBIT Workers' Compensation Settlements	(Ledger #4840)
	DEBIT Recovery of Pension from Reinstatement	(Ledger #4751)
	DEBIT Recovery of 91A Overearnings	(Ledger #4841)
	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 Actuarial Services	(Ledger #5316)
	CREDIT Accounting Services	(Ledger #5317)
	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>	DEBIT Recovery of Annuity from Reinstatement	(Ledger #4750)
	CREDIT Annuity Reserve Fund	(Ledger #3294)

<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 #4821)
	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, 2013\*

<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 Funds	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, 2013\*

<u>Description</u>	<u>Account Number</u>	<u>Ending Balance</u>	
		<u>Debits</u>	<u>Credits</u>
<b>Receipts</b>			
Recovery of Annuity from Reinstatement	4750	8	
Recovery of Pension from Reinstatement	4751	5	
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	
Recovery of 91A Overearnings	4841	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	
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
Actuarial Services	5316		7
Accounting Services	5317		7
Education and Training	5320		7
Depreciation Expense: Building	5329		7

\*Keep as permanent record for audit purposes.

## Chart 4.2: Post-Closing Trial Balance Report as of December 31, 2013\*

<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

