

The Monthly Accounting Cycle for Pension Funds

Commonwealth of Massachusetts
Public Employee Retirement Administration Commission



Commonwealth of Massachusetts

Public Employee Retirement Administration Commission

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5 Middlesex Avenue, Third Floor, Somerville, MA 02145

ph 617 666 4446 | fax 617 628 4002 | tty 617 591 8917 | web www.mass.gov/perac

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Harry Chadwick, *Western Chief Auditor*

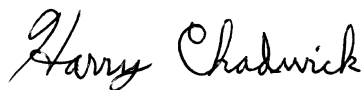
Western Chief Auditor's Letter

The monthly accounting system is the official recording of all retirement system transactions, in accordance with the Public Employee Retirement Administration Commission's Accounting Manual, 840 CMR 4.00, G.L. c. 32, §21 and Generally Accepted Accounting Principles (GAAP).

The monthly accounting cycle encompasses the transactions that have occurred and which effect the general operation of the pension system. From the cash received to obligations paid, the monthly accounting cycle is like a report card and reports the status of the retirement system's financial health.

In addition, the accurate and proper accounting recordation of events ensures that transactions and information are being reported in a timely manner.

We prepared this booklet, *The Monthly Accounting Cycle for Pension Funds*, to give readers a general overview of how to maintain the retirement system's cash book, journal, trial balance, and general ledger. We hope that it will be helpful to you and that it will serve as a resource for the preparation of official accounting records.



Harry Chadwick
Western Chief Auditor

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Monthly Accounting Cycle for Pension Funds

The following accounting records must be maintained on a regular basis:

All transactions that involve cash are entered in the cash book. At the end of each month, the columns of the cash book pages should be totaled. The total for the cash received column must equal the total of all the other columns on the cash receipts page. The column for cash disbursed must equal the total of all the other columns on the cash disbursement page. The totals for all columns must be posted to the general ledger.

Cash Books

Transactions that do not involve cash are entered in the journal. 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.

Journal

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.

Trial Balance

A book is to be kept of all ledger accounts. Each account is kept on a separate page. The beginning of the year balance must be entered and the total of the transactions for each ledger account from the cashbook page should be entered, as well as any amounts entered in the journal for the current month. A new total of each account must be calculated monthly.

General Ledger

Monthly Task List

Cash Receipts: Record and book cash receipts when they are received.

Cash Disbursements: Record and book cash disbursements when they are disbursed.

Adjusting Journal Entries: Make adjusting entries as needed.

Trial Balance: Effect a trial balance.

General Ledger: Print the general ledger.

Copies of Cash Book Entries, Trial Balance and Journal Entries

Within four weeks of the close of each month, after all entries for the month have been posted and a trial balance performed, the retirement board should send photocopies of the following for the month to the Commission:

- Cash book entries

- Trial balance

- Journal entries

Copies of Custodian Bank Statements and Other Statements

The board shall send or have sent to PERAC copies of all custodian bank statements received by the board within four weeks of the close of the month. The statements should be separated into five categories: cash, short-term investments, fixed income investments, equities and pooled funds. These statements must include detailed transaction activity and a monthly account appraisal. Statements that detail the purchase and sale of fund shares, income, dividend re-investments, fund expenses, and ownership interest in any commingled funds must also be sent to PERAC within the same time frame.

Receipts

	<i>Balance (Normal/Usual)</i>	
4891 Members Deductions	Credit	Subsidiary Accounts (Operating)
4892 Transfers From Other Systems	Credit	
4893 Member Make Up Payments and Redeposits	Credit	
4898 3(8)(c) Reimbursements from Other Systems	Credit	
4899 Received from Commonwealth for COLA and Survivor Benefits	Credit	
4884 Realized Gain/Profit on Sale of Investments	Credit	
4885 Realized Loss/Loss on Sale of Investments	Debit	
4886 Unrealized Gain (Change in Market Value)	Credit	Adjusting Entries
4887 Unrealized Loss (Change in Market Value)	Debit	
4894 Pension Fund Appropriation	Credit	
4895 Pension Reserve Appropriation	Credit	
4896 Expense Fund Appropriation	Credit	
4897 Federal Grant Reimbursement	Credit	
4890 Contributions Rec'd from municipality on a/c of military service	Credit	
4820 Investment Inc. - Control Acct	Credit	
4821 Investment Income Received	Credit	
4822 Interest Not Refunded	Credit	But Not Really
4823 Paid Accrued Interest on Fixed Income Securities	Credit	

Receipts: Recurring and Non-Recurring Monthly Receipts

When cash is received, *debit* a Cash Ledger Account (#1040, #1041, #1042, etc.), and *credit* an Operating System Account (#4891, #4892, #4894, etc.).

Journal Entries	Debit Cash	(Ledger #1040)
	Credit Member Deductions	(Ledger #4891)
	Debit Cash	(Ledger #1042)
	Credit Investment Income	(Ledger #4821)
	Debit Cash	(Ledger #1042)
	Credit Transfers From Other Systems	(Ledger #4892)
	Debit Cash	(Ledger #1042)
	Credit Pension Fund Appropriations	(Ledger #4894)

Journal Entry	Debit _____
Exercise	Credit _____
	Debit _____
	Credit _____

Receipts: Asset Disposition / Investments Sold

When an investment is sold and cash is received, *debit* a Cash Ledger Account (#1040, #1041, #1043, etc.), and *credit* the appropriate Investment Ledger Account (#1100, #1170, #1194, etc.).

Debit Cash	(Ledger #1043)	Journal Entries
Credit Equities	(Ledger #1170)	
Debit Cash	(Ledger #1043)	
Credit Fixed Income	(Ledger #1180)	
Debit Cash	(Ledger #1043)	
Credit Pooled Real Estate Funds	(Ledger #1194)	

Debit _____	Journal Entry Exercise
Credit _____	

Debit _____
Credit _____

Receipts: Investment Gains and Losses

When an investment is sold and cash is received, the sale will either result in a profit or loss, or a realized gain or a realized loss.

Journal Entries	Debit Cash	(Ledger #1043)
	Credit Realized Gain / Profit on Sale of Investment	(Ledger #4884)
	Debit Realized Loss/ Loss on Sale of Investment	(Ledger #4885)
	Credit Cash	(Ledger #1043)

Receipts: But Not Really

Journal Entries	Debit Paid Accrued Interest/ Fixed Income	(Ledger #4823)
	Credit Cash	(Ledger #1043)
	Debit Refunds to Members	(Ledger #5757)
	Credit Cash	(Ledger #1041)
	Credit Interest Not Refunded	(Ledger #4822)

Accounts Receivable

4891-Members Deductions		Schedule A
4892-Transfers From Other Systems		
4893-Member Make Up Payments and Redeposits		
4898-3(8)(c) Reimbursements from other Systems		
4899-Received from Commonwealth for COLA and Survivor Benefits		
4884-Realized Gain on Sale of Investments		
4894-Pension Fund Appropriation (Current fiscal year)		
4894-Pension Fund Appropriation (Previous fiscal year)		
4890-Contributions Received from municipality on a/c of military service		
4897-Federal Grant Reimbursement		
4895-Pension Reserve Appropriation		
Investments sold but funds not received (list individually)		
TOTAL RECEIVABLES		

Receipts: Accounts Receivable

When a receivable due the system has been realized (paid), *debit* Cash and *credit* the Receivable.

Debit Cash	(Ledger #1040)	
Credit Accounts Receivable	(Ledger #1398)	Journal Entries

Disbursements

Subsidiary Accounts (Operating)		<i>Balance (Normal/Usual)</i>
	5757 Refunds to Members	Debit
	5756 Transfers to Other Systems	Debit
	5750 Annuities Paid	Debit
	5759 Option B Refunds	Debit
	5751 Pensions Paid	Debit
	5755 3 (8)(c) Reimbursements To Other Systems	Debit
	5752 COLA's Paid	Debit
	5753 Chapter 389 Beneficiary Increase Paid	Debit
	5118 Board Member Stipend	Debit
	5119 Staff Salaries	Debit
	5308 Legal Expenses	Debit
	5309 Medical Expenses	Debit
	5719 Travel	Debit
	5589 Administrative Expenses	Debit
	5599 Furniture and Equipment	Debit
	5304 Management Fees (Expense Fund)	Debit
	5305 Custodial Fees (Expense Fund)	Debit
	5307 Consultant Fees (Expense Fund)	Debit

Disbursements: Recurring and Non-Recurring Monthly Disbursements

When an obligation of the system has been paid, *debit* a Disbursement Operating Account (#5750, #5751, #5119, etc.), and *credit* a Cash Ledger Account (#1040, #1041, #1042, etc.).

Debit Annuities Paid	(Ledger #5750)	Journal Entries
Credit Cash	(Ledger #1040)	
Debit Pensions Paid	(Ledger #5751)	
Credit Cash	(Ledger #1040)	
Debit Staff Salaries	(Ledger #5119)	
Credit Cash	(Ledger #1040)	

Debit _____	Journal Entry
Credit _____	Exercise

Debit _____
Credit _____

Disbursements: Asset Acquisition / Investment Purchased

When an asset is acquired or purchased, *debit* the Asset Ledger Account (#1100, #1170, #1180, etc.) and *credit* a Cash Ledger Account (#1040, #1041, #1043, etc.).

Journal Entries	Debit Equities	(Ledger #1170)
	Credit Cash	(Ledger #1043)
	Debit Fixed Income	(Ledger #1180)
	Credit Cash	(Ledger #1044)

Journal Entry Exercise	Debit _____
	Credit _____
	Debit _____
	Credit _____

Disbursements: Accounts Payable

When an obligation or debt owed has been paid, *debit* the Payable Account and *credit* the Cash Account.

Journal Entries	Debit Accounts Payable	(Ledger #2020)
	Credit Cash	(Ledger #1040)

Accounts Payable

5757-Refunds to Members	_____	Schedule A
5756-Transfers to Other Systems	_____	
5750-Annuities Paid	_____	
5759-Option B Refunds	_____	
5751-Pensions Paid	_____	
5755-3(8)(c) Reimbursements To Other Systems	_____	
5752-COLA's Paid	_____	
5753-Chapter 389 Beneficiary Increase Paid	_____	
4885-Realized Loss on Sale of Investments	_____	
4890-Return to Municipality for Members who withdrew their funds	_____	
5119-Salaries	_____	
5308-Legal Expenses	_____	
5309-Medical Expenses	_____	
5719-Travel	_____	
5589-Administrative Expenses	_____	
5599-Furniture and Equipment	_____	
5304-Management Fees	_____	
5305-Custodial	_____	
5307-Consultant Fees	_____	
5118-Board Members Stipend	_____	
Investments Purchased but not paid for (list individually)		
_____	_____	
_____	_____	
_____	_____	
_____	_____	
TOTAL PAYABLES	_____	

Adjusting 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 booked activity.

Adjusting Entries: Receipts (But Not Really)

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.

Journal Entries	Unrealized Gain (Change in Market Value)	(Ledger #4886)
	Unrealized Loss (Change in Market Value)	(Ledger#4887)

Adjusting Entries: Journal Unrealized Gain (Increase) in Market Value

Debit the respective Investment Asset Account and *credit* the Unrealized Gain (Ledger #4886).

Journal Entries	Debit Equities	(Ledger#1170)
	Credit Unrealized Gain	(Ledger #4886)
	Debit Pooled Real Estate Funds	(Ledger #1194)
	Credit Unrealized Gain	(Ledger #4886)
	Debit Pooled International Equity Funds	(Ledger #1173)
	Credit Unrealized Gain	(Ledger #4886)

Example of a Real Estate Fund Statement with an Unrealized Gain

Statement of Participation in a Real Estate Fund

For the Three Month Period Ending March 31, 2000

Unit Value at Beginning of Period	514.2382	
	Dollars	Units
Market Value at the Beginning of Period	\$4,851,364.50	9,434.08
Account Additions	0.00	0.00
Account Withdrawals	0.00	0.00
Investment Management Fee	(15,160.51)	(28.66)
Investment Income	116,991.10	
Realized Capital Gain/Loss of Assets	(125.08)	
Change in Unrealized Appreciation of Assets	34,589.34	
Market Value at End of Period	\$4,987,659.35	9,405.42
Unit Value at End of Period	530.2966	
Real Estate Fund		
Time Weighted Rate of Return:		
For the Three Month Period		3.12%
For the Year to Date Period		3.12%
Time and Dollar Weighted Rate of Return:		
For the Three Month Period		2.81%
For the Year to Date Period		2.81%

Example of an Equity Fund Statement with an Unrealized Gain

International Equity Fund

Market Value: January 1, 2000	\$16,538,806.31
Interest/Dividends	0.00
Realized Gain/Losses	\$20,021.45
Administrative Expenses	(\$36,827.61)
Unrealized Appreciation	\$29,407.56
Total Market Value: March 31, 2000	\$16,551,407.71

Adjusting Entries: Unrealized Loss (Decrease) in Market Value

Debit the Unrealized Loss (Ledger #4887) and *credit* the respective Investment Asset Account.

Journal Entries	Debit Unrealized Loss	(Ledger #4887)
	Credit Fixed Income Securities	(Ledger #1180)
	Debit Unrealized Loss	(Ledger #4887)
	Credit Pooled International Fixed Income	(Ledger #1182)
	Debit Unrealized Loss	(Ledger #4887)
	Credit PRIT Core	(Ledger #1199)

Example of Adjusting Journal Entry for an Unrealized Loss

Quabbin Retirement Board Adjusting Journal Entries (Excerpt)
From 07/01/2001 to 07/31/2001

		Payee Name	Journal Entry #	Debit	Credit
07/31/2001	Description: Unrealized Loss 7/31/01 PRIT CORE GAA				
Account #: 4887	Unrealized Loss (Change in MKT VA)	PRIT CORE GAA		315,909.02	0.00
Account #: 1199	PRIT CORE GAA	PRIT CORE GAA		0.00	315,909.02
			Sub Totals	315,909.02	315,909.02

Adjusting Entries: Fund Transfers

For members who retire during the month, transfer the member's account from the Annuity Savings Fund to the Annuity Reserve Fund. 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.

Example of Adjusting Journal Entry Transfer of Annuity Savings Fund Account

Quabbin Retirement Board
 Adjusting Journal Entries (Excerpt)
 Journal Entries from 01/03/2000 to 01/31/2000

	Payee Name	Journal Entry #	Debit	Credit
01/31/2000	Description: Transfer New Retiree/Jane Doe			
Account #: 3293	Annuity Savings Fund	I-01	53,669.48	0.00
Control Acct				
Account #: 3294	Annuity Reserve Fund	I-01	0.00	53,669.48
		Sub Totals:	53,669.48	53,669.48
01/31/2000	Description: Transfer New Retiree / John Smith			
Account #: 3293	Annuity Savings Fund	I-02	89,551.93	0.00
Control Acct				
Account #: 3294	Annuity Reserve Fund	I-02	0.00	89,551.93
		Sub Totals:	89,551.93	89,551.93

Adjusting Entries: Errors

In any given month, it may be necessary to make adjusting entries to correct errors found in previous month's journals, or account funds, etc.

Debit _____
Credit _____

Journal Entry
Exercise

Debit _____
Credit _____

Trial Balance

The trial balance is the pre-closing monthly report. The trial balance summarizes all of the transactions that have occurred during the month and been recorded in the cash receipts journal and cash disbursements journal. The trial balance also updates previous balances in asset accounts with the activity that has been booked and reflects current year-to-date balances of those accounts.

Examples of cash journal reports can be found in a folder that immediately follows this booklet.

General Ledger

The general ledger is the final product of the monthly accounting cycle. 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, for the month, as well as the year-to-date.

An example of a general ledger report, can be found in a folder that immediately follows this booklet.

Ledger Accounts

A listing of ledger accounts including subsidiary accounts follows. Whether the balance should be a debit or a credit balance has been noted.

<i>Assets and Liabilities</i>	<i>Balance (Normal/Usual)</i>
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 Short Term Investments	Debit
1180 Fixed Income Securities	Debit
1170 Equities	Debit
1101 Pooled Short Term Funds	Debit
1172 Pooled Domestic Equity Funds	Debit
1173 Pooled International Equity Funds	Debit
1174 Pooled Global Equity Funds	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
1198 PRIT Cash Fund	Debit
1199 PRIT CORE Fund	Debit
1398 Account Receivable	Debit
1550 Interest Due and Accrued	Debit
2020 Accounts Payable	Credit

<i>Funds</i>	<i>Balance</i>
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

1. 1040-Cash	Assets & Liabilities
2. 1100-Short Term Investments	
3. 1180-Fixed Income Securities (at market value)	
4. 1170-Equities	
5. 1101-Pooled Short Term Funds	
6. 1172-Pooled Domestic Equity Funds	
7. 1173-Pooled International Equity Funds	
8. 1174-Pooled Global Equity Funds	
9. 1181-Pooled Domestic Fixed Income Funds	
10. 1182-Pooled International Fixed Income Funds	
11. 1183-Pooled Global Fixed Income Funds	
12. 1193-Pooled Alternative Investments	
13. 1194-Pooled Real Estate Funds	
14. 1195-Pooled Domestic Balanced Funds	
15. 1196-Pooled International Balanced Funds	
16. 1198-PRIT Cash	
17. 1199-PRIT Fund	
18. 1891-Principal Adjustment Account	
19. 1550-Interest Due and Accrued	
20. 1398-Accounts Receivable (A)	
21. 2020-Accounts Payable (A)	
Total	

Funds

1. 3293-Annuity Savings Fund
2. 3294-Annuity Reserve Fund
3. 3295-Military Service Fund
4. 3296-Pension Fund
5. 3297-Pension Reserve Fund
6. 3298-Expense Fund

Receipts

1. Annuity Savings Fund:
 - (a) 4891-Members Deductions
 - (b) 4892-Transfers from Other Systems
 - (c) 4893-Member Make up Payments and Redeposits
 - (d) Investment Income Credited to Members Accounts
2. Annuity Reserve Fund:
 - (a) Investment Income Credited to Annuity Reserve Fund
3. Pension Fund:
 - (a) 4898-3(8)(c) Reimbursements from Other Systems
 - (b) 4899-Received from Commonwealth for COLA and Survivor Benefits
 - (c) 4889-Principal Adjustment Account Amortization Gain
 - (d) 4894-Pension Fund Appropriation
4. Military Service Fund:
 - (a) 4890-Contributions Received from municipality
 - (b) Investment Income Credited
5. Expense Fund:
 - (a) 4896-Expense Fund Appropriation
 - (b) Investment Income Credited to Expense Fund
6. Pension Reserve Fund:
 - (a) 4897-Federal Grant Reimbursement
 - (b) 4895-Pension Reserve Appropriation
 - (c) 4822-Interest Not Refunded
 - (d) Excess Investment Income

1. Annuity Savings Fund:

- (a) 5757-Refunds to Members
- (b) 5756-Transfers to Other Systems

2. Annuity Reserve Fund:

- (a) 5750-Annuities Paid
- (b) 5759-Option B Refunds

3. Pension Fund:

- (a) 5751-Pensions Paid
 - Regular Pension Payments
 - Survivorship Payments
 - Ordinary Disability Payments
 - Accidental Disability Payments
 - Accidental Death Payments
 - Section 101 Benefits
- (b) 5755-3(8)(c) Reimbursements To Other Systems
- (c) 5752-COLA's Paid
- (d) 5753-Chapter 389 Beneficiary Increase Paid
- (e) 4888-Principal Adjustment Account
 - Amortization Loss

4. Military Service Fund:

- (a) 4890-Return to Municipality for Members who withdrew their funds

5. Expense Fund:

- (a) 5118-Board Member Stipend
- (b) 5119-Salaries
- (c) 5308-Legal Expenses
- (d) 5309-Medical Expenses
- (e) 5719-Travel
- (f) 5589-Administrative Expenses
- (g) 5599-Furniture and Equipment
- (h) 5304-Management Fees
- (i) 5305-Custodial Fees
- (j) 5307-Consultant Fees

Total Disbursements

**Investment
Income**

Investment Income received from:

- (a) Cash (from schedule 1)
- (b) Short Term Investments (from schedule 2)
- (c) Fixed Income Securities (from schedules 3A and 3C)
- (d) Equities (from schedules 4A and 4C)
- (e) Pooled Funds (from schedule 5)
- (f) Commission Recapture

4821-Total Investment Income

4828-Increase in Amortization of Fixed Income Securities

4884-Realized Gains (Profits)

4886-Unrealized Gains (Inc. in Market Value)

1550-Interest Due and Accrued on Fixed Inc Securities-Current Year

4829-Decrease in Amortization of Fixed Income Securities

4823-Paid Accrued Interest on Fixed Income Securities

4885-Realized Losses

4887-Unrealized Losses (Decrease in Market Value)

1550-Interest Due and Accrued on Fixed Inc Securities-Prior Year

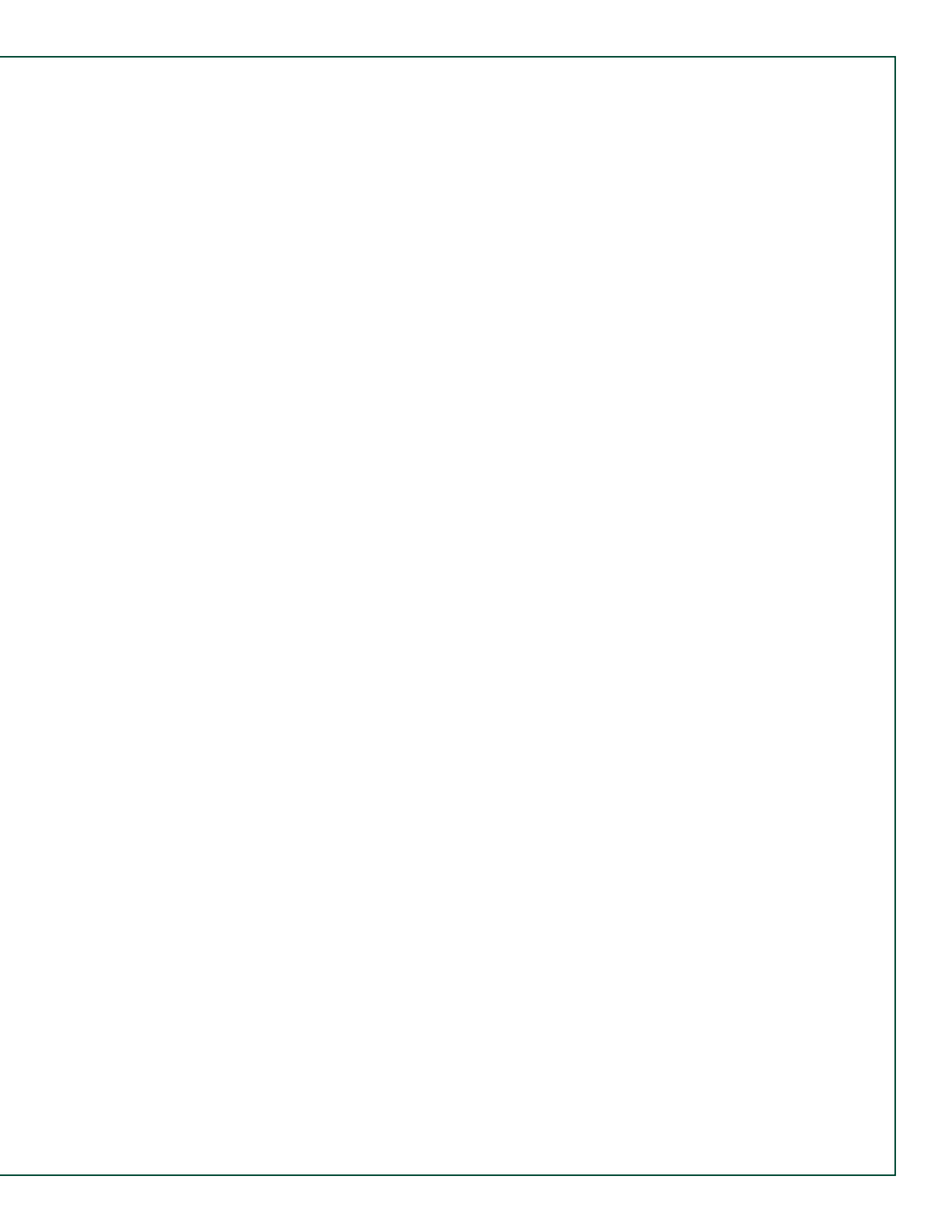
The Statement of Ledger Assets and Liabilities

This statement shows the value of a Retirement System's assets.

1. *Cash*: Funds deposited in savings accounts, checking accounts, or money market accounts that represent 'on demand money' are known as cash. Each cash account must be identified individually in the ledger and trial balance. Each transfer of funds between cash accounts requires a journal entry.
2. *Short Term Investments*: Invested funds (e.g., U.S. Treasury Bills, Commercial Paper, Certificates of Deposit, Cooperative Shares, Savings and Loan Shares, Term Deposits) that can be readily obtained within 30 days are considered Short-Term Investments.
3. *Fixed Income Securities*: Bonds are Fixed Income Securities. Effective January 1, 2000, fixed income securities are valued at market value. Gains or losses on sales of fixed income securities are calculated as the difference between the sale price and the most recent market value.

4. *Equities*: Shares in corporations (stocks) are equities..
5. *Pooled Funds*: Pooled Funds are investment vehicles such as mutual funds, commingled funds, group trusts, real estate funds, limited partnership funds, and alternative investments. The distinguishing feature of a pooled fund is that a number of retirement boards or investors contribute money to the fund. This contrasts with a separate account in which only one retirement board or investor contributes money.
6. *PRIT Cash Fund/Core Fund*: The Pension Reserve Investment Trust (PRIT) is an investment fund administered by the Commonwealth of Massachusetts.
7. *Accounts Receivable*: Monies that are due the retirement system must be recorded as an account receivable. Any transaction for a security that was sold prior to January 1st, with a settlement date after December 31st, should be recorded as an account receivable since the retirement system actually no longer owns this security on the transaction date. For city and town systems, any funds that have been appropriated for the current fiscal year but not received by December 31st should be considered a receivable. For county systems, appropriations are due on July 1st and January 1st. Any funds not received from the July 1st portion of the appropriation should be considered a receivable. If by December 31st, a retirement system has not received all reimbursements for billings that have been sent to other governmental units, a receivable must be recorded.
8. *Accounts Payable*: Monies that the retirement system owes must be recorded as an accounts payable. Any transaction of a security that was purchased prior to January 1st, with a settlement date after December 31st, should be recorded as accounts payable since the retirement system actually no longer owns this security on the transaction date. Administrative expenses and reimbursements to other systems received prior to January 1st are also accounts payable.

Notes



Commonwealth of Massachusetts
Public Employee Retirement Administration Commission
5 Middlesex Avenue
Third Floor
Somerville, MA 02145
ph 617 666 4446
fax 617 628 4002
tty 617 591 8917
web www.mass.gov/perac