

August 1997

TO: New York State Superintendents and Business Officials of School Districts and BOCES

FROM: New York State Office of the State Comptroller, Division of Municipal Affairs

SUBJECT: Risk Retention Fund is Eliminated by Governmental Accounting Standards Board (GASB) Statement No. 10 - Accounting and Financial Reporting for Risk Financing and Insurance Issues

Please distribute copies of this bulletin to others who need this information. If you have questions, please contact the Bureau of Municipal Accounting Systems at (518) 474-6023.

PURPOSE OF BULLETIN

This bulletin provides information on the elimination of the Risk Retention (Insurance Reserve) Special Revenue Fund (the CS fund) from the Uniform System of Accounts. It also provides information on how the activity in that fund must be reported in the general fund in the ST-3 Annual Financial Report for the year ended June 30, 1997. This change is needed to comply with GASB Statement 10.

BACKGROUND ON “CS” RISK RETENTION (INSURANCE RESERVE) FUND

In September 1986, based on the liability insurance crisis and a desire to account for risk financing and insurance activity in a single fund, we issued an accounting bulletin advising school districts and BOCES to establish a special revenue fund to account for risk financing and insurance activities. This fund was originally called the “Insurance Reserve Fund”. However, we changed the name of the fund to “Risk Retention Fund” in a December 1987 accounting bulletin. This special revenue fund is the Risk Retention Fund (the CS fund) currently in the Uniform Systems of Accounts for School Districts (published in 1987) and Uniform System of Accounts for BOCES (published in 1988).

GASB STATEMENT 10

One of the issues covered by Statement 10 is which fund should be used to account for risk financing and insurance activity. Under Statement 10, a special revenue fund like the CS fund, can no longer be used. While Statement 10 gives the option of using either the general fund or an internal service fund, in New York State, school districts and BOCES must use the general fund in order to ensure consistent treatment of this activity and consistent disclosure to the voters.

(continued)

ACTION NEEDED BY SCHOOLS AND BOCES FOR 1996-97

Eliminate the risk retention special revenue fund by closing the risk retention fund and by reporting these activities in the general fund. In the ST-3 for the year ending June 30, 1997:

- ❖ Report the beginning fund balance in the CS fund as a residual equity transfer to the general fund. Based on the ST-3 you filed last year, SED has already included this fund balance adjustment on Statement A-3 of the ST-3.
- ❖ Report CS fund revenues and expenditures in the general fund. The revenue, expenditure and fund balance account codes used in the CS fund should be used in the general fund. However, please note that in the ST-3 for the year ended June 30, 1997 some of the account codes for the CS fund were not listed in the general fund. For reporting purposes, use the following codes:
 - ❖❖ In the balance sheet, reserved fund balance codes 814, 815, 861, 862, 863 are not listed. Report these under 889.
 - ❖❖ In the expenditure statement, codes 1710.1, 1710.2, 1710.4 are not listed. Report these in 1989.4
 - ❖❖ In the expenditure statement, code 1722.4 is not listed. Report this under 1910.4

The illustrative journal entries on pages 3 and 4 should be used as a guide as of June 30, 1997:

BUDGETARY ENTRIES FOR RESERVES

In 1997-98 and future years, the reserves previously recorded in the CS fund will be budgeted and reported in the General Fund following the same procedures already used in the general fund for tax certiorari reserves and repair reserves. The following entries illustrate the budget entries to create and to use reserve funds:

<u>Account Code and Title</u>	<u>Subsidiary Ledger</u>	<u>Debit</u>	<u>Credit</u>
<i>To create or provide additional funding for the various reserve accounts through the annual budget (This is part of the annual budget entry):</i>			
510	Estimated Revenues		xx
AR 1001 Real Property Taxes	xx		
AR 5031 Interfund Transfers	xx		
962 Budgetary Provision for Other Uses			xx

To appropriate Reserve Funds to finance anticipated expenditures (This is part of the annual budget entry):

511 Appropriated Reserves		xx	
960 Appropriation			xx
Various Subsidiaries	xx		

This entry would also be made during the year to provide supplemental appropriations.

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<u>Account Code and Title</u>	<u>Subsidiary Ledger</u>	<u>Debit</u>	<u>Credit</u>
<i>Entry 1 - To record balances of the CS fund as of 6/30/97 in the general fund. These balances represent the pre-closing balances of the CS fund as of June 30, 1997.</i>			
A200	Cash	XXX	
A201	Cash in Time Deposits	XXX	
A210	Petty Cash	XXX	
A230	Cash, Special Reserves	XXX	
A231	Cash in Time Deposits, Special Reserves	XXX	
A380	Accounts Receivable	XXX	
A389	Allowance for Uncollectible Receivables		XXX
A391	Due From Other Funds	XXX	
A450	Investment in Securities	XXX	
A451	Investment in Repurchase Agreements	XXX	
A452	Investments in Securities, Special Reserves	XXX	
A453	Investments in Repurchase Agreements, Special Revenues	XXX	
A489	Other Assets		XXX
A522	Expenditures (Control)		XXX
1710.1	Salaries	XXX	
1710.2	Equipment	XXX	
1710.4	Contractual and Other	XXX	
1722.4	Excess Insurance	XXX	
1930.4	Judgments and Claims	XXX	
1931.4	Property Loss	XXX	
	Etc.	XXX	
A600	Accounts Payable		XXX
A601	Accrued Liabilities		XXX
A626	Bond Anticipation Notes		XXX
A637	Due to ERS		XXX
A687	Compensated Absences		XXX
A689	Other Liabilities		XXX
A690	Overpayments		XXX
A691	Deferred Revenues		XXX
A814	FB - Workers' Compensation Reserve		XXX
A815	FB - Unemployment Insurance Reserve		XXX
A821	FB - Encumbrances		XXX
A861	FB - Property Loss Reserve		XXX
A862	FB - Liability Reserve		XXX
A863	FB - Insurance Reserve		XXX
A909	FB - Unreserved		XXX
A980	Revenues (Control)		XXX
2401	Interest and Earnings	XXX	
2680	Insurance Recoveries	XXX	
2701	Refunds of Prior Year Exp	XXX	
2709	Employee's Contributions	XXX	
2770	Unclassified Revenues	XXX	
5031	Interfund Transfers	XXX	
	Etc.	XXX	

Note: Since the above amounts are based on the preclosing trial balance, the amounts in accounts 814, 815, 821, 861, 862, 863 and 909 should be the beginning fund balance. The total of these accounts is a fund balance adjustment as of 7/1/96 in Statement A-3 of the ST-3.

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Account Code and Title	Subsidiary Ledger	General Ledger	
		Debit	Credit

Entry 2 - To record the 1996-97 budget of CS fund in general fund (If there was no formal budget for the CS fund, use figures for actual revenues/expenditures, etc.):

A511	Appropriated Reserves		xxx	
A510	Estimated Revenues	Various	xxx	
A960	Appropriations	Various		xxx

Entry 3 - To eliminate 6/30/97 interfund balances (if there are any) between CS and A fund:

A690	Due to Other Funds		xxx	
A391	Due from Other Funds			xxx

Entry 4 - To eliminate 1996-97 interfund transfer between CS and A funds:

A980	Revenues		xxx	
A5031	Interfund Transfer (from general)	xxx		
A522	Expenditures			xxx
9902.9	Transfer to CS fund	xxx		

Entry 5 - To reduce 1996-97 budget for amount of interfund transfers eliminated in previous entry:

A960	Appropriations		xxx	
9902.9	Transfer to CS Fund	xxx		
A510	Estimated Revenues			xxx
A5031	Interfund Transfer	xxx		

Closing Entries - When making the various closing entries, the revenues and expenditures previously recorded in the CS fund should be closed to the reserve fund balance accounts (A814, 815, 861, 862, 863) in the same manner as was done in the CS fund. In your accounting records, revenues and expenditures related to reserves must continue to be tracked separately using the prefix AR as explained in the Uniform System of Accounts and they are closed to the reserve fund balance accounts rather than account 909.

Keep in mind that the statements of revenues, expenditures and changes in fund balance report total activity (both reserved and unreserved). The AR codes are not used in the ST-3.

-END OF BULLETIN-