

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

ACCOUNTING PRINCIPLES (Cont'd)

flected as an addition to the fund balance if so specified by the donor. If available for general operating purposes, they should be included in nonoperating revenue in the Unrestricted Fund.

Specific Purpose Fund

Funds received which are restricted for a specific operating purpose should be accounted for in a separate restricted fund (Specific Purpose Fund). These resources must be recorded as other operating revenue in the period in which expenditures are made for the purpose specified by the donor.

Income earned and any net realized gains on investments should be recorded as an addition to fund balance if required to conform to the donor's instructions or as non-operating revenue of the Unrestricted Fund if such revenue is available for general purposes.

INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities are to be valued at cost if purchased or, if acquired by donation, at the fair market value at the date of the gift. If there is evidence of a permanent decline in value, an appropriate reduction in carrying value must be made.

POOLED INVESTMENTS

Investments of various funds may be pooled unless prohibited by law or

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the terms of a donation or grant. Gains/losses and investment income on pooled investments should be distributed to participating funds on a basis utilizing market value.

To illustrate the market value method of distributing gains/losses and income on pooled investments, assume the following facts:

1. A nursing home decides to create a pool of investments from funds provided from the following sources:

<u>Source</u>	<u>*Market Value at Inception of Pool</u>	
	<u>Amount</u>	<u>% to total pool</u>
Unrestricted Funds	\$1,000,000	20%
Endowment Funds (single endowment)	3,000,000	60%
Plant Replacement and Expansion (PR&E) Funds	<u>1,000,000</u>	<u>20%</u>
	<u>\$5,000,000</u>	<u>100%</u>

\* This serves as the initial distribution basis.

2. Gains/losses on the endowment funds must be added to or deducted from the principal; however, the investment income is available for unrestricted purposes under the terms of the gift.
3. Gains/losses and investment income for the plant replacement and expansion funds must be added to or deducted from fund balance pursuant to the wishes of the donor.

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4. There were no gains/losses on the sale of investments for the first year the pool was in existence. The income generated by the pool for that year was \$400,000.
5. Any gains on investment sales and investment income are not reinvested in the investment pool. The cash is remitted to funds that are entitled to the gains and/or income.

The distribution of the income for the first year would be based on each participating fund's percentage (%) of the pool based on its contribution at market value at the initiation of the pool. Therefore, the distribution would be as follows:

	<u>Distribution to</u>	<u>Income Distributed</u>
Unrestricted Funds	(total income of \$400,000 X 20%)	\$ 80,000
Endowment Funds	(total income of \$400,000 X 60%)	240,000
PR&E Funds	(total income of \$400,000 X 20%)	<u>80,000</u>
	Total income to be distributed	<u>\$400,000</u>

The accounting entries necessary to account for the distribution of income from the pooled investments would be as follows:

<u>Unrestricted Funds</u>		
	<u>Account</u>	
DR. Cash	1010.00	\$320,000
CR. Unrestricted Income from Endowment Funds (non-operating revenue)	9055.00	\$240,000

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	<u>Account</u>	
CR. Income and gains from unrestricted fund investments	9051.00	\$ 80,000

To record the income from pooled investments for the year.

	<u>PR&amp;E Fund</u>	
DR. Cash	1510.00	\$ 80,000
CR. Fund Balance	2690.00	\$ 80,000

To record the income from pooled investments for the year.

In the second year the following facts are assumed:

1. On the first day of the year the nursing home decided to add \$1,000,000 of unrestricted funds to the pooled investments. On that date, but prior to making the aforementioned addition, the pooled investments had the same cost, \$5,000,000, as at inception, but a market value of \$6,000,000. There were no other additions to the pool during the year.
2. There were net gains on the sale of investments of \$100,000 for the year and the investment income was \$500,000 for the same period.

Based on the above facts the distribution percentage (%) for the income and gains on pooled investments for each of the participating funds would be based on the market value of the investment pool as of the date of the last addition and would be calculated as follows:

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	<u>Revised Distribution Basis</u>	
	<u>Units</u>	<u>% to Total Units</u>
Unrestricted Funds:		
Market value \$6,000,000 X 20% (distribution % prior to addition)	1,200,000	
Addition to pool at fair value as of that date	<u>1,000,000</u>	
	2,200,000	31.4%
Endowment Funds:		
Market value \$6,000,000 X 60% (distribution % prior to addition) - no new additions	3,600,000	51.4
PR&E Funds:		
Market value \$6,000,000 X 20% (distribution % prior to addition) - no new additions	<u>1,200,000</u>	<u>17.2</u>
	<u>7,000,000</u>	<u>100.0%</u>

The income and gains from pooled investments for the second year would be based on the newly computed distribution and would be as follows:

	<u>Current Distribution %</u>	<u>Gains to be Distributed</u>	<u>Income to be Distributed</u>
Unrestricted Funds	31.4%	\$ 31,400	\$157,000
Endowment Funds	51.4	51,400	257,000
PR&E Funds	<u>17.2</u>	<u>17,200</u>	<u>86,000</u>
	<u>100.0%</u>	<u>\$100,000</u>	<u>\$500,000</u>

The accounting entries necessary to reflect the above distribution would be as follows:

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Unrestricted Funds

	<u>Account</u>	
DR. Cash	1010.00	\$445,400
CR. Unrestricted income from Endowment Funds (non-operating revenue)	9055.00	\$257,000
CR. Income and gains from unrestricted fund investments	9051.00	\$188,400

To record the income and gains on pooled investments attributable to these funds for the year.

Endowment Funds

DR. Cash	1810.00	\$ 51,400
CR. Fund Balance (gains on sales of investments)	2890.00	\$ 51,400

To record the gains on pooled investments attributable to these funds for the year.

PR&E Funds

DR. Cash	1510.00	\$103,200
CR. Fund Balance	2690.00	\$103,200

To record the gains and income on pooled investments attributable to these funds for the year.

As the above example illustrates, each time an addition is made to the investment pool a new distribution basis must be calculated. This is also true for any reductions to the pool. All gains/losses and investment income from the beginning of the accounting period up to the date of the addition must be determined and distributed on the basis prior to the addition. Any gains/losses and investment income subsequent to an addition would be distributed on the new basis until another addition or reduction is made.