

NEW YORK STATE
RESIDENTIAL HEALTH CARE FACILITY
ACCOUNTING AND REPORTING MANUAL

ACCOUNTING PRINCIPLES (Cont'd)

The term "restricted" should not be used in connection with board or other internal nursing home appropriations or designations of funds.

Endowment Funds

Funds classified as endowment include:

- . pure endowments (principal is to remain intact in perpetuity).
- . term endowments (principal is available for use upon the passage of time or the occurrence of an event).

When term endowments become available to the governing board for unrestricted purposes, they should be reported as non-operating revenue; if these funds are restricted, they should be transferred to the appropriate restricted fund.

Income earned on endowment fund investments should be accounted for in accordance with donors' instructions if restricted, or as non-operating revenue in the unrestricted fund if not restricted.

Under Section 513 of the New York State Not-For-Profit Corporate Law, realized gains from the sale of endowment fund assets may be available for the general use of the nursing home, provided that the amount of fair value of the principal of such assets as of the end of the fiscal year in which the gains are recorded is not less than the amount of fair value of such assets at the time they were originally received by the home. Realized gains that were treated as additions to principal before the effective date of this

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Section of law, September 1, 1970, may be available to the nursing home under the aforementioned conditions in an amount not to exceed 20% of such gains in any one year.

The following example illustrates the computation for determining the amount of accumulated gains that may be recognized in the Unrestricted Fund after September 1, 1970 and the accounting treatment of such recognition:

Endowment Fund at December 31

Assets

Investments (m/v \$90,000)	<u>\$100,000</u>
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Fund Balance

Principal (at fair value date of gift)	80,000
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Accumulated net gains	<u>20,000</u>
	<u>\$100,000</u>

Market value of investments	\$ 90,000
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Value of donated principal	<u>80,000</u>
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Excess of current market value over value of donated principal	<u>\$ 10,000</u>
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The above example illustrates that \$10,000 is available to the Unrestricted Fund. Assume that investments must be sold at the year-end market value so that \$10,000 in cash can be transferred to the unrestricted funds. Since the market value is 90% of the book value, \$11,111 of investments at book value must be sold to obtain \$10,000 in cash. The entries required to recognize the income would be:

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Endowment Fund

	<u>Account</u>	
DR. Cash	1810.00	\$ 10,000
DR. Fund balance - accumulated gains	2890.00	1,111
CR. Investments	1820.00	\$ 11,111

To record sale of endowment fund investments

DR. Fund balance - accumulated gains	2890.00	\$ 10,000
CR. Cash	1810.00	\$ 10,000

To record the transfer of realized gains to the Unrestricted Fund

Unrestricted Fund

DR. Cash	1010.00	\$ 10,000
CR. Fund balance	2290.00	\$ 10,000

To record the transfer of cash representing endowment fund realized gains in the Unrestricted Fund.

Plant Replacement and Expansion Funds

Resources restricted by donors and other third-parties for the acquisition or construction of plant assets or the reduction of related debt must be accounted for in the Plant Replacement and Expansion Fund.

When expenditures for plant assets are made by the Unrestricted Fund for the Plant Replacement and Expansion Fund, a transfer must be made from the Plant Replacement and Expansion Fund to match such expenditures if such

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funds are available. The entries to record the required transfer in both funds are as follows:

Plant Replacement and Expansion Fund

	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
Transfers from restricted funds for capital outlays	2696.00	XXX	
Due to operating fund	2581.00		XXX

Unrestricted Fund

Due from plant replacement and expansion fund	1093.00	XXX	
Transfers from restricted funds for capital outlays	2296.00		XXX

To record transfer of funds for plant assets purchased by the Operating Fund for the Plant Replacement and Expansion Fund.

Due to/due from accounts are to be used only as an interim measure and must be reduced within a reasonable period of time by a transfer of physical assets (generally cash or investments) between the respective funds.

If expenditures for plant assets are made in the Plant Replacement and Expansion Fund, the plant assets must be transferred to the Unrestricted Fund, with the accompanying credit made to the Operating Fund Balance - Transfers from restricted funds for capital outlays. In the Plant Replacement and Expansion Fund, fund balance would be debited, and a cash account credited. No entry would be made to the interfund payable or receivable accounts.

Income earned and any net realized gains on investments should be re-