

ARCHDIOCESE OF SEATTLE

SECTION H

RESTRICTED FUNDS

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RESTRICTED FUNDS

Restricted Donations

Restricted donations are donations restricted by the donor for a particular program or purpose. Restricted donations cannot legally be used for any other purpose. Parish leadership should exercise care in accepting these donations if the program or purpose isn't part of the parish mission. For example, if a parishioner wishes to donate an amount of money to purchase a particular statue, the parish should determine if this statue is something the community wants to purchase.

The accounting for restricted donations is relatively straightforward. The donation is not revenue until the restriction has been fulfilled (e.g, the funds have been spent on the program or purpose specified by the donor). Until this time, the parish has a liability or obligation to hold the funds until the restriction is fulfilled. The example below will make this process more understandable.

The parish receives a donation of \$10,000 to repair and weatherize the church windows. At the time the donation is received, the following entry records the activity:

ACCT #	DESCRIPTION	DEBIT	CREDIT
1115	Cash in Checking	10,000	
2401	Restricted – Window Replacement		10,000

When the windows are repaired, the following entries record the payment for the project and the recognition of the restricted donation revenue:

ACCT #	DESCRIPTION	DEBIT	CREDIT
1550	Repairs and Renovations	10,000	
1115	Cash in Checking		10,000

ACCT #	DESCRIPTION	DEBIT	CREDIT
2401	Restricted – Window Replacement	10,000	
4120.10	Capital Improvement Revenue		10,000

It is very important that the second entry (recognizing the revenue) be made. This provides an accurate representation of the event with all elements documented.

Permanently Restricted Donations

Permanently restricted amounts are recorded in essentially the same manner with one important exception. The donations are recorded in a Fund Balance (#32XX) account and the donations are never recorded as Revenue to the parish. The funds are maintained as both an Asset Account (#14XX) and a Fund Balance Account (#32XX). The primary examples of Permanently Restricted Funds are Endowments, School Education Funds and Cemetery Care Funds.

Again, please note that inclusion in Permanently Restricted Funds is based on donor restrictions. If parish/school leadership commits funds to this Endowment, it is categorized as "Funds Functioning As Endowment".

The following example illustrates the accounting for this type of Fund.

ACCT #	DESCRIPTION	DEBIT	CREDIT
1115	Cash in Checking	100,000	
3215	Endowment Fund		100,000
To record collection of Endowment Funds			

ACCT #	DESCRIPTION	DEBIT	CREDIT
1415	Endowment Fund Assts	100,000	
1115	Cash in Checking		100,000
Investment in Endowment			

Note: The alternative method to Fund Balance Accounting is Restricted Net Asset Accounting. A description of this method is attached as Appendix H-1.

APPENDIX H-1

Restricted Net Asset Accounting

RESTRICTED FUNDS

Several years ago, the American Institute of Certified Public Accountants (AICPA) reviewed accounting policies and procedures applicable to non-profit entities. While this review was instigated by the well-publicized financial problems of a few “Televangelists”, the results impact all non-profit organizations. One area of review was the standards for financial reporting by non-profits. Statement 117 of the Financial Accounting Standards Board (FASB) provides the basis for the revised financial reporting requirements.

The new reporting requirements are based on the split of the Net Assets account (Fund Balance) into three categories:

1. Unrestricted
2. Temporarily Restricted (e.g., building drive collections, donations for specific items, etc.)
3. Permanently Restricted (e.g. Endowment Funds, Cemetery Care Funds, etc)

The donor must impose these restrictions. Restrictions imposed by parish leadership are included in the Unrestricted Net Assets section. If you have been using the Designated Fund Balance accounts you have been accomplishing much of this separation.

Parishes conducting building drives will face the most drastic changes. Fund Balance Accounting called for collections to be recorded as Restricted Revenue (a liability). When the restriction was fulfilled (e.g. the funds were spent for the purpose they were intended) the revenue was “recognized” by recording revenue and decreasing the restricted revenue liability. In this system, pledge collections are recorded as revenue in the Temporarily Restricted Net Asset Section of the parish’s financial records. All activity runs through the Statement of Financial Activities (formally Income Statement). We have attached sample reporting forms to illustrate these changes.

Statement of Financial Position (Balance Sheet)

- Exhibit A is a sample of the format we recommend.
- Exhibit B is a more condensed version
- Exhibit C is a more detailed version

In our opinion, Exhibit A seems to be the most reasonable compromise for this statement.

Statement of Financial Activities (Income Statement)

- Exhibit D is the recommended version; this version includes an account for “Net Assets Released from Restrictions” as a revenue (in the Current Fund) and a “contra-revenue) in the Temporarily Restricted Net Assets.
- Exhibit E is a more condensed version.
- Exhibit F is a non-fund approach.

An example will make this more understandable:

The parish receives a donation of \$10,000 to repair and weatherize the church windows. At the time the donation is received, the following entry records the activity:

ACCT #	DESCRIPTION	DEBIT	CREDIT	
	Temp. Restricted Cash in Checking	10,000		Temp. Restricted Net Assets
	Temp. Restricted Donations		10,000	Temp. Restricted Net Assets
To Record Temporarily Restricted Donation				

Note: If the parish's books were closed at this point, the \$10,000 would flow through the Statement of Activity to the Temporarily Restricted Net Assets on the Statement of Financial Position (Balance Sheet).

When the windows are repaired, the following entry will release the restriction:

ACCT #	DESCRIPTION	DEBIT	CREDIT	
	Unrestricted Cash in Checking	10,000		Unrestricted Net Assets
	Temporarily Restricted Cash in Checking		10,000	Temp. Restricted Net Assets
To record release of restrictions of cash				

ACCT #	DESCRIPTION	DEBIT	CREDIT	
	Net Assets Released from Restrictions	10,000		Temp. Restricted Net Assets
	Net Assets Released from Restrictions		10,000	Unrestricted Net Assets
To record release of restrictions				

ACCT #	DESCRIPTION	DEBIT	CREDIT	
	Repairs/Maintenance Costs	10,000		Unrestricted Net Assets
	Unrestricted Cash in Checking		10,000	Unrestricted Net Assets
To record window repair				

As you can see, the accounting entries are very similar to fund balance accounting. Revenue is recognized in the current fund after being recorded as restricted when received. The difference is that the restriction is maintained by means of a fund rather than as an account on the balance sheet.

Permanently restricted amounts are recorded in the same manner with the very important exception that they are never released from the restrictions. School endowment funds are the primary example of these funds. Again, please note that inclusion in permanently restricted funds is based on donor restrictions. If parish/school

leadership commits funds to this fund, it is categorized as “Funds Functioning As Endowment”. These funds may be invested in the same fund as permanently restricted funds (an endowment fund) but they must be segregated in the financial records.

Again, an example will help. Assume the parish/school conducts a drive and obtains collections of \$100,000 for the endowment fund. At the same time, the pastor approves the consultative groups’ recommendation that \$50,000 from the parish’s surplus be donated to the endowment. The following entries record the transaction:

ACCT #	DESCRIPTION	DEBIT	CREDIT	
	Cash in Permanently Restricted Checking	100,000		Perm. Restricted Net Assets
	Donations – Perm. Rest.		100,000	Perm. Restricted Net Assets
To record collection of Endowment Funds				

ACCT #	DESCRIPTION	DEBIT	CREDIT	
	Intra-Fund Transfer	50,000		Perm. Restricted Net Assets
	Donations to Funds Functioning As Endowment		50,000	Perm. Restricted Net Assets

ACCT #	DESCRIPTION	DEBIT	CREDIT	
	Permanently Restricted Endowment Fund Assets	100,000		Perm. Restricted Net Assets
	Funds Functioning as an Endowment Fund	50,000		Unrestricted Net Assets
	Cash in Permanently Restricted Checking		100,000	Perm. Restricted Net Assets
	Unrestricted Cash in Checking		50,000	Unrestricted Net Assets
Investment in endowment				

Recording Revenue:

Note: FAS Statement 116 states that pledges will be recorded as revenue when they are considered promises to pay. The policy for parish accounting is that pledges should be recorded as revenue if the parish/school is prepared to submit the pledges to a collection agency if they are not fulfilled. If the parish/school is not willing to submit pledges to collection, they should not be considered revenue (either restricted or general) until funds are collected.

SAMPLE DIOCESAN FINANCIAL STATEMENT (EXAMPLE)
(NON-FUND APPROACH/COLUMNAR)
STATEMENT OF FINANCIAL POSITION
for the year ended June 30, 2008

<u>Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008Total Funds</u>
Cash and Cash Equivalents	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX
Pledges Receivable (net)		XXX,XXX	XXX,XXX	XXX,XXX
Accounts Receivable (net)	XXX,XXX			XXX,XXX
Accrued Interest Receivable	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Short-term Investments	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Assets Restricted to Investment in Land, Building and Equipment		XXX,XXX		XXX,XXX
Assets Held as Custodian	XXX,XXX			XXX,XXX
Endowment Assets			XXX,XXX	XXX,XXX
Land, Building and Equipment (net)	XXX,XXX			XXX,XXX
Total Assets	<u><u>\$ XXX,XXX</u></u>	<u><u>\$ XXX,XXX</u></u>	<u><u>\$ XXX,XXX</u></u>	<u><u>\$ XXX,XXX</u></u>
<u>Liabilities and Net Assets</u>				
Accounts Payable	\$ XXX,XXX			\$ XXX,XXX
Accrued Expenses	XXX,XXX			XXX,XXX
Annuity Liabilities	XXX,XXX			XXX,XXX
Funds Held for Others	XXX,XXX			XXX,XXX
Total Liabilities	XXX,XXX			XXX,XXX
Net Assets:				
Unrestricted	XXX,XXX			XXX,XXX
Temporarily Restricted		XXX,XXX		XXX,XXX
Permanently Restricted			XXX,XXX	XXX,XXX
Total Net Assets	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Total Liabilities and Net Assets	<u><u>\$ XXX,XXX</u></u>	<u><u>\$ XXX,XXX</u></u>	<u><u>\$ XXX,XXX</u></u>	<u><u>\$ XXX,XXX</u></u>

SAMPLE DIOCESAN FINANCIAL STATEMENT (EXAMPLE)
(NON-FUND APPROACH/NON-COLUMNAR)
STATEMENT OF FINANCIAL POSITION
for the year ended June 30, 2008

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and Cash Equivalents	\$ XXX,XXX	\$ XXX,XXX
Pledges Receivable (net)	XXX,XXX	XXX,XXX
Accounts Receivable (net)	XXX,XXX	XXX,XXX
Accrued Interest Receivable	XXX,XXX	XXX,XXX
Short-term Investments	XXX,XXX	XXX,XXX
Assets Restricted to Investment in Land, Building and Equipment	XXX,XXX	XXX,XXX
Assets Held as Custodian	XXX,XXX	XXX,XXX
Endowment Assets	XXX,XXX	XXX,XXX
Land, Building and Equipment (net)	XXX,XXX	XXX,XXX
	<hr/>	<hr/>
Total Assets	\$ XXX,XXX	\$ XXX,XXX
	<hr/> <hr/>	<hr/> <hr/>
<u>Liabilities and Net Assets</u>		
Accounts Payable	\$ XXX,XXX	\$ XXX,XXX
Accrued Expenses	XXX,XXX	XXX,XXX
Annuity Liabilities	XXX,XXX	XXX,XXX
Funds Held for Others	XXX,XXX	XXX,XXX
	<hr/>	<hr/>
Total Liabilities	XXX,XXX	XXX,XXX
Net Assets:		
Unrestricted	XXX,XXX	XXX,XXX
Temporarily Restricted	XXX,XXX	XXX,XXX
Permanently Restricted	XXX,XXX	XXX,XXX
	<hr/>	<hr/>
Total Net Assets	XXX,XXX	XXX,XXX
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ XXX,XXX	\$ XXX,XXX
	<hr/> <hr/>	<hr/> <hr/>

SAMPLE DIOCESAN FINANCIAL STATEMENT (EXAMPLE)
(FUND APPROACH/COLUMNAR)
STATEMENT OF FINANCIAL POSITION
for the year ended June 30, 2008

	Unrestricted					Total Unrestricted	Temporarily Restricted	Permanently Restricted	2008
	Current or General Fund	Board Designated Fund	Deposit and Loan Fund	Endowment and Similar Funds	Plant Fund		Cathedral Campaign Fund	Catholic Education Fund	Total Funds
Assets									
Cash and Cash Equivalents	\$ XXX,XXX	\$ XXX,XXX					\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX
Pledges Receivable (net)							XXX,XXX		XXX,XXX
Accounts Receivable (net)	XXX,XXX	XXX,XXX							XXX,XXX
Accrued Interest Receivable	XXX,XXX						XXX,XXX		XXX,XXX
Short-term Investments	XXX,XXX						XXX,XXX		XXX,XXX
Assets Restricted to Investment in Land, Building and Equipment							XXX,XXX		XXX,XXX
Assets Held as Custodian	XXX,XXX								XXX,XXX
Endowment Assets								XXX,XXX	XXX,XXX
Land, Building and Equipment (net)	XXX,XXX								XXX,XXX
Total Assets	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX
Liabilities and Net Assets									
Accounts Payable	\$ XXX,XXX								\$ XXX,XXX
Accrued Expenses	XXX,XXX								XXX,XXX
Annuity Liabilities	XXX,XXX								XXX,XXX
Funds Held for Others	XXX,XXX								XXX,XXX
Total Liabilities	XXX,XXX								XXX,XXX
Net Assets:									
Unrestricted	XXX,XXX								XXX,XXX
Temporarily Restricted							XXX,XXX		XXX,XXX
Permanently Restricted								XXX,XXX	XXX,XXX
Total Net Assets	XXX,XXX								XXX,XXX
Total Liabilities and Net Assets	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX

SAMPLE DIOCESAN FINANCIAL STATEMENT (EXAMPLE)
(FUND APPROACH/MULTI-COLUMN)
STATEMENT OF ACTIVITIES
for the year ended June 30, 2008

	Unrestricted				Temporarily Restricted	Permanently Restricted	2008 Total Funds
	Current Fund	Deposit and Loan Fund	Plant Fund	Funds Functioning as Endowment	Total Unrestricted	Campaign Fund	
Operating Support and Revenue:							
Diocesan Assessments	\$ X,XXX,XXX	\$	\$	\$	\$ X,XXX,XXX	\$	\$ X,XXX,XXX
Contributions	XXX,XXX				XXX,XXX	XXX,XXX	XXX,XXX
Investment Income	XXX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX		XXX,XXX
Gain on Sale of Assets			XXX,XXX		XXX,XXX		XXX,XXX
Net Assets Released from Restrictions	XXX,XXX				XXX,XXX	(XXX,XXX)	XXX,XXX
Total Operating support & revenue	<u>X,XXX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>XXX,XXX</u>	<u>X,XXX,XXX</u>
Operating Expenses:							
Tribunal							
Education	XXX,XXX				XXX,XXX		XXX,XXX
Financial Administration	XXX,XXX				XXX,XXX		XXX,XXX
Special Ministries	XXX,XXX				XXX,XXX		XXX,XXX
Religious Support	XXX,XXX				XXX,XXX		XXX,XXX
Communications	XX,XXX				XX,XXX		XX,XXX
Social Concerns	XXX,XXX				XXX,XXX		XXX,XXX
Subsidies	XXX,XXX				XXX,XXX		XXX,XXX
Office of the Archbishop	XX,XXX				XX,XXX		XX,XXX
Total Operating Expenses	<u>X,XXX,XXX</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X,XXX,XXX</u>		<u>X,XXX,XXX</u>
Change in Net Assets Before Nonoperating Activity	X,XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	X,XXX,XXX	X	X,XXX,XXX
Nonoperating Activity							
Unrealized gains	XXX,XXX						XXX,XXX
Total Nonoperating activity	XXX,XXX						XXX,XXX
Changes in Net Assets	<u>\$ XXX,XXX</u>	<u>(\$ XXX,XXX)</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>

SAMPLE DIOCESAN FINANCIAL STATEMENT (EXAMPLE)
(NON-FUND APPROACH/MULTI-COLUMN)
STATEMENT OF ACTIVITIES
for the year ended June 30, 2008

	2008				2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenues, Support and Gains:					
Diocesan Assessments	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX
Less: Allowance	(XXX,XXX)	(XXX,XXX)	(XXX,XXX)	(XXX,XXX)	(XXX,XXX)
Net Assessments	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Contributions and Bequests	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Investment Income	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Net Realized Gains on Sale of Investments	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Unrealized Appreciation in Fair Value of Investments	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Rental Income	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Service Fees	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Miscellaneous	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Total Revenues, Support and Gains	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Net Assets Released from Restrictions	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Expenses:					
Program services:					
Pastoral	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Education	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Religious Personnel Development	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Parish Support	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Social Services	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Total Program Services	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Supporting Services:					
Diocesan Administration	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Development	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Total Supporting Services	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Total Expenses	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Increase (Decrease) in Net Assets	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Net Assets at Beginning of Year	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX	XXX,XXX
Net Assets at End of Year	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>

SAMPLE DIOCESAN FINANCIAL STATEMENT (EXAMPLE)
 (NON-FUND APPROACH/SINGLE COLUMN-LAYERED)
 STATEMENT OF ACTIVITIES
 for the year ended June 30, 2008

	<u>2008</u>	<u>2007</u>
Changes in Unrestricted Net Assets:		
Support and Revenue:		
Contributions and Bequests	\$ XXX,XXX	\$ XXX,XXX
Interest and Investment Income	XXX,XXX	XXX,XXX
Unrealized Gain on Investments	XXX,XXX	XXX,XXX
General Assessments (net)	XXX,XXX	XXX,XXX
Rental Income	XXX,XXX	XXX,XXX
Other Revenue	XXX,XXX	XXX,XXX
Net Assets Released from Restriction	XXX,XXX	XXX,XXX
	<hr/>	<hr/>
Total Support and Revenue	XXX,XXX	XXX,XXX
Expenses		
Program services:		
Education	XXX,XXX	XXX,XXX
Religious Personnel Development	XXX,XXX	XXX,XXX
Pastoral	XXX,XXX	XXX,XXX
Social Services	XXX,XXX	XXX,XXX
	<hr/>	<hr/>
Total Program Services	XXX,XXX	XXX,XXX
Supporting Services:		
Archdiocesan Administration	XXX,XXX	XXX,XXX
Property Administration	XXX,XXX	XXX,XXX
	<hr/>	<hr/>
Total Supporting Services	XXX,XXX	XXX,XXX
Total Expenses	XXX,XXX	XXX,XXX
Change in Unrestricted Net Assets	XXX,XXX	XXX,XXX
Changes in Temporarily Restricted Net Assets:		
Unrealized Gain on Investments	XXX,XXX	XXX,XXX
Donations	XXX,XXX	XXX,XXX
Investment Earnings	XXX,XXX	XXX,XXX
Net Assets Released from Restrictions	(XXX,XXX)	(XXX,XXX)
	<hr/>	<hr/>
Change in Temporarily Restricted Net Assets	XXX,XXX	XXX,XXX
Changes in Permanently Restricted Net Assets:		
Contributions and Bequests	XXX,XXX	XXX,XXX
Changes in Net Assets	XXX,XXX	XXX,XXX
Net Assets, Beginning of Year	XXX,XXX	XXX,XXX
Net Assets, End of Year	\$ XXX,XXX	\$ XXX,XXX