

# **Accounting Best Practices Regarding Dedicated Accounts**

This article is designed to assist parishes in understanding what dedicated accounts are, when they should be used, and how to correctly record payments from them.

## **What is a dedicated account?**

Dedicated accounts allow parishes to keep track of funds that are earmarked or restricted for a specific purpose. Dedicated accounts do not close out their balances at the end of a fiscal year like income and expense accounts, but retain their balances over fiscal years similar to liability accounts. Dedicated accounts are not bank accounts and do not necessarily tie directly to a specific bank account; they simply track funds that can only be used for specific purposes.

*Example: A parish has a checking account with a balance of \$50,000 and an expansion fund CD with a balance of \$5,000. This parish has dedicated accounts with balances totaling to \$4,000. This \$4,000 could be \$4,000 of the \$5,000 in the CD, it could be \$4,000 of the balance in the checking account, or it could be a portion of each account. Dedicated accounts are not directed to specific bank accounts, but instead show the amount of total parish funds that are dedicated or restricted for a specific purpose.*

Typically funds given to a parish fall into two categories:

- A. Where a donor intends the money to be used or spent by a parish for only a specific purpose such as a donation for a building fund or a new statue. With this process, payments are recorded as expenses, and then a portion of funds recorded in dedicated accounts should be reclassified as income in order to show these funds were used for their specific purpose.
- B. Where the donor intends the money for another party but gives it to the parish to process and hold temporarily. These funds are known as “pass-through” funds. An example of this would be a donation given to a parish for a national collection such as Religious Retirement or Holy Father. With this process, payments are recorded directly out of the dedicated accounts, not as expenses.

## **When should a dedicated account be used?**

### ***Deposits:***

Dedicated accounts should be used to record restricted donations to the parish or donations to diocesan and national collections. Dedicated accounts should not be used to record unrestricted donations, unless the pastor and finance council voluntarily elect to designate a specific portion of unrestricted funds to a designated purpose (this must be documented in parish meeting minutes).

*Example: A parish receives a donation for its building fund. The parish would record this donation in a dedicated account.*

*Example: A parish receives a donation for God Share, a diocesan collection. The parish would record this donation in a dedicated account.*

*Example: A parish receives an unrestricted bequest. The parish would record this bequest as income when it is received; a dedicated account should not be used. However, if the pastor and finance council feel a need to designate the bequest funds for a specific purpose, the bequest should be recorded in a dedicated account.*

### **Payments:**

Payments of restricted funds should be handled in one of two ways, depending on whether the funds were designated and are to be used by the parish (Process A as described above) or if the funds were designated to another cause and the parish is operating as a flow-through entity (Process B as described above). Please review these processes to determine how payments should be handled:

*Example: The parish has \$1,000 in dedicated funds for building improvements. The parish makes repairs to the building costing \$500. Because the funds were designated for parish use, Process A is used. The parish records the \$500 in payments as expenses. The parish then reclassifies \$500 of its dedicated funds as income, indicating that \$500 of its dedicated funds was now used. The parish still has \$500 of dedicated funds to use for building improvements.*

*Example: The parish has \$500 in dedicated funds for building improvements. The parish makes repairs to the building costing \$1,000. Because the funds were designated for parish use, Process A is used. The parish records the \$1,000 in payments as expenses. The parish then reclassifies \$500 of its dedicated funds as income, indicating that \$500 of its dedicated funds was now used. The parish cannot reclassify \$1,000 to cover all the building improvements, as it only currently has \$500 in dedicated funds. **NOTE: A parish should never overspend its dedicated accounts. A parish can only reclassify to income funds it currently has designated***

*Example: The parish receives a donation for God Share of \$10,000. Because the funds are designated for another party, Process B is used. When the parish pays this collection to the diocese, it records the payment directly out of the dedicated account.*

### **Other Examples:**

*Example: A parish has a loan for a past building project that it is currently paying off. A portion of each loan payment is applied to reducing the principal of the loan, and the other portion is applied to record interest expense. The parish has a dedicated account balance showing funds designated to a building fund that the parish wishes to apply to the interest on this loan. Because the funds were designated for parish use, Process A is used. The parish records the interest portion of the loan payments as interest expense. The parish then reclassifies a portion of its dedicated account balance as income, indicating that it used a portion of the funds to cover its interest expense.*

*Example: A parish has a large amount of designated funds for outreach. Because the funds were designated for parish use, Process A is used. When the parish pays outreach expenses, it records the payments as expenses. The parish then reclassifies a portion of its outreach dedicated account balance as income, indicating that it used a portion of the funds to cover the outreach expenses.*

*Example: A parish has a major renovation project, which it took up a collection to help fund. The collections were recorded in dedicated accounts to be used for the project upon completion. The project is completed, and the parish starts to pay its contractors. Because the funds were designated for parish use, Process A is used. The parish records the payments to contractors as expenses. The parish then reclassifies a portion of its capital campaign dedicated account balance as income, indicating that it used a portion of the funds to cover the renovation project.*

*Example: A parish takes up an annual collection for Holy Father, a national collection. Because the funds are designated for another party, Process B is used. When the parish pays this to the diocese, it records the payment as a reduction to the dedicated account. Such collections are never income to a parish, and payments are never expenses to a parish.*

*Example: A parish receives funds for Mass stipends and stole fees to be paid to the priest when his obligation is fulfilled, which it records in the appropriate dedicated accounts. Because the funds are designated for another party, Process B is used. After the priest fulfills this obligation, the parish pays the priest (through payroll) directly from the Mass stipend and stole fee dedicated account. If any Mass stipends are paid to the diocese for whatever reason, or a substitute priest says the Mass intentions, the parish should pay the diocese or substitute priest directly from the Mass stipend dedicated account.*

**If at any time you are unsure of how to handle a payment of dedicated funds, please contact the Diocesan Parish Resources Office for further guidance.**