

Restricted and Designated Funds

Restricted Funds:

Restricted funds are charitable contributions (as defined above) whose use is restricted by donors to churches. The church has no discretion in the management and disbursement of such funds. Examples of such restricted funds would be the offerings for North American Missions (Annie Armstrong), International Missions (Lottie Moon) and State/Associational Missions (Viola Webb).

Designated Funds:

Designated funds are charitable contributions (as defined above) with the stipulation (designation and/or action of setting aside) that they be used for a specified purpose (i.e., an approved project, program and/or ministry of the church). Examples of such funds would be any fund that is established by the church in an official business meeting.

Donors make contributions to a church designating how the contribution is to be spent. Such gifts can be for a church-approved building fund, missions fund, organ fund, etc. It is very important to note that restricted/designated contributions are held by the church "in trust" for the specific purpose outlined by the donor. **The church in an official business meeting should approve all such funds.**

Policy for Restricted/Designated Funds:

The church should not automatically accept restricted/designated funds as tax-deductible charitable contributions. The church should adopt a policy for receiving and disbursing restricted and designated funds. The policy is to insure that funds are truly tax-deductible charitable contributions and not received for purposes contrary to the ongoing ministries of the organization and ultimately become funds that are not useable. Such a policy should **avoid receiving funds for the same purpose as specific line items in the budget** (note below). The policy for restricted/designated funds should encompass the following steps:

1. Define procedures for the establishment of a specific Restricted/Designated fund.
 - a. Counters/tellers should observe the gift during the counting process, as it is a gift to a new restricted/designated fund.
 - b. The counters/tellers should record the gift on the count sheet in red or highlight the description and amount as a potentially new fund. It is important to note that the counters/tellers are not authorized to approve a gift to a new designated fund.
 - c. The treasurer should temporarily deposit the gift in a category entitled Miscellaneous Designated.
 - d. The treasurer should determine if the gift is a tax-deductible charitable contribution and is compatible with the mission of the church. In any event the treasurer should present the gift with a recommendation to the finance committee for a decision.
 - e. If the finance committee determines the gift is acceptable as designated, then they should present the request for a new designated fund to the church during the next regular and/or special business meeting for approval and activation to receive gifts from all of the church membership and others **over and above tithes and offerings.**
 - f. If not, the donor should be contacted and encouraged to redirect the gift to an existing fund or use within the budget. If that is not possible the gift should be returned.
2. Prepare a complete **description** of the fund.

The description should be written in such a manner as to clarify the use of the fund within the designation. The fund must be advertised and promoted for the same purpose to receive contributions as contained in the written description of the fund. In addition

provision needs to be made for the use of any funds left over following completion of the specified use.

The fund could be quite specific such as a “new sanctuary fund” and following the construction of the new sanctuary transfer remaining funds to the budget or a “building fund” which could be described in more detail as a new construction/remodeling/maintenance fund.

3. Determine the time for the funds to be used.

The time for certain projects needs to be established and provisions made for the use of funds after the specified time ends.

It is extremely important that church leadership exercise all possible care to keep the number of restricted and designated funds to a minimum. The presence of restricted and designated funds always poses the problem of drawing funds away from the unified budget of the church. This is due to the fact that many Christians newly involved in church life tend to give to what appeals or is important to them and not the ongoing less glamorous operation of the budget.

In addition the monthly financial reports to the church should keep the restricted and designated funds separate from the operating portion of the budget. It is important to help the membership and visitors understand that any dollar amounts held in trust (in restricted and/or designated funds) are not available to assist the church in meeting budget needs for the operations of the church.

Funds Held in Trust for Specific Purpose:

What if a donor contributed \$500 to a “new sanctuary fund” of the First Baptist Church and the church later decides not to build a new sanctuary as designed by the architect? Such contributions are specifically conditioned upon the church building a new sanctuary as designed. When the church later decides not to build the new sanctuary and instead builds new educational space, the condition has been changed and the gift is revocable at the option of the donor. Churches must provide donors with the options in order to avoid violating their legal responsibility to use “trust funds” only for the purposes specified when the funds were received. Some options are as follows:

- The contribution can be retained, as the church still plans to build a new sanctuary at some time in the future.
- If the donors can be identified, they should be asked if they would like to change the designation of their gift to be used for the new educational space or for another purpose.

The church should request the donor's decision in writing in order to avoid any misunderstandings.

A church may not be able to identify all of the donors who contributed to a specific fund. This can often be the case when some persons donated cash gifts without any identification and/or the gifts were made many years prior to the church abandoning the plans to build, etc. The donors may have moved, or records are too old or have been destroyed and therefore contact is not possible. In such an event the church should have an official business meeting to decide how such funds should be handled.

NOTE: This procedure is only appropriate for that portion of any fund that cannot be identified to specific donors.

Love Offerings

The meaning of a “love offering” is an offering that is given from the heart to someone that has ministered to that very heart and is not given simply because it is a tax-deductible charitable contribution. Love offerings are used quite frequently in a church to financially support people called to ministry as evangelists, musicians, other guest speakers, etc. The church must approve the revival or other event that is scheduled during which a “love offering” is taken as a means of legitimately compensating the person involved for his/her ministry.