

Policy on Restricted and Designated Funds



The Right Reverend Scott B. Hayashi, Eleventh Bishop of Utah
Policy Number: B004
Revision Number: 1
Approved by the Bishop and Diocesan Council: November 2009



The Episcopal Diocese of Utah

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PURPOSE

The following provides policy, information, and guidance for receiving and disbursing restricted and designated funds. The Diocese and its Parishes, Missions, and Ministries must ensure that such funds are truly tax-deductible charitable contributions and not received for purposes contrary to the ongoing ministries.

See also:

B001: Diocesan Budget

D007: Records Retention

P005: Parish Financial Management

P006: Gift Acceptance

POLICY

Funds held in trust, endowment and other permanent funds, and securities represented by physical evidence of ownership or indebtedness, shall be deposited with a National or State Bank, or a Diocesan Corporation, or with some other agency approved in writing by the Finance Committee or the Department of Finance of the Diocese, under a deed of trust, agency or other depository agreement providing for at least two signatures on any order of withdrawal of such funds or securities.

1. Categories of Funds

There are a number of categories of funds each of which has its own benefits and constraints:

Restricted Funds. Funds whose use of the principal or investment income is restricted by outside agencies or persons are contrasted with funds over which the organization has complete control and discretion. Donor or court approval is required in order to use the restricted funds for any purpose other than that imposed by the donor at the time of the gift. The Vestry must approve the acceptance of any restricted gift. Restrictions are legally binding. Spending limitations can be avoided at the time of the gift if the donor is made aware of potential problems and reasonable provisions can be included with the gift that provide for more liberal use.

Designated Funds. Designated funds are set aside for specific purposes by action of the governing board. Such action may be reversed or modified at any time (see 9.1.3, Unrestricted Funds). Designated Funds consist of funds upon which a Vestry or other governing board has imposed constraints regarding their use or purpose. Since a Vestry or other governing board may modify or remove the constraints at its discretion, these funds are not legally restricted. A common example would be the reserve for major repairs of the church building.

Designated funds cannot be spent for unintended purposes unless the Vestry or board has established and documented a prior written agreement. Legally, the only way a church



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can change the purpose of a designated donation, without a prior written agreement in the church documents, is by court order. If a cash donation is for an approved project or ministry of the church and the designated fund has been established, the cash donation can be recorded on the donor's contribution statement.

Designated funds created before the church adopts a new written church policy will not be impacted by the new policy. The church must operate under the original terms (verbal or written) that were assumed when the existing designated funds were established. The new written church policy will impact only new designated funds created after the policy is approved by the church.

Unrestricted Funds. Unrestricted funds are funds that have no restriction on their use or purpose. These funds can be used for any purpose designated by the governing board as distinguished from funds restricted externally for specific purposes.

Endowment Fund. An endowment stipulates that the principal of the fund is to be maintained inviolate, in perpetuity, and only the income from the investment of the fund may be expended. The income may or may not be restricted as to its use. An Endowment Fund is created when a donor's conditions allow only the earnings from the gift to be expended. Such a gift restricts the gift itself (often referred to as the principal) to be held either in perpetuity or for a specified term. If the principal is restricted in perpetuity, then the gift income is recorded as permanently restricted net assets. If the principal is restricted for a specified term, then the gift income is recorded as temporarily restricted net assets. If the donor imposes no restrictions on the earnings from the gift, then the income generated by the gift, less transfers to make expenditures, is recorded as unrestricted net assets. If the donor imposes time or purpose restrictions on the endowment earnings, then the income generated by the gift less transfers to make expenditures is recorded as temporarily restricted net assets.

Non-Deductible Contributions. Contributions designated to a group or organization within the church (i.e. Sunday school class) for the organization's exclusive use and under its total control are not a deductible contribution to the church. (The class is not a 501(c)(3) organization.) The church cannot add the designated contribution to the donor's contribution statement because the church does not have any control over the contribution. If the donor wishes to receive credit for a deductible contribution, funds should be placed in one of the preceding category of accounts or simply donated to the general funds of the church.

2. Developing A Policy For Restricted Or Designated Funds In Each Congregation

Gift receipt policies should be established in writing by the Vestry and made available to members of the congregation. The following is presented to assist congregations in developing their own policies:



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2.1 Define procedures for the establishment of a specific Restricted Fund.

- a. Counters/tellers should note the gift during the counting process, if a plate contribution appears to be a contribution with restrictions. The counters/tellers should record the gift on the count sheet in red or highlight the description and amount as a potentially new fund, then bring it to the attention of the treasurer. It is important to note that the counters/tellers are **not** authorized to approve a gift to a new designated fund.
- b. The treasurer should note all contributions arriving by mail or otherwise outside of the plate collection processed that appear to be a contribution with restrictions, by highlighting the contribution in red on a deposit slip or report.
- c. The treasurer should temporarily deposit the potential restricted gift in the General Fund, and then transferred to the appropriate restricted fund when accepted by the Vestry.
- d. The treasurer should determine if the gift is a tax-deductible charitable contribution and is compatible with the mission of the church, and present the gift, with a recommendation as to its acceptance to the Vestry for a decision.
- e. If the Vestry determines the gift is acceptable as restricted, then it should establish a restricted fund to receive gifts from any of the church membership for that purpose over and above tithes and offerings and from others outside the church family.
- f. If the Vestry determines that the gift is not acceptable as restricted, 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.

2.2 Prepare a complete description of the Restricted Fund.

The description should be written in such a manner as to clarify the use of the fund within its restrictions. To receive additional gifts, the fund must be advertised and promoted for the same purpose as contained in the written description of the fund. In addition, provision needs to be made with the donor for the use of any funds left over following completion of the specified use. For example, the fund may be quite specific such as a "new sanctuary fund" and following the construction of the new sanctuary, the remaining funds could transfer to the operating budget or to a "building fund" which could be described in more detail as a new construction/remodeling/maintenance fund. See the discussion at Section 9.3 below for additional information.

2.3 Define procedures for the establishment of a Designated Fund.



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If the Vestry determines that a designated fund is necessary or appropriate to achieve its priorities, it should establish the fund by normal Vestry process. A complete description of the designated fund requires detail as to the purpose of the fund and the procedures for releasing monies from the fund for the designated use. The Vestry can undesignate the monies at any time, following normal Vestry process.

2.4 Be careful in establishing Restricted or Designated Funds.

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 unrestricted operating budget of the church. This is due to the fact that people may tend to give to what appeals or is important to them and not the on-going, less glamorous operation of the budget.

2.5 Accounting for Restricted and Designated Funds.

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

2.6 Develop a Policy For Use of Restricted and Designated Funds

The policy should state the following conditions:

- a. Determine the purpose of the fund—Why is this fund needed and how will it further the church's mission?
- b. Write a governing policy—How will contributions be received for the fund and what will be the reporting requirements to the church?
- c. Establish a procedure for disbursement of the fund—How will the money be spent? How can the fund be closed?
- d. Establish accountability procedures—Periodic expenditure reports to the Vestry and proper substantiation to the church should be part of the accounting procedure.
- e. Keep a list of contributors—A list of contributions and donors should be kept for Internal Revenue Service required record keeping.
- f. Members should be made aware that the policy has been established and will be followed.

2.7 Document all actions.



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It is important to document actions that are taken both in the establishment and utilization of Restricted and Designated Funds. This documentation will be essential should any dispute arise over the use of the funds and will also be requested by the Diocesan Council in order to determine its response to applications for grants.

3. Restricted Funds Held in Trust for Specific Purpose

What if a donor contributed \$5000 to a “new sanctuary fund” and the church later decides not to build a new sanctuary as designed by the architect? Such contributions are restricted, 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. The Vestry should discuss potential events with the donor prior to accepting a restricted gift to forestall problems. If the original restriction of the gift cannot be fulfilled, the Vestry has few options:

- ❑ The contribution can be retained, awaiting the building of a new sanctuary at some time in the future.
- ❑ If the donors can be identified, they can 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.
- ❑ If donors cannot be identified or located, and the Vestry wants to use the restricted gift in ways that are not contemplated in the original gift, the Vestry must seek a court order. Contact the Diocesan Chancellor for assistance.