

# Unused Restricted Funds

By Rollie Dimos

**Q:** After a plea by our church board, several members of the church donated funds specifically for the replacement of our heating and cooling system. Thankfully, a local company donated a new system, so these designated funds are not needed. Should we return these designated funds, or can we use them for another project?

**A:** You are right to be concerned about the proper use of designated funds. For the most part, donors make contributions to the church without designating how the funds should be spent. However, in this case, the donors have placed stipulations or restrictions on their donations.

Even though the intended project has been completed, does the church still have to honor the designation? Can the funds be used for some other purpose?

Here are some important facts to consider when a church has unused or excess designated funds. And in certain circumstances, if a church mishandles designated funds, severe consequences can occur.

Normally, donors must relinquish control of their donations in order to make a tax deductible contribution. However, if the church board or congregation approves a project, such as replacing the heating and cooling system, any contribution designated for that project will qualify as a tax deductible contribution. The underlying premise is that the church retains controls of the funds to use at their discretion. As long as the project has been previously approved by the governing board, all donations designated for that project will be tax deductible.

Even though the church has a right to use the funds at their discretion, churches should honor designations as much as possible. Certainly, if the church has advertised a building program or solicited funds for a specific missions project, it is important to use these funds for their intended purpose. The church has an ethical obligation, and in many cases, a legal obligation.

But once a project is completed, church leaders should proceed carefully before using any excess designated funds for other purposes. Best practice is to ensure accountability and transparency of how these funds will be used. To do that, the church should perform the following:

- If the church can identify the donors who contributed the designated funds, the church should request the donors' permission to use the funds for another purpose. To protect the church and avoid any misunderstanding, this decision should be communicated in writing. In some cases, the donor may want the contribution returned, which the church should honor.
- If the church can't identify the donors (because donations were given anonymously, or records don't exist), the church leadership should have an official business meeting and let the members vote on how the funds should be used. The decision should be documented in the official board minutes.

To help ensure accountability and transparency over future restricted funds, the church can take two additional actions:

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- Establish a written policy on how designated funds will be used. This policy should address the specific funds approved by the governing board and define how the funds will be used. The policy document should also address where excess funds will be used if the project is completed, or what will happen to designated funds if the project is cancelled.

To view a working model of a designated fund policy, Lifeway.com has published a useful document here. <http://www.lifeway.com/article/pastor-church-administration-designated-contributions>.

- Further, the church may want to include in their policy (and publish in solicitation materials or on their website) that any funds received over and above the budget of the solicited purpose will be put in the general operating fund for other ministry purposes.

#### About the Author:

Rollie Dimos, CIA, CISA, CFE, is the Internal Audit Director at the AG National Leadership and Resource Center. As an auditor in the government and nonprofit sectors, Rollie has been helping leaders assess the strength of their organizational controls for over 20 years. If you have a question about this article, you can contact Rollie by email at [rdimos@ag.org](mailto:rdimos@ag.org).

Rollie is the author of Integrity at Stake: Safeguarding Your Church's Honor, which can be purchased at MyHealthyChurch.com. <http://myhealthychurch.com/store/startitem.cfm?item=030225>