 FAQ regarding the use of Donor Restricted Funds

**Can we temporarily use restricted building or missions offerings for other purposes?**

In times of financial crisis, it is tempting to utilize donor-restricted funds to cover operating expenses. However, borrowing donor-restricted funds is a breach of fiduciary duty and, in some states, unlawful even if the intention is to repay the fund once general fund money becomes available. The use of donor-restricted funds is governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). It is recommended when establishing a donor-restricted fund, a permanent record is kept stating the purpose for which the church council established the fund. The council may reference this document in the future when a project is oversubscribed or is canceled. Below is some helpful information on managing donor-restricted funds.

**We are experiencing a shortfall in our general fund are unable to pay our bills, may we temporarily borrow donor-restricted money to cover this shortfall as long as we keep track and replace the funds?**

No, the UPMIFA does not allow donor-restricted funds to be used or borrowed for any other purpose than for which the funds were raised. Violating this doctrine is a breach of fiduciary duty.

**If our project or missions trip was canceled, may we use those funds for general operating expenses?**

Using donor restricted gifts for an alternate purpose requires permission from the donors. Charitable giving doctrine specifies that when a church can't fulfill the intended purpose, they should seek to fulfill the intended purpose as closely as possible. For example, if money was raised for a missions trip to Peru, and that trip was canceled, the church could use the money for a future mission trip. This would closely align with the original purpose and would not violate charitable giving doctrine.

**Our project was canceled and did not closely align with another project. May we use these donor-restricted funds for another project or our general fund?**

If the church can't utilize the funds for a similar purpose, then the church should contact the donors to determine if they would like to repurpose their funds or would like a refund. The church should make detailed notes regarding the conversation with the donor. It would be best to receive this acknowledgment in writing. A sample letter to a donor requesting permission to repurpose their funds or issue a refund can be obtained from your district office.

**We included “variance language” on our promotional material and offering envelopes notifying donors that we could repurpose funds. May we repurpose funds without notifying donors?**

Yes, if you sufficiently notified your donors during the donation period with the following language, you may repurpose the funds without notifying donors. "By contributing to this fund, donors acknowledge that (the church) has the authority and discretion to apply contributions restricted for this project to another related purpose in the event that the project is cancelled or oversubscribed."

**How do we refund donors if some of the funds have already been spent?**

If none of the donor-restricted funds have been spent, the donor may receive a full refund of their donation. If, however, funds have been expended on the trip even if the trip did not occur, the donor should receive a pro-rated amount based on the funds left after expenses, even if only a few donors are requesting a refund.

**If we refund a donor, do we need to issue a 1099-Miscellaneous form?**

No, refunding a donation does not trigger the issuance of a 1099. Instead, the church will issue a letter to the donor accompanying the return of their gift with this statement: It is our duty to advise you that if you received the full tax benefit of the charitable contribution deduction attributable to this project in previous years, the "tax benefit rule" requires you to include the amount of the previously deducted contribution as gross income in the current tax year. A sample return donation letter is available from the district office.

**May we repurpose money set aside by our church council as “designated funds”?**

Designated funds are monies from the general fund that were set aside by the church council for a specific purpose. This is very different than money with donor-imposed restrictions. These funds were not given by donors to a fund set up by the church council; therefore, these funds may be repurposed. Any decision to do so should be documented in the church council minutes.