



# Proper Care of Donor-Restricted Gifts

by Dan Busby

Donors often want their gifts used for a specific purpose or time—this is termed a “donor-restricted” gift. The solicitation methods used by many charities encourage donors to indicate a purpose or time restriction on their gifts. At other times, the donor initiates a gift restriction. However the restriction is generated, there are often significant accounting, legal, tax, and integrity issues associated with donor-restricted gifts.

A common misconception is that the control of donor-restricted gifts by a ministry is in conflict with, or contradictory to, stipulations by donors. This is not true.

Board control and donor restrictions are really a “hand-in-glove” concept. It is not *either/or* but *both/and!* Restricted gifts must be used for a specific exempt purpose and unrestricted gifts may be used for any exempt purpose.

The charity must control all contributions made to the organization and ensure that the funds are used exclusively for its exempt purposes. Additionally, the board must provide reasonable measures to assure that donor restricted gifts are used for the intended exempt purpose.

Historical practices of many evangelical ministries have conditioned donors to give for specific purposes and to expect that use of their funds will be for the stated purposes and not for the general use of the organization.

Such practices include raising funds to support specific projects or programs, as well as to support the *ministry of* specific workers (but not gifts made directly to or for the benefit of a specific individual). Specific-use appeals are often considered to be more effective than general appeals.

Donor-imposed restrictions create specific responsibilities for

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the charity, both to comply with ethical practices and generally accepted accounting principles:

- Resources must be used and accounted for in accordance with the donor-intended purposes.
- Communications must be truthful, current, complete, accurate, and not misleading.
- Donor expectations created by the ministry must be realistic and fulfilled by the use of funds.
- All gifts must be under the organization’s control.

**Types of restricted contributions.** Have contributions been received and accepted with a donor-imposed restriction? This determination must be made so that the contributions may be properly receipted, recorded in the accounting records, and expended within the limitations

of the donor restrictions. Contributions with donor-imposed restrictions are either:

- **Permanently restricted.** Some donor restrictions limit the organization’s use of the contributed asset permanently. Examples of permanently restricted contributions include gifts of cash and securities that must be invested in perpetuity to provide the organization with an ongoing source of income.

If an organization receives a permanently restricted contribution, it must be separately recorded from other operating assets. Permanently restricted contributions are commonly referred to as endowments, whereby the organization may spend earnings but may not spend any of the principal, which must remain intact in perpetuity.

- **Temporarily restricted.** Contributions with temporary donor-imposed restrictions limit use of the gifts to later periods or later specific dates (time restrictions), specific purposes (purpose restrictions), or both. Normally, only the use of related net assets are restricted, not the specific assets. Temporary donor restrictions expire either by passage of time or as a result of actions taken by the organization.

**Restrictions are only made by donors.** Only donors can restrict a gift—either temporarily or permanently.

Designations of unrestricted assets by an organization’s governing board *do not* result in restricted contributions or net assets since the designations may be reversed by the board and they do not alter the nature of the donor’s contribution.

Boards can designate (and subsequently undesignate) unrestricted net assets, but boards

cannot unrestrict donor restricted gifts. However, donors do have the power to lift the restriction on a previously restricted gift.

**Restrictions result from donor intent and direction.**

All statements made by the organization in its fund-raising appeals about the use of a gift must be honored by the organization. A donor's intent or direction may be expressed:

- **Explicitly.** In many cases, donor restrictions are explicit. For example, a donor may send a letter specifying that the contribution be used for a certain program. Or, a charity distributes a letter and includes a response form. The donor indicates a restriction on the response form by checking a box corresponding with a restricted gift option or by writing the restriction on the response form.

- **Implicitly.** Donor restrictions can be implied if the circumstances surrounding the contribution make the donor's intended restriction on the use of the assets clear. Let's say a ministry representative verbally communicates a specific need to a major donor. The donor writes out a check and hands it to the ministry representative. Although the donor did not indicate the purpose of the gift on a response form or on the check, the specific fund-raising solicitation and the immediate gift constitutes an implied donor restriction.

**Donor restrictions must be determined based on both solicitations and donor responses to those solicitations.** Solicitations and donor responses must be considered as a whole. The donor's intent relates to *both* what was communicated in the appeal *and* to any

donor instructions accompanying the gift.

Once the donor has indicated the intent for which the donation was given and the charity has accepted the gift, it is the responsibility of the charity to fulfill that intent. The charity could have chosen not to accept the gift if the fulfillment of the donor restriction was in question.

In most cases, the donor is responding to a specific appeal. The appeal itself generally identifies the purpose for which donations are sought. If the donor simply responds to the appeal, it should be assumed that the donor's intent is that the funds be used as described in the appeal.

Another way to determine donor intent is based on specific

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communication, written or verbal, from the donor. This can take the form of letters accompanying a gift, notes on the gift response piece, or personal conversations with the donor. Any communication accompanying the gift should be considered an expression of donor intent.

**Example #1:** A solicitation letter is very general in nature presenting only the over-all needs of the charity. The donor sends a gift with the response device that accompanied the request for general funds. However, the donor notes on the response device that they want the gift to be used for computer equipment or for a specific program. This is a restricted gift.

**Example #2:** A solicitation letter is very specific in presenting a need for funds for a building project. However, the donor either

checks a box or sends a note with the gift to “use where needed most.” *This is an unrestricted gift.*

Ministries should take care in soliciting, accepting, and handling donor-restricted gifts to identify intended limitations and to provide appropriate control and use documentation. Failure to carefully define and use gifts for intended exempt purpose could cause practical concerns and tax implications that the donor and donee would hope to avoid. 

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