

# **The Church of Scotland**

## **Accounts Guidance Notes**

### **Types of Funds: Endowment, Restricted and Designated**

The congregation accounts should give an overall view of the total incoming resources during the year and how they have been expended. In most cases, however, the congregation will have a number of different funds under its control (e.g. Fabric, Sunday School, Flower fund and others) and the accounts should provide a summary of the main funds differentiating between unrestricted funds, restricted funds and endowment funds. This is done on the face of the Receipts and Payments Account (or on the Statement of Financial Activities for accrued accounts) in summary form with the detail for each fund within each category being included in the notes to the accounts.

The definitions of each type of fund can often be confusing but can be summarised as follows:

#### **Unrestricted Funds**

The main fund of this type will usually be the general fund which can be used to meet any of the congregation's purposes. The trustees, however, may decide to earmark part of the unrestricted funds for specific purposes either in the current year or for future use. Such sums are described as **designated** funds and should be accounted for as part of the congregation's **unrestricted** funds. The trustees have the power to re-designate these funds in the future should the original purpose no longer apply or should another need arise.

#### **Restricted Funds**

In addition to the unrestricted funds (including designated funds) a congregation may also have funds that **can only be used for particular purposes**. These are **restricted** funds and must be separately accounted for. The restriction on the use of the funds will usually have been put in place by the original donor (whether an individual or organisation). Such funds **can not** be transferred to unrestricted funds and used for general purposes.

## **Endowment Funds**

Endowment funds are restricted funds which can only be used for a particular purpose but with an additional proviso that the original capital sum can not be utilised, but only any income generated from the capital.

## **Example**

The definitions of different types of funds can be confusing and may be best explained by the use of an example.

A congregation may decide that in the near future it will wish to buy new hymn books. In preparation for this expense the trustees decide to transfer £2,000 into a **designated** hymn book fund. This designated fund remains **unrestricted** as the transfer has been a decision of the trustees. The money has simply been set aside for a particular purpose. If, when the hymn books are eventually purchased the cost is only £1,500 then the trustees have a choice to make concerning the remaining balance of £500. They can either carry this forward (still in the designated hymn book fund) for the purchase of hymn books in the future or, if they decide that future hymn book purchases are unlikely, then they can transfer the balance of £500 back into the general fund or alternatively transfer it to another, possibly newly created designated fund, for another purpose (e.g. a pew cushion fund). The eventual use of the monies remains the decision of the trustees.

If, however, to continue with the same example, the congregation were given a gift of £2,000 by a donor to purchase hymn books and with the condition that the donation be used for this purpose then this would be a **restricted hymn book** fund and could only be used for the purchase of hymn books. In this case, were the hymn books only to cost £1,500 then the remaining balance **could not** be used for any purpose other than the purchase of hymn books. The balance would either have to be carried forward in the restricted hymn book fund and used for the purchase of hymn books in the future or, if this was considered inappropriate then the balance would have to be **returned** to the original donor.

An endowment fund would be where a donor had given a sum of money with the condition that only the income generated from the original sum could be used for a particular purpose. To continue with the example, a donor may have given a hymn book endowment of £2,000 and in this case none of the original sum given could be used for the purchase of the books but any interest earned on the capital could be utilised for the purchase of hymn books.

## **General**

It should be noted that a congregation may have both a **designated** fund and a **restricted** fund for the same purpose but each of these funds must be separately summarised in the accounts.

Where a congregation does have both restricted and unrestricted (designated) funds for the same purpose it may be appropriate to use the restricted fund first, rather than the unrestricted fund. This means that any balance left over which is no longer required for the original purpose will be designated rather than restricted and can therefore be used for other purposes should the trustees decide.

Further advice on all aspects of congregational accounts can be obtained from the Church offices ([amcdowall@cofscotland.org.uk](mailto:amcdowall@cofscotland.org.uk))