

THREE FINANCIAL TOOLS - THREE DIFFERENT PURPOSES

- The **Operating Budget** tells us what we planned to do.
- The **Operating Statement** shows what we actually did and how it compares to the plan.
- The **Balance Sheet** shows what resources we have left to support ministry going forward.

OPERATING BUDGET



- A **plan** for one year (what we plan to do and how we plan to pay for it)
- Shows **expected income** and **planned expenses**
- Does **not** show how much money the church already has

Question it answers:

What ministry are we planning to do this year, and how will we pay for it?

OPERATING STATEMENT (STATEMENT OF INCOME AND EXPENSES)



- A **report** of what actually happened compared to the budget
- Shows **surplus** or **deficit** for a period

Question it answers:

How are we doing compared to the plan?

BALANCE SHEET



- A **snapshot** at a point in time
- Shows **cash, investments, and fund balances**
- Where **designated** and **restricted funds** live

Question it answers:

What resources do we have, and under what conditions can we use them?

FOUR FUND TYPES EVERY PRESBYTER SHOULD KNOW

1. UNRESTRICTED FUNDS

Money that may be used for **any ministry purpose approved by Session.**

Examples:

- pledge income,
- loose offering,
- undesignated gifts,
- unrestricted endowment distributions (endowment income available for general ministry)

2. DESIGNATED FUNDS

Funds set aside for **a specific ministry purpose**, either by donor designation or by Session action.

Key Features:

- Carry over year to year
- Require approval to use
- Are not automatically spent

Examples:

- Music Fund
- Youth Ministry Fund
- Memorial Gifts Fund
- Designated endowment income (income limited to a purpose but released by Session)

3. RESTRICTED FUNDS

Funds whose **purpose is permanently or legally restricted** and cannot be changed by Session.

Key Feature:

- Session stewards these funds but **does not control their purpose.**

Examples:

- Endowment principal
- Restricted trusts
- Restricted endowment income (limited by donor documents)

4. PASS-THROUGH FUNDS

Money the church receives **on behalf of others** and transmits in full.

Key Feature:

- These funds do not belong to the church

Examples:

- Portions of denominational special offerings
- Special collections for an outside cause

HOW DESIGNATED FUNDS WORK WITH THE BUDGET AND OPERATING STATEMENT

REMEMBER

- The **Operating Budget** tells us what we planned to do.
- The **Operating Statement** shows what we actually did and how it compares to the plan.
- The **Balance Sheet** shows what resources we have left to support ministry going forward.

THE CORRECT FLOW

1. Money is given for a specific purpose

- Goes into a **designate fund**
- Shown on the **balance sheet**

2. Session (or delegated authority) approves spending

- Funds are **released** for use

3. Release is recorded as income on the Operating Statement

- Shown as “**Designated Fund Release**”
- Appears alongside the budgeted amount

4. Expense is paid and recorded normally

- Appears on the **Operating Statement** in the appropriate ministry line

Note: Only the **release** appears in the operating results – **never the fund balance**.

The **budget authorizes** the spending; the **operating statement** records it.

Under the **Book of Order**, Session:

- Authorizes use of funds (operating budget and approvals)
- Oversees actual financial activity (operating statement)
- Safeguards accumulated resources (balance sheet)

HOW DESIGNATED FUND RELEASES ARE REFLECTED IN THE OPERATING BUDGET

DESIGNATED FUNDS are gifts given for a specific ministry purpose (e.g. music, youth, facilities).

They:

- **Carry over** year to year
- Live on the **Balance Sheet**
- Require **Session approval** (or delegated authority) to use

They are **not operating income until released**.

BEST PRACTICE

For a larger church with significant or complex designated and restricted funds, grouping designated fund releases by **major ministry category**, rather than listing every individual fund, is best practice.

This approach:

- Increases **transparency**
- **Avoids** turning designated funds into “**shadow budgets**”
- Keeps **Session approval** clear and intentional

INCOME SIDE

Designated Fund Releases (DFRs) appear as **grouped income lines**, such as:

- DFR - Children’s Ministries
- DFR - Youth Ministries
- DFR - Property & Facilities
- DFR - Mission & Outreach
- DFR - Worship
- DFR - Music Ministries

These lines represent anticipated or possible releases, not fund balances or automatic releases. These line items are normally budgeted at \$0.

What this communicates is:

- “These funds exist, but are **not automatically authorized**.”
- “Spending will require a **separate approval**.”
- “Designated funds are **not operating revenue**.”

The variances tell a clear story:

“We approved this and funded it intentionally.”

HOW RESTRICTED ENDOWMENT FUND RELEASES ARE REFLECTED IN THE OPERATING BUDGET

ENDOWMENT INCOME follows the same decision process as designated funds, but the outcome depends on how restrictive are the donor's instructions. The process is the same. The authority and budgeting outcome may differ.

THE ONE SHARED PROCESS (Always the same)

1. Income is earned by the endowment

- Principal remains intact
- Income is subject to donor restrictions

2. Session determines whether use is authorized

- Automatically under policy?
- Standing annual approval?
- Case-by-case approval only?

3. Only income already authorized for use is included in the operating budget

4. Actual use is recorded when released and spent

- Income appears on the Operating Statement
- Expense appears in the appropriate ministry line item
- Balance Sheet reflects reduced assets

KEY RULE

Authorization precedes budgeting.

THE OPERATING BUDGET:

- Authorizes **what may be spent**
- Includes income **already approved** for use

THE OPERATING BUDGET DOES NOT:

- Claim restricted fund **balances**
- Pre-authorize **contingent releases**
- Replace **Session approval**

IMPORTANT NOTE

Restricted endowment income appears in the budget only if **Session has already authorized its use** for the year.

This approach honors donor intent and preserves Session oversight under the Book of Order.

RESTRICTED ENDOWMENT FUND RELEASES

DIFFERENT OUTCOMES BASED ON RESTRICTION LEVEL

OUTCOME A: RESTRICTED BUT PREDICTABLE

Description

- Donor documents allow regular annual distribution
- Purpose is clear and stable (e.g. “music ministry”)
- Session adopts a standing annual release policy

Operating Budget

- Included in the operating budget
- Budgeted conservatively**
- Clearly labeled (e.g. “Restricted Endowment Distribution - Music Ministry”)

Operating Statement

- Income recorded as distribution
- Expense recorded normally

Balance Sheet

- Assets decrease as funds are spent

Even when Session has approved a Restricted Endowment Distribution, budgeting conservatively protects against variability and preserves fiduciary discipline. Approval authorizes **up to an amount; the budget should reflect a reasonable expectation, not a maximum. Conservative budgeting: keeps the budget from becoming a spending mandate, reinforces that endowment income is a resource, not an entitlement, and supports the theological value of stewardship, not consumption. Even when Session has approved an endowment distribution, we budget conservatively because the budget reflects expectations, not permissions.

RESTRICTED ENDOWMENT FUND RELEASES

DIFFERENT OUTCOMES BASED ON RESTRICTION LEVEL

OUTCOME B: RESTRICTED AND PURPOSE-LIMITED

Description

- Income may only be used for a specific purpose
- Session must approve when and how much to release
- Income may accumulate across years

Operating Budget

- Operating Budget income is listed at \$0
- Not assumed as operating revenue
- Line items would be grouped by ministry area:
 - Restricted Endowment Releases - Children's Ministries.....\$0
 - Restricted Endowment Releases - Property and Facilities.....\$0
 - Restricted Endowment Releases - Mission and Outreach.....\$0

Under restricted and purpose-limited endowments, we include the income line in the budget at zero so releases are visible when they happen, without pre-authorizing or assuming their use.

Operating Statement

- Income recorded only when released
- Expense recorded normally in the ministry line item

Balance Sheet

- Income remains restricted until released
- Fund balance decreases when spen

RESTRICTED ENDOWMENT FUND RELEASES

DIFFERENT OUTCOMES BASED ON RESTRICTION LEVEL

OUTCOME C: RESTRICTED AND CONTINGENT

Description

- Use depends on uncertain conditions
- Timing and amount are unpredictable
- No standing authorization possible

Operating Budget

- There should be no income line item at all in the operating budget.
- There shouldn't even be a \$0 placeholder.

Operating Statement

- Income appears only if and when Session determines the condition has been met, and authorizes a release
- Expense appears at the same time
- Until that happens, there is no operating activity to report.

Balance Sheet

- Endowment principal remains restricted
- Restricted income remains restricted
- No reclassification occurs until Session acts

For restricted and contingent endowment income, we do not include an income line in the budget at all, because there is no authorization, no expectation, and no planning assumption. If and when Session approves a release, it will appear on the operating statement at that time.

HOW “RECLASSIFICATION” WORKS ON THE BALANCE SHEET

What “Reclassification” Means

Reclassification is a change in how money is labeled, not a change in how much money the church has.

It happens when:

- Session authorizes a different use-status for funds, or
- donor instructions allow funds to move from one category to another.

No cash is spent at this stage. Nothing is “earned” or “lost.”

Why “Reclassification” Happens

Reclassification reflects Session action or donor intent changing the availability of funds.

Common Triggers:

- Endowment income becomes available for use
- Restricted income is approved for its specific purpose
- Designated funds are approved to be used for expenses

This is part of Session’s fiduciary role under the Book of Order—governing use, not just tracking balances.

Where “Reclassification” Shows Up

Reclassification only shows up on the **Balance Sheet**. It does not change the Budget.

Reclassification alone does not create income or expense on the Operating Statement.

THE THREE COMMON “RECLASSIFICATION” MOVEMENTS

RESTRICTED → DESIGNATED

Most common with endowment income

What it means:

- Donor restrictions are honored
- Session has approved when and how funds may be used

Balance Sheet effect:

- Restricted net assets ↓
- Designated net assets ↑

Total assets: No change

Cash: No change

Money is now available for a specific, approved purpose - but not yet spent.

DESIGNATED → UNRESTRICTED

Less common, requires clear authority

What it means:

- Funds are now available for general use
- Typically requires explicit donor permission or Session authority

Balance Sheet effect:

- Designated net assets ↓
- Unrestricted net assets ↑

Total assets: No change

Cash: No change

Money is now freely available - but not yet spent.

RESTRICTED → UNRESTRICTED

Usually only when donor intent explicitly allows

What it means:

- Donor conditions have been satisfied
- Funds are now freely usable

Balance Sheet effect:

- Restricted net assets ↓
- Unrestricted net assets ↑

Total assets: No change

Cash: No change

Money is now freely available - but not yet spent.

Reclassification is an internal accounting shift reflecting authority and intent.

WHEN THE BALANCE SHEET CHANGES IN SIZE

WHEN THE BALANCE SHEET SIZE CHANGES

This happens after reclassification, when:

- a designated or unrestricted fund is released,
- an expense is paid,
- cash goes out the door.

At that point:

- Cash ↓
- Total assets ↓
- Net assets ↓

That is use, not reclassification.

CONNECTION WITH OPERATING STATEMENT

The sequence matters:

- **Reclassification** - balance sheet only, no income or expense
- **Release for spending** - income recorded on the operating statement
- **Expense paid** - expense recorded, cash and assets decrease.

Reclassification makes spending *possible*.

Release and expense make spending *real*.

A SIMPLE EXAMPLE

Endowment earns **\$50,000** (restricted)

Session approves **\$20,000** for music ministry

Balance Sheet (Reclassification)

- Restricted net assets ↓ \$20,000
- Designated (Music) fund ↑ \$20,000

Later...

- \$20,000 is released and spent

Operating Statement:

- Income:
 Designated Fund Release.....\$20,000
- Expense:
 Music Ministry.....\$20,000

Balance Sheet (Use):

- Cash ↓ \$20,000
- Designated fund ↓ \$20,000

Reclassification changes how money may be used; spending changes how much money we have. Reclassification is a balance-sheet-only event. It reflects authority and intent, not activity. It does not affect the budget. It does not create income or expense. It prepares funds for faithful, authorized use.

COMMON CHURCH FUNDS - WHERE THEY SHOW UP

Some funds appear in all three documents because they are freely available for ministry. Some appear only on the balance sheet because they exist but are not yet authorized for use. Others appear on the operating statement only when Session releases them. The budget shows what we planned and authorized; the operating statement shows what actually happened; and the balance sheet shows what resources remain and under what conditions.

FUND/INCOME TYPE	OPERATING BUDGET	OPERATING STATEMENT	BALANCE SHEET
Pledges, loose offering, unrestricted gifts	✓	✓	✓
Designated gifts (music, youth, memorial, etc.)	✗	✓ (when released)	✓
Designated Fund Releases - (grouped by ministry area)	✓ (often \$0)	✓ (actual releases)	✗ (shows remaining fund not the release)
Undesignated Memorial gifts	✗	✗	✓
Capital Campaign gifts	✗	✗	✓
Special offerings (pass-through)	✗	✓ (income + expense)	✓
Special offerings (designated funds)	✗	✓ (when released)	✓

COMMON CHURCH FUNDS - WHERE THEY SHOW UP

FUND/INCOME TYPE	OPERATING BUDGET	OPERATING STATEMENT	BALANCE SHEET
Endowment principal	✗	✗	✓
Endowment distribution (unrestricted)	✓	✓	⚠ reclassification → assets decrease when spent
Restricted Endowment Income - Outcome A - Predictable	✓ (conservative)	✓	✓ (then ↓ when spent)
Restricted Endowment Income - Outcome B - Purpose Limited	✓ (at \$0)	✓ (when released)	✓
Restricted Endowment Income - Outcome C - Contingent	✗	✓ (only if released)	✓

Endowment funds are gifts entrusted to the church for long-term stewardship and mission support. These funds are invested rather than spent immediately, with the principal ordinarily preserved in perpetuity. Distributions from the endowment are used to support ministry in accordance with donor intent, applicable law, and policies adopted by the Session, ensuring that the generosity of past and present donors strengthens the church's mission both now and for generations to come.