



OFFICE OF THE  
**STATE AUDITOR**

Comment Period: In an effort to make our publications accurate and useful to our intended audience, we invite individuals who work for and with local government entities to read this draft and provide comment. The comment period will last 30 days. Comments should be submitted to Jeremy Walker at [jeremywalker@utah.gov](mailto:jeremywalker@utah.gov) by **Aug 23, 2019**.

## **Auditor Alert 2019-02 Draft**

**Date:** July 23, 2019

**Subject:** Limitations on the use of restricted funds

### **Background**

GASB 33 states, “purpose restrictions specify the purpose for which resources are required to be used...governments that receive resources with purpose restrictions should report resulting net assets, equity, or fund balance as restricted (or a reservation of) fund balance for governmental funds.”

GASB 54 established different classifications for fund balance based on the strength of the constraint they include; Nonspendable, Restricted, Committed, Assigned and Unassigned fund balance. The standard states, “The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.” Additional GASB literature<sup>1</sup> states, “Restrictions may be changed or lifted only with the consent of resource providers”.

Private nonprofit entities reporting under FASB will find similar guidance on donor-imposed conditions.

FASB Update 2018-08 states that donor stipulations represent “a barrier that must be overcome before the recipient is entitled to the assets transferred or promised. Failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets”.

FASB Update 2016-14 provides guidance for reporting net assets with donor restrictions and net assets without donor restrictions for nonprofits that report under FASB.

### **Conclusion**

Generally Accepted Accounting Principles limit the use of restricted funds to the uses specified by statute, rule, contract, or agreement. Use of restricted funds, other than those specified, is prohibited unless the external resource provider agrees to the new use. Restricted funds should be spent for specified purposes or returned to their original source.

---

<sup>1</sup> GASB. (2009) GASB Statement Brings Greater Clarity and Consistency to Fund Balance Reporting.