



OFFICE OF THE
STATE AUDITOR

Auditor Alert 2019-02

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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 literature¹ 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, the receipt of funding from federal, state or local governmental entities carries with it restrictions for the use of those funds.

FASB 958-605-25-11 indicates that conditional promises to give, “creates a barrier that must be overcome before the recipient of the transferred assets has an unconditional right to retain those promised assets.” Even after revenue recognition criteria are met, FASB ASC 958-210-45 further provides a framework under which unconditional contributions with donor-imposed restrictions continue to be segregated and reported as “net assets with donor restrictions”.

Conclusion

Restricted funds should be used as specified by statute, rule, contract, or agreement. Public funding is restricted by nature, the use of public funds, for something other than its intended purpose is prohibited unless the external resource provider agrees to the new use. Public restricted funds should be spent for specified purposes or returned to their original source.

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