

OREGON ACCOUNTING MANUAL

SUBJECT: Accounting and Financial Reporting	Number: 15.85.00
DIVISION: State Controller's Division	Effective date: July 1, 2011
Chapter: Accounting and Financial Reporting	
Part: Fund Equities	
Section:	
APPROVED: John Radford, State Controller	Signature on file at SCD

PURPOSE: This policy provides guidance on accounting and financial reporting for fund balance and net assets (equities). It also provides guidance on classifying fund balances in governmental funds.

AUTHORITY: [ORS 293.590](#)
 GASB Statement No. 34
 GASB Statement No. 46
 GASB Statement No. 54

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by [OAM policy 01.05.00](#).

DEFINITIONS:

Fund balance: The difference between the assets and liabilities reported in a governmental fund. Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

- a. *Nonspendable fund balance* represents amounts that cannot be spent because they are either (1) not in spendable form (e.g., inventories, prepaid items, etc.) or (2) legally or contractually required to be maintained intact (e.g., the principal of a permanent fund).
- b. *Restricted fund balance* results when constraints on the use of fund balance are either (1) externally imposed by creditors (e.g., by debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through the Oregon Constitution or by enabling legislation.
- c. *Committed fund balance* represents amounts that are constrained to specific purposes imposed by formal action of the Legislature (legislation passed by the Legislature and approved by the Governor).
- d. *Assigned fund balance* represents resources that are constrained by the state's intent to use them for a specific purpose, but are neither restricted nor committed. In general, assigned fund balance is the residual classification in

all governmental funds, except the General Fund, and includes all remaining fund resources.

- e. *Unassigned fund balance* is the residual classification for the General Fund.

Enabling legislation: Legislation that authorizes the state to assess, levy, charge, or otherwise mandate payment of resources from external resource providers *and* includes a legally enforceable requirement to use those resources only for the purposes specified in the legislation.

GAAP fund: Refers to the fund level used for financial reporting purposes. In R*STARS, each D23 detail fund rolls up to a pre-determined GAAP Fund.

Net assets: The difference between the assets and liabilities reported in proprietary funds, fiduciary funds, and the government-wide financial statements. In the proprietary fund balance sheet and the government-wide statement of net assets, “net assets” is comprised of three components:

- a. *Invested in capital assets, net of related debt* is the difference between capital assets (net of accumulated depreciation) and the liabilities attributable to the acquisition, construction or improvement of those assets.
- b. *Restricted net assets* result when constraints on the use of net assets are either (1) externally imposed by creditors (e.g., by debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through the Oregon Constitution or by enabling legislation. If some net assets are restricted on a permanent basis (in perpetuity), this category is subdivided into expendable and nonexpendable.
- c. *Unrestricted net assets* represent those net assets not classified as invested in capital assets, net of related debt, or as restricted net assets.

Fiduciary funds report net assets as held in trust for pension benefits; other postemployment benefits; external investment pool participants; or individuals, organizations, and other governments, depending on the GAAP fund.

Prior period adjustment: An adjustment made to correct a material error in a prior financial statement. It is not properly included in the results of operations for the current period, but rather is a direct adjustment to beginning fund equity.

POLICY:

- 101. Agency management is responsible for properly classifying and reporting fund equities.
- 102. Agencies must determine the appropriate fund balance classification for each governmental fund based on the GASB Statement No. 54 criteria described in Appendix A.
- 103. To comply with other financial reporting requirements related to equities, agencies must complete the appropriate forms included in the year-end General Disclosures package. These forms require disclosure of prior period adjustments, the effect of changes in accounting principles, changes in fund equity, restricted net assets in proprietary funds, and the amount of debt related to capital assets.

PROCEDURES:

Governmental Funds

104. For governmental funds, refer to Appendix A of this policy to determine the appropriate fund balance classification.
105. Record nonspendable fund balances using the specific R*STARS transaction code established for each nonspendable general ledger account.
106. Classify loans receivable and advances to other funds as nonspendable fund balance in the GAAP General Fund only. Include loans receivable and advances to other funds in the appropriate fund balance classification (restricted, committed, or assigned) in the other governmental funds.
107. Classify inventories and prepaid amounts as nonspendable fund balance, unless inventories include property held for resale and the proceeds from the sales are restricted, committed or assigned to a specific purpose. In that case, the restricted, committed or assigned fund balance classification takes precedence over the nonspendable fund balance category.
108. When establishing a D23 Fund Profile for a governmental fund, use one of the following two-digit G54 codes to indicate the appropriate fund balance classification :
 - R1 – Fund balance restricted by federal grants, federal laws, or federal regulations
 - R2 – Fund balance restricted by the Oregon Constitution
 - R3 – Fund balance restricted by enabling legislation
 - R4 – Fund balance restricted by debt covenants
 - R5 – Fund balance restricted by donors or other external parties
 - C1 – Committed fund balance
 - A1 – Assigned fund balance
 - U1 – Unassigned fund balance (GAAP General Fund only)
109. If more than one fund balance category applies to the resources accounted for in a D23 fund, select the category that comprises the majority of the resources for closing purposes. At year end, determine the proper allocation and reclassify to the other fund balance categories as needed using transaction codes 453 and 454.
110. In permanent funds (GAAP Fund 7505), fund balance is restricted by definition. Use transaction codes 453 and 454 to reclassify initial or additional permanent fund principal to the nonspendable category.

Proprietary Funds

111. Restricted net assets are restricted assets reduced by the amount of any related debt. For example, if an agency holds restricted cash in a separate bank account to make the final debt service payment on a bond issue, the agency offsets the cash by the related debt, leaving no restricted net assets to report.

Prior Period and Post Closing Adjustments

112. Use prior period and post closing adjustments to record the correction of a material error in a prior year's financial statement. If the error is discovered shortly after fiscal year end, before completion of the Comprehensive Annual Financial Report (CAFR), and the error is corrected for CAFR reporting, Statewide Accounting and Reporting Services (SARS) will direct the agency

to record a post closing adjustment to correct R*STARS. If discovery of the error does not occur in time to correct the CAFR, the agency must record a prior period adjustment to make the correction.

113. Examples of errors that could result in a prior period or post closing adjustment include:
- a. Errors in mathematical calculations
 - b. Errors in application of an accounting principle, e.g., not accruing revenue that was measurable and available in a governmental fund type
 - c. Oversight or misuse of facts that existed when the financial statements were prepared
 - d. Change from an accounting principle that is not generally accepted to one that is generally accepted
114. Assume, for example, that an agency discovers after the close of Month 13 that it failed to accrue \$10 million in federal revenue. The agency notifies SARS, and SARS makes an adjustment during compilation to report the revenue correctly in the CAFR. The agency receives and records the revenue in the current year during September. SARS will direct the agency to make a post closing adjustment to reconcile R*STARS to the CAFR.

T-code 113: To correct a prior year understatement of revenue using comptroller object 0300 – Federal Revenue.

DR 3200 Revenue GAAP Offset – C/O 0300	10,000,000
CR 3062 Prior Year Post Closing Adjustment	10,000,000

115. Now, assume the error was not discovered in time to update the CAFR. In this case, the correcting entry would be the same, except the agency would post the credit to GL account 3060 - Prior Period Adjustment.
116. For financial reporting, GL account 3062 - Prior Year Post Closing Adjustment is reported as part of beginning fund equity, while GL account 3060 - Prior Period Adjustment is reported on a separate line as an adjustment to beginning fund equity. Agencies should make post closing adjustments only as directed by SARS since not all errors reported to SARS are actually incorporated into the CAFR. SARS notifies agencies of required post closing adjustments following completion of the CAFR, typically in January or February.

Changes in Accounting Principles

117. Changes in accounting principles occur when:
- a. The state implements a new accounting standard.
 - b. The state decides to use an alternative accounting principle permitted by generally accepted accounting principles because it believes that the principle is preferable to the one previously used.
 - c. The state changes its application of an accounting principle.

SARS reports changes in accounting principles as direct adjustments to beginning fund equity, similar to prior period adjustments.

118. Use the following transaction codes to record post-closing adjustments, prior period adjustments, and changes in accounting principles:

- 113 Prior period adjustment – revenue
- 114 Prior period adjustment – expenditure
- 119 Prior period adjustment – expenditure G38 (comptroller objects 6000-6200)
- 124 Prior period adjustment – transfers-in
- 125 Prior period adjustment – transfers-out

Disclosure Requirements

119. The State Controller's Division (SCD) discloses governmental fund balance information at the statewide level in the CAFR. Required fund balance disclosures include:

- a. For committed fund balance:
 - The government's highest level of decision-making authority
 - The formal action that is required to be taken to establish, modify or rescind a fund balance commitment
- b. For assigned fund balance:
 - The body or official authorized to assign amounts to a specific purpose
 - The policy established by the governing body granting that authorization
- c. For all classifications of fund balance:
 - Whether restricted or unrestricted amounts have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available
 - Whether committed, assigned or unassigned amounts have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used
- d. For nonspendable fund balance displayed in the aggregate on the face of the balance sheet:
 - The amount that is not in spendable form
 - The amount that is restricted permanently
- e. For restricted, committed and assigned fund balance displayed in the aggregate on the face of the balance sheet:
 - Specific information about the purposes for which the fund balance is restricted, committed, and assigned

120. SCD discloses encumbrances as commitments of the state by major funds and nonmajor funds in the aggregate.

121. SCD also discloses the following required information:

- a. The deficit fund balance or deficit net assets of individual funds when the deficit is not visible on the face of the basic financial statements
- b. The amount of the primary government's net assets at the end of the reporting period that are restricted by enabling legislation, and
- c. The amount and reason for significant prior period adjustments.

Appendix A
A Guide for Determining Fund Balance Classification
Under GASB Statement No. 54

GOVERNMENTAL FUNDS (other than GAAP General Fund 0001)

Step 1: Does this D23 fund close to one of the Governmental GAAP Funds listed below?

If the answer is **YES**, go to Step 2 to determine the appropriate fund balance category.

If the answer is **NO**, **STOP!** GASB Statement No. 54 does not apply.

0054	1103	1106	1109	1112	2002	3001
1101	1104	1107	1110	1113	2003	7505
1102	1105	1108	1111	2001	2005	

For GAAP Fund 0001, go directly to Step 7.

NONSPENDABLE FUND BALANCE

Step 2: Is the use of a resource in this fund limited because:

- a. It is not in spendable form? For example: inventories, prepaid items, and long-term receivables (other than loans and advances).
- b. Your agency is legally or contractually obligated to maintain the resource intact? For example: the corpus of a permanent fund.

If the answer to either question is **YES**, classify the related fund balance as **nonspendable** using the appropriate transaction codes. If the answer to both questions is **NO**, go to Step 3.

Caution: Classify loans receivable and advances to other funds as nonspendable fund balance in the GAAP General Fund, unless the proceeds from collection are restricted, committed, or assigned to a specific purpose. In the other GAAP funds, the related fund balance must be classified as restricted, committed, or assigned as determined in Steps 3 through 6.

Caution: If inventories include property held for resale and the proceeds from the sale are restricted, committed or assigned to a specific purpose, classify the related fund balance as restricted, committed or assigned rather than nonspendable.

Caution: In permanent funds, consider whether additional fund balance should be reclassified to nonspendable. For example, if a portion of the earnings on the fund must be held in perpetuity, reclassify that portion of fund balance to nonspendable.

RESTRICTED FUND BALANCE

Step 3: If the answer to any question in this section is **YES**, classify the related fund balance as **restricted**. Attach supporting documentation to the D23 Fund Profile form and maintain a copy for audit purposes. If the answer to all of the questions in this section is **NO**, go to Step 4.

- a. **G54 Code R1** – Is your agency's use of a resource in this fund restricted to a **specific purpose** imposed by federal laws, federal regulations or federal grant agreements?

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RESTRICTED FUND BALANCE

Step 3 (cont'd.)

- b. **G54 Code R2** – Is your agency’s use of a resource in this fund restricted to a specific purpose imposed by the Oregon Constitution? Examples include Common School Fund resources, lottery proceeds, and motor vehicle use/fuel taxes.
- c. **G54 Code R4** – Is your agency’s use of a resource in this fund restricted by the terms of a COP agreement, bond indenture, or state law to fund specific capital project(s)?
- d. **G54 Code R4** – Is your agency’s use of a resource in this fund restricted by debt covenants for the payment of debt service?
- e. **G54 Code R5** – Is your agency’s use of a resource in this fund restricted by conditions imposed by the donor?

Caution: *Specific purpose* means a purpose that is narrower than the “purpose of state government.” For example, a law may specify that a resource must be used for education purposes or for an agency’s general operations. In either case, use of the resource would be considered limited to a specific purpose.

Step 4: Is the restriction on your agency’s use of a resource contained in legislation that also **authorizes** the state to assess, levy, charge, or collect the resource from external parties? Is the restriction on the use of the resource **legally enforceable**?

If the answer to both questions is **YES**, classify the related fund balance as restricted by **enabling legislation (G54 Code R3)**. Attach supporting documentation to the D23 Fund Profile form and maintain a copy for audit purposes. If the answer to either question is **NO**, go to Step 5.

Caution: *Legally enforceable* means that your agency can be compelled by an external party – such as citizens, public interest groups, or the judiciary – to use the resources as specified in the legislation.

Caution: Do not confuse enabling legislation (or laws) with the Oregon Revised Statutes. The Oregon Revised Statutes represent the codification of the bills passed by the Oregon Legislature and signed into law by the Governor. Oregon Laws are available online at http://www.leg.state.or.us/bills_laws/. In addition, some agencies maintain their own historical files and records of the laws that pertain to their operations.

Caution: If the use of a resource is restricted both by the Oregon Constitution and the Oregon Revised Statutes, document only the restriction imposed by the Constitution because the Constitution takes precedence over any related legislation. For example, lottery funds should be considered restricted by the Constitution, even though the Oregon Revised Statutes may place additional constraints on their use.

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COMMITTED FUND BALANCE

Step 5: Is the law that places limitations on the use of resources in this fund **separate** from the law authorizing the state to assess, levy, charge, or collect this resource? If the answer is **YES**, classify the related fund balance as **committed (G54 Code C1)**. Attach supporting documentation to the D23 Fund Profile form and maintain a copy for audit purposes. If no legislation has passed that legally commits the resources to a specific purpose, go to Step 6.

ASSIGNED FUND BALANCE

Step 6: Assigned fund balance (G54 Code A1) represents resources that are limited by the state's **intent** to use them for a specific purpose. Intent may be expressed by the governing body itself, another body (e.g., a budget committee), or a designated official.

These resources are neither restricted nor committed to a specific purpose by external parties (such as creditors, grantors, and donors), federal laws or regulations, state laws, or the Oregon Constitution. In general, assigned fund balance includes all remaining fund resources and is the residual classification in all governmental funds, except the General Fund.

GAAP General Fund 0001

Step 7: Unassigned fund balance is the residual classification in the General Fund.

- a. If the appropriated fund on the D23 fund profile is 8800, classify the related fund balance as **unassigned (G54 Code U1)**.
 - b. If the appropriated fund on the D23 fund profile is *not* 8800, classify the related fund balance as **assigned (G54 Code A1)**.
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MORE THAN ONE FUND BALANCE CATEGORY APPLIES

Step 8: If more than one fund balance category applies to the resources accounted for in this D23 fund, select the category that comprises the majority of the resources for closing purposes. During Month 13, determine the proper allocation and reclassify to the other fund balance categories as needed using transaction codes 453 and 454.
