LOUISIANA LEGISLATIVE AUDITOR

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AUDIT RISK ALERT # 66

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SUBJECT: Fund balance classification

This alert is issued to remind auditors to evaluate whether amounts reported as committed or assigned fund balance meet the requirements of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Statement 54 establishes a hierarchy of five fund balance classifications: nonspendable, restricted, committed, assigned, and unassigned. The classifications are based primarily on the extent to which a government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent (Statement 54, ¶5).

For amounts to be properly classified as committed fund balance, the amounts may be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. GASB Codification Section 1800.171 provides examples of actions that may constitute formal action to commit resources, such as legislation, a resolution, or an ordinance. The formal action must occur prior to the end of the reporting period, although the amount subject to the commitment may be determined in the subsequent period. The commitment may be removed or modified only through the same type of formal action taken to establish the commitment.

For amounts to be properly classified as assigned fund balance, there must be 1) intent to use the amounts for a particular purpose, expressed by the governing body or an official or body to which the governing body has delegated authority to make assignments, and 2) an identifiable specific purpose for which the amounts are intended to be used (Statement 54, ¶13). Governments should not report assigned fund balance if doing so would result in a deficit in unassigned fund balance.

An assignment should not be used to report amounts that management intends to retain for general financial flexibility, contingencies, or unspecified future needs. The assignment should identify a specific intended use that is narrower than the government's general purposes.

Descriptions such as "future expenditures," "future capital needs," "operating reserve," or "contingencies" may not, by themselves, provide sufficient specificity to support classification as assigned or committed fund balance.

Auditors should evaluate whether amounts reported as committed fund balance are supported by formal action of the government, such as legislation, a resolution, or an ordinance, that identifies the specific purpose for which the funds may be used. Auditors should verify that the formal action establishing a commitment occurred no later than the end of the reporting period, even if the exact amount committed was determined subsequently.

Auditors should also evaluate whether amounts reported as assigned fund balance are supported by documentation that identifies the specific purpose for which the funds are intended to be used and demonstrates that the intent was expressed by the governing body or an official or body with properly delegated authority. Examples of specific purposes may include funding a particular program, capital project, debt service requirement, equipment acquisition, or other identified governmental purpose. The purposes reported in the notes to the financial statements should be consistent with the purposes reflected in the government's supporting documentation.

When assigned fund balance is reported based on the actions of management or another official, auditors should evaluate whether the governing body formally delegated authority to make fund balance assignments and whether the delegation was in effect at the reporting date. However, auditors should note that in governmental funds other than the General Fund, positive fund balance that is neither restricted nor committed generally is reported as assigned fund balance pursuant to GASB Statement No. 54. Accordingly, the existence of assigned fund balance in special revenue, debt service, and capital projects funds does not necessarily require a separate annual assignment action if the amounts are intended to be used for the purpose of the fund. Nevertheless, auditors should evaluate whether the reported assigned balance is consistent with the purpose of the fund and is supported by the government's records and circumstances at the reporting date.