



## 85.30

### Encumbrances

#### 85.30.10

July 1, 2008

#### Encumbrance accounting

85.30.10.a

An encumbrance is a reservation of an expenditure authority for obligations or contracts for goods, materials, and/or services, which have been ordered but not yet received. Encumbrance accounting is only used in accounts subject to allotment. Encumbrance accounting ensures that expenditure authority will be available for recording the expenditure when the goods, materials or services are subsequently received. An agency may not obligate or encumber funds in excess of its expenditure authority. An encumbrance represents a commitment. It is not an expenditure.

85.30.10.b

Encumbrance accounting should be used to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. Agencies are not required to encumber all items of expenditure. Agencies should encumber obligations or contracts with a material impact on their budgets. Costs such as utilities, rent, travel, salaries and wages, and employee benefits and taxes should not be encumbered.

85.30.10.c

Each encumbrance transaction is to be supported by complete documentation. The documentation may be in the form of the following: Purchase Requisitions (A15-A); Purchase Orders (A16-A); Field Orders (A17-A); Printing Requisitions (A21-A); professional service contracts and/or other contracts entered into by an agency. The use of "dummy" or projected encumbrances as a method to avoid transfers to reserve or circumvent the allotment process is an improper application of encumbrance accounting and **is not** to be practiced. Subsection 85.42.20 shows illustrative entries to establish and liquidate encumbrances.

85.30.10.d

Encumbrances related to **operating** appropriations lapse at the end of the applicable appropriation period. Encumbrances related to **capital** appropriations lapse at the end of the biennium, unless **reappropriated** by the Legislature in the ensuing biennium. Encumbrances outstanding that relate to continuing appropriations at the end of the first fiscal year of a biennium and encumbrances outstanding that relate to capital reappropriations are reported as reservations of fund balance. Refer to Subsections 90.20.35 and 90.20.40.