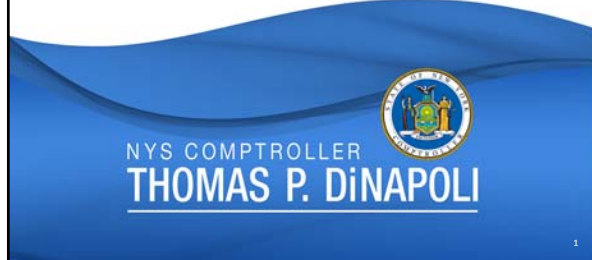


Encumbrances

Jay Phillips, Associate, Local Official Training Unit
Division of Local Government and School Accountability



Appropriations

- Authority to spend, adopted in the budget
- Cannot give rise to a claim without an available appropriation



Appropriation or Encumbrance?

➡ APPROPRIATION

- Maximum amount you can expend for a certain purpose.

➡ ENCUMBRANCE

- Setting aside a portion of available appropriation for a certain future obligation.



Encumbrance System

Why Encumber?

- To prevent exceeding available appropriations.
- To carry committed appropriations over to the next year.

Encumbrance Exercise

You've ordered equipment for \$600, but have not received it. Now a department head is requesting \$800 for another purchase. Can you make the purchase?

Without tracking Encumbrances

1410.2 Clerk – Capital Outlay

Appropriation	Encumbrance	Actual	Balance
\$1,000	\$0	\$0	\$1,000

With Tracking Encumbrances

1410.2 Clerk – Capital Outlay

Appropriation	Encumbrance	Actual	Avail. Balance
\$1,000	\$600	\$0	\$400

Encumbrance Benefit

- Prevents expenditures exceeding the available appropriations.

Clerk – Capital Outlay				A1410.2		
20XX Date	Description	Ref.	Appropriation	Encumbrance	Expenditure	Balance
1/1	Budget	GJ-1	1,000	600		400

Encumbrance Entries

	Sub Account	DR	CR
521 Encumbrances various sub accounts	XXX	XXX	
821 Reserve for Encumbrances			XXX
Memo: To record encumbrance			

Encumbrance Entries

	Sub Account	DR	CR
912 Unrestricted Fund Balance		XXX	
521 Encumbrances various sub accounts	XXX		XXX
Memo: To close outstanding encumbrances at year end			

Fund Balance Reporting

- Resources classified as unassigned fund balance are reclassified as assigned when encumbered.
- Encumbered resources that are assigned, restricted or committed fund balance are not reclassified.

Encumbrance Entries

- To carry committed appropriations over to the next year.

	Sub Account	DR	CR
521 Encumbrances various sub accounts	XXX	XXX	
912 Unrestricted Fund Balance			XXX

Memo: To re-establish outstanding encumbrances of the prior year.

Encumbrance Entries

	Sub Account	DR	CR
599 Appropriated Fund Balance		XXX	
960 Appropriations various sub accounts	XXX		XXX

Memo: To modify budget to account for outstanding encumbrances from prior year.

Unused Encumbrance

- If actual expenditure is less than encumbrance, then remaining appropriation is removed.

	Sub Account	DR	CR
960 Appropriations various sub accounts	XXX	XXX	
599 Appropriated Fund Balance			XXX

Monitoring the Budget

- Board needs to ensure that controls are in place by using:
 - A purchase order system or alternative method.
 - An encumbrance system.

Purchase Order System

- Benefits
- Ensures budgetary authority before commitment
- Internal controls

Journal		JV No. 1			
Date	Account Title and Explanation	Ref.	Debit	Credit	
	Expenditures	A522	2,000		
	2,000	A7140.4			
	Cash	A200		2,000	

General Ledger		Acct. No. A522			
Date	Account Title and Explanation	Ref.	Debit	Credit	Balance
		JV-1	2,000		2,000

Subsidiary Expenditure Ledger

Functional Unit: Community Recreation

Object Class: Contractual Expense Acct. No. A7140.4

Date	Explanation	Ref.	Appropriation	Encumbrance	Expenditure	Unencumbered Balance
	Appropriation	JE1	10,000			10,000
	Encumbrance For Materials	JE4		2,000		8,000
	Payment of Invoice	JV-1		(2,000)	2,000	8,000

When an Invoice Amount Differs from Encumbered Amount:

Subsidiary Expenditure Ledger

Functional Unit: Community Recreation

Object Class: Contractual Expense

Acct. No. A7140.4

Date	Explanation	Ref.	Appropriation	Encumbrance	Expenditure	Unencumbered Balance
	Appropriations	JE1	10,000			10,000
	Encumbrance For Materials	JE4		2,000		8,000
	Payment of Invoice	JV-1		(2,000)	2,200	7,800

Encumbrances must always be liquidated at original amount.

Budgetary Control without a P.O. System

- Suggestions:
 - Monthly Balance Reports
 - Confirm with C.F.O. before purchasing

Questions?

Academy Website:

<http://osc.state.ny.us/localgov/academy/index.htm>

Local Official Training Unit Mailbox:

localtraining@osc.state.ny.us

Thank You



Division of Local Government and
School Accountability

NYS COMPTROLLER
THOMAS P. DiNAPOLI

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