

**TOWN OF EAST GRANBY, CONNECTICUT
ENCUMBRANCE POLICY -- Page 1 of 2**

PURPOSE

The purpose of this Encumbrance Policy is to describe the policies and procedures by which General Fund encumbrances may be authorized and carried forward as a charge against a prior year appropriation.

BUDGETARY BASIS OF ACCOUNTING

General Fund appropriations, except for an appropriation for a capital expenditure, shall lapse at the close of the fiscal year to the extent they have not been expended or encumbered, or except as prohibited by law or prior agreement. An encumbrance authorized in accordance with this Encumbrance Policy will be treated as General Fund expenditure under the budgetary basis of accounting.

DEFINITION

To create an encumbrance means to set aside or reserve all, or a portion, of a lapsing fiscal year's appropriation for payment of future expenses. Appropriations are encumbered to ensure their availability for payment of approved, specified expenses. *Encumbered funds are not available for other than approved, specified purposes.*

For purposes of this policy, encumbrances are obligations of the Town in the form of purchase orders, contracts, or other such obligations of the Town, carried from one fiscal year into the next.

AUTHORITY

Any requests to carry over an encumbrance into a subsequent fiscal year shall be authorized by the appropriate purchasing agent of the Town.

GUIDELINES

Encumbrances are a reserve of current year budget appropriations to recognize the existence of legally enforceable commitments on unperformed contracts for goods or services. If the intent of the contract or order is to avoid lapse or circumvent budgetary intent then the current fiscal year funds may not be carried over to pay the contract or obligation even if a commitment exists as of the Town's fiscal year end.

Budget authority that has been carried over from a previous fiscal year, related to carryover encumbrances, may only be used for the purpose of the encumbrance. If the expenditures related to the carryover encumbrance are less than the amount carried over the remaining carryover budget authority may not be recommitted or reused in the current fiscal year.

TOWN OF EAST GRANBY, CONNECTICUT
ENCUMBRANCE POLICY – Page 2 of 2

The following represents additional guidelines that are intended to clarify types of encumbrances that may or may not be carried over to the subsequent fiscal year:

1. There must be an executed contract or an authorized purchase order placed with a known vendor/party as of the end of the fiscal year for funds to be carried over to the subsequent fiscal year.
2. All blanket purchase orders should either be liquidated or cancelled at the end of the fiscal year.
3. Appropriations used as matching funds for federal or State programs should not be carried over to the subsequent fiscal year through the use of an encumbrance.
4. Any purchase orders having no activity in the past 12 months should be cancelled at the end of the fiscal year.
5. Funds carried over to a subsequent fiscal year may only be used for the purpose carried over. Balances remaining on prior year purchase orders after liquidation of the actual cost incurred should be cancelled and may not be used to cover overdrafts in the current year.
6. Funds carried over to a subsequent fiscal year for non-aid contracts with vendors having a recurring contractual relationship with the Town should be limited to amounts needed to pay for goods or services actually provided by the vendor as of the end of the fiscal year.
7. For personal contractual services, encumbrances can be carried forward if the majority of the services have been provided as of the end of the fiscal year.
8. Funds carried over to a subsequent fiscal year for supplies purchased in excess of normal quantities ordered throughout the year must be justified.
9. For equipment rentals and lease purchases only the value of services received for the fiscal year can be charged to that year. Anticipation of future years' expense should not be charged to current year appropriations.

Adopted
Board of Finance
9 June 2020

