ENCUMBRANCE DEFINED

The Town general fund budget is developed each year. It follows the normal budgetary procedures in which departments and/or other agencies submit requests to the chief executive; an executive budget is prepared and submitted to the legislative body; and the legislative body acts on the budget through the passage of appropriations. These appropriations may be subject to subsequent vote by referendum. However, when voted and passed they establish revenue, expenditure/expense and obligation authority. In addition, this authority is extended to budgetary execution and management in the form of allotments, sub allocations, contingency reserves, encumbrance controls and transfers.

The use of encumbrance accounting as an element of control in a formal budgetary integration is widespread in the government sector. Encumbrances are defined as **"commitments related to unperformed (executorial) contracts for goods or services."** As used in budgeting, encumbrances are not generally accepted accounting principles (GAAP) expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed. GASB endorses the use of encumbrance accounting for the general fund. Accounting for encumbrances often provides effective budgetary control and facilitates good cash management.

In effect, an encumbrance accounting system acts as an early warning device. By controlling expenditure commitments, the Town significantly reduces the opportunity to over expend an appropriation. Even with its control advantages, encumbrances are not recorded for certain expenditures and are recorded only to a limited extent for others. For example, encumbrances normally are not used to control salary expenditures. These expenditures generally are fixed for the entire year and therefore are ascertainable in advance. Because of fixed salaries and other additional administrative and personnel controls, recording encumbrances for salaries generally is not considered necessary.

An unmodified encumbrance accounting system may prove to be too much of a burden for other expenditure object. For example, an encumbrance need not be established when an employee orders a box of pencils. Rather, blanket purchase orders with a maximum dollar limit may be issued and encumbered for small, routine supply purchases.

Because an encumbrance is only a commitment, it does not meet the expenditure or liability recognition criteria. Encumbrances outstanding at year-end that do not lapse should be displayed as reservations of fund balance for subsequent years' expenditure. Encumbrances that lapsed should be displayed either as a reservation of fund balance or disclosed in the notes to the financial statements if the Town intends to honor the commitment

TOWN of RIDGEFIELD

ACCOUNTING POLICY

An encumbrance represents a commitment for contracts entered into during the fiscal year in which services are not yet complete or for purchases, which have already been committed as to vendors but the goods, have not been delivered and an invoice has not yet been procured.

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All encumbrances must be approved or budgeted and documented before June 30th in any given fiscal year.