

# **TOWN OF CHESTER**

## **Encumbrance Policy**

**Effective September 1, 2013**

### **INTRODUCTION**

The purpose of this Policy is to explain the legal requirements for the encumbrance of funds at the end of the fiscal year.

### **STATUTORY REQUIREMENTS**

RSA 32:7 permits encumbering funds that would lapse at the end of the fiscal year in certain limited circumstances which are:

1. The amount has prior to the end of the fiscal year become encumbered by a legally enforceable obligation created by contract or otherwise to any person for the expenditure of that amount (RSA 32:7, I); or
2. The amount is appropriated under a special warrant article and the Selectmen vote at a properly noticed meeting held prior to the end of the fiscal year for which the appropriation is made to treat the appropriation as encumbered for a maximum of one (1) additional fiscal year (RSA 32:7, V).

### **COMMON PROBLEMS**

1. Unless the appropriation is part of a special warrant article, funds cannot be encumbered into the next fiscal year simply by a vote of the Board of Selectmen.
2. A purchase order is established for the balance of an expenditure line item with the intent that since the budget was not spent, it is to be carried over and used in the next fiscal period.
3. A purchase order is established for a specific purpose and amount (e.g. resurfacing the gymnasium floor), but the vendor/contractor has yet to be determined.
4. A purchase order is established for the next fiscal year's lease payment because money was leftover in the budget in the current year.

### **VALID ENCUMBRANCES**

1. Special Warrant Articles: The Board of Selectmen must vote at a duly noticed meeting prior to the end of the fiscal year to encumber the appropriation for the next fiscal year.
2. Legally Enforceable Obligations:
  - A. Contract signed prior to the end of the fiscal year.
  - B. Purchase orders provided:

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1. The purchase order is issued by a duly authorized Town representative for a specific purpose, amount and for a specific vendor prior to the end of the fiscal year.
  2. The purchase orders/commitment is made out to a specific vendor (if there is no contractor/vendor, the encumbrance is not valid.)
  3. Exception: At times, items such as paper, supplies, materials need to be ordered in advance so that they can be received by the start of the next year. Ordering these items can start in the spring of the current fiscal year to be paid out of the next fiscal year's budget. However, the purchase orders/commitments should be clearly marked as the next fiscal year's purchase orders/commitments by either putting the fiscal year end on the purchase order or noting very clearly that the items are not to be invoiced until after July 1, (i.e. Do not invoice until after July 1).
- C. Any other legally enforceable obligation of the Town that arises before the end of the fiscal year, such as but not limited to obligations to employees and judgments.

### **PROCEDURES**

Purchase orders/commitments should be reviewed regularly and updated. At least on a quarterly basis, and again at year end, an "Open Purchase Order/Commitment" report should be run and reviewed. Any old purchase orders/commitments should be followed up on and their status determined.

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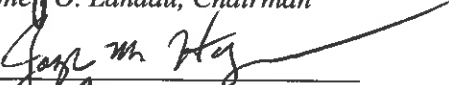
**Encumbrance Policy**

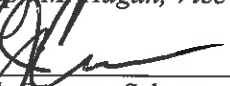
**Effective September 1, 2013**

Adopted by vote of the Board of Selectmen on this date, the 6<sup>th</sup> day of Sept. 2013

TOWN OF CHESTER  
BOARD OF SELECTMEN

BY:  09-06-2013  
Stephen O. Landau, Chairman

BY:   
Joseph M. Hagan, Vice Chairman

BY:   
Jack Cannon, Selectman

BY:   
Richard J. LaBlanc, Selectman

BY:   
Joseph S. Castricone, Selectman

Date: 9/6/2013