

<b>OREGON ACCOUNTING MANUAL</b>		Number 20.20.00.PR
Oregon Department of Administrative Services State Controller's Division		Effective Date October 1, 2004
Chapter	<b>Budgetary Accounting and Reporting</b>	.1 OF .2
Part	<b>Encumbrances</b>	
Section		Approval  Signature on file at SCD

Authority: [ORS 291.015](#)  
[ORS 293.075](#)  
 NCGA Statement No. 1

- .101 Transactions entered in the Relational Statewide Accounting and Reporting System (**R\*STARS**) may or may not affect data on the appropriation table based on the transaction code used. Since budgetary controls use the balances on the appropriation table to determine whether budgets are exceeded, agency accounting personnel should be alert to how accruals and encumbrances are posted in the R\*STARS financial tables.

### Background Information

- .102 A pre-encumbrance represents an intent to purchase goods or services. Pre-encumbrances are normally recorded for larger purchases that will remain outstanding for a relatively long period of time.
- .103 An encumbrance represents a formal commitment to purchase goods or services within the current biennium.
- .104 Generally, the statewide spending process, including encumbrance accounting, involves:
  - a. Establish spending plans and establish expenditure appropriation accounts upon approval of budgets.
  - b. Issue purchase requisitions to initiate plans to incur expenditures and record pre-encumbrances.
  - c. Issue purchase orders and authorize contracts to commit to incur expenditures, liquidate pre-encumbrances and record encumbrances. Remaining appropriation balances are reported net of encumbrances.
  - d. Record actual expenditures and related liabilities when services are performed and goods are received, and liquidate encumbrances. Remaining appropriation balances are net of expenditures.
  - e. Pay vendors and liquidate related liabilities.

### Recording Encumbrances

- .105 Encumbrances are recorded in R\*STARS using t-code 204 if the item was previously pre-encumbered and t-code 203 if it was not. T-code 204 will liquidate the pre-encumbrance.

- .106 Encumbrances that are no longer valid should be cancelled with t-code 206.
- .107 To charge obligations against a prior biennial appropriation, the service must be performed or supplies received by calendar date June 30 and the vendor paid by December 31. The agency must record an expenditure (accrued liability) by the close of month 13 in R\*STARS, but has until December 31 to pay the obligation out of prior biennial funds.
- .108 When goods or services are received or provided by calendar date June 30, the obligation is recorded as an expenditure with an offsetting liability. Thus, the encumbrance for this obligation is liquidated or cancelled prior to the close of month 13.
- .109 When goods or services have been received or provided by calendar date June 30 and the invoice has been received, an expenditure and accounts payable may be recorded in R\*STARS with t-code 225, which will establish a voucher payable and liquidate the encumbrance.
- .110 When goods or services have been received or provided by calendar date June 30, but the invoice is not available, the accounts payable should be accrued using t-code 437 and the encumbrance reversed with t-code 931R . Since both of these t-codes auto-reverse and do not affect the appropriation table in R\*STARS, the document supported encumbrance will remain on the books in the next fiscal year for budget purposes.

#### **Moving Encumbrances Forward at Appropriation Year End**

- .111 If at the end of a biennium goods or services for an encumbered spending commitment have not been received by June 30, the encumbrance (or balance of the encumbrance for partially fulfilled contracts) should be canceled and re-established in the new biennium.

#### **Reporting Encumbrances at Fiscal Year End**

- .112 Outstanding encumbrances are not considered expenditures in accordance with generally accepted accounting principles. At the end of a fiscal year, outstanding encumbrances represent estimated expenditures which would result if unperformed spending commitments in process at year end were completed. In governmental funds, encumbrances are reported as a reservation of fund balance in the GAAP financial statements.
- .113 Encumbrances are included with actual cash expenditures in the budgetary schedule presented in the State's **Comprehensive Annual Financial Report**.
- .114 While encumbrance accounting applies to all fund types for control purposes, outstanding encumbrances at year end are not reported in proprietary funds or fiduciary funds in accordance with generally accepted accounting principles.