

SECTION XII--INTERPRETATIONS

INTERPRETATIONS

ACCOUNTING INTERPRETATION NO. 1

Subject: Encumbering

This interpretation is to clarify those items that may or may not be encumbered at the school's fiscal year-end.

SDCL 13-11-8 states:

The school board may by resolution at its first meeting in July encumber that portion of the unexpended budget from the prior fiscal year for which legal obligations were incurred but were not paid. The resolution shall state the budget account and amount encumbered. The business manager shall keep a detailed listing by payee and amount supporting such amount shown in the resolution.

The following "encumbrance" definition comes from the "School Accounting Manual":

Purchase orders, contracts and salary or other commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid or actual liability is set up.

In accordance with SDCL 13-11-8 and the encumbrance definition the only items that can be encumbered are outstanding purchase orders for which a legal obligation exists, contracts and/or other legal obligations (provided a detailed listing is maintained) for which service has not been received either in part or in full as of the close of the fiscal year. At the time of receiving the contracted service or a fulfilled purchase order they then become payables and, thus cease to be encumbrances.

An alternative to encumbering is to include the items not yet received into the next year's budget before final adoption. If the goods intended for the subsequent year are received prior to the start of the new year, the goods should be treated as inventory of supplies rather than expenditures. After the start of the new fiscal year, a credit should be made to inventory and debit entries should be made in the general journal to the appropriate expenditure categories. Remember that the journal entries to record the expenditures should also be posted in the expenditure budget record to the proper budget categories. (See Accounting Interpretation No. 14)