

## RULE 7.10 - ENCUMBRANCES

Adopted Date: 11/17/2016

Revised Date: 04/13/2018

### PURPOSE

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The City and County of Denver (city) requires departments and agencies to reserve, or encumber, funds for commitments related to agreements for goods and services not yet performed but for which there is an executed contract or purchase order. The purpose of this rule is to establish and ensure that contractual obligations can be met and provide direction on the treatment of encumbrances under various circumstances.

This rule shall be read in conjunction with the following fiscal accountability rules to ensure compliance and understanding:

- [Fiscal Accountability Rule 1.2 – System of Record](#)
- [Fiscal Accountability Rule 4.3 – Capital Improvement Projects](#)
- [Fiscal Accountability Rule 8.1 – Procurement of Goods and Services Related to Goods](#)

### DEFINITIONS

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**Contract** – A binding agreement between two or more persons or parties, which is legally enforceable. Examples include construction contracts, agreements, amendments, leases, grants, easements, cooperative agreements, and licenses.

**Encumber** – To set aside or reserve all, or a portion, of a lapsing and non-lapsing fund budget for payment of future expenses. Budget is encumbered to ensure availability for payment of approved, specified expenses.

**Lapsing Fund** – A fund established for expenditures for general, enterprise, and some special revenue funds during a fiscal year. Any budget not spent by the end of the fiscal year cannot be carried forward for future expenditures.

**Non-Lapsing Fund** – A fund established for expenditures for grants, capital projects, and some special revenue funds. Budget not spent by the end of the fiscal year may be carried forward for future expenditures.

**Purchase Order (PO)** – An approved document to a vendor formalizing all the terms and conditions of a proposed transaction, such as a description of the requested items, price, delivery schedule, terms of payment and transportation.

**Requisition** – A request approved by the Expending Authority of the requisitioning department or agency for the purchase of goods, equipment, and personal property and related services. For the purposes of this rule, until a requisition is encumbered it is a pre-encumbrance.

**Special Revenue Fund** – Special revenue funds are operating, grant, and donation funds used to account for the proceeds of specific revenue sources that are intended for specific purposes other than special assessments or major capital projects. Special revenue funds may be lapsing or non-lapsing depending on ordinance.

## RULES

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1. Departments and agencies shall pre-encumber goods, equipment, personal property, and related services purchased using a contract or PO through a requisition in the city's financial system of record.
  - A. Lapsing funds shall be pre-encumbered based on the anticipated expenditures for the current year.
  - B. Non-lapsing funds and multi-year contracts, not associated with a capital program or project funded from bonds or other debt obligations, shall be pre-encumbered based on the full contract or PO amount.
  - C. Multi-year capital programs or projects funded from bonds or other debt obligations, shall use a phased encumbrance process and pre-encumber the amount appropriated when the contract is executed. Additional funds shall be encumbered as subsequent appropriations are made.
2. Departments and agencies shall encumber their portion of a contract or PO that is funded through multiple departments or agencies based on anticipated expenditures.
3. Departments and agencies shall encumber on-call contracts only when needed.
4. Encumbrances remaining at the end of the fiscal year shall be unencumbered in the current budget year and re-encumbered in the subsequent budget year.
  - A. Budget related to a lapsing fund shall not be carried forward to the subsequent fiscal year. Encumbrances shall be re-encumbered using budget from the current fiscal year.
  - B. Budget related to a non-lapsing fund shall be carried forward to the subsequent fiscal year and shall be used to re-encumber for future expenditures.

## AUTHORITY AND ACCOUNTABILITY

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The **Controller's Office** is responsible for this fiscal accountability rule and any procedures, guides, job aids, forms, and one-page summaries associated with this rule.