



Encumbered Appropriations in the Budget Process

Summary: Treatment of Encumbered Appropriations in a New Hampshire Municipality's Budget Process

In New Hampshire, encumbered appropriations—funds legally committed to specific expenditures through contracts, purchase orders, or other obligations—are treated distinctly within the municipal budget process to ensure fiscal responsibility and compliance with state law.

Key Elements:

1. Legal Framework:

- Under **NH RSA 32 (Municipal Budget Law)**, appropriations made at town meeting or by city council lapse at the end of the fiscal year unless:
 - They are legally encumbered (committed by written contract or obligation) before the fiscal year ends.
 - They qualify as authorized capital reserve or trust fund appropriations governed under separate statutes.

2. Carryforward of Encumbrances:

- Encumbered amounts do not lapse at year-end and may be carried forward to the next fiscal year.
- The municipality must maintain documentation (e.g., signed contracts or purchase orders) proving the obligation existed prior to end of fiscal year (December for Brentwood)



Encumbered Appropriations in the Budget Process

Key Elements (Cont.):

3. Budget Reporting and Oversight:

- Encumbrances must be reported separately from new appropriations in financial statements and budget reports.
- The **Department of Revenue Administration (DRA)** requires municipalities to identify and explain carryforwards on required financial forms, such as the MS-535 (Financial Report of the Budget). List encumbrances under "Other Authorizations" and provide the necessary explanations as required by the form instructions.

4. Transparency and Accountability:

- The Select Board is typically required to review and approve the list of year-end encumbrances.
- Clear tracking helps prevent misinterpretation of budget surpluses or available balances.

5. Impact on Budget Planning:

- When developing the next fiscal year's budget, municipalities must account for encumbrances to avoid double-appropriation.
- While encumbered funds are not re-appropriated, they still affect cash flow and expenditure tracking.

Conclusion:

In New Hampshire municipalities, encumbered appropriations serve as a mechanism to responsibly manage obligations that span fiscal years. Their proper identification, documentation, and reporting ensure legal compliance, accurate budgeting, and fiscal transparency under RSA 32 and related DRA guidance.



Encumbered Appropriations in the Budget Process

- Governed by NH RSA 32:7
- Exceptions to the 'Lapse' Rule: RSA 32:7
 - *Contractually Encumbered Funds*
 - *Special Warrant Articles: Encumbering to Prevent Lapse*
 - *Bond Issues*
 - *Anticipated Grants*
 - *Statutorily Nonlapsing Funds – Capital Reserve Funds, Trust Funds,*
- Do not lapse at fiscal year-end if legally obligated and documented
- Are NOT included in next fiscal year budget (avoiding double-appropriation)
- FY2024 Encumbrances for Town of Brentwood
 - *Highway Department: \$35,000 (salt)*
 - *Fire Department: \$23,883 (PFAS free gear)*
 - *Conservation Comm.: \$3,000 (consultant)*
 - *Library: \$420.00 (Flannel Electric)*



NH RSA Details

32:7 Lapse of Appropriations.

Annual meeting appropriations shall cover anticipated expenditures for one fiscal year. All appropriations shall lapse at the end of the fiscal year and any unexpended portion thereof shall not be expended without further appropriation, unless:

- I. The amount has, prior to the end of that fiscal year, become encumbered by a legally-enforceable obligation, created by contract or otherwise, to any person for the expenditure of that amount; or
- II. The amount is legally placed in any nonlapsing fund properly created pursuant to statute, including but not limited to a capital reserve fund under RSA 35, or a town-created trust fund under RSA 31:19-a; or
 - II-a. The amount is appropriated to a capital reserve fund pursuant to RSA 35:5.
- III. The amount is to be raised, in whole or in part, through the issuance of bonds or notes pursuant to RSA 33, in which case the appropriation, unless rescinded, shall not lapse until the fulfillment of the purpose or completion of the project being financed by the bonds or notes; or
- IV. The amount is appropriated from moneys anticipated to be received from a state, federal or other governmental or private grant, in which case the appropriation shall remain nonlapsing for as long as the money remains available under the rules or practice of the granting entity; or
- V. The amount is appropriated under a special warrant article, in which case the local governing body may, at any properly noticed meeting held prior to the end of the fiscal year for which the appropriation is made, vote to treat that appropriation as encumbered for a maximum of one additional fiscal year; or
- VI. The amount is appropriated under a special warrant article and is explicitly designated in the article and by vote of the meeting as nonlapsing, in which case the meeting shall designate the time at which the appropriation shall lapse, which in no case shall be later than 5 years after the end of the fiscal year for which the appropriation is made.