1.9 Encumbrances at Year End

Policy Statement

At the end of each fiscal year, all firm obligations of the University (purchase orders, shipping releases, contracts, etc.) that are chargeable to unrestricted funds are recorded as an expenditure and encumbrance payable (liability) in the encumbrance (ENCUMB) general ledger. “Obligated” funds are commonly referred to as encumbrances – meaning the institution has issued a purchase order for goods and services or has signed a contract. Although encumbrances are not expenses for GAAP purposes, they represent an expense of the institution for that particular budget year, and therefore represent an expense for the State of Georgia’s statutory basis of accounting/ Budgetary Compliance Reporting (BCR). Encumbrance transactions are matched to budget periods rather than fiscal years using the budget reference chartfield.

The amount charged to the department may be an amount different from the amount required to liquidate the obligation (encumbrance) in the succeeding fiscal year. This may be due to discounts, freight charges, or because the University has not been notified by State Purchasing as of June 30th to the exact amount for which a purchase order was issued.

For an obligation that is liquidated for more than the amount charged at June 30th, the excess amount will be charged in the fiscal year in which the obligation is liquidated. For example, if a PO is encumbered in fund 10000 for $100 in fiscal year 1 and the payment is made in fiscal year 2 for $120, then $100 will be charged and funded in year 1 and the $20 will be charged and funded in year 2.

For an obligation that is liquidated for less than the amount charged at June 30th, the balance in the encumbrance payable account that was established for this obligation will be credited to surplus and subsequently return to the State Treasury for lapsable funds or reserved for non-lapsable funds. For example, if a PO is encumbered in fund 10000 for $100 in fiscal year 1 and the final payment is made in fiscal year 2 for $95, then $100 will be charged and funded in year 1 via the PO encumbrance and the $5 will be returned to the State Treasury as surplus in year 2. Each obligation is handled on an individual item basis.

Reason for policy

The laws of the State of Georgia require that certain funds appropriated for a specific fiscal year must be “expended or obligated” in that fiscal year, or “lapse” and be returned to the state treasury to be available for future appropriations.

Responsibilities

**Responsible University Senior Administrator:** Vice President for Finance & Administration  
**Responsible University Administrator:** Associate Vice President for Finance Division

**Policy Owner:** Accounting  
**Policy Contact:** Chris Burbback  
**Policy Contact Phone Number:** 706-542-689

Record Retention

Citation or Reference: Accounting Records

Number: 0472-03-001  
This series includes bank statements, purchase requests, purchase orders, requisitions, financial reports, accounts payable and receivable records, write-off records, discrepancy, payment schedules, operating statements, year-end projections, reconciliation and expenditure reports, cancelled checks, check stubs, moving expenses records, cost accounting reports, refund/disbursement request records, returned checks, deposit slips, travel records, credit voucher requisition records, cash balances and reconciliations, sales and cash reconciliation records, journal entries, outstanding obligations, refund/disbursement requests, receipts, and invoices.
FAQs

What happens to encumbered purchase orders at fiscal year end?

All obligated purchase orders on unrestricted accounts are converted to a liability at fiscal year-end. The conversion process charges the department account for the remaining obligated balance of the purchase order and credits the funds to a University liability account (account payable). The liability conversion Journal Voucher (JV) description includes the vendor name and purchase order number. (Example: ANY COMPANY PE123456A where E123456 is the purchase order number.) After conversion, the vendor is paid directly from the liability (account payable) account.

What is a JV with a description like ‘PE123456AF AJ-AP’?

This description identifies the transaction as a liability variance JV. If an order that converted to liability pays out for more than the encumbered amount, the difference is charged to the original department account.