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 returned 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: Director of Accounting
Policy Contact Phone Number: 706-542-**1197**

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.

Retention: Monthly and quarterly reports: 1 year; All other records: 5 years.

References:
USG Business Procedures Manual Section 1.2.2 Budgetary Reporting - Link USG Business Procedures Manual Section 1.6 Encumbrances - Link

FAQs

What happens to encumbered purchase orders at fiscal year end?

The PO balances and chartstring information remain visible in UGAMart and UGAFMS PO queries as normal. The balance of all obligated purchase orders on unrestricted funds are recorded in the encumbrance (ENCUMB) ledger at fiscal year-end. The ENCUMB ledger entry charges (debits) the expense chartstring associated with each line of the purchase order and credits a liability account (accounts payable) for the remaining obligated balance. The budget reference used for both the debit and credit entries identifies the budget year from which the remaining balance has been “set aside” and from which payments should be applied in the ACTUALS ledger until the prior year encumbrance balance has been fully liquidated through payments and/or closures.

What is a General Ledger journal that begins with POADJ?

These are adjustment corrections for PO payments that were made against prior year budget references in error. If an order that was obligated on a prior year budget reference (budget year) pays out in the ACTUALS ledger for more than the amount that was accrued or “set aside” at the end of the prior budget year, an adjustment must be done to remove the overpayment from the prior year budget reference and to charge the amount to the current year budget reference of the same chartstring. These adjustments are posted to the ACTUALS ledger via GL journal numbers beginning with “POADJ” and using the related voucher number as the GL reference(s) in an effort to make these types of adjustments more easily identified.

If a unit prefers the overpayment to be charged to a different current year budget period chartstring from the one that was debited via the “POADJ” journal the unit may follow-up with a typical GL journal to further adjust the overpayment. The unit should **not** make any adjustments to the credits and prior year budget reference lines of the posted POADJ journal entries.

Policy Dates

Effective Date: 04/17/2020

Date Last Review/Update:

02/14/2013

Previous Version of Policy: Please contact policy owner for previous version