FASOM - Section 13.04: Purchasing - Encumbrances

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The content of this policy is current, although it has not yet been transitioned to the new Fiscal Policy format. This will be accomplished as time and resources permit.

A. General

The encumbrance system is used to reserve a portion of a budget to pay for known or anticipated future expenditures. Following are some examples:

- When a purchase order, contract or other commitment is made, funds from the appropriate budget may be encumbered to cover the expected cost.
- Funds may be encumbered for estimated expenditures, such as utilities, for which no purchase document is issued.
- Funds are encumbered for forecast pay.

Encumbering a budget reduces the balance available for other purposes.

B. Definitions

[1] Encumbrances

Encumbrances are obligations such as purchase orders and salary commitments for which a portion of a budget is reserved. Encumbrances are also referred to as "budget commitments."

[2] Unencumbered or "Available" Balance

The portion of a budget neither expended nor reserved for a particular use is referred to as the "available" balance.

[3] Liquidation

Liquidation is the process of removing an encumbrance from a budget when payment for the anticipated expense is made.