

CHAPTER G
POST-CLOSING ADJUSTMENTS

G.1. Overview of Post-closing Adjustments

To ensure complete and accurate reporting in the State's Annual Comprehensive Financial Report (ACFR), all year-end accounting adjustments should be recorded by the close of Month 13. A post-closing adjustment arises when a material error or omission is discovered *after* the close of Month 13, but *before* the ACFR is published.

Errors or omissions in agency accounting records may be discovered by the agency, by SARS, or by Audits Division. Only adjustments that are considered *material* to the fair presentation of the ACFR will be made. Materiality is determined on a case-by-case basis by SARS and/or Audits Division. **If a proposed adjustment is not considered material, the agency should make the entry in the new fiscal year as a current year adjustment.**

When a proposed adjustment is considered material, SARS makes a ACFR entry to include the adjustment in the State's financial reports. Since the fiscal year has already closed in R*STARS, an additional R*STARS entry will be needed in the next fiscal year to restate beginning fund equity so that it matches the ACFR. This type of entry is not a prior period adjustment; instead, it must be recorded as a post-closing adjustment.

Note: agencies are responsible for determining if proposed adjustments have an impact on the agency's SEFA. If the proposed adjustments affect the agency's SEFA, a "*Corrections*" spreadsheet may be required. Contact the agency's SARS analyst and provide the CFDA number and title.

When a post-closing adjustment is made for ACFR purposes, SARS will communicate the post-closing entry the agency needs to record in R*STARS. This communication usually takes place in January after the ACFR has been published. **Agencies should not make any post-closing adjustments unless instructed by their SARS analyst.**

G.2. Post-closing Adjustment Procedure

- A. The agency, SARS, or the Audits Division proposes a post-closing adjustment.
 1. If the agency proposes a post-closing adjustment, the agency forwards documentation and the proposed entry to SARS. SARS shares this information with Audits Division.
 2. If SARS proposes a post-closing adjustment, SARS discusses the adjustment with the agency to obtain concurrence and also communicates to Audits Division.
 3. If Audits Division proposes an audit adjustment:
 - a. Audits Division informs the agency.
 - b. The agency discusses the entry with the Audits Division and SARS (as necessary) to determine proper resolution and coding. Once agreement is reached, the agency signs the adjustment.
 - c. Audits Division provides SARS with a copy of the final audit adjustment, signed by both the agency and Audits Division.
- B. SARS reviews the adjustment to determine if it should be included in the ACFR.
- C. SARS makes adjustments that are considered material to the financial statements.
- D. SARS notifies the agency that a post-closing adjustment is needed to reconcile their beginning fund equity to the ACFR.

- E. The agency reviews the adjustment to determine if the agency’s SEFA is impacted. If so, the agency submits a SEFA “*Corrections*” spreadsheet to reflect the adjustment.
- F. The agency records the post-closing adjustment in the next fiscal year using appropriate post-closing T-codes.

G.3. Post-Closing Adjustment Examples

Post-closing adjustments are recorded in the accounting records similarly to prior period adjustments; however, GL account 3062, *Prior Year Post-Closing Adjustment*, is used. The related T-codes are 113, 114, 119, 124 and 125. These T-codes are used to adjust the following transaction types:

- TC 113 - Revenue
- TC 114 - Expenditures
- TC 119 - Expenditure distributions
- TC 124 - Transfers-in
- TC 125 - Transfers-out

These T-codes are used for *all* fund types. All post-closing adjustments use one of these five T-codes, but may require other adjustments to the agency’s accounting records as well.

Example A

The agency discovers that amounts expended for building construction were not capitalized as *Construction-in-Progress* at the close of Month 13. The agency contacts SARS with the information, and SARS prepares the following ACFR entry:

To record construction-in-progress at the end of fiscal year 20X1.

DR Construction-in-Progress	25,000,000	
DR Change in Capital Assets (Net Position)	25,000,000	
CR Invested in Capital Assets		25,000,000
CR Expenses (Capital Outlay)		25,000,000

This ACFR entry requires two adjustments in R*STARS in the next fiscal year: a post-closing adjustment and an entry to record the construction-in-progress in the agency’s accounting records.

To record construction-in-progress in fiscal year 20X2 that should have been recorded in 20X1:

<u>TC 545</u>		
DR 0861 Construction in Progress	25,000,000	
DR 3074 Change in Capital Assets	25,000,000	
CR 3600 GAAP Expenditure Offsets (Capital Outlay)		25,000,000
CR 3018 Invested in Capital Assets		25,000,000

Note that this adjustment will affect expenses (via a GAAP Expenditure Offset) in the current fiscal year. To eliminate this effect, the construction-in-progress adjustment is paired with a post-closing adjustment:

To record the post-closing adjustment for fiscal year 20X1 construction-in-progress.

<u>TC 114R</u>		
DR 3600 GAAP Expenditure Offsets (Capital Outlay)	25,000,000	
CR 3062 Prior Year Post-closing Adjustment		25,000,000

The post-closing adjustment eliminates the effect on the expenses of the current period because the entries to GAAP Offset Expenditures are equal and opposite.

Example B

The Audits Division determines that an agency did not record a liability for accounts payable in a governmental fund for certain contracts for services by the close of Month 13. Audits Division proposes an audit adjustment to the agency, the agency signs it, and the signed adjustment is provided to SARS. SARS prepares the following ACFR entry:

To record accounts payable for service contracts for fiscal year 20X1.

DR Expenditures (Services and Supplies)	28,567,254	
CR Accounts Payable		28,567,254

Note that had the agency recorded the accrual adjustment before the close of month 13, R*STARS would have *automatically* generated an entry in the first period of the new year to reverse the payable. Because the entry was not made, the reversal was not generated in R*STARS. Thus, a post-closing adjustment is needed to substitute for the effect of the auto-reversing entry.

Only one entry is needed for this type of post-closing adjustment in the current year. Use either T-code 113 or 114, depending on whether revenues or expenditures are affected. In this case, expenditures were affected.

To record post-closing adjustment for contract services accounts payable not recorded for fiscal year 20X1.

TC 114

DR 3062 Prior Year Post-closing Adjustment	28,567,254	
CR 3600 GAAP Offset Expenditures (Services and Supplies)		28,567,254