

**Title: G&A105 PERIOD-END REVIEW & CLOSING**

**Policy:** An orderly, timely and comprehensive review of all general ledger accounts should be performed or directed by the Borough Treasurer to ensure an accurate representation of the Municipality's financial standing. These practices are aimed at proving that the financial accounts are accurate, and if not, are properly adjusted to make them accurate, prior to closing.

**Purpose:** To provide a general overview of the process to be completed for reviewing the accounting records at year-end or any particular month-end prior to closing.

**Scope:** These practices apply to all accounts. Typically, all financial accounts are reviewed and then closed out as of the Municipality's fiscal year-end. Consequently, the procedures that follow are discussed in reference to year-end review. However, a sub-set of these procedures is also applicable to month-end reviews. Month-end procedures are identified near the end of this module.

**Responsibilities:**

Borough Manager is responsible for reviewing all period-end adjustments & reconciliations to ensure the period-end financial statements accurately reflect the results of the Municipality's activities.

Borough Treasurer is responsible for generating all period-end activities to ensure the period-end financial statements accurately reflect the results of the Municipality's activities. The Treasurer should be familiar with the specific software procedures for keeping the prior year open until all final closing adjustments have been made and approved by the Borough manager.

Tax Clerk is responsible for creating and maintaining detailed tax ledgers to allow the Treasurer to reconcile to tax payments received.

Executive Assistant is responsible for creating and maintaining all lease agreements and keeping an updated detailed list of current agreements.

**Definition:** "Review" refers to the procedures involved in examining the financial statement balances at any given period to ascertain their accuracy.

"Closing" is the process of advancing from one month or period to the next or from one year to the next. In most computerized accounting systems the periods are closed by executing a menu command. Monthly closings usually involve nothing more than entering the next month and responding to the program's suggestion to print various month-end reports. Even after moving to the next month, many accounting systems allow the user to return to previous months to enter or edit transactions.

The yearly closing is more rigorous since it involves re-setting all revenue and expense accounts to zero. Once a year is "closed", some accounting

systems do not allow the user to go back or open a closed period to make changes. Once the period is closed, it is official and any adjustments that are required will need to be made in the current or next open period.

**Background:** The financial statement (Treasurer's Report) is the most important decision making tool for the Borough Manager, Assembly, and Mayor. It is comprised of bank & investment balances, special fund balances, balance sheet report, capital projects expense report, and the statement of revenue and expenditure.

The balance sheet accounts are measured at a moment in time, like a snapshot. They reflect a total of items at any particular time: a total of cash, accounts receivable, inventory, fixed assets, accounts payable, debts, investments and fund balances.

The statement of revenue and expenditure accounts are measured over a period of time. They represent the sum total of transactions: tax revenues, sales, purchases, payroll, etc. The difference in tax collections and sales less all related expenses equals the change in net assets for the period of time being measured.

Accounting is a double-entry system. Thus, each transaction has two equal sides. For example, paying an expense decreases cash on the balance sheet and increases an expense on the statement of revenue and expenditure. Getting paid for a service or sale increases cash on the balance sheet and increases revenue on the statement of revenue and expenditure. Because of this interdependency, the accuracy of the statement of revenue and expenditure is dependent upon the accuracy of the balance sheet.

It is easier to prove the accuracy of the balance sheet. Adding up how much each customer owes the Municipality or reconciling cash to the bank statement is a much simpler process than attempting to add up each individual sales transaction on the statement of revenue and expenditure. For this reason, more time is actually spent on proving the accuracy of the balance sheet.

Once the balance sheet is proven, the statement of revenue and expenditure, in total, must be right! The only errors would be misclassifications, (i.e.: the phone bill could be incorrectly posted to the rent expense account). The accounts of the statement of revenue and expenditure are generally reviewed for reasonableness by comparing amounts to prior periods and analyzing ratios. However, the accounts of the balance sheet are compared to actual totals of items counted (cash, receivables, inventory, payables, fixed assets, etc.).

The Borough Treasurer is encouraged to understand these concepts and to take the initiative to keep the financial statements as accurate as possible, regardless of how much an outside accounting service is utilized.

**Procedure:****1.0 CLOSINGS PREPARATIONS**

- 1.1 The steps to the actual period-end are not all performed on the exact end of the period. Some accounts cannot be "settled", proved, or reconciled until all third party information is received.

Bank statements from banks usually don't arrive until a couple weeks after a month end. And, many final payroll tax payments and yearly reconciliation forms aren't due until the end of the following month. Also needed are final bills from vendors, credit card statements, month end statements from vendors and year-end loan statements from banks and other financial institutions. All of this information is needed before an entity can truly "close its books".

Fortunately, most accounting systems allow an organization to continue posting transactions into subsequent months of the new year, without actually "closing" the previous year-end. The Borough Treasurer should be familiar with the specific software procedures for keeping the prior year open until all final closing adjustments have been made. It's not unusual for organizations to continue processing transactions for almost the entire next year before closing the prior year.

- 1.2 Compile all period-end documents in preparation for closing the accounting period. These documents include:

- Bank statements to all accounts
- Final payroll and tax amounts
- All final bills and month-end statements from vendors
- All credit card statements
- All year-end loan or debt statements
- All asset acquisition and disposition transactions

- 1.3 Fewer procedures are performed at month-end dates. For example, due to the cost involved, a complete physical inventory is rarely taken each month, although some businesses do take physical inventory every three or six months. At a minimum the following procedures would be expected for monthly closings:

- Reconcile all bank accounts
- Print and compare the aged receivables and payables to the general ledger. Make appropriate adjustments to balance the accounts.
- Review all balance sheet and statement of revenue and expense accounts for completeness
- Retain all above reports in a monthly summary file.

**2.0 BALANCE SHEET: ASSETS**

- 2.1 Prepare a year-end closing file to store all reconciliation documents and printed reports as described below.

- 2.2 **Cash accounts** - prepare the bank reconciliations for year-end balances per the bank statement to the balance per books for each account. The year-end

reconciliation is especially important for preparing the final year-end financial statements to ensure that it is completely accurate.

Show origination dates and description of each reconciling item. Prepare the necessary journal entries to adjust to the reconciliations. Prepare a summary of all petty cash and change drawer funds. Totals must agree with the general ledger. File all reconciliation reports in the year-end closing file.

- 2.3 **Accounts Receivable** – Print a detailed aged accounts receivable report and then reconciles it to the General Ledger. This can be prepared as soon as all invoicing for products sold as of year-end is complete. Calculate possible allowances for uncollectible accounts. Adjust prior allowances to calculated amount. Write off any un-locatable differences. Retain a complete copy of the detailed accounts receivable, along with any reconciling adjustments in the year-end closing file.

- 2.4 **Inventory** - Once the results of the physical inventory have been compiled and entered into the accounting system, print out a full inventory valuation report showing quantities on hand and cost values, in accordance with practices described in INV102 INVENTORY COUNTS procedure. Review the inventory report for unusual variations and investigate, as appropriate.

Once all discrepancies have been examined and adjusted, the report totals should agree with the general ledger balance. If not, post the necessary adjustments to the inventory account. File the inventory count/value reports and any related adjustment sheets in the year-end closing file.

- 2.5 **Capital Assets** - The Treasurer maintains the Municipality's detailed listing of assets. The Borough Treasurer reviews expenditures within the accounting system that comply with the capitalization policy and determines what items to add to the list during the year-end process. The Treasurer may be assisted by a professional accounting firm retained by the Municipality.

- 2.6 **Other Assets** - Other assets include grant receivables and amounts due from other Borough funds. These should all be identified and documented. For example, a schedule showing grant receivable by grant number or a reconciling schedule of all Due to/from accounts for all funds. File copies of these documents in the year-end closing file.

### 3.0 **BALANCE SHEET: LIABILITIES AND STOCKHOLDERS' EQUITY**

- 3.1 Liabilities are shown as the amount to be paid in the subsequent period. If in doubt, record the liability.

- 3.2 **Accounts Payable** - Print a detailed aged accounts payable report and reconcile it to the general ledger. This is generally completed 2 to 4 weeks after the year-end to ensure that all vendor invoices relating to services and merchandise purchased have been received and entered.

Compare all month-end vendor statements to balances per accounts payable and investigate any differences. Consider making adjustments for any significant unrecorded liabilities such as work started prior to year-end, but not yet billed by

the supplier. Retain a complete copy of the accounts payable detail, along with any reconciling adjustments, in the year-end closing file.

- 3.3 **Accrued Expenses** - Review and record, as needed, accruals for payroll tax, payroll deductions payable, departmental expenses, interest expense on short-term borrowings and long-term debt. Determine the cost of tax and legal services through year-end and record.
- 3.4 **Debt** - Verify recorded accuracy of debt by ensuring the general ledger balances agree to year-end statements from lending institutions. Save all year-end statements in year-end closing file.
- 3.5 **Contingent Liabilities and Commitments** - Prepare a schedule of any outstanding litigation and possible losses. Prepare a schedule of all long-term rental agreements with amounts due by year for the next five years. Retain these schedules in the year-end closing file

#### **4.0 STATEMENT OF REVENUE AND EXPENDITURE: REVENUES**

- 4.1 Each department will supply City Hall with a sales (deposit) report on a weekly, bi-monthly, or monthly basis in the form of an excel file. Other sales reports, for transactions conducted at City Hall, will be generated from the accounting system on a monthly basis. There may be a variety of collections, including membership sales, land payments, taxes received (sales, short-term rental, property), donations, grant revenues, service revenues, and utility revenue.
- 4.2 The Treasurer should review tax revenue, land payments, and grant receipts on a monthly basis and reconcile to the balance sheet accounts (deferred revenue and grant receivable). Ensure that the proper amounts are recognized as revenues in the correct period.
- 4.3 **Lease Income** - At year-end, a schedule of all lease income by fund should be prepared and reconciled to the lease schedule maintained by the Executive Assistant.
- 4.4 **CPV Excise Tax Receipts** – The Treasurer maintains a schedule of all Commercial Passenger Vessel (CPV) excise tax funds used or received for agreement with the general ledger accounts.
- 4.5 **Property Tax** - The Tax Clerk will prepare and maintain a listing of all municipal property showing owner, parcel number, exemptions & discounts, and tax due.
- 4.6 **Sales and Short-Term Rental Tax** - The Tax Clerk will prepare and maintain a listing of all sales and short-term rental tax received on a quarterly basis. This listing will include the business name, business number, revenues reported, exemptions claimed, tax assessed, date received, and interest or penalties applied to late returns. These amounts are recorded directly from each business tax return.

#### **5.0 STATEMENT OF REVENUE AND EXPENDITURE: EXPENSES**

- 5.1 Each expense total should be compared to the current budget total as well as the expense total from the year before. The Treasurer should work with each

department head to attempt to explain any unusual variances. Some expense items are directly related to asset or liability accounts and can be reconciled in conjunction with the related balance sheet account.

- 5.2 **Payroll** - At year-end, the various payroll expense accounts should agree to total gross payroll per payroll reports. Account for all deductions for W-3 reported to the Social Security Administration, as well as FICA and other taxes reported accordingly.
- 5.4 **Bad Debt Expense** - Prepare a list of all accounts written off during the year. Note specifically any addition to the allowance for uncollectible accounts.
- 5.5 **Legal Expense** - Prepare a schedule of all legal expenses by each firm showing fees paid to each attorney as well as allocations to each different fund.

**Revision History:**

<b>Revision</b>	<b>Date</b>	<b>Resolution #</b>	<b>Description of changes</b>	<b>Prepared By</b>
0	12/06/12	RES#13-01R	Initial Release	Heather Rodig
1	03/01/18	RES#18-03R	Review & update Language	Heather Rodig
2	06/17/21	RES#21-20R	Review & update language	Heather Rodig
3	12/07/23	RES#23-33R	Review & update language	Heather Rodig

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