

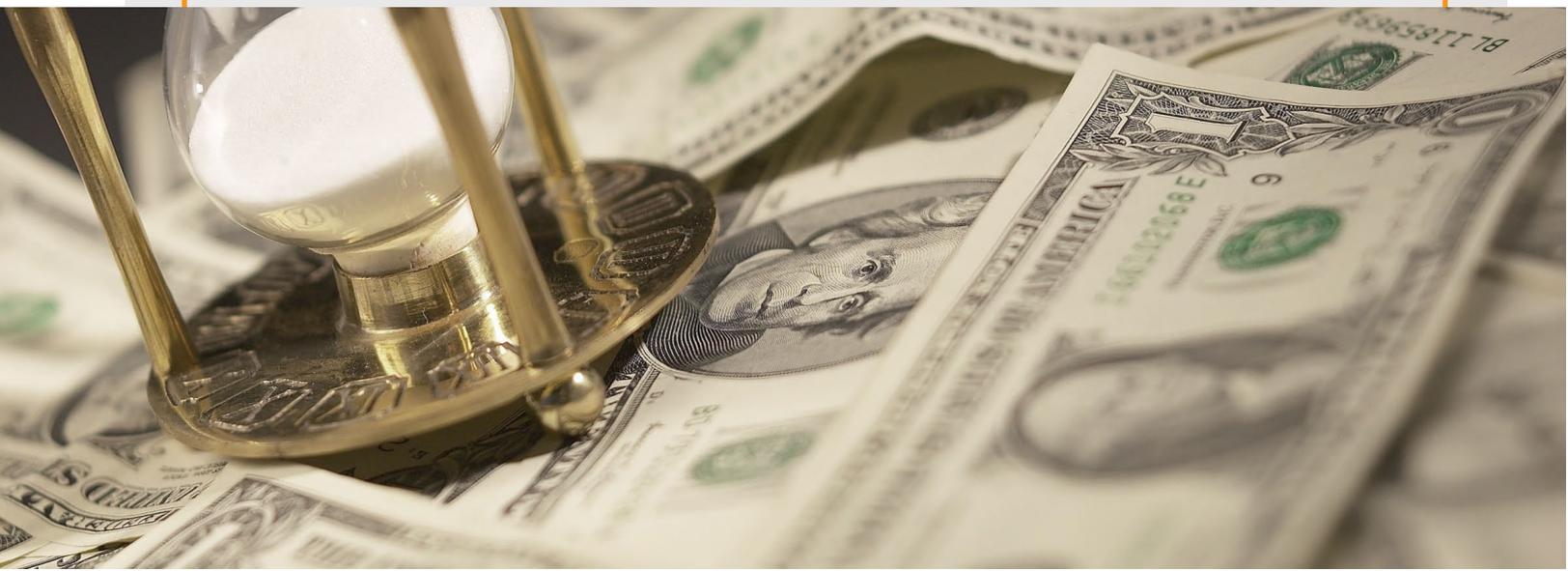


Municipal Technical Advisory Service
INSTITUTE for PUBLIC SERVICE

General Standard Operating Procedures for Financial Closing at Year- End

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Introduction

The process of closing the books for the year is just that, a process. It is an ongoing process. To efficiently close the books by the end of August, the books should be kept current and accurate. In other words, monthly reconciliations are a crucial part of the year-end close, because much less research and work will be required if errors, adjustments and routine items are reconciled monthly. It makes the year-end process much less time consuming.

This document should be a general guideline as every city will have different processes and general ledger accounts. This guide is simply a tool to facilitate the process and provide a systematic approach. The process must be repeated for every fund.

This guide also includes an accompanying [“Fiscal Year-End Checklist for Closing and Annual Audit” spreadsheet](#).

The first step is to print a trial balance at June 30 for the year that is being closed for each fund. This will show the June 30 balance in each account. This process will largely entail proving every asset, deferred outflow, liability, deferred inflow and equity (fund balance or net position) account for each fund. A review of revenue and expenditure (or expense) accounts is also necessary to assess accuracy and correct posting.

Each municipality should have a copy of the auditor’s adjusted trial balance for the prior year, as well as the auditor’s adjusting entries.

Fund Balances or Net Position

The total of all equity accounts should agree to the prior year audit balance. If they do not make sure the auditor’s adjusting entries for the prior year have been posted

to the accounts. The prior fiscal year should be closed so only assets, liability and equity accounts can be adjusted. Revenue and expenditure (expense) accounts cannot be posted to because they were closed when the prior year was closed. While the prior year *Statement of Revenues, Expenditures and Changes in Fund Balance* from the audited financial statements will likely only show one number for equity, the *Balance Sheet* will show each category, and these should agree. The trial balance equity accounts should also match these. Typically, the only entries that should be made to the equity accounts throughout the year are the auditor's prior year adjusting entries. Be on the lookout for incorrectly posted items such as old checks previously written off to fund balance.

If the equity accounts do not agree to the prior year audited financial statements, it is crucial to find the difference and correct any entries that were made incorrectly. Start by looking at the trial balance YTD debits and credits for all equity accounts (fund balances) by generating an account analysis for all fund balance accounts. This will show each entry made throughout the year. If there are entries other than auditor adjustments, an entry should probably be made to reclassify these to other accounts. If the numbers are small, you could use miscellaneous income or expenditures. You may want to discuss it with your auditor if you feel the numbers are material.

Asset Accounts

Notice on the trial balance that there are typically two to four types of assets, depending on the fund type. These are:

CASH

There may be one or two, or several accounts including petty cash, savings and checking accounts, and LGIP or other investment accounts.

ACCOUNTS RECEIVABLE

There may be several of these, and they may have different names, such as *Due From other Governments*, *Due From other Funds*, *Property Taxes Receivable* (may have current year and prior years and a contra asset account called "Estimated

Uncollectible Taxes”).

LEASE RECEIVABLES, INTEREST RECEIVABLE, PREPAID EXPENDITURES (EXPENSES) AND INVENTORY

These assets may also be a part of your balance sheet. A review of the prior year audit would be a good starting point to see if these amounts were present in the prior year.

PREPAID EXPENDITURES (EXPENSES)

These prepaid expenses would occur if expenditures (expenses) for the following year were paid in the year you are closing.

CAPITAL ASSETS

If working with an accrual-based fund such as utilities there may be several accounts that typically do not appear in the modified accrual-based funds (General Funds, State Street Aid, Drug Fund, Capital Project Funds), such as **capital asset accounts**, and these have a variety of names. There should also be an account for **accumulated depreciation**.

INTEREST RECEIVABLE

There may also be **interest receivable**. Depending on the size of the city there may be more or less than those noted here.

For **every** asset account you will need to *prove*, you will need to be able to substantiate and back up every account balance. This is usually done by a source document. Here are some examples to illustrate these source documents.

Cash

A reconciled bank statement is the best source document. If there are accounts with little activity such as Local Government Investment Pool (LGIP) or Certificate of Deposits (CD's), a June 30 statement may be sufficient as long as there are no reconciling items. Common reconciling items occur when 1) items appear on the books that are not on a statement (a deposit in transit or an outstanding withdrawal/check), or 2) items that are on the statement that are not on the books

(most commonly interest income and bank fees). These are typically called *timing differences* but could also mean that a bookkeeping error has occurred. It may be that something was not *booked* meaning that for example, no journal entry was made to include it in the books or maybe interest income and bank fees were not recorded. It could also mean that an entry was made but made to the wrong account. An account analysis should be matched to the bank statement.

Bank accounts used frequently must be reconciled monthly. **It is crucial** to reconcile monthly, as books and balances will not be accurate if not reconciled timely. It is very difficult to go back several months and work forward. Once an accurate June 30 bank reconciliation has been completed, it should agree to your trial balance.

Accounts Receivable

As noted above, receivables can have more than one account title. They represent monies the city has earned and can measure, and in the case of governmental funds will be collected within the period of availability (usually 60 days, or August 31).

These are usually classified as follows:

Property Taxes Receivable

These assets can further be classified as delinquent or subsequent year taxes. For delinquent taxes, most government software systems that use property tax software can generate a report for the past ten years, by year of taxes due. If the city does not have this capability you will have to manually calculate the taxes owed. This would include a listing from the tax rolls and/or tax forms for property taxes not yet paid. The city can only collect the past ten years of delinquent taxes.

For subsequent year taxes call the county property assessor and ask for an *assessment summary*, a two-page document that has the most up-to-date property listings for the city in summary form. It will show the assessed value for two of the three types of property taxes: real property and personal property. If the city is not in a reappraisal year and has an apportionment (equalization) ratio this should already be factored into the numbers reflected on the summary. You will have to do some simple math, dividing assessed value by 100 then multiplying by your property tax rate to determine the subsequent year receivable for the June 30 financial

statements.

Once that has been calculated, ad valorem taxes (public utility taxes) will still need to be added to the total. Since these are calculated by the state, you typically do not receive the amount until after the year is closed. Find the amount for the prior year, either in the document sent by the state, or online and add this to the real and personal tax total. This total will be what you adjust your year-end subsequent year property tax receivable to. Check the number to the audited number from the prior year. Unless there was a very large increase in new properties, or a huge decrease (these are not common), the current year total should not vary widely from the prior year. If it does it may require further investigation. The auditors will adjust to the actual number which typically is available when they perform the audit.

Due from Other Governments

These assets can come in various forms, but primarily the largest amounts will be from state shared revenues and grants. If the city uses a 60-day period of availability, then you will need to reflect the July and August amounts as a receivable at June 30. You should have the July numbers but you may have to estimate August. If you carried the previous year's receivables all year long you would simply adjust to the new amounts.

If grant revenue was earned at June 30, in other words the city met all the requirements to receive the money, yet the grantor has not yet reimbursed the city at June 30 you will have a receivable.

You typically would also have a receivable for two months from the county trustee for your portion of the local sales tax. Other receivables may include one month of local beer tax and wholesale liquor tax.

Each city is different and has a variety of receivables. Look over the trial balance, as well as the auditor's adjusted trial balance for the preceding year to see if there are any receivables you may not be accounted for. Receivables are simply the way to account for earned revenue for which we have not received the money at June 30.

Any earned revenue not collected by June 30 would be considered a receivable.

Prepaid Expenses

A common example is insurance including property, liability and workers' compensation insurance. Review the latest invoices paid to the insurance company.

Note the policy period: if that period extends into the following year, but it was paid in the current year the portion that applies to the following year is prepaid. For example, if a policy period is April 1, 2025 - March 31, 2026, and the invoice was paid in May or June of the current year, nine months was prepaid.

Inventory

In governmental accounting, inventory is not typically held for resale as in the private sector, rather it is held for the city's own use. Therefore, it is recorded at cost, and one of two methods (purchases or consumption) is used to account for it. It is common for enterprise funds to have inventory but not as common in the governmental funds. This may require a physical count at June 30, with an adjustment made to the new total cost of inventory.

Liability Accounts

There are typically a number of liability accounts for most cities as illustrated below.

ACCOUNTS PAYABLE

Almost every local government has expenditures (expenses) that are owed at June 30 but are not paid until after that date. This would include invoices for goods and services, utility bills and many other possibilities. If the city incurred the liability - received the goods or services by June 30 but had paid by June 30 the recording of the expenditure (expense) should be in the year incurred, not the year paid. A thorough review of all invoices paid in July and even August is necessary to see if they were owed at June 30. While determining when goods or services were received may be obvious in many cases that is not always the case.

The accounts payable for the prior fiscal year should have been charged against the

accounts payable accounts when paid if properly reported at the prior year June 30. If the auditor made an adjustment, then the payables still need to be reflected in the prior year expenditures (expenses) and NOT the current year closed. A detailed list of every invoice owed at June 30 of the current year should be made, showing the proper expenditure (expense) account. The total should be debited to the correct account and credited to accounts payable. The balance of accounts payable should only be what was owed in the respective funds at June 30.

OTHER PAYABLES

There are numerous other payables a city could owe at June 30 such as:

- payroll taxes,
- sales taxes collected on water sales,
- retirement, employee insurance, other employee paycheck withholdings such as child support, garnishments, or bankruptcy court payments, or
- accrued interest owed on debt.

These liabilities should reflect the correct balance at June 30. A review of the auditor adjusted trial balance for the prior year may show liability accounts that also need to be adjusted for the current year-end.

Once all asset, liability and equity accounts are reviewed and adjusted and it appears that the balances accurately reflect the correct balances at June 30, compile the backup documentation in account order for each account. The goal is to easily justify to the auditors the balances and how they were derived. Good workpapers should support the numbers.

Revenue and Expenditure (Expense) Accounts

While much of the focus is on the balance sheet accounts noted above, a review of all revenue and expenditure (expense) accounts should be made as well. Here are a few things to look for:

REVENUES

Compare your current year balances to the prior year auditor adjusted trial balance

numbers. If you see large differences an account analysis should be run to see if something has been miscoded. While there are good reasons why numbers could vary significantly, accounts such as state shared sales tax and gas and motor fuel taxes typically do not vary that much.

Do the revenue accounts all have credit balances? Normally a revenue account does not have a debit balance. Any numbers that look odd should be looked at closer. Miscellaneous accounts should not have very large balances. Sometimes entries are added to these accounts with the anticipation of going back later and reclassifying transactions to more appropriate accounts, but often that process may be overlooked.

EXPENDITURES (EXPENSES)

The same principles apply as with revenues; except they should have debit balances. Payroll taxes in most instances should approximate 7.65% of combined wage and salaries lines (if you have a cafeteria plan with pretax items payroll taxes will be less). Look for anything that just doesn't look reasonable.



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