Continuous Problem – City of Monroe

Chapters 2 through 8 describe accounting and financial reporting by state and local governments. A continuous problem is presented to provide an overview of the reporting process, including preparation of fund basis and government-wide statements. The problem assumes the government is using fund accounting for its internal record-keeping and then at year-end makes necessary adjustments to prepare the government-wide statements. The problem that follows is presented in the same order as the textbook (beginning with Chapters 3, and 4).

Each chapter requires the preparation of journal entries to record the events and transactions of governmental, proprietary, or fiduciary funds. For the General Fund, use control accounts for the budgetary accounts, revenues, expenditures and encumbrances. For all other funds, use separate accounts for each type of revenue and expenditure/expense. At appropriate stages, preparation of the fund and government-wide statements are required. The following funds are included in this series of problems:

Governmental Funds
- General
- Special revenue—Street and Highway Fund
- Capital projects—City Hall Annex Construction Fund
- Debt service—City Jail Annex Debt Service Fund
- Debt service—City Hall Debt Service Fund

Proprietary Funds
- Internal service—Stores and Services Fund
- Enterprise—Water and Sewer Fund

Fiduciary Funds
- Private-purpose—Student Scholarship Fund
- Pension trust—Fire and Police Retirement Fund

Chapters 3 & 4

The Balance Sheets of the General Fund and the Street and Highway Fund of the City of Monroe as of December 31, 2014, follow. These (beginning) balances have been entered in the proper general ledger accounts, as of 1/1/2015.
CITY OF MONROE  
General Fund Balance Sheet  
As of December 31, 2014

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$502,000</td>
</tr>
<tr>
<td>Taxes receivable</td>
<td>$210,000</td>
</tr>
<tr>
<td>Less: Estimated uncollectible taxes</td>
<td>(42,000)</td>
</tr>
<tr>
<td>net</td>
<td>168,000</td>
</tr>
<tr>
<td>Interest and penalties receivable on taxes</td>
<td>5,200</td>
</tr>
<tr>
<td>Less: Estimated uncollectible interest and penalties</td>
<td>(950)</td>
</tr>
<tr>
<td>net</td>
<td>4,250</td>
</tr>
<tr>
<td>Due from state government</td>
<td>210,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$884,250</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities, Deferred Inflows, and Fund Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
</tr>
<tr>
<td>Accounts payable</td>
</tr>
<tr>
<td>Due to other funds</td>
</tr>
<tr>
<td>Total liabilities</td>
</tr>
<tr>
<td>Deferred inflows – Property taxes</td>
</tr>
</tbody>
</table>

| Fund equity:                                  |
| Fund balance—assigned                         | $17,000  |
| (for outstanding encumbrances)                |
| Fund balance—unassigned                       | 720,250  |
| Total fund balance                            | 737,250  |
| Total liabilities, deferred inflows and fund equity | $884,250 |

CITY OF MONROE  
Street and Highway Fund Balance Sheet  
As of December 31, 2014

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$21,000</td>
</tr>
<tr>
<td>Investments</td>
<td>59,000</td>
</tr>
<tr>
<td>Due from state government</td>
<td>109,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$189,000</td>
</tr>
</tbody>
</table>

| Liabilities and Fund Equity                 |
|---------------------------------------------|-------|
| Liabilities:                                |
| Accounts payable                            | $9,000 |

| Fund equity:                                |
| Fund balance—assigned for streets and highways | 180,000 |
| Total liabilities and fund equity            | $189,000 |
Continuous Problem – City of Monroe

3–C. This portion of the continuous problem continues the General Fund and special revenue fund examples by requiring the recording and posting of the budgetary entries. To reduce clerical effort required for the solution use control accounts for the budgetary accounts, revenues, expenditures and encumbrances. Subsidiary accounts are not required. Budget information for the City includes:

a) As of January 1, 2015, the City Council approved and the mayor signed a budget calling for $11,250,000 in property tax and other revenue, $9,300,000 in appropriations for expenditures, and $1,700,000 to be transferred to two debt service funds for the payment of principal and interest. Record the budget for the General Fund and post to the ledger.

b) Also as of January 1, 2015, the City Council approved and the mayor signed a budget for the Street and Highway Fund that provided for estimated revenues from the state government in the amount of $1,068,000 and appropriations of $1,047,000. Record the budget and post to the ledger.


Required:

a. Record journal entries for the following transactions for FY 2015. Make any computations to the nearest dollar. Journal entry explanations are not required. Use control accounts for revenues, expenditures and budgetary accounts. It is not necessary to reflect subsidiary ledger entries.

(1) Encumbrances of $17,000 for purchase orders outstanding at the end of 2014 were re-established.

(2) The January 1, 2015, balance in Deferred Inflows – Property Taxes relates to the amount of the 2014 levy that was expected to be collected more than 60 days after December 31. This amount should be recognized as 2015 revenues.

(3) A general tax levy in the amount of $6,800,000 was made. It is estimated that 2 percent of the tax will be uncollectible.

(4) Tax anticipation notes in the amount of $500,000 were issued.

(5) Goods and supplies related to all encumbrances outstanding as of December 31, 2014 were received, along with invoices amounting to $16,600; the invoices were approved for payment. The City maintains immaterial amounts in supply inventories and it is the practice of the City to charge supplies to expenditure when received.

(6) All accounts payable and the amount due other funds were paid.

(7) The General Fund collected the following ($10,811,500) in cash:

   o prior year taxes, $158,000;
   o interest and penalties receivable on prior year taxes, $3,500;
   o current taxes, $6,400,000;
   o $210,000 previously recorded as due from the state government;
   o licenses and permits, $800,000;
   o sales taxes, $2,890,000; and
   o miscellaneous revenues, $350,000.
(8) Purchase orders and contracts were issued in the amount of $3,465,000.
(9) Payrolls for the General Fund totaled $5,070,000. Of that amount, $498,000 were withheld for employees’ federal income taxes and $357,000 were withheld for employees’ FICA and Medicare tax liability; the balance was paid in cash. The encumbrance system is not used for payrolls.
(10) The liability for the city’s share of FICA and Medicare taxes, $357,000, was recorded as was the liability for state unemployment taxes in the amount of $28,000.
(11) Invoices for most of the supplies and services ordered in transaction 8 were received in the amount of $3,375,300 and approved for payment. The related encumbrance amounted to $3,407,000.
(12) Tax anticipation notes were paid at maturity, along with interest in the amount of $18,000.
(13) Notification was received that an unrestricted state grant in the amount of $332,000 would be received during the first month of the next year.
(14) The General Fund recorded a liability to the Water and Sewer Fund for services in the amount of $37,000 and to the Stores and Services Fund for supplies in the amount of $313,200; $310,000 of the amount due the Stores and Services Fund was paid.
(15) The General Fund recorded an amount due of $52,000 from the state government, representing sales taxes to be collected from retail sales taking place during the last week of the year.
(16) The General Fund paid accounts payable in the amount of $3,015,000 and paid the amounts due the federal and state governments. The General Fund also transferred to the debt service funds cash in the amount of $1,662,000 for the recurring payment of principal and interest.
(17) All required legal steps were accomplished to increase appropriations by the net amount of $212,000. Estimated revenues were increased by $73,000.
(18) The City Council authorized a write-off of $51,000 in delinquent property taxes and corresponding interest and penalties amounting to $1,600.
(19) Interest and penalties receivable on taxes were accrued in the amount of $17,200; $1,100 of this amount is expected to be uncollectible.
(20) It is estimated that $27,500 of the outstanding taxes receivable will be collected more than 60 days beyond the fiscal year-end.

b. Post the entries to the general ledger.

c. Prepare and post the closing entries for the General Fund. Outstanding encumbrances at year end are classified as Assigned Fund Balance and all remaining net resources are classified as Unassigned Fund Balance.

d. Prepare a Statement of Revenues, Expenditures, and Changes in Fund Balance for the year ended December 31, 2015. Confirm that the revenue and expenditure control accounts agree with the following detail and use this information in the Statement:
Revenues

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$6,657,500</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>$2,942,000</td>
</tr>
<tr>
<td>Interest and Penalties on Taxes</td>
<td>$16,100</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>$800,000</td>
</tr>
<tr>
<td>Intergovernmental Revenue</td>
<td>$332,000</td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>$350,000</td>
</tr>
<tr>
<td>Total</td>
<td>$11,097,600</td>
</tr>
</tbody>
</table>

Expenditures

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>$1,646,900</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$3,026,900</td>
</tr>
<tr>
<td>Highways and Streets</td>
<td>$1,441,400</td>
</tr>
<tr>
<td>Sanitation</td>
<td>$591,400</td>
</tr>
<tr>
<td>Health</td>
<td>$724,100</td>
</tr>
<tr>
<td>Welfare</td>
<td>$374,300</td>
</tr>
<tr>
<td>Culture and Recreation</td>
<td>$917,300</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>$492,800</td>
</tr>
<tr>
<td>Total</td>
<td>$9,215,100</td>
</tr>
</tbody>
</table>

e. Prepare in good form a Balance Sheet for the General Fund as of the end of fiscal year, December 31, 2015.

4–C. Part 2. Special Revenue Fund Transactions

Required:

a. Record journal entries for the following transactions for FY 2015 and post to the general ledger. As there are relatively few revenues and expenditures, the use of control accounts is not necessary. (Make entries directly to individual revenue and expenditure accounts).

   (1) The state government notified the City that $1,072,000 will be available for street and highway maintenance during 2015 (i.e. the City has met eligibility requirements). The funds are not considered reimbursement-type as defined by GASB standards.
   (2) Cash in the total amount of $985,000 was received from the state government.
   (3) Contracts, all eligible for payment from the Street and Highway Fund, were signed in the amount of $1,062,000.
   (4) Contractual services (see transaction 3) were received; the related contracts amounted to $1,043,000. Invoices amounting to $1,030,500 for these items were approved for payment. The goods and services all were for street and highway maintenance.
   (5) Investment revenue of $5,120 was earned and received.
   (6) Accounts payable were paid in the amount of $923,000.
   (7) All required legal steps were accomplished to increase appropriations in the amount of $4,500.

b. Prepare and post the necessary closing entries for the Street and Highway Fund.


d. Prepare a Balance Sheet for the Street and Highway Fund as of December 31, 2015. Assume any unexpended net resources are classified as Restricted Fund Balance.
Chapter 5


The voters of the City of Monroe approved the issuance of tax-supported bonds in the face amount of $4,000,000 for the construction and equipping of a new City Jail. Architects were to be retained, and construction was to be completed by outside contractors. In addition to the bond proceeds, a $1,320,000 grant was expected from the state government.

Required:
a. Open a general journal for the City Jail Annex Construction Fund. Record the following transactions and post to the general ledger. Control accounts are not necessary.

(1) On January 1, 2015, the total face amount of bonds bearing an interest rate of 8 percent was sold at a $200,000 premium. Principal amounts of $200,000 each will come due annually over a 20-year period commencing January 1, 2016. Interest payment dates are July 1 and January 1. The first interest payment will be July 1, 2015. The premium was transferred to the City Jail Debt Service Fund for the future payment of principal on the bonds.

(2) The receivable from the state government was recorded.

(3) Legal and engineering fees early in the project were paid in the amount of $116,000. This amount had not been encumbered.

(4) Architects were engaged at a fee of $250,000.

(5) Preliminary plans were approved, and the architects were paid 20 percent of the fee.

(6) The complete plans and specifications were received from the architects and approved. A liability in the amount of $120,000 (60% of the contract) to the architects was approved and paid.

(7) Bids were received and opened in public session. After considerable discussion in City Council, the low bid from Hardhat Construction Company in the amount of $4,500,000 was accepted, and a contract was signed.

(8) The contractor required partial payment of $1,350,000. Payment was approved and vouchedered with the exception of a 5 percent retainage.

(9) Cash in the full amount of the grant was received from the state government.

(10) Furniture and equipment for the annex were ordered at a total cost of $439,500.

(11) Payment was made to the contractor for the amount payable (see 8 above).

(12) The contractor completed construction and requested payment of the balance due on the contract. After inspection of the work, the amount, including the past retainage, was approved for payment and then paid.

(13) The furniture and equipment were received at a total actual installed cost of $439,300. Invoices were approved for payment.

(14) The remaining 20% of the architects’ fees was approved for payment.

(15) The City Jail Construction Fund paid all outstanding accounts payables ($489,300) on December 31, 2015.

(16) The remaining cash was transferred to the City Jail Debt Service Fund.
b. Post the entries to the City Jail Construction Fund general ledger.

c. Prepare and post an entry closing all nominal accounts to Fund Balance.

5–C. Part 2. Existing Debt Service Fund Transactions

The City Hall Debt Service Fund of the City of Monroe has been open for five years; it was created to service an $16,000,000, 3 percent tax-supported bond issue. As of December 31, 2014, this serial bond issue had a balance of $12,000,000. Semiannual interest payments are made on January 1 and July 1, and a principal payment of $400,000 is due on January 1 and July 1 of each year.

As this is a regular serial bond debt service fund, the only accounts with balances as of January 1, 2015, were Cash with Fiscal Agent and Fund Balance—Assigned for Debt Service, each with balances of $580,000. (Revenues were raised and collected in cash in 2014 in order to be able to pay bond principal and interest due on January 1, 2015.) The government chose not to accrue interest payable.

Required:

a. Open a general journal for the City Hall Debt Service Fund and prepare journal entries for the following transactions. Control accounts are not necessary

(1) The fiscal agent reported that $180,000 in checks had been mailed to bondholders for interest due on January 1, and $400,000 in checks were mailed for bonds maturing that day.

(2) Cash in the amount of $574,000 was received from the General Fund on June 30 and was transferred to the fiscal agent.

(3) The fiscal agent reported that checks dated July 1 had been mailed to bondholders for interest of $174,000 due that day and $400,000 in checks were mailed for bonds maturing that day.

(4) Cash in the amount of $568,000 was received from the General Fund on December 31 and transferred to the fiscal agent to be used for the interest and principal due on January 1 (next fiscal year). The government elected to not accrue the interest or principal at year-end.

b. Post the entries to the City Hall Debt Service Fund ledger (t-accounts).

c. Prepare and post an entry closing all nominal accounts to Fund Balance.

On the advice of the city attorney, a City Jail Debt Service Fund is opened to account for debt service transactions related to the bond issue sold on January 1, 2015 (see Part 1).

Required:
a. Open a general journal for the City Jail Debt Service Fund. Record the following transactions, as necessary. Control accounts are not necessary
   (1) The premium described in transaction 1 of Part 1 was received as a transfer from the capital projects fund.
   (2) Cash in the amount of $160,000 was received from the General Fund on June 30 and was transferred to the fiscal agent.
   (3) The fiscal agent reported that checks dated July 1 had been mailed to bondholders for interest due that day.
   (4) The transfer described in part c of Part 1 was received.
   (5) Cash in the amount of $360,000 was received from the General Fund on December 31 and transferred to the fiscal agent to be used for interest and principal payments due on January 1 (next fiscal year). The government elected to not accrue the interest at year-end.
   (6) $200,000 of the remaining cash on hand was invested.

b. Post the entries to the City Jail Debt Service Fund ledger (t-accounts).

c. Prepare and post an entry closing all nominal accounts to Fund Balance. Assume any remaining net resources are classified as Fund Balance – Assigned for Debt Service.

5–C. Part 4. Governmental Funds Financial Statements

Required:
a. Prepare a Balance Sheet for the governmental funds for the City of Monroe as of December 31, 2015. Include the General Fund, the Street and Highway Fund (P4–C), the City Hall Debt Service Fund, and the City Jail Debt Service Fund. Use the balances computed in 4-C for the General Fund and special revenue fund portions of this statement.

b. Prepare a Statement of Revenues, Expenditures, and Changes in Fund Balances for the governmental funds for the City of Monroe for the Year Ended December 31, 2015. Include the same funds as listed in requirement a plus the City Jail Construction Fund.
Chapter 6 – Proprietary Funds

6–C. Part 1. Internal Service Fund Transactions

The Stores and Service Fund of the City of Monroe had the following account balances as of January 1, 2015:

<table>
<thead>
<tr>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash $31,000</td>
<td></td>
</tr>
<tr>
<td>Due from other funds 27,000</td>
<td></td>
</tr>
<tr>
<td>Inventory of supplies 27,500</td>
<td></td>
</tr>
<tr>
<td>Land 18,000</td>
<td></td>
</tr>
<tr>
<td>Buildings 84,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation—buildings $33,000</td>
<td></td>
</tr>
<tr>
<td>Equipment 46,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation—equipment 25,000</td>
<td></td>
</tr>
<tr>
<td>Accounts payable 19,000</td>
<td></td>
</tr>
<tr>
<td>Advance from water utility fund 30,000</td>
<td></td>
</tr>
<tr>
<td>Net assets 126,500</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$233,500 $233,500</strong></td>
</tr>
</tbody>
</table>

Required:

*a.* Open a general journal for the City of Monroe Stores and Service Fund and record the following transactions.

1. A budget was prepared for FY 2015. It was estimated that the price charged other departments for supplies should be 1.25% of cost to achieve the desired breakeven for the year.
2. The amount due from other funds as of January 1, 2015, was collected in full.
3. During the year, supplies were ordered and received in the amount of $303,500. This amount was posted to accounts payable.
4. $15,000 of the advance from the Water Utility Fund, originally provided for construction, was repaid. No interest is charged.
5. During the year, supplies costing $250,560 were issued to the General Fund, and supplies costing $46,400 were issued to the Water Utility Fund. These funds were charged based on the previously determined markup ($313,200 to General Fund and 58,000 to the Water Utility Fund).
6. Operating expenses, exclusive of depreciation, were recorded in accounts payable as follows: Purchasing, $15,000; Warehousing, $16,000; Delivery, $17,500; and Administrative, $9,200.
7. Cash was received from the General Fund in the amount of $310,000 and from the Water Utility Fund in the amount of $50,000.
8. Accounts payable were paid in the amount of $355,700.
9. Depreciation in the amount of $11,000 was recorded for buildings and $4,600 for equipment.
b. Post the entries to the Stores and Service Fund ledger (t-accounts).

c. Prepare and post an entry closing all nominal accounts to Net Assets. Compute the balance in the net asset accounts, assuming there are no Restricted Net Assets.

6–C. Part 2. Enterprise Fund Transactions

The City of Monroe maintains a Water and Sewer Fund to provide utility services to its citizens. As of January 1, 2015, the City of Monroe Water and Sewer Fund had the following account balances:

<table>
<thead>
<tr>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$105,000</td>
</tr>
<tr>
<td>Customer Accounts Receivable</td>
<td>77,000</td>
</tr>
<tr>
<td>Estimated Uncollectible Accounts Receivable</td>
<td>$4,000</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>28,000</td>
</tr>
<tr>
<td>Advance to Stores and Services Fund</td>
<td>30,000</td>
</tr>
<tr>
<td>Restricted Assets</td>
<td>117,000</td>
</tr>
<tr>
<td>Water Treatment Plant in Service</td>
<td>4,200,000</td>
</tr>
<tr>
<td>Construction Work in Progress</td>
<td>203,000</td>
</tr>
<tr>
<td>Accumulated Depreciation - Utility Plant</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>97,000</td>
</tr>
<tr>
<td>Revenue Bonds Payable</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Net Assets</td>
<td>959,000</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$4,760,000</strong></td>
</tr>
</tbody>
</table>

Required:

a. Open a general journal for the City of Monroe Water and Sewer Utility Fund and record the following transactions.

(1) During the year, sales of water to non-government customers amounted to $1,002,000 and sales of water to the General Fund amounted to $37,000.

(2) Collections from non-government customers amounted to $962,000.

(3) The Stores and Services Fund repaid $15,000 of the long-term advance to the Water and Sewer Fund.

(4) Materials and supplies in the amount of $257,000 were received. A liability in that amount was recorded.

(5) Materials and supplies were issued and were charged to the following accounts: cost of sales and services, $164,900; selling, $15,000; administration, $18,000; construction work in progress, $50,000.

(6) Payroll costs for the year totaled $416,200 plus $34,200 for the employer’s share of payroll taxes. Of that amount, $351,900 was paid in cash, and the remainder was withheld for taxes. The $450,400 (416,200 + 34,200) was distributed as follows: cost of sales and services, $265,800; sales, $43,900; administration, $91,400; construction work in progress, $49,300.
(7) Bond interest (6½%) in the amount of $162,500 was paid.
(8) Interest in the amount of $17,000 (included in 7 above) was reclassified to Construction Work in Progress.
(9) Construction projects at the water treatment plant (reflected in the beginning balance of construction in process) were completed in the amount of $203,000, and the assets were placed in service. Payments for these amounts were made in the previous year (no effect on 2015 Statement of Cash Flows).
(10) Collection efforts were discontinued on bills totaling $3,020. The unpaid receivables were written off.
(11) An analysis of customer receivable balances indicated the Estimated Uncollectible Accounts needed to be increased by $5,500.
(12) Payment of accounts payable amounted to $297,900. Payments of payroll taxes totaled $95,200.
(13) Supplies transferred from the Stores and Services Fund amounted to $58,000. Cash in the amount of $50,000 was paid to the Stores and Services Fund for supplies.
(14) Depreciation expense for the year was computed to be $275,000.
(15) In accord with the revenue bond indenture, $25,000 cash was transferred from operating cash to restricted assets.

b. Post the entries to the Water and Sewer Fund ledger (t-accounts).

c. Prepare and post an entry closing all nominal accounts to Net Assets. Compute the balance in the net asset accounts, assuming the only restricted assets are those identified with the bond indenture and the outstanding bonds are associated with the purchase of capital assets.

6–C. Part 3. Proprietary Fund Financial Statements

Required:
Prepare, in good form, for the proprietary funds accounted for in Parts 1 and 2, the following:


(2) A Statement of Net Assets, as of December 31, 2015.

(3) A Statement of Cash Flows for the Year Ended December 31, 2015. Include restricted assets as a part of cash and cash equivalents for this statement. (Assume any materials and labor attributable to construction in process were paid by year end).
Chapter 7 – Fiduciary Funds

7–C. Part 1. Private Purpose Trust Fund Transactions

The City of Monroe Scholarship Foundation private-purpose trust fund had the following account balances on January 1, 2015:

<table>
<thead>
<tr>
<th></th>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 49,500</td>
<td></td>
</tr>
<tr>
<td>Accrued Interest Receivable</td>
<td>7,500</td>
<td></td>
</tr>
<tr>
<td>Investments in Corporate Bonds</td>
<td>750,000</td>
<td></td>
</tr>
<tr>
<td>Net Assets Held in Trust</td>
<td></td>
<td>$ 807,000</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>$ 807,000</td>
</tr>
</tbody>
</table>

Required:

a. Open a general journal for the City of Monroe Community Foundation Trust Fund and record the following transactions for the year ending December 31, 2015:

   (1) On May 1, the first semiannual interest payment was received on the corporate bonds. The bonds pay 6 percent annual interest, semiannually on May 1 and November 1.
   (2) During the first half of the year, additional contributions from individuals and foundations amounted to $206,026, in cash. From these funds, $200,000 were invested in RST Corporation stock on June 15.
   (3) On November 1, the second semiannual interest payment was received from the investment in bonds.
   (4) On November 15, a dividend was declared by RST Corporation in the amount of $4,000 and was received in cash.
   (5) On December 1, RST Corporation stock was sold for $203,500 cash. Those funds were immediately invested in UVW Corporation stock.
   (6) On December 15, cash scholarships in the amount of $50,000 were made to various college students.
   (7) On December 31, an accrual was made for year-end interest on the corporate bonds.
   (8) Also, on December 31, it was determined that the market value of the corporate bonds, exclusive of accrued interest, was $752,100 and that the market value of UVW Company stock was $199,000.

b. Post the entries to the Community Foundation Trust ledger (t-accounts).

c. Prepare and post an entry closing all nominal accounts to Net Assets.

7–C. Part 2. Pension Trust Fund Transactions

The City of Monroe Police Department pension plan, a single-employer, defined-benefit plan, reported the following account balances as of January 1, 2015:
### Continuous Problem – City of Monroe

<table>
<thead>
<tr>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$140,000</td>
</tr>
<tr>
<td>Accrued Interest Receivable</td>
<td>72,000</td>
</tr>
<tr>
<td>Investments: Bonds</td>
<td>5,300,000</td>
</tr>
<tr>
<td>Investments: Common Stock</td>
<td>2,790,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$27,000</td>
</tr>
<tr>
<td>Net Assets Held in Trust for Employee Benefits</td>
<td>8,275,000</td>
</tr>
<tr>
<td>Totals</td>
<td>$ 8,302,000</td>
</tr>
</tbody>
</table>

**Required:**

**a.** Open a general journal for the City of Monroe Police Department Pension Trust Fund and record the following transactions for the year ending December 31, 2015:

1. Member contributions were received in the amount of $400,000. The City General Fund contributed the same amount.
2. Interest was received in the amount of $386,900, including the accrued interest receivable at the beginning of the year. The interest accrual at year end amounted to $86,000.
3. During the year, common stock dividends amounted to $125,000.
4. Investments were made during the year in common stock in the amount of $575,000.
5. Annuity benefits in the amount of $377,400, disability benefits of $82,020 and refunds to nonvested terminated employees of $39,800 were recorded as liabilities.
6. Accounts payable, in the amount of $507,500, were paid in cash.
7. During the year, common stock valued at $505,000 was sold for $506,800. A portion of these funds, $502,000 were invested in common stock of a different company.
8. At year-end, the market value of investments in bonds increased by $12,750; the market value of investments in stocks decreased by $5,770.

**b.** Post the entries to the Police Department Pension Trust ledger (t-accounts).

**c.** Prepare and post an entry closing all nominal accounts to Net Assets.

### 7–C. Part 3. Fiduciary Fund Financial Statements

**Required:** Using the balances from Parts 1 and 2 prepare the following:

2. Statement of Fiduciary Net Assets
8–C. Assemble the following from previous continuous problems: (1) the governmental funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances from Section 5–C; (3) the proprietary funds Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets from Section 6–C.

**Required:**

1. Start a worksheet for adjustments, using the trial balance format illustrated in the text (i.e. list accounts with debit balances first, then accounts with credit balances). Enter the balances from the governmental funds financial statements prepared for Section 5-C. When doing this, follow the following guidelines:

   - **Net Assets:** Use a single account for net assets (which will include the beginning balance of all fund balance accounts).

   - **Intergovernmental Revenues:** When setting up the worksheet, set up separate lines for the intergovernmental revenues as follows:
     
     \[
     \begin{align*}
     \text{State Grant for Highway and Street Maintenance} & \quad $1,072,000 \\
     \text{Operational Grant—General Government} & \quad 332,000 \\
     \text{Capital Grant—Public Safety} & \quad 1,320,000 \\
     \text{total} & \quad $2,724,000 \\
     \end{align*}
     \]

   - **Capital Assets:** It is not necessary to set up separate lines for different classes of capital (fixed) assets or accumulated depreciation (simply use one row for Capital Assets and another for Accumulated Depreciation).

   - Confirm that the total debits and credits equal.

2. Prepare worksheet entries and post to the worksheet for the following items. Identify each adjustment by the letter used in the problem:

   - **a.** Record the January 1, 2015 balances of general fixed assets and related accumulated depreciation accounts. The City of Monroe had the following balances (excluding Internal Service Funds):
     
     \[
     \begin{array}{cc}
     \text{Cost} & \text{Accumulated Depreciation} \\
     \text{Totals} & $65,900,000 & 29,800,000 \\
     \end{array}
     \]

   - **b.** Eliminate the capital expenditures shown in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

   - **c.** Depreciation expense (governmental activities) for the year totaled $5,750,000.
Continuous Problem – City of Monroe

d. Eliminate the other financing sources from the sale of bonds by recording a liability for bonds payable and the related premium.

e. As of January 1, 2015, the City of Monroe had $12,000,000 in general obligation bonds outstanding.

f. Eliminate the expenditures for bond principal.

g. Accrue interest in the amount of $328,000. (Two bond issues were outstanding; interest payments for both were last made on July 1, 2015. The computation is as follows: \((11,200,000 \times .03 \times 6/12) + (4,000,000 \times .08 \times 6/12) = 328,000\).

h. Adjust for the interest accrued in the prior year government-wide statements, but recorded as an expenditure in the 2015 fund basis statements, \((12,000,000 \times .03 \times 6/12) = 180,000\).

i. Amortize bond premium in the amount of $10,000.

j. Make adjustments for additional revenue accrual. The only adjustment is for property taxes to eliminate the current year deferral of property taxes.

k. Adjust for the $21,000 of property taxes that was deferred in 2014 and recognized as revenue in the 2015 fund-basis statements.

l. Assume the City adopted a policy in 2015 of allowing employees to accumulate compensated absences. Make an adjustment accruing the expense of $39,500. Charge compensated absences expense.

m. Bring in the balances of the internal service fund balance sheet accounts. Again, use a single account for all capital assets and a second account for all accumulated depreciation balances (use a separate column of the worksheet to enter Internal Service Fund entries).

n. No revenues from internal service funds were with external parties. Assume $3,200 of the $11,200 “Due from Other Funds” in the internal service accounts represents a receivable from the General Fund and the remaining $8,000 is due from the enterprise fund. Eliminate the $3,200 interfund receivables.

o. Reduce governmental fund expenses by the net operating profit of internal service funds. As the amount is small, reduce general government expenses for the entire amount.

p. Eliminate transfers that are between departments reported within governmental activities.

3. Prepare, in good form, a Statement of Activities for the City of Monroe for the Year Ended December 31, 2015. For purposes of this statement, assume:

- $332,000 in the General Fund is a state grant specifically to support general government programs.
- $1,072,000 in the Street and Highway Fund is an operating grant specifically for highway and street maintenance expenses.
- $1,320,000 in the City Jail Construction Fund is a capital grant that applies to public safety.

Use the balances computed from the worksheet completed in part 2 for the governmental activities portion of the statement. Use the solution to P6–C (Enterprise fund) to prepare the business activities portion (net any short-term interfund payables/receivables).
4. Prepare, in good form, a Statement of Net Assets for the City of Monroe as of December 31, 2015. Group all capital assets, net of depreciation. Include a breakdown in the Net Assets section for (a) capital assets, net of related debt, (b) restricted, and (c) unrestricted. For purposes of classifying net assets for the governmental activities, assume:
   - For the governmental activities net assets invested in capital assets, net of related debt, the related debt includes the bonds payable, the premium on bonds payable, and the advance from the water utility fund.
   - The special revenue fund resources are restricted by the granting agency for street and highway maintenance. These ($247,000) are the only restricted resources in the governmental activities.

5. Prepare the reconciliation necessary to convert from the fund balance reported in the governmental funds Balance Sheet to the net assets in the government-wide Statement of Net Assets.

6. Prepare the reconciliation necessary to convert from the change in fund balances in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the change in net assets in the government-wide Statement of Activities.

Chapter 13 – Financial Statement Analysis

Assemble the financial statements prepared for the City of Monroe. These financial statements will be in the solutions to Exercises 5–C, 6–C, 7–C, and 8–C. Assume a population of 25,000 and fair value of property in the amount of $360 million. Compute the following ratios, following the guidance used for the Village of Elizabeth in this chapter:
(1) Financial Position – Governmental Activities
(2) Financial Position – General Fund.
(3) Quick Ration – Governmental Activities
(4) Leverage – Primary Government
(5) Debt Coverage – Enterprise Funds
(6) Debt Service to Total Expenditures
(7) Debt per Capital – Primary Government
(8) Debt to Assessed Value of Property – Primary Government