FINANCIAL MANAGEMENT
FOR GEORGIA LOCAL UNITS
OF ADMINISTRATION

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July 1, 1994	July 1, 1994	I	GAAP Accounting and Financial Reporting Principles
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2	March 2017	I-18	Long-Term Debt

INTRODUCTION

Long-term liabilities include unmatured principal on debt, capital lease obligations, compensated absences, claims and judgments, and the proportionate share of net pension obligations. The 2016 *Codification*, Section 1500 states long-term liabilities should be categorized into fund long-term liabilities and general long-term liabilities. Long-term liabilities related directly to either proprietary or fiduciary funds should be reported in both the fund financial statements and the government-wide financial statements. Long-term liabilities related to governmental funds should be reported only in the government-wide statement of net position. Long-term obligations do not require the use of current financial resources and, therefore, should NOT be reported in the fund financial statements

Matured liabilities of governmental funds should be included as fund liabilities (GASB Interpretation 6). Any liability expected to be liquidated with available, spendable resources should be included as a fund liability.

Proceeds from bonds issued for governmental funds should be recorded on the fund operating statement as “Other Financing Sources-Bond Proceeds”. General long-term debt (Entity Wide – Governmental Funds) should be used to account for a Local Unit of Administration's (LUA) unmatured long-term indebtedness that has not been identified as a specific fund liability of a proprietary or fiduciary fund. Besides general obligation debt instruments (e.g., bonds, notes), certain liabilities that normally are not expected to be liquidated with expendable available financial resources (e.g., compensated absences, claims, and judgments) are reported here, and, in the fiscal year end financial statements, on the entity-wide Statement of Net Position.

ACCOUNTING ISSUES

Several accounting issues associated with long term debt have been identified. These issues are described below.

Bond Anticipation Notes

Notes of various maturities issued in anticipation of future bond sales commonly are referred to as bond anticipation notes (BANs). BANs generally are issued because an LUA either is waiting for more favorable interest rates or has additional projects that also require financing which would warrant a bond issue. Accounting for BANs is addressed in the 2015-2016 *Codification of Governmental Accounting and Financial Reporting Standards* (2015-2016 Codification), Section B50.102:

> For governmental funds, if all legal steps have been taken to refinance the bond anticipation notes and the intent is supported by an ability to consummate refinancing the short-term notes on a long-term basis in accordance with the criteria set forth in GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, they should be reported as general long term liabilities in the government activities column of the government-wide statement of net position. If the necessary legal steps and the ability to consummate refinancing criteria have not been met, then the bond anticipation notes should be reported as a fund liability in the governmental fund receiving proceeds as well as in the government-wide statement of net position.

As outlined in GASB Statement 62, the "ability to consummate the refinancing" can be demonstrated in one of two ways. BANs should be reported in the government-wide financial statements if, during the period between the balance sheet date and the issuance of the financial report, the government does, in fact, issue obligations for the purpose of refinancing short-term obligations on a long-term basis. BANS replaced with other BANS after the date of the balance sheet but before the financial statements are issued is not sufficient to demonstrate ability to refinance short-term obligations on a long term basis.

GASB 62 also provides that obligations can be classified as long-term if a financing agreement exists that allows the government to refinance the BANs on a long-term basis even if such a refinancing has not occurred by the time the financial statements are issued if the following is true:

(1) The agreement does not expire within one year from the date of the government’s financial statements and during that period the agreement is not cancelable by the lender or prospective lender
(2) No violation of any provision in the financing agreements exists at the date of the financial statements and no available information indicates that a violation has occurred thereafter but prior to the issuance of the financial statements, or, if one exists at the date of the financial statements or has occurred thereafter, a waiver has been obtained.

(3) The lender or the prospective lender with which the government has entered into the financing agreement is expected to be financially capable of honoring the agreement.

Tax and Revenue Anticipation Notes

Tax and revenue anticipation notes are debt instruments governments use to borrow in anticipation of property taxes or other revenue sources. If all legal steps have been taken to refinance the bond proceeds Governments report tax and revenue anticipation notes as a fund liability in the governmental fund receiving the proceeds pursuant to 2015-2016 Codification Section B50.

The Georgia Constitution, Article IX, Section V, Paragraph V states, “the governing authority of any county, municipality, or other political subdivision of this state may incur debt by obtaining temporary loans in each year to pay expenses. The aggregate amount of all such loans shall not exceed 75 percent of the total gross income from taxes collected in the last preceding year. Such loans shall be payable on or before December 31 of the calendar year in which such loan is made. No such loan may be obtained when there is a loan then unpaid obtained in any prior year. No such county, municipality, or other political subdivision of this state shall incur in any one calendar year an aggregate of such temporary loans or other contracts, notes, warrants, or obligations for current expenses in excess of the total anticipated revenue for such calendar year.”

Demand Bonds

Issues similar to those encountered with BANs are faced with demand bonds as well. Authoritative literature defines demand bonds as debt instruments that contain demand (i.e., "put") provisions that are exercisable within a one-year period beginning at the balance sheet date. Specific classification guidance is set forth in the 2015-2016 *Codification*, Section D30.108. It provides that bonds should be reported by governments as general long-term liabilities (shown on the government-wide financial statements only) or excluded from current liabilities of proprietary funds if all of the following conditions are met.

- Before the financial statements are issued, the issuer has entered into an arm's-length financing (take out) agreement to convert bonds "put" but not resold into some other form of long-term obligation.

- The take out agreement does not expire within one year from the date of the issuer's balance sheet or statement of net position.

- The take out agreement is not cancelable by the lender or the prospective lender during that year, and obligations incurred under the take out agreement are not callable by the lender during that year.

- The lender or the prospective lender or investor is expected to be financially capable of honoring the take out agreement.

Demand bonds should be reported as fund liabilities or as current liabilities when the preceding conditions are not met.

Arbitrage Rebate Liability

Arbitrage in government finance generally is defined as the process of investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities, which results in interest revenue exceeding interest cost. The Tax Reform Act of 1986 requires that these arbitrage interest earnings be remitted to the federal government.

Based upon the U.S. Treasury Department regulations, a government must rebate excess earnings once every five years or upon maturity of the bonds, whichever is earlier. Nevertheless, it appears that annual calculations of rebatable amounts may be necessary every year to meet GAAP. LUAs should use GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements to determine* whether to record the arbitrage rebate liability. The liability for arbitrage rebate is always reported in the government-wide statement of net position and as a fund liability when the amounts become due and payable. Generally, exceptions to the arbitrage rebate requirements are found in the Code of Federal Regulations, Title 26, Part 1.148-7. These exceptions follow:

1. If the bond issue amount is less than $10,000,000 in total for school construction
2. Spending exceptions
   a. 6 month spending exception – If the gross proceeds will be spent in six months, not including amounts deposited into a Reserve Fund.
   b. 18 month spending exception – If 15% of the gross proceeds are spent in the first 6 months, 60% of the gross proceeds are spent within the first 12 months, and 100% of the gross proceeds are spent in 18 months, not including amounts deposited into a Reserve Fund.
   c. 24 month spending exception – If 10% of the gross proceeds are spent within 6 months, 45% in 12 months, 75% in 18 months, and 100% in 24 months.

The penalties for failure to remit required rebate amounts to the IRS could mean a loss of tax-exempt status for the issue. Services of a competent professional should be sought to assist with complying with these requirements.

Net Pension Liability

In June 2012, the Governmental Accounting Standards Board (GASB), issued two new standards that have a significant impact on the accounting and reporting of public employee pension plans and the state and local governments (including school districts) that participate in these plans. The most significant of these statements for all of the school districts is GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires the school districts to report the district's proportionate share of the collective net pension liability for each cost sharing benefit pension plan in which the district participates. It is anticipated that this liability will be large enough to force most, if not all, districts to report a deficit Net Position in the District-wide Statement of Net Position.

Additionally, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* was issued in November 2013 as an amendment to GASB 68. This statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB 68 was effective for fiscal years beginning after June 15, 2014 or fiscal year 2015 for Georgia schools.

Significance in Financial Reporting for Pensions

Previous accounting for pensions only reported a liability in the financial statements if the government's contributions were less than the amount of the annual required contribution. Basically, a school district only recorded a liability if the school district did not make a payment for the entire amount of actuarially required contributions for the year. That method did not fully account for the pension liability the school district had incurred based on pension plan provisions.

Using the new methodology set forth in GASB 68, school districts will report a liability for the amount of pension benefits that have yet to be financed as of a specific point in time, as well as report the actual pension expense that was incurred by the pension plan during the reporting period.

Other Post-Employment Benefits (OPEB)

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 establishes standards for recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The OPEB liability is determined through actuarial valuation with the exception of those employers with less than 100 employees which can use an alternative measurement method. The effective date for this standard is fiscal years beginning after June 15, 2017 which is fiscal year 2018 for Georgia schools. Other postemployment benefits are those other than pensions paid after the period of employment and often include medical, dental, vision and other health-related benefits. They may also include life insurance, legal, disability, and other services.

A defined benefit OPEB is an OPEB for which the benefits that the employee will receive at or after separation from employment are defined by the benefit terms.

Significance in Financial Reporting for OPEBs

Current standards require governments to report a liability for any unpaid annual required OPEB contributions. The net OPEB liability (OPEB obligation less OPEB assets set aside in a trust) is disclosed in the notes to the financial statements. With the issuance of GASB 75, the net OPEB liability will be recorded on the Statement of Net Position. Schools will also be required to record their share of the OPEB liability for cost-sharing, multiple employer plans.

ILLUSTRATIVE JOURNAL ENTRIES

Chapter 15, Debt Service Funds, discusses entries for bond issuance and refunding.

The following discussion and journal entries illustrate issuance, accrual and retirement of general long-term liabilities reported in the Entity-Wide Governmental funds.

Transaction - the LUA enters into capital leases for the acquisition of computer equipment. The net present value of future minimum lease payments is $140,000.

Description	Account No.	DR	CR
Other Financing Source – Capital Lease	5500	$140,000	
Capital leases payable	0531		$140,000
Machinery and Equipment	0241	$140,000	
Capital Expenditures	0734		$140,000

Explanation – In the year of lease inception, the governmental fund statements would include an entry to Capital Expenditures and Other Financing Source – Capital Leases. This entry would be reversed and posted to Machinery and Equipment and Capital leases payable.

Transaction - during the year, the LUA incurs $854,000 of additional liability for compensated absences. The liability is not expected to be liquidated with "expendable available financial resources."

Description	Account No.	DR	CR
Functional classification	1000- 3300	$854,000	
Compensated absences payable	0551		$854,000

Explanation – To record the additional compensated absences activity, the addition must be expensed against the appropriate functions and a long-term liability created.

Transaction - the LUA issues $3,365,000 of refunding bonds to defease $3,000,000 of outstanding bonds.

Description	Account No.	DR	CR
General obligation bonds payable	0511	$3,000,000	
Redemption of Principal	831		$3,000,000

Description	Account No.	DR	CR
Other Financing Sources – Bond Proceeds	0304	$3,365,000	
General obligation bonds payable	0511		$3,365,000

Explanation - The first entry removes the refunded debt (i.e., the old debt) from the Entity-Wide – Governmental Funds and the second entry records the liability for the refunding debt (i.e., the new debt).

Transaction - the LUA remits annual bond principal payments of $2,030,000 to fiscal agent.

Description	Account No.	DR	CR
General obligation bonds payable	0511	$2,030,000	
Redemption of Principal	831		$2,030,000

Explanation – Entry records the reduction of bonds payable.

Transaction - as part of the capital lease arrangements, a payment of $15,000 is made.

Description	Account No.	DR	CR
Capital leases payable	0531	$15,000	
Principal	831		$15,000

Explanation – Entry records reduction of capital lease payable.

Transaction - during the year, the amount available in the debt service fund for the payment of bond principal increased by $1,374,000.

Description	Account No.	DR	CR
Unrestricted Net Assets	0740	$1,374,000	
Restricted Net Assets	0730		$1,374,000

Explanation - This entry would be made at year-end to reclassify amounts set aside for payment of bond principal.

See Chapter II-3 for information regarding adjustments related to bond premiums, discounts, and issuance costs necessary for the preparation of the government-wide financial statements.

Illustration of Pension Expense Entries

The following entries are necessary to properly reflect the pension activity and liability during the measurement period on the LUA's government-wide financial statements. The entries are provided by the multiple-employer cost sharing defined benefit pension plans, however, the entries for a single employer defined benefit pension plan are similar to the examples below.

Example of Teachers' Retirement System Pension Entries:

	Teachers' Retirement System of Georgia (TRS)		
1.	Debit - Deferred Outflow of Resources - District Contributions 0315	1,396,097.25	
	Credit - Net Position - Net Pension Liability 0717		1,396,097.25
	To record beginning deferred outflow of resources for FY 2015 (measurement period) contributions based on GASB 71		
2.	Debit - Net Position - Net Pension Liability 0717	16,511,807.00	
	Credit - Proportionate Share of Net Pension Liability 0592		12,435,080.00
	Debit - Deferred Outflow of Resources - Pension Plan 0317	258,405.00	
	Credit - Deferred Inflow of Resources - Pension Plan 0517		4,335,132.00
	To record beginning proportionate share of net pension liability		
3.	Debit Pension Expense - Instruction	846,577.12	
	Debit Pension Expense - Pupil Services	39,416.47	
	Debit Pension Expense - Improvement of Instr Svcs	23,454.41	
	Debit Pension Expense - Educational Media Svcs	22,362.93	
	Debit Pension Expense - Federal Grant Administration	0.00	
	Debit Pension Expense - General Administration	19,479.74	
	Debit Pension Expense - School Administration	80,317.73	
	Debit Pension Expense - Business Svcs	14,332.31	
	Debit Pension Expense - Maintenance & Operation of Plant	6,285.41	
	Debit Pension Expense - Student Transportation Svcs	3,811.06	
	Debit Pension Expense - Central Support Svcs	0.00	
	Debit Pension Expense - Other Support Svcs	3,058.25	
	Debit Pension Expense - Food Svcs	8,058.57	
	Debit - Deferred Outflow of Resources - Pension Plan 0317	292,294.00	
	Debit - Deferred Inflow of Resources - Pension Plan 0517	2,909,240.00	
	Credit - Proportionate Share of Net Pension Liability 0592		2,872,964.00
	Credit - Deferred Outflow of Resources - District Contributions 0315		1,395,724.00
	To record current year activity		
	NOTE: Allocation based on DOE provided worksheet (TRS and ERS Allocations for GASB 68 Pension Liability).		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		

Entry #4a and 4b provide an example of accounting for the state support when first removing the fund level entry, then posting District-wide entry for State support as disclosed in Pension Packet.

4a.	Debit -3912 - On Behalf Payments - Teachers Retirement - General Administration	201.54	
	Debit -3912 - On Behalf Payments - Teachers Retirement - Business Svcs	310.25	
	Debit -3912 - On Behalf Payments - Teachers Retirement - Maintenance and Operation of Plant	671.38	
	Debit -3912- On Behalf Payments - Teachers Retirement - Student Transportation Svcs	1,150.38	
	Debit -3912 - On Behalf Payments - Teachers Retirement - Operations of Non-Instructional Svcs, Food Svcs	1,102.28	
	Credit Pension Expense - General Administration		201.54
	Credit Pension Expense - Business Svcs		310.25
	Credit Pension Expense - Maintenance and Operation of Plant		671.38
	Credit Pension Expense - Student Transportation Svcs		1,150.38
	Credit Pension Expense - Food Svcs		1,102.28
	To reverse 2016 On Behalf entry - Fund Statements		
	NOTE: Allocation based on % on behalf worksheet provided by DOE		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		
4b.	Debit Pension Expense - General Administration	107.23	
	Debit Pension Expense - Business Svcs	165.07	
	Debit Pension Expense - Maintenance & Operation of Plant	357.20	
	Debit Pension Expense - Student Transportation Svcs	612.05	
	Debit Pension Expense - Food Svcs	586.46	
	Credit -3912 - On Behalf Payments - Teachers Retirement - General Administration		107.23
	Credit -3912 - On Behalf Payments - Teachers Retirement - Business Svcs		165.07
	Credit -3912 - On Behalf Payments - Teachers Retirement - Maintenance & Operation of Plant		357.20
	Credit -3912- On Behalf Payments - Teachers Retirement - Student Transportation Svcs		612.05
	Credit -3912 - On Behalf Payments - Teachers Retirement - Operations of Non-Instructional Svcs, Food Svcs		586.46
	To record pension expense and revenue for State Support as provided in TRS Pension Packet		
	NOTE: Allocation based on % on behalf worksheet provided by DOE		
	Entry can be combined with 4a for only one entry to post		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		
5.	Debit Pension Expense - Instruction	46,589.13	
	Debit Pension Expense - Pupil Services	2,169.18	
	Debit Pension Expense - Improvement of Instr Svcs	1,290.75	
	Debit Pension Expense - Educational Media Svcs	1,230.68	
	Debit Pension Expense - General Administration	1,072.02	
	Debit Pension Expense - School Administration	4,420.07	
	Debit Pension Expense - Business Svcs	788.74	
	Debit Pension Expense - Maintenance & Operation of Plant	345.90	
	Debit Pension Expense - Student Transportation Svcs	209.73	
	Debit Pension Expense - Other Support Svcs	168.30	
	Debit Pension Expense - Food Svcs	443.48	
	Credit - Deferred Outflow of Resources - Pension Plan 0317		58,728.00
	To record pension expense for paragraphs 54 and 55 deferred balances arising in prior measurement periods.		
	NOTE: Allocation based on DOE provided worksheet (TRS and ERS Allocations for GASB 68 Pension Liability).		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		
6.	Debit - Deferred Outflow of Resources - District Contributions 0315	1,400,000.00	
	Credit Pension Expense - Instruction		1,110,625.06
	Credit Pension Expense - Pupil Services		51,710.50
	Credit Pension Expense - Improvement of Instr Svcs		30,769.86
	Credit Pension Expense - Educational Media Svcs		29,337.94
	Credit Pension Expense - General Administration		25,555.48
	Credit Pension Expense - School Administration		105,368.88
	Credit Pension Expense - Business Administration		18,802.56
	Credit Pension Expense - Maintenance and Operation of Plant		8,245.83
	Credit Pension Expense - Student Transportation Svcs		4,999.73
	Credit Pension Expense - Other Support Svcs		4,012.13
	Credit Pension Expense - Food Svcs		10,572.04
	To record deferred outflows of resources for contributions subsequent to measurement date (FY 2016)		
	NOTE: Allocation based on DOE provided worksheet (TRS and ERS Allocations for GASB 68 Pension Liability).		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		

SUMMARY

1. Long-term liabilities include unmatured principal on debt, capital lease obligations, compensated absences, claims and judgments, and the proportionate share of net pension obligations.

2. Notes of various maturities issued in anticipation of future bond sales commonly are referred to as bond anticipation notes (BANs).

3. Tax and revenue anticipation notes are debt instruments governments use to borrow in anticipation of property taxes or other revenue sources.

4. Arbitrage in government finance generally is defined as the process of investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities, which results in interest revenue exceeding interest cost.

5. GASB 68 requires school districts to report a liability for the amount of pension benefits that have yet to be financed as of a specific point in time, as well as report the actual pension expense that was incurred by the pension plan during the reporting period.

6. The Other Post Employment Benefits (OPEB) liability is determined through actuarial valuation with the exception of those employers with less than 100 employees which can use an alternative measurement method. The net OPEB liability will be recorded on the Statement of Net Position. Schools will also be required to record their share of the OPEB liability for cost-sharing, multiple employer plans.