

Q-DEBT

It has come to our attention over the last year that a number of the QZAB/QSCB debt issuances are actually "term" bonds. Most debt issuances involving school districts are the more traditional serial bonds. **Serial bonds** reflect principal payments over a series of years to reduce the debt.....much like house payments or car payments. **Term bonds** on the other hand will have what appears to be a series of payments over the years.....but are actually a process to set aside money so that enough is accumulated by the district to make one payment at the end of the bond term.

I recommend for each district that has Q-debt to break out the indebtedness papers to see if they have a serial or a term bond.....and if necessary, contact the bond counsel to get final resolution.

Accounting - With a term bond, rather than having an annual debt service payment (5000 expenditure) from the fund servicing the debt (CO Fund), the district will instead record a **transfer out** (8110) from the CO Fund to a **debt service fund** (#31, 32, ...). GASB 54 requires the use of a debt service fund when a district has a term bond. The debt service fund accumulates money for a number of years.....earning interest.....until the final term date is hit.....at which time the debt service fund will have one large payment (5000 debt service expenditure) to pay off the entire principal amount of the term bond.

Bank Account - The bond documents oftentimes establish a **separate bank account**.....commonly at a specific bank.....as the account to hold the Debt Service Fund money. This is district money.....so given that.....this account should follow all the laws and policies relating to district money. (Specifically 6-8B-16) Does this account fit the guidance of your investment policy? Your policy may need to be updated. Has it been listed as a depository? Is this account in the name of the school district? Is the district receiving monthly/periodic bank statements on these accounts so that you may perform a bank reconciliation? Are these accounts set up in fund #31 on your general ledger? Remember to write receipts for periodic interest earned. Is the district monitoring to ensure that annual accumulations plus interest earned will be sufficient to pay off the debt at the end of the term? What is this account invested in?? Are they safe/reasonable/allowable investments?

PPA - If your district has not been properly accounting for term bonds, I recommend that entries be made to get them on the books. The first entry can be a PPA (**prior period adjustment**) to catch the debt service fund up to the proper beginning balance. (DR. restricted cash, 107 and CR. Restricted fund balance, 721). A PPA is reported on the operating statement as an "adjustment" to the beginning fund balance (on Exhibit IV). After the beginning fund balance is established in the debt service fund, I would make sure the current year activities are properly recorded for interest earned and transfers in from the CO Fund. Finally, when you think this fund is where you want it, do a bank reconciliation of this fund to the current month's statements of the trust account.

Liability - Fund 00 records the bond liability. With term bonds, the liability does not change until the final payment at the end of the term. So the debt liability will sit in a more or less dormant manner for a number of years until that final payment is made.

Some issuances are referred to as “General Obligation” bonds because they are created by a vote of the people and are financed by a new tax levy. The proceeds of these issuances would be credited to 5121 General Obligation Bonds Issued. Other issuances are done without a vote of the people and are financed by the Capital Outlay Fund. These other issuances would be credited to 5126 Other Debt Issued.

Reimbursement – The reimbursement or credit received from the federal government should not be netted against any interest expenditure costs. Code the reimbursement to 4900 other federal revenue and assign an op unit to identify this transaction.

It is my understanding that the reimbursement does not represent “federal financial assistance” so it would not go on the Schedule of Expenditures of Federal Awards (SEFA). It is further understood that the Q debt is subject to Davis-Bacon requirements. Check your indebtedness covenants and files to substantiate these two points.

Also, review the bond covenants and debt files to determine what fund to receipt the reimbursements to. If bond covenants state that the reimbursement should be placed into the fund servicing the debt to help make the interest expense payments, then follow that guidance. If the issuance is silent on the placement of reimbursement dollars, then resources that are not required to be placed to a specific fund are receipted to the General Fund.