GENERAL LONG-TERM DEBT ACCOUNT GROUP (GLTDAG) (Continued)

Optional Procedure - Recording Current Liability for Debt at Beginning of Fiscal Year

At the beginning of each year, the amount of debt to be retired during the year may be recorded as a current liability in the County Road Fund. If we use bonds payable as an example, the following journal entry would be made:

County Road Fund

Debit - Account #991 - Principal
Credit - Account #250 - Bonds Payable-Current

General Long-Term Debt Account Group

Debit - Account #300 - Bonds Payable
Credit - Account #186 - Amount to be Provided for Payment of Debt Principal

When payment is made, County Road Fund Account #250 will be debited directly from the cash disbursements journal.

Interest

Interest payable in future years is not recorded in the GLTDAG. However, the road commission's Notes to Financial Statements must include summary disclosures of principal and interest debt service requirements to maturity for all types of debt.

Interest Expense is a current operating expenditure and should be recorded in the County Road Fund only as a debit to mandatory Account #990 - Debt Service and/or Subaccount #995 - Interest.

REFUNDING BONDS

Per GASB, Section D20.102: Refundings involve the issuance of new debt whose proceeds are used to repay previously issued ("old") debt. The new debt proceeds may be used to repay the old debt immediately (a current refunding); or the new debt proceeds may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding). When debt is defeased, it is no longer reported as a liability on the face of the balance sheet; only the new debt is reported as a liability.

Section D20.103 states, in part, that debt is considered defeased in substance for accounting and financial reporting purposes if the debtor irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt and the possibility that the debtor will be required to make future payments on that debt is remote.

GENERAL LONG-TERM DEBT ACCOUNT GROUP (GLTDAG) (Continued)

Reasons for Refunds

Section D20.104 gives a variety of reasons for refunding debt as follows: to take advantage of lower interest rates, to extend maturity dates, revise payment schedule or remove or modify restrictions contained in the old debt agreements.

When considering refunding debt, the difference in total cash flows between the old and new debt service payments should be examined from a time value of money perspective. The economic gain or loss resulting from a refunding transaction compares the present value of the new debt service requirements with that of the old. Present value is the worth today of a future payment or services of payment discounted at a specified interest rate. (Section D20.105).

Accounting and Reporting for Debt Refundings

Section D20.106: For advance refundings resulting in defeasance of debt reported in the GLTDAG, the proceeds of the new debt should be reported as an "Other Financing Sources - Proceeds of Refunding Bonds" in the fund receiving the proceeds. Payments to the escrow agent from resources provided by the new debt should be reported as an "Other Financing Use - Payment to Refunded Bond Escrow Agent." Payments to the escrow agent made from other resources of the entity should be reported as debt service expenditures. The GLTDAG should be adjusted for the increase or decrease in the amount of long-term debt.

Example:

There is a balance of $3,360,000 remaining from the original bond issuance (after the current year's principal payment of $300,000 is made).

The Net Sources and Uses relating to the Refunding Bonds:

Sources	
Bond Proceeds	$3,575,000.00
Total Sources	$3,575,000.00
Uses	
Escrow Fund	$3,484,499.14
Costs of Issuance	50,000.00
Underwriters Discount (1.0%)	35,750.00
Available Amount	4,750.86
Total Uses	$3,575,000.00

GENERAL LONG-TERM DEBT ACCOUNT GROUP (GLTDAG) (Continued)

Net Savings	$265,695.00
Present Value Savings	$235,726.25
Percent of Refunded Par	7.01%

The accounting entry should be:

		Debit	Credit
999.1	Other Financing Uses-Payment to Refunding Bond Escrow Agent	$3,484,499.14	
998	Debt Service - Expenditures (You can provide more detail if desired)	$90,500.86	
698.1	Other Financial Sources - Proceeds of Refunding Bonds		$3,575,000.00

Disclosures about Advance Refundings

D20.111 requires all defeased debt through an advance refunding to include a general description of the transactions in the notes to the financial statements in the year of the refunding. At a minimum, the disclosures should include:

(a) The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding. (When measuring the difference between the two cash flows, additional cash used to complete the refunding paid from resources other than proceeds of the new debt should be added to the new debt cash flows. Accrued interest received at the bond issuance date should be excluded from the new debt cash flows.)

(b) The economic gain or loss resulting from the transaction. (Economic gain or loss is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements discounted at the effective interest rate and adjusted for additional cash paid).

YEAR-END CLOSING

The year end closing procedures of each road commission may vary depending upon the processes of the financial software used, however, in most cases the year end will mirror the month end closings. Varying situations unique to one particular road commission will cause the addition of some accounting entries, but for the most part those closing entries discussed later in the section will be necessary to properly close the fiscal year.