## Coding Tip of the Month - May, 2014

How to correctly code debt service payments?

Does your district have any long-term debt? What type of debt? Where are you paying for this debt? These are all good questions and how a district reports their debt on the Schedule of Long-Term Debt or in what fund the annual payments are made --depends on what type of debt the district is paying.

1) Capital Outlay Certificates: debt paid from the Capital Outlay Fund and project costs must be less than $3 \%$ of the total valuation of the district.

Revenue entries:

| Debit-21, 101 | XX |
| :--- | :--- |
| Credit - 21, 5125 | XX |

Annual Debt Service Payments:

| Debit $-21,5000,000,611$ | $X X$ |
| ---: | ---: |
| $21,5000,000,612$ | $X X$ |
| Credit $-21,101$ | $X X$ |

2) General Obligation Bonds: debt paid from a Bond Redemption Fund (each project would be assigned a number starting with 31), large scale projects that received at least 60\% approval votes in an election.

Revenue entries:

$$
\begin{array}{ll}
\text { Debit }-31,101 & \text { XX } \\
\text { Credit }-31,5121 & \text { XX }
\end{array}
$$

Annual Debt Service Payments:

| Debit-31, 5000, 611 | XX |
| ---: | ---: |
| $31,5000,612$ | XX |
| Credit $-31,101$ | $X X$ |

3) $Q$ Debt ( $Q Z A B, Q S C B, B A B$, etc.): There two types of $Q$ debt; serial and term. $A$ serial $\mathbf{Q}$ debt is not unlike any of the above debt - annual debt payments are made to reduce the outstanding balance for a number of years. Term $\mathbf{Q}$ debt is a process to set aside money annually so that at the end of the bond term the total amount can be paid.

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Accounting entries for a $Q$ debt serial bond is just the same as above stated entries for Capital Outlay Certificates.

Accounting entries for a term bond are quite different. With a term bond, rather than having an annual debt service payment from the Capital Outlay Fund the district will instead record a TRANSFER OUT (8110) and a TRANSFER IN (5110) to a Debt Service Fund (31, 32, etc.). GASB 54 requires the use of a debt service fund when a district has a term bond.
4) Capital Leases: an installment purchase of property rather than rental. A capital lease exists if ANY of the following conditions are met:

- The lease transfers ownership of the property at the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to $75 \%$ or more of the estimated economic life of the property.
- The sum of the principal lease payments equals $90 \%$ of the fair market value of the property.

Annual debt service payment:

| Debit - 21, 5000,611 | XX |
| ---: | ---: |
| $21,5000,612$ | XX |
| Credit $-21,101$ | $X X$ |

Also remember......outstanding principle balances of the long term debt should be recorded at year end in the General Long Term Liabilities Account Group (Fund 00).

$$
\begin{array}{ll}
501 & \text { Bonds Payable } \\
502 & \text { Capital Outlay Certificates Payable } \\
509 & \text { Other Long Term Liabilities (Capital Leases, etc.) }
\end{array}
$$

