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) <u>Capital Outlay Certificates</u>: debt paid from the Capital Outlay Fund and project costs must be less than 3% of the total valuation of the district.

Revenue entries:

Annual Debt Service Payments:

2) <u>General Obligation Bonds</u>: 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:

Annual Debt Service Payments:

3) Q Debt (QZAB, QSCB, BAB, etc.): There two types of Q debt; **serial** and **term**. A **serial 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 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.

Coding Tip of the Month – May, 2014

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) <u>Capital Leases</u>: an installment purchase of property rather than rental. A capital lease exists if <u>ANY</u> 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:

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).

501 Bonds Payable
502 Capital Outlay Certificates Payable
509 Other Long Term Liabilities (Capital Leases, etc.)