

REPORTING

Note X – Long-Term Debt

A. Long-Term Debt

The (city/county/district) issues general obligation and revenue bonds to finance the purchase of _____ and the acquisition or construction of _____. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues. The (city/county/district) is also liable for notes that were entered into for the purchase of _____. These notes are considered obligations of the general government and are being repaid with general governmental revenue sources.

General obligation bonds currently outstanding are as follows: [1]

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
			\$	\$
			\$	\$

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
20__	\$	\$	\$	\$
20__				
20__				
20__				
20__				
20__ - 20__ [2]				
Total	\$	\$	\$	\$

The revenue bonds currently outstanding are as follows: [1]

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
			\$	\$
			\$	\$

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
20__	\$	\$
20__		
20__		
20__		
20__		
20__ - 20__ [2]		
Total	\$	\$

In proprietary funds, unamortized debt issue costs for insurance are recorded as an asset and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount. [3]

At December 31, 20__, the (city/county/district) has \$_____ available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$_____ in sinking funds and reserves as required by bond indentures.

The (city/county/district) has pledged future (identify pledged revenue) revenue, net of (e.g., specified operating expenses, etc.), to repay \$_____ in _____ revenue bonds issued in _____, 20__. Proceeds from the bonds provided financing for (describe the purpose). The bonds are payable solely from (identify pledged revenue) revenue and are payable through 20__. Annual principal and interest payments on the bonds are expected to require less than __ percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$_____. Principal and interest paid for the current year and total (identify pledged revenue) were \$_____ and \$_____, respectively. [4]

B. Refunded Debt [5]

The (city/county/district) issued \$_____ of general obligation refunding bonds to provide resources to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$_____ of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next _____ years by \$_____ and resulted in an economic gain of \$_____.

Debt service requirements to maturity that would result if the take-out agreement were exercised

C. Conduit Debt [6]

D. Special Assessments [7]

E. Demand Bonds [8]

F. Other [9]

INSTRUCTIONS TO PREPARER

If conduit (no-commitment) debt is reported on the balance sheet, it needs to be included in all long-term disclosures.

Include all of the Schedule of Liabilities (Schedule 09), except debt of special purpose districts accounted for by counties.

If the city/county/district is authorized to issue debt that has not yet been issued, the notes should disclose this fact.

- [1] The interest for variable-rate debt should be computed using rate effective at year end. The government should also disclose the terms by which interest rates for variable-debt change.

This disclosure is recommended. Also, it's recommended to disclose applicability of federal arbitrage regulations.

- [2] Use five-year increments thereafter.

- [3] If the government displays general long-term or special assessment debt net of premium or discount, you need to modify this paragraph to disclose the government's policy. You need to make a similar disclosure if the government capitalizes debt issue costs (rather than showing them as a current expenditure when paid, or netting proceeds of long-term debt) for general debt.

- [4] For more details see GASB Statement 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues, paragraph 21.

The disclosures in this paragraph are not required for legally separate entities that report as stand-alone business-type activities whose operations are financed primarily by a single major revenue source.

If a specific revenue stream is pledged as security for multiple debt issuances, the required disclosures may be combined in a single note.

For this disclosure, pledged revenues recognized during the period may be presented net of specified operating expenses, based on the provisions of the pledged agreement; however, the amounts should not be netted in the financial statements.

- [5] The city/county/district that issues debt to defease or otherwise extinguish existing obligations should provide this disclosure in the year of transaction. In the periods following an advance refunding in which the old debt is still outstanding the city/county/district would make the following disclosure:

In prior years the (city/county/district) defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the (city/county/district's) financial statements. At December 31, 20____, \$_____ () of bonds outstanding are considered defeased.*

(*) The amount should include debt refunded with resources other than refunding debt (GASB Statement 86, Certain Debt Extinguishment Issues).

The economic gain or loss on a refunding transaction is calculated in the following manner:

- The present value of the debt service payments related to the refunding debt is calculated using the following formula:

$$\begin{array}{l} \text{Face amount of bonds} \\ + \text{Premium (or - original issue discount)} \\ + \text{Accrued interest} \\ - \text{Costs not recoverable through escrow earnings} \\ + \text{Remaining prepaid insurance} \\ \hline \text{Present value of debt service payments on refunding debt;} \end{array}$$

- A calculation is made to determine what effective interest rate applied to the debt service payments on the *refunding* bonds would result in the present value determined in the previous calculation;
- The effective interest rate calculated for the refunding bonds is then applied to the debt service on the *refunded* bonds to calculate the present value of debt service on the latter;
- The difference between the present value of the two debt service streams (refunding debt and refunded debt) constitutes the economic gain or loss on the transaction.

If the government is using only existing resources, the note should include a general description of the transaction (e.g., amount of debt, amount of cash and other monetary assets acquired with existing resources placed with the escrow agent, the reasons for defeasance, the cash flows required to service the defeased debt, etc.).

The government should also disclose, if applicable, a lack of a prohibition in substituting essentially risk-free monetary assets with monetary assets that are not essentially risk-free. In the following periods, the amounts outstanding for which there is no prohibition in a substitution should be reported separately. (GASB Statement 86, *Certain Debt Extinguishment Issues*)

Any amounts of debt defeased *in substance*, but still outstanding as of the end of each fiscal year, should be disclosed in the notes. The amount should include debt refunded with resources other than refunding debt (GASB Statement 86, *Certain Debt Extinguishment Issues*)

- [6] *Conduit (no-commitment) debt* obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued. (GASB Interpretation 2)

If conduit debt is reported on the balance sheet, it needs to be included in all long-term disclosures.

Otherwise, the city/county/district should disclose:

- General description of transactions.

- Aggregate amount of all conduit debt obligations outstanding at the balance sheet date. If the amount of debt issued prior to January 1, 1996 (or prior to the date of implementation of GASB Interpretation 2) is not determinable or cannot be reasonably estimated, the city/county/district may provide the aggregate original issue amount.
- A clear indication that the city/county/district has no obligation for the debt beyond the resources provided by related leases or loans.

[7] If the city/county district issued a special assessment for which is obligated in some manner, the note should discuss this debt. The note should disclose the nature of the city/county/district's obligation. It should identify and describe any guarantee, reserve or sinking fund established to cover defaults by property owners. If not discernible on the face of the financial statements, the note should disclose the amount of delinquent special assessments receivable.

If the city/county/district issued a special assessment for which is not obligated in any manner, the note should disclose this debt, amount and the fact that the city/county/district is acting only as an agent and is not liable for debt.

[8] The notes should disclose all of the following information regarding demand bonds:

- The terms of any letters of credit or other liquidity facilities outstanding,
- Commitment fees to obtain the letters of credit and any amounts drawn on them outstanding as of the end of the fiscal year,
- The take-out agreement including its expiration date, commitment fees to obtain that agreement, and the terms of any new obligation incurred or expected to be incurred as a result of the take-out agreement.

[9] Examples:

- Loans with forgiveness clauses. Include parties in contract, property secured, terms to convert the loan to a grant, amount to be repaid if forgiveness conditions are not met.
- Grants with recoverable clauses. Include: parties in contract, terms removing recoverable clause, the asset the grantor has an interest in, the amount the grantor can require to be returned, and the conditions that trigger return of the grantor interest.