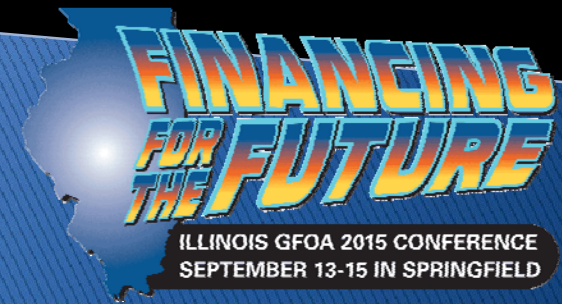


# ALTERNATIVE DEBT REPORTING ISSUES

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# Session Outline

1. General types of debt.
2. Distinguishing a bond from a note.
3. Alternative forms of debt.
4. Who should report the debt?
5. Basic accounting under the debt.
6. Financial reporting for the debt.



# General Types of Debt

- General obligation: debt secured by the full faith, credit, and taxing power of the issuing government so as to legally obligate the issuing government to levy taxes on all assessable property within its jurisdiction at whatever level is necessary to meet debt service requirements.
- Revenue: supported by dedicated fees or other earmarked sources of revenue.



# Bonds vs. Notes

- Bond: a promise to repay borrowed money on a particular date, often 10, 20, or more years in the future.
- Note: generally similar to a bond but typically with a shorter maturity.



# Alternative Forms of Debt

- SSA Bonds: debt issued to finance capital improvements that benefit a specified area within the community; a special EAV-based property tax is levied on the properties benefitting from the improvements. (*May produce a capital asset for the issuing government.*)
- Special Assessment Bonds: generally similar to SSA bonds. However, the assessment upon benefitting properties is typically based on lineal front footage, a per-parcel amount, or some measure other than EAV. (*May produce a capital asset for the issuing government.*)



# Alternative Forms of Debt

- TIF Bonds: debt used to promote economic development in a specified area; paid from the increase in tax revenues generated as a result of economic growth in the targeted area (*May or may not produce a capital asset for the issuing government.*)
- TIF Notes: generally similar to TIF bonds but typically for a shorter maturity.
- Developer Notes: a promise to pay a developer for eligible, predetermined costs from specified revenues that may be available in the future. (*Generally does not produce a capital asset for the issuing government.*)



# Alternative Forms of Debt

- Business District (BD) Bonds: similar to TIF bonds. However, in Illinois, there are different qualification factors for a BD than a TIF district. (*May or may not produce a capital asset for the issuing government.*)
- BD Notes: generally similar to BD bonds, but typically for a shorter maturity.



# Alternative Forms of Debt

- Sales Tax Revenue Bonds: debt whose specified repayment source is sales taxes. (*May or may not produce a capital asset for the issuing government.*)
- Debt Payable by Other Governments: debt issued by one level of government usually to help another (lower) level of government defray the cost of capital acquisition or construction. (*Generally does not produce a capital asset for the issuing government.*)





# Who Should Report the Debt?

- Consider in whose name the debt is issued.
- Consider pledged revenue streams. (Who is obligated to pay?)



# Basic Accounting for Debt Under the Economic Resources Measurement Focus

- Issuance

	DR	CR
Cash	900,000	
Unamortized Bond Discount (Asset)	60,000	
Bond Issuance Costs (Expense)	40,000	
Bonds Payable (Liability)		1,000,000

# Basic Accounting for Debt Under the Economic Resources Measurement Focus

- Debt Service Payment

	DR	CR
Bonds Payable (Liability)	50,000	
Interest Expense	25,000	
Cash		75,000

# Basic Accounting for Debt Under the Economic Resources Measurement Focus

- Amortization of Bond Discount

	DR	CR
Interest Expense (Amortization Expense)	2,000	
Unamortized Bond Discount (Asset)		2,000



# Basic Accounting for Debt Under the Current Financial Resources Measurement Focus

- Issuance

	DR	CR
Cash	900,000	
Other Financing Use-Orig. Issue Disc.	60,000	
Bond Issuance Costs (Expenditure)	40,000	
Other Financing Source-Bonds Issued		1,000,000



# Basic Accounting for Debt Under the Current Financial Resources Measurement Focus

- Debt Service Payment

	DR	CR
Bond Principal (Expenditure)	50,000	
Bond Interest (Expenditure)	25,000	
Cash		75,000



# Basic Accounting for Debt Under the Current Financial Resources Measurement Focus

- Conversion to Government-Wide Level

	DR	CR
Other Financing Source-Bonds Issued	1,000,000	
Bonds Payable		1,000,000
Unamortized Bond Discount (Asset)	60,000	
Other Financing Use-Orig. Issue Discount		60,000
Bonds Payable (Liability)	50,000	
Bond Principal (Expenditure)		50,000
Interest Expense (Amortization Expense)	2,000	
Unamortized Bond Discount (Asset)		2,000



# Financial Reporting for Debt in the Government-Wide Financial Statements

- Governmental activities and business-type activities are separated.
- Amounts due within one year and amounts due in more than one year are separated.
- Impact of capital-related borrowings on net investment in capital assets.  
Capital assets (net of accumulated depreciation)  
Plus: Capital-related deferred outflows and unamortized bond discounts  
Less: Outstanding capital-related borrowings, deferred inflows of resources, and unamortized bond premiums  
Equals: Net investment in capital assets





	Primary Government			Component
	Governmental	Business-Type	Total	Unit
	Activities	Activities		Aurora Public Library
<b>LIABILITIES</b>				
Accounts Payable	\$7,757,642	\$3,271,187	\$11,028,829	\$1,017,781
Accrued Payroll	7,919,456	637,880	8,557,336	91,896
Retainage Payable	379,953	411,909	791,862	1,481,835
Accrued Interest Payable	30,702	142,313	173,015	-
Other Unearned Revenue	7,177,004	787,766	7,964,770	18,903
Due to Other Funds	-	-	-	-
Due to Fiduciary Funds	104,234	-	104,234	-
Due to Other Governments	1,806,988	685	1,807,673	-
Due to Component Unit	1,218	-	1,218	-
Deposits Payable	1,626,062	731,356	2,357,418	-
Noncurrent Liabilities				
Due Within One Year	12,835,685	1,950,829	14,786,514	596,372
Due in More than One Year	257,378,771	38,902,334	296,281,105	21,611,409
<b>Total Liabilities</b>	<b>297,017,715</b>	<b>46,836,259</b>	<b>343,853,974</b>	<b>24,818,196</b>

## Presentation of Noncurrent Liabilities in the Government-Wide Financial Statements



	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Aurora Public Library
<b>NET POSITION</b>				
Net Investment in Capital Assets	\$ 397,680,473	\$ 205,419,092	\$ 603,099,565	\$ 19,266,436
Restricted for				
Debt Service	1,137,883	4,361,135	5,499,018	66,198
Capital Improvements	-	-	-	3,552,261
Working Cash	442,743	-	442,743	-
Public Safety	15,295,108	-	15,295,108	-
Streets and Transportation	11,790,674	-	11,790,674	-
Health and Welfare	7,770,615	-	7,770,615	-
Economic Development	19,862,299	-	19,862,299	-
Unrestricted	(53,656,368)	17,106,722	(36,549,646)	7,331,071
	<u>\$ 400,323,427</u>	<u>\$ 226,886,949</u>	<u>\$ 627,210,376</u>	<u>\$ 30,215,966</u>

## Presentation of Net Position in the Government-Wide Financial Statements



# **Financial Reporting for Debt in the Proprietary Funds Statement of Net Position/Balance Sheet**

- Major fund focus.
- Classified presentation.
- Impact of capital-related borrowings on net investment in capital assets.  
(Same as for government-wide financial statement of net position.)



	Business-Type Activities			Governmental
	Water and Sewer Fund	Airport	Other Enterprise Funds	Internal Service Funds
<b>CURRENT LIABILITIES</b>				
Accounts Payable	\$ 3,006,632	\$ 84,297	\$ 180,258	\$ 516,020
Accrued Payroll	522,523	5,733	109,624	3,649
Retainage Payable	411,909	-	-	411,909
Accrued Interest Payable	142,313	-	-	142,313
Other Unearned Revenue	357,364	2,697	427,705	-
Due to Other Funds	-	-	-	9,008
Due to Other Governments	685	-	-	-
Claims Payable	-	-	-	852,773
Compensated Absences Payable	67,185	690	16,269	850,081
Illinois EPA Loan Payable, Due Within One Year	731,685	-	-	-
Bonds Payable, Due Within One Year	760,000	-	375,000	-
<b>Total Current Liabilities</b>	<b>6,000,296</b>	<b>93,417</b>	<b>1,108,856</b>	<b>2,231,531</b>
<b>NONCURRENT LIABILITIES</b>				
Deposits Payable	731,356	-	-	-
Compensated Absences Payable	1,276,519	13,105	309,118	16,151,536
Other Postemployment Benefits Obligation	-	-	690,348	-
Claims Payable	-	-	-	8,609,929
Illinois EPA Loan Payable (Less Current Portion)	7,096,206	-	-	-
Bonds Payable (Less Current Portion)	27,910,000	-	1,607,038	-
<b>Total Noncurrent Liabilities</b>	<b>37,014,081</b>	<b>13,105</b>	<b>2,606,504</b>	<b>24,761,465</b>
<b>Total Liabilities</b>	<b>43,014,377</b>	<b>106,522</b>	<b>3,715,360</b>	<b>26,992,996</b>

## Presentation of Debt in the Proprietary Funds Financial Statements



# Financial Reporting for Long-Term Debt in the Notes to the Financial Statements

- Description of individual bonds and leases outstanding.
- Schedule of long-term liabilities and changes in long-term liabilities.
- Debt service requirements to maturity.
- Terms of interest rate changes for variable debt.
- Debt supported by pledged revenues.
- Special assessment debt distinguishing:
  - If the government is obligated in some manner.
  - If the government is not obligated in some manner.
- Conduit debt.



# What is Conduit Debt?

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local government for **the express purpose of providing capital financing for a specific third party that is not part of the issuer's financial reporting entity.**



	January 1	Additions	Reductions	December 31	Current Portion
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds	\$ 134,520	\$ 9,150	\$ 17,935	\$ 125,735	\$ 9,010
Tax Increment Revenue Bonds/Notes	14,585	-	890	13,695	960
Debt Certificates	4,835	-	1,030	3,805	1,010
Notes Payable	1,356	-	1,356	-	-
Illinois EPA Loan - Heathercrest Sanitary Sewer Rehabilitation	1,215	-	149	1,066	153
Compensated Absences*	17,368	502	868	17,002	850
Insurance Claims Payable	8,457	1,623	617	9,463	853
Termination Benefits*	16	-	-	16	-
Net Pension Obligation*	4,188	2,308	-	6,496	-
Net Other Postemployment Benefit Obligation*	84,720	6,457	-	91,177	-
Unamortized Bond Premium	1,897	141	278	1,760	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 273,157</b>	<b>\$ 20,181</b>	<b>\$ 23,123</b>	<b>\$ 270,215</b>	<b>\$ 12,836</b>

## Schedule of Long-Term Liabilities for Note Disclosure



Year Ending December 31,	General Obligation Bonds		TIF Bonds/Notes		Debt Certificates	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 9,010	\$ 5,518	\$ 960	\$ 918	\$ 1,010	\$ 131
2016	6,685	5,143	1,015	854	1,070	95
2017	6,735	4,936	1,090	786	540	57
2018	6,110	4,725	1,170	713	385	38
2019	5,245	4,527	1,255	635	405	25

Year Ending December 31,	General Obligation Bonds		TIF Bonds/Notes		Debt Certificates	
	Principal	Interest	Principal	Interest	Principal	Interest
2020-2024	\$ 29,185	\$ 19,585	\$ 6,490	\$ 1,788	\$ 395	\$ 12
2025-2029	19,595	14,268	1,715	237	-	-
2030-2034	22,935	8,938	-	-	-	-
2035-2039	20,235	2,455	-	-	-	-
<b>TOTAL</b>	<b>\$125,735</b>	<b>\$ 70,095</b>	<b>\$ 13,695</b>	<b>\$ 5,931</b>	<b>\$ 3,805</b>	<b>\$ 358</b>

## Note Disclosure for Debt Service Requirements to Maturity





## 8. INDUSTRIAL AND MORTGAGE REVENUE BONDS

On March 23, 1976, the City passed an ordinance enabling the City to provide financing for economic development projects, pollution control projects and hospital facilities by the issuance of industrial or mortgage revenue bonds. The bonds are secured solely by the property financed and are payable solely from the payments received on the underlying mortgage loans on the property. The City is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds outstanding are not reported as a liability in these financial statements. As of December 31, 2014, there were 21 series of bonds outstanding. The aggregate principal amount payable for the series was \$116,835,546.

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### Note Disclosure for Conduit Debt



# Financial Reporting for Special Assessment/SSA Debt

- Government not obligated in any manner: no liability reported, but disclose in notes.
- Government obligated in some manner: liability reported with note disclosure.



# Is the Government Obligated for Special Assessment/SSA Debt in Some Manner?

- The government is obligated to honor deficiencies to the extent that lien foreclosure proceeds are insufficient.
- The government is required to establish a reserve, guarantee, or sinking fund with resources other than the proceeds of the special assessment debt itself.
- The government is required to cover delinquencies with other resources until foreclosure proceeds are received (up-front payments to bondholders).
- The government must purchase all properties foreclosed for delinquent assessments that were not sold at public auction.



# Is the Government Obligated for Special Assessment/SSA Debt in Some Manner?

- The government is authorized to establish a reserve, guarantee, or sinking fund and it establishes such a fund.
- The government may establish a separate fund with resources other than the proceeds of the special assessment debt itself for the purpose of purchasing or redeeming special assessment debt and it establishes such a fund.
- Although the government has no obligation to do so, it indicates by contract (e.g., bond agreement or offering statement) that, in the event of default, it *may* cover delinquencies.
- Legal decisions within the state, or previous actions by the government related to defaults on other special assessment projects make it probable that the government will assume responsibility for the debt in the event of default.



# Government Not Obligated for Debt in Any Manner

- Proceeds of debt should be accounted for in a capital projects fund or enterprise fund.
  - A contribution from property owners is recorded as a revenue regardless of who receives the debt proceeds.
- Repayment of debt is accounted for in an agency fund.

