FINANCIAL MANAGEMENT
FOR GEORGIA LOCAL UNITS
OF ADMINISTRATION

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July 1, 1994	July 1, 1994	I	GAAP Accounting and Financial Reporting Principles
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3	June 2022	I-18	Long-Term Liabilities

INTRODUCTION

This chapter provides and overview of long-term liabilities. Long-term liabilities include, but are not limited to, unmatured principal on debt, leases, compensated absences, claims and judgments, pensions, and other postemployment benefits (OPEB). The 2021 Codification, Section 1500, states,

> "A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position. Long-term liabilities directly related to and expected to be paid from fiduciary funds (including fiduciary component units) should be reported in the statement of fiduciary net position. All other unmatured general long-term liabilities of the governmental unit should not be reported as liabilities in governmental funds but should be reported in the governmental activities column of the government-wide statement of net position."

Long-term obligations do not require the use of current financial resources and, therefore, should NOT be reported in the governmental fund financial statements. Matured liabilities of governmental funds as well as any other liability expected to be liquidated with available, spendable financial resources should be included as a fund liability.

DEBT RECORDED IN GOVERNMENTAL FUNDS

Governmental funds use the current resource measurement focus; therefore, long-term liabilities are not reported on their statement of position, the governmental funds balance sheet. Rather, the inflows of resources from the debt issuance are a source of current financial resources and improve near-term liquidity. As such, the inflows of resources are reported on the statement of resource flows for the LUA, the statement of revenues, expenditures, and changes in fund balance as an "other financing source." Assume the following:

> An LUA issues $122,945,000 in par value of general obligation bonds to fund capital projects. The bonds were sold at a premium of $28,040,822, and bond issuance costs were $368,835. The bonds interest rates range from 4% to 5% and are payable annually. The bonds mature over a 30 year period. The journal entry to record the debt issuance is as follows:

Date	Account Description	Debit	Credit
xx/xx	Cash (Asset)	$ 150,616,987	
	Expenditures (Bond Issuance Costs)	368,835	
	Other financing source – Debt Issuance		$ 122,945,000
	Other financing source – Original Issue Premium		28,040,822
	To record the Issuance of GO Bonds with premium		

As shown in the above example, original issue premiums must be shown separately from the face amount of the debt. Likewise, an original issue discount would be shown separately as an "other financing use." Bond issuance costs represent a true surrender of resources and as such should always be reported as an expenditure.

ACCOUNTING ISSUES

Several accounting issues associated with long-term liabilities have been identified. These issues are described below.

Bond Anticipation Notes

Short-term notes of various maturities issued in anticipation of future bond sales commonly are referred to as bond anticipation notes (BANs). BANs generally are issued because an LUA either is waiting for more favorable interest rates or has additional projects that also require financing which would warrant a bond issue. The 2021 Codification, Section B50.102, states,

> "For governmental funds, if all legal steps have been taken to refinance the bond anticipation notes and the intent is supported by an ability to consummate refinancing the short-term notes on a long-term basis in accordance with the criteria set forth in Section 2200, paragraphs .181-.190, they should be reported only as general long-term liabilities in the governmental activities column of the government-wide statement of net position. If the necessary legal steps and the ability to consummate refinancing criteria have not been met, then the bond anticipation notes should be reported as a liability in the governmental fund receiving proceeds as well as in the government-wide statement of net position. Tax and revenue

anticipation notes should be reported as a liability in the governmental fund receiving proceeds."

Authoritative accounting pronouncements state, the "ability to consummate the refinancing" can be demonstrated in either of the following ways:

a. After the date of the governmental fund's balance sheet but before that balance sheet is issued, a long-term obligation has been issued for the purpose of refinancing the short-term obligation on a long-term basis; or
b. Before the balance sheet is issued, the government has entered into a financing agreement that clearly permits the government to refinance the short-term obligation on a long-term basis on terms that are ready determinable.

To further illustrate this principle, assume the following:

An LUA issues $1,000,000 of BANs on May 15. The balance sheet date is June 30, 20XX, and the bonds are dated on July 16, before the balance sheet is issued. The following entry would be reflected in the LUA's balance sheet on June 30,20XX (disregarding bond issuance costs):

Date	**Account Description**	**Debit**	**Credit**
xx/xx	Cash (Asset)	$1,000,000	
	Other financing sources – Debt Issuance		$ 1,000,000
	To record the Issuance of GO Bonds.		

Using the same example above, if all legal steps are not taken, the entry to record the transaction on the June 30 balance sheet is as follows:

Date	**Account Description**	**Debit**	**Credit**
xx/xx	Cash (Asset)	$1,000,000	
	Bond Anticipation Note Payable (Liability)		$ 1,000,000
	To record the Issuance of BANs		

Tax and Revenue Anticipation Notes

Tax and revenue anticipation notes are debt instruments governments use to borrow in anticipation of property taxes or other revenue sources. Tax anticipation notes (TANs) and Revenue anticipation notes (RANs) should always be reported as fund liabilities on the governmental funds balance sheet and never reported as other financing sources on the statement of resource flows.

In Georgia, these short-term notes that mature in one year or less are generally referred to as temporary notes or temporary loans. The Georgia Constitution, Article IX, Section V, Paragraph V states,

> "The governing authority of any county, municipality, or other political subdivision of this state may incur debt by obtaining temporary loans in each year to pay expenses. The aggregate amount of all such loans shall not exceed 75 percent of the total gross income from taxes collected in the last preceding year. Such loans shall be payable on or before December 31 of the calendar year in which such loan is made. No such loan may be obtained when there is a loan then unpaid obtained in any prior year. No such county, municipality, or other political subdivision of this state shall incur in any one calendar year an aggregate of such temporary loans or other contracts, notes, warrants, or obligations for current expenses in excess of the total anticipated revenue for such calendar year."

Demand Bonds

Issues similar to those encountered with BANs are faced with demand bonds as well. Authoritative literature defines demand bonds as debt instruments that contain demand (i.e., "put") provisions that are exercisable within a one-year period beginning at the balance sheet date or statement of net position date. Specific classification guidance is set forth in the 2021 *Codification*, Section D30.108. It provides that bonds should be reported by governments as general long-term liabilities (and reported only in the government-wide statement of net position) or excluded from current liabilities of proprietary funds if all of the following conditions are met.

a. Before the financial statements are issued, the issuer has entered into an arm's-length financing (take out) agreement to convert bonds "put" but not resold into some other form of long-term obligation.

b. The take out agreement does not expire within one year from the date of the issuer's balance sheet or statement of net position.

c. The take out agreement is not cancelable by the lender or the prospective lender during that year, and obligations incurred under the take out agreement are not callable by the lender during that year.

d. The lender or the prospective lender or investor is expected to be financially capable of honoring the take out agreement.

Demand bonds should be reported as fund liabilities (governmental funds) or as current liabilities (proprietary funds) when the preceding conditions are not met.

Arbitrage Rebate Liability

Arbitrage in government finance generally is defined as the process of investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities, which results in interest revenue exceeding interest cost. The Tax Reform Act of 1986 requires that these arbitrage interest earnings be remitted to the federal government.

Based upon the U.S. Treasury Department regulations, a government must rebate excess earnings once every five years or upon maturity of the bonds, whichever is earlier. The liability for arbitrage rebate is always reported in the government-wide statement of net position and as a governmental fund liability when the amounts become due and payable. When establishing the liability for the rebate, the LUA can either reduce current year interest revenues or recognize an expense/expenditure as is appropriate. Generally, exceptions to the arbitrage rebate requirements are found in the Code of Federal Regulations, Title 26, Chapter I, Subchapter A, Part I, Tax Exemption Requirements for State and Local Bonds, §1.148-2. These exceptions follow:

1. Small Issuer Exception (calendar year exception) $15 million per year for public school construction
2. Spending exceptions
   a. 6 month spending exception – If the gross proceeds will be spent in six months, not including amounts deposited into a Reserve Fund.
   b. 18 month spending exception – If 15% of the gross proceeds are spent in the first 6 months, 60% of the gross proceeds are spent within the first 12 months, and 100% of the gross proceeds are spent in 18 months, not including amounts deposited into a Reserve Fund.
   c. 24 month spending exception – If 10% of the gross proceeds are spent within 6 months, 45% in 12 months, 75% in 18 months, and 100% in 24 months.

The penalties for failure to remit required rebate amounts to the IRS could mean a loss of tax-exempt status for the issue. Services of a competent professional should be sought to assist with complying with these requirements.

Net Pension Liability

Employee and employer relationships are exchange-like transactions that often result in significant liabilities that need to be measured and reported in externally issued financial statements. For example, during years' of active service an employee provides services to their employer in exchange for salary and benefits. A significant portion of the benefits provided include post-employment benefits otherwise known as pensions. Pension accounting has evolved over the years to bring to the front of the government-wide statement of net position, and those funds that use the economic resource measurement focus, the net pension liability (NPL).

In a current GAAP environment, an employer is required to report a NPL for the difference between the present value of projected benefits for past service, otherwise known as the total pension liability (TPL), and restricted resources held in trust for the payment of benefits, otherwise known as plan net position (PNP). For example, if the employer's total pension liability was $6,000,000 and related plan net position amounted to $4,000,000, the employer would report a net pension liability of $2,000,000.

Additionally, there are different types of pension plans. There are single-employer plans, agent-multiple employer plans and cost-sharing multiple employer plans. It is not uncommon for an LUA to participate in all three-types of plans. Regardless of the plan type; however, all LUAs report the NPL on the statements of net position (government-wide and fund level).

Proprietary and government-wide financial reporting use the economic resource measurement focus. Therefore, financial statements prepared using this measurement focus will recognize in their statement of net position the NPL. The statement of activities will report cost of the current period as pension expense, and the effect of changes in actuarial assumptions not yet recognized in pension expense will be shown as a deferred outflow or inflow of resources as will the effect of differences between actuarial assumptions and actual results not yet recognized in pension expense.

Conversely, governmental funds focus on near-term liquidity (that is, balances, inflows, and outflows of spendable resources). Governmental funds do not report a NPL because it does not involve the near-term outflow of spendable resources. Therefore, governmental funds will only report on their statement of financial position amounts due and payable at year end. Moreover, whereas financial statements prepared using the economic resource measurement focus recognize pension *expense*, the financial statements prepared using the current resource measurement focus will recognize pension *expenditures*. Pension expenditures represent contributions made during the period or due and payable at year end. Lastly, any contributions made by the LUA before year end, but subsequent to the measurement date of the NPL should be reported as a deferred outflow of resources.

Significance in Financial Reporting for Pensions

Previous accounting for pensions only reported a liability in the financial statements if the government's contributions were less than the amount of the annual required contribution. Therefore, a school district only recorded a liability if the school district did not make a payment for the entire amount of actuarially required contributions for the year. That methodology did not fully account for the pension liability the school district had incurred based on pension plan provisions.

Using the new methodology, as required by authoritative accounting standards, school districts will report a liability for the amount of pension benefits that have yet to be financed as of a specific point in time, as well as report the actual pension expense that was incurred by the pension plan during the reporting period. Depending upon the size of the liability recorded, a LUA could see a deficit in their unrestricted net position.

Other Post-Employment Benefits (OPEB)

Accounting for other post-employment benefits closely follows that of accounting for pensions. The OPEB liability is determined through actuarial valuation with the exception of those employers with less than 100 employees which can use an alternative measurement method. Other postemployment benefits are those other than pensions paid after the period of employment and often include medical, dental, vision and other health-related benefits. They may also include life insurance, legal, disability, and other services.

A defined benefit OPEB is an OPEB for which the benefits that the employee will receive at or after separation from employment are defined by the benefit terms.

Significance in Financial Reporting for OPEBs

Previous accounting guidance required governments to report a liability for any unpaid annual required OPEB contributions. The net OPEB liability (OPEB obligation less OPEB assets set aside in a trust) was disclosed in the notes to the financial statements. In a current GAAP environment; however, the net OPEB liability, much like the NPL, is recorded on the statement of net position and in fund financial statements that use the economic resources measurement focus. LUA's are required to record their proportionate share of the net OPEB liability for cost-sharing, multiple employer plans in their externally issued financial statements.

ILLUSTRATIVE JOURNAL ENTRIES

Chapter 15, Debt Service Funds, discusses entries for bond issuance and refunding.

The following discussion and journal entries illustrate issuance, accrual and retirement of general long-term liabilities reported in the governmental activities column in the government-wide statement of net position.

Transaction - the LUA enters into a lease arrangement (financed purchase) for the acquisition of computer equipment. The net present value of future minimum lease payments is $140,000.

Description	Account No.	DR	CR
Other Financing Source – Financed purchases	5500	$140,000	
Financed purchases payable	0531		$140,000
Machinery and Equipment	0241	$140,000	
Capital Expenditures	0734		$140,000

Explanation – In the year of lease inception, the governmental fund statements would *include an entry to Capital Expenditures and Other Financing Source – Financed purchases. This entry would be reversed and posted to Machinery and Equipment and Financed purchases payable.*

Transaction - during the year, the LUA incurs $854,000 of additional liability for compensated absences. The liability is not expected to be liquidated with "expendable available financial resources."

Description	Account No.	DR	CR
Functional classification	1000- 3300	$854,000	
Compensated absences payable	0551		$854,000

Explanation – To record the additional compensated absences activity, the addition must be expensed against the appropriate functions and a long-term liability created.

Transaction - the LUA issues $3,365,000 of refunding bonds to defease $3,000,000 of outstanding bonds.

Description	Account No.	DR	CR
General obligation bonds payable	0511	$3,000,000	
Redemption of Principal	831		$3,000,000

Description	Account No.	DR	CR
Other Financing Sources – Debt issuance	0304	$3,365,000	
General obligation bonds payable	0511		$3,365,000

Explanation - The first entry removes the refunded debt (i.e., the old debt) from the Entity-Wide – Governmental Funds and the second entry records the liability for the refunding debt (i.e., the new debt).

Transaction - the LUA remits annual bond principal payments of $2,030,000 to fiscal agent.

Description	Account No.	DR	CR
General obligation bonds payable	0511	$2,030,000	
Redemption of Principal	831		$2,030,000

Explanation – Entry records the reduction of bonds payable.

Transaction - as part of the financed purchase arrangements, a payment of $15,000 is made.

Description	Account No.	DR	CR
Financed purchases payable	0531	$15,000	
Principal	831		$15,000

Explanation – Entry records reduction of financed purchases payable.

Transaction - during the year, the amount available in the debt service fund for the payment of bond principal increased by $1,374,000.

Description	Account No.	DR	CR
Unrestricted Net Position	0740	$1,374,000	
Restricted Net Position	0730		$1,374,000

Explanation - This entry would be made at year-end to reclassify amounts set aside for payment of bond principal.

See Chapter II-3 for information regarding adjustments related to bond premiums, discounts, and issuance costs necessary for the preparation of the government-wide financial statements.

Illustration of Pension Expense Entries

The following entries are necessary to properly reflect the pension activity and liability during the measurement period on the LUA's government-wide financial statements. The entries are provided by the multiple-employer cost-sharing defined benefit pension plans, however, the entries for a single-employer defined benefit pension plan are similar to the examples below.

Example of Teachers' Retirement System Pension Entries:

	Teachers' Retirement System of Georgia (TRS)		
1.	Debit - Deferred Outflow of Resources - District Contributions 0315	1,396,097.25	
	Credit - Net Position - Net Pension Liability 0717		1,396,097.25
	To record beginning deferred outflow of resources for FY 2015 (measurement period) contributions based on GASB 71		
2.	Debit - Net Position - Net Pension Liability 0717	16,511,807.00	
	Credit - Proportionate Share of Net Pension Liability 0592		12,435,080.00
	Debit - Deferred Outflow of Resources - Pension Plan 0317	258,405.00	
	Credit - Deferred Inflow of Resources - Pension Plan 0517		4,335,132.00
	To record beginning proportionate share of net pension liability		

3.	Debit Pension Expense - Instruction	846,577.12	
	Debit Pension Expense - Pupil Services	39,416.47	
	Debit Pension Expense - Improvement of Instr Svcs	23,454.41	
	Debit Pension Expense - Educational Media Svcs	22,362.93	
	Debit Pension Expense - Federal Grant Administration	0.00	
	Debit Pension Expense - General Administration	19,479.74	
	Debit Pension Expense - School Administration	80,317.73	
	Debit Pension Expense - Business Svcs	14,332.31	
	Debit Pension Expense - Maintenance & Operation of Plant	6,285.41	
	Debit Pension Expense - Student Transportation Svcs	3,811.06	
	Debit Pension Expense - Central Support Svcs	0.00	
	Debit Pension Expense - Other Support Svcs	3,058.25	
	Debit Pension Expense - Food Svcs	8,058.57	
	Debit - Deferred Outflow of Resources - Pension Plan 0317	292,294.00	
	Debit - Deferred Inflow of Resources - Pension Plan 0517	2,909,240.00	
	Credit - Proportionate Share of Net Pension Liability 0592		2,872,964.00
	Credit - Deferred Outflow of Resources - District Contributions 0315		1,395,724.00
	To record current year activity		
	NOTE: Allocation based on DOE provided worksheet (TRS and ERS Allocations for GASB 68 Pension Liability).		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		
	Entry #4a and 4b provide an example of accounting for the state support when first removing the fund level entry, then posting District-wide entry for State support as disclosed in Pension Packet.		
4a.	Debit -3912 - On Behalf Payments - Teachers Retirement - General Administration	201.54	
	Debit -3912 - On Behalf Payments - Teachers Retirement - Business Svcs	310.25	
	Debit -3912 - On Behalf Payments - Teachers Retirement - Maintenance and Operation of Plant	671.38	
	Debit -3912- On Behalf Payments - Teachers Retirement - Student Transportation Svcs	1,150.38	
	Debit -3912 - On Behalf Payments - Teachers Retirement - Operations of Non-Instructional Svcs, Food Svcs	1,102.28	
	Credit Pension Expense - General Administration		201.54
	Credit Pension Expense - Business Svcs		310.25
	Credit Pension Expense - Maintenance and Operation of Plant		671.38
	Credit Pension Expense - Student Transportation Svcs		1,150.38
	Credit Pension Expense - Food Svcs		1,102.28
	To reverse 2016 On Behalf entry - Fund Statements		
	NOTE: Allocation based on % on behalf worksheet provided by DOE		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		
4b.	Debit Pension Expense - General Administration	107.23	
	Debit Pension Expense - Business Svcs	165.07	
	Debit Pension Expense - Maintenance & Operation of Plant	357.20	
	Debit Pension Expense - Student Transportation Svcs	612.05	
	Debit Pension Expense - Food Svcs	586.46	
	Credit -3912 - On Behalf Payments - Teachers Retirement - General Administration		107.23
	Credit -3912 - On Behalf Payments - Teachers Retirement - Business Svcs		165.07
	Credit -3912 - On Behalf Payments - Teachers Retirement - Maintenance & Operation of Plant		357.20
	Credit -3912- On Behalf Payments - Teachers Retirement - Student Transportation Svcs		612.05
	Credit -3912 - On Behalf Payments - Teachers Retirement - Operations of Non-Instructional Svcs, Food Svcs		586.46
	To record pension expense and revenue for State Support as provided in TRS Pension Packet		
	NOTE: Allocation based on % on behalf worksheet provided by DOE		
	Entry can be combined with 4a for only one entry to post		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		

5.	Debit Pension Expense - Instruction	46,589.13	
	Debit Pension Expense - Pupil Services	2,169.18	
	Debit Pension Expense - Improvement of Instr Svcs	1,290.75	
	Debit Pension Expense - Educational Media Svcs	1,230.68	
	Debit Pension Expense - General Administration	1,072.02	
	Debit Pension Expense - School Administration	4,420.07	
	Debit Pension Expense - Business Svcs	788.74	
	Debit Pension Expense - Maintenance & Operation of Plant	345.90	
	Debit Pension Expense - Student Transportation Svcs	209.73	
	Debit Pension Expense - Other Support Svcs	168.30	
	Debit Pension Expense - Food Svcs	443.48	
	Credit - Deferred Outflow of Resources - Pension Plan 0317		58,728.00

To record pension expense for paragraphs 54 and 55 deferred balances arising in prior measurement periods.
NOTE: Allocation based on DOE provided worksheet (TRS and ERS Allocations for GASB 68 Pension Liability).
Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.

6.	Debit - Deferred Outflow of Resources - District Contributions 0315	1,400,000.00	
	Credit Pension Expense - Instruction		1,110,625.06
	Credit Pension Expense - Pupil Services		51,710.50
	Credit Pension Expense - Improvement of Instr Svcs		30,769.86
	Credit Pension Expense - Educational Media Svcs		29,337.94
	Credit Pension Expense - General Administration		25,555.48
	Credit Pension Expense - School Administration		105,368.88
	Credit Pension Expense - Business Administration		18,802.56
	Credit Pension Expense - Maintenance and Operation of Plant		8,245.83
	Credit Pension Expense - Student Transportation Svcs		4,999.73
	Credit Pension Expense - Other Support Svcs		4,012.13
	Credit Pension Expense - Food Svcs		10,572.04

To record deferred outflows of resources for contributions subsequent to measurement date (FY 2016)
NOTE: Allocation based on DOE provided worksheet (TRS and ERS Allocations for GASB 68 Pension Liability).
Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.

SUMMARY

1. Long-term liabilities include, but are not limited to, unmatured principal on debt, leases, compensated absences, claims and judgments, pensions, and other post-employment benefits.

2. Notes of various maturities issued in anticipation of future bond sales commonly are referred to as bond anticipation notes (BANs).

3. Tax and revenue anticipation notes are debt instruments governments use to borrow in anticipation of property taxes or other revenue sources.

4. Arbitrage in government finance generally is defined as the process of investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities, which results in interest revenue exceeding interest cost.

5. Authoritative accounting standards require school districts to report a liability for the amount of pension benefits that have yet to be financed as of a specific point in time, as well as report the actual pension expense that was incurred by the pension plan during the reporting period.

6. The Other Post-Employment Benefits (OPEB) liability is determined through actuarial valuation with the exception of those employers with less than 100 employees which can use an alternative measurement method. The net OPEB liability will be recorded on the statement of net position and in fund financial statements that use the economic resources measurement focus. Schools are required to record their proportionate share of the net OPEB liability for cost-sharing, multiple employer plans.