

Accounting for Bonds 101

WASBO Accounting Conference

March 22, 2023 | 12:00-12:50 PM

Baird Public Finance

Wisconsin Department of Public Instruction

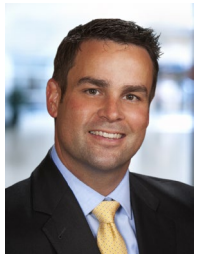
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Discover the *Baird Difference*

Meet the Baird School Finance Team



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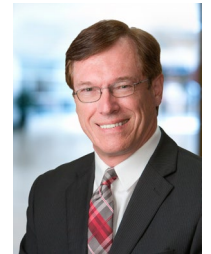
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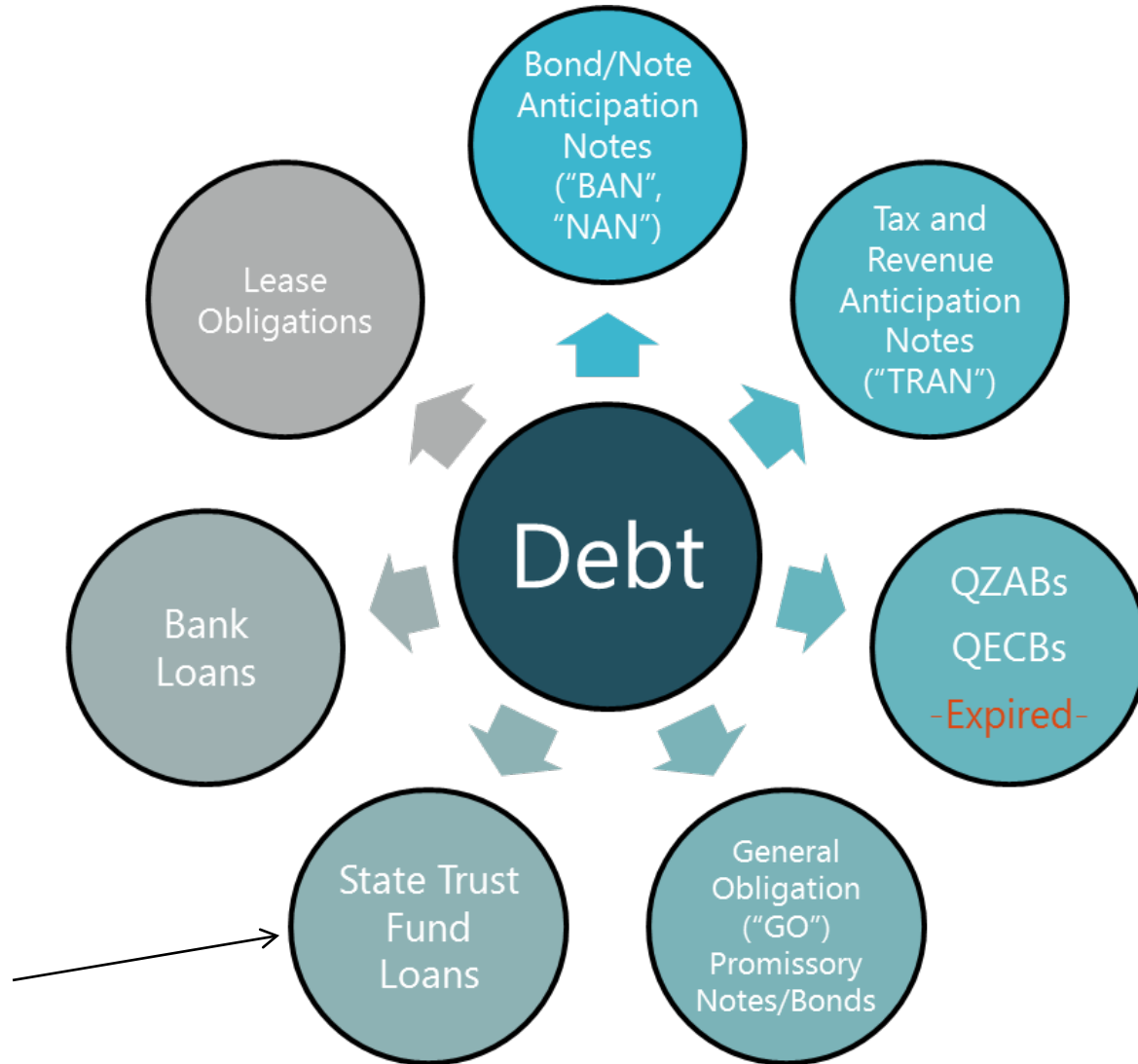
Learning Objectives

AT THE END OF THE PRESENTATION, ATTENDEES WILL:

- Understand debt issue concepts for Wisconsin school districts
- Recognize debt transactions and coding guides
- Identify where and when to update DPI debt schedules

Debt Issue Basics

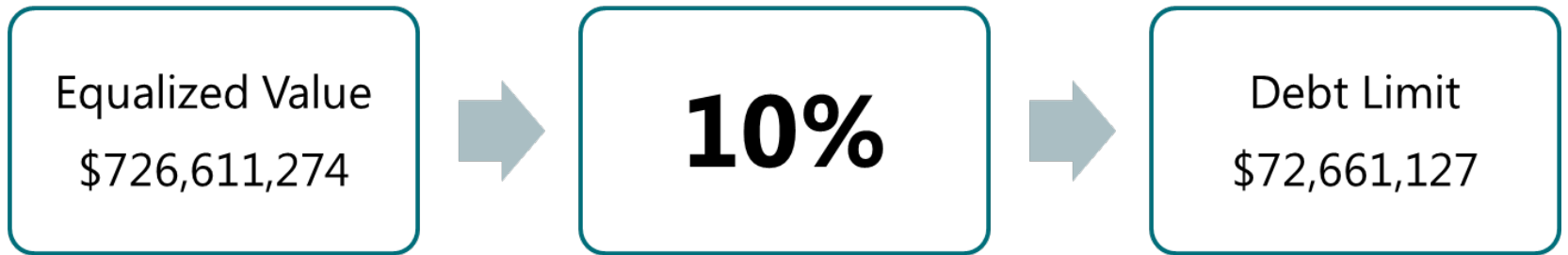
Basic Types of Debt



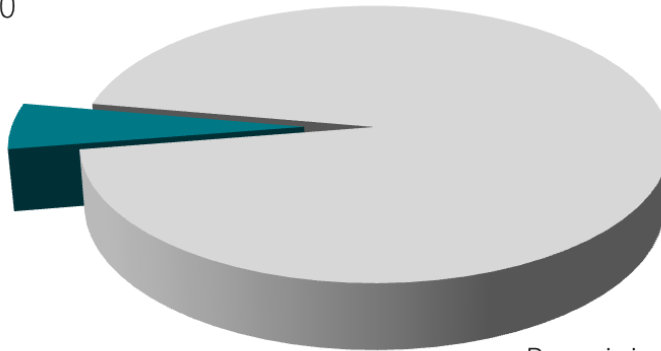
| Term | Interest Rates* |
|-------------|-----------------|
| 2 years | 5.50% |
| 3-5 years | 5.50% |
| 6-10 years | 5.50% |
| 11-20 years | 5.50% |

*Source: Wisconsin Board of Commissioners of Public Lands as of March 2023

- A K-12 school district's total debt limit is based on **10%** of the equalized valuation (TID IN)
- K-8 and UHS districts' debt limits are based on **5%** of the equalized valuation



Outstanding Debt as of 12/31/18:
\$4,100,000



Remaining Debt Capacity:
\$68,561,127

What Do You Need to Know about your debt?

Fund 38?

Non-Referendum Debt

When is your debt being paid in full?

When is your debt callable?

What is your bond rating?

Are there future borrowing or restructuring opportunities?

Fund 39?

Referendum Debt

Bond Debt Service Example

General Obligation Promissory Notes - FINAL
BQ; Callable 3/1/29 or any Date Thereafter

| Period Ending | Principal | Coupon | Interest | Debt Service | Annual Debt Service |
|---------------|-----------|--------|------------|--------------|---------------------|
| 04/11/2022 | | | | | |
| 03/01/2023 | 320,000 | 4.000% | 97,866.67 | 417,866.67 | |
| 09/01/2023 | | | 48,650.00 | 48,650.00 | 466,516.67 |
| 03/01/2024 | 255,000 | 4.000% | 48,650.00 | 303,650.00 | |
| 09/01/2024 | | | 43,550.00 | 43,550.00 | 347,200.00 |
| 03/01/2025 | 265,000 | 4.000% | 43,550.00 | 308,550.00 | |
| 09/01/2025 | | | 38,250.00 | 38,250.00 | 346,800.00 |
| 03/01/2026 | 275,000 | 4.000% | 38,250.00 | 313,250.00 | |
| 09/01/2026 | | | 32,750.00 | 32,750.00 | 346,000.00 |
| 03/01/2027 | 285,000 | 4.000% | 32,750.00 | 317,750.00 | |
| 09/01/2027 | | | 27,050.00 | 27,050.00 | 344,800.00 |
| 03/01/2028 | 300,000 | 4.000% | 27,050.00 | 327,050.00 | |
| 09/01/2028 | | | 21,050.00 | 21,050.00 | 348,100.00 |
| 03/01/2029 | 310,000 | 4.000% | 21,050.00 | 331,050.00 | |
| 09/01/2029 | | | 14,850.00 | 14,850.00 | 345,900.00 |
| 03/01/2030 | 320,000 | 3.000% | 14,850.00 | 334,850.00 | |
| 09/01/2030 | | | 10,050.00 | 10,050.00 | 344,900.00 |
| 03/01/2031 | 330,000 | 3.000% | 10,050.00 | 340,050.00 | |
| 09/01/2031 | | | 5,100.00 | 5,100.00 | 345,150.00 |
| 03/01/2032 | 340,000 | 3.000% | 5,100.00 | 345,100.00 | |
| 09/01/2032 | | | | | 345,100.00 |
| | 3,000,000 | | 580,466.67 | 3,580,466.67 | 3,580,466.67 |

Note: Numbers represented above are for illustration purposes only.

Callable Debt

Amount: \$15,000,000
 Type: G.O. Promissory Notes
 Dated: April 12, 2021

Callable: '29-'30 Callable 3/1/28 or on any date thereafter @ Par

| PAYMENT PERIOD | PRINCIPAL (3/1) | RATE | INTEREST (3/1 & 9/1) | TOTAL |
|-----------------------|---------------------------|-------------|--------------------------------|---------------------|
| Jan-June 2021 | | | | |
| July-Dec 2021 | | | | |
| Jan-June 2022 | \$4,300,000 | 1.500% | \$240,978 | \$4,540,978 |
| July-Dec 2022 | | | \$103,725 | \$103,725 |
| Jan-June 2023 | \$1,310,000 | 1.500% | \$103,725 | \$1,413,725 |
| July-Dec 2023 | | | \$93,900 | \$93,900 |
| Jan-June 2024 | \$1,325,000 | 2.000% | \$93,900 | \$1,418,900 |
| July-Dec 2024 | | | \$80,650 | \$80,650 |
| Jan-June 2025 | \$1,345,000 | 2.000% | \$80,650 | \$1,425,650 |
| July-Dec 2025 | | | \$67,200 | \$67,200 |
| Jan-June 2026 | \$1,360,000 | 2.000% | \$67,200 | \$1,427,200 |
| July-Dec 2026 | | | \$53,600 | \$53,600 |
| Jan-June 2027 | \$1,375,000 | 2.000% | \$53,600 | \$1,428,600 |
| July-Dec 2027 | | | \$39,850 | \$39,850 |
| Jan-June 2028 | \$1,395,000 | 2.000% | \$39,850 | \$1,434,850 |
| July-Dec 2028 | | | \$25,900 | \$25,900 |
| Jan-June 2029 | \$1,415,000 | 2.000% | \$25,900 | \$1,440,900 |
| July-Dec 2029 | | | \$11,750 | \$11,750 |
| Jan-June 2030 | \$1,175,000 | 2.000% | \$11,750 | \$1,186,750 |
| TOTAL | \$15,000,000 | | \$1,194,128 | \$16,194,128 |

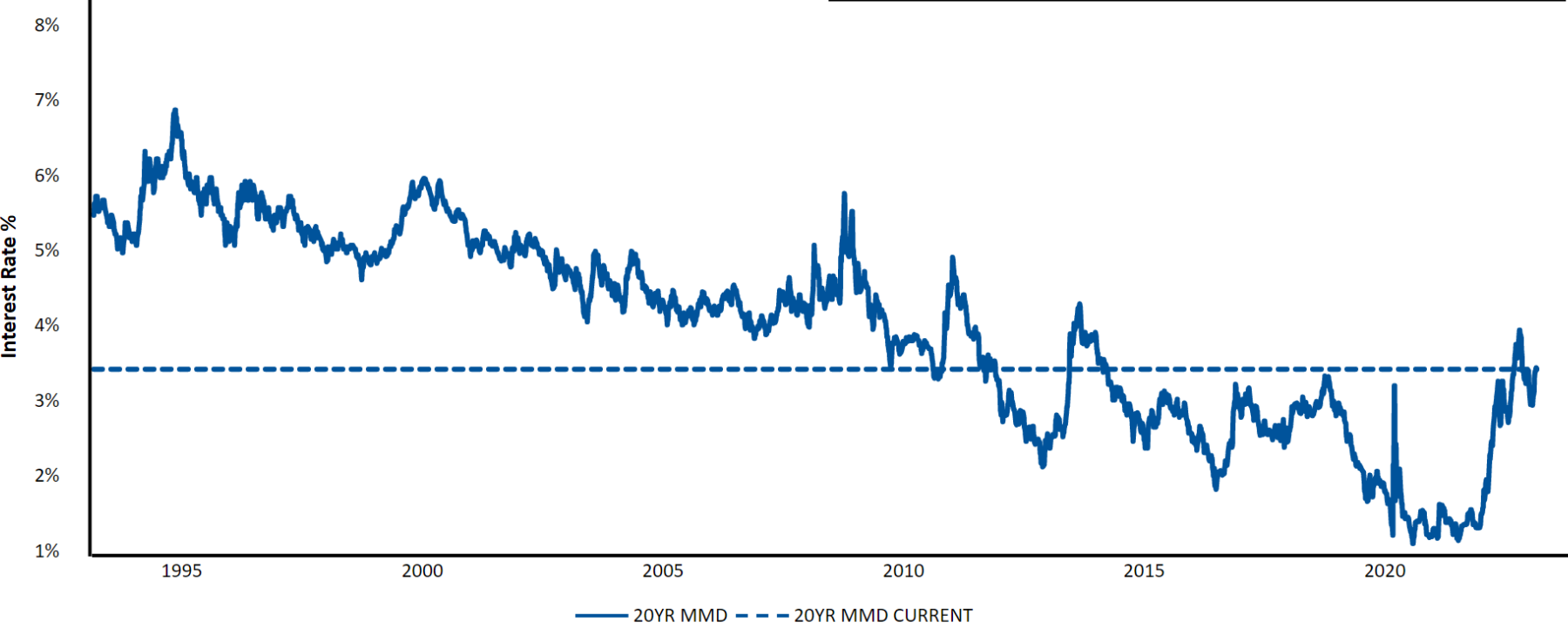
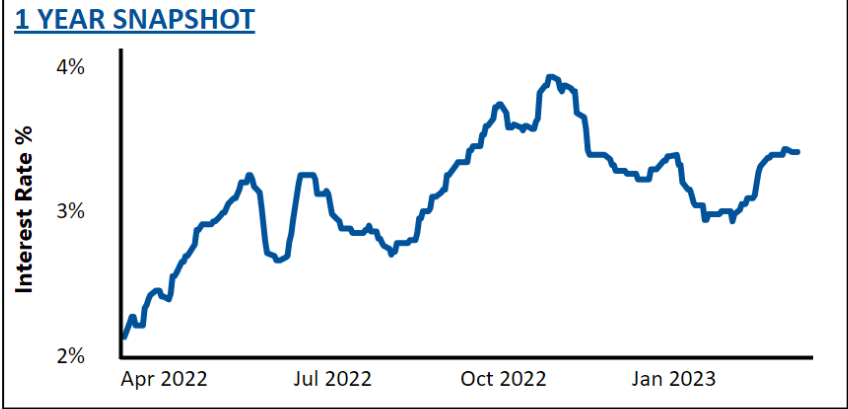
Callable Maturities

Credit: Aaa
 Paying Agent: District
 Notes: Bid Premium \$438,466.11
 NBQ

- Call date = prepayment date
- Call date is determined on the day you sell bonds
- Know the call dates of *all* of your debt issues
- Opportunity to refinance or use additional debt levy make a prepayment

Historical Long Term Tax-Exempt Interest Rate Trend

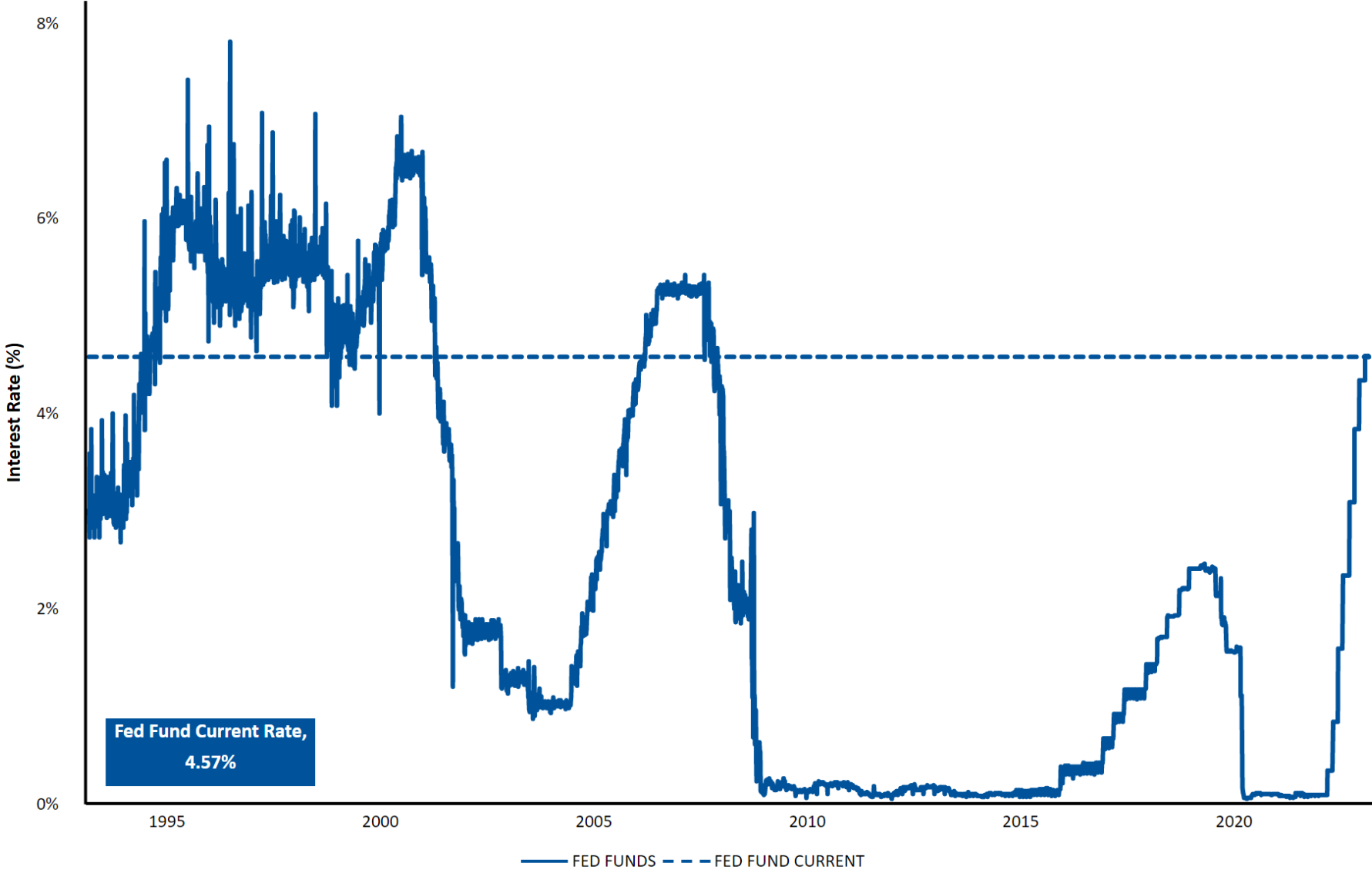
Past 30 years of the MMD 20-year bond index



Source: Refinitiv as of March 9, 2023

Historical Short Term Interest Rate Trend

Past 30 years of the Federal Reserve "Fed Funds" target rate



Source: Refinitiv and Federal Reserve Bank of New York as of March 8, 2023

Business Office Nuts and Bolts

Coding Debt Transactions – Initial Borrowing

DPI Coding Guide



Debt Proceeds
Fund 49



Debt Repayment
Fund 38 or 39

Journal Entries for Debt Issuance and Subsequent Interest and Principal Payments
 Below are the anticipated journal entries to record the various debt issuance by a school district.
 Also included below are the debt anticipated journal entries to record the debt interest and principal payments.
 Debt is recorded in Fund 38 if non-referendum related or in Fund 39 if referendum related.

| General Obligation Bonds | | | | |
|---|-----------------------------------|---|--|---------------|
| To Record Bond Issuance | | | | |
| Dr. 49 B 000 000 711000 000 | Cash | - | | |
| Cr. 49 R 000 875 500000 000 | Long-Term Bond Proceeds | - | | |
| | | | | JE IN BALANCE |
| To Record Bond Premium, if applicable | | | | |
| Dr. 38/39 B 000 000 711000 000 | Cash | - | | |
| Dr. 38/39 E 000 690 281000 000 | Other Debt Payment-Closing Costs | - | | |
| Dr. 38/39 E 000 690 281000 000 | Other Debt Payment-Discount | - | | |
| Cr. 38/39 R 000 968 500000 000 | Debt Premium-Non-Refinancing Debt | - | | |
| | | | | JE IN BALANCE |
| Debt Service Interest and Principal Payments | | | | |
| Dr. 38/39 E 000 675 281000 000 | Long-Term Bond Principal | - | | |
| Dr. 38/39 E 000 685 281000 000 | Long-Term Bond Interest | - | | |
| Cr. 38/39 B 000 000 711000 000 | Cash | - | | |
| | | | | JE IN BALANCE |
| General Obligation Notes | | | | |
| To Record Note Issuance | | | | |
| Dr. 49 B 000 000 711000 000 | Cash | - | | |
| Cr. 49 R 000 873 500000 000 | Long-Term Notes Proceeds | - | | |
| | | | | JE IN BALANCE |
| To Record Note Premium, if applicable | | | | |
| Dr. 38/39 B 000 000 711000 000 | Cash | - | | |
| Dr. 38/39 E 000 690 281000 000 | Other Debt Payment-Closing Costs | - | | |
| Dr. 38/39 E 000 690 281000 000 | Other Debt Payment-Discount | - | | |
| Cr. 38/39 R 000 968 500000 000 | Debt Premium-Non-Refinancing Debt | - | | |
| | | | | JE IN BALANCE |
| Debt Service Payments | | | | |
| Dr. 38/39 E 000 673 281000 000 | Long-Term Notes Principal | - | | |



[Baird Video Library Video – Coding Debt Issues](#)

Coding Debt Transactions – Defeasance / Prepayment

DPI Coding Guide

| Journal Entries for Debt Issuance and Subsequent Interest and Principal Payments | | | |
|--|-------------------------------------|---|----------------------|
| Below is the anticipated journal entry to record the defeasance of debt by a school district. Defeasance uses levied cash on hand to make prepayment of debt principal and interest. It removes a portion of the remaining debt as a legal liability of the District once the escrow closes. | | | |
| Debt is recorded in Fund 38 if non-referendum related or in Fund 39 if referendum related. | | | |
| Bond Defeasance | | | |
| Dr. 38/39 E 000 675 281000 000 | Long-Term Bond Principal | - | |
| Dr. 38/39 E 000 685 281000 000 | Long-Term Bond Interest | - | |
| Dr. 38/39 E 000 690 281000 000 | Other Debt Retirement-Closing Costs | - | |
| Cr. 38/39 R 000 968 500000 000 | Debt Premium-Non-Refinancing Debt | | - |
| Cr. 38/39 B 000 000 711000 000 | Cash | | - |
| | | - | - |
| | | | JE IN BALANCE |
| Debt Schedule Adjustments | | | |
| The principal payment defeased should be included in the "Principal Payments Scheduled" column in SAFR debt schedule. | | | |
| The interest payment defeased should be included in the "Interest Payments Scheduled" column in SAFR debt schedule. | | | |
| Remember to adjust future payments per the new debt schedule provided during defeasance. | | | |
| Debt schedule should equal 0 at end. | | | |



Baird Video Library Video – Coding Debt Issues

Coding Debt Transactions – Refinancing

DPI Coding Guide

Journal Entries for Refinancing of Debt and Subsequent Principal and Interest Payments

Below are the anticipated journal entries to record various debt refinancing transactions by a school district and subsequent debt service payments. Debt is recorded in Fund 38 if non-referendum related or in Fund 39 if referendum related.

SEE EXAMPLES OF REFINANCING TRANSACTIONS AND CORRESPONDING CLOSING MEMOS AT <https://dpi.wi.gov/sfs/finances/wufar/accounting-issues-examples>

| General Obligation Bond Refinancing Transaction | | | |
|---|-------------------------------------|---|-------------------|
| New Bond Issuance | | | |
| | Cash | - | |
| Dr. 38/39 E 000 690 282000 000 | Other Debt Retirement-Closing Costs | - | |
| Dr. 38/39 E 000 690 282000 000 | Other Debt Retirement-Discount | - | |
| Cr. 38/39 R 000 875 500000 000 | Long-Term Bond Proceeds | | - |
| Cr. 38/39 R 000 879 500000 000 | Premium on Debt Refinancing | | - |
| | | - | - |
| | | | JE IN BALANCE |
| Payoff of Refinanced Bond | | | |
| Dr. 38/39 E 000 675 282000 000 | Long-Term Bond Principal | - | |
| Dr. 38/39 E 000 685 282000 000 | Long-Term Bond Interest | - | |
| Cr. 38/39 B 000 000 711000 000 | Cash | | - |
| | | - | - |
| | | | JE IN BALANCE |
| Totals | | | |
| | | - | - |
| | | | JE IN BALANCE |
| Function 282000 Test: | | | |
| Proceeds | | - | |
| Plus Premium | | - | |
| Less Principal Paid Off | | - | |
| Less Interest Paid Off | | - | |
| Less Discount | | - | |
| Less Fees | | - | |
| Must Equal Zero or Cash Received | | - | TEST WORKS |

If principal and interest payments occur in the same fiscal year as the refinancing, the cash received as calculated above must be applied to principal or interest payments for this issue using Function 282000. See "Debt Service Payments on New GO Bond Issuance" with cash received from refinancing included in example. If no principal and interest payments occur in the same fiscal year as the refinancing, the cash received as calculated above must be coded to Fund Balance Restricted for Refinancing – 936310 at year end.

In the subsequent fiscal year, the balance in 936310 must be applied to principal or interest payments as a 282000 function. For example, if the total interest payments are \$50,000 but a balance of \$5,000 was remaining in 936310, \$45,000 would be coded to Function 281000 and \$5,000 would be coded to Function 282000.



Coding Debt Transactions – Refinancing

DPI Coding Guide

Debt Service Payments on New GO Bond Issuance

| | | | | | | |
|--------------------------------|--------------------------|---|--|--|--|---------------|
| Dr. 38/39 E 000 675 281000 000 | Long-Term Bond Principal | - | | | | |
| Dr. 38/39 E 000 685 281000 000 | Long-Term Bond Interest | - | | | | |
| Dr. 38/39 E 000 685 282000 000 | Long-Term Bond Interest | - | | | | |
| Cr. 38/39 B 000 000 711000 000 | Cash | - | | | | |
| | | - | | | | JE IN BALANCE |

The district needs to enter a new debt schedule for the new debt issued. See "Enter LT Debt in SAFR Tab".

Below is an example of the first line including the coding for cash received during refinancing.

| Period | Last Principal Balance | Principal Payments Scheduled | Interest Payments Scheduled | Refinanced Principal Adjustment | Refinanced Interest Adjustment | New Principal Balance |
|------------------------------------|------------------------|------------------------------|-----------------------------|---------------------------------|--------------------------------|-----------------------|
| PERIOD IN WHICH REFINANCING OCCURS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

The Bond debt schedule you are refinancing should be adjusted to look like the below:

| Period | Last Principal Balance | Principal Payments Scheduled | Interest Payments Scheduled | Refinanced Principal Adjustment | Refinanced Interest Adjustment | New Principal Balance |
|------------------------------------|------------------------|------------------------------|-----------------------------|---------------------------------|--------------------------------|-----------------------|
| PERIOD IN WHICH REFINANCING OCCURS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |



[Baird Video Library Video – Coding Debt Issues](#)

Entering Debt into the Debt Portal

Old Way



Within 10 days,
enter in the DPI
SAFR Debt Portal

| Long-Term Debt Issues - All Debt | | | | | | | | |
|---|--------------------------|------|----------|----------------------------|---------------|-----------------|-----------------|----------------------|
| Name | Debt Type [▲] ↓ | Fund | Function | Issue Date | Maturity Date | Original Amount | Current Balance | Payment Schedule |
| | Bond Issue | 39 | 281 | 03/01/1998 | 09/01/2012 | \$1,340,000.00 | \$0.00 | View |
| WRS REFINANCING | Bond Issue | 38 | 281 | 08/01/2003 | 03/01/2017 | \$460,000.00 | \$0.00 | View |
| 9,950,000 GO SCHOOL BUILDING BONDS | Bond Issue | 39 | 281 | 03/04/2008 | 09/01/2028 | \$9,950,000.00 | \$0.00 | View |
| \$5,650,000 General Obligation Refunding Bonds, Series 2016 | Bond Issue | 39 | 281 | 04/13/2016 | 09/01/2026 | \$5,650,000.00 | \$2,670,000.00 | View |
| POOL RENOVATION | Note | 38 | 281 | 03/03/2021 | 12/01/2030 | \$585,325.15 | \$555,418.99 | View |
| PHASE II 2008 | State Trust Fund Loan | 39 | 281 | 08/26/2009 | 03/15/2024 | \$1,050,000.00 | \$0.00 | View |

Add New Issue

New

Edit

Edit

File Path: [SFS Homepage](https://dpi.wi.gov/sfs) (dpi.wi.gov/sfs) / SAFR Reporting Portals / Log In to View or Submit Data / <log in> / Financial Data Home / Debt Schedules (PI-1505-DEBT)



[Baird Video Library Video – Entering Debt into the Debt Portal](#)

Entering Debt into the Debt Portal

New Way



Within 10 days,
enter in the DPI
WiSFiP Debt
Portal

+ Add New Record Export to Excel Export to PDF Debt Type: All Types

Debt Schedules

| Debt Schedule Name ↑ | Debt Schedule Type | WUFAR Fund | WUFAR Function | Issue Date | Maturity Date | Start Date | Principal Before Start | Original Amount | Current Balance [RO] | |
|---|--------------------|------------|----------------|------------|---------------|------------|------------------------|-----------------|----------------------|----------------|
| ▶ | Bonds | Fund 39 | Function 281 | 03/01/1998 | 09/01/2012 | 01/01/1900 | \$0 | \$1,340,000 | \$0 | Edit Delete |
| ▶ \$1,500,000 General Obligation Promissory Note, Series 2022 | Bonds | Fund 39 | Function 281 | 06/06/2022 | 09/01/2026 | 01/01/1900 | \$0 | \$1,500,000 | \$0 | Edit Delete |
| ▶ \$5,650,000 General Obligation Refunding Bonds, Series 2016 | Bonds | Fund 39 | Function 281 | 04/13/2016 | 09/01/2026 | 01/01/2016 | \$0 | \$5,650,000 | \$0 | Edit Delete |
| ▶ 9,950,000 GO SCHOOL BUILDING BONDS | Bonds | Fund 39 | Function 281 | 03/04/2008 | 09/01/2028 | 01/01/2008 | \$0 | \$9,950,000 | \$0 | Edit Delete |
| ▶ PHASE II 2008 | State Trust Fund | Fund 39 | Function 281 | 08/26/2009 | 03/15/2024 | 01/01/2010 | \$25,000 | \$1,050,000 | \$0 | Edit Delete |



WiSFiP Portal

Entering Debt into the Debt Portal



The portal detail determines how to code annual expenditures

| Name | Debt Type <small>A Z ↓</small> | Fund | Function | I |
|--------------------------------------|--------------------------------|------|----------|---|
| General Obligation Refunding Bonds | Bond Issue | 39 | 281 | |
| Taxable Gene Obligation Refunding Bo | | | | |

- 670 Principal
 - 673 Long-Term Note Principal
 - 674 State Trust Fund Loan Principal
 - 675 Long-Term Bond Principal
 - 676 TEACH Loan Principal
 - 677 Land Contract Principal
 - 678 Capital Lease Principal

- 680 Interest
 - 682 Temporary Note Interest
 - 683 Long-Term Note Interest
 - 684 State Trust Fund Loan Interest
 - 685 Long-Term Bond Interest
 - 686 TEACH Loan interest
 - 687 Land Contract Interest
 - 688 Capital Lease Interest

Correctly Coded:

39 E 800 675 281000 000
39 E 800 685 281000 000

DPI and Baird Resources to support transaction entry



Debt Proceeds
Fund 49

Revenue = Debt Proceeds (+ others)
Expenditures = Project Costs



Debt Repayment
Fund 38 or 39

Revenue = Tax Levy (+ others)
Expenditures = Debt Payments

Questions?



Important Disclosures

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