

Golfitis Water & Sewer Authority

Recording of Initial Bond Issuance

First Year (2006)

	Debit	Credit	
Bonds Payable		5,000,000	→ Represents amount of bond proceeds
Bond Issue Costs	150,000		→ Costs incurred to issue the bonds
Debt Service Reserve Fund	300,000		→ Amount required to be transferred per the trustee
Bond Fund	100,000		→ Amount needed for the first semi-annual interest payment
Construction Fund	4,450,000		→ Remaining proceeds to construct the system

To record the issuance of the 2006 bond series.

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Trust Fund Activity Related to Bond Issuance

Second Year (2007)

	Debit	Credit		
Construction in Progress	4,082,500	—————>	Construction costs incurred	
Bond Fund		100,000	—————>	Record first semi-annual interest payment made
Interest Income - Construction Fund		89,000		
Construction Fund		3,893,500		
Interest Income - DSR Fund		24,000	—————>	Interest earned and subsequently transferred to Revenue Fund
Interest Income - Revenue Fund		500		
Cash - Revenue Fund	24,500			
Amortization Expense	7,500			
Accumulated Amortization		7,500	} Amortization of bond issue costs	

To record 2007 trust fund activity.

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Trust Fund Activity Related to Bond Issuance

Third Year (2008)

	Debit	Credit	
Water & Sewer System	4,319,000		} Record the completion of the system
Construction in Progress		4,082,500	
Interest Income - Construction Fund		30,000	
Construction Fund		556,500	
Bonds Payable	250,000		} Payment of debt service
Interest Expense	100,000		
Interest Income DSR Fund		24,000	
Interest Income - Revenue Fund		1,500	
Revenue Fund - Cash	25,500		
Amortization Expense	7,500		
Accumulated Amortization		7,500	

To record 2008 trust fund activity.

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Advanced/Current Refunding of a Bond Issue

- Reasons
 - Reduction in interest rates
 - Savings to the Authority
 - Extend the life of the existing bond issue
 - New construction projects

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Advanced/Current Refunding of a Bond Issue

- Elements of the Transaction
 - Elimination of old issue
 - Recording of the new issue
 - Calculation of deferred amount on refunding
 - Calculation of savings and economic gain
 - Proper reporting and disclosure

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Record Current Refunding of 2006 Bond Issue (Year 2010)

	Debit	Credit	
Bonds Payable - 2006 Series	4,500,000		} Record elimination of old bond series
Bond Issue Costs - 2006 Series		150,000	
Accumulated Amortization - BIC	30,000		
Trust Fund Balances - 2006 Series		500,000	
Bonds Payable - 2010 Series		5,000,000	} Record new bond series
Bond Issue Costs - 2010 Series	150,000		
Debt Service Reserve Fund - 2010 Series	300,000		
Bond Fund - 2010 Series	50,000		
Deferred Amount on Refunding	620,000	→	Record deferral on refunding

To record current refunding of bonds.

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Advanced/Current Refunding of a Bond Issue

- Reporting & Disclosures
 - Bonds outstanding are reported net of deferral on refunding
 - Annual amortization of deferral on refunding is shown as a component of interest expense
 - Note disclosures
 - Computation of deferral on refunding
 - Difference in cash flows – new debt v. old debt
 - Economic gain or loss resulting from transaction

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Calculation of Deferred Amount on Refunding

Reacquisition Cost of 2010 Series

Bond Proceeds	5,000,000	
Bond Issue Costs	(150,000)	
Transfer to 2010 Trust Funds	(350,000)	
Transfer from 2006 Trust Funds	<u>500,000</u>	5,000,000

Less: Carrying Amount of 2006 Bonds:

Bonds Outstanding at Time of Refunding	4,500,000	
Unamortized Bond Costs - 2006 Series	<u>(120,000)</u>	<u>(4,380,000)</u>

Deferred Amount on Refunding

620,000

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Calculation of Economic Gain and Savings

Gross Cash Flow Savings:

2006 Bond Series - Remaining Debt Service Cash Flows	xxxxxxx
Less: 2010 Bond Series - Debt Service Cash Flows	(xxxxxxx)
Add: Accrued Interest Received on 2010 Bond Issue	<u>xxxx</u>
Gross Cash Flow Savings	<u><u>xxxxxxx</u></u>

Economic Gain (Loss):

2006 Bond Series - PV of Remaining Debt Service Cash Flows	xxxxxxx
Less: 2010 Bond Series - PV of Debt Service Cash Flows	(xxxxxxx)
Add: Accrued Interest Received on 2010 Bond Issue	<u>xxxx</u>
Economic Gain (Loss)	<u>xxxxxxx</u>