

CHAPTER 20

GENERAL LONG-TERM DEBT ACCOUNT GROUP

All long-term liabilities of a local unit of government, not directly related to or expected to be repaid by Enterprise Funds or Special Assessment Funds, should be accounted for in the Long-term Debt Account Group.

Long-term Debt Accounting

Long-term debt in the Commonwealth of Massachusetts includes only bonds and notes payable which have maturities in excess of one year from issuance. Long-term debt, related to Enterprise Funds and Special Assessment Funds, should be accounted for in those funds.

The amount, type and length of time to maturity of long-term indebtedness that may be issued by a local governmental unit in the Commonwealth of Massachusetts is controlled by specific statutes. (See the account descriptions of the general ledger #2800 account series in Chapter 6.) Section 10, Chapter 44, of the Massachusetts General Laws limits the amount of debt that may be authorized by a city to 2-1/2% of its total equalized valuation, and by a town to 5% of its total equalized valuation. This may be exceeded under certain circumstances with the prior approval of the Commonwealth's Emergency Finance Board, but in no instance may a city exceed 5% of its total equalized valuation, nor a town exceed 10%. The type and length of time of a given debt issue is controlled by Sections 7 and 8, Chapter 44, of the Massachusetts General Laws. In essence, substantially all bonded indebtedness which is backed by the full faith and credit of a governmental unit in Massachusetts takes the form of serial bonds which are repaid proportionately over periods of up to 30 years.

In Massachusetts, a very high percentage of the serial bond issues outstanding relate to the construction or renovation of school buildings. Chapter 645, Acts of 1948, as amended, provides for reimbursement by the Commonwealth of 50% to 65% of such construction costs to be paid to the local governmental unit proportionately over the life of the related bond issue. Such reimbursements represent "Other Amounts to Be Provided," as explained below, and should be recorded in full at the time that the permanent debt issue is recorded.

The Long-term Debt Group of Accounts is an "account group" and not a fund. Account groups do not measure the results of operations. The long-term debt arising from the issuance of formal debt instruments is recorded in the Long-term Debt Account Group when the debt proceeds are recorded as an "Other Financing Source" in the Capital Projects Fund. The recorded liability is fully offset with a debit to the "Amount to Be Provided" account.

Current maturities of principal, together with related interest on a General obligations serial bond, will be appropriated and paid in the General Fund. At the same time, an entry will be made in the Long-term Debt Account Group, reversing the specific bond liability and the related "Amount to Be Provided."

The entries which follow illustrate the accounting for the Long-term Debt Account Group and are presented in the following sequence:

- Opening Entry
- Memorandum Entries
- Bond Issues and Payments
- Closing Trial Balance

Opening Entry

At the beginning of the fiscal year, account balances from the prior year's ending trial balance should be recorded in the general ledger.

1. The closing trial balance of the prior year is journalized and entered into the general ledger.

91-1930	Amounts to be Provided for Payments of Bonds	\$2,000,000	
91-1931	Amount to be Provided, State (Chapter 645)	300,000	
91-2801	Bonds Payable, Inside the Debt Limit- School Construction		\$500,000
91-2814	Bonds Payable, Inside the Debt Limit - Public Buildings		50,000
91-2890	Bonds Payable, Outside Debt Limit - Economic Development		1,000,000
91-2895	Bonds Payable, Outside Debt Limit - Public Disaster		750,000
		\$2,300,000	\$2,300,000

To record the opening balances in
the general ledger

Memorandum Entries

Memorandum entries are not required for this Group of Accounts, but are recommended to monitor the amounts of serial loan issues authorized by the appropriate authority and the subsequent serial issues or authorization rescissions. Memorandum accounts should not be closed out at the end of the fiscal year. Such accounts should only be eliminated when zeroed out by serial issues or authorization rescissions. Although these accounts do appear in opening or closing trial balances, they are not reflected in the financial statements.

- a. Serial bond issues are authorized by appropriate authority.

91-1980	BONDS AUTHORIZED	1,000,000	
91-1989	BONDS AUTHORIZED AND UNISSUED		1,000,000

To record the authorization to issue serial bonds

- b. Serial bonds are issued (assumes that there were authorization balances carried forward from the prior year).

91-1989	BONDS AUTHORIZED AND UNISSUED	5,000,000	
91-1980	BONDS AUTHORIZED		5,000,000

To record the issuance of bonds authorized

Bond Issues and Payments

2. Serial bonds are issued in connection with a capital project recorded in the Capital Projects Funds.

91-1930	Amountsto be Provided for Payment of Bonds	5,000,000	
91-2858	Bonds Payable, Outside the Debt Limit - Public Buildings		5,000,000

To record the issuance of serial bonds
for a new fire station

3. Payment of current maturing principal is appropriated and paid in the General Fund.

91-2801	Bonds Payable, Inside the Debt Limit - School Construction	50,000	
91-2814	Bonds Payable, Inside the Debt Limit - Public Buildings	25,000	
91-2890	Bonds Payable, Outside the Debt Limit - Economic Development	50,000	
91-2895	Bonds Payable, Outside the Debt Limit - Public Disaster	450,000	
91-1930	Amount to be Provided for Payment of Bonds		545,000
91-1931	Amount to be Provided, State (Chapter 645)		30,000

To record the current maturities of bond principal

Closing Trial Balance

91-1930	Amounts to be Provided for Payment of Bonds	\$ 6,455,000	
91-1931	Amounts to be Provided, State (Chapter 645)	270,000	
91-2801	Bonds Payable, Inside the Debt Limit - School Construction		\$ 450,000
91-2814	Bonds Payable, Inside the Debt Limit - Public Buildings		25,000
91-2858	Bonds Payable, Outside the Debt Limit - Public Buildings		5,000,000
91-2890	Bonds Payable, Outside the Debt Limit - Economic Development		950,000
91-2895	Bonds Payable, Outside the Debt Limit - Public Disaster		300,000
		\$6,725,000	\$6,725,000