Procedure 705 General Obligation Bonds

General obligation (G.O.) bonds are debt instruments backed by the full faith and credit of the issuing government. G.O. bonds issued by LEAs in California are authorized by election under the provisions of *Education Code* Section 15100 and are secured by the statutory obligation to levy an ad valorem property tax sufficient for the interest on and redemption of the bonds.

Two funds are used to account for an LEA's G.O. bond transactions: the Building Fund (Fund 21) and the Bond Interest and Redemption Fund (Fund 51).

The Building Fund is used to account for the receipt and expenditure of proceeds from the sale of bonds. The major expenditures in an LEA's Building Fund are related to the purchase and improvement of sites and the construction and modification of buildings.

The Bond Interest and Redemption Fund is used to account for the repayment of bonds from taxes levied by the county auditor–controller.

It is important that bond issuance transactions be presented correctly in the fund statements and the government-wide statements. The accounting must reflect the bonds' selling price, any issue costs deducted from the proceeds, and any accrued interest included in the selling price.

Selling price. Bonds are not always sold at face value (par). They may be sold at one of three prices:

- At par (selling price is equal to the bonds' face value).
- At a discount (selling price is lower than face value). When market interest rates are higher than the bonds' stated interest rate on the day of issuance, the bonds are less attractive to investors. The bond price must be lowered or "discounted" until the yield equals the market rate. The discount is recognized as an expenditure in Object 7699, All Other Financing Uses, in the Building Fund.
- At a premium (selling price is higher than face value). When market interest rates are lower than the bonds' stated interest rate on the day of issuance, the bonds are more in demand, and investors are willing to pay a premium to buy them. The premium is recognized in Object 8979, All Other Financing Sources, in the Bond Interest and Redemption Fund.

Issue costs. Issue costs are normally deducted from the net proceeds received by the LEA. Issue costs typically include the underwriter's discount and fees, bond insurance, or other administrative fees.

Accrued interest. When bonds are sold between scheduled interest payment dates, the accrued interest is typically "sold" to the purchaser. It will offset the first interest payment made to the purchaser.

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A series of typical transactions and entries relating to the issuance and repayment of bonds, using the modified accrual basis of accounting appropriate in governmental funds, are illustrated as follows. (For the purpose of these illustrations, encumbrance accounting entries are ignored.)

1. The bond issuance is sold to the purchaser of the bonds.

Bonds issued at par:

Amount	Description
$5,000,000	Face amount of bonds
$5,000	Issue costs deducted from proceeds – prepaid bond insurance only
$70,000	Issue costs deducted from proceeds – other than prepaid bond insurance
$4,925,000	Cash received

Date	Object Title	SACS Account String	Debit	Credit
x-xx-xx	Cash in County Treasury	21-9010-0-0000-0000-9110	$4,925,000	
	Insurance	21-9010-0-0000-9100-5400	$5,000	
	Professional/Consulting Services and Operating Expenditures	21-9010-0-0000-9100-5800	$70,000	
	Proceeds from Sale of Bonds	21-9010-0-0000-0000-8951		$5,000,000

Bonds issued at a discount:

Amount	Description
$5,000,000	Face Amount of Bonds
$100,000	Discount
$5,000	Issue Costs deducted from proceeds – prepaid bond insurance only
$70,000	Issue Costs deducted from proceeds – other than prepaid bond insurance
$4,825,000	Cash Received

Date	Object Title	SACS Account String	Debit	Credit
x-xx-xx	Cash in County Treasury	21-9010-0-0000-0000-9110	$4,825,000	
	Insurance	21-9010-0-0000-9100-5400	$5,000	
	Professional/Consulting Services and Operating Expenditures	21-9010-0-0000-9100-5800	$70,000	
	All Other Financing Uses	21-9010-0-0000-9100-7699	$100,000	
	Proceeds from Sale of Bonds	21-9010-0-0000-0000-8951		$5,000,000

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Bonds issued at a premium:

Amount	Description
$5,000,000	Face Amount of Bonds
$100,000	Premium (deposit to Bond Interest and Redemption Fund per *Education Code* Section 15146[g])
$5,000	Issue Costs deducted from proceeds – prepaid bond insurance only
$70,000	Issue Costs deducted from proceeds – other than prepaid bond insurance
$5,025,000	Cash Received

Date	Object Title	SACS Account String	Debit	Credit
x-xx-xx	Cash in County Treasury	21-9010-0-0000-0000-9110	$4,925,000	
	Insurance	21-9010-0-0000-9100-5400	$5,000	
	Professional/Consulting Services and Operating Expenditures	21-9010-0-0000-9100-5800	$70,000	
	Proceeds from Sale of Bonds	21-9010-0-0000-0000-8951		$5,000,000
	Cash with a Fiscal Agent/Trustee	51-9010-0-0000-0000-9135	$100,000	
	All Other Financing Sources	51-9010-0-0000-0000-8979		$100,000

Bonds issued between interest payment dates (accrued interest sold to purchaser):

Amount	Description
$5,000,000	Face Amount of Bonds
$5,000	Accrued interest "sold" to bond purchaser (deposit to Bond Interest and Redemption Fund per *Education Code* Section 15146[g])
$5,000	Issue Costs deducted from proceeds – prepaid bond insurance only
$70,000	Issue Costs deducted from proceeds – other than prepaid bond insurance
$4,930,000	Cash Received

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Date	Object Title	SACS Account String	Debit	Credit
x-xx-xx	Cash in County Treasury	21-9010-0-0000-0000-9110	$4,925,000	
	Insurance	21-9010-0-0000-9100-5400	$5,000	
	Professional/Consulting Services and Operating Expenditures	21-9010-0-0000-9100-5800	$70,000	
	Proceeds from Sale of Bonds	21-9010-0-0000-0000-8951		$5,000,000
	Cash with a Fiscal Agent/Trustee	51-9010-0-0000-0000-9135	$5,000	
	Accounts Payable	51-9010-0-0000-0000-9500		$5,000

A bond issuance is considered to have taken place as of the closing date for accounting and financial reporting purposes. An LEA should report the bond proceeds as of that date, which may require the LEA to record a receivable.

Bonds authorized but not issued are not recorded in governmental funds. They are treated like a line of credit that has not been used.

2. Costs of site acquisition and construction are paid in the amount of $4,500,000.

Date	Object Title	SACS Account String	Debit	Credit
x-xx-xx	Land	21-9010-0-0000-8500-6100	$1,000,000	
	Buildings and Improvements of Buildings	21-9010-0-0000-8500-6200	$3,500,000	
	Cash in County Treasury	21-9010-0-0000-0000-9110		$4,500,000

At the close of the project, there may be a remaining cash balance in the project fund that represents the excess amount of bond proceeds over the project's actual costs. The LEA should refer to the bond authorization for guidance in the disposition of the remaining funds.

3. The county auditor–controller maintains control over the Bond Interest and Redemption Fund and levies taxes in amounts sufficient to redeem the bonds as they come due. Interest is earned on the cash balance in the fund.

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Date	Object Title	SACS Account String	Debit	Credit
x-xx-xx	Cash with a Fiscal Agent/Trustee	51-9010-0-0000-0000-9135	$221,000	
	Voted Indebtedness Levies, Secured Roll	51-9010-0-0000-0000-8611		$200,000
	Voted Indebtedness Levies, Unsecured Roll	51-9010-0-0000-0000-8612		$20,000
	Interest	51-9010-0-0000-0000-8660		$1,000

4. The county treasurer makes payments of bond principal and interest. The accrued interest "sold" to the purchaser when the bonds were issued offsets the first interest payment.

Date	Object Title	SACS Account String	Debit	Credit
x-xx-xx	Bond Redemptions	51-9010-0-0000-9100-7433	$190,000	
	Bond Interest and Other Service Charges	51-9010-0-0000-9100-7434	$5,000	
	Accounts Payable	51-9010-0-0000-0000-9500	$5,000	
	Cash with a Fiscal Agent/Trustee	51-9010-0-0000-0000-9135		$200,000

5. Any money remaining in the Bond Interest and Redemption Fund after payment of all bonds payable from the fund is transferred to the district's general fund (*Education Code* Section 15234).

Date	Object Title	SACS Account String	Debit	Credit
x-xx-xx	From Bond Interest and Redemption Fund to the General Fund	51-9010-0-0000-9300-7614	$1,100	
	Cash with a Fiscal Agent/Trustee	51-0000-0-0000-0000-9135		$1,100
	Cash in County Treasury	01-0000-0-0000-0000-9110	$1,100	
	To General Fund from Bond Interest and Redemption Fund	01-0000-0-0000-0000-8914		$1,100