DATE: December 4, 1998

TO: Local School District Business Officials

FROM: Elaine Madigan Mills, Acting Director of State School Aid and School Finance

SUBJECT: Accounting For *Durant* Bond Proceeds and Subsequent Debt Service for the Bonds

The Michigan School Accounting Manual Referent group convened on Tuesday, November 17, 1998. One of the primary issues discussed was the accounting for *Durant* bond proceeds and subsequent debt service for the bonds.

A subcommittee of the group along with representatives of Management and Budget, Treasury, and Education have been meeting over the last seven months to review available accounting literature. All indications point to the schools, not the State, as the parties issuing bonds and incurring the debt. This conclusion was based upon the following:

> School districts were not required to bond. They were given the option of receiving payments over the course of fifteen years.
>
> Districts electing to bond received a lump sum amount (bond proceeds) from the National Bank of Detroit on November 24, 1998. This created a liability which will be reduced each year with the annual state appropriation made for debt service on the bonds. School districts pledged their right to receive these future appropriations as a condition of receiving the bond proceeds.
>
> The bond documentation states specifically that the Series 1998 Bonds shall <u>not</u> be in any way a debt or liability of the State of Michigan.

After a lengthy discussion of the bond tenets, the committee unanimously agreed to the following resolution:

> Based on the research to date, it appears the *Durant* bonds are a legal obligation of the school district and should be recorded in the District's General Long Term Debt Account Group. Adequate footnote disclosure should be made of the significant condition attached to this obligation - namely that the annual State of Michigan appropriation is the <u>**only**</u> revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment.

Using this assumption, school districts will be required to record the bond proceeds in their Capital Projects Fund and General Long Term Debt Account Group with the debt service to be recorded each year in the district's Debt Retirement Fund. Since the payment for debt service is conditioned upon the annual legislative appropriation, should the legislature fail to appropriate debt service in any given year, the district will write off the debt service for that fiscal year only. The recommended accounting entries will be:

Capital Project Fund

11/24/98 42-101-0000 Cash
40-591-0000 Sale of *Durant* Resolution Package Bonds

To Record 15 year *Durant* Resolution Package Bonds, Debt Service and Interest to be paid annually by State Appropriation

General Long Term Debt Account Group

11/24/98 92-304-0000 Amounts to be provided for Payment of *Durant* Resolution Package Bonds
92-501-0000 *Durant* Resolution Package Bonds Payable

To Record 15 year *Durant* Resolution Package Bonds, Debt Service and Interest to be paid annually by State Appropriation

05/15 92-501-0000 *Durant* Resolution Package Bonds Payable
92-304-0000 Amounts to be provided for Payment of Durant Resolution Package Bonds

To Record debt service payment made on district's behalf by State

Debt Retirement Fund

05/15 31-511-7110 Redemption of Principal *Durant* Resolution Package Bonds
31-511-7230 Interest on *Durant* Resolution Package Bonds
30-312-XXXX State Aid Categorical Restricted Revenue (Section 11g)

To Record the payment made by State on-behalf of district for Debt Service on *Durant* Resolution Package Bonds

If you have questions related to this correspondence, you may contact Glenda Rader of our office at (517) 335-0524.