

OREGON ACCOUNTING MANUAL		Number 15.65.10.PR
Oregon Department of Administrative Services State Controller's Division	Procedure	Effective Date August 18, 2005
Chapter	Accounting and Financial Reporting	.1 OF .6
Part	Bonds and Certificates of Participation (COPs)	
Section		Approval Signature on file at SCD

Recording Issuance of Debt

- .101 When bonds or certificates of participation (COPs) are issued for general government purposes, the proceeds are recorded in governmental funds. This may be in a **special revenue fund** or, if the debt is to be used for capital construction, it may be recorded in a **capital projects fund**. The obligation for the debt is recorded in the **government-wide reporting fund**.
- .102 When debt is issued for **proprietary funds**, both the proceeds and the obligation for the debt are recorded in the proprietary fund itself.
- .103 The face amount of debt, underwriter's discount, original issue discount and premium, and cost of issuance must all be separately recorded in the accounting records. It is not appropriate to record only the net amount of cash received.
- .104 The accounting entries for bonds and COPs are essentially the same; only the specific general ledger accounts and comptroller objects differ. Likewise, the transactions recorded for debt issued by proprietary funds and general government debt are essentially the same. The difference involves the funds where the transactions are recorded. A listing of common transaction codes used for recording bond and COP transactions can be found in Appendix A, an addendum to this procedure.
- .105 Transaction codes 567 and 568 (for cash in bank) and transaction codes 190 and 167R (for cash in State Treasury) are used to record cash transactions associated with the initial issuance of long-term debt. Transaction codes 504 and 514 are used to record the liability for the debt and capitalize the costs of issuance.
- .106 For example, DAS issues COPs on behalf of an agency for general government purposes, which are sold at a discount. The entries to record the issuance (assuming cash in bank) are as follows:

Governmental Fund

TC 567 to record the face amount of COPs issued

DR 0077 Cash in Bank	2,500,000	
CR 3100 Revenue Control – Cash (1506 COP Proceeds)		2,500,000

TC 567R to record original issue discount

DR 3100 Revenue Control – Cash (1507 OID – COP)	50,000	
CR 0077 Cash in Bank		50,000

TC 568 to record issuance costs and underwriter's discount

DR 3500 Expenditure Control – Cash (4055 COP Costs)	192,000	
CR 0077 Cash in Bank		192,000

Government-wide Reporting Fund

TC 504 to record liability for the debt for face value of COPS issued

DR 3200 GAAP Revenue Offset (1506 COP Proceeds)	2,500,000	
CR 1704 COPS Payable – Noncurrent		2,500,000

TC 504R to record reduction of the debt for the original issue discount

DR 1702 Discount on COPS Sold	50,000	
CR 3200 GAAP Revenue Offset (1507 OID – COP)		50,000

TC 514 to capitalize issuance costs

DR 0603 Deferred Charges	67,000	
CR 3600 GAAP Expenditure Offset (4055 COP Costs)		67,000

TC 514 to capitalize underwriter's discount

DR 1701 Underwriter's Discount– COP	125,000	
CR 3600 GAAP Expenditure Offset (4055 COP Costs)		125,000

- .107 It is important that the comptroller objects used in the government-wide reporting fund are the same as the comptroller objects used to record the entries in the governmental fund. This will allow the GAAP offsets to ensure transactions are properly reported in the financial statements.
- .108 If there is accrued interest earned and payable from date of issuance to date of sale of the debt, it is recorded in the fund that will be making the debt service payments. This interest is normally used to offset some portion of the first interest payment. Use TC 507 to debit cash in bank and credit accrued interest payable (use TC 191 for cash in State Treasury).
- .109 Often the official documents of bond and COP issues require that the agency establish reserves, which will be used for the payment of interest or principal on the debt near the end of the life of the issue. Those reserves generally will be held in a separate D23 fund. Intrafund transfers are used to move the required reserve amount from the fund holding the proceeds into the fund where the reserve will be held.

Payment of Principal and Interest

- .110 Generally, payments of bond principal and interest are made using TC 568 (for cash in bank). However, most current COPS require that the agency remit cash for principal and interest to DAS, which then remits the payments to the agent, who then pays the COP holders. In that case, expenditures are recorded at the time the agency makes their payment to DAS using balanced transaction codes 760 and 761 (and the receivable established with TC 120 is liquidated).
- .111 When an agency makes principal payments, the liability in the government-wide reporting fund must be reduced at the same time. The entry to reduce the debt for payment of principal is as follows:

Government-wide Reporting Fund

TC 528 to reduce liability for COPs payable by amount of principal paid

DR 1704 COP Payable – Noncurrent	50,000	
CR 3600 GAAP Expenditure Offset (7150 Principal – COP)		50,000

Amortization of Premium/Discount and Deferred Costs

- .112 Deferred costs such as issuance costs and underwriter's discounts are amortized over the life of the debt issue using a systematic and rational method. Original issue premium and discounts are also amortized. When these items are recorded in the government-wide reporting fund, the amortization is recorded in that fund. Amortization is recorded in the proprietary fund for proprietary fund obligations.
- .113 For example, the entries to record amortization of the underwriter's discount, the original issue discount, and deferred costs for COPs issued for governmental activities are as follows:

Government-wide Reporting Fund

TC 520 to amortize underwriter's discount, original issue discount, and costs of issuance

DR 3600 GAAP Expenditure Offset (7445 Amort Underwrt Disc-COP)	6,250	
CR 1701 Underwriter's Discount – COPs		6,250
DR 3600 GAAP Expenditure Offset (7455 Amort Disc/Prem on COP)	2,500	
CR 1702 Discount on COPs Sold		2,500
DR 3600 GAAP Expenditure Offset (7465 Amort Cost of Issue – COP)	3,350	
CR 0603 Deferred Charges		3,350

Fiscal Year End Entries

- .114 At fiscal year end, an accrual for interest payable as of June 30 must be recorded. This interest payable is equal to the amount of interest attributable to the period involved. The accrual can be recorded with a TC 437, which will auto reverse in the following year. The accrual is made in the proprietary fund or the government-wide reporting fund, depending on where the liability is recorded.
- .115 Interest payable is not accrued in governmental funds unless cash has been transferred to a debt service fund for payment of principal or interest just after the end of the fiscal year. Because the cash would then be a current resource available in the debt service fund for payment of principal and interest immediately after the fiscal year end, it is appropriate to also accrue the payable against that cash. This prevents an overstatement of current resources available for expenditure in the next period. If this accrual is made in a debt service fund, no accrual is required in the government-wide reporting fund.
- .116 At fiscal year end, it may be necessary to record or reclassify cash or securities being held by the trustee. When the debt is being managed by the DAS Budget and Management Division (BAM), the information regarding what needs to be recorded will be provided by BAM.
- .117 For financial reporting purposes, the principal due within one year is reported separately from the long-term debt in the government-wide reporting fund. This involves a reclassification as follows:

Government-wide Reporting Fund

TC 475 and 475R to record current portion of COPs payable for year end reporting

DR 1704 COPs Payable – Noncurrent	125,000
CR 2951 System Clearing GL	125,000
DR 2951 System Clearing GL	125,000
CR 1279 COPs Payable – Current	125,000

Financial Statement Reporting

- .118 In the governmental fund financial statements, bond and COP proceeds are reported as an other financing source. Expenditures related to bond or COP issuance are reported as other debt service expenditures.
- .119 In the proprietary fund financial statements, GAAP offsets ensure that bond and COP proceeds and principal payments are eliminated against the change in the balance of outstanding debt.
- .120 For the government-wide financial statements, the governmental fund and the government-wide reporting fund are combined. Within the combined funds, GAAP offsets ensure that the proceeds and principal payments are eliminated against the change in the balance of outstanding debt.

Disclosure Requirements

- .121 Agencies must complete year end disclosure forms applicable to bonds and COPs to allow SARS to disclose required information in the notes to the State's financial statements. Agencies that issue audited financial statements must include required long-term debt disclosures in the notes to their financial statements. Relevant disclosures at fiscal year end include:
 - a. A description of the types of long-term debt authorized to be issued.
 - b. Schedules showing the changes in outstanding debt for each type of long-term debt for both governmental and business-type activities.
 - c. Schedules of future debt service requirements (principal and interest displayed separately) for each type of long-term debt for both governmental and business-type activities.
 - d. Terms and interest rates associated with variable-rate debt.
 - e. Amounts of long-term debt due within one year of the date of the financial statements.
 - f. Specific information related to demand bonds.

APPENDIX A

Transaction Codes for Bond and COP Programs

The following is a summary of suggested t-codes for use in bond and COP transactions. This list is not all inclusive, but provides the most frequently used t-codes for debt transactions.

Cash Transactions:

Governmental/Proprietary/Fiduciary Fund:

TC 567	Record cash received on sale of COPs, interest income - Cash in Bank
TC 567R	Record negative revenue for original issue discount - Cash in Bank
TC 568	Record expenditure for issuance costs, interest payment - Cash in Bank
TC 190	Record cash received on sale of Bonds - Cash in Treasury
TC 190	Record negative revenue for original issue discount - Cash in Treasury
TC 167R	Record expenditure (ACH or wire transfer) for issuance costs - Cash in Treasury
TC 760/761	Remit COP principal and interest payment to DAS BAM - Cash in Treasury
TC 186	Recognize wire transfer or ACH transfer in - Cash in Bank
TC 479	Record transfer out - Cash in Bank

Issuance of Debt:

Governmental Fund:

TC 507	Establish accrued interest on Bond/COP sold
TC 512	Establish/adjust matured Bond/COP coupon payable
TC 513	Payment of accrued interest on Bond/COP

Proprietary/Fiduciary Fund:

TC 504	Establish/adjust payable/original issue discount/original issue premium for Bond/COP
TC 507	Establish accrued interest on Bond/COP sold
TC 511	Original and underwriter's discount/premium/deferred charges for Bonds/COP
TC 512	Establish/adjust matured Bond/COP coupon payable
TC 513	Payment of accrued interest on Bond/COP
TC 514	Record underwriter's discount/deferred charges for Bond/COP
TC 516	Write-off various Bond/COP costs (advanced refundings/calls)
TC 517	Write-off original issue premium on Bond/COP (advanced refundings/calls)

Government-Wide Fund:

TC 504	Establish/adjust payable/original discount/original premium liability for Bond/COP
TC 514	Record underwriter's discount/deferred charges for Bond/COP
TC 516	Write-off various Bond/COP costs (advanced refundings/calls)
TC 517	Write-off original issue premium on Bond/COP (advanced refundings/calls)

Accreted Interest:

Proprietary/Fiduciary Fund/Government-wide:

TC 524	Establish/adjust accreted interest payable
--------	--

Debt Service Principal and Interest:

Proprietary/Fiduciary Fund/Government-wide:

TC 528	Reduce liability for amount of principal paid for Bond/COP
--------	--

Call or Refunding Related Transactions:

Proprietary/Fiduciary Fund/Government-wide:

TC 516	Write off various Bond/COP costs
TC 517	Write off Bond/COP premium

Amortization:

Proprietary/Fiduciary Fund/Government-wide:

TC 520	Amortize original/underwriter's discount/cost of issuance, deferred charges
TC 523	Amortize original issue premium

Arbitrage Liability:

Proprietary/Fiduciary Fund/Government-wide:

TC 526 Establish/adjust arbitrage payable

Accrued Interest Payable:

Proprietary/Fiduciary Fund/Government-wide:

TC 437 Accrue interest payable at June 30

Reclassify Portion of Bond/COP Liability to Current Liability:

Proprietary/Fiduciary Fund/Government-wide:

TC 475 Set up current liability

TC 475R Reduce noncurrent liability

Reclassify Restricted Assets:

Governmental/Proprietary/Fiduciary Fund:

TC 474 Report restricted assets

TC 474R Reduce unrestricted asset account