

<b>OREGON ACCOUNTING MANUAL</b>		Number 15.65.30.PR
Oregon Department of Administrative Services State Controller's Division	<b>Procedure</b>	Effective Date August 18, 2005
Chapter	<b>Accounting and Financial Reporting</b>	.1 OF .3
Part	<b>Debt Refunding</b>	
Section		Approval  Signature on file at SCD

### Reporting Refunding of General Government Debt

- .101 When accounting for a refunding of general government debt, the proceeds of the new debt, and the payment of funds into escrow for the old debt, are reported in the **governmental fund**. The debt itself is reported in the **government-wide reporting fund**. The amounts issued for refunding (new) debt are reported as an other financing source and those same amounts, when used to refund old debt, are reported as an other financing use. Resources used from sources other than refunding debt is reported as debt service expenditures. In addition, premiums and discounts are reported gross as either an other financing source or other financing use, respectively. Issuance costs are reported as expenditures of the governmental fund.

### Accounting for Refunding of General Government Debt

- .102 The accounting for debt refunding closely parallels the accounting for original issue debt. The following entries record the issuance of refunding bonds and the payment of the proceeds to the escrow agent.

#### Debt Service Fund

##### TC 567 to record face value of bonds from sale in a governmental fund

DR 0077 Cash in Bank	5,200	
CR 3100 Revenue Control – Cash (1505 Proceeds of Refunding Debt)		5,200

##### TC 568 to record bond issuance costs and underwriter's discount

DR 3500 Expenditure Control – Cash (4050 Bond Costs)	50	
CR 0077 Cash in Bank		50

##### TC 567R to record refunding bond discount in a governmental fund

DR 3100 Revenue Control – Cash (1508 OID – Bonds)	150	
CR 0077 Cash in Bank		150

##### TC 568 to record payment to escrow agent from debt service fund

DR 3500 Expenditure Control – Cash (7050 Refunded Payment to Escrow)	5,000	
CR 0077 Cash in Bank		5,000

- .103 Proceeds from refunding debt that are paid to the escrow agent and used to refund the old debt should be reported as an other financing use, even if the actual payment went directly from the counter party to the escrow agent (use comptroller object 7050, Refunded Payment to Escrow). If the agency uses funds from sources other than the refunding debt proceeds, such as a bond sinking fund, the payment should be charged to debt service expenditures rather than other financing uses (use comptroller object 4051, Bond Refund Debt Payment, or 4056 for COPS).

Debt Service Fund

TC 167R to record payment to escrow agent from sources other than refunding debt

DR 3500 Expenditure Control–Cash (4051 Bond Refund Debt Payment)	1,000	
CR 0065 Unreconciled Deposit		1,000

- .104 Since the agency issued general government debt, the new debt liability is recorded in the government-wide reporting fund. The bonds in the government-wide reporting fund should be recorded at face value unless they are zero coupon or deep discount bonds. Note that the comptroller object used is the same as the one used to record the debt issuance. This will offset the other financing source recorded in the governmental fund when combining governmental funds with the government-wide reporting fund to prepare government-wide financial statements.

Government-wide Reporting Fund

TC 504 to record liability for new bonds in the government-wide reporting fund

DR 3200 GAAP Revenue Offset (1505 Proceeds of Refunding Debt)	5,200	
CR 1714 Bonds Payable - Noncurrent		5,200

TC 504R to record original issue discount in government-wide reporting fund

DR 1712 Discount on Bonds Sold	150	
CR 3200 GAAP Revenue Offset (1508 OID – Bonds)		150

TC 514 to record deferred charges for costs of issuance and underwriter's discount

DR 0603 Deferred Charges	30	
CR 3600 GAAP Expenditure Offset (4050 Bond Costs)		30

DR 1711 Underwriter's Discount – Bonds	20	
CR 3600 GAAP Expenditure Offset (4050 Bond Costs)		20

- .105 In addition to recording the new debt, the agency must remove the old debt from the accounting records. That includes any deferred charges, underwriter's discounts, and discounts/premiums related to the old debt. Note that the comptroller objects used in these entries must exactly offset the comptroller objects used in the entries for payments to the escrow agent. Some of the entries involve comptroller object 7050 and some involve comptroller object 4051 (see .103 above).

Government-wide Reporting Fund

TC 528 to eliminate defeased debt from government-wide reporting fund

DR 1714 Bonds Payable - Noncurrent	5,000	
CR 3600 GAAP Expenditure Offset (7050 Refunded Payment to Escrow)		5,000

DR 1714 Bonds Payable – Noncurrent	500	
CR 3600 GAAP Expenditure Offset (4051 Bond Refunding Debt Pmt)		500

TC 514R to eliminate discounts on defeased bonds from government-wide reporting fund

DR 3600 GAAP Expenditure Offset (4051 Bond Refunding Debt Pmt)	160	
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CR 1712 Discount on Bonds Sold		160
DR 3600 GAAP Expenditure Offset (4051 Bond Refunding Debt Pmt)	45	
CR 0603 Deferred Charges		45

- .106 The deferred gain or loss on the refunding must also be recorded. This is the difference between the  **reacquisition price**  and the  **net carrying amount** . The deferral is calculated as follows:

Face value of refunded debt	5,500
Discount on refunded debt	(160)
Deferred Charges on refunded debt	<u>(45)</u>
Net Carrying Amount	<u>5,295</u>
Net proceeds to escrow agent	5,000
Additional Payment to escrow agent	<u>1,000</u>
Reacquisition price	<u>6,000</u>
Deferred Loss on Refunding	<u>(705)</u>

Government-wide Reporting Fund

TC 514 to record deferred loss on refunding

DR 1705 Deferred Loss/(Gain) on Debt Refunding	705	
CR 3600 GAAP Expenditure Offset (4051 Bond Refunding Debt Pmt)		705

- .107 Deferred charges, discounts/premiums, and underwriter's discounts are amortized, as they would be for any other debt issue. The deferred loss/gain should be amortized over the shorter of the life of the new debt or the remaining life of the old debt. All balances should be amortized using a systematic and rational methodology.

**Refunding Debt in Proprietary Funds**

- .108 Refunding debt transactions are recorded in **proprietary funds** using the same transaction codes and accounts as in the examples above. The difference is that the transactions are all recorded in the proprietary fund. GAAP offsets are used to eliminate the other financing source and use, which are not reported in the GAAP financial statements for proprietary funds.

**Disclosure Requirements**

- .109 A general description of debt refunding transactions must be included in the notes to the financial statements. In the year of the refunding, disclosures must include the difference between the cash flows required to service the old debt and the cash flows required to service the new debt. The economic gain or loss resulting from the transaction must also be disclosed.
- a. When measuring the difference between the two cash flows, additional cash used to complete the refunding (e.g., for issuance costs or payments to the escrow agent) paid from resources other than proceeds of the new debt should be added to the new debt cash flows. Accrued interest received at the bond issuance date should be excluded from the new debt cash flows.
  - b. Economic gain or loss is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid, as in (a) above.
- .110 Although the liability for refunded bonds is no longer reported on the face of the financial statements, the amount of in-substance defeased debt must be disclosed in the notes to the financial statements until it is fully paid by the escrow agent. The amount of defeased debt is listed separately to distinguish between governmental activities, business-type activities, and fiduciary fund activity.

.111 Agencies shall complete fiscal year end disclosure forms applicable to debt refunding to provide needed information for disclosures in the **Comprehensive Annual Financial Report**.