PURPOSE: This policy provides guidance on accounting and financial reporting for refunding of long-term debt, including bonds and certificates of participation.

AUTHORITY: ORS 293.590
GASB Statement No. 7
GASB Statement No. 23
GASB Statement No. 34

APPLICABILITY: This policy applies to all state agencies included in the State’s annual financial statements, except for those agencies specifically exempted by OAM 01.05.00.

DEFINITIONS: Debt refunding: The State issues debt and uses the proceeds to repay previously issued debt.

Current refunding: The State uses the proceeds of refunding debt immediately to repay previously issued debt.

Advanced refunding: The State places the proceeds of the refunding debt with an escrow agent, who invests them until they are used later to make future principal and interest payments on the old debt.

Legal defeasance of debt: This situation occurs in an advanced refunding, when the trustee of the escrow account becomes legally obligated for the refunded debt.

In-substance defeasance: This situation occurs in an advanced refunding, when the debt is considered defeased for accounting and reporting purposes even though legal defeasance has not occurred. Debt is considered defeased “in-substance” if all of the following conditions apply:

a. The placement of the resources in escrow is irrevocable.
b. Escrow resources can be used only for the scheduled debt service payments on the old debt.
c. The possibility of the State having to make future payments on that debt is remote.
d. All escrow resources are monetary and essentially risk-free.
e. Cash flows approximately coincide as to timing and amount with scheduled debt service payments.

Click here for other definitions.

POLICY:

101. Agency management must ensure the proper accounting and reporting of debt refunding transactions in accordance with generally accepted accounting principles (GAAP) and the official statements.

102. Annually, agencies submit disclosure packets to Statewide Accounting and Reporting Services (SARS) with all information needed to properly report and disclose debt refundings in the Comprehensive Annual Financial Report (CAFR). Agencies that issue separate audited financial statements must include all required disclosures related to refunded bonds and certificates of participation in the notes to their financial statements.

PROCEDURES:

Reporting Refunding of General Government Debt

103. When accounting for a refunding of general government debt, report the proceeds of the new debt and the payment of funds to the escrow agent for the old debt in the applicable governmental fund. Report the debt, itself, in the government-wide reporting fund.

Accounting for Refunding of General Government Debt

104. Issuance of Refunding Debt. Accounting for a 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 sold in a governmental fund.

```
DR 0077 Cash in Bank 5,200
CR 3100 Rev Cntrl-Cash (C/O 1505 Proceeds of Refund Debt) 5,200
```

**TC 567R:** To record refunding bond discount in a governmental fund.

```
DR 3100 Revenue Control-Cash (C/O 1508 OID-Bonds) 150
CR 0077 Cash in Bank 150
```

**TC 568:** To record bond issuance costs ($30) and underwriter’s discount ($20).

```
DR 3500 Expenditure Control-Cash (C/O 4050 Bond Costs) 50
CR 0077 Cash in Bank 50
```

**TC 568:** To record payment to escrow agent from refunding bond proceeds.

```
DR 3500 Expend Cntrl Cash (C/O 7050 Refund Pmt to Escrow) 5,000
CR 0077 Cash in Bank 5,000
```
105. Use comptroller object 7050, *Refund Payment to Escrow Agent*, to report proceeds from a refunding debt issue that are paid to an escrow agent to refund the old debt. Use this comptroller object even if the actual payment is made directly by the counterparty to the escrow agent.

106. Use comptroller object 4051, *Bond Refund Debt Payment* (or 4056 for COPS), if an agency pays funds to an escrow agent from sources other than the refunding debt proceeds (such as from a bond-sinking fund or from other agency resources). In this situation, the payment to the escrow agent is recorded as a debt service expenditure rather than an other financing use.

**Debt Service Fund**

**TC 167R:** To record payment to escrow agent from sources other than refunding debt proceeds.

- DR 3500 Expnd Cntrl–Cash (C/O 4051 Bond Refund Debt Pmt) 1,000
- CR 0065 Unreconciled Deposit 1,000

107. **Recording Liability for Refunding Debt.** For general government debt, record the new refunding debt liability in the government-wide reporting fund. Record the bonds payable at face value unless they are zero coupon or deep discount bonds. Note that this entry also uses the same comptroller objects as the ones used to record the debt issuance above. In effect, the other financing source in the governmental fund is offset when the governmental funds are combined with the government-wide reporting fund to prepare the 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 Rev Offset (C/O 1505 Proceeds of Refund 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 (C/O 1508 OID-Bonds) 150

108. **Removal of Old (Refunded) Debt.** In addition to recording the new debt, the agency must remove the old debt from the accounting records, including any unamortized deferred charges, underwriter’s discount, and discount/premium related to the old debt. Note that the comptroller objects used in these entries must exactly offset the comptroller objects used in the entries to record payments to the escrow agent. Some of the entries use comptroller object 7050, while other entries use comptroller object 4051 (see paragraphs 104, 105 and 106 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 Expend Offset (C/O 7050 Refund Pmt to Escrow) 5,000

- DR 1714 Bonds Payable-Noncurrent 500
  CR 3600 GAAP Expend Offset (C/O 4051 Bond Refund Debt Pmt) 500
**TC 514R:** To eliminate premium/discounts and deferred charges related to defeased bonds from government-wide reporting fund.

- **DR 3600** GAAP Expend Offset (C/O 4051 Bond Refund Debt Pmt) 160
- **CR 1712** Discount on Bonds Sold 160

- **DR 3600** GAAP Expend Offset (C/O 4051 Bond Refund Debt Pmt) 45
- **CR 0603** Deferred Charges 45

109. **Deferred Gain or Loss on Refunding.** Agencies must also record the deferred gain or loss on the refunding. This is the difference between the reacquisition price and the net carrying amount. Calculate the deferral as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face value of refunded debt</td>
<td>5,500</td>
</tr>
<tr>
<td>Discount on refunded debt</td>
<td>(160)</td>
</tr>
<tr>
<td>Deferred charges on refunded debt</td>
<td>(45)</td>
</tr>
<tr>
<td><strong>Net carrying amount</strong></td>
<td><strong>5,295</strong></td>
</tr>
<tr>
<td>Net proceeds to escrow agent</td>
<td>5,000</td>
</tr>
<tr>
<td>Additional payment to escrow agent</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Reacquisition price</strong></td>
<td><strong>6,000</strong></td>
</tr>
<tr>
<td><strong>Deferred Loss on Refunding</strong></td>
<td><strong>(705)</strong></td>
</tr>
</tbody>
</table>

**Government-wide Reporting Fund**

**TC 514:** To record deferred loss on refunding.

- **DR 1705** Deferred Loss/(Gain) on Debt Refunding 705
- **CR 3600** GAAP Expend Offset (C/O 4051 Bond Refund Debt Pmt) 705

110. **Amortize discounts and premiums on new refunding debt issues the same as for any other debt issue. Amortize the deferred gain or loss, together with any unamortized balances from prior refundings, over the shorter of the life of the new debt or the remaining life of the old debt. Amortize all balances in a systematic and rational manner.**

**Refunding Debt in Proprietary Funds**

111. Agencies record refunding debt transactions in proprietary funds using the same transaction codes and accounts as used in the examples above; however, all entries are made within the applicable proprietary fund. The GAAP offset accounts eliminate the refunding proceeds, payments to escrow agent, premiums, and discounts within the proprietary fund for financial reporting purposes rather than in the government-wide reporting fund, as is the case for governmental funds. The transaction codes and accounts used in the example above to record deferred gain or loss on refunding are also made within the applicable proprietary fund.

**Financial Reporting**

112. **Governmental funds financial statements use the current financial resources measurement focus and modified accrual basis of accounting. As a result, these statements reflect the proceeds from the issuance of refunding debt as other financing sources and any proceeds used to refund old debt as other financing uses. Resources from sources other than refunding debt proceeds used to refund old debt are recorded as debt service expenditures.**
premiums and discounts are recorded as other financing sources and other financing uses, respectively. All issuance-related costs are treated as expenditures of the governmental fund.

113. Proprietary funds financial statements use the economic resources measurement focus and full accrual basis of accounting. As a result, these statements do not reflect refunding debt proceeds and payment of the proceeds to an escrow agent as revenues and expenses. The GAAP offset accounts eliminate these items for financial reporting purposes.

114. In an advance refunding, the trustee of the escrow account often legally becomes obligated for making all future payments related to the refunded debt, meaning the state is only contingently liable for the debt’s repayment. Since the state does not report contingent obligations as liabilities, the refunded debt and any related unamortized items, as well as the related escrow assets held in trust for its repayment, are not reported in the financial statements (legal defeasance).

115. Sometimes debt is considered defeased for accounting and reporting purposes even though legal defeasance has not occurred. In most of these cases, the placing of the refunding debt proceeds in escrow with a trustee is considered economically equivalent to a legal defeasance. Because accounting and financial reporting emphasize economic substance over legal form, the state treats this type of situation as an in-substance defeasance. If all of the conditions listed in the Definitions section above are met, the state does not report the refunded debt and any related unamortized items, in the financial statements.

Disclosure Requirements

116. The notes to the financial statements must include a general description of debt refunding transactions. 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 notes must also disclose the economic gain or loss resulting from the transaction.

   a. When measuring the difference between the two cash flows, add 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 to the new debt cash flows. Exclude accrued interest received at the bond issuance date 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.

117. In all periods following an advance refunding for which debt defeased in-substance remains outstanding, the notes to the financial statements must include the amount of that debt, if any, outstanding at year-end.

118. All disclosures required by this policy should focus on the primary government – specifically, the governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate. Information about the government's discretely presented component units should be presented if deemed essential to understanding the primary government’s relationship with the component unit. If circumstances exist in which aggregate disclosures are misleading, the state may make additional or separate disclosures by fund.