

OREGON ACCOUNTING MANUAL	
SUBJECT: Accounting and Financial Reporting	Number: 15.65.10
DIVISION: Chief Financial Office	Effective date: July 5, 2016
Chapter: Accounting and Financial Reporting	
Part: Bonds and COPs	
Section:	
APPROVED: George Naughton, Chief Financial Officer	Signature on file

PURPOSE: This policy establishes accounting and financial reporting requirements for agencies that issue bonds or certificates of participation.

AUTHORITY: **ORS 293.590**
ORS 283.085 to 283.092
ORS 286.505 to 286.545
 GASB Statement No. 34
 GASB Statement No. 38
 GASB Statement No. 62
 GASB Statement No. 65

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: **Bonds** are interest-bearing certificates sold by a government to raise money. They normally bear a stated rate or rates of interest, or state a formula for determining that rate. Generally, bonds mature on a date certain, on which date a fixed sum of money plus interest is payable to the holder or owner.

The State has issued three types of bonds: general obligation bonds, revenue bonds, and general appropriation bonds.

General obligation bonds are general obligations of the State, secured by the full faith and credit of the State.

Revenue bonds are secured by specific revenues that are pledged or designated for payment of the bonds.

General appropriation bonds are special obligations payable solely from appropriated funds and are not general obligations of the State.

Certificates of participation (COPs) are special limited obligations of the borrower, the Department of Administrative Services (DAS), payable solely from

available funds as provided in the financing agreement and are not a general obligation of the State.

A **financing agreement** is a lease-purchase or loan agreement to finance real or personal property or infrastructure that the state will own and operate.

Available funds means monies that the Legislature makes available to pay amounts due under financing agreements.

Click here for other [definitions](#).

POLICY:

101. Agency management must ensure the proper accounting and reporting of long-term debt and COP transactions in accordance with generally accepted accounting principles (GAAP) and the official statements.
102. Oregon law gives the authority to use financing agreements, which includes COPs, to the Department of Administrative Services. However, agencies using the proceeds of COPs report the obligations in their accounts. While agencies may still have COPs balances outstanding, beginning in 2011, DAS discontinued issuing COPs except in a few limited circumstances. DAS now issues Series XI-Q general obligation bonds rather than COPs.
103. The liability to repay the proceeds obtained from the sale of COPs is not debt as defined by the Oregon Constitution. However, for purposes of recording in the State's accounting records and presentation in the financial statements, agencies report this liability as long-term debt.
104. The process for issuing bonds is much the same as the process for issuing COPs. The key participants involved in the sale outside state government are the underwriters (investment bankers), bond counsel, financial advisors, trustees, and insurers. The State Treasurer issues or approves the issuance of all debt. The Department of Justice provides legal advice, and the Audits Division may provide comfort letters.
105. Annually, agencies will submit disclosure packets to Statewide Accounting and Reporting Services with all information needed to properly report and disclose debt in the Comprehensive Annual Financial Report (CAFR). Agencies that issue separate audited financial statements shall include all applicable disclosures related to bonds and certificates of participation in the notes to their financial statements.

PROCEDURES:

Recording Issuance of Debt

106. The underwriter purchases the bonds or COPs for resale to its customers. Generally, the amount the underwriter pays to the State will not equal the face amount of the debt. The amount the state receives is net of the underwriter's discount, the bond or COP discount or premium, and the costs of issuance. Regardless of how these costs are paid (by debt proceeds or agency cash), agencies must record each of these items separately in the accounting records.
107. The accounting entries for bonds and COPs are essentially the same; only the specific general ledger accounts and comptroller objects differ. Likewise, the transactions agencies record for

debt issued by proprietary funds and general government debt are essentially the same. The difference involves the funds where agencies record the transactions. Appendix A, an addendum to this procedure, contains a listing of common transaction codes agencies should use for recording bond and COP transactions.

108. When the state issues bonds or certificates of participation (COPs) for general government purposes, agencies record the proceeds in governmental funds. This may be in a special revenue fund or, if the debt is for capital construction, it may be in a capital projects fund. Agencies record the obligation for the debt in the government-wide reporting fund. Repayments involve both the governmental fund (where the agency records the payments) and the government-wide reporting fund (where the agency adjusts the liability and records any amortization).
109. For general government debt, agencies may choose to establish debt service funds to record the accumulation of resources and payment of the debt.
110. When the state issues debt for proprietary funds, agencies record both the proceeds and the obligation for the debt in the proprietary fund itself.
111. Agencies must record the face amount of debt, underwriter's discount, original issue discount, original issue premium, and costs of issuance separately in the accounting records. It is not appropriate to record only the net amount of cash received.
112. Agencies should use transaction codes 567 and 568 (for cash in bank) and transaction codes 190 and 167R (for cash in State Treasury) to record cash transactions associated with the initial issuance of long-term debt. Agencies should use transaction codes 504 and 514 to record the liability for the debt.
113. For example, DAS issues general obligation bonds on behalf of an agency for general government purposes, which they sell at a premium. The entries to record the issuance (assuming cash in bank) are as follows:

Governmental Fund

TC 567: To record the face amount of General Obligation bonds issued

DR 0077 Cash in Bank	2,500,000
CR 3100 Revenue Control – Cash (1501 GO Bonds (DS Paid from GF))	2,500,000

Note: if general obligation debt service (DS) is to be paid primarily by the General Fund, use 1501 GO Bonds (DS Paid from GF). If general obligation debt service is paid primarily from other dedicated funds, use 1500 GO Bonds (Dedicated Funds). The separation of revenue is **only** for general obligation bonds, and all other entries below are the same.

TC 567: To record original issue premium

DR 0077 Cash in Bank	50,000
CR 3100 Revenue Control – Cash (1510 OIP Bonds)	50,000

TC 568: To record issuance costs and underwriter's discount

DR 3500 Expenditure Control – Cash (4050 Bond 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 GO bonds issued

DR 3200 GAAP Revenue Offset (1501 GO Bonds (DS Paid from GF))	2,500,000	
CR 1714 Bonds Payable – Noncurrent		2,500,000

TC 504: To record the original issue premium

DR 3200 GAAP Revenue Offset (1510 OIP Bonds)	50,000	
CR 1713 Premium on Bonds Sold		50,000

- 114. It is important that agencies use the same comptroller objects in the government-wide reporting fund as they use to record the entries in the governmental fund. This will ensure proper reporting of the transactions in the financial statements.
- 115. If there is accrued interest earned and payable from date of issuance to date of sale of the debt, agencies record it in the fund that will be making the debt service payments. Agencies use this interest to offset some portion of the first interest payment.
- 116. Use TC 507 to debit cash in bank and credit accrued interest payable (use TC 191 for cash in State Treasury).
- 117. Official documents of bond or COP issues may require that the agency establish reserves, which the agency will use for the payment of interest or principal on the debt near the end of the life of the issue. Agencies generally should hold any reserves in a separate D23 fund. Agencies use intrafund transfers to move the required reserve amount from the fund holding the proceeds into the separate D23 fund. DAS currently holds and reports all reserves related to lottery revenue bonds.

Payment of Principal and Interest

- 118. Generally, DAS manages the COP or bond debt service for agencies. When this occurs, agencies remit cash for principal and interest to DAS, which then remits the payments to the trustee or paying agent, who then pays the COP or bond holders. In that case, agencies record expenditures at the time the agency makes their payment to DAS using balanced transaction codes 760 and 761 (which liquidate the receivable in DAS established with TC 120).

To make payments to DAS to remit to the trustee or paying agent:

Governmental Fund

T-Code 760: To record payment of principal and interest to DAS (billed by DAS)

DR 3500 Expenditure Control – Cash (7100 Principal – Bonds)	50,000	
CR 0070 Cash on Deposit with Treasurer		50,000
DR 3500 Expenditure Control – Cash (7250 Interest - Bonds)	2,000	
CR 0070 Cash on Deposit with Treasurer		2,000

If agency COP or bond debt service is **not** managed by DAS, but paid with cash on deposit with the Treasury (GL 0070), other transaction codes must be used. The appropriate transaction code depends upon the facts and circumstances. In this situation, agencies should contact Statewide Financial Management Services (SFMS) for transaction code guidance.

If the agency uses Cash in Bank (GL 0077) to make principal and interest payments, use TC 568.

119. When an agency makes principal payments, they must reduce the liability in the government-wide reporting fund. The entry to reduce the debt for payment of principal is as follows:

Government-wide Reporting Fund

TC 528: To reduce liability for bonds payable by amount of principal paid

DR 1714 Bonds Payable – Noncurrent	50,000	
CR 3600 GAAP Expenditure Offset (7100 Principal – Bonds)		50,000

Amortization of Original Issue Premium and Discount

120. Agencies must amortize original issue premiums and discounts over the life of the debt issue using a systematic and rational method. Agencies record amortization in the same fund that reports the discount or premium, (the government-wide reporting fund for general governmental debt and the proprietary fund for proprietary fund obligations).
121. For example, the entries to record amortization of the original issue premium for bonds issued for governmental activities is as follows:

Government-wide Reporting Fund

TC 523: To amortize original issue premium

DR 1713 Premium on Bonds Sold	2,500	
CR 3600 GAAP Expenditure Offset (7450 Amort Disc/Prem on Bonds)		2,500

Debt Issuance Costs

122. With the exception of issuance costs for prepaid insurance, agencies should recognize debt issuance costs as an expense in the period incurred.
123. Agencies should report prepaid insurance costs as an asset (prepaid items) and recognize the expense in a systematic and rational manner over the life of the related debt.

Fiscal Year-end Entries

124. At fiscal year-end, agencies must record an accrual for interest payable as of June 30. This interest payable is equal to the amount of interest attributable to the period beginning the day after the last interest payment through June 30. Agencies should record the accrual in the same fund as the liability using TC 437, which will auto reverse in the following year.
125. If an agency transfers cash to a debt service fund for payment of principal or interest immediately after the end of the fiscal year, the agency should accrue interest payable in the

debt service fund. The cash in a governmental fund is a current resource available for spending, but since the agency will spend this cash for payment of principal and interest immediately after the fiscal year-end, it is appropriate for the agency to accrue a payable against that cash. This prevents an overstatement of current resources available for expenditure in the next period. If the agency makes this accrual in a debt service fund, they should not make an accrual in the government-wide reporting fund.

- 126. At fiscal year-end, it may be necessary to record or reclassify cash or securities held by a trustee. For debt that DAS manages, agencies obtain information about the cash in their debt service accounts that they need to reclassify by reviewing their online Wells Fargo statements. Agencies should reclassify the cost value of items shown as “pooled, common, and collective funds” in the Oregon Short Term Fund on the Statement of Assets to GL account 0928, Cash and Cash Equivalents-Restricted. Agencies should reclassify the cost value of items shown as private debt obligations on the Statement of Assets to GL account 0940, Investments-Restricted. For COP certificate accounts and the XI-Q bond funds, DAS will provide the information necessary for the year-end reclassification.
- 127. For financial reporting purposes, agencies must report the principal due within one year separately from the long-term debt in both the government-wide reporting fund and proprietary funds. This involves a reclassification as follows:

Government-wide Reporting Fund

TC 475 and 475R: To record current portion of bonds payable for year-end reporting

DR 1714 Bonds Payable – Noncurrent	125,000
CR 2951 System Clearing GL	125,000
DR 2951 System Clearing GL	125,000
CR 1276 Bonds Payable – Current	125,000

Financial Statement Reporting

- 128. Governmental fund financial statements report bond and COP proceeds as other financing sources. Governmental fund financial statements report expenditures related to bond or COP issuance as other debt service expenditures.
- 129. In the proprietary fund financial statements, GAAP offsets eliminate bond and COP proceeds and principal payments against the change in the balance of outstanding debt.
- 130. The government-wide financial statements combine governmental funds and the government-wide reporting fund. Within the combined funds, GAAP offsets eliminate the proceeds and principal payments against the change in the balance of outstanding debt.

Disclosure Requirements

- 131. 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 discount/premium/prepaid insurance for Bonds/COP
TC 512	Establish/adjust matured Bond/COP coupon payable
TC 513	Payment of accrued interest on Bond/COP
TC 514	Record prepaid insurance/deferred outflows for Bond/COP
TC 516	Write-off Deferred Out/inflows and discount on bonds (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 for Bond/COP
TC 514	Record prepaid insurance 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
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Debt Service Principal and Interest:

Proprietary/Fiduciary Fund/Government-wide:

TC 528	Reduce liability for amount of principal paid for Bond/COP
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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 prepaid insurance/original discount/deferred outflows
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