

## OREGON ACCOUNTING MANUAL

<b>SUBJECT:</b> Accounting and Financial Reporting	<b>Number:</b> 15.65.20
<b>DIVISION:</b> Chief Financial Office	<b>Effective date:</b> March 25, 2014
<b>Chapter:</b> Accounting and Reporting	
<b>Part:</b> Arbitrage	
<b>APPROVED:</b> George Naughton, Chief Financial Officer	Signature on File

**PURPOSE:** This policy provides guidance on accounting and financial reporting for arbitrage rebate liabilities.

**AUTHORITY:** ORS 291.015  
ORS 293.590  
FASB Statement No. 5  
GASB Statement No. 34  
GASB 62  
Internal Revenue Code Section 148

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

**DEFINITIONS:** **Arbitrage rebate payable** represents amounts due to the Internal Revenue Service for interest earned on unspent bond or COP proceeds that exceeds legally allowable returns.

Interest paid on most debt issued by the state is exempt from federal income tax. Because of this, bond and certificate of participation (COP) holders are willing to accept a lower interest rate than they would for taxable debt. The state may temporarily reinvest the proceeds of such debt in higher-yielding taxable securities, especially during construction projects. The federal tax regulations refer to the practice of taking advantage of the interest differential as arbitrage and require the state to rebate the excess interest earnings.

**POLICY:**

101. Agency management must ensure the proper accounting and reporting of arbitrage rebate liabilities.
102. Record arbitrage rebate liabilities as they are incurred or at least annually (at fiscal year end).
103. Report arbitrage rebate payments and/or estimated accruals as a reduction of revenue, even when the payments and/or accruals for rebatable arbitrage are greater than investment income for the fiscal year.
104. Complete an annual certification of compliance with federal arbitrage rebate requirements.

**PROCEDURE:**

**Recording Arbitrage Rebate Payable**

- 105. Record rebate payments due within one year in GL 1619, Arbitrage Rebate Payable-Current. Record amounts that are due in more than one year in GL 1719, Arbitrage Rebate Payable.
  - a. Account for an arbitrage liability incurred by a **proprietary fund** within the accounts of that fund.
  - b. Account for an arbitrage liability incurred by **governmental funds** (for general government purposes) in the **government-wide reporting fund**.
- 106. The entries to record arbitrage rebate payable are the same for proprietary funds and the government-wide reporting fund.

**T-code 526:** To record the full amount of the arbitrage rebate liability using comptroller object 0800 – Interest on Investments.

DR 3200 GAAP Revenue Offset (C/O 0800)	50,000	
CR 1719 Arbitrage Rebate Payable		50,000

**T-code 475R:** To reclassify the current portion of the arbitrage rebate liability by decreasing the noncurrent liability account.

DR 1719 Arbitrage Rebate Payable	10,000	
CR 2951 System Clearing General Ledger		10,000

**TC 475:** To reclassify the current portion of the arbitrage rebate liability by increasing the current liability account.

DR 2951 System Clearing General Ledger	10,000	
CR 1619 Arbitrage Rebate Payable-Current		10,000

**Certification of Compliance**

- 107. Except for agencies described in paragraph 109, agencies with outstanding tax-exempt debt prepare an annual certification of compliance with the federal arbitrage rebate requirements that includes the following items:
  - a. The current and noncurrent portions of the arbitrage rebate liability attributable to each outstanding debt series as of June 30 of the fiscal year covered by the certification. The amounts per the certification should agree in total to the current and noncurrent arbitrage rebate liabilities recorded in the agency's accounting records.
  - b. The outstanding debt series and the actual arbitrage rebate payments (including penalties, if any) made during the fiscal year covered by the certification.
  - c. The name of the individual or firm that prepared or confirmed the arbitrage rebate calculations.

- d. The signature of the agency's director or chief financial officer, certifying that the agency has (1) prepared the arbitrage rebate calculations and made arbitrage rebate payments consistent with federal arbitrage rebate requirements and (2) accounted for arbitrage rebate liabilities and payments according to this policy.
108. Agencies file the certification of compliance with Statewide Accounting and Reporting Services (SARS) no later than October 31 following the fiscal year covered by the annual certification. SARS forwards a copy of each certification to the State Treasurer's Office after confirming the certification meets the requirements of this policy (*see example of certification at end of policy*).
109. Agencies that have only COPs issued *after* 1989 and/or Lottery Revenue Bonds issued *after* 1997 are not required to file an annual certification. The Capital Finance Section of Budget and Management will file the certification on their behalf.

### **Financial Statement Reporting**

110. SARS reports arbitrage rebate payable in the government-wide statement of net assets and in the proprietary funds balance sheet as a current and noncurrent liability.
111. In the government-wide statement of activities, SARS reports investment income (reduced by arbitrage rebate payments and accruals) as program revenue in the operating grants and contributions column. In the proprietary funds statement of revenues, expenses and changes in fund net assets, SARS reports payments and accruals of arbitrage rebates as reductions to investment income in the nonoperating revenues/expenses section of the statement.

### **Disclosure Requirements**

112. At fiscal year end, agencies disclose changes in their arbitrage rebate liabilities (including beginning balance, increases, decreases, and ending balance) by completing the debt disclosure package.

Example of Arbitrage Certification

Agency Letterhead

Date\*

DAS – Chief Financial Office
Statewide Accounting and Reporting Services (SARS)
155 Cottage Street NE, U50
Salem, OR 97301-3969

RE: FY 20xx Annual Certification of Compliance with Federal Arbitrage Requirements

The [name of agency] currently has outstanding tax-exempt debt subject to the federal tax code and regulations regarding arbitrage rebate.

SECTION ONE – Arbitrage Rebate Liability: The agency’s outstanding debt series subject to the federal arbitrage rebate provisions and the most recent estimate of the agency’s arbitrage rebate liability (both current and noncurrent) as of June 30, 20xx.

Table with 3 columns: Bond or COP Series, Current Liability, Noncurrent Liability. Rows 1-3 and Total liability.

SECTION TWO – Actual Arbitrage Rebate/Penalty Payments: The debt series and the amount of arbitrage rebate (including penalties, if any) actually paid during fiscal year 20xx.

Table with 2 columns: Bond or COP Series, Rebate/Penalty Paid. Rows 1-3.

The calculations of the actual payments listed in Section Two were prepared by [independent qualified firm] OR were reviewed and confirmed by [independent qualified firm].

SECTION THREE – Certification: I certify that [name of agency] has:

- Prepared the arbitrage rebate calculations and made arbitrage rebate payments in compliance with the federal tax code and applicable regulations; and
Accounted for the estimated arbitrage rebate liability and actual payments according to OAM 15.65.20 – Arbitrage.

Director or Chief Financial Officer

Date

\*Due to SARS no later than October 31 following the end of the fiscal year.