DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Reporting	**Number:**	15.65.30
Division:	Chief Financial Office	**Effective date:**	January 22, 2018
Chapter:	Accounting and Financial Reporting		
Part:	Debt Refunding		
Approved:	George Naughton, Chief Financial Officer	Signature on file	

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
GASB Statement No. 38
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: **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 within 90 days of issuance 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. Keep the type of debt consistent with the GAAP fund that reports the debt. For example, if a general obligation bond refunds a certificate of participation (COP), the accounting for the general obligation bond, including future payments, should occur in GAAP Fund 2003 General Obligation Bond Fund rather than GAAP Fund 2002 *Certificates of Participation 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 190: To record face value of bonds sold in a governmental fund.

DR 0065 Unreconciled Deposit	5,200	
CR 3100 Rev Cntrl-Cash (C/O 1505 Proceeds of Refund Debt)		5,200

TC 190R: To record refunding bond discount in a governmental fund.

DR 3100 Revenue Control-Cash (C/O 1508 OID-Bonds)	150	
CR 0065 Unreconciled Deposit		150

If bonds are refunded at a premium, use TC 190 and C/O 1510 OIP-Bonds to record that premium.

TC 167R: To record underwriter's discount ($50) and bond issuance costs ($30).

DR 3500 Expenditure Control-Cash (C/O 4050 Bond Costs)	50	
CR 0065 Unreconciled Deposit		50

Note: *Because DAS managed the bond refunding, it will bill agencies for their portion of the costs of issuance ($30). Agencies record the expense when paying the invoice using the T-codes provided by DAS. (Use Comp Object 4050 Bond Costs)*

TC 167R: 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 0065 Unreconciled Deposit		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 Expend 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

If your refunding bond sold at a premium, use TC 504, C/O 1510 OIP-Bonds and G/L 1713 Premium on Bonds Sold.

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 discount/premium or deferred inflows/outflows from gain/loss on refunding 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 Refund Payment to Escrow, while other entries use comptroller object 4051 Bond Refund Debt Payment (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 discount 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

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

Face value of refunded debt	5,500
Discount on refunded debt	(160)
Net carrying amount	5,340
Net proceeds to escrow agent	5,000
Additional payment to escrow agent	1,000
Reacquisition price	6,000
Deferred Loss on Refunding	(660)

Government-wide Reporting Fund

TC 514: To record deferred loss on refunding.

DR 1000 Deferred Outflow-Loss on Debt Refunding	660	
CR 3600 GAAP Expend Offset (C/O 4051 Bond Refund Debt Pmt)		660

If the refunding resulted in a deferred gain on refunding it would be recorded with TC 523 and GL 1851 Deferred Inflows-Gain on Debt Refunding.

Note: *If the refunded debt is deep discount debt and the net proceeds to escrow agent equal the face value of the refunded debt, to calculate the carrying amount agencies must add the associated accreted interest payable (GL 1709) to the outstanding payable balance of the refunded debt. The face value of the refunded debt would not be considered in the calculation*

110. Amortize discounts and premiums on new refunding debt issues the same as for any other debt issue. Amortize the deferred gain or deferred 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. Gross 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.