State Accounting Office

Statewide Accounting Policy & Procedure

Accounting Manual Reference:		**Effective Date:** 07/01/1999
Section:	Financial Accounting and Reporting Policies & Procedures	**Revision Date:** 09/16/2019
Sub-section:	Debt and Related Items	
Policy Title:	Interest, Notes, Bonds Payable/Bond Premiums and Discounts	

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Accounting Policy Summary:

Activity related to bonds, notes payable, and bond premiums and discounts along with interest payable should be accounted for in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). There are differences between the State's budgetary accounting practices and those prescribed by GAAP which are discussed below in this policy.

Accounting Policy and Requirements:

Basis of Accounting

Organizations included in the State reporting entity are required to maintain their accounting records in a manner which will provide for preparation of GAAP financial statements and/or budgetary statements. Day-to-day operations may be accounted for using one basis of accounting (a budgetary reporting basis) and year end reporting information may be prepared to accommodate reporting on a different basis of accounting (a GAAP basis). Additionally, as governmental, proprietary and fiduciary funds use different bases of accounting to record and report their transactions, the accounting treatment of interest payable and debt related amounts may be different for different fund types.

Statutory Basis

For budgetary reporting, the State's Budget Fund and Debt Service Fund uses the statutory basis of accounting. In general, debt related items such as interest and principal are not accrued between due dates. However, if they are due but payments have not been made, a liability should be recorded. Other debt service costs are not accrued, but expensed when incurred.

Cash Receipts and Disbursements Basis

The State's Revenue Collections (General) Fund utilizes the cash receipts and disbursements basis of accounting. The only disbursements from this fund should be transfers of State Revenue Collections to the Office of the State Treasurer and there should be no interest or debt related amounts reported in the State Revenue Collections Fund.

GAAP Modified Accrual Basis

Bonds and notes payable are defined by GAAP as long-term and therefore should not be reported as liabilities on the governmental funds balance sheet. Principal and interest payments on long-term debt usually should be reported as expenditures under the modified accrual basis of accounting when due.

The one exception to this rule would be in the case where a debt service fund is utilized to account for resources that will be used to service the long-term debt. If financial resources have been transferred into the debt service fund for payment of unmatured principal and interest obligations due early in the following fiscal year principal and interest liabilities can be recorded. This special treatment for debt service expenditures is based on the premise that financial resources are usually appropriated in other funds for transfer to a debt service fund in the period in which maturing principal and interest must be paid. To accrue debt service expenditures in one period and record the transfer in the subsequent period would lead to an overstatement of debt service fund expenditures and liabilities and understatement of the fund balance. It should be noted, however, that even when funds have been transferred for subsequent year payment, recognition of the unmatured debt service principal and interest is not required but is strictly optional under GAAP.

Modified accrual basis funds should accrue expenditures for interest, for other than long-term debt, when due or when available financial resources will be utilized to make payment early in the subsequent year.

GAAP Accrual Basis

Bonds and notes payable should be recorded in the governmental activities column in the government-wide statement of net position under the accrual basis of accounting, and when long-term debt becomes due and payable the liability should be recorded in the fund from which payment will be made. When bonds or notes are a direct obligation and/or expected to be repaid from proprietary resources, they should be recorded as a liability of the proprietary fund at face value.

Additionally, accrual basis funds should accrue interest when the liability is incurred. For instance, interest due on revenue bonds at the end of a fiscal year should be accrued for the amount of interest earned by the bondholder even if the actual payment is not due until the subsequent fiscal year (e.g., if interest is paid at the end of September and March and the fiscal year ends June 30, the governmental unit would accrue three months of interest expense at fiscal year-end). In addition to the debt payable liability, a contra-liability for bond discounts should also be recorded, and principal payments should reduce the liability. However, debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred.

Accounting Procedures:

The following procedures are used by organizations in the State of Georgia reporting entity to meet the requirements for statutory and GAAP reporting purposes.

Accounting Transactions and Journal Entries

State reporting organizations using the statewide financial system are required to use the general ledger chartfields for each revenue and receivable transaction. These chartfields may be different for budgetary reporting and GAAP transactions, such that journal entries may be required to convert between the various bases of accounting required for reporting. For a complete listing and description of the required chartfields, consult the Reporting Structure and Chart of Accounts page on the SAO website (https://sao.georgia.gov/reporting-structure-and-chart-accounts). In accordance with the Chart of Accounts – Structure Overview policy, those State reporting organizations that do not use the statewide financial system must maintain a crosswalk from their local chart of accounts to the statewide chart of accounts.

Bond Premium or Discount

When market conditions change before a bond with a stated interest rate is issued, a premium or a discount may result from the sale. Bond premiums or discounts should be recorded in either account 284001 (Unamortized Premiums on Bonds) or account 285001 (Unamortized Discounts on Bonds) and amortized over the life of the bond issue.

Fully retired or refunded bonds

When bonds are fully retired or refunded, all associated premiums or discounts from the retired or refunded bond series should be removed.

Partially retired or refunded bonds

In the event a bond series is partially retired or refunded, premiums should be removed in proportion to the amount of bond principal retired or refunded. For example, if two thirds of a bond series were retired or refunded, two thirds of premiums should be removed accordingly. The amount of premium remaining after a partial retirement or refunding should be amortized over the remaining life of the bonds still outstanding (i.e. the amortization cannot exceed the last maturity date of the remaining debt).

Deferred Inflows of Resources and Deferred Outflows of Resources

For current or advance refundings, the difference between the reacquisition price and the net carrying amount of the debt retired or refunded becomes a deferred inflow of resources (gain) or deferred outflow of resources (loss) and is amortized over the shorter of the life of the refunded debt or the new debt. In the instance of a current refunding or advance refunding of a prior refunding, any deferred gain or loss still outstanding related to the prior refunding should be included in the calculation of the new deferred gain or loss.

Fully retired or refunded bond

Any related deferred inflows or outflows of resources outstanding from any prior refundings need to be removed.

Partially retired or refunded bonds

Any related deferred inflows or outflows of resources outstanding from any prior refundings need to be removed using the same proportional methodology as the bond discount and premium discussed above (i.e., if two thirds of a bond series were retired or refunded, two thirds of the outstanding deferred inflows or outflows of resources should be removed accordingly).

Debt Issuance Costs

Debt issuance costs should be recorded as an expense in account 718000 (Other Debt Service Charges) in the period incurred.

Accrued Interest

Accrued interest, which is a liability when interest is due, but payment has not been made, should be recorded in account 241000.

Year-end Accounting Procedures

Funds that operate on a statutory basis must be converted to the GAAP modified accrual and/or GAAP accrual bases of accounting for the CAFR. Proprietary and fiduciary funds that do not operate on a statutory basis use the GAAP accrual basis of accounting throughout the year. If GAAP financial statements are not provided, SAO must be furnished with information to meet the necessary GAAP reporting requirements previously discussed. This includes detail of principal payments made and a schedule of remaining payments due on the debt along with a schedule of all payments of which interest is a part, as applicable.

Authority:

- Official Code of Georgia Annotated (OCGA) 50-5B-3 – Duties of the state accounting officer include:
    - Prescribing the manner in which disbursements shall be made by state government organizations;
    - Developing processes and systems to improve accountability and enhance efficiency for disbursement of funds and management of accounts payable.
- OCGA 50-5B-4 – Duties of the state agencies with respect to SAO.
- Georgia Constitution Article VII, Section IV, Paragraph I: Purposes for which debt may be incurred
- Georgia Constitution Article VII, Section IV, Paragraph VII: Georgia State Financing and Investment Commission; duties
- GASB 7, *Advance Refundings Resulting in Defeasance of Debt*
- GASB 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*
- GASB 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*
- GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- GASB 65, *Items Previously Reported as Assets and Liabilities*

Applicability:

This policy applies to all Organizations included in the State of Georgia reporting entity. The term organization of state government' shall mean, without limitation, any agency, authority, department, institution, board, bureau, commission, committee, office, or instrumentality of the State of Georgia. Such term shall not include any entity of local government, including, but not limited to, a county, municipality, consolidated government, board of education, or local authority, or an instrumentality of any such entity. At these reporting organizations, all personnel with accounting and financial reporting responsibilities should be knowledgeable of this policy. Refer to the Management Responsibilities policy for a summary of general financial reporting responsibilities.

Definitions:

Debt –Includes all debt and revenue obligations that a state party is authorized to incur by law, including without limitation general obligation debt in the form of bonds or other obligations, guaranteed revenue debt in the form of bonds or other obligations, revenue bonds and other forms of revenue obligations, and all other debt or revenue undertakings, including, but not limited to, bonds, notes, warrants, certificates or other evidences of indebtedness, or other obligations for borrowed money issued or to be issued by any state party. "Debt" includes any financing lease or installment purchase contracts of any state authority.

Defeasance – For accounting and financial reporting purposes if the debtor irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt.

Interest Payments – Correspond to the amount of interest paid within a given budgetary period, including the interest component of financial leases.

Net Carrying Amount – Amount due at maturity, adjusted for any unamortized premium or discount related to the old debt.

Reacquisition Price – Amount required to repay previously issued debt in a refunding transaction. In a current refunding, this includes principal of the old debt and any call premium. In an advance refunding, it is the amount placed in escrow that, together with interest earnings, is necessary to pay interest and principal on the old debt and any call premium. A premium or discount pertaining to the new debt is not considered part of the reacquisition price but, instead, is a separate item related to and amortized over the life of the new debt.

Refundings – Refundings involve the issuance of new debt whose proceeds are used to repay previously issued ("old") debt. The new debt proceeds may be used to repay the old debt immediately (a current refunding); or the new debt proceeds may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding).