

University of Missouri System Accounting Policies and Procedures



Policy Number: APM-30.25

Policy Name: Debt Policy

General Policy and Procedure Overview:

The University of Missouri System debt consists of long-term borrowings for the purpose of payment for a portion of the cost of refunding the refunded bonds, payment of all or a portion of the cost of acquiring, constructing, erecting, equipping and furnishing certain additions and improvements to the system facilities (various capital projects), the payment of capitalized interest on a portion of the System Facilities Revenue Bonds, and the payment of costs of issuance of the System Facilities Revenue Bonds.

This policy explains the accounting transactions and financial reporting related to the.

Detail Policy and Procedure:

The Treasurer's Office is responsible for negotiating the transaction documented in the Official Statement and bond documents. The Controller's Office records the appropriate transactions related to the receipt of proceeds, payment of vouchers related to cost of issuance and agent fees, subsequent debt service payments and documentation of expenditures incurred to utilize the proceeds (i.e. spend down of proceeds).

Issuance of the bonds:

Each campus accounting office is responsible for setting up a new ChartField string per bond project for the construction funds. The Controller's Office is responsible for making all initial entries for the issuance of the bonds. The bond proceeds are recorded based on the information in the bond documents. The bond documents usually include a schedule called Sources and Uses of Funds, which usually indicates the cost of issuance, discount/premium, and construction funds per bond project.

Record Bond Proceeds:

The proceeds from the bonds generally are received in one payment, net of premium or discount on issuance.

Transaction Description	Account	Dr	Cr
Record the deposit by preparing a Cash Receipts Report (CRR)	190000 – Cash (UWIDE fund 2400)	X	
	252000 – Bonds Payable (UWIDE fund 2400)		X

The funds recorded on the CRR are spread to the appropriate campus bond funded construction project account.

Transaction Description	Account	Dr	Cr
-------------------------	---------	----	----

Spread the bond funds to the campus bond funded construction projects	252000 – Bonds Payable (UWIDE fund 2400)	X	
	252000 – Bonds Payable (campus fund 2300)		X

Note: The difference between the CRR amount and the amount deposited into the construction funds is the amount designated to be used for cost of issuance and purchased interest.

Set up Allocations for Investment Income to be earned on bond funds:

The Controller’s Office is responsible for setting up the allocations that distribute investment income to the bond funds.

Record the Expenses on Cost of Issuance:

Various transaction costs are incurred during the negotiation and issuance of the bonds. Invoices for these “costs of issuance” are received by the Treasurer’s Office. The Treasurer’s Office approves the invoices and provides the invoices to the Office of the Controller for payment. The Controller’s Office prepares a non-PO voucher payment to request payment.

Transaction Description	Account	Dr	Cr
Record cost of issuance in a clearing account (per bond issuance) by preparing a non-PO voucher.	165100 – Cost of Issuance (UWIDE fund 2400)	X	
	190000 – Cash (UWIDE fund 2400)		X
Spread cost of issuance to the campus by journal entry.	165100 – Cost of Issuance (campus fund 2400)	X	
	252000 – Bonds Payable (campus fund 2400)		X
	165100 – Cost of Issuance (UWIDE fund 2400)		X
	252000 – Bonds Payable (UWIDE fund 2400)	X	
Spread underwriter discount as cost of issuance to the campus by journal entry.	165100 – Cost of Issuance (campus fund 2400)	X	
	252000 – Bonds Payable (campus fund 2400)		X

The bonds are often issued at either a premium or discount. This amount is determined by calculating the difference between the cash proceeds received and the par value of the bonds, per the Official Statement (obtained from the Treasurer’s Office).

Transaction Description	Account	Dr	Cr
Record the discount on the issuance by journal entry Note: if there is a premium on Bonds Payable then the entry would be credit 162000 and debit 252000.	162000 – (Premium)/Discount Bond Payable (campus fund 2400)	X	
	252000 – Bonds Payable (campus fund 2400)		X

Record purchased interest on the bonds:

The university may elect to have purchased interest or capitalized interest to pay the first few debt service payments on the bonds.

Transaction Description	Account	Dr	Cr
Record the purchased interest or capitalized interest on the bonds.	252000 – Bonds Payable (UWIDE fund 2400)	X	
	252000 – Bonds Payable (campus fund 2400)		X

Refinancing old debt:

The university may elect to refinance old debt and the following entries are necessary to record the refinancing of old debt.

Transaction Description	Account	Dr	Cr
Record the write off of bonds payable, discount, and cost of issuance.	252000-Bonds Payable (old debt campus fund 4000)	X	
	742050-W/O of Sys Facilities Debt (old debt campus fund 4000)		X
	252000-Bonds Payable (old debt campus fund 2400)	X	
	222000-Accrued Interest Payable (old debt campus fund 2400)	X	
	163000-Deferred Loss on Defeasance (old debt campus fund 2400)		X
	162000-(Premium)/Discount on Bonds Payable (old debt campus fund 2400)		X
	165100-Bond Issue Costs (old debt campus fund 2400)		X
	742050-W/O of Sys Facilities Debt (old debt campus fund 2400)		X
	163000-Deferred Loss on Defeasance (new debt campus fund 2400)	X	
	162000-(Premium)/Discount on Bonds Payable (new debt campus fund 2400)		X
	165100-Bond Issue Costs (new debt campus fund 2400)	X	
	252000-Bonds Payable (new debt campus fund 2400)		X
	742050-W/O of Sys Facilities Debt (new debt campus fund 4000)	X	
	252000-Bonds Payable (new debt campus fund 4000)		X

Record Amortization of Cost of Issuance, Premium/Discount, and Deferred Loss on Bonds:

The cost of issuance, premium or discount, and deferred loss on the bonds should be amortized monthly over the life of the bond. The Controller’s Office is responsible for preparing all amortization entries, except for Hospitals, who will prepare its own entries. At year end the Controller’s Office will reconcile the amortization expense reported in the general ledger to the amortization schedules.

Transaction Description	Account	Dr	Cr
Record amortization of the cost of issuance on Bonds Payable (by Standard Journal Entry)	901003 – Amortized Issue Costs (campus fund 2400)	X	
	165100 – Cost of Issuance (campus fund 2400)		X
	252000 – Bonds Payable (campus fund 2400)	X	
	506000 – Retirement of Indebtedness (campus fund 2400)		X
	506000 – Retirement of Indebtedness (campus fund 4000)	X	
	252000 – Bonds Payable (campus fund 4000)		X
Record amortization of the discount on Bonds Payable (by Standard Journal Entry)	901002 – Amortized Discount (campus fund 2400)	X	
	162000 – (Premium)/Discount Bond Payable (campus fund 2400)		X
	252000 – Bonds Payable (campus fund 2400)	X	
	506000 – Retirement of Indebtedness (campus fund 2400)		X
	506000 – Retirement of Indebtedness (campus fund 4000)	X	
	252000 – Bonds Payable (campus fund 4000)		X
Record amortization of the premium on Bonds Payable (by Standard Journal Entry)	901002 – Amortized Discount (campus fund 2400)		X
	162000 – (Premium)/Discount Bond Payable (campus fund 2400)	X	
	252000 – Bonds Payable (campus fund 2400)		X
	506000 – Retirement of Indebtedness (campus fund 2400)	X	
	506000 – Retirement of Indebtedness (campus fund 4000)		X

	252000 – Bonds Payable (campus fund 4000)	X	
Record amortization of the deferred loss on Bonds (by Standard Journal Entry)	901004 - Amortized Bond Loss	X	
	163000 – Deferred Loss on Bond Refinancing		X

Capitalized Interest on Construction Projects:

Net interest (interest earned minus interest paid) during construction should be capitalized (FASB Statements 34 and 62). [See APM 20.10 Capitalized Interest.](#)

Move Bonds Payable from Long Term to Short Term:

At fiscal year end, the Controller’s Office needs to move the bonds payable due the in November from long term to short term.

Transaction Description	Account	Dr	Cr
Move bonds payable from long term to short term (by journal entry on June 30 th and reverse July 1 st)	252000-Bond Payable (campus fund 4000 per bond issue)	X	
	252500-Current Bonds Payable (campus fund 4000 per bond issue)		X

Record the Debt Service payment in November & May:

Payment for principal and interest is due on November first and payment for interest only is due on May first. The Treasurer’s Office receives the invoice from the purchasing bank of the exact amount of the payment to be made, including principal and interest. The appropriate funds are wired to the purchasing bank by the Treasurer’s Office on the due date. The Treasurer’s Office provides invoice to the Office of the Controller. The Controller’s Office prepares a non-PO voucher to record the payment and spread the expense to the appropriate campus. The Controller’s Office will prepare a journal entry to move the principal portion from Bonds Payable to Retirement of Debt. At year end the Controller’s Office will reconcile bonds payable reported in the general ledger to the amortization schedules.

Transaction Description	Account	Dr	Cr
Payment of the principal and interest due November first (non-PO voucher)	900000 – Debt Service-Principal (UWIDE fund 2400)	X	
	901000 – Debt Service-Interest (UWIDE fund 2400)	X	
	190000 – Cash		X
The journal entry prepared to move	900000 – Debt Service-Principal		X

expenses from UWIDE to the campus	(UWIDE fund 2400)		
	901000 – Debt Service-Interest (UWIDE fund 2400)		X
	900000 – Debt Service-Principal (campus fund 2400)	X	
	901000 – Debt Service-Interest (campus fund 2400)	X	
	390100 – Mandatory Transfer In-Debt Retirement (UWIDE fund 2400)		X
	390100 – Mandatory Transfer In-Debt Retirement (campus fund 2400)	X	
Prepare a journal entry to move the principal portion from Bonds Payable to Retirement of Debt.	252000 – Bonds Payable (fund 4000)	X	
	506000 – Retire of Indebtedness (fund 4000)		X

Note: In May interest is only paid; therefore, the same entries above would be made excluding the entries made for the principal and retirement of debt.

Note: See the section “[Move Bonds Payable from Construction Fund to Investment in Plant](#)” for the actual funding of fund 4000.

Reconciling Bonds Payable:

At year end the Controller’s Office will run a query showing all bonds payable and compare that to the Master Debt Maturity Schedule. The Master Debt Maturity Schedule is an Excel spreadsheet that compiles all the amortization schedules for the debt. The total outstanding debt on the schedule should agree to the total debt outstanding in the system. If they do not agree then the Senior Accountant needs to follow up on the matter and correct the problem.

Record Accrued Interest Expense on the Bonds:

At fiscal year end the Controller’s Office will obtain the next interest payment for the fixed rate debt (November) from the amortization schedules provided by the purchasing bank. Since fixed rate debt is paid semi-annually, estimated interest expense is accrued and expensed at a rate of 2/6th. Interest payments are made monthly on variable rate debt; therefore, the accrual is equal to the interest payment made in July 1, 2006. Hospital is responsible for making its own accrued interest expense entries.

Transaction Description	Account	Dr	Cr
Record accrued interest expense on fixed interest rate bonds (by journal entry for June 30 th and reverse July 1 st)	901001-Accrued Interest Expense (UWIDE fund 2400 per bond issue)	X	
	222000-Accrued interest payable (UWIDE fund 2400 per bond issue)		X
Record accrued interest expense on	211000-Accts payable year end	X	

variable interest rate bonds (by journal entry for June 30 th and reverse July 1 st)	upload (UWIDE fund 2400 per bond issue)		
	222000-Accrued interest payable (UWIDE fund 2400 per bond issue)		X

Monthly Spenddown Reporting for the Bonds:

Each campus is responsible for spending the bond proceeds for its respective construction projects. To comply with bond covenants, we must spend bond funds and any interest earned on the bonds in the following matter: 10% must be spent within the first 6 months, 45% must be spent within 12 months, 75% must be spent within 18 months, and 100% must be spent within 24 months of the issuance date. If the proceeds are not spent within these parameters, we can also run into arbitrage issues. Additionally, bonds payable and any interest earned on the bonds should always be spent prior to any other funding source. Each campus accounting office needs to ensure that all bond funded construction project ChartField strings are spending timely and ChartField strings are cleaned up timely.

The Controller’s Office prepares a monthly spenddown report on the bonds. The report provides summarized information about the total bond funding available, estimated interest, capital expenditures to date, the remaining amount to spend, and the required spend down for Arbitrage Rules. Supporting documents attached to the report include a detailed monthly income statement per bond project, actual interest earned, actual expenditures, and estimated interest earned. The report is reviewed and signed off on by the Associate Controller. When the report is approved it is forwarded to the Treasure’s Office for review and follow-up. The Treasurer’s Office is responsible for contacting the departments if spenddown is not progressing timely and making any arrangements necessary to prevent arbitrage problems.

Move Bonds Payable from Construction Fund to Investment in Plant:

At fiscal year end, the Controller’s Office needs to move the bonds payable spent out of the construction fund to the investment in plant fund. The bond payable should always be spent first and then any interest earned on the bonds; therefore, the amount to move to investment in plant should equal total expenditures not to exceed the total bonds payable or the total amount capitalized in asset management.

Transaction Description	Account	Dr	Cr
Move bonds payable from the construction fund to investment in plant (by journal entry)	252000-Bond Payable (campus fund 2300 per bond project)	X	
	914000-Investment in plant-rec debt (campus fund 2300 per bond project)		X
	914000-Investment in plant-rec debt (campus fund 4000 per bond issue)	X	
	252000- Bond Payable (campus fund 2300 per bond issue)		X

Responsibilities:

Controller's Office:

- Make all initial entries for the issuance of the bonds
- Set up the allocations that distribute investment income to the bond funds
- Office prepares a non-PO voucher payment to request payment for costs of issuance
- Regarding payment of principal and interest:
 - prepares a non-PO voucher to record the payment and spread the expense to the appropriate campus.
 - prepare a journal entry to move the principal portion from Bonds Payable to Retirement of Debt.
 - at year end reconcile bonds payable reported in the general ledger to the amortization schedules
- At year end reconcile bonds payable
- Record Accrued Interest Expense on the Bonds
- Prepare monthly Spend-down Reporting for the Bonds
- At fiscal year end, the Controller's Office move the bonds payable spent out of the construction fund to the investment in plant fund
- Review and approve the Monthly Spend-down Report for the Bonds

Treasurer's Office:

- Negotiate the transaction documented in the Official Statement and bond documents
- Review and approves Invoices for costs of issuance
- Receive the invoice from the purchasing bank of the exact amount of the payment to be made, including principal and interest, tests and approves.
-
- Wire the appropriate funds to the purchasing bank on the due date.
- . Campus Accounting Offices:
- Set up a new ChartField string per bond project for the construction funds
- Review the monthly spend-down report and follow-up on instances of failure to draw as scheduled.

Campus Accounting Office:

- Review entries to the ChartFields and test for appropriateness

Effective Date: July 1, 2006

Revised Date: August 1, 2007

Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.