

**Issue Paper #15**  
**Reporting Unamortized Debt Issue Costs**  
**March 14, 2002**

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Bond, note and lease issuance costs in proprietary funds should be reported as deferred charges much like a prepaid item and amortized to interest expense. The COFRS Chart of Accounts currently contains the following three accounts that are not included on the Feeder Agency COFRS COA:

2802-Unamortized Bond Issue Costs  
2812-Unamortized Note Issue Costs  
2822-Unamortized Lease Costs

Any balances associated with these accounts need to be presented in the assets section of the Statement of Net Assets. They should not offset the long-term debt balances in the Statement of Net Assets or on the Exhibit C. These accounts are not valuation accounts on the debt but rather are essentially prepaid items.

Only one higher education institution has a balance in these accounts at the close of Period 6 in Fiscal Year 2001-02. (GGJ/USC, Fund 371, Balance Sheet Account 2802 for \$8,791.52) The lack of balances in these accounts possibly means that institutions have been expensing the debt issuance costs rather than deferring and amortizing them as is now required under proprietary fund accounting. Or the activity has been reported to COFRS Balance Sheet Code 1710 Deferred Charges since it is on the Feeder Agency COFRS COA.

In order to avoid the need to reclassify any balances,

1) Agencies could PROSPECTIVELY code any new debt issue costs to COFRS Balance Sheet account 1711-Unamortized Debt Issue Costs in this account. Separate accounts for the three types of debt (bond, note, and lease) are not believed to be necessary because the related deferred charges must be tracked with the individual debt issues for correct amortization over the term of the debt, and therefore, additional detail on COFRS would not be of value. SCO would report 1711, 2802, 2812, 2822 in the asset section of the Statement of Net Assets in the line item Prepaids, Advances, and Deferred Charges. Institutions would therefore not reclassify balances in 2802, 2812, and 2822 into 1711 but would exclude these balances from the Exhibit C. The 2802, 2812, and 2822 accounts would not be presented in the published chart of accounts. However, they will NOT be removed from the COFRS system.

**ISSUE RESOLUTION PER GIT, MARCH 14, 2002:**

2) Institutions should report unamortized debt issue costs to 1710 Deferred Charges since that account will be combined with the same accounts as named above in the line item Prepaids, Advances, and Deferred Charges in the asset section of the Statement of Net Assets. Exhibit C should be prepared as it has been in past years. Any activity recorded in Account 2802 should be cleared out into account 1710 at year-end.