1978

Accounting for advance refundings of tax-exempt debt, June 30, 1978 : proposal to Financial Accounting Standards Board; Statement of position 78-05;

American Institute of Certified Public Accountants. Accounting Standards Division

Statement of Position 78-5

on

Accounting for Advance Refundings of Tax-Exempt Debt

June 30, 1978

Proposal to
Financial Accounting Standards Board

Issued by
Accounting Standards Division

American Institute of
Certified Public Accountants

AICPA

NOTE

Statements of position of the AICPA Accounting Standards Division are issued for the general information of those interested in the subject. They present the conclusions of at least a majority of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting and cost accounting.

The objective of statements of position is to influence the development of accounting and reporting standards in directions the division believes are in the public interest. It is intended that they should be considered, as deemed appropriate, by bodies having authority to issue pronouncements on the subject. However, statements of position do not establish standards enforceable under the Institute's code of professional ethics.

AICPA **American Institute of Certified Public Accountants**
1211 Avenue of the Americas, New York, N.Y.10036 (212) 575-6200

June 30, 1978

Donald J. Kirk, CPA
Chairman
Financial Accounting Standards Board
High Ridge Park
Stamford, Connecticut 06905

Dear Mr. Kirk:

The accompanying statement of position, Accounting for Advance Refundings of Tax-Exempt Debt, was prepared by the accounting standards division and presents the division's recommendation on the accounting for advance refundings of debt.

Representatives of the division are available to discuss this proposal with you or your representatives at your convenience.

Sincerely,

Arthur R. Wyatt

Arthur R. Wyatt, Chairman
Accounting Standards Division

cc: Securities and Exchange Commission

Accounting Standards Division

Accounting Standards Executive Committee

ARTHUR R. WYATT, *Chairman*
DENNIS R. BERESFORD
MICHAEL P. BOHAN
ROGER CASON
CHARLES CHAZEN
JOEL W. CHEMERS
WILLIAM C. DENT
OBA T. HANNA, JR.
LAVERN O. JOHNSON
ROBERT G. MCLENDON
THOMAS I. MUELLER
THOMAS J. O'REILLY
JOHN O. REINHARDT
LEWIS E. ROSSITER
EDWARD J. SILVERMAN

Task Force on Refunding of Debt

WILLIAM C. DENT, *Chairman*
JAMES R. FAKO
WILLIAM FREITAG
BRUCE M. HEIDER
MICHAEL A. JOHNS
DAVID L. LANDSITTEL
BRUCE D. SULLIVAN

AICPA Staff

PAUL ROSENFIELD, *Director, Accounting Standards*
GABRIEL V. CARIFI, *Manager, Accounting Standards*

The division gratefully acknowledges the contribution made to the development of this statement of position by Michael J. Walters.

Accounting for Advance Refundings of Tax-Exempt Debt

1. A refunding of debt is the replacement of old debt with new debt in order to obtain a perceived economic advantage. Although this perceived advantage may take various forms, it is frequently lower interest rates, a revised payment schedule, an extension of maturity dates, or the removal or modification of restrictions. An advance refunding is a refunding in which new debt is issued before the maturity or intended call date of the old debt, primarily for the purpose of replacing the old debt at a specified future date.

2. This statement of position addresses accounting for advance refundings[1] of tax-exempt debt.[2] It is not intended to modify APB Opinion 26, *Early Extinguishment of Debt,* or FASB Statement 4, *Reporting Gains and Losses From Extinguishment of Debt.* The addendum to APB Opinion 2, "Accounting Principles for Regulated Industries," states that "differences may arise in the application of generally accepted accounting principles as between regulated and nonregulated businesses, because of the effect in regulated businesses of the rate-making process," and discusses the application of generally accepted accounting principles to regulated industries. This statement of position should be applied by entities for rate-making purposes on an individual-company-cost-of-service basis in accordance with the provisions of the addendum.

3. Paragraphs 9 to 15 of this statement of position apply to accounting for advance refundings of tax-exempt debt including advance refundings entered into by nonprofit organizations other than state and local governmental units, that are reported in financial statements prepared in conformity with generally accepted

---

[1] Some advance refundings of debt involve corresponding changes in the provisions of existing leases. In this regard, see FASB Statement 22, *Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt: An Amendment of FASB Statement 13.*

[2] *Tax-exempt debt* as used here includes (1) tax-exempt debt and (2) debt (for example, a mortgage) and lease obligations that serve as collateral for tax-exempt debt.

accounting principles. Paragraphs 16 to 19 apply to state and local governmental units. Paragraph 20 sets forth appropriate disclosures, and paragraphs 21 to 23 discuss transition.

4. The following circumstances illustrate an advance refunding of tax-exempt debt. Three years ago a corporation's capital improvements were financed by government-issued 9 percent tax-exempt industrial revenue bonds. The proceeds of the bonds were used to construct capital improvements for the corporation. The corporation's payments to the governmental unit issuer were structured in amount and timing to meet the debt service requirements of the bonds. During the past three years, interest rates in the tax-exempt bond market dropped from 9 percent to 6 percent, making it advantageous for the corporation, through the governmental unit, to replace the 9 percent debt. If the 9 percent debt is not callable, or if management does not intend to have the debt called until a future date, and the 6 percent debt is issued to replace the 9 percent issue, an advance refunding of tax-exempt debt has occurred.

5. Advance refundings involving tax-exempt debt are subject to arbitrage rules under the Internal Revenue Code (section 103(c)) and related regulations that, in general, prohibit the yield realized from the investment of the proceeds of a new debt from exceeding the yield on the debt itself. Compliance with those rules is necessary for the interest on the debt to be exempt from federal income tax and, possibly, from state and local tax; compliance can be achieved by investing in U.S. Treasury obligations that yield a rate of interest not exceeding the yield on the new debt. The arbitrage rules do not prohibit investment in other securities so long as the yield is low enough to comply with those rules.

6. As defined below, three methods are used to achieve advance refundings of tax-exempt debt: net advance refunding, full cash advance refunding, and crossover advance refunding.

7. The accounting standards division believes guidance is needed concerning (*a*) the timing of income statement recognition of a gain or loss from an advance refunding, (*b*) when the refunded debt, the refunding debt, or both, along with the trust securities, should be included in the balance sheet, and (*c*) the

method of income statement recognition for interest related to the debts and the trust securities.

Definitions

8. The following definitions apply to the terms used in this statement of position:

Refunding debt (sometimes referred to as "new debt"). Debt issued to provide funds to replace the refunded debt at a specified future date(s).

Refunded debt (sometimes referred to as "old debt"). Debt for which payment at a specified future date(s) has been provided by the issuance of refunding debt.

Advance refunding. A transaction in which refunding debt is issued to replace the refunded debt at a specified future date(s), with the proceeds placed in trust or otherwise restricted to replacing the refunded debt.

Defeasance provision. A provision in the refunded debt instrument that provides the terms by which the debt may be legally satisfied and the related lien released without the debt necessarily being retired.

Defeasance. Legal satisfaction of debt under the terms of a defeasance provision.

Net advance refunding. An advance refunding in which the proceeds from the new debt, additional cash deposits, if any, and the income earned on the related investments is sufficient to pay the interest and principal on the old debt and any call premium.

Full cash advance refunding. An advance refunding in which both revenue and special obligation bonds are sold and the net proceeds plus additional cash deposits, if any, are sufficient to pay the interest and principal on the old debt and any call premium.

Special obligation bonds. Debt that is issued concurrently with revenue bonds in a full cash advance refunding, normally at a lower interest rate and with a shorter maturity date than the revenue bonds. The proceeds from the revenue and special obligation bonds are placed in trust, and the income realized from investment of the trust assets serves as collateral for, and will be used to service and retire, the special obligation bonds.

Crossover advance refunding. An advance refunding in which the proceeds from the new debt, additional cash deposits, if any, and the income earned on the related investments is sufficient to pay the principal and any call premium of the old debt and the interest on the new debt until the date of crossover. Until the date of crossover, the proceeds from the new debt serve as collateral for that debt. The old debt is serviced by the entity until the date of crossover, at which time the proceeds from the new debt are used to retire the old debt and the entity becomes obligated to service the new debt. In a crossover advance refunding, the old debt is never defeased at the time of advance refunding.

Qualifying securities. Direct U.S. Treasury obligations, securities backed by the U.S. government, or securities collateralized by U.S. government obligations.

The Division's Conclusions

Entities Other Than State and Local Governmental Units

9. *Defeasance Transactions.* The accounting standards division believes that an advance refunding in which the refunded debt is defeased results in an early extinguishment of debt because the refunded debt is legally satisfied. The gain or loss from the advance refunding should be determined in accordance with the provisions of APB Opinion 26[3] and should be classified in accordance with FASB Statement 4. Since the old debt is legally satisfied, it is not a liability of the entity and should not be included in the balance sheet; only the new debt should be included. If special obligation bonds are issued as part of the advance refunding, they should not be presented in the balance sheet because they will be serviced from the earnings of the proceeds of the advance refunding and, therefore, represent an obligation of the trustee and not an obligation of the entity.

10. *Nondefeasance Transactions.* The division believes that advance refundings meeting all of the following criteria are completed transactions that should be accounted for in the same manner as defeased transactions because the obligation for the

[3] See footnote 1.

refunded debt is satisfied in substance, even though in form the refunded debt is not defeased.

- The issuer is irrevocably committed to refund the old debt.
- The funds used to consummate the advance refunding are placed in an irrevocable trust with a reputable trustee for the purpose of satisfying the old debt at a specified future date(s).
- The funds used to consummate the advance refunding are invested in qualifying securities with maturities that approximate the debt service requirements of the trust.
- The invested funds used to consummate the advance refunding are not subject to lien for any purpose other than in connection with the advance refunding transaction.

11. In an advance refunding transaction in which the refunded debt is not defeased and the criteria in paragraph 10 are not met, the division believes that the obligation for the refunded debt is not satisfied in substance, and there is no early extinguishment of debt. Consequently, no immediate gain or loss should be recognized on the transaction. However, if the retirement dates of the old debt have been established, the (1) call premium, (2) unamortized premium or discount, and (3) initial issue costs should be systematically recognized in the income statement over the remaining life of the old debt as an adjustment of the cost of borrowing related to the old debt.[4] In addition, the income earned on the funds used to consummate the advance refunding and the interest expense on both the old and new debts should be recognized in the income statement. The funds used to consummate the advance refunding should be reported as an asset, and both the old and new debts should be reported as liabilities. The assets and the liabilities should not be offset.

12. If only a portion of the investments meet the criteria of paragraph 10, the accounting for the refunding will be partly in accordance with paragraph 10 and partly in accordance with paragraph 11. The portion of the refunded debt that would be accounted for in accordance with paragraph 10 should be based on the relationship of the cash to be provided from the investments that meet the criteria of paragraph 10 to the total cash

[4] See footnote 1.

necessary to accomplish the entire redemption of the old debt. The balance of the refunded debt should be accounted for in accordance with paragraph 11.

13. *Crossovers.* In a crossover, the old debt continues to be serviced by the entity until the date of the crossover. At the crossover date the old debt is retired and the entity becomes obligated to service the new debt. There is never defeasance in a crossover at the time of the advance refunding, and the accounting standards division believes that the transaction should not be treated as an in substance defeasance at that time either. Consequently, no immediate gain or loss should be recognized, and the accounting in paragraph 11 should be followed for crossover transactions.

14. *Third Party Reimbursement to Hospitals.* If a third party is obligated to reimburse a hospital for the loss from an advance refunding, the hospital should report the loss net of the reimbursement. The portion of the reimbursement attributable to costs that cannot be claimed in the current year should be accounted for as a deferred charge and should be reduced in each subsequent year by the amount of reimbursement allowed. To the extent reimbursement is not reasonably assured, the loss should be recognized in the year incurred, and subsequent reimbursement should be recorded when received.

15. *Income Tax Accounting.* Income tax allocation in accordance with APB Opinion 11, *Accounting for Income Taxes,* should be applied to a gain or loss as credited or charged to income in different periods for financial reporting and tax purposes.

State and Local Governmental Units

16. *Enterprise Funds.* In accounting for an advance refunding of debt that is an obligation of an enterprise fund, the accounting recommended for entities other than state and local governmental units should be followed.

17. *Other Than Enterprise Funds.* In advance refundings of debt in which there is defeasance or in which the criteria of paragraph 10 are met, the old debt should be removed from either the long-term debt group of accounts or the balance sheet of the af-

fected governmental fund and be replaced by the new debt. The proceeds of the new debt should be accounted for as revenue in either the debt service fund or the affected governmental fund. The issue costs and the amount transferred to the trustee to retire the old debt should be accounted for as expenditures of the debt service fund or affected governmental fund. The amount transferred to the trustee should be shown in two parts: (1) retirement of principal and (2) gain or loss on advance refunding of debt.

18. If the advance refunding of debt does not result in defeasance or meet the criteria in paragraph 10, the governmental unit is responsible for the new debt and remains responsible for the old debt until it is retired. Therefore, both debts should be presented in either the long-term debt group of accounts or the balance sheet of the affected governmental fund. The gross proceeds of the new debt should be recorded as revenue of either the debt service fund or other affected governmental fund; the issue costs should be recorded as an expenditure of the debt service or other affected governmental fund with the resultant net increase to a restricted fund balance. If the retirement dates of the old debt have been established, the (1) call premium, (2) unamortized premium or discount, and (3) initial issue cost should be systematically recognized in the statement of revenues and expenditures over the remaining life of the old debt as an adjustment of the cost of borrowing related to the old debt. The funds used to consummate the advance refunding should be recorded as an asset. Income earned on the funds used to consummate the advance refunding should be recorded as revenue and interest expense on both debts recorded as expenditures.

19. In a crossover, the old debt continues to be serviced by the governmental unit until the date of the crossover. At the crossover date the old debt is retired, and the governmental unit becomes obligated to service the new debt. There is never defeasance in a crossover at the time of the advance refunding, and the accounting standards division believes that the transaction should not be treated as an in substance defeasance at that time either. Consequently, no immediate gain or loss should be recognized and the accounting in paragraph 18 should be followed for crossover transactions in a governmental unit.

Disclosure

20. Financial statements for the period in which an advance refunding occurs should include a general description of the advance refunding, including identification of the debts involved, along with disclosures required by FASB Statement 4. A general description of the advance refunding transaction, including identification of the debts involved, should be disclosed in the financial statements for each subsequent period until the old debt and any special obligation bonds are retired.

Transition

21. This statement of position should be applied to advance refundings of debt consummated on or after July 1, 1978.

22. If an advance refunding of debt involves a lease, this statement of position shall not be adopted retroactively for previously published annual financial statements unless it is being applied in the same manner as and concurrently with the application of FASB Statement 22.

23. If an advance refunding of debt does not involve a lease, earlier application of the provisions of this statement of position is encouraged for advance refundings of debt consummated before July 1, 1978, but it should not be retroactively applied to advance refundings of debt consummated during fiscal years for which annual financial statements have previously been issued.

APPENDIX

Illustration 1

Calculation of Gain or Loss in a Net Advance Refunding of Tax-Exempt Debt With Defeasance

In a net advance refunding of tax-exempt debt, the proceeds from the new debt, additional cash deposits, if any, and the income earned on the related investments are sufficient to pay the interest, principal, and call premium on the old debt. After the advance refunding, the old debt is serviced by the investments in trust and the new debt is serviced by the entity.

Assumptions

Old debt	
Principal outstanding	$50,000,000
Interest rate	9.5%
Earliest call date	5 years
Call premium	3%
Unamortized issue costs	$ 1,300,000
Unamortized discount	$ 700,000
New debt	
Principal	$60,000,000
Average coupon interest rate	5.372%
True interest cost—yield	6%
Issue costs	$ 1,507,479
Issue price	100
Period outstanding	30 years
Yield on direct U.S. Treasury obligations	6%

Calculation of New Debt

New debt and proceeds from new debt required to provide for payment of old debt

	Present value of future cash requirements at 5.372%	Earnings on direct U.S. Treasury obligations	Total future cash requirements
Call premium—old debt	$ 1,154,689	$ 345,311	$ 1,500,000
Principal—old debt	38,489,643	11,510,357	50,000,000
Interest—old debt	20,355,668	3,394,332	23,750,000
Gross proceeds of new debt	60,000,000	15,250,000	75,250,000
Debt issue costs	(1,507,479)	1,507,479	
Net proceeds to be invested	$58,492,521	$16,757,479	$75,250,000

After payment of the new debt issue costs, the proceeds from the new debt total $58,492,521. As permitted by the IRS arbitrage regulations, the direct U.S. Treasury obligations acquired with the proceeds of the new debt will yield 6 percent (to earn $16,757,479). Proposed IRS arbitrage regulations issued May 3, 1978, will exclude consideration of administrative cost in determining yield with respect to obligations issued after September 1, 1978.

Proceeds from the new debt will be sufficient to service the old debt as follows:

Present value of call premium (discounted at 6%)	$ 1,120,887
Present value of interest requirements (discounted at 6%)	20,008,728
Present value of principal (discounted at 6%)	37,362,906
Proceeds from the new debt invested in direct U.S. Treasury obligations	58,492,521
Issue costs	1,507,479
New debt	$60,000,000

Loss on Advance Refunding

New debt		$60,000,000
Issuance costs to be deferred and amortized over the life of new debt		(1,507,479)
		58,492,521
Carrying amount of old debt		
Principal	$50,000,000	
Unamortized discount	(700,000)	
Unamortized issue costs	(1,300,000)	48,000,000
Loss on advance refunding		$10,492,521

Entries[1]

Advance refunding date		
Loss on advance refunding	10,492,521	
Deferred issue costs	1,507,479	
Old debt	50,000,000	
Unamortized discount—old debt		700,000
Unamortized issue costs—old debt		1,300,000
New debt		60,000,000
To record advance refunding of debt		

[1] These illustrative entries, as well as others that follow in this Appendix, exclude related income tax effects.

First year		
Interest expense	3,223,200	
Debt issue costs	50,250	
Deferred issue costs		50,250
Cash		3,223,200

To record amortization of debt issue costs and interest expense on new debt

Illustration 2

Calculation of Gain or Loss in Full Cash Advance Refunding of Tax-Exempt Debt with Defeasance

In a full cash advance refunding of tax-exempt debt, the principal amount of the revenue bonds is calculated in the same manner as in net advance refunding. Special obligation bonds are issued to provide additional funds, which, together with the proceeds from the revenue bonds, and additional cash deposits, if any, will be sufficient to pay the interest, principal, and call premium on the old debt. After the advance refunding occurs, the old debt is serviced by the investments in trust and the revenue bonds are serviced by the entity. The special obligation bonds are serviced by the income earned on the investments in trust.

Assumptions	
Old debt	
Principal outstanding	$50,000,000
Interest rate	9.5%
Earliest call date	5 years
Call premium	3%
Unamortized issue costs	$ 1,300,000
Unamortized discount	$ 700,000
Revenue bonds	
Principal	$60,000,000
Average coupon interest rate	5.372%
True interest cost—yield	6%
Issue costs	$ 1,507,479
Issue price	100
Period outstanding	30 years
Yield on direct U.S. Treasury obligations[2]	6%

[2] IRS arbitrage regulations require that a separate yield must be calculated on the investments acquired with the proceeds of each issue.

Special obligation bonds	
Principal	$17,150,479
Average coupon interest rate	3%
True interest cost—yield	3.5394%
Issue costs	$ 393,000
Issue price	100
Period outstanding	5 years
Yield on direct U.S. Treasury obligations[2]	3.5394%

Calculation of New Debt

Total future cash requirements of old debt	
Principal—old debt	$50,000,000
Call premium—old debt	1,500,000
Interest—old debt	23,750,000
Total future cash requirements of old debt	$75,250,000

Proceeds from sale of new debt

	Revenue bonds	Special obligation bonds	Total
Gross proceeds from sale of debt	$60,000,000	$17,150,479	$77,150,479
Debt issue costs	(1,507,479)	(393,000)	(1,900,479)
Net proceeds to be invested	$58,492,521	$16,757,479	$75,250,000

After payment of debt issue costs, the proceeds from both issues total $75,250,000, which is sufficient to service the old debt until it is called. As permitted by the IRS arbitrage regulations, the direct U.S. Treasury obligations acquired with the proceeds of the revenue bonds and the special obligation bonds will yield 6 percent and 3.53994 percent respectively. Proposed IRS arbitrage regulations issued May 3, 1978, will exclude consideration of administrative cost in determining yield on obligations issued after September 1, 1978. The earnings on these investments will be sufficient to service the special obligation bonds as follows:

[2] IRS arbitrage regulations require that a separate yield must be calculated on the investments acquired with the proceeds of each issue.

Earning on direct U.S. Treasury obligations used to service special obligation bonds

Earnings on proceeds of revenue bonds at 6%		$16,757,479
Earnings on proceeds of special obligation bonds at 3.5394%		2,965,570
		$19,723,049

Debt service requirements of special obligation bonds

Principal		$17,150,479
Interest at 3%		2,572,570
		$19,723,049

Loss on Advance Refunding[3]

Revenue bonds		$60,000,000
Issuance costs to be deferred and amortized over the life of the revenue bonds		(1,507,479)
		$58,492,521
Carrying amount of old debt		
Principal	$50,000,000	
Unamortized discount	(700,000)	
Unamortized issue costs	(1,300,000)	48,000,000
Loss on advance refunding		$10,492,521

Entries

Advance refunding date		
Loss on advance refunding	10,492,521	
Deferred issue costs	1,507,479	
Old debt	50,000,000	
Unamortized discount—old debt		700,000
Unamortized issue costs—old debt		1,300,000
New debt		60,000,000
To record advance refunding of debt		
First year		
Interest expense	3,223,200	
Debt issue costs	50,250	
Deferred issue costs		50,250
Cash		3,223,200
To record amortization of debt issue costs and interest expense on new debt		

[3] The special obligation bonds are not included in the calculation of the loss on advance refunding or in the balance sheet because they will be serviced from the earnings on the proceeds from the advance refunding and do not constitute an obligation of the entity.

Illustration 3

Calculation of Gain or Loss in a Net Advance Refunding of Tax-Exempt Debt When Only a Portion of the Trust Investments Meet the Criteria of Paragraph 10

In a net advance refunding of tax-exempt debt, the proceeds from the new debt, additional cash deposits, if any, and the income earned on the related investments are sufficient to pay the interest, principal, and call premium on the old debt. After the advance refunding, the old debt is serviced by the investments in trust, and the new debt is serviced by the entity.

If only a portion of the investments meet the criteria of paragraph 10, the accounting for the refunding will be in part in accordance with paragraph 10 and in part in accordance with paragraph 11. The portion of the refunded debt that would be accounted for in accordance with paragraph 10 would be based on the relationship of the cash to be provided from the investments that meet the criteria of paragraph 10 to the total cash necessary to accomplish the entire redemption of the old debt. The balance of the refunded debt would be accounted for in accordance with paragraph 11.

Assumptions	
Old debt	
Principal outstanding	$70,000,000
Interest rate	9.5%
Earliest call date	5 years
Call premium	3%
Unamortized issue costs	$ 1,820,000
Unamortized discount	$ 980,000
New debt (investment of proceeds will meet criteria of paragraph 10)	
Principal	$60,000,000
Average coupon interest rate	5.372%
True interest cost–yield	6%
Issue costs	$ 1,507,479
Issue price	100
Period outstanding	30 years
Yield on direct U.S. Treasury obligations	6%
Additional cash provided by entity (investment of cash will not meet criteria of paragraph 10)	
Cash invested in certificates of deposit	$21,606,000
Average interest rate of certificates of deposit	8%

Calculation of New Debt

New debt and proceeds from new debt required to complete the advance refunding

Total future cash requirements		
Call premium—old debt		$ 2,100,000
Principal—old debt		70,000,000
Interest—old debt		33,250,000
Total future cash requirements		105,350,000
Total future cash to be provided from certificates of deposit[4]		
Cash invested	$21,606,000	
Interest to be earned	8,494,000	30,100,000
Total future cash to be provided from proceeds of new debt		$ 75,250,000
New debt—present value of future cash to be provided from proceeds of new debt at 5.372%		$ 60,000,000
Debt issue costs		(1,507,479)
Net proceeds of new debt to be invested		$ 58,492,521

After payment of the new debt issue costs, the proceeds from the new debt total $58,492,521. As permitted by the IRS arbitrage regulations, the direct U.S. Treasury obligations acquired with the proceeds of the new debt will yield 6 percent rather than 5.372 percent, to earn the additional $1,507,479. Proposed IRS arbitrage regulations issued May 3, 1978, will exclude consideration of administrative cost in determining yield on obligations issued after September 1, 1978.

Loss on Advance Refunding

The portion of the refunded debt that would be accounted for in accordance with paragraph 10 would be based on the relationship of cash to be provided from the investments that meet the criteria of paragraph 10 to the total cash necessary to accomplish the entire redemption of the old debt.

	Cash to be provided	Ratio of cash to be provided to total cash	Portion of refunded debt
Investments meeting paragraph 10 criteria	$ 75,250,000	71.429%	$50,000,000
Investments not meeting criteria	30,100,000	28.571%	20,000,000
	$105,350,000	100.000%	$70,000,000

[4] Amounts will vary depending on the specific circumstances of the refunding.

New debt		$60,000,000
Issuance costs to be deferred and amortized over the life of the new debt		(1,507,479)
		58,492,521
Carrying amount of portion of old debt to be accounted for in accordance with paragraph 10		
Principal	$50,000,000	
Unamortized discount	(700,000)	
Unamortized issue costs	(1,300,000)	48,000,000
Loss on advance refunding		$10,492,521

Entries

Advance refunding date		
Loss on advance refunding	10,492,521	
Deferred issue costs	1,507,479	
Funds held in trust—CDs	21,606,000	
Old debt	50,000,000	
Unamortized discount—old debt		700,000
Unamortized issue costs—old debt		1,300,000
New debt		60,000,000
Cash		21,606,000
To record advance refunding of debt		
First year		
Interest expense	3,223,200	
Debt issue costs	50,250	
Deferred issue costs—new debt		50,250
Cash		3,223,200
To record amortization of debt issue costs and interest expense on new debt		
Cash	1,728,480	
Interest income from funds held in trust		1,728,480
To record interest income from certificates of deposits held in trust		
Interest expense	1,900,000	
Discount	56,000	
Debt issue costs	104,000	
Unamortized discount—old debt		56,000
Deferred issue costs—old debt		104,000
Cash		1,900,000
To record amortization of discount and debt issue costs and interest expense on $20,000,000 of old debt		
Call premium expense	120,000	
Accrued call premium payable		120,000
To systemically accrue call premium on $20,000,000 of old debt		