

NARRATIVE

Periodically, the county may acquire a TRLF (Transportation Revolving Loan Fund) loan to finance one or more construction projects.

The principal and interest on these loans are generally recouped from the Minnesota State Aid Allotments over the next few years according to a payment schedule. The appropriate CSAH Allotment Accounts will be reduced automatically by the State Aid Office (which keeps track of all outstanding loan balance for each county) each time loan interest and principal payments are due.

The following rules generally govern the repayment of TRLF loans:

Repayment Dollars - MN/DOT will send, to the county, the dollars needed to cover both the loan principal and interest due for the current year's payment. This will be sent to the county approximately 2 months before the payment is due. The county is then responsible to disburse the obligation at the proper time, to the TRLF loan.

TRLF Loan Principal - The amount of the loan principal, payable in the current year, is always considered by MN/DOT as a **reduction to** the current year's **CSAH Regular Construction Allotment**.

TRLF Loan Interest - The amount of the loan interest, payable in the current year, is always considered by MN/DOT as a **reduction to** the current year's **CSAH Regular Maintenance Allotment**.

Year-end Reporting - On the Annual Summary of Maintenance Costs for the county, loan interest should not be included in the county's maintenance costs. This is important because MN/DOT uses the average cost per mile figures for analysis of costs among all Minnesota Counties. Since all counties may not have outstanding loans (and thus no interest and service expenses), and because these loans are generally not used for funding maintenance projects, the inclusion of these figures would inflate the counties' average maintenance costs per mile.

Due to the nature of **Fund Accounting**, the accounting for the TRLF loans should follow certain rules as designated by **GAAFR** and **COFARS** standards.

In short, a separate fund should be set up to account for these and is generally kept up (or kept track of) by the County Auditor. All principal and interest payments should be made out of the fund. This fund is usually called the Debt Service Fund.

However, most counties handle TRLF loan monies and interest and principal payments directly out of the Highway Fund. The following sequence of events is written in this way.

ACCOUNTS NEEDED

- (*county exp*) - TRLF LOAN INTEREST EXPENSE

- (*revenue*) - REGULAR CONSTRUCTION REVENUE
- (*revenue*) - REGULAR MAINTENANCE REVENUE
- (*revenue*) - PROCEEDS FROM TRLF LOAN

- (*asset*) - CASH

- (*asset*) - REGULAR CONSTRUCTION ALLOTMENT
- (*asset*) - REGULAR MAINTENANCE ALLOTMENT

- (*equity*) - UNDESIGNATED FUND BALANCE
- (*equity*) - RESERVE FOR DEBT SERVICE

- (*liability*) - REGULAR CONSTRUCTION DEFERRED REVENUE
- (*liability*) - REGULAR MAINTENANCE DEFERRED REVENUE

SEQUENCE OF EVENTS

The sequence of events below describe the procedures to follow for the payback of TRLF loans that are funded by allotment monies.

TRLF LOAN PROCEEDS ARE RECEIVED

TRLF Loan proceeds are distributed to the county as funds are requested through the program. The following entries may be made multiple times since TRLF proceeds are distributed to the county as funds are requested.

Accounting Entry - for amount of TRLF Loan Proceeds

Debit Account: (*asset*) Cash
 Credit Account: (*revenue*) Proceeds from TRLF Loan

Accounting Entry - for amount of TRLF Loan Proceeds

Debit Account: (*equity*) Undesignated Fund Balance
 Credit Account: (*equity*) Reserve for Debt Service

PAYMENT SCHEDULE

Generally, a payment schedule is established and provided to the county by the PFA (Public Facilities Authority). This schedule may change since the amount borrowed may increase. Make sure that the PFA furnishes an updated schedule to the Mn/DOT State Aid Office each time a distribution of loan funds has occurred.

PRINCIPAL AND INTEREST PAYMENTS FROM STATE AID

The first year (and every year), approximately 2 months prior to the payment due date, Mn/DOT Office of State Aid will send the county both principal and interest which is due on the TRLF Loan. The county will be informed, via the State Aid Voucher Form, that these funds are reducing its current year's Allotments for the stated amounts.

TRLF LOAN PRINCIPAL ----> Reduces the *Regular Construction Allotment*
 TRLF LOAN INTEREST ----> Reduces the *Regular Maintenance Allotment*

- E) To record receipt of cash and reduction to Regular Construction Allotment for amount of Principal.

Accounting Entry - for amount of State Aid Payment (TRLF Loan Principal)

Debit Account: (asset) Cash

Credit Account: (asset) Regular Construction Allotment

- F) To record the current revenue earned for the *TRLF Loan Principal* received from the State Aid Regular Construction Allotment Account.

Accounting Entry - for amount of State Aid Payment (TRLF Loan Principal)

Debit Account: (liability) Regular Construction Deferred Revenue

Credit Account: (revenue) Regular Construction Revenue

- G) To record receipt of cash and reduction to Regular Maintenance Allotment for amount of Bond Interest.

Accounting Entry - for amount of State Aid Payment (TRLF Loan Interest)

Debit Account: (asset) Cash

Credit Account: (asset) Regular Maintenance Allotment

- H) To record the current revenue earned for the *TRLF Loan Interest* received from the State Aid Regular Maintenance Allotment Account.

Accounting Entry - for amount of State Aid Payment (TRLF Loan Interest)

Debit Account: (liability) Regular Maintenance Deferred Revenue

Credit Account: (revenue) Regular Maintenance Revenue

PRINCIPAL AND INTEREST PAYMENTS - ACCRUAL ENTRIES

At the time of the State Aid payments, the County Highway Accountant should recognize (assuming an accrual basis of accounting) the liability due the TRLF Loan. This liability may not actually be paid for another two months.

- A) To book principal liability to the TRLF Loan

Accounting Entry - for amount of TRLF Loan Principal Due

Debit Account: (county exp) TRLF Loan Principal
Credit Account: (liability) Accounts Payable

- B) To book interest expense and liability to the TRLF Loan

Accounting Entry - for amount of TRLF Loan Interest Due

Debit Account: (county exp) TRLF Loan Interest Expense
Credit Account: (liability) Accounts Payable

PRINCIPAL AND INTEREST PAYMENTS TO TRLF LOAN

County actually pays the TRLF Loan the amounts due for loan principal and interest.

Accounting Entry - for amount of disbursement to the TRLF Loan

Debit Account: (liability) Accounts Payable
Credit Account: (asset) Cash

RESERVE FOR DEBT SERVICE

Contractor does the work and a partial is prepared. For each partial payment, up to the TRLF Loan amount, the following entries need to be made:

- D) Recognize the amount of work certified.

Accounting Entry - for amount of work certified

Debit Account: (constr exp) Construction Expense Accounts
Credit Account: (liability) Contracts Payable

- E) Recognize actual amount paid to contractor, work certified less retainage.

Accounting Entry - for actual amount paid to contractor

Debit Account: (liability) Contracts Payable
Credit Account: (asset) Cash



F) Recognize reserve for construction expenditures.

Accounting Entry - for actual amount paid to contractor

Debit Account: (*equity*) Reserve for Debt Service

Credit Account: (*equity*) Undesignated Fund Balance

NOTE: More than one State Aid project can be funded by a TRLF Loan.