

ACCOUNTING INTERPRETATION NO. 12

Subject: Accounting for Revolving Loan Funds

A number of counties are now becoming involved in revolving loan funds. These are federal grants, that when given to the county, are subsequently loaned out to a new business to be repaid over a period of years. The grant should be recorded and run through a separate special revenue fund. The accounting entries would appear as follows:

Cash	xx	
Federal Grants Revenue (331)		xx

To record the receipt of the grant from the feds/state.

Notes Receivable (128)	xx	
Cash		xx

To record the payment of cash to the private business. This entry recognizes a loan receivable on the county's books. The notes receivable should only be for the principal of the loan.

Unassigned Fund Balance	xx	
Fund Balance, Nonspendable- Notes Receivable		xx

Pursuant to GAAP, the notes receivable of the previous entry should always be offset by nonspendable fund balance. That is because unassigned fund balance should always represent financial resources available for appropriation. Since the dollars have been loaned out and will not be available for a number of years, a reserve should be established to acknowledge that fact.

The receivable entry and the fund balance entry will be reversed each year when a payment is made on the loan. The receivable and the fund balance reserve should always equal and should always represent the remaining balance of the principal of the loan.

Occasionally loans will have interest involved. The interest portion of each loan repayment should be recognized as revenue when received.