Procedure 715 Tax and Revenue Anticipation Notes (TRANs)

Tax and revenue anticipation notes (TRANs) are short-term debt instruments issued in anticipation of taxes or other revenues to be collected at a later date. They are used to finance temporary cash flow shortfalls arising from the mismatch between the timing of expenditures and the receipt of revenues. The notes are repaid from the revenues to which they relate.

Tax and revenue anticipation notes can mature in either the same fiscal year as issued or in the following fiscal year. Because tax and revenue anticipation notes are short term rather than long term, they are reported as a fund liability in the fund receiving the proceeds. The proceeds are typically held by a fiscal agent or trustee, except for amounts drawn down by the local educational agency (LEA) to avoid cash shortfalls.

Assume, for example, that the LEA issues a TRAN on July 1. The issue is for $1,000,000 at 5 percent interest and is issued at a premium of $1,000. The repayment schedule requires that the fiscal agent move 50 percent of the principal from the proceeds account to a repayment reserve account in December. The entire principal, plus interest for the entire issue, is to be repaid in April. In this example, the administrative costs ($9,500) are deducted from the note's proceeds at the time of issuance, and the LEA draws down part of the proceeds to cover temporary general fund cash shortfalls in November.

The following entries are made:

Date	Object Title	SACS Account String	Debit	Credit
7-1-xx	Cash with a Fiscal Agent/Trustee	01-0000-0-0000-0000-9135	$991,500	
	Professional/Consulting Services and Operating Expenditures	01-0000-0-0000-9100-5800	9,500	
	Current Loans	01-0000-0-0000-0000-9640		$1,000,000
	Interest	01-0000-0-0000-0000-8660		1,000
	To record the receipt of the TRAN's proceeds plus issue premium and the associated administrative costs.			

Date	Object Title	SACS Account String	Debit	Credit
11-15-xx	Cash in County Treasury	01-0000-0-0000-0000-9110	$200,000	
	Cash with a Fiscal Agent/Trustee	01-0000-0-0000-0000-9135		$200,000
	To record the drawdown of TRAN proceeds to cover temporary cash shortfalls during November.			

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Date	Object Title	SACS Account String	Debit	Credit
12-15-xx	Cash with a Fiscal Agent/Trustee	01-0000-0-0000-0000-9135	$200,000	
	Cash in County Treasury	01-0000-0-0000-0000-9110		$200,000
	To record the return of TRAN proceeds drawn down during November.			

Date	Object Title	SACS Account String	Debit	Credit
4-30-xx	Current Loans	01-0000-0-0000-0000-9640	$1,000,000	
	Interest Expense	01-0000-0-0000-9100-5800	50,000	
	Cash in County Treasury	01-0000-0-0000-0000-9110	1,500	
	Cash with a Fiscal Agent/Trustee	01-0000-0-0000-0000-9135		$991,500
	Interest	01-0000-0-0000-0000-8660		60,000
	To record the repayment of the TRAN principal plus interest, the interest earned on the invested proceeds, and the transfer of the difference to Cash in County Treasury.			

Note that no entry is made in the LEA's general ledger to record the transfer by the fiscal agent of 50 percent of the principal from the proceeds account to a repayment reserve account in December. Since the funds are merely moved from one account to another within the custody of the fiscal agent, the entry if the transfer were recorded would be a debit and a credit to Cash with a Fiscal Agent/Trustee, which would be unnecessary. Also note that the accounting is the same whether the fiscal agent service is provided by a financial services institution or by the county treasurer.

In the event that the LEA is assessed a penalty for issuing tax and revenue anticipation notes without a demonstrable cash flow need, the penalty be recorded as follows:

Date	Object Title	SACS Account String	Debit	Credit
xx-xx-xx	Professional/Consulting Services and Operating Expenditures	01-0000-0-0000-7110-5800	$xx,xxx	
	Cash in County Treasury	01-0000-0-0000-0000-9110		$xx,xxx
	To record the penalty assessed for issuing TRANs without a demonstrable cash flow need.			