



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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MEMORANDUM # 2010-3

TO: All Local Governments and Public Authorities and their Independent Auditors
FROM: Sharon Edmundson, Director, Fiscal Management Section
SUBJECT: Budgeting and Accounting for Principal Forgiveness SRF Loans – ARRA
DATE: July 6, 2009

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), "Principal Forgiveness" loans are being awarded to units by the Environmental Protection Agency (EPA) through the State Revolving Fund program administered by the North Carolina Department of Environment and Natural Resources (DENR). Questions have been raised about how to budget and account for these loans for the initial as well as the ensuing years. Below we have provided examples of both budget and accounting entries. These loans were made for water and/or sewer capital purposes. We have therefore assumed that the funds are being budgeted and accounted for in a multi-year enterprise capital projects fund. The "principal forgiveness" portion of the loan is forgiven immediately and therefore not amortized over time. The following should aid you in budgeting and recording these grants/loans.

Budget Entries

Initial Year of Principal Forgiveness Loan

Budgets are prepared on the modified accrual bases of accounting therefore the gross amount of the proceeds should be recorded as revenue along with the associated expenditures.

Capital expenditures	\$50,000	
Principal Forgiveness Grant		\$25,000
Debt proceeds		\$25,000

Initial and Subsequent Years of Principal Forgiveness Loan

The budget should include actual payments (principal and interest) every year for the life of the loan (amounts paid that were not forgiven).

Accounting Entries

Initial Year of Principal Forgiveness Loan

Immediately after receipt of loan proceeds an amount should be recorded as “principal forgiveness loan” (non-operating revenue account) for the amount of principal that was forgiven. The unit also should set up a loan payable account for the part of the proceeds that will be repaid. The offsetting entry is cash.

Cash	50,000	(balance sheet account)
Principal Forgiveness Loan	25,000	(capital contribution revenue account)
Loans Payable	25,000	(balance sheet account)

Initial and Subsequent Years of Principal Forgiveness Loan

Loan payments being made should be recorded as expenditures and offset against the loans payable account or interest expenditures, as you would with any other debt. These entries will continue until the loan is repaid.

Please contact Jim Burke at (919) 807-2389 or by email at james.burke@nctreasurer.com or Melinda Canady at (919) 807-2384 or via email melinda.canady@nctreasurer.com with any questions you may have.