

# INTERFUND LOAN

# Chapter 17.01.020

<b>POLICY: INTERFUND LOAN</b>	<b>NUMBER: 17.01.020</b>
<b>RESPONSIBLE OFFICER:</b> City Manager	<b>EFFECTIVE DATE:</b>
<b>POLICY OWNER:</b> CFO, Administrative Services Department, City Treasurer	<b>LAST UPDATED:</b>
<b>POLICY CONTACT:</b> CFO, Administrative Services Department, City Treasurer	<b>APPROVED:</b>

## POLICY

### General

It is the policy of the City Council that interfund loans between the General Fund and lender/borrowing Fund, the Capital Projects Fund, or the Debt Service Fund may only be used to alleviate a temporary cash deficiency. Such loans shall not be used to balance the budget of the Borrowing fund: nor shall they deter any function or project for which the Loaning Fund was established.

The loan shall be accounted for as a temporary borrowing between funds or accounts and shall not be available for appropriation or be considered revenue to the borrowing fund or account. Amounts loaned shall generally be repaid within the same fiscal year. Borrowing shall occur only when the fund or account receiving the money will earn sufficient revenue during the current fiscal year to repay the amount borrowed. No more than 75 percent of the maximum of moneys held in any fund or account during a current fiscal year may be loaned.

The City Council must adopt a resolution before any interfund loan payable/receivable transaction occurs to fund a project with expected pay back over multiple years. The resolution shall contain the exact amount of the loan, the funds involved, the purpose of the loan, the specific source of funds for repayment, the schedule for repayment and the interest rate involved. Repayment provisions of such interfund loans are described below.

### Repayment

1. If a loan is not repaid in a 'reasonable time' the loan becomes a transfer.
2. As part of the annual budget process, the Budget Office shall ensure that the loan repayment is budgeted consistent with the loan term.
3. If the borrowing fund continues to maintain negative cash balance for periods beyond the term of the loan, scheduled payments should be postponed until the fund has a positive cash balance. Interest should continue to accrue and be added to the principal of the loan.
4. If the borrowing fund is an operating fund, it must maintain positive cash balance

of at least 10% of its operating expense/expenditure budget to be able to repay the loan; excess cash balance (over the 10%) should be used to make scheduled payments and catch-up payments.

### **Modification**

Modification of loan term, interest rate, and/or repayment schedule of this type of interfund loan must be presented to the City Council.

### **BACKGROUND**

The Governmental Accounting Standards Board (GASB) provides guidance regarding classifying and reporting interfund transactions/loans in its Statement 34, ¶112(a).1.

An interfund loan is a temporary allocation of resources between individual government funds. These temporary loans are provided with a requirement for repayment. Most interfund loans are generated from normal cash activities and repaid within the fiscal year. Some interfund loans are anticipated to be more long term and require certain authorizations and treatment on the City's Financial Statements. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds. This activity should not be reported as other financing sources or uses in the fund financial statements. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

Section 1300.120 of the Codification of Governmental Accounting and Financial Reporting Standards provides some additional guidance on interfund receivables and payables.

#### **I. Purpose**

This policy documents requirements and responsibilities to be followed regarding interfund loans between funds of the City of Stockton.

#### **II. Scope**

Often local governments will loan resources from one fund to another fund that is experiencing a temporary cash shortage. Under generally accepted accounting principles (GAAP), funds that account for reserved or dedicated monies may make temporary loans to other funds. This policy addresses the approval, terms and accounting requirements for interfund loans.

#### **III. Definitions**

Since each accounting fund is a fiscal and accounting entity, the amounts due to one accounting fund from other accounting funds, as well as the amounts owed to other accounting funds, should be reflected in the accounting fund accounts and in accounting fund financial statements. Interfund loans should be reported as interfund receivables in lender accounting funds and interfund payables in borrower funds. Where money is owed from one accounting fund to another accounting fund and money is also owed from the latter to the former, the amounts receivable and

payable should not be offset in the accounts. But for purposes of reporting, current amounts due from and due to the same accounting funds may be offset and the net amounts shown in the respective accounting fund balance sheets. Liabilities arising from interfund activities do not constitute general long-term liabilities and therefore should be reported in governmental funds.

There are three primary types of interfund loans:

1. Due To/From (CHIEF FINANCIAL OFFICER OR DESIGNEE APPROVAL REQUIRED) are the most common interfund loans and are generated from normal cash activities. These interfund loans are used for accounting funds that have a negative cash balance due to a delay in receiving revenue. For example, City's grant-funded programs do not receive all of its reimbursement revenues until two months after the end of the fiscal year. If this delay causes a negative cash position in the grant funded program, GAAP requires a temporary influx of cash to eliminate the Fund's negative cash position. The Chief Financial Officer or designee shall authorize these temporary loans and will be disclosed in the City's financial statements. This is a non-appropriation item as the City's Budget is not impacted. All Due To/From balances will be scheduled for repayment immediately on the first day of the fiscal year.
2. Advance To/From (CITY MANAGER APPROVAL REQUIRED) are interfund loans used when a cash loan is required for more than one year. These interfund loans are required for accounting funds that have a negative cash position and which current revenue is not expected to be sufficient to remove the negative cash position. The City Manager shall authorize these temporary loans and the Chief Financial Officer shall provide Council a summary of these temporary loans after completion of the City's audited financial statements. This report to Council will provide history of each advance and an estimated date for repayment. This is a non-appropriation item as the City's Budget is not impacted. Funds advancing cash to other City Funds will be credited with a rate of interest equal to the rate of return experienced by the City's Treasury Pool. Conversely, accounting funds receiving cash from other City Funds will pay interest at a rate equal to the rate of return experienced by the City's Treasury Pool.
3. Interfund Loans Payable/Receivable (COUNCIL APPROVAL REQUIRED) may be required in situations where the City has the ability to internally finance a project that will be paid back over multiple years. For example, the City may decide to internally finance a capital project that has a repayment plan over multiple years. Terms of an interfund loan payable/receivable (e.g., interest rate, term of the loan, identification of lending Fund) require City Council approval via Resolution.

## RESPONSIBILITIES

- Stockton City Council
  - Administrative Services Department
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## **RELEVANT AUTHORITY**

- Stockton Charter Section 1900
  - GASB 34
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## **RELATED CITY POLICIES**

Administrative Directive 17.01

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## **RELATED CITY PROCEDURES**

Interfund Loan Procedure 17.01.020.10

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## **RELATED FORMS, DOCUMENTS, OR LINKS**

Not applicable

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## **FREQUENTLY ASKED QUESTIONS**

Not applicable

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## **UPDATE HISTORY**

Not applicable

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