



## Finance Policies Interfund Loan Policy

<input type="checkbox"/> <b>ADOPTED BY COUNCIL:</b>	<b>JANUARY 25, 2016</b>	<b>EFFECTIVE DATE:</b>	<b>JANUARY 25, 2016</b>
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### **I. PURPOSE**

A policy is needed to provide guidelines for the borrowing of cash or other assets using interfund loans. The City of Sequim is a non-charter code city. As such, the legislative body may exercise its powers to approve interfund loans.

### **II. POLICY**

This policy applies to all loans made between two or more city funds. Only that portion of a given fund which is clearly inactive or in excess of current needs for the anticipated length of the loan may be loaned to other municipal funds.

Interfund loans are temporary or short-term borrowing of cash or other assets and may be made for the following reasons:

- To offset timing differences in cash flow
- To offset timing differences between expenditures and reimbursements, typically associated with grant funding.
- To provide funds for interim financing in conjunction with obtaining long-term financing.
- For short-term borrowing in place of external financing.
- For other needs as deemed appropriate by City Council.

Interfund loan monies may only be used for the purpose identified in the authorizing resolution. Appropriate accounting records will be maintained to reflect the balances of loans in every fund affected by such transactions. A reasonable rate of interest, based on market rates, will be paid.

### **III. PROCEDURE**

It is permissible to make interfund loans of those municipal monies which are clearly inactive or in excess of current needs for the anticipated length of the loan and legally available for investment (i.e., no restrictions). The Administrative Services Director and City Attorney will determine which money may or may not be available for interfund lending, since the special character of some money involves commitments and restrictions which would require individual consideration.

The requirements for making and accounting for interfund loans are as follows:

1. The City Council must approve by resolution all interfund loans. The resolution will include a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest to be paid to the lending fund. The following guidelines should be used in establishing the rate of interest:

- a. Not lower than the “opportunity cost” if the funds were otherwise invested, such as the LGIP (Local Government Investment Pool) rate or a bank CD rate for a similar term.
  - b. Treasury yields or short-term bond yields for a similar term.
  - c. Not higher than the external rate available to the municipality.
2. Interest is not required in the following circumstances:
    - a. The borrowing fund has no independent source of revenue other than the lending fund; or
    - b. The borrowing fund is normally funded by the lending fund. (For example, General Fund is used to fund Streets and capital projects.)
    - c. The lending fund is the General Fund, which, being unrestricted, can loan interest-free, except to a proprietary fund (i.e, enterprise funds such as Water and Sewer).
  3. The borrowing fund must anticipate sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments as required in the authorizing resolution.
  4. The term of the loan may continue over a period of more than one year, but must be “temporary” in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be scrutinized for a “permanent diversion” of moneys. (Note: these restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)
  5. Appropriate accounting records will be maintained to reflect the balances of loans in every fund affected by such transactions.
    - a. Interfund loans receivable and interfund loans payable will be reconciled periodically.
    - b. The original interfund loan and repayments of the loan are recorded as nonexpenditure disbursements and nonrevenue receipts.
    - c. Loan interest on an interfund loan will be recorded as revenue to the loaning fund, and an expenditure of the fund receiving the loan.
    - d. Interfund loan monies may only be used for the purpose identified in the authorizing resolution.

#### **IV. REFERENCES**

State Auditor’s Office:

- Budget, Accounting and Report System (BARS) Manual
- Small City Handbook