

**CITY OF VICTORVILLE
COUNCIL POLICY**

SUBJECT: Interfund and Interagency Loan Policy	POLICY NO.: CP-15-02
SUPERCEDES: CP-11-04	DATE: April 7, 2015

PURPOSE

The purpose of this policy is to improve the accountability of cash being borrowed between funds intended for meeting cash flow needs for the City and all of its affiliated agencies.

POLICY

Generally Accepted Accounting Principles permit loans or advances between the funds that are used within a fund accounting framework. Interfund borrowings are common practice in fund accounting. The interfund and interagency borrowing addressed within this council policy is for loans or advances greater than one year. In order to properly account for interfund or interagency loans or advances, the following criteria must be met:

- The loan shall be accounted for as a temporary borrowing between funds and shall not be available for appropriation or be considered revenue to the borrowing fund.
- The receiving fund is at a negative cash balance that will not be remedied before the closing of the books at fiscal year end.
- The loan or advance is a borrowing that will cross one or more fiscal years.
- Certain funds will not be eligible to participate in these transactions because of statutory spending restrictions. Unless stated otherwise in the funding agreement, a loan document has to be established prior to the borrowing. These are: Gas Tax funds, Measure I funds, Proposition 1B funds, and Trust fund.
- No loans or advances will be made that will either violate any law, or cause the City and/or affiliated agencies to breach any restrictive covenant, contractual provision or grant term.

PROCEDURE

1. An analysis will be done of the financial condition of each fund involved in the interfund or interagency loan prior to approval, including a review of revenues, expenditures, assets, liabilities, and potential sources of revenue. The analysis will be used to determine the funds' ability to pay obligations such as ongoing operations, principal and interest payments for long-term debt, and agreements or contracts with third parties. To the extent possible, only funds with an ability to still meet all expenditure and debt obligations should be included in an interfund or interagency loan.
2. A clear and reasonable timeframe for the financial analysis will be conducted prior to approval of an interfund loan, which should ideally be approved before June 30 of each fiscal year. Financial planning and monitoring of repayment for each interfund or interagency loan will be specified. A financial plan will include a repayment schedule, targeted payment amounts based on a percentage of surplus revenues at the end of each fiscal year, and identification of potential revenue sources. Internal controls for monitoring repayment of interfund and interagency loans will be developed, approved, and formally documented.
3. If the determination had been made to establish an interfund or interagency loan or advance, the Administrative Services Director will report to the City Manager the need for the loan or advance. The City Manager upon accepting the report will request the City Attorney to prepare the loan documents in the form of a Promissory Note. The document will contain the following information:
 - the purpose for which the loan or advance is being made;
 - the identification of both the lending and borrowing fund, or funds;
 - the dollar amount of the loan or advances;
 - the maturity date on which all principal together with all accrued and unpaid interest will be due and payable;
 - the applicable interest rate;
 - the financial plan for repayment;
 - the borrowing fund's right to make full prepayment at any time without penalty.
4. The promissory note will be submitted to the council for approval.