



Item: City of Great Falls Interfund Loans Policy
From: Fiscal Services Department
Initiated By: City of Great Falls Investment Committee
Presented By: Melissa Kinzler, Fiscal Services Director
Action Requested: Approve the City of Great Falls Interfund Loans Policy

Suggested Motion:

1. Commissioner moves:

“I move that the City Commission (approve/deny) the City of Great Falls Interfund Loans Policy.”

2. Mayor calls for a second, discussion, public comment, and calls the vote.

Staff Recommendation: Staff recommends the City Commission approve the City of Great Falls Interfund Loans Policy.

Background:

The City of Great Falls' auditors, Junkermier, Clark, Campanella, Stevens, PC, recommended the City draft and implement a policy that addresses how individual fund cash deficits are processed:

Year End Reclassification of Fund Cash Deficits

Historically, the City has reclassified individual fund cash deficits at year end to the account "Due to Other City Funds" from which the cash was borrowed. Since the adoption of GASB 34 in the fiscal year ending June 30, 2003, these due to/from accounts have been classified as current assets/liabilities in the entity wide financial statements.

Recommendation

We recommend the City consider a policy which assesses the presentation of the lending and borrowing as either current (expected to be repaid within one year) or non-current (expected to be repaid after one year).

These cash deficits are covered by other funds in the pooled cash. This policy addresses how these deficits will be classified at year end; how these deficits will be repaid to the funds that cover the deficits; and what rate these funds will be charged monthly interest.

Attachments/Exhibits:

1. City of Great Falls Interfund Loans Policy

CITY OF GREAT FALLS INTERFUND LOANS POLICY

I. Scope

This policy applies to the interfund loans made monthly and at fiscal year end to remove negative cash balances in funds. The Fiscal Services Director is hereby authorized to process interfund loans that are made monthly and at fiscal year end to remove negative cash balances in funds in accordance with Generally Accepted Accounting Principles (GAAP). This policy covers category, processing and reporting for the loans.

II. Category of Interfund Loans

The interfund loans may fall in two categories – current and non-current. Current loan amounts are expected to be repaid within one fiscal year. Non-current amounts are expected to be repaid in more than one fiscal year. The first year that a fund makes an interfund loan to a fund, the amount would be a current loan. When a fund has to make an interfund loan to the same fund for more than one year in a row, this would make the amount the second (or more) year fall into the category of non-current loan.

III. Processing of Interfund Loans

At the end of the fiscal year, after all accounts payable transactions for that fiscal year have been processed, the cash balances of all funds will be analyzed. The General Fund will make an interfund loan to the other funds when the cash balance is enough to cover the amounts needed unless the fund that is negative has another fund that it is associated with that has a large enough cash balance (i.e., Golf Courses Fund and Park & Recreation Fund). If the General Fund does not have enough of cash balance to cover the amounts needed, the Central Garage Fund will be used. These loans will be booked in the fiscal year with an effective date of June 30, 20XX. They will be reversed in the new fiscal year with an effective date of July 1, 20XX.

If the fund that is negative has been in a significant negative status for more than five years, it will be reviewed and analyzed to decide if the interfund loan will not be reversed at the beginning of the new fiscal year. This loan will be considered a non-current loan and will be treated as mentioned below.

A repayment plan will be established and implemented by the Fiscal Services Director. In addition, the borrowing fund must anticipate sufficient revenues to be in a position over the period of the repayment plan to make the specified payments. The Fiscal Services Director is directed and authorized to repay such transfers, in whole or in part, when budgeted revenues in the borrowing fund are received sufficient to cover the projected foreseeable needs of the borrowing fund.

IV. Reporting of Interfund Loans

Because of GAAP reporting requirements, the type of fund designates how transactions are reported. When reporting the interfund loans, there are several scenarios that could occur:

1. Governmental fund makes current loan – If a governmental fund (General or Special Revenue) makes a current loan to another fund, this loan is reported on the balance sheet of the funds as a due to/from other city fund and the fund balance is kept in the unassigned or assigned category.
2. Governmental fund makes non-current loan – If a governmental fund makes a non-current loan to another fund, this loan is reported on the balance sheet of the funds as an advance to/from other funds and the fund balance is reported as nonspendable.
3. Proprietary fund makes current loan - If a proprietary fund (Enterprise or Internal Service) makes a current loan to another fund, this loan is reported on the balance sheet of the funds as a due to/from other city fund and the fund balance is kept as unrestricted.
4. Proprietary fund makes non-current loan - If a proprietary fund (Enterprise or Internal Service) makes a non-current loan to another fund, this loan is reported on the balance sheet of the funds as an advance to/from other city fund and the fund balance is kept as unrestricted.

V. Monthly Processing of Interfund Loans

If a fund has a negative average cash balance, the fund will be considered to have borrowed the cash from other funds. The borrowing fund will pay the other funds interest at a rate equal to the Montana Board of Investments STIP interest rate.