

3. ACCOUNTING

3.9 Interfund Activities 3.9.1 Loans

3.9.1.10 This section does not attempt to determine which moneys of a local government may or may not be available for interfund lending, since the special character of some moneys involves commitments and restrictions which would require individual consideration. As a rule of thumb, however, it may be considered permissible to make interfund loans of those moneys which are clearly inactive or in excess of anticipated cash needs throughout the duration of the loan **and** legally available for investment.

3.9.1.20 The minimum acceptable procedures for making and accounting for interfund loans are as follows:

1. The legislative body of a local government must, by ordinance or resolution, approve all interfund loans, indicating the lending and borrowing funds, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the local government) to be paid to the lending fund. The planned schedule of repayment should specify the due date(s) of payment(s) needed to repay the principal and interest on the loan.
2. Interest should be charged in all cases, unless:
 - a. The borrowing fund has no other source of revenue other than the lending fund; or
 - b. The borrowing fund is normally funded by the lending fund.
3. The borrowing fund must anticipate sufficient revenues to be able over the period of the loan to make the specified principal and interest payments as required in the authorizing ordinance or resolution.
4. The loan status should be reviewed annually by the legislative body at any open public meeting.
5. 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.)
6. Appropriate accounting records should be maintained to reflect the balances of loans in every fund affected by such transactions.

3.9.1.30 No debt instrument issued by one fund and held by another fund can be consider an investment. Such activity should be accounted for and reported as an interfund loan. Although the accounting treatment for such situations is not specified within a source of authoritative pronouncements, GAAP standards require transactions to be with an external party in order to classify them as other than interfund.