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FISCAL POLICIES MANUAL

INTER-FUND BORROWING

PREFACE

There are instances when a fund is nearing a zero cash balance but has expenses to be paid. The purpose of this policy is to improve the accountability of cash being borrowed between funds intended for meeting short-term (less than one year) cash flow needs.

POLICY

In order to properly account for cash advances received from another fund or cash advances made to another fund, the following criteria must be met:

1. The receiving fund is at or nearing a zero cash balance.
2. The advance is to cover only short-term (less than one year) cash flow need.
3. The advance cannot take place if there is no receivable identified that will repay it.
4. If either fund retains interest earned, the receiving fund must pay interest to the advancing fund until repayment is made.
5. If neither fund retains interest, no interest payment is required.
6. The interest rate is based on the State Treasurer's idle fund earning rate during the time of the advance.
7. If the advance will cross fiscal years, the purpose, amount, and collateral used must be identified and documented in agency records.
8. The State General Fund cannot be used for inter-fund borrowing.
9. Cash positions presented in the agency's annual budget must be net of any advance loaned or received.

Agencies will not be allowed to use cash advances to manipulate funds. There must be a documented, true short-term (less than one year) cash flow need with an identified receivable used as collateral.

Administrative Procedures on next page.

ADMINISTRATIVE PROCEDURES

To record an advance to another fund, enter STARS transaction code (TC) 540, using all required data elements for this TC. To record an advance from another fund, enter STARS transaction code 541, using all required data elements for this TC. Both transactions are required to complete the entries on the General Ledger.

At the time the advance is no longer required, enter the same transaction codes used to establish the advance but, include the reverse indicator "R".

If interest is required to be exchanged, an expense will be charged to the receiving fund and revenue will be recorded for the advancing fund. To reduce the issuing of warrants, transaction code 24A may be used to record the expense, and transaction code 17A (or other appropriate revenue TC) may be used to record the revenue with both transactions processing at the same time.

The following examples shows how to record a cash transfer from fund 0349 (originating fund) to fund 0348 (receiving fund), and how to record the repayment of the cash from fund 0348 to fund 0349.

Step 1 - To advance cash from one fund to another fund

A. Record the advance out of the originating fund:

<u>TC</u>	<u>Fund</u>	<u>Subsidiary</u>	<u>Amount</u>
540	0349	1230348	10,000

Dr 1550 - Advances to Other Funds or Appropriations
Cr 1003 - Cash

B. Record the advance into the receiving fund:

<u>TC</u>	<u>Fund</u>	<u>Subsidiary</u>	<u>Amount</u>
541	0348	1230349	10,000

Dr 1003 - Cash
Cr 2250 - Record Advances from Other Fund or Appropriations

Step 2 - To payback the cash advanced from one fund to another fund

A. Record the payback to the originating fund from the receiving fund:

<u>TC</u>	<u>Fund</u>	<u>Subsidiary</u>	<u>Amount</u>
540 R	0349	1230348	10,000

Dr 1003 - Cash
 Cr 1550 - Advances to Other Funds or Appropriations

B. Record the payback from the receiving fund to the originating fund:

<u>TC</u>	<u>Fund</u>	<u>Subsidiary</u>	<u>Amount</u>
541 R	0348	1230349	10,000

Dr 2250 - Record Advances from Other Fund or Appropriations
 Cr 1003 - Cash

Step 3 - Record interest expense and interest income if applicable

A. Record interest expense to the receiving fund:

<u>TC</u>	<u>Fund</u>	<u>Subobject</u>	<u>Amount</u>
24A	0348	5962	50

Dr 4200 - Expenditures
 Cr 1003 - Cash

B. Record interest earnings to the originating fund:

<u>TC</u>	<u>Fund</u>	<u>Subobject</u>	<u>Amount</u>
17A	0349	2515	50

Dr 1003 - Cash
 Cr 4100 - Revenue