Inter-institutional and Inter-fund Loans

Section: Accounting and Financial Reporting  Number: 05.271
Title: Inter-institutional and Inter-fund Loans

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POLICY

.100 POLICY STATEMENT
The policy sets forth certain basic system-wide requirements for administration and accounting for inter-institutional and inter-fund loans.

.110 POLICY RATIONALE
OUS seeks to ensure that the policies and procedures related to administration and accounting for inter-institutional and inter-fund loans are documented, communicated, clearly understood, and consistently applied.

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.130 APPROVAL AND EFFECTIVE DATE OF POLICY

ORS 351.085 - Duties and Powers of Chancellor
ORS 351.090 - Standardization of Accounts and Records; Preparation of Budget; Allocation of Funds
OAR 580-040-0005 - Delegation and Assignment of Responsibility
IMD 6.001 - Finance and Business Affairs Accounting Policies - Assignment of Responsibility
Generally Accepted Accounting Principles (GAAP)
Approved by the Controller on July 7, 2005, effective February 5, 2005. Retroactive application of this policy is encouraged.

.140 KNOWLEDGE OF THIS POLICY
All Chancellor's Office and institutional personnel with financial management responsibilities should be knowledgeable of this policy.

.150 DEFINITIONS

Institution
For purposes of this policy, the term institution includes Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Oregon State University Cascades Campus, each of the Oregon State University Statewide Public Services, Portland State University, Southern Oregon University, University of Oregon, Western Oregon University, and the Chancellor's Office.

Loan
For the purposes of this policy, a loan is defined as a movement of funds between institutions or between funds within an institution with a definite plan to repay the money within a specified period of time. The following provides additional clarification:

- Transfers among funds within an institution that will be repaid within 30 days are not considered loans unless the recipient fund received such transfers in successive months.
- Temporary cash advances (or negative cash balances within a fund) necessary for short-term cash flow purposes that are cleared prior to the close of a fiscal period (month) are not considered loans.
- A negative cash balance within a fund at the close of a fiscal period is an "in-substance" loan and a formal loan should be documented and funded in accordance with this policy.
- It is recognized that institutions may have operating units that utilize multiple funds. In those cases, if the funds of the operating unit roll up (in the accounting system) to a higher level fund of the same operating unit, all of those funds operate out of the same Treasury bank account, and the combined cash balances of those funds is positive, the provisions of this policy will not apply.
- Negative balances within funds established to account for cost-reimbursable grants (grants that require expenditure of funds in advance of the receipt of grant funds) will not be considered loans for the purposes of this policy.

Trust-type Fund
For purposes of this policy, a trust-type fund includes the following funds:

- Fund Type (FT) 30 - Restricted Funds
- FT 40 - Loan Funds
- FT 60 - Endowment Funds
- FT 80 - Unexpended Plant Funds
- FT 82 - Renewal and Replacement Funds
- FT 84 - Retirement of Debt Funds
- FT 86 - Investment in Plant Funds
.160 RESPONSIBILITIES
A. CHANCELLOR'S OFFICE
The Vice Chancellor for Finance and Administration or designee shall have oversight responsibility for this policy.

B. INSTITUTION
Each university Vice President for Finance and Administration or designee shall have oversight responsibility for institutional provisions set forth in this policy.

.170 POLICY PROVISIONS

A. General
It is the policy of OUS that any movement of funds between institutions or between funds that meets the definition of a loan (defined herein) be accomplished by the use of a formal loan agreement, which shall be governed by the provisions herein. Inter-institutional and inter-fund borrowing should be considered only after all other sources of funds have been considered and when the loan is required to meet a pressing need or to take advantage of a special opportunity.

B. Terms
Inter-institutional and inter-fund loans will be repaid over a specific period, generally not to exceed 5 years. Institutions must consult with the Chancellor's Budget Office when considering loans from or to legislative budget categories, including Education and General Limited, and Other Funds Limited. The approval of the Chancellor is required for loans to and from Capital Projects under expenditure limitation. Each loan agreement should be accompanied by a debt service schedule, which shows fiscal year payments for the loan and all other outstanding loans, including bonded debt (if any). This schedule must indicate a source of revenue that is of sufficient certainty to reasonably assure repayment over time and that the source of repayment is forecasted to generate sufficient revenue to cover the debt service payments as scheduled.

C. Loan Agreement
A written agreement detailing the terms of the loan is required for each loan between institutions or between funds or fund types. A copy of each loan agreement is to be provided to the Controller's Division within 30 days of the transfer of funds. See Appendix .710 for a loan agreement template.

D. Approval Authority
For inter-fund loans within a particular OUS institution, the approval of the institution's Vice President for Finance and Administration is required. For loans between OUS institutions, the approval of each institution's president and the Chancellor or Vice Chancellor for Finance and Administration is required. Loans of Chancellor's Office resources in amounts exceeding the expenditure authority of the Chancellor require the additional approvals delineated in applicable Board policy. All inter-institutional loans will be reported to the Board.

E. Interest
Unless prohibited by federal or state law, rule, or policy, interest must be assessed on all loans as defined herein. Interest will be assessed monthly at the rate of two (2) percentage points above
the rate paid by the Oregon Short Term Fund (OSTF) during the term of the loan. OSTF interest rates are found on the Office of State Treasurer website at: www.ost.state.or.us/About/OSTF/RateChanges.asp

F. The interest rate is established at the time of the loan agreement and is not required to change during the term of the loan. Exceptions to this provision may be granted by the Vice Chancellor for Finance and Administration or the OUS Controller. Any such exceptions must be documented in writing and retained.

G. Loans of Cash in "Trust Type" Funds
Generally, cash in "trust-type" funds may not be loaned. Exceptions to this provision may be granted by the Controller, subject to all applicable laws, rules, regulations, and guidelines.

H. Accounting
Loans will be accounted for consistently, in accordance with procedures established by the Chancellor's Office Controller's Division. See Appendix .720 for accounting transactions related to inter-institutional and inter-fund loans.

.690 CONTACT INFORMATION
Direct questions about this policy to the following offices:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>General questions from institutional personnel</td>
<td>Institution Office of Business Affairs</td>
</tr>
<tr>
<td>General questions from institutional central administration and Chancellor's Office personnel</td>
<td>Chancellor's Office Controller's Division</td>
</tr>
</tbody>
</table>

.695 HISTORY
07/07/05 - Approved. This policy supersedes FASOM 01.30 dated 03/84.

5/06/08 - Updated
Policy Last Updated: 05/06/08

APPENDIX

.710 LOAN AGREEMENT TEMPLATE
The following format is suggested for loan agreements:

OREGON STATE BOARD OF HIGHER EDUCATION

Inter-Institutional/Inter-Fund Loan Agreement
Whereas there is a temporary need for funds in (operation or activity name and fund name) of (institution name) for the purpose of (reason for loan), and
Whereas there are excess funds temporarily available in (operation or activity name and fund name) of (institution name);
Therefore, a loan of ______ dollars ($____) is hereby authorized and approved. Interest on these funds will be at the annual rate of XX%. The loan is to be repaid in accordance with the following terms:

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### 720 LOAN ACCOUNTING

**A. Inter-Institutional Loan**

The following transactions are recorded when the loan is made ($100 used in the example):

1. **Lender** - Establish a receivable for the amount loaned in the source fund. The accounting system will automatically credit the appropriate cash account.

   **Borrower** - Record the liability in a payable account in the recipient fund. The accounting system will automatically debit the appropriate cash account.

The following transactions are recorded when a loan repayment is made ($50 used in the example):

2. **Lender** - Reverse the receivable transactions recorded in (1) by the repayment amount. The accounting system will automatically debit the appropriate cash account.

   **Borrower** - Liability transaction recorded in (1) by the repayment amount. The accounting system will automatically credit the appropriate cash account.

3. **Lender** - Record interest income. The accounting system will automatically debit the appropriate cash account.

   **Borrower** - Record interest expense. The accounting system will automatically credit the appropriate cash account.

<table>
<thead>
<tr>
<th><strong>Lending Institution</strong></th>
<th><strong>Borrowing Institution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash On-Hand - Inter-Fund (A0901)</td>
<td>55</td>
</tr>
<tr>
<td>Due from Other OUS Entities (A7XXX)</td>
<td>100</td>
</tr>
<tr>
<td>Interest Income Investments (05132)</td>
<td>(3) 5</td>
</tr>
</tbody>
</table>
The same series of transactions is made as for an inter-institutional loan. The only difference is that receivables and payables are recorded in A6XXX - Due from Other Funds and B6XXX - Due to Other Funds.

Note: This policy supersedes FASOM 01.30 dated 03/84.

Appendix Last Updated: 05/06/08