

## MEMORANDUM

DATE: January 20, 2016

TO: Town Commission

FROM: Susan Smith, Finance Director

SUBJECT: Resolution 2015-27, Adoption of Finance Department Interfund Loans Policy and Procedure of the Town of Longboat Key

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The Town will soon begin certain projects requiring short-term interfund loans. Those projects include the latter half of Bayfront Park and the Gulf of Mexico Drive (GMD) Undergrounding project.

- Park and Recreation Fund

*Bayfront Park is a \$3.1 million project, of which \$960,000.00 is available from Infrastructure Surtax revenues. The remaining \$2 million is grant funded from Sarasota County on a reimbursement basis. Therefore, money will have to be spent prior to the funding source being received, which may cause periodic negative cash balances in the fund.*

- GMD Undergrounding Fund

*The Town electorate approved the undergrounding of utilities on Gulf of Mexico Drive on November 3, 2015, at an estimated cost of \$25.2 million, through the issuance of bonds. The project most likely will not issue the 30 year bonds until it can reasonably be assured of the final cost associated with the project. In the meantime, to move forward on the project, some form of short-term financing will be required, either with bank notes, bond anticipation notes or interfund loans.*

The Town has and continues to pool all of its unrestricted fund's cash and investments. The basic concept of pooled cash and investments is to minimize the number of required bank accounts, meet investment objectives and cash flow requirements, while maintaining the integrity of fund accounting in the tracking of cash and related liabilities of each fund. Any restricted cash (like those associated with bond covenants) are specifically excluded as an eligible loan source and are held in separate bank accounts when specifically required to do so.

Interest earned on pooled investments is accrued monthly and distributed based upon each fund's "Equity in Pooled Cash." For example, if the fund's "Equity in Pooled Cash" represented 10 percent of the Total Pooled Cash at the end of the month, then 10 percent of the accrued earnings would be allocated to that fund.

In the case of a particular fund having "negative cash," which is in effect an "interfund loan," this interfund policy proposes to charge the borrowing fund, interest expense equal to the investment earnings the providing funds would have received had the loan not occurred. The allocation shall be based on the same method as investment earnings, allowing for equitable distribution of the interest charged to the borrowing fund to the remaining funds.

In effect, the fund is not borrowing money from one fund, but all the funds. For financial reporting interfund receivables and payables, the General Fund will commonly be reporting the offset on the loans. The amount of interfund loans to specific projects will be monitored regularly and managed by the Town Manager and Finance Director and reported to the Town Commission. The Finance Director will monitor cash flow needs by project and make recommendations for external short-term borrowing needs to the Town Manager.

Ordinance 2016-07 adds a new Section 37.05 Interfund Loan Authorization for Unrestricted Funds, to the Town Code, specifically authorizes the adoption of an interfund loan program, and authorizes the adoption of a specific policy by Resolution. Ordinance 2016-07 was presented at the Town Commission's January 19, 2016 Special Meeting for first reading and public hearing and was forwarded to the Town Commission Regular Meeting on February 1, 2016 for second reading and public hearing.

Resolution 2015-27, provides for the formal adoption of the attached Financial Policy related to Interfund Loans. The Town Commission's consideration and adoption of proposed Resolution 2015-27 is contingent upon the adoption of Ordinance 2016-07.

Pending second reading, public hearing and adoption of Ordinance 2016-07 at the February 1, 2016 Regular Meeting, Resolution 2015-27 will be presented for Commission consideration and formal action at the February 1, 2016 Regular Meeting.

## RESOLUTION 2015-27

### A RESOLUTION OF THE TOWN COMMISSION OF THE TOWN OF LONGBOAT KEY, FLORIDA, ADOPTING AN INTERFUND LOAN POLICY AND PROCEDURES; PROVIDING FOR SEVERABILITY; PROVIDING FOR AN EFFECTIVE DATE.

**WHEREAS**, the Town of Longboat Key will begin projects with operating or capital expenditures that may require loans between various funds of the Town; and

**WHEREAS**, the Town of Longboat Key pools all of its unrestricted fund's cash and investments in order to minimize the number of required bank accounts, meet investment objectives and meet cash flow requirements; and

**WHEREAS**, interest earned on pooled investments is allocated to each fund based on each fund's equity in pooled cash; and

**WHEREAS**, the Town desires to provide a mechanism for charging interest expense to each fund which may require temporary interfund loans, based on each fund's negative equity in pooled cash; and

**WHEREAS**, the Town Commission wishes to provide an orderly process for such loans by authorizing the Finance Director to manage such loan processes on a daily basis, in order to minimize interest expense and to carefully tailor such loans and repayments to the revenue needs and expense obligations of the Town; and

**WHEREAS**, the Town Commission deems it appropriate to authorize the Finance Director to administer an Interfund Loan program, subject to regular reporting to the Town Manager and Town Commission, as outlined in the policy.

**NOW, THEREFORE**, be it resolved by the Town Commission of the Town of Longboat Key, Florida, that:

SECTION 1. The above Whereas clauses are true and correct and are hereby ratified and confirmed.

SECTION 2. The Town Commission hereby adopts the "The Town of Longboat Key, Florida Interfund Loan Policy and Procedures" dated October 1, 2015. A copy of said policy is attached hereto and incorporated herein as Exhibit A.

SECTION 3. If any section, subsection, sentence, clause or provision of this Resolution is held invalid, the remainder of this Resolution shall not be affected.

SECTION 4. This Resolution shall become effective for fiscal year ending September 30, 2016, upon adoption, in accordance with Law and the Charter of the Town of Longboat Key.

Passed by the Town Commission of the Town of Longboat Key on the \_\_\_\_\_ day of \_\_\_\_\_, 2016.

\_\_\_\_\_  
Jack G. Duncan, Mayor

ATTEST:

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Trish Granger, Town Clerk

Exhibit A

# TOWN OF LONGBOAT KEY



## Interfund Loan Policy and Procedures

Adopted: February 1, 2016

Effective: October 1, 2015

## **1. Basic Concept**

1.1 The basic concept of pooled cash and investments is to minimize the number of required bank accounts, meet investment objectives and cash flow requirements while maintaining the integrity of fund accounting in the tracking of cash and related liabilities of each fund. Each fund in the Town of Longboat Key has an "Equity in Pooled Cash" account. These accounts represent each fund's share of centrally held cash, or in some cases, negative cash.

## **2. The Pooled Cash Fund**

2.1 The pooled cash fund can best be described as a Trust and Agency Fund. The only purpose of the fund is to hold the assets and liabilities of the other funds. Therefore, the fund cannot contain any revenue, expense or equity accounts. When we make deposits or pay expenditures from pooled cash, we specify the funds and accounts that are involved and our accounting system automatically adds or subtracts each fund's equity portion in the bank account. Although the money is in a single account, each fund retains ownership of its own cash or investments.

2.2 Any restricted cash (including but not limited to those associated with bond covenants) are specifically excluded as an eligible loan source and shall be held in separate bank account(s) when specifically required to do so.

2.3 Pooled equity allows your organization to:

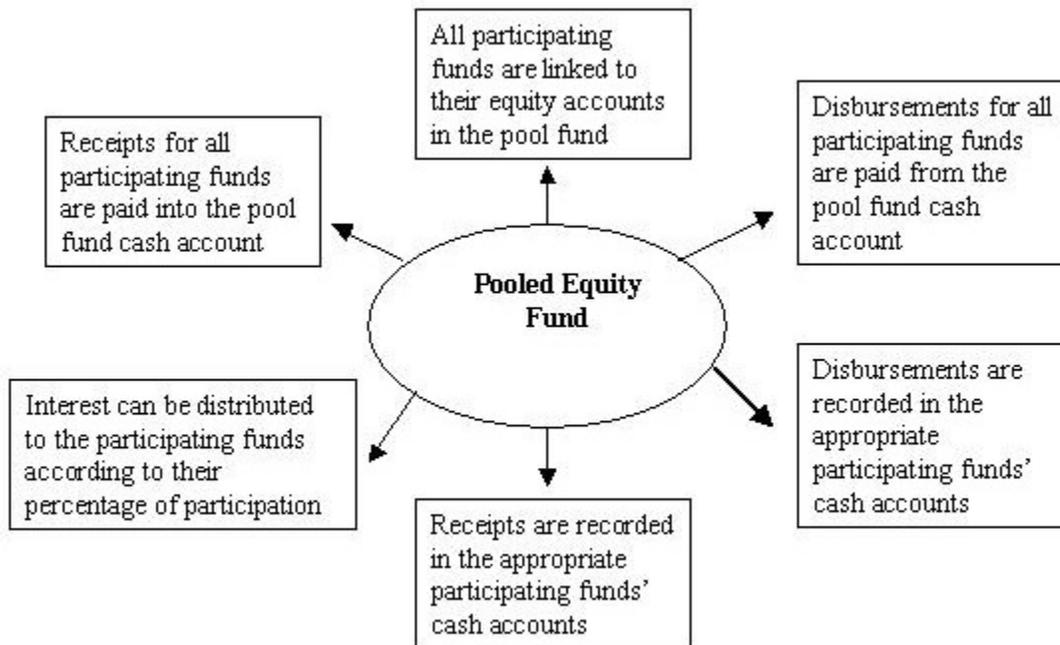
- Use one checking account for many funds
- Reconcile checks easily
- Quickly see your financial status
- Exercise more leverage with the bank
- Draw a higher interest rate
- Invest excess cash

## **3. Investment Income Allocation**

3.1 Interest earned on pooled investments is accrued monthly and distributed based upon each fund's "Equity in Pooled Cash". For example if the a fund's "Equity in Pooled Cash" represented 10% of the Total Pooled Cash at the end of the month, then 10% of the accrued earnings would be allocated to that fund.

3.2 Pooled cash transactions are primarily automated processes and generated within the accounting software. The Chief Accountant is responsible for insuring that the pooled cash account balances and due to/due from accounts balance with a corresponding account within the offsetting funds. The Chief Accountant also creates journal entries to complete the allocation process and post the investment earnings. The Finance Director reviews and approves all allocations and bank reconciliations.

## Pooled Equity Processing



### 4. Negative Equity / Interfund Loans

4.1 Negative equity in pooled cash may occur when the Town has an approved and budgeted project and expenditures are required prior to the receipt of the project's funding resources. An example of this, are reimbursement type grants, meaning that the Town must make the expenditure first and then submit for reimbursement from the granting agency. These expenditures could create negative equity in pooled cash, temporarily, until the grant is received.

Another example is when the Town wants to move forward on a project that will eventually be financed with the issuance of debt (Bonds, Bond Anticipation Notes, or Bank Loans) and the fund where the project resides has no cash.

When negative equity in pooled cash occurs in a fund, the Town will first see if the fund has any pooled investments. If the fund has sufficient pooled investments to cover the negative pooled cash, then the Town will transfer the funds from the pooled investments to equity in pooled cash to cover the negative amount. If the fund does not have sufficient pooled investments to cover the negative pooled cash, then no transfer will be performed and the Town will proceed with the interfund loan procedure.

4.2 Interfund loans should be considered temporary or short-term and may be made for the following reasons:

- To offset timing differences in cash flow;

- To offset timing differences between expenditures and reimbursements, typically associated with grant funding;
- To provide for advance spending for a capital project prior to securing project financing; and
- For other needs as deemed appropriate by the Town Commission.

4.3 The term of the Interfund 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 funds results from the failure to repay by the borrowing fund.

4.4 Interfund loans should not be used to solve ongoing structural budget problems.

4.5 Interfund loans, often described as advances, are reported as an asset of the lending fund (interfund receivable) and as a liability of the borrowing fund (interfund payable). For Financial Statement reporting, year end reclassification from the cash/investments account classifications to the Receivables/Payables may be required. For financial reporting, the General Fund will commonly be used as the offsetting fund.

4.6 The interest rate charged on the loan will equal the investment earnings the providing fund would have received had the loan not occurred and shall be allocated based on the same method as investment earnings, allowing for equitable distribution of the interest charged to borrowing fund to the remaining funds.

Fund	Cash Balance	Interest Allocation
General	4,500,000.00	6,716.42
Capital Project	(500,000.00)	(746.27)
Spec Rev	200,000.00	298.51
Spec Rev 2	2,500,000.00	3,731.34
Total Cash	6,700,000.00	10,000.00
Total Interest Earned	10,000.00	
Rate	0.15%	

## 5. Repayment of Negative Equity / Interfund Loans

5.1 Repayment of the loan is top priority of the borrowing fund once cash is available. All pending grants will be monitored regularly and billed as soon as practical, in accordance with the grant agreements.

5.2 As part of the annual budget process, the Finance Department should ensure that the interest expense associated with the loan is budgeted in the corresponding funds when known loans are anticipated.

5.3 The amount of outstanding interfund loans will be monitored regularly by the Chief Accountant, reviewed by the Finance Director, and reported to the Town Manager and Town Commission at least quarterly.

5.4 The Finance Director will monitor cash flow needs by project and make recommendations for external short-term borrowing needs to the Town Manager.

**6. Certification of available funds**

6.1 Pursuant to Article V, Section 11, of the Town Charter, prior to the execution of any contracts expected to create an interfund loan transaction, the Finance Director shall certify in writing, as to the availability of funds on all contract documents.



**End of Agenda Item**