Internal Loan Procedure

<table>
<thead>
<tr>
<th>Office of Administrative Responsibility:</th>
<th>Financial Services – Investment and Treasury</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approver:</td>
<td>Associate Vice-President (Finance &amp; Supply Management Services)</td>
</tr>
<tr>
<td>Scope:</td>
<td>The default is “Compliance with this University procedure extends to all members of the University community”. However, if there are specific constituent groups to which the policy applies to or not, identify specifically.</td>
</tr>
</tbody>
</table>

Contact for questions about this Procedure: policy.treasury@ualberta.ca

Overview
Internal loans are primarily intended to replace capital leases for equipment, but can also be used to distribute any major expense over several fiscal years. In essence, the University 'loans' funding to the unit, and over time the unit repays the loan, with interest. This procedure applies only to unrestricted funds, both for expenditures and repayments.

For researchers who may require interim or bridge funding, refer to “Research - Over-expenditure (Authorized) Procedure.”

Purpose
The purpose of this procedure is to specify the:
- information required for requesting an internal loan
- internal loan approval process
- internal loan allocation and repayment entries

PROCEDURE

1. INFORMATION REQUIRED FOR REQUESTING AN INTERNAL LOAN
   a. Prepare a solid business case that clearly outlines how the repayment will be funded.

c. Obtain approval by the dean or director.

d. Submit to FS – Treasury.

2. INTERNAL LOAN APPROVAL PROCESS

a. FS – Treasury reviews the documentation provided. In addition, FS – Treasury will consider additional factors, such as:
   − the University’s remaining capacity for new internal loans (as determined by the University Funds Investment Policy)
   − the unit’s current loans outstanding
   − past loan experience
   − assessment of ability to repay loan

b. If FS – Treasury is unable to support the request, or if the University is unable to accommodate the loan, FS - Treasury will advise the unit of the reasons.

c. If FS – Treasury supports the request, they will recommend to the VP (Finance & Administration) to approve the loan.

d. If the loan is approved, FS – Treasury will forward an Internal Loan Agreement to the unit for unit’s review and sign-off on the terms of the loan.

e. Upon receipt of the signed agreement, FS – Treasury will allocate the loan proceeds to the unit.

3. INTERNAL LOAN ACCOUNTING ENTRIES

FS – Treasury will process all accounting entries for internal loans via GL interface. (LTD journal mask)

a. Allocation of loan proceeds

i. FS – Treasury prepares an Internal Loan Repayment/Amortization Schedule using the appropriate interest rate. A copy of the repayment schedule is sent to the department.

   • For fixed rate loans, FS – Treasury will use the interest rate posted by Alberta Capital Finance Authority (ACFA) that is most comparable to the term and start date of the requested internal loan.

   • For floating rate loans, FS – Treasury will use an interest rate based on the rate earned by the University’s Non-Endowed Investment Pool (NEIP) Liquidity Strategy investments plus 1.50%.

ii. The following is an example of the journal entry:

<table>
<thead>
<tr>
<th>Debits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chartfield (name of account)</td>
</tr>
<tr>
<td>Transfer - unrestricted</td>
</tr>
</tbody>
</table>
b. Loan repayments
   i. FS – Treasury processes repayments monthly, quarterly, or annually, as per the Internal Loan Agreement.
      - Note – for floating rate loans, interest expense will fluctuate based on the University’s NEIP Liquidity investment returns, and may differ from the above estimated repayment schedule.
   ii. The following is an example of the journal entry:

<table>
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<tr>
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<tbody>
<tr>
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<tr>
<td>--------------------------------------------</td>
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<td>Transfer - unrestricted</td>
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<tr>
<td>Interest Expense</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Credits</th>
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</thead>
<tbody>
<tr>
<td>Chartfield (name of account)</td>
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<tr>
<td>-------------------------------------------</td>
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</tbody>
</table>

   Explanation: To record internal loan repayment
   Supporting documentation: Repayment Schedule

c. Early loan repayments
   Units can request, in writing to FS - Treasury, early loan repayments at any time. A penalty of three (3) months’ interest is assessed on each early repayment.
4. REPORTING REQUIREMENTS

Internal loans are not reported in the University’s audited financial statements. Non-legislated reporting includes the following:

- FS – Treasury reports total loans outstanding to the Board Investment Committee on a quarterly basis, as part of the University’s NEIP investments.
- FS – Treasury provides a summary of internal loans to the Vice-President (Finance & Administration) on a quarterly basis.

DEFINITIONS

Definitions should be listed in the sequence they occur in the document (i.e. not alphabetical).

Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use. [▲Top]

<table>
<thead>
<tr>
<th>Alberta Capital Finance Authority (ACFA)</th>
<th>The Alberta Capital Finance Authority (&quot;ACFA&quot;) is a provincial authority and acts only as an agent of the Alberta crown. ACFA makes loans to its shareholders at interest rates based on the cost of its borrowings.</th>
</tr>
</thead>
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<tr>
<td>Non-Endowed Investment Pool (NEIP)</td>
<td>The NEIP consists of expendable funding that is pooled for investment purposes.</td>
</tr>
</tbody>
</table>

FORMS

No Forms for this Procedure. [▲Top]

RELATED LINKS

Should a link fail, please contact uappol@ualberta.ca. [▲Top]

- Alberta Capital Finance Authority (Government of Alberta)
- University Funds Investment Policy (UAPPOL)
- Research – Over Expenditure (Authorized) Procedure (UAPPOL)