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Parent Policy: Internal Loan Policy

Internal Loan Procedure

Office of Administrative Responsibility:	Finance, Procurement and Planning – Investments and Treasury
Approver:	Associate Vice-President (Finance, Procurement and Planning)
Scope:	Compliance with this University procedure extends to all academic, support and excluded staff, postdoctoral fellows, and academic colleagues as outlined and defined in the Recruitment Policy (Appendix A and Appendix B : Definitions and Categories)

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.
- b. Complete Internal Loan Application (available from Finance, Procurement and Planning (FPP) – Investments and Treasury upon request).
- c. Obtain approval by the dean or director.
- d. Submit to FPP – Investments and Treasury.

2. INTERNAL LOAN APPROVAL PROCESS

- a. FPP – Investments and Treasury reviews the documentation provided. In addition, FPP – Investments and 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 FPP – Investments and Treasury is unable to support the request, or if the University is unable to accommodate the loan, FPP – Investments and Treasury will advise the unit of the reasons.
- c. If FPP – Investments and Treasury supports the request, they will recommend to the VP (University Services and Finance) to approve the loan.
- d. If the loan is approved, FPP – Investments and 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, FPP – Investments and 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. FPP – Investments and 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, FPP – Investments and Treasury will use the interest rate posted by the Government of Alberta under its Loans to Local Authorities Program that is most comparable to the term and start date of the requested

internal loan.

- For floating rate loans, FPP – Investments and 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:

Debits									
Chartfield (name of account)	SC /Ref #	Account	Fund	Dept ID	Program	Class	Project/Grant	Amount	Line Desc.
Transfer - unrestricted		TD0080	100	710207	81070	0	7102070011	\$300,000.00	GF-59 Medicine Internal Loan
Credits									
Transfer - unrestricted		TC0080	210 or 310 only	410000	0	0		\$300,000.00	Internal Loan proceeds
Explanation: To distribute proceeds of internal loan									
Supporting documentation: Internal Loan Application Form, VPFA/BFPC Approval, Repayment Schedule									

b. Loan repayments

i. FPP – Investments and 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:

Debits									
Chartfield (name of account)	SC/Ref#	Account	Fund	Dept ID	Program	Classes	P/G	Amount	Line Desc.
Transfer - unrestricted		TD0080	210 or 310 only	410000	0	0		\$13,959.19	Loan principal repayment
Interest Expense		503805	210 or 310 only	410000	0	0		\$2,250.00	Internal Loan interest

Credits									
Transfer - unrestricted		TC008 0	100	71020 7	81070	0	71 02 07 00 11	\$13,959. 19	GF – 59 Loan principal repayment
Interest Expense		50380 5	100	71020 7	81071	0		\$ 2,250.00	GF – 59 Internal Loan interest
Explanation: To record internal loan repayment Supporting documentation: Repayment Schedule									

c. Early loan repayments

Units can request, in writing to FPP – Investments and 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:

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

Definitions

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

Non-Endowed Investment Pool (NEIP)	The NEIP consists of expendable funding that is pooled for investment purposes.
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Related Links

[University Funds Investment Policy \(UAPPOL\)](#)

[Research – Over Expenditure \(Authorized\) Procedure \(UAPPOL\)](#)

If any of the links are broken, please contact uappol@ualberta.ca
Contact for questions about this procedure: policy.treasury@ualberta.ca