

Approval Date: January 11, 2013

Parent Policy: [Internal Loan Policy](#)

Internal Loan Procedure

Office of Administrative Responsibility:	Financial Services
Approver:	Associate Vice-President (Finance and Supply Management Services)
Scope:	Compliance with this university policy/procedure extends to all Academic Staff and Colleagues and Support Staff as outlined and defined in Recruitment Policy (Appendix A and Appendix B).

Contact for questions about this procedure:	policy.treasury@ualberta.ca
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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 Financial Services – Treasury (FS – Treasury) upon request).
 - 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 other 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 the *Internal Loan Repayment/Amortization Schedule* (see FORMS below) 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 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 a rate based on the current return of the University’s short-term investment funds, 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	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. 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 short-term 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	Class	Project	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		TC0080	100	710207	81070	0	7102070011	\$13,959.19	GF – 59 Loan principal repayment
Interest Expense		503805	100	710207	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 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 investments.
- FS – Treasury provides a summary of internal loans to the Vice-President (Finance & Administration) 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. [▲ Top](#)

Alberta Capital Finance Authority (ACFA)	The Alberta Capital Finance Authority ("ACFA") 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.
Fixed interest rate	A single interest rate used for the term of the internal loan.
Floating interest rate	An interest rate that changes monthly or quarterly. For floating rate internal loans, the rate is set at 1.5% above the UofA's short-term investment returns.

FORMS

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No Forms for this Procedure

RELATED LINKS

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[Alberta Capital Finance Authority](#) (Government of Alberta)

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

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