

ATTACHMENT A

Section 4 Interfund Transfers and Loans Policy

To achieve important financial management objectives, the State Bar has established various funds to account for resources the use of which should be restricted to certain activities as listed in Section 3. Accordingly, each fund exists as a separate financing entity from all other funds, with its own funding sources, expenditures and net financial position (assets less liabilities).

This policy covers two types of interfund transactions: transfers and loans.

1. **Transfers** move financial resources from one fund to another. While there is no change in the State Bar's overall financial position, interfund transfers result in reduced net assets in one fund and increased net assets in another.
2. **Interfund loans**, which are usually made for temporary cash flow reasons, do not result in a change in net assets for either the lending or the borrowing fund: each is net asset neutral. From a financial condition perspective, the lending fund has simply traded cash for an interfund receivable from the borrowing fund; and the borrowing fund has offset the cash it received from the lending fund with an interfund payable.

In summary, interfund transfers result in a change in net assets in the affected funds; interfund borrowings do not, as the intent is to repay in the loan in the near term.

Interfund Transfers

Any transfers between funds must be clearly set forth in an adopted budget or budget amendment formally approved by the Board. Staff is then authorized to make transfers in an amount not to exceed the authorized limit. All interfund transfers must be supported by findings that demonstrate a clear nexus between the purpose of the transferring fund and the reason for the transfer of its funds to another. These findings may be set forth in the budget document, agenda reports, resolutions or other formal reports that are presented to the Board upon its review and approval of interfund transfers.

Interfund Loans

From time to time, interfund borrowings may be appropriate; however, these should be limited and subject to the following criteria to ensure that the fiduciary purposes of the lending and borrowing funds are met:

1. The Chief Financial Officer is authorized to approve temporary interfund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 60 days. While there may be others, the most typical use of interfund borrowing under this circumstance is for grant programs, where costs are typically incurred before grant funds are received. However, in this case, the funds are typically received shortly after they are requested.
2. All other interfund borrowings for cash flow or other purposes require case-by-case approval by the Board. The reason for the interfund loan and repayment terms

shall be clearly set forth in findings via the budget document, agenda reports, resolutions or other formal reports that are presented to the Board upon its approval of the interfund loan. After approval, staff is authorized to make the interfund loan in an amount not to exceed the authorized limit.

3. Any loans between funds not expected to be fully repaid within one fiscal year will not be recorded as interfund borrowings: they will be recorded as interfund transfers that affect net assets of the affected funds. However, underlying documentation is still required in such cases noting that the intent is for repayment of the transfer, including the repayment terms and conditions. The purpose of this “change in net assets” approach is to ensure fiscal transparency and accountability; and to guard against the perception that interfund loans are used to mask underlying fund deficits.