



KATHLEEN CONNELL
Controller of the State of California
Division of Accounting and Reporting

July 21, 1997

Mr. David S. Low, Director
Division of Cost Allocation
Department of Health and Human Services
50 United Nations Plaza, Room 304
San Francisco, CA 94102

Dear Mr. Low:

This letter is in reference to the recent telephone conversation between Tom Cotton of my staff and Jean Chui from your office regarding the conditions required to receive approval from the State Controllers' Office when a County's General Fund receives a short term loan from one of their Internal Service Funds (ISF): The conditions required are:

1. It must be recorded as a loan/receivable in accordance with Generally Accepted Accounting Principles;
2. The short-term loan must be paid back with interest at the same rate, the ISF would earn, had the loan not taken place;
3. The payment period cannot exceed more than 36 months;
4. The loan does not compromise the fund's current cash needs;
5. This loan must be reflected as a part of the fund's surplus for actuarial purposes and;
6. If the loan is not fully paid by the end of the payment period, it will be regarded as a Bad Debt and an immediate rebate to all grant programs will be required.

Unless otherwise notified by your office, our section will follow this policy when inquiries are made regarding the above mentioned subject matter.

Sincerely,

A handwritten signature in cursive script that reads "Michael J. Havey".

MICHAEL J. HAVEY, Supervisor
County Cost Plans and Local Apportionments Section
Division of Accounting and Reporting

MJH:TLC:ap

cc: Jean Chui, Branch Chief
Division of Cost Allocations