

ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

BOARD POLICY

Date Issued **5/23**

Page **1**

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|--------------------------------------|--|--|-----------------------|---------------------------------------|
| CHAPTER Fiscal Management | | CHAPTER 07 | SECTION 002 | SUBJECT 0085 |
| SECTION Accounting | | SUBJECT Building Reserve Fund & Management Referrals | | |
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I. APPLICATION:

- ☒ SCCCMHA Board
- ☒ SCCCMHA Providers & Subcontractors
- ☐ Direct-Operated Programs
- ☐ Community Agency Contractors
- ☐ Residential Programs
- ☐ Specialized Foster Care

II. POLICY STATEMENT:

It shall be the policy of the SCCCMHA to establish a building reserve fund to ensure adequate funds during periods of negative cash flow resulting from the difference between allowable interest and depreciation expense on facilities and the annual balance of principle and interest payments due on those facilities and to provide funds to cover expected and unexpected repair costs of facilities owned and operated by SCCCMHA.

The St. Clair County Community Mental Health Authority (SCCCMHA) will establish a “Building Reserve Fund” and manage this fund in accordance with the Michigan Mental Health Code, 330.1205, Sec. 205 (4)(h), for depreciation of capital assets. The establishment of a building reserve fund is necessary in order to set aside funding for anticipated periods of negative cash flow resulting from the difference between allowable interest and depreciation expense and annual principle and interest payments, and to fund ongoing expenses such as building repairs. This policy guideline stipulates how the building reserve fund will be established, managed, accessed and replenished.

III. DEFINITIONS:

- A. **Building Reserve Fund:** The building reserve fund is a fund account that is established to fund any negative cash flow resulting from the difference in allowable interest and depreciation expense and the total of the principle and interest payments due on facilities in a given year and to fund facility repair and maintenance.

IV. STANDARDS:

A. GENERAL GUIDELINES

1. The building reserve fund shall be established by resolution of the SCCCMHA Board of Directors, and may only be dissolved by resolution of the SCCCMHA Board.

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|-------------------------------------|--|--|-----------------------|------------------------|
| CHAPTER Fiscal Management | | CHAPTER 07 | SECTION 002 | SUBJECT 0085 |
| SECTION Accounting | | SUBJECT Building Reserve Fund & Management Referrals | | |

2. The building reserve fund shall be funded, managed, accessed and replenished pursuant to the guidelines established in this policy, and in compliance with all federal and state rules and cost guidelines pertaining to public funds, including the management of reserve accounts.
3. For the purposes of fund management, the SCCCMHA administration shall analyze and review the building reserve fund account for sufficiency on a regular basis. The SCCCMHA administration may recommend to the Board increases to the building reserve fund in the event the building reserve fund becomes inadequate to cover projected future expenses, in accordance with the guidelines and procedures noted within this policy. Fund contributions to the building reserve fund shall always be made in compliance with all federal rules, including 2 CFR chapter I and II, Parts 200, 215, 220, 225 and 230 uniform cost guidelines.
4. The SCCCMHA administration shall maintain a clearly identifiable building reserve fund account within its fiscal accounting controls structure.
5. All building reserve fund use shall always be approved by the SCCCMHA Board.
6. Prior to directing any funds to the building reserve fund, the SCCCMHA administration shall provide a recommendation to the SCCCMHA Board that considers the adequacy of the reserve account to address:
 - a. Future negative cash flow considerations
 - b. Other planned and necessary facility repairs or improvements
 - c. Contingency for unexpected future repair needs
7. The building reserve fund shall be funded from funds accrued via years of positive cash flow from the purchase of the Electric Avenue Building; from local funds as recommended by SCCCMHA administration and approved by the SCCCMHA Board; and additions resulting from interest earned on the funds held.
8. The access and use of all building reserve funds shall always be at the discretion of the SCCCMHA Board.

B. BUILDING RESERVE FUND: ACCOUNT MANAGEMENT GUIDELINES

1. The SCCCMHA Administration shall not commingle the building reserve fund with funds of other departments, agencies, governmental funds or entities. The building reserve fund shall not be used to finance any activities or costs other than building reserve fund eligible expenses.
2. The SCCCMHA Administration shall account for building reserve fund changes according to procedures in compliance with generally accepted accounting principles (GAAP), as amended.
3. The SCCCMHA Administration shall restrict the use of the building reserve fund to its defined purpose [refer to next Section, Building Reserve Fund General Restrictions].

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|-------------------------------------|--|--|-----------------------|------------------------|
| CHAPTER Fiscal Management | | CHAPTER 07 | SECTION 002 | SUBJECT 0085 |
| SECTION Accounting | | SUBJECT Building Reserve Fund & Management Referrals | | |

C. GENERAL RESTRICTIONS OF THE BUILDING RESERVE FUND ACCOUNT

Pursuant to SCCCMHA Board Policy, use of funds in the building reserve fund shall be restricted to the following purposes:

1. The SCCCMHA Administration shall restrict the use of the Building Reserve fund to its defined purpose. For purposes of this policy guideline, the purpose of the building reserve fund shall be to address the anticipated future period of negative cash flow resulting from the difference in allowable interest and depreciation expense and the annual principle and interest expense related to purchased facilities and to secure funds necessary to meet expected and unexpected repair expenses for SCCCMHA owned facilities.
 - a. All expenses, for the purposes intended to be financed from the building reserve fund, shall be made from the building reserve fund.
 - b. No other expenses may be paid from the building reserve fund.
2. The SCCCMHA Administration may invest building reserve funds in accordance with the SCCCMHA Board's Investment Policy, and any statutes regarding investments (e.g. Mental Health Code, 330.1205., Sec. 205 (4)(g). The earnings from the investment of the building reserve funds shall be accounted for as additions to the building reserve fund account.
3. The building reserve fund may not loan or advance funds to any departments, agencies, governmental funds, or other entities.
4. Funds paid to the building reserve fund shall not be used to meet federal cost sharing or used to match federal or state funds pursuant to Code of Federal Regulations, Part 200.

D. GENERAL ACCOUNTING STANDARDS:

Pursuant to this board policy guideline, the building reserve fund shall be maintained and accounted for in compliance with the following standards:

1. Generally accepted accounting principles (GAAP).
2. Mental Health Code, 330.1205., Sec. 205 (4)(g-h)

V. PROCEDURES:

St. Clair County Community Mental Health Authority Board

1. Establishes by resolution the creation of the building reserve fund under the framework of this board policy guideline.

Chief Financial Officer/Designee

2. Manages the building reserve fund account in accordance with the standards of this policy.

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|-------------------------------------|--|--|-----------------------|------------------------|
| CHAPTER Fiscal Management | | CHAPTER 07 | SECTION 002 | SUBJECT 0085 |
| SECTION Accounting | | SUBJECT Building Reserve Fund & Management Referrals | | |

3. Ensures that the status of building reserve fund is annually reviewed by the board's designated audit firm, and that such a status report is part of the annual financial audit statements that are presented to the SCCCMHA Board on an annual basis.
4. Determines need to access building reserve funds to meet financial obligations and makes written request, including copy of invoice to be paid if applicable, to the Chief Executive Officer for use of building reserve funds for payment of expense or to release funds to address negative cash flow concerns.
5. Determines that the building reserve fund has excess funds, and recommends to the Chief Executive Officer and Board that funds from the account be redirected for other use.

Chief Executive Officer /Designee

6. Presents the request(s) to the SCCCMHA Board regarding the use of any building reserve account use (i.e. both #4 and/or #5 above) for approval.

St. Clair County Community Mental Health Authority Board

7. Reviews access requests and acts according to the established policy.
8. Terminates and closes out the account through board action, in compliance with federal and state guidelines.

VI. REFERENCES:

None available.

VII. EXHIBITS:

None available.

VIII. REVISION HISTORY:

Dates issued 08/09, 08/11, 03/13, 05/14, 05/15, 05/17, 05/18, 05/19, 07/20, 05/21, 04/22.