



<b>Policy Title:</b>	<b>Net Position Policy</b>
<b>Policy #:</b>	<b>07-001-0015</b>
<b>Effective Date:</b>	3/16/2026
<b>Approved by:</b>	SCCCMH Board
<b>Functional Area:</b>	Finance
<b>Responsible Leader:</b>	Karen A. Farr, CFO
<b>Policy Owner:</b>	Danielle Hazlewood, Finance Director
<b>Applies to:</b>	Community Agency Contractor, Contracted Network Providers, Directly Operated Programs, Specialized Residential Providers, SCCCMH Staff, SCCCMH Board

**Purpose:** The purpose of this policy is to establish a key element of the financial stability of St. Clair County Community Mental Health (SCCCMH) by setting guidelines for Net Position (Net Assets). The Net Position of an organization is an important measure of economic stability. It is essential that SCCCMH maintain adequate levels of Net Assets to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.

### I. Policy Statement

It is the policy of St. Clair County Community Mental Health to identify and maintain an adequate level of Net Assets.

### II. Standards

- A.** The Net Position of the Agency has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities. SCCCMH's basic goal is to limit expenses to anticipated revenue in order to maintain a balanced budget.
- B.** When multiple components of Net Position are available for the same expense, a flow assumption must be made about the order in which the resources are considered to be applied. SCCCMH policy is to consider the restricted net position to have been depleted before the unrestricted net position is applied.

- C.** The Agency Net Position shall be reviewed annually by the CFO as part of the budget process after considering the following factors:
- a. Cash Flow – the ability to pay the bills when they become due with available cash resources without resorting to borrowing. An adequate amount must be maintained in the net assets to provide for the fluctuations in cash receipts and disbursements to allow for timing differences.
  - b. Risk Corridor – an adequate amount of net assets must be maintained to provide for a potential loss due to services authorized in excess of capitated revenues received.
  - c. Liabilities – unanticipated expenses and/or state audit exceptions may come to the forefront after the termination of a grant or the close of the agency’s fiscal year, which could cost the agency money that was not budgeted. An adequate amount of net assets should be set aside for this potential issue.
  - d. State Match – Community Mental Health agencies must provide a ten (10%) percent match to capture state revenues, which are a significant portion of the budget. A failure to meet the ten (10%) percent match requirement could hinder the agency’s financial situation. Local fund resources are not guaranteed and vary from year to year; it is essential to provide an adequate reserve of net assets to provide for potential reductions.

**III. Procedures, Definitions, and Other Resources**

**A. Procedures**

**Actions**

<b>Action Number</b>	<b>Responsible Stakeholder</b>	<b>Details</b>
1.0	Chief Financial Officer/Designee	When preparing the annual budget, review the Agency’s net position to ensure that the components of net assets are adequate and that the recommended spending for the year will not compromise the agency’s ability to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

**B. Related Policies**

N/A

**C. Definitions**

- 1. Proprietary Funds: Funds used to account for a government’s business-like activities that are supported by fees and charges. There are two (2) main

types: Enterprise Funds, which charge external users for goods or services, and Internal Service funds, which account for services provided by one (1) government department to another.

2. Net Position: A long-term, comprehensive view of the entire government's financial health, similar to "equity" in a for-profit business, comprised of three components: net investment in capital assets, restricted, and unrestricted.
3. Net Assets: The value of an Agency's assets once the value of its liabilities has been deducted. Net Position and Net Assets are frequently used interchangeably.
4. Net investment in capital assets: Consists of capital assets, net of accumulated depreciation/amortization, and reduced by outstanding balances of bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
5. Restricted: Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
6. Unrestricted: The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of the two preceding categories.

**D. Forms**

N/A

**E. Other Resources** (i.e., training, secondary contact information, exhibits, etc.)

N/A

**F. References**

N/A

**IV. History**

- Initial Approval Date:
- Last Revision Date: 3-16-26 BY:
- Last Reviewed Date: 3-16-26 BY:
- Non-Substantive Revisions: N/A
- Key Words:

