

MENDOCINO COUNTY POLICY NO. 32	Reserve and Fund Balance Policy
ADOPTED: March 16, 1999 AMENDED: April 24, 2024 AMENDED: March 24, 2026	ADOPTED BY: Minute Order

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Chapter 1 PURPOSE AND POLICY STATEMENT

1.1 Introduction

This policy establishes the County's policies for financial reserves. It describes the classification of fund balance required under standards established by the Governmental Accounting Standards Board (GASB) and the reporting of established reserves in that fund balance classification.

1.2 Authorities

This policy is established under allowances and requirements established in *California Government Code Title 3 Government of Counties, Division 3 Financial Provisions, Chapter 1 Budget and Tax Levy*.

1.3 Scope

This policy establishes reserve policies for the General Fund; permits the CEO to recommend reserve policies for other funds, subject to approval by the Auditor-Controller and Board; allows the Board to establish other contingency and reserve accounts in the annual adopted budget; and categorizes these reserves into fund balance reporting requirements established by GASB.

Chapter 2 GENERAL FUND RESERVES

2.1 Purpose

The County shall maintain General Fund reserves to safeguard the County's long-term financial health and protect essential services from the potential impacts of unanticipated events and circumstances not occurring during the normal course of operations.

These reserves shall constitute general reserves under California Government Code. The County shall maintain three primary General Fund reserves, each designed to guard against different risks:

- a. Contingency Reserve** – A general reserve to guard against short-term unanticipated revenue or expenditure changes affecting the annual adopted budget, such as an unexpected decline in a revenue source or higher spending for a given service. This reserve is established in the annual budget and drawn against to manage these changes within a fiscal year.
- b. Rainy Day Emergency Reserve** – A stabilization reserve to guard against longer-term impacts resulting from major financial and operational events, including recessions, natural disasters, and other declared emergencies. This reserve is intended to manage multi-year cycles, growing with deposits of unanticipated revenues to draw against during recessions and other emergencies.

- c. Infrastructure and Systems Reserve** – A reserve to improve the County’s investment in deferred maintenance, systems modernization, and other one-time purposes, funded over time with unanticipated revenues.

Taken together, these General Fund reserves are consistent with policies and funding levels recommended by the Government Finance Officers Association (GFOA) and overall reserve goals established by other California peer counties.

2.2 Contingency Reserve

Purpose: The Contingency Reserve shall be a general reserve maintained to guard against short-term impacts from revenues or expenditure changes not anticipated in the adopted budget.

Reserve Target: The target level for the reserve shall be equal to 5% of budgeted expenditures. Each year’s adopted budget shall include deposits required to restore any uses of the reserve during the prior fiscal year to meet this target level.

Reserve Minimum: There shall be no minimum required balance for reserve, provided that any uses of the reserve in the current year shall be replenished in the subsequent year’s adopted budget.

Reserve Deposits: The reserve’s target reserve balance shall be maintained through appropriations included in the annual budget, as adopted by the Board of Supervisors (Board).

Reserve Withdrawals: The reserve may be appropriated, following the adoption of the annual budget, with recommendation by the Chief Executive Officers (CEO) and action of the Board by a 4/5ths vote, per California Government Code.

Administration and Reporting: The reserve shall be maintained by the Auditor-Controller. The CEO shall report to the Board and public on the balance in the reserve not less than quarterly.

2.3 Rainy Day Emergency Reserve

Purpose: The Rainy Day Emergency Reserve is established to guard against longer-term impacts resulting from major financial shocks, including recessions, natural disasters, and other declared emergencies.

Reserve Target: The target level for the reserve shall be equal to 15% of budgeted expenditures. Once the reserve target is met, any required reserve deposits shall instead be deposited in the Infrastructure and Systems Reserve.

Reserve Minimum: There shall be no minimum required balance for the reserve.

Reserve Deposits: Deposits to the reserve shall be made from 50% of certain defined unanticipated revenues. Unanticipated revenues shall include ending balances that would otherwise fall to unassigned fund balance at the close of each fiscal year, beyond those assumed as a source in the adopted budget for the subsequent fiscal year. The Board may approve additional deposits to this reserve throughout Fiscal Year and may amend this policy

over time to define other unanticipated revenues that shall be deposited to the reserve.

Reserve Withdrawals: The reserve may be appropriated during a recession as reported by the National Bureau of Economic Research or declaration of an emergency by the Board. Withdrawals may be appropriated with recommendation by the CEO and action by the Board by a 4/5th vote, per California Government Code Sections. To maintain adequate reserve balances to manage multi-year financial impacts, no more than 50% of the reserve's prior year ending balance shall be appropriated in a given fiscal year.

Administration and Reporting: The reserve shall be maintained by the Auditor-Controller, who shall have delegated authority to make required deposits to the reserve during the year-end closing process. The CEO shall report to the Board and public on the balance in the reserve not less than quarterly.

2.4 Infrastructure and Systems Reserve

Purpose: The Infrastructure and Systems Reserve is established to improve investment in the County's infrastructure, modernize technology systems, and other one-time investments.

Reserve Target: The reserve has no target funding level, as deposits to the reserve will typically be appropriated subsequent fiscal years.

Reserve Minimum: There shall be no minimum required balance for the reserve.

Reserve Deposits: Deposits to the reserve shall be made from 50% of certain defined unanticipated revenues. Unanticipated revenues shall include ending balances that would otherwise fall to unassigned fund balance at the close of each fiscal year, beyond those assumed as a source in the adopted budget for the subsequent fiscal year. The Board may approve additional deposits to this reserve throughout Fiscal Year and may amend this policy over time to define other unanticipated revenues that shall be deposited to the reserve.

Reserve Withdrawals: The reserve may be appropriated for maintenance or improvement to the County's infrastructure, systems, or for other one-time uses. The reserve may be appropriated upon recommendation of the CEO and action by the Board. The Board's approval shall require a simple majority approval if included in the adopted budget and a 4/5ths approval at any other time, per California Government Code.

Administration and Reporting: The reserve shall be maintained by the Auditor-Controller, who shall have delegated authority to make required deposits to the reserve during the year-end closing process. The CEO shall report to the Board and public on the balance in the reserve not less than quarterly.

2.5 Policy Implementation and Transition

This policy shall be effective upon adoption by the Board. The Auditor-Controller is authorized to transfer amounts from the existing General Reserves to those established in this policy. In allocating those current balances, the Auditor-Controller shall first establish the Contingency Reserve at target funding levels. Remaining current balances shall be divided equally between the Rainy Day Emergency Reserve and Infrastructure and Systems Reserves.

The County is exploring the transition of the Social Services Department from the General Fund to a special revenue fund. Accordingly, for purposes of this policy, the department's expenditures shall be excluded in calculation of required reserve levels.

The CEO and Auditor-Controller shall develop definition of terms and practices necessary to implement this policy. These definitions and practices, once finalized, shall be appended to this policy.

Chapter 3 OTHER RESERVES

3.1 Additional Contingency and Reserve Accounts

The CEO may recommend and the Board may establish other contingency and reserve accounts during the annual budget adoption process.

3.2 Other Reserve Policies

The CEO may propose reserve policies for other funds. Any such reserve policies shall be subject to approval by the Auditor-Controller and Board.

Chapter 4 FUND BALANCE CLASSIFICATION

4.1 Purpose

This policy applies to the County General Fund as well as all other governmental funds and is consistent with *GASB Statement No. 54- Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). Governmental funds are used to account for governmental activities that are principally supported by taxes and intergovernmental revenues. This policy does not apply to proprietary or fiduciary funds.

4.2 Classification of Fund Balance

Fund balance in governmental funds essentially represents working capital that can be used either as a liquidity reserve or for spending in future years. To determine what portion of fund balance is available for spending in a future budget, the fund balance is broken down into five different categories denoting various levels of restrictions. The five classifications conform to GASB 54 and are, in order of decreasing constraint:

- a. Nonspendable Fund Balance** – These are amounts that cannot be spent due to their nature (e.g. prepaid amounts) or are amounts that must be maintained intact legally or contractually (e.g. corpus of a permanent fund).
- b. Restricted Fund Balance** – These are amounts that are constrained for a specific purpose by external parties, constitutional provision, or enabling legislation. The constraints are imposed by either laws, grantors, contributors, or creditors. The constraints can only be removed by the imposing party. Examples of restricted fund balance would include balances associated with most grants and many dedicated governmental subventions.

- c. Committed Fund Balance** – These are amounts that are constrained for a specific purpose by the Board. A board resolution or county ordinance is required to impose, remove, or change the constraints placed on these resources. Committed fund balance may also incorporate certain board-approved contractual obligations to the extent that existing resources in the fund have been specifically and appropriately committed for use in satisfying those contractual requirements. Examples of committed fund balance might include certain contractual requirements or balances restricted by certain Board or voter actions.
- d. Assigned Fund Balance** – In funds other than the General Fund, these amounts are any remaining positive amounts not classified in the above-listed categories. For example, in a special revenue fund, capital project fund, or debt service fund, any positive balance that is nonspendable, restricted or committed, is automatically reported as assigned fund balance. In the General Fund, assigned amounts reflect intended uses of resources and may be constrained for a specific purpose by the CEO or through Board action. Such constraint can be changed or removed by the same county officers. Assigned amounts cannot cause a deficit in unassigned fund balance in the General Fund.
- e. Unassigned Fund Balance** – These are amounts that have no restriction of any kind. By definition, a positive unassigned fund balance can exist only in the General Fund. In other governmental funds, there can only be zero or negative unassigned fund balance, that is, residual deficit. Examples of unassigned fund balance would be any ending balance in the General Fund assumed as a source in the subsequent year's adopted budget.

Chapter 5 REVISION HISTORY

Date	Responsible Party	Summary of Change
March 2026	Chief Executive Officer	Recommended policy to replace former adopted County Policies 32 and 33.
TBD	Board of Supervisors	Possible adoption of policy to replace former adopted County Policies 32 and 33.