

STATEMENT OF FINANCIAL POLICIES

Although a substantial portion of the policies and procedures of the County are defined by State law, others have been developed and revised by each succeeding administration. While subject to change, these non-statutorily defined policies and procedures reflect a conservative financial philosophy, and it would be unlikely that substantial modifications would be made in ensuing administrations.

I. General

The County will operate on a fiscal year that begins on October 1st and ends on September 30th. The County will conduct its financial affairs in conformity with State and Federal laws and this Statement of Financial Policy, which shall be approved by Commissioners Court and reviewed on an annual basis as a part of the budget process.

II. Accounting, Auditing and Financial Planning

The County Auditor's Office will continue to maintain records on a basis consistent with accepted principles and standards for local government accounting and in accordance with statements and pronouncements issued by the Governmental Accounting Standards Board, as applicable.

The County's accounts are maintained based on (governmental) funds and account groups which segregate funds according to the intended purpose. The County's budgeting and fund accounting is in a respective cash-basis financial position, under which most revenues (such as ad valorem and sales taxes) are recognized when they are received. Charges for services, fines, licenses, permits and other miscellaneous revenues are recognized when cash is received. Fund expenditures are recognized when the liability is paid in full. Principal and interest in the County's general long-term debt is recorded when due.

Regular bi-monthly and annual financial reports are issued summarizing financial activity by fund, and department, and comparing actual resources and expenditures with budgeted amounts, as required by Sections 114.025, 111.091, and 111.092 of the Revised Statutes of Texas, Local Government Code. The Auditor's Office provides bi-monthly (and monthly) reports on the total cost of specific services by type of expenditure and by fund, in accordance with Sections 114.025, 111.091, and 111.092 of the Local Government Code. A financial audit will continue to be performed annually by an independent public accounting firm and an official opinion and annual financial report will continue to be published and issued, as authorized by Section 115.045 of the Local Government Code.

Falls County will continue to identify areas for evaluation efforts, by either staff, committees or consultants, in order to judge the effectiveness and efficiencies of County services.

III. Budgeting

Budgetary Basis – The County budget is adopted on a basis that is consistent with Generally Accepted Accounting Principles (GAAP), with the exception that only the annual costs of capital lease expenditures are recognized as budgetary expenditures. Annual appropriated budgets are adopted for the General, Special Revenue and Debt Service funds. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds. Encumbrance accounting, under which funds are reserved for purchase orders, contracts, and other commitments, is employed in these same funds. As of September 30, encumbrances are subject to reappropriation in the budget of the subsequent year. The County budgets resources on a fiscal year that begins October 1st and ends on the following September 30th.

Budget letters for annual preparation that include forms and instructions shall be distributed to County departments on or about June 15th of each year. Departments and Elected Officials must return their proposals no later than July 1st in that year.

The proposed budget estimate shall be prepared and distributed to all members of the Commissioners' Court on or around the first Monday of August in that year. The proposed budget estimate shall be presented in the following format: 1. Revenue estimates by major item; 2. Operating and maintenance expenditures by object code, major expense categories, functionally related departments and program summaries; 3. Debt Service summarized by issues detailing principal, interest and reserve amount by fund.

The proposed budget estimate shall also contain information regarding:

- Proposed personnel staffing and salary ranges.
- A detailed schedule of equipment to be purchased by each department, if applicable.
- Any additional information, data, or analysis requested of management by the Commissioners Court.

The proposed budgeted revenues shall be provided by the Budget Officer.

Prior to October 1, the Commissioners' Court shall adopt a balanced budget, being one in which revenues are equal to or exceed expenditures.

The Falls County budgeting procedures attempt to identify distinct functions and activities performed by the County and to allocate budget resources adequate to perform these functions and activities at a specified level of service.

Only the Commissioners' Court shall have authority to approve any transfer expenditure appropriations from any department category of object codes to any other department or non-departmental major object code category. Transfers of such funds amount to a new appropriation and therefore must be presented as budget amendments to the Commissioners Court by the County Auditor for final approval.

The department head or elected official may request a transfer under \$1,000 (one thousand dollars) cumulative total from any major category of expenditure to any other major category of expenditure within operating funds. This type of request must be submitted to the County Auditor. At no time, however, will funds be transferred into or from the (Salary) Personnel, Fringe Benefit, or Capital categories without court approval.

IV. Revenues and Transfers

Falls County will maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source by doing the following:

- Establishing user charges and fees as permitted by law at a level related to the cost of providing that service including indirect costs.
- Pursuing legislative change, where necessary, to permit increases in user charges and fees.
- Aggressively collecting property tax revenues, including the filing of suit where appropriate and necessary, as authorized by the Texas Property Tax Code.

Falls County will pay for all current expenditures with current resources as required by Article XI, Section 7 of the Constitution, and by Section 111.091 – 111.093 of the Local Government Code, Revised Statutes of Texas.

The County will support a portion of the operations of the Road and Bridge precincts from vehicle registration fees authorized by the State and will credit fines and forfeitures from Court operations to the General fund.

V. Reserves / Fund Balance

The County will maintain unappropriated contingency line items to provide for increases in costs as well as unanticipated needs that may arise throughout the year. THEREFORE, IT WILL BE NECESSARY FOR OFFICIALS AND DEPARTMENT HEADS TO REVIEW AND CONTROL EXPENDITURES SUCH THAT THE RATE OF EXPENDITURE DOES NOT EXCEED THE APPROVED BUDGET.

Cases of anticipated material deviation should be covered by a request for a budget amendment. This request shall be from the Department Head in writing and include justification for such an action. Such requests should be submitted to the Budget Officer or County Auditor for initial review and then presented to the Commissioners' Court for consideration and approval.

The County shall strive to maintain a fund balance in the general and road and bridge funds not less than three months operating expenditures.

The County shall strive to maintain a balance in the Debt Service Fund equal to not less than one half of the principal and interest payments on outstanding debt for each fiscal year.

To comply with the Government Accounting Standards Board Statement 54 and to provide a clearer understanding of the County's fund balances, the County has adopted a Fund Balance Policy. The purpose of this policy is to establish a key element of the financial stability of the County by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the County maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the County's general Operations. The County's Fund Balance Policy states:

Net Position

Equity is classified as net position and displayed in two components:

Restricted net position - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position - net position that does not meet the definition of "restricted." It is Falls County, Texas' policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by the resolution of the Commissioners ' Court, the County's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the Commissioners ' Court removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. When a disbursement is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When a disbursement is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

VI. Personnel

The number of regular full-time employees on the payroll shall not exceed the total number of positions approved unless authorized by Commissioners Court. All personnel actions shall always be in strict conformance with applicable federal, state, and county policies.

Deletion and downgrades of positions may occur at any time during the fiscal year at the department head or elected officials request or if a review of workload statistics indicates that a reduction in force is practical in a department. Reductions in elected official's budgeted positions (during a fiscal year) will only be accomplished with the elected official's knowledge.

Additions, position reclassifications, reorganizations, etc., must be presented with the initial budget request. Exceptions to this policy will only be allowed with Court approval.

The Court may institute a freeze during the fiscal year on hiring, promotions, transfers and capital equipment purchases. Such action will not be used arbitrarily and will allow for exceptions in appropriate areas to comply with emergency needs such as natural disasters and/or loss of major revenue sources.

VII. Fixed Assets

All purchases of physical assets with a value of \$5,000 (five thousand dollars) shall be placed on the County inventory maintained by the County Treasurer. Assets of lesser value shall be logged on an inventory maintained by each individual department. The County Treasurer and/or County Auditor have the right to randomly request each individual department inventory list. In addition, the County Treasurer and/or County Auditor has the right to randomly audit a department's inventory.

The County will maintain these assets at a level adequate to protect Falls County's capital investment and to minimize future maintenance and replacement costs by providing for adequate maintenance of capital equipment and equipment replacement in the annual operating budget.

Capital expenditures for projects and equipment are budgeted by item or project and must be spent accordingly. Any request for unbudgeted capital equipment or projects throughout the fiscal year must be submitted to the Budget Officer and approved by the Commissioners Court as a budget amendment prior to a requisition being issued to Purchasing.

Where possible, items in good useable condition placed in surplus will be used:

- To supplement expenditure for new budgeted capital purchases.
- To supplement expenditure for replacement/budgeted capital purchases.
- To supply needed unbudgeted new and replacement equipment.

VIII. Debt Management

The County will not use long-term debt for current operations in accordance with Article XI, Section 7 and Article VIII, Section 9, of the Constitution and by the Local Government Code of the Revised Statutes of Texas.

When Falls County finds it necessary to issue bonds, the following policy will be adhered to:

- Reserve funds will be provided to adequately meet debt service requirements in the subsequent year.
- Interest earning on these reserve fund balances will be used for debt service purposes.
- Bond finance will be confined to capital improvement projects, which could not feasibly be financed from current revenues.
- The term of any bond issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

IX. Investment and Cash Management

The Treasurer's Office will continue to collect, disburse and deposit all funds on a schedule which ensures optimum cash availability, in accordance with the Revised Statutes of Texas; Sections 113.043, 113.065, 113.901, 113.001-005, 113.021-024, 113.041-047 and 116.112, Local Government Code.

The County Treasurer shall handle all original reconciliation of Falls County bank accounts with the Depository Bank and shall resolve any financial difference between Falls County and the Depository Bank.

The County Treasurer is the Chief Investment Officer of Falls County as authorized by State law and shall invest the funds of Falls County in accordance with the Public Funds Investment Act (Govt' Code, Section 2256.005) using the following priorities in order of importance; (1) suitability of the investment to the financial requirements of the County; (2) preservation and safety of principal; (3) liquidity; (4) marketability of the investment should the need arise to liquidate prior to maturity; (5) diversification of the investment portfolio; and (6) yield.

Falls County shall maintain a written Investments Policy, approved and annually reviewed by the Commissioners Court, as required by State law. The County Treasurer will maintain an original copy of all security and/or surety pledges made by the Depository Bank on behalf of Falls County funds and shall monitor the adequacy of pledged funds to deposits.

The County Treasurer will maintain an original copy of all security advice for all Falls County investment transactions.

The Treasurer's Office will provide regular information concerning the cash position and investment performance, as required by Sections 114.025, 111.091, and 111.092 of the Revised Statutes of Texas, Local Government Code.

Falls County conducts its treasury activities with financial institution(s) based upon written contracts, which specify compensating balances, service charges, term, and other conditions as authorized by the Local Government Code inclusive of the Revised Statutes of Texas.

GENERAL FINANCIAL AND OTHER INFORMATION

General Government Functions

The Commissioners' Court is the governing body of the County. The Texas Constitution specifies that the Court consists of a County Judge, who is elected at large and serves as presiding officer, and four County Commissioners elected by the voters of their individual precinct. The Local Government Code prescribes the duties and grants authorities of the Commissioners Court and other County officers relating to financial management.

In compliance with State statutes, the Commissioners Court maintains budgetary controls to ensure that provisions embodied within the annually appropriated budget are met for most County functions.

According to the budget laws of the State of Texas, expenditures may not exceed the amount appropriated for each fund.

Internal Control Structure

The financial operating controls are shared by the Commissioners' Court, which is the governing body, the Budget Officer, and the County Auditor, who is appointed by the District Judge.

The County Auditor has the basic responsibilities for maintaining the records of all financial transactions of the County and "examining, auditing, and approving" all disbursements from County funds prior to their submission to the Commissioners Court for payment.

The Commissioners' Court sets the tax rate, establishes policies for County operations, approves contracts for the County, and develops and adopts the County budget within the resources estimated by the Budget Officer and County Auditor.

In developing the County's accounting systems, consideration was given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes the cost of a control should not exceed the benefits likely to be derived there from and the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. The county's internal accounting controls adequately safeguard assets and provides reasonable assurance of proper recording of financial transactions.

Cash Management

The County Treasurer, by statute, serves as the custodian of county funds and is responsible for the receipt and disbursement of all monies owed to or by the County. The County Treasurer is required to maintain accurate records of all transactions of the office and to regularly report to the Commissioners' Court.

The Commissioners Court selects qualified banks to serve as County depositories, in which the County Treasurer deposits all monies received. Select funds are invested with authorized brokers, dealers, and approved investment pools based on recommendations by the County Treasurer and final approval by the Commissioners Court. The County's Investment Policy meets the requirements of the Public Funds Investment Act and investment strategies were identified by the County Treasurer.

Debt Administration

The presently outstanding tax supported debt of the county is rated "A+" by S&P Global Ratings. The County will continue to manage and administer debt in such a manner as to maintain or improve this rating.

Risk Management

The County participates in the Texas Association of Counties Workers' Compensation Pool to cover job related risk. The County annually reviews with its carrier all liability coverage, making necessary amendments and/or adjustments to policy deductibles and limits.

Independent Audit

The County engages a firm of certified public accountants annually to perform an audit of the general-purpose financial statements which are presented under the same cash-basis of accounting as utilized for the County's budget. Certain funds not budgeted by the County and for which the County has no regulatory authority are reported within the annual audit, such as the County Clerk's and District Clerk's Expendable Trust Funds.

The County's website - www.co.falls.tx.us - includes a menu tab for "Financial Transparency", where the County's financial information may be viewed.

Approval Date: August 11, 2025

Falls County Commissioners' Court