

Calhoun County, Texas
Budgetary and Financial Management Policies
Approved by Commissioners Court May 27, 2020

Calhoun County formally adopts the following budgetary and financial management policies to provide sound guidelines in planning the County's financial future. The adoption of and adherence to these policies will help ensure long-term financial stability and a healthy financial position for the County. The fiscal year of the County is January 1 through December 31.

General Budgetary Policies

Budget Preparation, Public Hearings, Availability of Budget to Public

The County Budget shall be prepared in accordance with all applicable State of Texas laws. The budget preparation commences in July. The Budget shall be comprehensive in nature and address all funds of the County. It shall be a requirement each year for the budget of each fund to be balanced. This means that total resources available, including prior year ending resources plus projected revenues, shall be equal to or greater than the projected expenditures for the coming year. The goal each year shall be for the Proposed Budget as prepared by County Commissioners Court to be filed with the County Clerk and on the County's website for public viewing no later than August 31. No later than the third week of September, public hearing(s) shall be held on the Proposed Budget to provide the citizens of Calhoun County a chance to ask questions as well as an opportunity for the Court to hear any recommendations before final approval of the Budget.

Cost Center Accounting and Budgeting

It shall be the policy of the County to allocate cost and budget accordingly to the various funds to the extent practical.

Bond Ratings

It shall be the County's long-term goal to improve its bond ratings for general obligation bonds and revenue bonds. The County's policy shall be to manage its budget and financial affairs in such a way so as to promote enhancement of its bond ratings. This financial management includes the following:

- Include a five-year projection plan in the approved annual budget.
- Plan in advance for future capital improvements.
- Maintain financial procedures to quickly identify financial problems and limit budget shortfalls.
- Review projected revenue methodologies annually.
- Review method of determining appropriate cash reserve levels annually.

Budget Projections for Revenues and Expenditures

Most individual budget projections are a collaborative effort between Department Heads, County Commissioners Court, and the County Auditor. Revenue and expense estimates are always to be conservative so as to reduce any potential for budget shortfalls.

Maintenance of Plant and Equipment

The operating budget will provide for the adequate maintenance and replacement of the capital plant, building, infrastructure, and equipment. Deferral of such costs on a long-term continued basis will not be an acceptable policy to use in balancing the budget.

Financial Management Policies

Fund Balance Policy

Purpose

The purpose of this policy is to establish a key element of the financial stability of the County by setting guidelines for fund balance in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. Unassigned fund balance is an important measure of economic stability and 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 other similar circumstances. This policy will ensure the County maintains adequate fund balances in the operating fund with the capacity to:

1. Provide sufficient cash flow for daily financial needs,
2. Secure and maintain investment grade bond ratings,
3. Offset significant economic downturns or revenue shortfalls, and
4. Provide funds for unforeseen expenditures related to emergencies.

Definitions

Fund Equity-A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance - The fund equity of a governmental fund for which an accounting distinction is made between the portions that are spendable and non-spendable.

Fund Balance reporting in governmental funds: Fund balance will be reported in governmental funds under the following categories using the *definitions* provided by GASB Statement No. 54:

- **Non-spendable fund balance** - includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaid items) or because they must remain in-tact such as the principal of an endowment.
- **Restricted fund balance** - includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e., externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include bond proceeds, grants and special revenue fees and fines.
- **Committed fund balance** - includes the portion of net resources upon which the Commissioners Court has imposed limitations on use. Amounts can be used only for the specific purposes determined by a *formal action* of the Commissioners Court. Commitments may be changed or lifted only by the Commissioners Court taking the same

formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

- **Assigned fund balance** - includes the portion of net resources for which an intended use has been established by the Commissioners Court. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.
- **Authority to Assign** – Commissioners Court shall have the authority to assign any amount of funds to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The assignments may occur subsequent to fiscal year-end. The County Auditor is authorized by Commissioners Court to assign funds balances based on intentions for use for specific purposes communicated by the Commissioners Court.
- **Unassigned fund balance** - includes the amounts in the general fund in excess of what can properly be classified in one of the other categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

Minimum Unassigned Fund Balance

- *General Fund* - It shall be the policy of the County to maintain, if available, stabilization funds of up to three months of regular General Fund operating expenditures, measured based on the most recently completed fiscal year. This funding is intended to provide stabilization in case of unforeseen events that may occur such as emergencies, contingencies, revenue shortfalls or budgetary imbalances. In the event that stabilization funding is required to be used and unassigned fund balance is calculated to be less than the policy stipulates, the Commissioners Court shall take necessary budgetary steps to bring the fund balance level into compliance with the policy as soon as state law and economic conditions allow.

These steps may include but are not limited to identifying new, nonrecurring, or alternative sources of revenue; increasing existing revenues, charges and/or fees; use of year-end surpluses; and/or enacting cost saving measures such as holding capital purchases and reducing departmental operating budgets. The replenishment of fund balance to the minimum level shall be accomplished within a three-year period. If restoration of the reserve cannot be accomplished within such a period without severe hardship to the County, then the Commissioners Court shall establish an extended timeline for attaining the minimum balance.

Appropriation from Minimum Unassigned Fund Balance

Appropriation from the minimum unassigned fund balance shall require the approval of the

Commissioners Court and shall be utilized only for one-time expenditures, such as capital purchases, and not for ongoing operating expenditures unless a viable revenue plan designed to sustain the expenditures is simultaneously adopted.

The Commissioners Court may appropriate unassigned fund balances for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project funded partly by a grant, funds set aside by the Commissioners Court, or unassigned fund balance), the County will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

Monitoring and Reporting

The County Auditor shall be responsible for monitoring and reporting the County's reserve balances. The County Auditor is directed to make recommendations to the Commissioners Court on the use of reserve funds both as an element of the annual operating budget submission and from time to time throughout the fiscal year as needs may arise.

Compliance with the provisions of the policy shall be reviewed as a part of the annual operating budget adoption process, and subsequent review will be included in the annual audit and financial statement preparation procedures.

Revenue Management Policy

The County strives for the following optimum characteristics in its revenue system:

- **Simplicity and Certainty.** The County shall strive to keep the revenue classification system simple to promote understanding of the revenue sources. The County shall describe its revenue sources and enact consistent collection policies to provide assurances that the revenue is collected according to budgets and plans.
- **Equity.** The County shall make every effort to maintain equity in its revenue system structure.
- **Realistic and Conservative Estimates.** Revenues are to be estimated realistically. Revenues of volatile nature shall be budgeted conservatively.
- **Review of Fees and Charges.** The County shall review all fees and charges annually.

Property Tax Revenue

All real and business personal property located within the County shall be valued at 100% of the fair market value based on the appraisal supplied by the Calhoun County Appraisal District. Reappraisal and reassessment is as provided by the Appraisal District. A ninety-eight percent (98%) collection rate shall serve each year as a goal for tax collections, and the budgeted revenue projection shall be based on average collection rate calculated by the

Calhoun County Appraisal District. Property tax rates shall be maintained at a rate adequate to fund an acceptable service level. Based upon taxable values, rates will be adjusted to fund this service level. Collection services shall be contracted out with a central collection agency, currently the Calhoun County Appraisal District.

Interest Income

Interest earned from investment of available monies, whether pooled or not, shall be distributed to the funds in accordance with the equity balance of the fund from which monies were invested.

User Based Fees and Service Charges

For services associated with a user fee or charge, the direct and indirect costs of that service shall be offset wholly or partially by a fee where possible. There shall be an annual review of fees and charges to ensure that the fees provide adequate coverage of costs of services.

Intergovernmental Revenues/Grants/Special Revenues

Grant revenues and other special revenues shall be spent for the purpose(s) intended. The County shall review grant match requirements and include in the budget all grant revenues and expenditures.

Collection of Charges

The County will follow a policy of collecting, on a timely basis, all fees, charges, taxes and other revenues properly due to the County. The County will follow an aggressive policy of collecting all delinquencies.

Revenue Monitoring

Revenues actually received shall be regularly compared to budgeted revenues. The County Auditor shall provide a report to Commissioners Court report after the completion of each calendar month. The County Auditor and County Treasurer shall promptly report significant fluctuations between actual and budgeted revenues to Commissioners Court.

Expenditure Control Policy

Appropriations

The responsibility for budgetary control lies with the Elected Official/Department Head. Elected Officials/Department Heads shall not incur expenditures that exceed monies available in the departmental budget.

Amendments to the Budget

The County Auditor oversees the budget and prepares amendment requests for presentation to Commissioners Court. No amendments shall be made without the approval of the Commissioners Court.

Expenditure Monitoring

Actual expenditures shall be regularly compared to budgeted expenditures. The County Auditor shall provide a report to Commissioners Court after the completion of each calendar month.

Purchasing

All purchases shall be made in accordance with the Calhoun County, Texas Purchasing Policy and other related polices as approved by Commissioners Court.

- <http://www.calhouncotx.org/trans/Policies/Calhoun%20County%20Purchasing%20Policy.pdf>
- <http://www.calhouncotx.org/trans/CALHOUN%20COUNTY%20CREDIT%20CARD%20POLICY%20AND%20PROCEDURE%202013.02.14.pdf>
- <http://www.calhouncotx.org/trans/Policies/CALHOUN%20COUNTY%20POLICY%20OF%20COMPLIANCE%20LGC%20130.908%202018.06.06.pdf>
- <http://www.calhouncotx.org/trans/Policies/CALHOUN%20COUNTY%20Policy%20of%20Compliance%20Section%202252.908%20TxGovtCode%202018.01.31.pdf>

Prompt Payment

Elected Officials/Department Heads shall be responsible for prompt submission of invoices to the County Treasurer to initiate the approval for payment process. All invoices approved by the County Auditor and subsequently by the Commissioners Court shall be paid by the County Treasurer within thirty (30) calendar days of receipt, in accordance with the provisions of state law.

Long-Term Debt Policy

- The County will not use long-term debt to finance recurring maintenance and operating costs.
- The County will limit long-term debt to only those capital projects that cannot be financed from current revenues.
- The County will not issue long-term debt for a period longer than the estimated useful life of the capital project.
- Decisions will be made based on long term goals.
- Debt Service Funds will be managed and invested according to all federal, state, and local laws.
- The County shall always be in strict compliance with the provisions and covenants of the bond order(s) that created the Interest and Sinking Fund account(s). Taxes, as applicable, shall be distributed to the account(s) monthly as received. The balance in the account(s) must be adequate to cover semi-annual payments as they become due.

Other Fund Use Information

Governmental Funds

Most government functions are financed through governmental funds. The acquisition, use, and balances of the County's expendable resources and related current liabilities are accounted for through governmental funds. Long-term liabilities and fixed assets are not accounted for through governmental funds.

Federal and State Grant Funds

The County will have the necessary controls in place and follow all applicable federal and state financial grant requirements, including 2 CFR 200.302(b)(6) on advanced payments and 2 CFR 200.303 on internal controls for all grant funding.

Proprietary Funds

These funds are financed through user charges to recover costs of services provided. Proprietary funds use accrual accounting, which means revenues are recognized when they are earned by the County and expenses are recognized when they are incurred.

Capital Asset Policy

Purpose and Objectives

The purpose of the Capital Asset Policy is to establish guidelines to ensure accurate records of assets owned, purchased, replaced, sold and/or traded-in are maintained. The objectives are:

- To manage and maintain the capital asset portfolio of the County which includes land, buildings, improvements other than buildings, furniture, fixtures, equipment (including vehicles), infrastructure, and construction in progress.
- To determine the appropriate depreciation method to use in accordance with generally accepted accounting principles (GAAP).
- To provide the County with accurate recordkeeping for inventory and financial reporting purposes.

Responsibility and Authority

The County Auditor shall be responsible for ensuring the principles and policies for capitalization are consistently applied and carried out in conformity with generally accepted accounting principles (GAAP) for government and the financial policies, goals and strategies set forth by the Commissioners Court.

Criteria for Capitalization

Costs to obtain tangible assets with lives greater than one year are called capital expenditures and are commonly said to be capitalized. Several factors are involved in determining whether

an expenditure should be capitalized:

- The expected useful life is longer than one year.
- The asset has a unit cost of at least \$1,000.00 (i.e., capitalization threshold).
- The expenditure materially adds to the value or prolongs the life of an existing asset.
- The item belongs to one of the general classes of assets as defined by GAAP.
 - Land
 - Buildings
 - Improvements other than Buildings
 - Furniture/Fixtures/Equipment
 - Infrastructure

Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, boat ramps, bulkheads, erosion improvements, runways and taxiways.

The capitalization threshold is set by the Commissioners Court at the level recommended by the County Auditor and is based on the cost of a single asset. Assets that do not meet the capitalization threshold will be recorded as operating expenditures of the current period.

Accounting for Capital Assets

The County will follow GASB 34 guidelines in accounting for capital assets. Proper insurance coverage will be maintained on applicable capital asset classes in accordance with risk management strategies set forth by the Commissioners Court.

The County Auditor is responsible for maintaining the capital asset records of the County. Capital assets that meet the minimum threshold will be recorded at historical cost. Donated capital assets that meet the minimum threshold will be recorded at estimated fair market value at the time ownership is accepted by the Commissioners Court. The value of a capital asset will usually include ancillary costs that are related to acquisition (e.g., freight, delivery, installation, training). Depreciation will be calculated on a straight-line method and recorded at fiscal year-end for financial statement purposes.