

Morgan Ralph

Giles County Budget Analysis

PAPA 6314 Public Budgeting Processes and Their Policy Implications

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Introduction

The purpose of this report is to provide a comprehensive overview of the finances and budget for Giles County, Virginia. This paper reviews Giles County's Revenues, Expenditures, Financial Policies, Comprehensive Annual Financial Report, and Capital Budget, before providing Recommendations for Giles County's finances.

Overview of Giles County

Giles County, Virginia, is a rural county located in Southwest Virginia. It is approximately 20 minutes away from Virginia Tech in Blacksburg, Virginia, and borders West Virginia. The county was founded in 1806, named for William Branch Giles, an early member of the United States House of Representatives (Gannett, 1905, p.137). The seat of the county is the Town of Pearisburg, located in the middle of the county. Other key towns include Narrows, Rich Creek, Pembroke, Eggleston, and Newport. Giles County had an approximate population of 16,457 people in 2023 (United States Census Bureau, 2023). There are a few industries in the county, such as the cellulose acetate manufacturer Celanese, located in Narrows (Better Buildings Bureau, 2015), and NanoSonic, a small sustainable material manufacturer located in Pembroke (NanoSonic, n.d.). Tourism in Giles is focused on the natural environment and topography of the land. A few tourist highlights include Mountain Lake Lodge, the hotel where the 1987 film *Dirty Dancing* was filmed, which boasts beautiful hiking trails (Ardolino, 1987), and Cascades Falls, a scenic waterfall located in Pembroke (Residents, Giles County, n.d.).

Mission, Vision, Values, and Goals of Giles County

The overall mission of Giles County is to provide a beautiful and scenic landscape for residents and visitors. The county wants to “have a relaxed small-town atmosphere,” (Residents, Giles County, n.d.). Giles County wants to have a healthy population that is content in a rural

environment. The county seeks to ensure that children have access to quality education and enrichment opportunities. Giles County also strives to promote economic development that will benefit the residents while increasing income. Overall, the county wants to provide for its citizens to ensure they maximize and enjoy their time in the New River Valley.

Government Structure

Giles County is presided over by a mix of elected and appointed officials. Giles County is effectively governed by a Board of Supervisors and the County Administration.

Elected Officials

The Board of Supervisors has 5 members that are elected every 2 years (Virginia Department of Elections, 2024). As of January 2025, the Board of Supervisors consists of 2 At-Large Supervisors, a Western District Supervisor, a Central District Supervisor, and an Eastern District Supervisor (Board of Supervisors, Giles County, n.d.). The Board of Supervisors oversees governmental functions in the county, has the power to pass legislation, and adjust or increase revenues.

There are several other elected positions in Giles County. Giles County's Commissioner of the Revenue (Commissioner of Revenue, n.d.) and Treasurer (Giles County Treasurer's Office, n.d.) are elected every 4 years (Giles County Commissioner of Revenue, n.d.). The Commonwealth Attorney for Giles County is also elected every 4 years (Judicial, n.d.). The Clerk of the Giles County Circuit Court is elected every 8 years (Circuit Court, n.d.) (Virginia Judicial System, n.d.). Giles County elects its Sheriff every 4 years. Currently, Giles County's Sheriff has held the role for approximately 20 years (Lucus, 2023). With each of these positions, there is a staff of approximately 2-5 full-time employees that report to them. The exception is the Sheriff's Office, as they have approximately 40 full-time employees (Giles County Sheriff, n.d.).

Giles County Administration

The Giles County Administration consists of 6 Departments: Finance, Administration, Public Service & Utilities, Emergency Services, Building & Zoning, and GIS/Roads/Subdivision Agents (Giles County Administration, n.d.). They are led by appointed and hired Officials. The County Administrator, Director of Finance, and Director of Public Utilities lead the Administration, Finance Departments, Public Service and Utilities Departments, respectively (Giles County Administration, n.d.). The Giles County Administration employs approximately 20 full-time personnel. Appendix 1 highlights the structure of Giles County's Administration, Departments, and Officials.

Budget Process

Giles County's budget is reviewed and renewed every year. The fiscal year runs from July 1 to June 30 (Va. Code § 58.1-3010). The County Administrator and Board of Supervisors propose the budget for the upcoming fiscal year, typically at the April or March Board of Supervisors Meeting, however the work to develop it starts in October or November the previous year (Board of Supervisors, n.d.). At the April 2024 Board of Supervisors' meeting minutes, the County Administrator introduced several budget topics such as "anticipated employee salary increases, expected revenues and expected expenditures," and that "tax rates need to be set by mid-May," (Board of Supervisors, 2024). The County Administrator brought forth raises for county staff, teachers, and administrators in Giles County Public Schools (Board of Supervisors, 2024). Other budget highlights include expense increases and raises for the Giles County Sheriff's Department. Following this meeting, the County Administrator and Finance Director work to balance and update the budget based on Board's suggestions.

In early May, the Board of Supervisors is presented with an updated and balanced draft of the upcoming budget by the County Administrator and tax rates set by the Commissioner of Revenue (Board of Supervisors, 2024). The Board of Supervisors set a date for the Public Hearing, typically in mid to late-May. After the public hearing, the County Administrator requests that the balanced budget be formally approved. In June, the Board of Supervisors made a motion to approve it. Appendix 2 reflects this process.

General Overview of Revenue

Giles County is funded primarily by tax revenue generated within the county. One of the largest revenue sources is Personal Property and Real Estate Tax (Giles County Comprehensive Annual Financial Report, 2024, p. 88). Other sources of revenue include Permits, Mobile Home Taxes, Machinery and Tools Taxes, Industrial Development, and Commonwealth Reimbursements. These sources of revenue fund essential programs and departments such as the Board of Supervisors, Public Safety, Public Works and Sanitation, and Parks and Recreation (Giles County Comprehensive Annual Financial Report, 2024, p. 9). The Giles County Public School System is funded both by local revenue and State and Federal Aid (Giles County Proposed FY2024- FY2025 Budget, 2024). Overall, Giles County revenue sources are “relatively constant because they are largely based on tax collection” (Giles County Finance Director, Personal Communications, 2025).

Largest Sources of Revenue

Upon evaluation of the Fiscal Year (FY) 2025 Budget, the top 5 revenue sources for Giles County are Real Estate Tax, Machinery and Tools, Personal Property, Other Local (Sales Tax), and Recovered Costs. Figure 1 shows the breakdown of each of these revenue sources in comparison to the total budget.

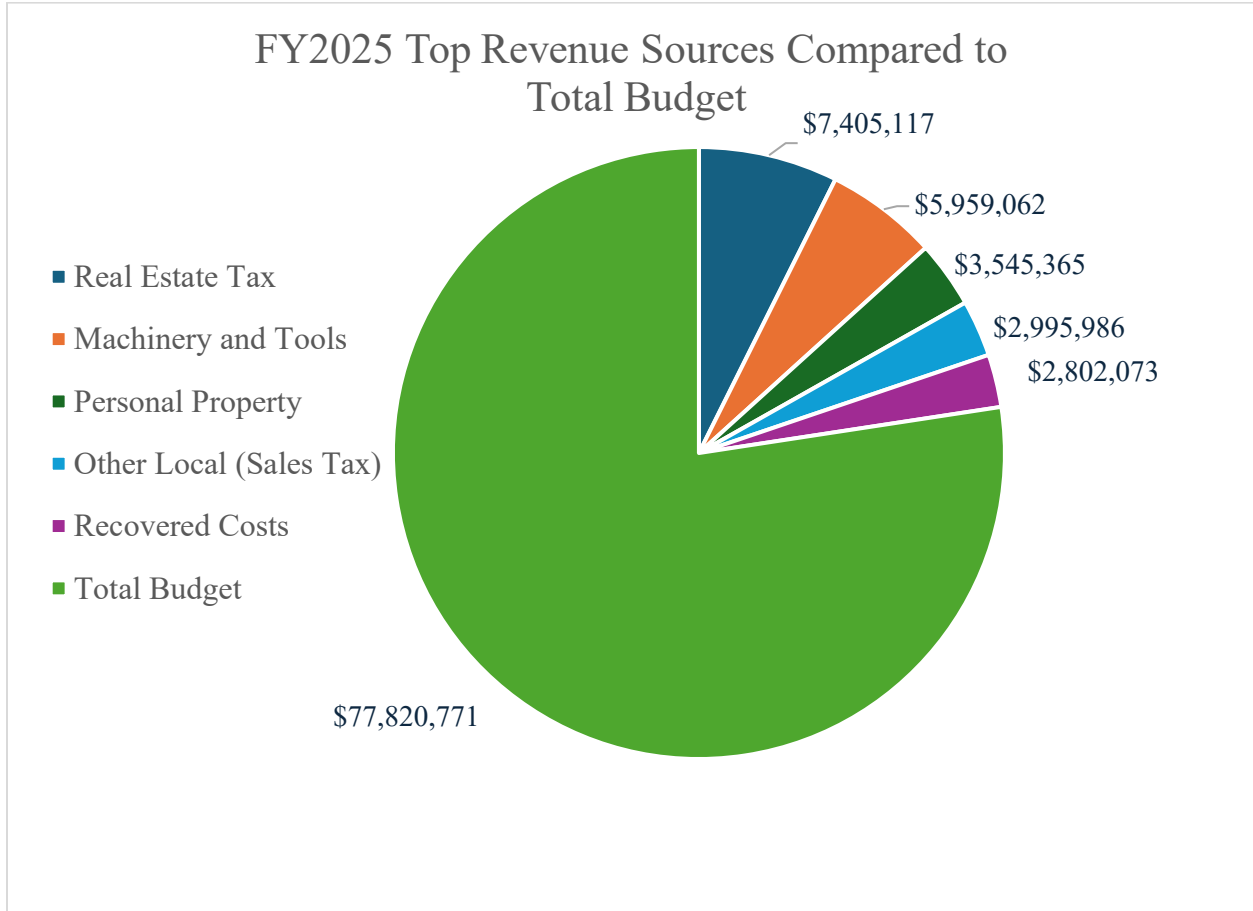


Figure 1: Chart showing Top 5 Revenue Categories compared to the Total Budget for FY2025.

Real Estate Tax

In the Commonwealth of Virginia, Real Estate Tax, also known as Real Property Tax, refers to property owned by individuals or businesses, and includes residences, buildings, and land. The Code of Virginia states, “All real estate, except that exempted by law, shall be subject to such annual taxation as may be prescribed by the law,” (Va. Code § 58.1-3201). Exceptions to Real Estate Tax include property owned by the Commonwealth of Virginia or the Federal Government, religious institutions, cemeteries, public libraries, the Young Men’s Christian Associations (YMCA), nonprofit museums, and public parks (Va. Code § 58.1-3606).

Machinery and Tools Tax

In the Virginia Code, Machinery and Tools is a class of taxable personal property (Va. Code § 58.1-3507). Items that are “used in manufacturing, mining, water well drilling, processing or reprocessing, radio or television broadcasting, dairy, dry cleaning or laundry business, or a business primarily engaged in advanced recycling” are all taxable revenue sources (Va. Code § 58.1-3507).

Personal Property Tax

Personal Property Taxes are revenue from a local source in the General Fund Revenue category (Giles County Comprehensive Annual Financial Report, 2024, p. 9). In Virginia, Personal Property Taxes are taxes on items such as personal motor vehicles, manufactured homes, certain farm animals and farm machinery, boats, aircraft, and motorcycles (Va. Code § 58.1-3503).

Other Local Taxes

Other Local Taxes encompass revenue generated from Local Sales and Use Taxes, Consumers’ Utility Taxes, Consumption Taxes, Gross Receipts Tax, Motor Vehicle Licenses, Local Tax on Deeds, and Hotel & Motel Room Taxes (Giles County Comprehensive Annual Financial Report, 2024, p. 6). These taxes are generalized to consumer actions within the county.

Recovered Costs

Recovered Costs are categorized as Fuel Reimbursements, School Reimbursements, Collections, PSA recovered costs, DMV License Agent Reimbursements, Health Department and Social Services, Health Insurance Recoveries, and School Resource Officers. (Giles County Comprehensive Annual Financial Report, 2024, p. 116). These reimbursements are provided by a Commissioner in the Commonwealth of Virginia (Va. Code § 63.2-401).

Fiscal Year Budget Analysis and Projections: Revenue

The revenue data for 3 years in Giles County was reviewed and analyzed. Projections were completed for upcoming fiscal years. Table 1 reflects the budget data of the top 5 revenue categories for fiscal years 2023, 2024, 2025, and projects the revenue for the years 2026 and 2027. Table 2 reflects the percentage change between both the actual and projected fiscal year revenue categories and total budgets.

Revenue Categories	FY2023 Budget	FY2024 Budget	FY2025 Budget	FY2026 Projected Budget	FY2027 Projected Budget
Real Estate Tax	\$7,610,613	\$7,405,117	\$7,405,117	\$7,500,000	\$7,650,000
Machinery and Tools	\$5,383,419	\$5,759,062	\$5,959,062	\$6,350,000	\$6,500,000
Personal Property	\$2,796,026	\$3,284,215	\$3,545,365	\$3,700,000	\$4,000,000
Other Local (Sales Tax)	\$2,434,174	\$2,995,986	\$2,995,986	\$3,200,000	\$3,450,000
Recovered Costs	\$2,685,080	\$2,685,080	\$2,802,073	\$2,950,000	\$3,050,000
Sum of the Top 5 Revenue Sources	\$20,909,312	\$22,129,460	\$22,707,603	\$23,700,000	\$24,650,000
Total Budget	\$75,322,814	\$77,690,360	\$77,820,771	\$79,500,000	\$80,100,000

Table 1: Top 5 revenue categories for FY2023, FY2024, and FY2025, with projections for FY2026 and FY2027.

Projections for Fiscal Year 2026 and Fiscal Year 2027

The projections for FY2026 and FY2027 were based on a 2.50% inflation rate (Giles County Comprehensive Annual Financial Report, 2024, p. 37). For FY2026, the projected revenue from Real Estate Tax will be approximately \$7,500,000. There is a prediction that revenue from Machinery and Tools will increase to approximately \$6,350,000 in FY2026, based on the 3% increase from FY2024 to FY2025. It is projected that revenue from Personal Property Taxes will be approximately \$3,700,000 for FY2026 based on the 17% change from FY2023 to FY2024 but the 8% increase from FY2024 to FY2025. Other Local (Sales Tax) revenue will increase to \$3,200,000 in FY2026, estimated by the 23% increases from FY2023 to FY2024. Additionally, the projection for FY2026 reflects that the Recovered Costs revenue will increase to \$2,950,000 from FY2025. The projection for the total revenue of the top 5 revenue categories is \$23,700,000, with the total projected budget being \$79,500,000 for FY2026.

Revenue Categories	% From FY2023 to FY2024	% From FY2024 to FY2025	Projected % from FY2025 to FY2026	Projected % from FY2026 to FY2027
Real Estate Tax	-3%	>1%	1%	2%
Machinery and Tools	7%	3%	7%	2%
Personal Property	17%	8%	4%	8%
Other Local (Sales Tax)	23%	>1%	7%	8%
Recovered Costs	>1%	4%	5%	3%
Total Budget	3%	>1%	2%	1%

Table 2: Table showing the % change for FY2022, FY2023, and FY2025 with revenue projected for FY2026 and FY2027. The % change for the Total Budgets and Projected Budgets is included as well.

Similarly, there are projected gradual increases to the budget for Fiscal Year 2027. The projected revenue from Real Estate Tax is \$7,650,000, while the projected revenue from Machinery and Tools is \$6,500,000. This estimate reflects a projected 2% increase for both revenue categories in FY2027. Revenue from Personal Property Tax is projected to increase to \$4,000,000, and Other Local (Sales Tax) is projected to be \$3,450,000. These revenue sources are both projected to increase by approximately 8%. The Recovered Costs revenue for Giles County is projected to increase to \$3,050,000, a 3% increase from the projected budget in FY2026. Finally, the projected total for the top 5 revenue categories is \$24,650,000, and the projected total budget is \$80,100,00 for FY2027.

Recommendations

After reviewing the FY2025 Budget for Giles County, there are several items to note. A strength in the budget was the steady tax base for Personal Property, Real Estate, and Other Local. There was little change within those revenue categories. This is consistent with Principle 4.1 “Develop Policy on Stabilization Funds” in Recommended Budget Practices (National Advisory Council on State and Local Budgeting, 1999, p. 17). Principle 4.1 states “a government should develop policies to guide the creation, maintenance, and use of resources for financial

stabilization purpose,” (National Advisory Council on State and Local Budgeting, 1999, p.17). Tax revenue is the majority of the revenue for Giles County and is a relatively constant source of income for the budget. However, while Real Estate Tax in particular is stable, there should be additional revenue diversification for Giles County. The lack of diversification presents itself as a weakness for Giles County. Another weakness within the budget revolves around the heavy reliance on State and Federal Grants (Giles County Financial Statement, 2023). Giles County should note inflation rates as it prepares for Fiscal Years 2026 and 2027. Additionally, following guidance from Section 4.6 in Recommended Budget Practice, there is a recommendation for Giles County to “adopt a policy that encourages a diversity of revenue sources,” (National Advisory Council on State and Local Budgeting, 1999, p. 26). This would allow for less reliance on State and Federal grants as well.

General Overview of Expenditures

Giles County has several large expenditures in its yearly budget. The county funds Emergency Services, Recreation, Economic Development, County Operations, and Capital Improvements, and partially funds the Giles County School System (Giles County Comprehensive Annual Financial Report, 2024, p. 88). The Giles County School System is Giles County’s largest expenditure, but it is also funded by State and Federal Grants. Other major expenditures for the county include the Courts/Law Enforcement, Debt Service, Tax Collection & Assessment, and Social Services/CSA & Community Services (Giles County Comprehensive Annual Financial Report, 2024, p. 88). The Giles County spend is almost entirely dependent on revenue sources like taxes, so Giles County must ensure it is spending within its means in order to maintain the county’s financial integrity.

Largest Sources of Expenditures

According to the Fiscal Year 2025 Budget, the top 5 expenditures for Giles County are Education, Social Services/CSA & Community Services, Courts/Law Enforcement, County Operations, and Capital Improvements (Giles County Proposed 2025 Budget, 2024). Figure 2 shows this breakdown of these expenditure categories in comparison to the entire budget.

Education

As of 2025, Giles County allocated approximately 64% of its budget to the Giles School System (Giles County Proposed Budget FY2024-2025, 2024). The school system operates 2 High Schools and 3 Elementary/Middle Schools spread between the Western, Central, and Eastern Districts. In addition to the State and Federal support, the school system is assisted on a local level to provide payroll and other services (Giles County Comprehensive Annual Financial Report, 2024, p. 6).

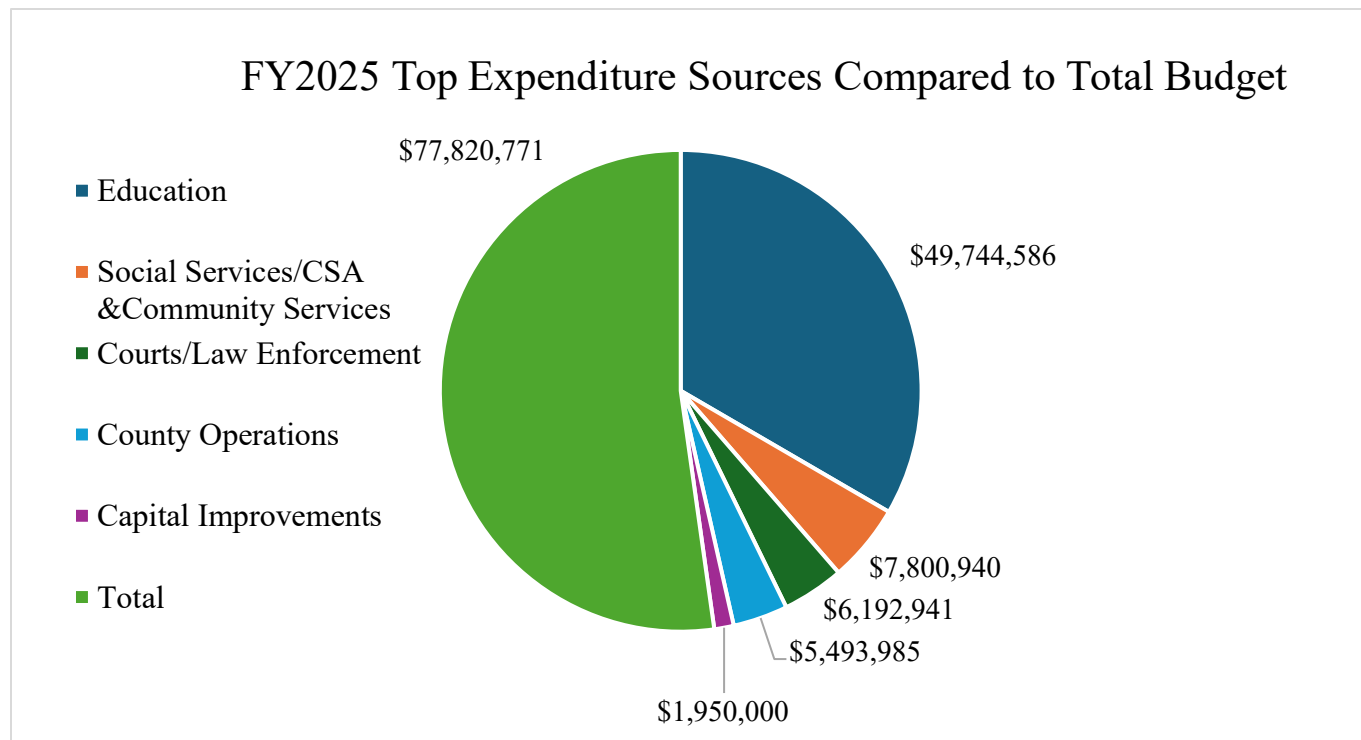


Figure 2: Graph showing Top 5 Expenditure Categories compared to the Total Budget for FY2025.

Social Services/CSA & Community Services

Social Services/CSA & Community Services are the second largest expenditure, with approximately 10% of the budget being used towards the department (Giles County Proposed Budget FY2024-FY2025, 2024). In Giles County, Social Services funding goes toward programs such as Adoption Services, Adult Protective Services, Child Protective Services, Day Care Services, and Foster Care Services (Giles County Social Services, n.d.).

Courts/Law Enforcement

Courts/Law Enforcement. Spending is the third largest expenditure for Giles County, accounting for approximately 8% of the total budget (Giles County Proposed Budget FY2024-FY2025, 2024). The Giles County Sheriff's Office is responsible for patrolling the county, providing School Resource Officers, dispatching Officers, and handling investigations (Giles County Sheriff's Office, n.d.). The Circuit Court of Giles County "is the trial court with the broadest powers in the county.... [it] handles all civil cases with claims of more than \$15,000, it shares authority with the General District Court, [and] has the authority to hear serious criminal cases," (Giles County Circuit Court, n.d.).

County Operations

County Operations are the fourth largest expenditure for Giles County. They account for approximately 7% of the budget (Giles County Proposed Budget FY2024-FY2025, 2024).

County Operations include the Public Service Authority (PSA) and Utilities (Giles County PSA, n.d.).

Capital Improvements

Capital Improvements account for 2.5% of the Expenditure Budget. They are "contracts in the name of the Commonwealth for the development and operation of revenue-producing

capital improvement” (Va. Code § 10.1-112.). The “capital improvement program shall include the commission’s recommendations and estimates of cost of the facilities and life cycle costs...to be undertaken in the ensuing fiscal year and in a period not to exceed the next four years,” (Va. Code § 15.2-2239). While 2.5% of the FY2025 Expenditure Budget was allocated to Capital Improvements, this money was put forth to Giles County’s specific Capital Improvement Budget for projects.

Fiscal Year Budget Analysis and Projections: Expenditure

The expenditure data for 3 years in Giles County was reviewed and analyzed. Projections were completed for upcoming fiscal years. Table 3 reflects the financial data of the top 5 expenditure categories for fiscal years 2023, 2024, 2025, and projects the revenue for the years 2026 and 2027. Table 4 reflects the percentage change between both the actual and projected fiscal year revenue categories and total budgets.

Expenditure Categories	FY2023 Budget	FY2024 Budget	FY2025 Budget	FY2026 Projected Budget	FY2027 Projected Budget
Education	\$49,744,586	\$49,744,586	\$49,744,586	\$52,500,000	\$54,000,000
Social Services/CSA & Community Services	\$6,478,417	\$7,782,641	\$7,800,940	\$8,600,000	\$9,000,000
Courts/Law Enforcement	\$5,745,559	\$5,866,334	\$6,192,941	\$6,640,000	\$7,200,000
County Operations	\$4,937,875	\$5,304,091	\$5,493,985	\$5,960,000	\$6,300,000
Capital Improvement	\$2,576,396	\$2,870,000	\$1,950,000	\$2,520,000	\$2,700,000
Sum of the Top 5 Expenditure Categories	\$69,482,833	\$71,567,652	\$71,182,452	\$76,220,000	\$79,200,000
Total Budget	\$75,322,814	\$77,690,360	\$77,820,771	\$80,000,000	\$84,500,000

Table 3: Table showing the Top 5 Expenditure Categories for FY2022, FY2023, and FY2025 with expenditures projected for FY2026 and FY2027. The Total Budgets and Projected Budgets are included as well.

Projections for Fiscal Year 2026 and Fiscal Year 2027

The expenditure data projections for FY2026 and FY2027, were based on the 2.50% inflation rate increase Giles County is expected to have (Giles County Comprehensive Annual

Financial Report, 2024, p.37). For FY2026, the expenditures for Education are projected to be \$52,500,000, increasing by approximately 6%. In 2027, the projected expenditure will be \$54,000,000 after another 3% increase. The Social Services/CSA & Community Services is projected to increase by 10% from FY2025 to FY2026 and then increase by 5% to FY2027. There is a prediction of the Courts/Law Enforcement to increase budget by 7% to \$6,640,000 in FY2026. In FY2027, this expenditure is projected to be \$7,200,000 after another 8% increase. The County Operations expenditures are projected to be \$5,960,000 in FY2026 and \$6,300,000 in FY2027. This follows an 8% increase and then a 6% increase. Finally, the Capital Improvements Budget will increase to \$2,520,000 in FY2026, with a 29% increase from FY2025. This projection is based on increased flooding and damage occurred in the Town of Narrows during the historic Hurricane Helene in September 2024 and the need to rebuild certain structures (Mitchell, 2024). In FY2027, the Capital Improvement budget will only increase by 7%. Overall, the total budget change is predicted to increase by 3% from FY2025 to FY2026, and then by 6% from FY2026 to FY2027.

Expenditure Categories	% From FY2023 To FY2024	% From FY2023 to FY2025	Projected % From FY2025 to FY2026	Projected % From FY2026 to FY2027
Education	>1%	>1%	6%	3%
Social Services/CSA & Community Services	20%	>1%	10%	5%
Courts/Law Enforcement	2%	6%	7%	8%
County Operations	7%	4%	8%	6%
Capital Improvement	11%	-32%	29%	7%
Totals	3%	>1%	3%	6%

Table 4: Table showing the % change for FY2022, FY2023, and FY2025 with expenditures projected for FY2026 and FY2027. The % change for the Total Budgets and Projected Budgets is included as well.

Revenues and Expenditures Summary

The Giles County 2023 Comprehensive Annual Financial Report details the yearly finances of the county to ensure that they are balanced. The 2023 Comprehensive Annual Financial Report highlighted how heavily reliant Giles County is on Tax-Based Revenue Sources. In 2023, Real Estate Tax alone accounted for approximately 10% of the entire budget, but in 2025, Real Estate Tax accounted for only approximately 9.5% of the entire budget. While this decrease in revenue is slight, it stresses the need for Giles County to diversify its revenue Sources. Additionally, the 2023 Comprehensive Annual Financial Report stated Giles County received several Federal and State Grants for county operations. In 2023, Giles County received approximately \$9,328,576 in operating grants and contributions from the Federal and State,” (Giles County Comprehensive Annual Financial Statement, 2024, pg. 6). These contributions are essential for the County’s ability to operate and serve its citizens. Additionally, the Giles County 2023 Comprehensive Annual Financial Report details the County’s spend. In 2023, the largest expenditure was on Education. For FY2023, Giles County spent \$49,744,586, approximately 66% of its total budget, on the Giles County Public Schools System. This expenditure will continue to increase for Giles County.

Recommendations

The largest weakness to the Giles County budget and expenditures is its lack of developed financial policy. The Giles County Comprehensive Annual Financial Plan lists Accounting Principles that act as a financial policy for the locality. The Accounting Principles provide basic definitions about key budgeting terms. However, these policies need review and improvement. The recommendations are to implement a stringent financial policy for Giles County. There are no clear guidelines in place to hold the Board of Supervisors accountable in

spending decisions. As presented in the Recommended Budget Practices, Principle 5.1 states that a “government should develop and adopt policies and plans to guide the design of specific programs and services,” because “service and program policies and plans translate broad goals into strategies for achieving goals,” (National Advisory Council on State and Local Budgeting, 1999, p.27). The development of financial policy for programs and services directly applies to expenditures like Social Services/CSA & Community Services and Education. By utilizing financial policies, Giles County can ensure it is responsibly allocating money and overall improving the health of its budget.

Comprehensive Annual Financial Report

The 2023 Comprehensive Annual Financial Report for Giles County is a full audit of the county’s financial records for that fiscal year, which is then reviewed by an independent audit service. The audit service, “Robinson, Farmer, Cox Associates, PLLC,” stated, “the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, the business type activities, the discreetly presented component units, each major fund, and the aggregate remaining fund information,” (Giles County Comprehensive Annual Financial Report, 2024, p. 2). The auditors have presented a clean and unmodified opinion, certifying that Giles County’s Budget for FY2023 is accurate.

Revenue Variances

There are some areas of variance between the budgeted and actual revenues for Giles County’s FY2023. A variance is the difference between what the County projected and what it received. Overall, all the variances for revenue were positive except for Commonwealth Revenues. Commonwealth Revenues are allocated to Giles County by Virginia to assist the locality’s operation (Virginia Department of Planning and Budget, n.d.). For FY2023, Giles

County had budgeted \$6,819,005, but only received \$6,370,396, meaning there is a negative variance of \$448,609 (Giles County Comprehensive Annual Financial Report, 2024, p.88). This variance could result from policy changes or budget renegotiations at the State Level rather than the Local Level. In contrast, there was a positive revenue variance for Giles County. The General Property Tax was budgeted as \$17,080,235, but the actual was \$18,625,624, with a positive variance of \$1,545,389 (Giles County Comprehensive Annual Financial Report, 2024, p. 88). This positive variance could be attributed to a greater increase of taxable properties in Giles County than projected. These variances should prompt Giles County to adjust its budget to account for more Tax Revenues and fewer Commonwealth Revenues moving forward.

Fund Balance

Fund Balance is the “the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources,” (Giles County Comprehensive Annual Financial Report, 2024, p. 22). The type and amount of each Fund Balance for Giles County are listed in the table below.

Fund Balance Categories	Fund Balance Amount
Restricted	\$161,477
Committed (Capital Projects)	\$798,429
Assigned	\$404,941
Unassigned	\$20,091,476
Nonspendable	\$0 (Not Available in the CAFR)

Table 5: Types and Amounts of Fund Balance for Giles County as reported in the FY2023 Giles County CAFR

Restricted

Restricted Fund Balances are “amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling Federal, State, or Local Legislation,” (Giles County Comprehensive Annual Financial Report, 2024, p. 22). Restricted

funds can only be received or spent on specific programs, such as Asset Forfeiture Funds (Giles County Comprehensive Annual Financial Report, 2024, p. 22).

Committed

Committed Fund Balances are “amounts that can only be used for specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the Board of Supervisors prior to the end of the Fiscal Year,” (Giles County Comprehensive Annual Financial Report, 2024, p. 22). Giles County uses Committed Funds for Capital Projects (Giles County Comprehensive Annual Financial Report, 2024, p. 22).

Assigned

The Assigned Fund Balance refers to the “amount a government intends to use for a specific purpose but does not meet the criteria to be classified as committed,” (Giles County Comprehensive Annual Financial Report, 2024, p. 22). Giles County uses Assigned Fund Balances for Deer Decoys and Public Safety (Giles County Comprehensive Annual Financial Report, 2024, p. 22).

Unassigned

An unassigned fund balance is an “amount available for any purpose” (Giles County Comprehensive Annual Financial Report, 2024, p. 22). For example, Giles County could use these funds for a project or program of its choosing.

Nonspendable

A nonspendable fund balance “amounts that are either not in spendable form or are legally or contractually required to be maintained intact,” (Giles County Comprehensive Annual Financial Report, 2024, p. 22). An example of a nonspendable fund balance would be a corpus of a permanent fund (Giles County Comprehensive Annual Financial Report, 2024, p. 22).

Financial Policies

Financial Policies are crucial to a local government's financial operation and health. They are "central to a strategic, long-term approach to financial management," (GFOA: Adopting Financial Policies, 2018, p. 1). In Giles County, financial policies are located in Comprehensive Annual Financial Report, however, they are referred to as "Significant Accounting Policies," (Giles County Comprehensive Annual Financial Report, 2024, p. 16). Appendix 3 has the complete list of these Accounting Policies. For Giles County, these policies serve as a guideline for the Board of Supervisors and ensure that the budget is constructed sustainably every year.

Per its Accounting (Financial) Policies, Giles County strives to "maintain unassigned fund balance in the general fund equal to 3% of the expenditures/operating revenues," and a "balance of less than 3% [is] a cause for concern, barring unusual or deliberate circumstances," (Giles County Comprehensive Annual Financial Report, 2024, p. 23). This unassigned fund balance can be used for general purposes. The Board of Supervisors and the County Administrator have the ability to make decisions in regard to fund balances. Another key financial policy in Giles County's Comprehensive Annual Financial Report, revolves around the County's Long-Term Obligations. Long-Term Obligations are bonds and are "reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position," (Giles County Comprehensive Annual Financial Report, 2024, p. 22). These bonds are debt that is "recognized in the current period" and are reported as "other financing sources" (Giles County Comprehensive Annual Financial Report, 2024, p. 22).

Financial Ratios

Using the Commonwealth of Virginia Annual Local Government Fiscal Distress Monitoring Report for FY2022-FY2023, Giles County's financial wellness was calculated.

Financial ratios 6,7,8, and 10 were calculated and evaluated for Giles County. The table below shows those ratios and their comparison.

Ratio Categories	FY2022 Ratio Calculations	FY2023 Ratio Calculations
6	39.37%	68.63%
7	31.88%	56.47%
8	123.90%	121.53%
10	118.15%	24.14%

Table 6: Comparison of Ratios between FY2022 and FY2023.

Ratio 6

Ratio 6 in the Annual Local Government Fiscal Distress Monitoring Report “measures the sufficiency of unrestricted reserves, plus any applicable reserves specifically set aside, relative to the locality’s operating expenses,” (Annual Fiscal Distress Monitoring Process 2022 and 2023 Report, 2024, p. 25). To calculate this ratio for Giles County, the total fund balance was divided by the total expenses for FY2023, which was approximately 69%. A ratio percentage above 15% means that Giles County is in a “desirable position to fund expenses from unrestricted reserves to address a revenue shortfall or unforeseen situation,” (Annual Fiscal Distress Monitoring Process 2022 and 2023 Report, 2024, p. 25). Comparing Ratio 6 from FY2022 to FY2023, Giles County is in a better position than it was the previous year.

Ratio 7

Ratio 7 in in the Annual Local Government Fiscal Distress Monitoring Report “measures the sufficiency of total fund balance reserves relative to the locality’s general fund revenue,” (Annual Fiscal Distress Monitoring Process 2022 and 2023 Report, 2024, p. 25). To calculate Ratio 7, Giles County’s total fund balance was divided by its total revenue for FY2023. This ratio was approximately 56%. This ratio means that Giles County is in a “desirable position of having available reserves to address a revenue shortfall or unforeseen situation,” (Annual Fiscal

Distress Monitoring Process 2022 and 2023 Report, 2024, p. 25). From FY2022 to FY2023, this ratio increased, overall improving Giles County's financial position.

Ratio 8

Ratio 8 in the Annual Local Government Fiscal Distress Monitoring Report "measures whether a locality's expenses exceeded total revenues in the general fund," (Annual Fiscal Distress Monitoring Process 2022 and 2023 Report, 2024, p. 25). It was calculated by dividing Giles County's total revenues by the total expenses for FY2023. This ratio was approximately 122%, meaning that Giles County met the benchmark. If the calculated ratio had been lower than 100%, then "total operating expenses exceeded total operating revenues in the general fund," which would have been an indicator that Giles County was in fiscal distress (Annual Fiscal Distress Monitoring Process 2022 and 2023 Report, 2024, p. 25). There is a small decrease between the ratios for FY2022 and FY2023, but the county is still in a desirable position. However, Ratio 8 for Giles County should be monitored in the future.

Ratio 10

Ratio 10 in the Annual Local Government Fiscal Distress Monitoring Report "identified changes (increase or decrease) in unassigned fund balances from the prior year to the current year," (Annual Fiscal Distress Monitoring Process 2022 and 2023 Report, 2024, p. 25). This ratio was calculated by subtracting Giles County's FY2022 ending fund balance from its FY2023 fund balance, before dividing it by its FY2022 fund balance. This result was a positive ratio of approximately 24%, meaning Giles County has "a more favorable position as this indicated that unrestricted fund balance is growing," (Annual Fiscal Distress Monitoring Process 2022 and 2023 Report, 2024, p. 25). However, there is a large difference between Ratio 10 for FY2022 and FY2023, meaning Giles County gradually increased fund balance compared to years prior.

However, there is a large difference between Ratio 10 for FY2022 and FY2023, meaning Giles County gradually increased its fund balance compared to years prior.

Capital Budget Analysis

Capital Projects consist of a “broad range of construction, renovation, acquisition projects involving state office buildings, college and universities, prisons and juvenile rehabilitation facilities, parks and recreation, K-12 schools, water supply.... infrastructure, and other public capital facilities,” (Washington Office of Financial Management, 2022, pg. 2). These projects typically involve years of planning and development to ensure there is adequate budget. For Giles County, Capital Projects are crucial for maintaining the county infrastructure as well as ensuring its citizens are safe.

Capital Budget Funds and Assets

In Giles County, Capital Projects are paid for using a specific budget: the County Capital Improvements Fund. The County Capital Improvements Fund “accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for Capital outlays,” (Giles County Comprehensive Annual Financial Report, 2024, pg. 18). Top expenditures of the County Capital Improvement Fund are Public Safety commitments, Community Developments, and Principal Retirement.

Giles County also uses a Committed Fund Balance within the Governmental Funds for its Capital Projects. This Committed Fund Balance does not have to be used for a specific Capital project, such as building a recreation center, but it must be used for all Capital Projects. In 2023, the Committed Fund Balance for Capital Projects was \$798,429 (Giles County Comprehensive Annual Financial Report, 2024, pg.7). Giles County has \$226,828 in Capital Grants and Contributions.

Additionally, Giles County has \$8,849,024 in total Capital Assets. Capital Assets are “tangible and intangible assets, which include property, plant, equipment, lease, subscription, and infrastructure assets,” Giles County Comprehensive Annual Financial Report, 2024, pg. 20). However, the Giles County Comprehensive Annual Financial Report affirms “Capital assets used in Governmental activities are not financial resources and therefore not reported in the funds,” (Giles County Comprehensive Annual Financial Report, 2024, pg. 8). In 2023, Giles County had \$1,594,692 that was not depreciated or amortized, and \$31,554,689 in Capital Assets that were depreciating. For Giles County, Capital depreciation means its “capital assets lose value over time.... it’s reported on a [financial] Report as an operating expense,” (Rammler, 2022).

Capital Projects Recommendations

While Giles County has a County Capital Improvement Budget, there is a limited Capital Project Plan. To improve its Capital Process, Giles County should implement key policies from the Government Finance Officers Association (GFOA) Capital Best Practices. Giles County must develop a thorough Capital Comprehensive Financial Plan (GFOA Best Practices: Capital Planning, n.d.). This plan would “allow governments [to] develop a viable overall multi-year financing plan covering the multi-year period of the capital plan,” (GFOA Best Practices: Capital Planning, n.d.).

Financial Strength Summary

For any locality, but especially small and rural locations, a healthy budget is critical to its success. The analysis of Giles County’s budget was completed to review its budget processes, revenue and expenditure sources, financial policies, and overall fiscal health. It is necessary to have a strong financial foundation to support Giles County’s mission, vision, and goals for all citizens. Within this review, it is noted that the 2023 Comprehensive Annual Financial Report for

Giles County received an unmodified report from independent auditors. This confirms that Giles County's Comprehensive Annual Financial Plan was balanced, and no discrepancies were found, (Giles County Comprehensive Annual Financial Statement, 2024, pg. 139). Additionally, based on the data and calculated ratios from the Virginia Local Government Fiscal Distress Monitoring 2022-2023 Report, Giles County is not in fiscal distress and is considered to be in good financial shape. Ratios 6,7,8, and 10 served to review the Revenue, Expenditures, and Fund Balance of Giles County, ultimately highlighting that Giles County has strong finances and a healthy budget. Giles County adopts all budgets "on a basis with generally accepted accounting principles (GAAP)," (Giles County Comprehensive Annual Financial Statement, 2024, pg. 26).

Overall Recommendations

While Giles County has an overall healthy budget, there is clear room for improvement. There are two key recommendations for Giles County: Diversification of Revenue Sources and Thorough Financial Policies.

As previously mentioned, it is recommended that Giles County diversify its revenue sources. A diversification of revenue would build and strengthen Giles County's financial resiliency. This financial resiliency will allow Giles County to prepare for the expected 2.5% inflation increase, as well as any unexpected expenses. To diversify its revenue sources, Giles County should focus on increasing Tourism and Community Development revenue. Currently, Tourism in Giles County is the "2nd largest industry" and focuses on outdoor or natural recreation and experiences (Mundy, 2024). In 2023, Giles County spent approximately \$568,653 on its developing Tourism Industry (Giles County Comprehensive Annual Financial Statement, 2024, pg. 122). This investment resulted in over 100,000 visitors to Giles County in 2023 and "1.9 million in tax benefits back to Giles," (Mundy, 2024). By putting additional resources

towards increasing Tourism, Giles County can expect a steady and reliable revenue source for its operations.

Giles County must develop more thorough financial policies. Financial policies serve as guidelines that are “central to a strategic, long-term approach to financial management,” (GFOA Best Practices: Adopting Financial Policies, 2015). Giles County’s current Accounting Policies are not enough to adequately serve as a guide for decision-making. Using the Government Finance Officers Association’s Best Practices: Financial Policies, Giles County should implement Best Management Practices. Giles County should “promote long-term and strategic thinking.... demands a long-term perspective from the organization,” (GFOA Best Practices: Adopting Financial Policies, 2015). Giles County must be utilizing strategic planning guidelines rather than providing accounting basics.

Conclusion

This analysis of Giles County, Virginia, served as an examination of its budget and financial health. Both the locality’s revenues and expenditures are increasing yearly and will have to be adjusted to address inflation and growth. Reviewing the 2022-2023 Virginia Local Government Fiscal Distress Monitoring Report and calculating distress evaluation ratios, Giles County is in a strong position. The Comprehensive Annual Financial Report details the yearly budget and provides Accounting Principles for the county. Recommendations are provided for diversifying revenues, adding thorough financial policies, and improving Capital Improvement Financial Policies. In review of these items, it can be concluded that Giles County has a healthy budget and is in good financial health.

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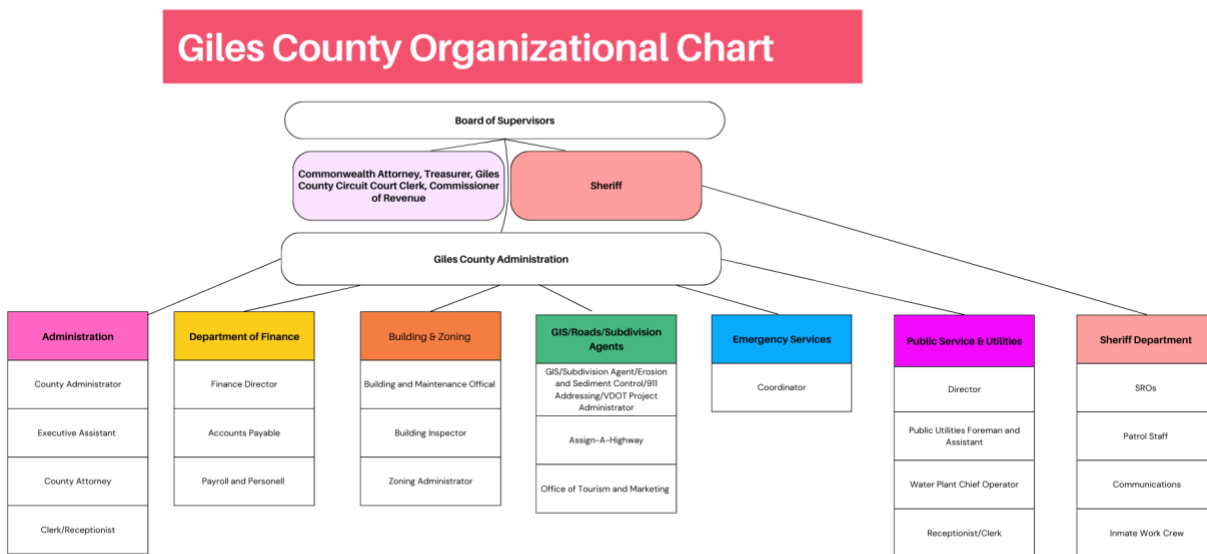
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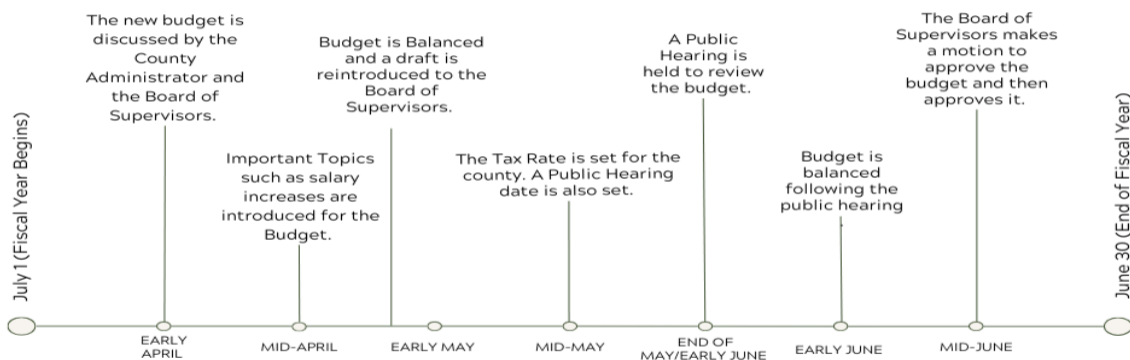
Appendix

Appendix 1



Appendix 2

Giles County Budget Process



Appendix 3

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**Note 1-Summary of Significant Accounting Policies:**

The financial statements of the County conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The County of Giles, Virginia (government) is a municipal corporation governed by an elected five-member Board of Supervisors. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - The County has no blended component units.

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the County's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the County. The County's Component Units do not prepare separate financial statements.

The Giles County School Board operates the elementary and secondary public schools in the County. School Board members are popularly elected. The School Board is fiscally dependent upon the County because the County approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type and does not issue a separate financial report.

The Giles County Industrial Development Authority encourages and provides financing for industrial development in the County. The Industrial Development Authority board members are appointed by the Board of Supervisors. The Industrial Development Authority is fiscally dependent upon the County. The Industrial Development Authority is presented as an enterprise fund type and does not issue a separate financial report.

Related Organizations - The County's officials are also responsible for appointing the members of the boards of other organizations, but the County's accountability for these organizations does not extend beyond making the appointment.

Jointly Governed Organizations - The County and the Counties of Bland, Carroll, Floyd, Grayson, and Wythe and the City of Radford participate in supporting the New River Valley Regional Jail Authority. The monthly payment made by the County to the Regional Jail is based on the number of prisoners housed for the County. For the year ended June 30, 2023, the County paid \$657,560 for the confinement of prisoners.

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023

Note 1-Summary of Significant Accounting Policies: (Continued)**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net position is designed to display the financial position of the primary government (governmental and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide statement of net position and report depreciation expense - the cost of "using up" capital assets - in the statement of activities. The net position of a government is broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they have been earned and they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service principal and interest expenditures on general long-term debt, including lease and subscription liabilities, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the government the right to use lease and subscription assets, are reported as expenditures in the governmental funds. Issuance of long-term debt and financing through leases and subscriptions are reported as other financing sources.

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for un-collectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in other funds. The General Fund includes the activities of the Dare Program, the Asset Forfeiture Fund, the Comprehensive Services Fund, the Social Services Fund, the Restitution Fund, the Rev Max Fund, and the Emergency Replacement Fund.

The *County Capital Improvements Fund* accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments.

The School Board reports the following major funds:

The *School Operating Fund* is the primary operating fund of the School Board and accounts for and reports all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from appropriations from the County and state and federal grants.

The *School Activity Fund* accounts for and reports all funds received from extracurricular school activities, such as entertainment, athletic contest, club dues, fundraisers, etc., and from any and all activities of the individual schools.

The government reports the following major proprietary funds:

The County operates a water and sewer system. The activities of the system are accounted for in the Utility fund.

The government reports the following internal service fund:

Internal Service Funds account for the financing of goods and services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The Internal Service Funds consist of the Self-health Insurance Fund.

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 1-Summary of Significant Accounting Policies: (Continued)****C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)**

Additionally, the government reports the following fund types:

Fiduciary funds (trust and custodial funds) account for assets held by the government in a trustee capacity or as custodian for individuals, private organizations, other governmental units, or other funds. The Custodial funds consist of the Special Welfare fund. Fiduciary funds are not included in the government-wide financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise fund and the internal service funds are charges to customers for sales and services. The County also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance**1. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the government's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, other nonparticipating investments, and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

3. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds" (i.e. the noncurrent portion interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

4. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable in two installments on June 5th and December 5th. Personal property taxes are due and collectible annually on December 5th. The County bills and collects its own property taxes.

5. Allowance for Uncollectible Accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$88,978 for the General Fund at June 30, 2023 and is comprised solely of property taxes. The allowance amounted to approximately \$653,080 for the Water department at June 30, 2023 and is comprised solely of water billings and penalties.

6. Inventories and Prepaid Items

All inventories are valued at cost using first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

8. Capital Assets

Capital assets, are tangible and intangible assets, which include property, plant, equipment, lease, subscription and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County and Component Unit School Board as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year.

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 1-Summary of Significant Accounting Policies: (Continued)****D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)****8. Capital Assets (Continued)**

As the County and Component Unit School Board constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost (except for intangible right-to-use lease and subscription assets, the measurement of which is discussed in more detail below). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increases its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in progress are not depreciated. The other tangible and intangible property, plant, equipment, lease assets, subscription assets, and infrastructure of the primary government, as well as the component units, is depreciated/amortized using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Structures, lines, and accessories	20-40
Machinery and equipment	4-30
Subscription asset	3-5
Lease building improvements	40
Lease machinery and equipment	4-30

9. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The County accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County's and School Board's Retirement Plan and the additions to/ deductions from the County's and School Board's Retirement Plan's fiduciary net position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

11. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

12. Fund Balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called "fund balance". County's governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes:

- Nonspendable fund balance - amounts that are either not in spendable form (such as inventory and prepaids) or are legally or contractually required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;
- Committed fund balance - amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the Board of Supervisors prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Board adopts another ordinance to remove or revise the limitation;
- Assigned fund balance - amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

The Board of Supervisors is the highest level of decision making authority, and the formal action that is required to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board of Supervisors. The resolution must either be approved or rescinded as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

12. Fund Balance (Continued)

The Board of Supervisors has authorized the County Administrator as the official authorized to assign fund balance to a specific purpose as approved by the fund balance policy.

When fund balance resources are available for a specific purpose in more than one classification, it is the County of Giles' policy to use the most restrictive funds first in the following order: restricted, committed, assigned and unassigned as they are needed.

The policy also authorizes and directs the Treasurer to prepare financial reports which accurately categorize fund balance. The County of Giles will maintain an unassigned fund balance in the general fund equal to 3% of the expenditures/operating revenues. The County considers a balance of less than 3% to be a cause for concern, barring unusual or deliberate circumstances.

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until then. The County has multiple items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt. The other item is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has multiple types of items that qualify for reporting in this category. One item is the deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Under a modified accrual basis of accounting, unavailable revenue representing property taxes and opioid settlement receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30th, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to pension, OPEB, and opioid settlements are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

14. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- 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 that are 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.
- Restricted net position 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.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

15. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI and Teacher HIC OPEB Plans and the additions to/deductions from the VRS OPEB Plans' fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In addition to the VRS related OPEB, the County and School Board allows their retirees to stay on the health insurance plan after retirement. The retiree is required to pay the blended premium cost creating an implicit subsidy OPEB liability. In addition, retirees receive a monthly stipend towards their health insurance cost until the retiree is Medicare eligible.

16. Leases and Subscription-Based IT Arrangements

The County has various lease assets and subscription-based IT arrangements (SBITAs) requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases. A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

COUNTY OF GILES, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 1-Summary of Significant Accounting Policies: (Continued)****D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)****16. Leases and Subscription-Based IT Arrangements (Continued)****Lessor**

The County recognizes leases receivable and deferred inflows of resources in the government-wide and governmental fund financial statements. At commencement of the lease, the lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured at the initial amount of the lease receivable, less lease payments received from the lessee at or before the commencement of the lease term (less any lease incentives).

Lessee

The County recognizes lease liabilities and intangible right-to-use assets (lease assets) with an initial value of \$5,000, individually or in the aggregate in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

Subscriptions

The County recognizes intangible right-to-use subscription assets (subscription assets) and corresponding subscription liabilities in the government-wide financial statements. At the commencement of the subscription, the subscription liability is measured at the present value of payments expected to be made during the subscription liability term (less any contract incentives). The subscription liability is reduced by the principal portion of payments made. The subscription asset is measured at the initial amount of the subscription liability payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The subscription asset is amortized over the shorter of the subscription term or the useful life of the underlying IT asset.

Key Estimates and Judgments

Lease and subscription-based IT arrangement accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease and subscription payments to present value, (2) lease and subscription term, and (3) lease and subscription payments.

- The County uses the interest rate stated in lease or subscription contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the County uses its estimated incremental borrowing rate as the discount rate for leases and subscriptions.
- The lease and subscription terms include the noncancellable period of the lease or subscription and certain periods covered by options to extend to reflect how long the lease or subscription is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease or subscription incentives and certain other payments are included in the measurement of the lease receivable (lessor), lease liability (lessee), or subscription liability.

The County monitors changes in circumstances that would require a remeasurement or modification of its leases and subscriptions. The County will remeasure the lease receivable and deferred inflows of resources (lessor), the lease asset and liability (lessee) or the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the lease receivable, lease liability or subscription liability.