

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2014

Prepared by:
City of Falls Church, Virginia
Finance Department

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INTRODUCTORY SECTION

CITY OF FALLS CHURCH, VIRGINIA

CITY COUNCIL

David Tarter, Mayor
David E. Snyder, Vice Mayor

Dan Sze
Karen Oliver
Nader Baroukh

Phil Duncan
Marybeth Connelly

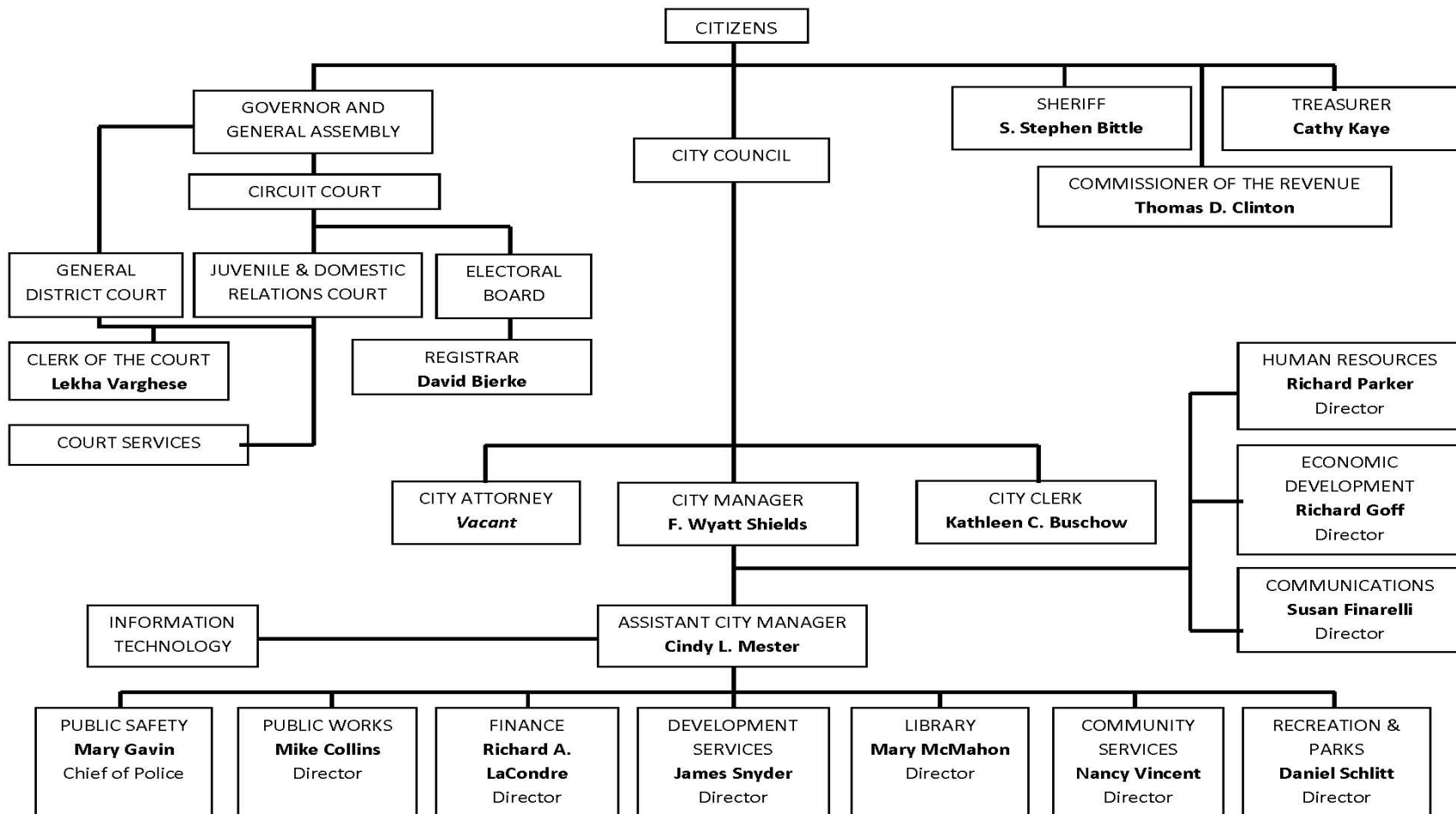
OFFICIALS

F. Wyatt Shields, City Manager
Cindy L. Mester, Assistant City Manager
Richard A. LaCondre, Chief Financial Officer
City Attorney (vacant)
Kathleen C. Buschow, City Clerk
Catherine Kaye, City Treasurer
Thomas D. Clinton, Commissioner of Revenue
S. Stephen Bittle, Sheriff
Toni Jones, Superintendent of Schools

CITY OF FALLS CHURCH, VIRGINIA

ORGANIZATIONAL CHART

As of JUNE 30, 2014





CITY OF FALLS CHURCH

December 4, 2014

City Council
City of Falls Church
Mayor and Members of the Council

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Falls Church, Virginia (the City) for the fiscal year ended June 30, 2014, in accordance with the *Code of Virginia*. The financial statements included in this report conform to accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended. All necessary disclosures have been included to enable the reader to gain the maximum understanding of the City's financial affairs.

The letter of transmittal is traditionally addressed to the governing or legislative body. We believe that the CAFR should be management's report to constituents, oversight bodies, resource providers, investors and creditors. This letter is addressed to you and by wide circulation it is also directed to the citizens of the City of Falls Church and all other interested readers. In addition to complying with legal requirements, this letter, management's discussion and analysis (MD&A), the financial statements, supplemental data, and the statistical tables have been prepared to provide full financial disclosure.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in the report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Brown, Edwards and Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2014 are free of material misstatement. The independent auditor's report is presented as the first component of the financial section of this report.

Our CAFR is divided into four sections: introductory, financial, statistical, and compliance. The introductory section includes this letter of transmittal, a list of the City's principal elected and appointed officials, and the organizational chart. The financial section includes the Independent Auditors' Report, MD&A, Basic Financial Statements, including the notes, and Required Supplementary Information. In addition, the financial section contains other supplemental data, consisting of combining, individual fund, and component unit financial statements and schedules. The statistical section contains selected financial and demographic information, generally presented on a multi-year basis. The Single Audit Report, which is required for federal grant recipients, is in the compliance section.

All the financial activities of the reporting entity are included within this report. As used here, the reporting entity comprises the primary government (City of Falls Church as legally defined) and its component units. Under GASB pronouncements, component units are legally separate entities for which the primary government is financially accountable. The component units of the City (the City of Falls Church Public School Board and the Falls Church Economic Development Authority) are discretely presented component units. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and changes in financial position from those of the primary government.

GOVERNMENTAL STRUCTURE

The City is located in the northeastern corner of Virginia and encompasses an area of 2.2 square miles. The City is part of the Washington, D.C. metropolitan area, which includes jurisdictions in Maryland and Northern Virginia, and the District of Columbia.

The City is a municipal corporation incorporated as an independent city in 1948 under the laws of the Commonwealth of Virginia, and is not part of any county. The City operates under a Council-Manager form of government. The City Council (the Council) is comprised of seven members elected at-large for four-year staggered terms. Every two years the Council elects one member to serve as Mayor and one to serve as Vice-Mayor. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City's manager, attorney and clerk. The Council appoints a City Manager to act as the administrative head of the City. The City Manager serves at the pleasure of the Council, carries out the policies established by the Council, and directs business and administrative procedures.

The City provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events. The City also provides water and sanitation services to its residents. In addition, it provides water to a portion of Fairfax County. The water and sewer functions are included as business-type activities in the City's financial statements. The City is financially accountable for the legally separate school system, which is reported as a component unit within the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the city operates.

The Local Marketplace and Mixed-Use Development

The City of Falls Church has benefited from an unprecedented wave of new development and investment that has occurred along its primary commercial corridors over the past decade. The Broadway (2003), Byron (2006), Read Building (2007), Pearson Square (2007), Spectrum (2008), and Northgate (2014) have followed a pattern of higher-density, mixed-use development on underutilized infill sites. Collectively these projects produce about \$6.1 million in gross revenue and \$2.9 million in net revenue for the city annually.

Commercial space in the six mixed-use buildings is 93 percent occupied and each is at or approaching full residential occupancy. The Spectrum, with 32,000 square feet of condo office space, recently sold its final available suite. The Tax Analysts Building, a physically detached component of the Pearson Square project on South Maple Avenue, contains 85,000 square feet of Class A office and retail space that is 95 percent occupied. Financed by an Industrial Revenue Bond issued by the Falls Church Economic Development Authority, it was the largest office building constructed in the city in 20 years when it was delivered to market in 2008. A nonprofit publisher of printed and online material, Tax Analysts is also one of the city's largest employers.

Other notable commercial tenants in the mixed-use buildings are Mad Fox (a craft microbrewery and restaurant), Body Dynamics (a regional physical therapy and wellness center), Creative Cauldron/Falls Church ArtSpace, Pizzeria Orso, PNC Bank, Café Kindred, and Penzey's Spices. Mad Fox is the highest tax revenue producer among the city's 100-plus restaurants.

Office Trends

Office space in the City of Falls Church is more than 50 years old, on average, according to CoStar, which also reports the average rent at \$21.68 per square foot (full service). Newer space, which is scarce, averages about \$30 per square foot, full service. The low cost of office space in the city explains, in part, a low vacancy rate – 8.4 percent – through the second quarter of 2014. By comparison, the closest Northern Virginia submarkets in Fairfax County and Arlington average 11 – 15 percent vacancy, with rents ranging from \$23 – 28 per square foot.

The city's convenient location also contributes to a high occupancy rate. Developers consistently advise, however, that the Falls Church submarket does not support full-service rent of \$40 per square foot, a threshold amount they say would justify construction of new office space with structured parking. Whether this dynamic would change for Class A office space built close to the West Falls Church Metro station is an unanswered question.

In 2013, office property at 510 N. Washington Street was purchased by a proxy for Inova Health Systems as a mid-range real estate 'hold' and long-term health facility development opportunity. Properties at 500/501 Annandale Road were sold to Pulmonary and Medical Associates, one of Northern Virginia's largest medical practices, with 20,000 patients; the group moved to Falls Church from a location in Arlington and rehabilitated two buildings for their use and to sublease. Two professional sports care practices have opened at 502 W. Broad Street and a primary care medical practice has leased space at 513 W. Broad. The Kerns Group of architects purchased and renovated the former Odd Fellows Building on N. Maple Avenue in 2013 for their headquarters with space available for retail or office sublease. The city is experiencing a significant trend in attracting medical practices and has long supported a strong market for small professional office tenants.

The “Flower Building,” located in the 800 block of W. Broad Street, was completed in 2009 and is fully occupied with a mix of all-commercial uses. The 44,000-square-foot office and retail building houses the Falls Church U.S. Postal Service customer center, two restaurants, and multiple office tenants. This building is an example of infill development made possible by the spinoff effect of larger mixed-use projects that have created density, as well as greater consumer and office tenant interest throughout the city’s commercial districts.

Retail Trends

Scarcer than available office space in the City of Falls Church is vacant space for retail. As it occasionally becomes available, this space is quickly backfilled, and at higher rent. The vacancy rate for retail space in the city is estimated at about 3 – 5 percent. CoStar reports average retail rent in the city at \$22.70 (triple net) through the second quarter of 2014. This does not include far higher rates for space at the Eden Center, which is not reflected in CoStar data.

Restaurants have been the source of greatest demand for space in Falls Church. In the past few years Einstein Brothers Bagels, Pizzeria Orso, Chipotle, Pisano’s, Sfizi, Famous Dave’s Barbeque, Honeybaked Ham, Mad Fox, Space Bar, Moby Dick’s, Caribbean Plate, Curry Mantra 2, Subway, Dunkin’ Donuts, four frozen yogurt shops, and others have opened, bolstering the city’s meals tax revenue. The city is seeing some popular existing restaurants expand to offer outdoor and rooftop dining, with others planning to follow suit.

In 2012, California-based 24-Hour Fitness opened its second facility in the Washington, DC region in Falls Church. The company invested more than \$7 million to convert a former Syms clothing store into a state-of-the-art fitness and training center. Falls Church Cross Fit backfilled empty light industrial space on the city’s north side and Five Rings Fitness has opened on S. Washington Street. Dominion Jewelers has transitioned from tenant to owner/operator in a building recently completed on W. Broad Street that functions as its headquarters and store, with additional office space available for lease.

A two-story building at 101 Annandale Road, damaged by fire in 2010, has been rebuilt and filled with a variety of new office, retail and restaurant tenants. Across the street, at 300 S. Washington, a blighted set of commercial buildings has been rehabilitated by a new owner, who has leased space to Smashburger as well as other restaurant and retail tenants.

Other New Development

In August 2014 Hilton Garden Inn opened on Broad Street, the city’s first new hotel since 1999. The hotel has 110 rooms, a conference center, restaurant, and numerous amenities for an extended stay clientele. Next door, a Burger King restaurant will be replaced by a five-story assisted living facility with ground level retail. The “Kensington” was approved by City Council in May 2014. On Hunton Avenue, Easter Seals Child Development Center completed renovation of a light industrial building to serve preschoolers, including children with disabilities and families of armed service veterans. The stunning new facility also was financed with an Industrial Revenue Bond issued by the Falls Church EDA.

Pipeline Projects

Two major mixed-use projects were approved by the city in 2013. Rushmark Development Company will build a \$104 million mixed-use development featuring a 60,000 square foot Harris Teeter grocery store, 288 small apartments, and underground parking at 301 W. Broad Street. Lincoln Property Company is building a \$77 million mixed-use project in the 500 block of S. Washington Street featuring 224 small apartments, 40,000 square feet of commercial space, including a Fresh Market grocery store, and underground parking. Both projects are expected to be completed in 2016.

An application has been filed for a large mixed-use project on four acres at the northeast corner of West and Broad streets. “Mason Row” would consist of more than 300 apartments and condos, with a Hilton Home2 extended stay hotel and about 46,000 square feet of retail space.

The owner of a small and aging office building at 400 N. Washington Street seeks to replace the existing structure with a \$28 million, 110,000-square-foot office and retail building with underground parking as soon as market conditions support the investment. The site is within easy walking distance of the East Falls Church Metro Station, where the new Silver Line will connect with the Orange Line in 2013. An application for the office project was filed with the city in 2012.

Post-recession years have brought intense activity from investors pursuing land assembly and higher density development opportunities in Falls Church. The multi-family residential market is very strong for new rental housing, especially smaller units targeted to young professionals in the Washington, DC area. The city aggressively seeks to capture investment and new development with the right mix of uses to strengthen, broaden and balance its tax base.

The Eden Center

One of the most remarkable commercial success stories in Falls Church and, indeed, the metropolitan Washington region, is the Eden Center on Wilson Boulevard. The center is Northern Virginia’s premier Asian shopping destination, with over 130 businesses. Its Vietnamese restaurants, eclectic array of shops, vendors and cultural events regularly draw chartered buses from surrounding states and Canada. Owners of the center have signed a lease with Good Fortune, a New York-based Asian grocery store, to occupy 43,000 square feet of space; the grocery will open in fall 2014.

The BJ’s Success Story

BJ’s Wholesale Club opened its 87,000-square-foot Falls Church store in fall 2010. It signed a 20-year lease on an eight-acre former light industrial site on Wilson Boulevard. This deal was facilitated by an agreement between the city and developer JBG Rosenfeld Retail to share a portion of taxes generated by the new store over a 12-year period. It was the second largest retail lease signed in the entire Washington, DC region in 2009. Sales performance through June 2013 has been closely followed and the Falls Church BJ’s has proven consistent with initial revenue projections, now ranking second only to Giant grocery in sales tax revenue for the city.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the administration department along with staff from the City Manager’s office. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. In addition, we acknowledge the cooperation and assistance of each City department throughout the year in the efficient administration of the City’s financial operations.


We would like to give special recognition to Melissa Cabacar-Ryman, the City's Deputy Director of Finance.

This CAFR reflects our commitment to the citizens of Falls Church, the City Council, and all interested readers of this report to provide information in conformance with the highest standards of financial reporting.

Respectfully submitted,



F. Wyatt Shields
City Manager



Richard A. LaCondre, MPA
Chief Financial Officer

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of City Council
City of Falls Church, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Sale of Water Utility

The City sold substantially all of its water utility. The impact to the City's financial statements is outlined in Note 19 and resulted in a significant reduction in the City's net position.

Changes in Accounting Principle

As described in Note 13 to the financial statements, during 2014 the City adopted new accounting guidance, GASB Statement No. 67, *Financial Reporting for Pension Plans*. As described in Note 17 to the financial statements, the June 30, 2013 balances have been restated for the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules related to post-employment benefits, and schedules of funding progress as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information as listed in the table of contents, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Other Information (Continued)

The other supplementary information as listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
December 4, 2014

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

This section of the City of Falls Church, Virginia's (the City) Comprehensive Annual Financial Report (CAFR) presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2014.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, and the basic financial statements and related notes, which are also contained in this CAFR.

FINANCIAL HIGHLIGHTS

Significant changes between FY2013 and FY2014 will be seen throughout the CAFR and they are primarily due to the sale of the City's water system to Fairfax Water on January 3, 2014. In summary, the City sold the water system to Fairfax Water for \$40.0 million in exchange for the water system's capital assets with a book value of \$77.8 million and accumulated unexpended availability and connection fees of \$32.6 million, resulting in an accounting loss of \$70.8 million. The City liquidated all of the water-system related liabilities and transferred \$21.8 million to the General Fund in cash, net of current liabilities, and \$2.5 million in capital assets and \$2.8 million in deferred OPEB cost. As of June 30, 2014, the \$21.8 million was assigned to capital reserves and pension plan contribution.

Additional information regarding the sale is included in Note 19.

HIGHLIGHTS FOR GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and accrual basis of accounting.

- The City's total net position (assets less liabilities) on a government-wide basis were \$102.7 million at June 30, 2014. Of this balance, \$99 million is the Primary Government's and \$3.7 million is the component units'.
- For fiscal year 2014, taxes and other revenues of the City's governmental activities amounted to \$102.9 million and expenses and transfers amounted to \$73.2 million, which resulted in an increase in net position for the City's governmental activities of \$29.7 million.
- Revenues of the City's business-type activities were \$18.9 million, and expenses, losses, and transfers were \$111.8 million, which resulted in a decrease in net position for the City's business-type activities of approximately \$92.9 million.
- On January 3, 2014, the City consummated the sale of the water system to Fairfax Water for \$40 million. Additional information regarding this sale is included in Note 19.
- In FY2014, the City established the Storm Water Fund, an enterprise fund that will be supported by fees assessed to property-owners based on impervious square footage in their property.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

HIGHLIGHTS FOR FUND FINANCIAL STATEMENTS

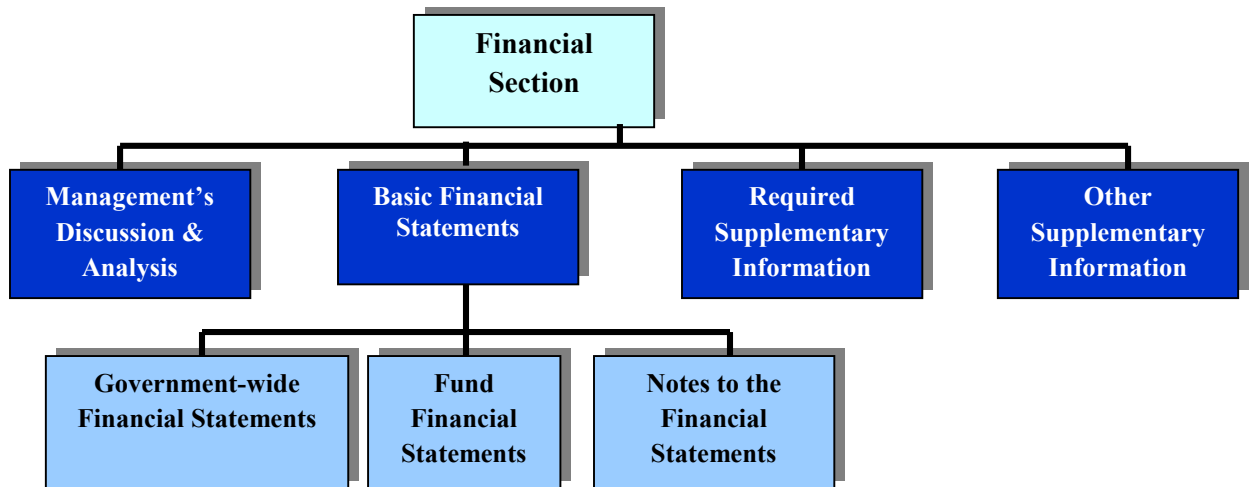
The fund financial statements provide more detailed information about the City's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting for the City's governmental funds. The City's proprietary funds, the Water and Sewer funds, are also presented in the fund financial statements but are presented using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used to prepare the government-wide financial statements.

- The City's governmental funds reported expenditures and other financing uses in excess of revenues and other financing sources of \$37.6 million for the fiscal year due largely to transfers in from the Water Fund of \$21.8 million and proceeds and premiums from debt issuance of \$17.4 million.
- The City's General Fund reported a fund balance of \$42.8 million at June 30, 2014, an increase of \$25.6 million from June 30, 2014.
- The ending General Fund unassigned fund balance as of June 30, 2014 of \$13.5 million was 18.6% of expenditures. Committed fund balance as of June 30, 2014 was \$3.8 million. Of this, \$3.4 million is for future capital projects. Assigned fund balance as of June 30, 2014 was \$24.8 million. Of this, \$12.6 million is for future capital expenditures and \$9.2 million is for pension liabilities.
- The City's revenues for taxes came in at \$1.5 million higher than expected, generated mainly from real estate taxes, personal property taxes, and business licenses.
- The City's Capital Projects Fund reported an increase in fund balance of \$10.5 million, resulting in a balance of \$13.3 million at June 30, 2014. This increase is due mainly to the issuance of debt for capital projects.
- With the sale of the system, the City's Water fund shows a decrease in net position of approximately \$98 million, including a loss of \$70.8 million from the sale of the system and transfers out of \$27.1 million to the General Fund, the Pension Trust Fund and the Other Post-Employment Benefit Trust Fund.
- The City's Sewer fund reported an increase in net position of \$1.4 million in FY2014. The Sewer fund continues to contribute to Arlington County and Fairfax County towards the upgrade of their sewer treatment plants to bring them in compliance with current EPA standards, as well as rehabilitate existing sewer mains. In FY2014, those contributions amounted to \$150 thousand and \$1 million to Arlington County and Fairfax County, respectively. The Arlington project is almost completed, while the Fairfax County project is still several years away from completion. The Sewer Fund also spent \$64 thousand towards the rehabilitation of sewer mains.
- The Storm Water Fund generated an increase in net position of \$3.8 million largely due to transfers of cash and capital assets from the General Government.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of four parts: (1) management's discussion and analysis (MD&A) presented here, (2) basic financial statements and related notes, (3) required supplementary information (RSI), and (4) other supplementary information.



The City's basic financial statements consist of two kinds of statements, each with a different view of the City's finances. The government-wide financial statements provide both long and short-term information about the City's overall financial position. The fund financial statements focus on the individual parts of the City's government, reporting the City's operations in more detail than the government-wide financial statements. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

The statements and notes are followed by required supplementary information that contains data pertaining to the retirement systems. In addition to these required elements, the City includes other supplementary information such as combining and individual fund statements to provide details about the fiduciary funds, and component units.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and the accrual basis of accounting, which are similar to those used by private-sector businesses. In addition, they report the City's net assets and how they have changed during the fiscal year.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

The first government-wide statement – the *Statement of Net Position* – presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the City is improving or deteriorating. Additionally, non-financial factors, such as a change in the City's property tax base or the condition of the City facilities, should be considered to assess the overall health of the City.

The second statement – the *Statement of Activities* – presents information showing how the City's net position changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when the cash is received or paid. This statement also highlights the extent to which City programs are able to cover their costs with user fees, contributions, and grants as opposed to being financed with general revenues of the City.

The government-wide financial statements are divided into three categories, as follows:

Governmental Activities – Most of the City's basic services are reported here, including education; public safety; public works; judicial administration; health and welfare services; community development; economic development; parks, recreation, and cultural programs; and general administration. These activities are financed primarily by property taxes, other local taxes, and federal and state grants. Included in the governmental activities are the governmental funds.

Business-type Activities – The City's business-type activities (the Water, Sewer, and Storm Water funds) are reported here.

Discretely Presented Component Units – The City includes two other entities in its financial reporting entity: City of Falls Church Public School Board (School Board), and the Falls Church Economic Development Authority (EDA). Although legally separate, these component units are important because the City is financially accountable for them.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's most significant funds. Fund accounting is used to keep track of the specific sources of funding and spending for particular purposes, as well as ensure and demonstrate compliance with finance-related legal requirements. The City has the following three types of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the year-end balances that are available for spending. The governmental funds financial statements provide a detailed short-term or "current financial resources" view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term or "economic resources" focus of the government-wide financial statements, additional information is provided with the fund financial statements to explain the relationship (or differences). The General Fund is the main operating fund of the City and consequently, the largest of the governmental funds. The other three governmental funds of the City are the capital projects fund, the special transportation fund, and the affordable dwelling units fund. The capital projects fund and the special transportation funds are also considered major governmental funds.

Proprietary Funds – Proprietary funds, which consist of three enterprise funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long and short-term financial information. The City's enterprise funds, the Water, Sewer, and Storm Water funds, are the City's business-type activities reported in the government-wide statements. The fund financial statements provide more detail and additional information, such as cash flows, for these three funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs. The City's fiduciary funds consist of post-retirement trust funds and agency funds. The post-retirement trust funds are used to account for the assets held in trust by the City for the employees and beneficiaries of its defined benefit pension plans – the Basic Pension Plan and the Police Pension Plan – as well as other post-employment benefits, primarily health insurance and life insurance for City and School Board employees. The agency funds are used to account for monies received and disbursed on behalf of the Fairfax County and the Northern Virginia Criminal Justice Academy.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

A comparative analysis of government-wide financial information is included in this report.

STATEMENT OF NET POSITION

The following table presents a summary of the net position of the primary government as of June 30, 2014 and 2013:

Summary of Net Position As of June 30, 2014 and 2013 (\$ In Thousands)				
	2014		2013	
	Governmental Activities	Business-Type Activities	Governmental Activities (As Restated*)	Business-Type Activities (As Restated*)
Assets:				
Current and other assets*	\$ 105,235	\$ 12,149	\$ 58,259	\$ 48,820
Capital assets, net	69,867	20,924	66,501	99,240
Total assets	175,102	33,073	124,760	148,059
Deferred Outflows of Resources*	611	-	717	8
Liabilities:				
Other liabilities*	15,066	1,239	9,837	4,770
Long-term liabilities*	51,255	13,766	37,290	33,055
Total liabilities	66,320	15,006	47,128	37,825
Deferred Inflows of Resources*	27,731	764	26,373	73
Net Position:				
Invested in capital assets, net of related debt	38,526	10,278	39,249	75,121
Restricted for other projects	583	-	390	-
Unrestricted*	42,554	7,025	12,337	35,049
Total net position	\$ 81,662	\$ 17,303	\$ 51,976	\$ 110,170
*This reflects a restatement for all activities as of June 30, 2013. See Note 17.				

The increase in current and other assets for governmental activities of \$47.0 million is due primarily to transfer of cash from the Water Fund of \$22.7 million, transfer deferred OPEB charges from the Water Fund of \$2.8 million, proceeds and premiums from debt issuance of \$17.5 million and cash from the sale of capital assets of \$2.9 million. Net capital assets increased by \$3.4 million primarily due to investments in capital of \$6.6 million, transfer from the Water Fund of \$2.5 million and depreciation of \$3.0 million. Capital investments were made mainly in the renovation and expansion of the Thomas Jefferson Elementary School and Jesse Thackrey Pre-School. Current and other assets for business-type activities decreased by \$36.7 million during FY2014 mainly as a result of the sale of the water fund. Net capital assets decreased by \$78.3 million also as a result of selling the water fund.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

The increase in other liabilities for governmental activities of \$5.2 million is mostly due to timing differences in the payment of certain intergovernmental obligations between the two years. Long-term liabilities for governmental activities increased by \$14.0 million mainly due to the issuance of new debt. For business-type activities, the decrease of \$19.3 million mainly is mainly due to the defeasance of obligations related to the water fund. .

During FY2014, the net position invested in capital assets, net of related debt, decreased for the City's governmental activities by \$0.7 million mainly due to the issuance of new bonds that are not yet fully invested in capital assets. It decreased for the business-type activities by \$64.8 million primarily due to the sale of the water system.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

STATEMENT OF ACTIVITIES

The following table summarizes the changes in net position for the primary government for the years ended June 30, 2014 and 2013:

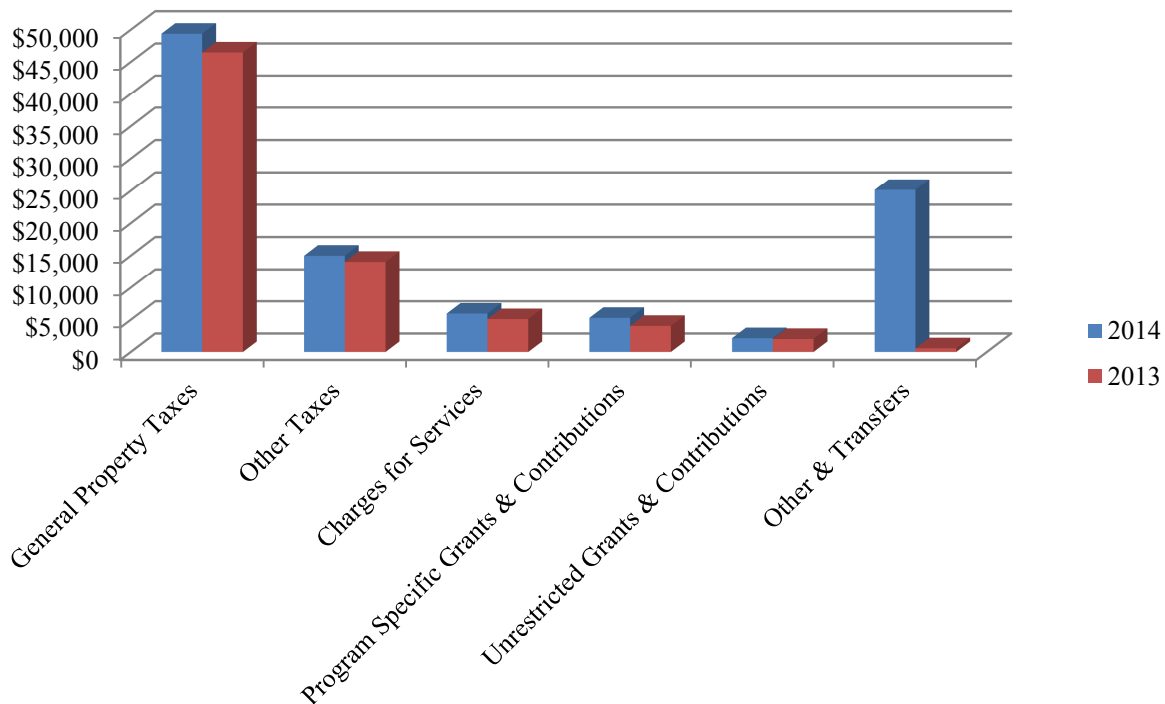
Summary of Changes in Net Position For the Fiscal Years Ended June 30, 2014 and 2013 (\$ In Thousands)				
	2014		2013	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Revenues:				
Program revenues:				
Charges for services	\$ 5,952	\$ 18,386	\$ 5,095	\$ 27,676
Operating grants & contributions	3,756	-	3,471	-
Capital grants & contributions	1,529	328	570	4,256
General revenues:				
General property taxes	49,380	-	46,475	-
Business license taxes, based on gross receipts	3,545	-	3,375	-
Local sales & use taxes	3,778	-	3,737	-
Consumer's utility taxes	2,184	-	2,142	-
Motor vehicle decals	312	-	313	-
Recordation	483	-	602	-
Occupancy, tobacco, & other taxes	4,683	-	3,867	-
Unrestricted grants & contributions	2,139	-	2,021	-
Revenue from use of money and property	142	137	142	319
Other	99	89	279	59
Special item - gain/(loss) on sale of capital assets	1,818	(70,839)	-	-
Total revenues	79,800	(51,899)	72,089	32,310
Expenses:				
General government administration	6,002	-	5,368	-
Judicial administration	2,010	-	1,874	-
Public safety	10,908	-	9,788	-
Public works	6,649	14,768	6,286	22,358
Health and welfare	2,022	-	2,219	-
Education and payments to schools	35,381	-	32,035	-
Parks, recreation, and cultural	4,892	-	4,603	-
Community development	3,486	-	3,307	-
Economic development	354	-	314	-
Interest expense*	1,501	3,109	1,086	1,099
Total expenses	73,205	17,877	66,880	23,457
Excess/(deficiency) before transfers	6,595	(69,776)	5,209	8,853
Transfers	23,091	(23,091)	150	(150)
Change in net assets	29,686	(92,867)	5,359	8,703
Net position, beginning of year*	51,976	110,170	46,617	101,467
Net position, end of year	\$ 81,662	\$ 17,303	\$ 51,976	\$ 110,170
This reflects a restatement of all activities in FY2013 and as of June 30, 2012. See Note 17.				

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014**

GOVERNMENTAL ACTIVITIES

Revenues and transfers for the City's governmental activities were \$102.9 million for fiscal year 2014 and \$72.3 million for fiscal year 2013. Sources of revenue for fiscal year 2014 and 2013 are comprised of the following items:

**FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013
(\$ IN THOUSANDS)**

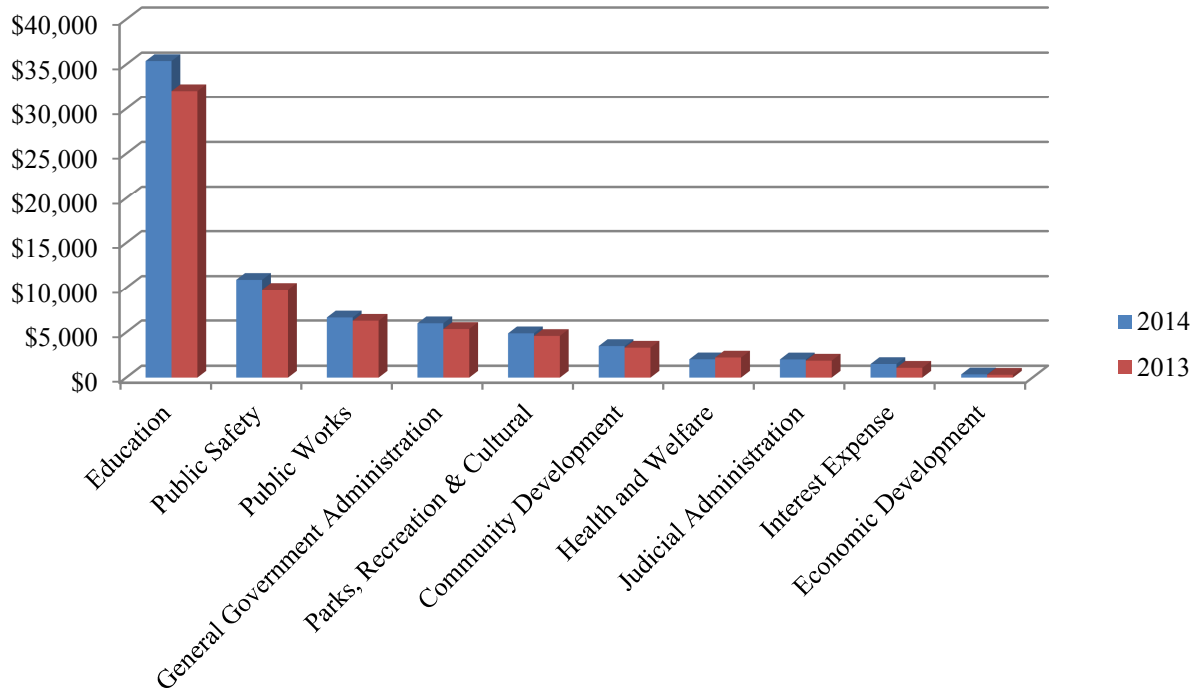


Taxes constitute the largest source of City revenues, amounting to \$64.4 million for fiscal year 2014 and \$60.5 million for fiscal year 2013. Real property taxes (\$44.8 million in fiscal year 2014 and \$42.2 million in fiscal year 2013) represent approximately 70% of tax revenues in FY2014 and FY2013.

The cost of all governmental activities in fiscal year 2014 was \$73.2 million, and in fiscal year 2013 was \$66.9 million. The increase of over 9% in FY2014 over FY2013 is largely due to increases in spending for education as a result of higher student population and replacement of obsolete technology materials. Education was the City's largest program and highest priority in both fiscal years 2014 and 2013; education expenses totaled \$35.4 million in fiscal year 2014 and \$32.0 million in fiscal year 2013. Public safety expenses represent the second largest expense in both fiscal years, totaling \$10.9 million in fiscal year 2014 and \$9.8 million in fiscal year 2013. Public works expenses totaled \$6.6 million for fiscal year 2014 and \$6.3 million for 2013, representing the third largest expense for the City in both fiscal years.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013
(\$ IN THOUSANDS)**



The following table presents the cost of each of the City's seven largest programs – education, public safety, public works, general government administration, parks, recreation, and cultural, community development, and health and welfare - as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

Net Cost of City's Governmental Activities For the Fiscal Years Ended June 30, 2014 and 2013 (\$ In Thousands)				
Functions/Programs	2014		2013	
	Total Cost	Net Cost	Total Cost	Net Cost
Education and payments to schools	\$ 35,381	\$ 35,374	\$ 32,035	\$ 31,788
Public safety	10,908	8,360	9,788	8,247
Public works	6,649	3,801	6,286	4,223
General government administration	6,002	5,635	5,368	4,995
Parks, recreation, and cultural	4,892	2,729	4,603	2,526
Community development	3,486	1,927	3,307	2,027
Health and welfare	2,022	1,914	2,219	1,957
Other*	3,865	2,481	3,274	2,013
Total	\$ 73,205	\$ 62,221	\$ 66,880	\$ 57,776

*This reflects a restatement for FY2013. See Note 17.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$6.0 million in 2014 and \$5.1 million in 2013) and other governments and organizations that subsidized certain programs with grants and contributions (\$5.0 million in 2014 and \$4.0 million in 2013). The remaining net cost services of the \$62.2 million 2014 and \$57.8 million in 2013 was subsidized by the taxpayers.

The net cost for education and payment to schools is the same as its total cost for the City. Other costs for education as well as program-specific revenues are reported in the component unit School Board.

BUSINESS-TYPE ACTIVITIES

The Water Fund recovers its costs primarily through user charges. The Water Fund reported a decrease in net position of \$98 million for fiscal year 2014 and an increase of \$7.8 million for fiscal year 2013. In fiscal year 2014, total revenues and capital contributions of the Water Fund were \$13.8 million and total costs were \$13.9 million. In addition, in FY2014, a transfer was made to the General Fund and Post-Retirement Benefit Funds of \$27.1 million as a result of the sale of the water system. A loss of \$70.8 million was also recognized from the sale. In fiscal year 2013, total revenues and capital contributions were \$28.8 million and total costs and transfers were \$21 million. Capital contributions in fiscal year 2014 were \$184 thousand and in fiscal year 2013 were \$4.3 million.

The Sewer Fund reported an increase in net position of \$1.4 million for fiscal year 2014 and an increase of \$0.9 million for fiscal year 2013. In fiscal year 2014, total revenues of the Sewer Fund were \$4.2 million as compared to total costs and transfers of \$2.8 million. In fiscal year 2013, total revenues of the Sewer Fund were \$3.5 million and total costs and transfers were \$2.5 million. The Sewer Fund recovers its costs primarily through user charges. The consumption rate for the sewer services were increased by 9% in FY2014 contributing to the increase in revenues.

The Storm Water Fund reported an increase in net position of \$3.8 million for fiscal year 2014. Total revenues were \$0.9 million, transfers in were \$4.1 million, and expenses were \$1.2 million. The fee for the storm water was \$18.00 per 200 square feet of impervious surface and was effective for the second half of the fiscal year.

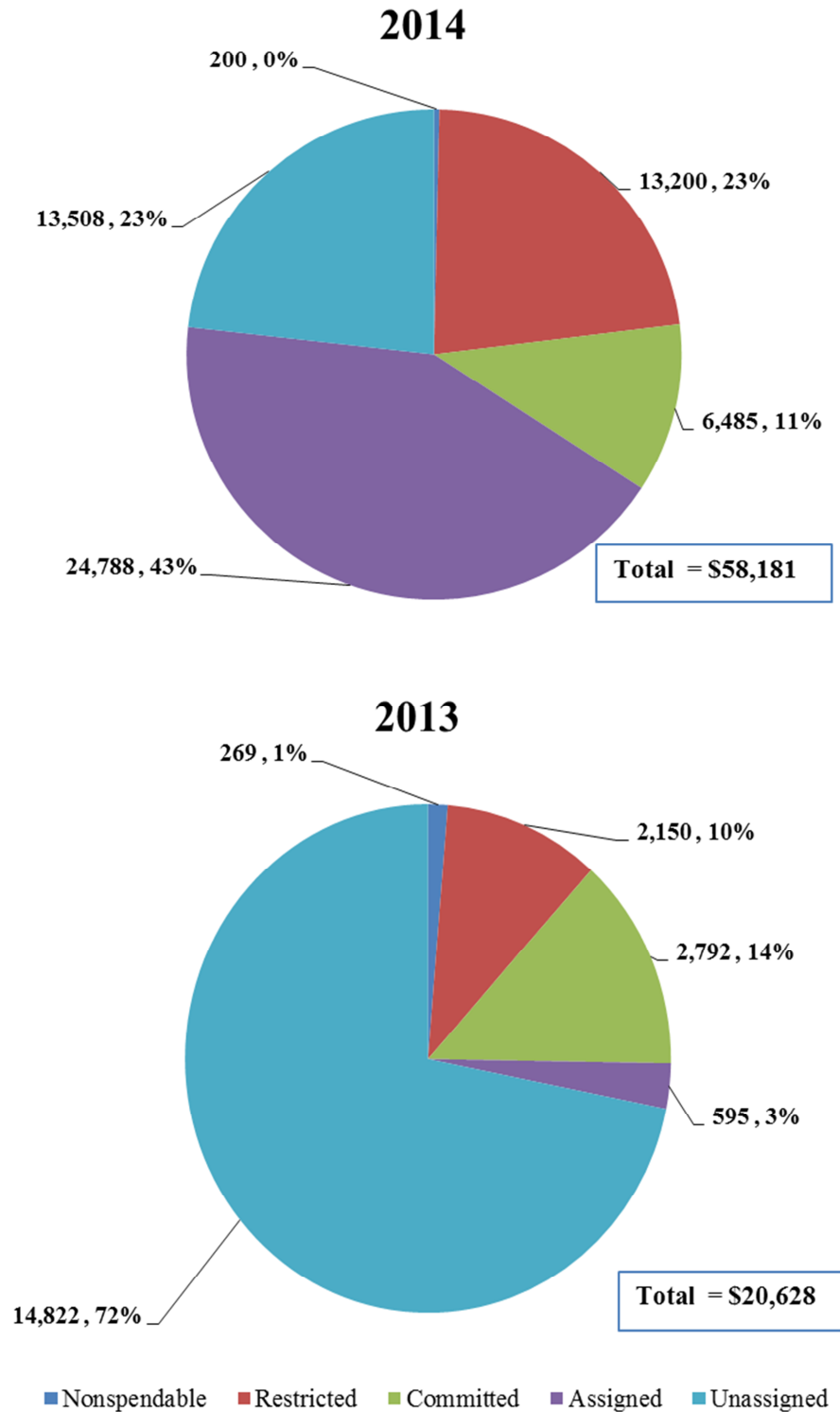
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014**

The following chart represents the components of City's governmental fund balances as of June 30, 2014 and 2013.

**GOVERNMENTAL FUNDS – FUND BALANCES
AS OF JUNE 30, 2014 AND 2013 (\$ IN THOUSANDS)**



CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Overall, the fund balance for all governmental funds increased by approximately \$37.6 million in FY2014 and decreased by \$2.6 million in FY2013. In FY2014, total revenues and other financing sources were \$117.6 million and total expenditures and other financing uses were \$80.0 million. Total revenues and other financing sources were \$72.4 million in FY2013 and expenditures and other financing uses were \$75.0 million. Included in FY2014 other financing source was proceeds from debt issuance of \$15.9 million and transfer from the Water fund of \$21.8 million.

The non-spendable fund balance includes amounts that are not available for spending such as inventory and prepaid expenses. Committed fund balance represents amounts committed by the City Council for future capital expenditures (\$3.8 million in FY2014 and \$518 thousand in FY2013), storm-water program (\$900 in FY2013) and to affordable housing (\$408 thousand in FY2014 and \$407 thousand in FY2013). Assigned fund balance represents amounts that were assigned to capital reserves, pension liabilities, future development inspection costs, and encumbered amounts for various expenditures other than capital projects. The assigned fund balance increased in FY2014 due to the assignment of the net proceeds from the sale of the water system to future capital expenditures. Restricted fund balance represents grants and bond proceeds which have not yet been spent for their specified purpose.

The unassigned fund balance represents resources that are available for appropriation.

The City has four governmental funds: (1) the General Fund, (2) the Capital Projects Fund, (3) the Special Transportation Fund, and (3) the Affordable Dwelling Units Fund.

The General Fund is the main operating fund of the City. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Funds). The Special Transportation Fund is used to account for activities related to transportation, including but not limited to, the additional tax revenues received through the Northern Virginia Transportation Authority (NVTA) specifically levied for certain transportation and transit expenditures. The Affordable Dwelling Units Fund accounts for the City's planned investments in affordable housing.

The City Council adopted a target range of 12%-17% of General Fund expenditures for unassigned General Fund fund balance, with a requirement to meet the 12% minimum balance within 2 years of falling below it, and to meet the 17% balance within 3 additional years. The City's unassigned fund balance dipped below 8% in FY2009 due to shortfall in revenues. In FY2010, the City experienced another shortfall in revenues and also was required to return FY2009 management fee to the Water Fund, causing the fund balance ratio to drop even further. To address the restoration of its fund balance, the City transferred \$4.7 million to the General Fund from the Capital Projects Funds in FY2010. In FY2011, FY2012 and FY2013, the City Council adopted a budget that included \$1.3 million, \$2.3 million and \$1.1 million, respectively, to restore the unassigned fund balance. Increased economic activity during FY2011 through FY2013 also added to the City's unassigned fund balance. The ending General Fund unassigned fund balance as of June 30, 2014 of \$13.5 million was 18.6% of expenditures.

It should be noted that while there is a decrease in unassigned fund balance in the General Fund in FY2014 as compared to FY2013, the City increased its committed fund balance towards future expenditures.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

The following shows the fund balances of these funds as of June 30, 2014 and 2013:

Fund Balances - Governmental Funds As of June 30, 2014 and 2013 (\$ In Thousands)									
	General Fund		Capital Projects Fund		Special Transportation Fund		Affordable Dwelling Unit Fund		Total
	2014	2013	2014	2013	2014	2013	2014	2013	2014 2013
Non-spendable	\$ 200	\$ 269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200 \$ 269
Restricted	560	160	11,761	1,885	857	-	22	105	13,200 2,150
Committed	3,762	1,418	1,556	967	760	-	408	407	6,486 2,792
Assigned	24,788	595	-	-	-	-	-	-	24,788 595
Unassigned	13,508	14,822	-	-	-	-	-	-	13,508 14,822
Total	\$ 42,818	\$ 17,264	\$ 13,317	\$ 2,852	\$ 1,617	\$ -	\$ 430	\$ 512	\$ 58,182 \$ 20,628

The following shows the changes in the individual fund balances for fiscal years 2014 and 2013:

Changes in Fund Balances - Governmental Funds For the Fiscal Years Ended June 30, 2014 and 2013 (\$ In Thousands)									
	General Fund		Capital Projects Fund		Special Transportation Fund		Affordable Dwelling Unit Fund		Total*
	2014	2013	2014	2013	2014	2013	2014	2013	2014 2013
Revenues and other financing sources	\$ 98,264	\$ 71,872	\$ 17,499	\$ 2,580	\$ 1,846	\$ -	\$ -	\$ 1	\$ 115,976 \$ 72,420
Expenditures and other financing uses	72,709	69,478	7,035	7,533	229	0	83	59	78,423 75,037
Changes in Fund Balances	25,555	2,394	10,464	(4,953)	1,617	-	(83)	(58)	37,553 (2,617)
Fund balance at beginning of year	17,263	14,869	2,852	7,805	-	-	513	571	20,628 23,245
Fund balance at end of year	\$ 42,818	\$ 17,263	\$ 13,316	\$ 2,852	\$ 1,617	\$ -	\$ 430	\$ 513	\$ 58,181 \$ 20,628

*Transfers between funds have been eliminated in the Total columns.

The City's enterprise funds provide the same type of information found in the government-wide financial statements, as the basis of accounting is the same. Factors concerning finances of the Water and Sewer funds have already been addressed in the discussion of the City's business-type activities.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget appropriations, which include expenditures and other financing uses, exceeded the original budget by \$1.5 million or 2%. The increases were due to various reasons including the carryover of funds for projects that were not started or completed during FY2013 and additional grants awarded to the City during the year.

The final amended budget revenues and other financing sources were more than the original budget by \$673 thousand or 0.1%. The change is mostly due to additional grants awarded to the City.

Actual revenues and other financing sources were more than final budget amounts by \$1.4 million or 1.8%, and actual expenditures and other financing uses were \$1.4 million or 1.9% less than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2014, include the following:

- Actual total tax revenues were more than budgeted amounts by \$2.1 million. The differences are in several different tax revenues – in real estate, personal property, sales, meals, business licenses and bank stock taxes.
- Actual departmental expenditures were less than budgeted amounts by \$1.4 million. Public Works was below budget by \$364 thousand primarily due to some projects that were not completed and are being carried forward as encumbrances into FY2014, as well as some grants that were not fully expended. General Government was also below budget by \$64 thousand mainly due to under-spending in legal fees wherein a settlement was reached. In total, for the General Fund, approximately \$478 thousand in un-liquidated encumbrances are being carried forward into FY2015.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

CAPITAL ASSETS AND LONG-TERM DEBT

The City's investment in capital assets as of June 30, 2014 and 2013, amounted to approximately \$90.8 million and \$165.7 million, respectively, (net of accumulated depreciation and amortization) as summarized in the following table:

Capital Assets As of June 30, 2014 and 2013 (\$ In Thousands)						
	2014			2013		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 9,561	\$ -	\$ 9,561	\$ 8,424	\$ 2,595	\$ 11,019
Construction in progress	2,349	5,666	8,015	7,168	4,406	11,574
Buildings and system	73,813	6,033	79,846	63,328	109,576	172,904
Improvements other than buildings	12,214		12,214	4,854	74	4,928
Machinery and equipment	5,001	515	5,516	11,570	4,073	15,643
Purchased capacity	-	13,048	13,048	-	38,593	38,593
Intangibles	1,540	10	1,550	1,533	47	1,580
Infrastructure	5,448	5,038	10,486	10,057	-	10,057
Library collections	2,079	-	2,079	2,058	-	2,058
Accumulated depreciation	(42,138)	(9,384)	(51,522)	(42,491)	(60,124)	(102,615)
Total Capital Assets, Net	\$ 69,867	\$ 20,926	\$ 90,793	\$ 66,501	\$ 99,240	\$ 165,741

This year's major capital asset events included the following:

- The City completed a three-year project to expand and renovate the Thomas Jefferson Elementary School for a total amount of approximately \$10 million.

See Note 8 in the notes to the financial statements for additional information pertaining to the city's capital assets.

LONG-TERM DEBT

The City maintains the following ratings related to tax-exempt securities; Aa1 from Moody's Investor Services, AAA from Standard and Poor's Corporation and Fitch Ratings.

The City's legal limit for outstanding debt is 10% of taxable assessed real property within the City, which is \$3.5 billion in 2014 and \$3.3 billion in 2013. The City's total long-term debt that is applicable to this limit was \$58.1 million as of June 30, 2014 and \$64.0 million as of June 30, 2013, and are well within the limits set by the Constitution of the Commonwealth of Virginia.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

The City Council has adopted a policy that sets a limit for outstanding General Fund supported debt at 5% of total taxable assessed value of real property. In addition, annual debt service payments must be less than 12% of annual General Fund expenditures. As of June 30, 2014 and 2013, total debt outstanding was 1.7% and 1.0%, respectively, of taxable assessed value of real property. General Fund debt service payments were 6.2% and 6.4% of General Fund expenditures in FY2014 and FY2013, respectively. Both ratios are below the City's debt limit policy of 12% of General Fund expenditures.

The following table shows a summary of the City's outstanding debt as of June 30, 2014 and 2013:

Outstanding Long-Term Debts As of June 30, 2013 and 2012 (\$ In Thousands)								
	2014			2013				
	Govern- mental Activities	Business-Type Activities	Total	Govern- mental Activities	Business-Type Activities	Total		
General obligation bonds issued for:								
Schools	\$ 32,628	\$ -	\$ 32,628	\$ 27,977	\$ -	\$ 27,977		
Community center	1,342	-	1,342	1,481	-	1,481		
Fire station	3,783	-	3,783	2,139	-	2,139		
City hall	5,900	-	5,900	1,263	-	1,263		
Open space	254	-	254	365	-	365		
Other	3,150	-	3,150	1,260	-	1,260		
Water system	-	-	-	-	16,385	16,385		
Sewer system	-	7,341	7,341	-	6,659	6,659		
Stormwater system	-	780	780	-	-	-		
Revenue bonds issued for:								
Sewer system	-	2,243	2,243	-	2,404	2,404		
Note payable issued for:								
Water system	-	-	-	-	3,354	3,354		
Sewer system	-	2,876	2,876	-	3,081	3,081		
Capital leases and other	4,197	526	4,723	2,089	1,164	3,253		
Total	<u>\$ 51,254</u>	<u>\$ 13,766</u>	<u>\$ 65,020</u>	<u>\$ 36,574</u>	<u>\$ 33,047</u>	<u>\$ 69,621</u>		

See Note 10 in the notes to the financial statements for additional information relative to the City's long-term debt.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following economic factors are reflected in the General Fund adopted budget for the fiscal year 2015:

- The percentage change in real property taxes for fiscal year 2015 is projected to be an increase of 5.5% over the FY2014 budget.

Per the fiscal year 2015 adopted budget, revenues are \$80.6 million, a 6.6% increase over the fiscal year 2014 level of \$75.6 million. Revenue from real property taxes will make up 57.5% of total revenues, as compared to 58.1% in fiscal year 2014. Other taxes account for 24.7% of General Fund revenue in 2015, as compared to 24.1% in 2014.

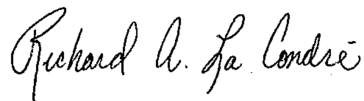
In FY2015, there is an increase in basic plan and police plan required contribution to 19.11% and 34.34% of covered payroll, respectively, as compared to 18.94% and 33.25% in FY2014. Both years include employee contributions of 5.0% and 7.0% for the basic plan and police plan. In September 2011, the City Council passed a resolution changing plan benefits effective for employees hired on or after January 1, 2012. Additional information regarding this change can be found on Note IV.B.1. Contributions to the Virginia Retirement System, which covers Constitutional Officers and the majority of School Division employees, are subject to action by the General Assembly. These contributions are expected to increase over the next several years, however the exact amounts are not known at this time.

Pressures on the City budget due to the uncertainties of the economy and the necessary expenditures required to maintain a safe community will continue to be a challenge.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Falls Church, Division of Finance, 300 Park Avenue, Falls Church, VA 22046.

Respectfully submitted,



Richard A. LaCondre, MPA
General Manager, Chief Financial Officer

BASIC FINANCIAL STATEMENTS

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GOVERNMENT WIDE FINANCIAL STATEMENTS

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CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2014

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Totals	School Board	Economic Development Authority
ASSETS					
Cash and investments (Note 4)	\$ 50,954,067	\$ 7,387,019	\$ 58,341,086	\$ 2,127,766	\$ 1,951,863
Receivables, net (Note 5)	29,695,752	1,834,354	31,530,106	-	3,080
Internal balances (Note 7)	(335,442)	335,442	-	-	-
Due from fiduciary funds	515,864	-	515,864	133,879	-
Due from primary government	-	-	-	5,458,004	250,000
Due from other governments (Note 6)	1,821,613	509,373	2,330,986	438,684	-
Prepays	9,716	-	9,716	21,728	-
Inventories	189,865	2,959	192,824	-	-
Restricted cash and cash equivalents (Note 4)	18,981,734	2,037,678	21,019,412	-	-
Deferred OPEB charges (Note 14)	3,402,000	42,000	3,444,000	958,000	-
Capital assets: (Note 8)					
Nondepreciable	11,910,616	5,665,451	17,576,067	1,273,354	-
Depreciable, net	57,956,278	15,258,462	73,214,740	2,498,330	-
Total assets	175,102,063	33,072,738	208,174,801	12,909,745	2,204,943
DEFERRED OUTFLOWS OF RESOURCES					
Deferred amount on refunding	611,380	-	611,380	-	-
Total deferred outflows of resources	611,380	-	611,380	-	-
LIABILITIES					
Accounts payable and other liabilities	6,791,704	1,092,699	7,884,403	5,464,144	250,400
Accrued interest	712,511	146,611	859,122	-	-
Customer deposits	1,699,682	-	1,699,682	-	-
Due to component unit	5,708,004	-	5,708,004	-	-
Due to other governments (Note 6)	153,817	-	153,817	-	-
Noncurrent liabilities:					
Deferred rent	-	-	-	133,562	-
Due within one year (Note 10)	4,610,498	790,823	5,401,321	1,154,478	-
Due in more than one year (Note 10)	46,644,054	12,975,603	59,619,657	4,354,893	-
Total liabilities	66,320,270	15,005,736	81,326,006	11,107,077	250,400
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue (Note 9)	27,730,932	764,451	28,495,383	-	-
Total deferred inflows of resources	27,730,932	764,451	28,495,383	-	-
NET POSITION					
Net investment in capital assets	38,525,915	10,278,011	48,803,926	3,753,749	-
Restricted for:					
Grants	560,413	-	560,413	-	-
Affordable housing	22,224	-	22,224	-	-
Unrestricted	42,553,689	7,024,540	49,578,229	(1,951,081)	1,954,543
Total net position	\$ 81,662,241	\$ 17,302,551	\$ 98,964,792	\$ 1,802,668	\$ 1,954,543

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT 2

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Program Revenues					Net (Expense) Revenue and Changes in Net Position				
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Totals	School Board	Economic Development Authority
Primary Government:									
Governmental activities:									
General government	\$ 6,002,133	\$ 154,861	\$ 212,404	\$ -	\$ (5,634,868)		\$ (5,634,868)		
Judicial administration	2,010,133	1,067,969	316,485	-	(625,679)		(625,679)		
Public safety	10,908,109	2,021,982	458,114	68,255	(8,359,758)		(8,359,758)		
Public works	6,648,977	668,137	970,965	1,208,465	(3,801,410)		(3,801,410)		
Health and welfare	2,021,528	5,575	102,143	-	(1,913,810)		(1,913,810)		
Parks, recreation, and cultural	4,892,129	1,925,368	237,838	-	(2,728,923)		(2,728,923)		
Community development	3,486,360	100,830	1,458,168	-	(1,927,362)		(1,927,362)		
Economic development	353,517	-	-	-	(353,517)		(353,517)		
Education	35,381,445	7,140	-	-	(35,374,305)		(35,374,305)		
Interest	1,501,342	-	-	-	(1,501,342)		(1,501,342)		
Total governmental activities	73,205,673	5,951,862	3,756,117	1,276,720	(62,220,974)		(62,220,974)		
Business-type activities:									
Water	13,885,901	14,017,794	-	183,853		\$ 315,746	315,746		
Sewer	2,805,228	3,603,322	-	-		798,094	798,094		
Storm water	1,185,304	764,451	-	144,361		(276,492)	(276,492)		
Total business-type activities	17,876,433	18,385,567	-	328,214		837,348	837,348		
Total primary government	\$ 91,082,106	\$ 24,337,429	\$ 3,756,117	\$ 1,604,934	(62,220,974)	837,348	(61,383,626)		
Discretely Presented Component Units:									
School Board	\$ 42,661,410	\$ 2,321,533	\$ 6,121,256	\$ -				\$ (34,218,621)	\$ -
Economic Development Authority	21,641	-	-	-				-	(21,641)
Total component units	\$ 42,683,051	\$ 2,321,533	\$ 6,121,256	\$ -				(34,218,621)	(21,641)
General revenues:									
General property taxes					49,380,123	-	49,380,123	-	-
Other local taxes:									
Business licenses					3,545,053	-	3,545,053	-	-
Local sales and use					3,778,221	-	3,778,221	-	-
Consumer utility					2,183,795	-	2,183,795	-	-
Motor vehicle decals					311,704	-	311,704	-	-
Real estate recordation taxes					483,192	-	483,192	-	-
Occupancy, tobacco, and other					4,682,907	-	4,682,907	-	-
Payments from City					-	-	-	33,775,600	-
Intergovernmental, non-categorical aid					2,139,198	-	2,139,198	-	-
Investment earnings, unrestricted					142,860	136,819	279,679	109,898	621
Gain on sale of property					1,817,968	-	1,817,968	-	1,316,386
Miscellaneous					99,286	88,941	188,227	60,682	22,686
Capital Contribution					252,000	-	252,000	-	-
Special item: Loss on sale of water utility (Note 19)					-	(70,838,968)	(70,838,968)	-	-
Transfers					23,091,228	(23,091,228)	-	-	-
Total general revenues and transfers					91,907,535	(93,704,436)	(1,796,901)	33,946,180	1,339,693
Change in net position					29,686,561	(92,867,088)	(63,180,527)	(272,441)	1,318,052
NET POSITION AT JULY 1, AS RESTATED (Note 17)					51,975,680	110,169,639	162,145,319	2,075,109	636,491
NET POSITION AT JUNE 30					\$ 81,662,241	\$ 17,302,551	\$ 98,964,792	\$ 1,802,668	\$ 1,954,543

The Notes to Financial Statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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CITY OF FALLS CHURCH, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Special Transportation</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
ASSETS					
Cash and investments	\$ 49,987,223	\$ -	\$ 536,888	\$ 429,956	\$ 50,954,067
Receivables, net	29,553,789	-	-	141,963	29,695,752
Due from other funds	3,490,243	-	4,807	-	3,495,050
Due from other governments	1,137,482	572,421	132,333	-	1,842,236
Prepays	9,716	-	-	-	9,716
Inventories	189,865	-	-	-	189,865
Restricted cash and cash equivalents	594,698	17,387,036	1,000,000	-	18,981,734
Total assets	<u>\$ 84,963,016</u>	<u>\$ 17,959,457</u>	<u>\$ 1,674,028</u>	<u>\$ 571,919</u>	<u>\$ 105,168,420</u>
LIABILITIES					
Accounts payable and other liabilities	\$ 5,536,028	\$ 1,223,603	\$ 32,073	\$ -	\$ 6,791,704
Customer deposits	1,699,682	-	-	-	1,699,682
Due to component units	5,708,004	-	-	-	5,708,004
Due to other governments	153,817	-	-	-	153,817
Due to other funds	-	3,314,628	-	-	3,314,628
Total liabilities	<u>13,097,531</u>	<u>4,538,231</u>	<u>32,073</u>	<u>-</u>	<u>17,667,835</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable/unearned revenue	29,046,704	105,486	25,000	141,963	29,319,153
Total deferred inflows of resources	<u>29,046,704</u>	<u>105,486</u>	<u>25,000</u>	<u>141,963</u>	<u>29,319,153</u>
FUND BALANCES					
Fund balances (Note 16):					
Nonspendable	199,581	-	-	-	199,581
Restricted	560,413	11,760,192	856,688	22,224	13,199,517
Committed	3,761,859	1,555,548	760,267	407,732	6,485,406
Assigned	24,788,434	-	-	-	24,788,434
Unassigned	13,508,494	-	-	-	13,508,494
Total fund balances	<u>42,818,781</u>	<u>13,315,740</u>	<u>1,616,955</u>	<u>429,956</u>	<u>58,181,432</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 84,963,016</u>	<u>\$ 17,959,457</u>	<u>\$ 1,674,028</u>	<u>\$ 571,919</u>	<u>\$ 105,168,420</u>

CITY OF FALLS CHURCH, VIRGINIA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Total Fund Balance		\$ 58,181,432
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the funds.		
Nondepreciable	\$ 11,910,616	
Depreciable, net	<u>57,956,278</u>	
		69,866,894
Long-term liabilities, such as due to other governments, are not current financial resources and therefore are not reported in the governmental funds.		(20,623)
Deferred OPEB charges reported in governmental activities use current financial resources and therefore are reported as expenditures in the governmental funds but are reported as an asset on the Statement of Net Position.		3,402,000
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds		1,588,221
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds payable, including unamortized deferred amounts	(47,057,300)	
Premium, discounts and refundings, net of accumulated amortization	(2,282,095)	
Deferred amount on refunding, net of accumulated amortization	611,380	
Compensated absences	<u>(1,915,157)</u>	
		(50,643,172)
Interest on long-term liabilities is not accrued in governmental funds, but is recognized as an expenditure when due.		<u>(712,511)</u>
Total Net Position - Governmental Activities		<u><u>\$ 81,662,241</u></u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Special Transportation</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
REVENUES					
General property taxes	\$ 49,289,149	\$ -	\$ -	\$ -	\$ 49,289,149
Other local taxes	14,286,090	-	745,575	-	15,031,665
Permits, privilege fees, and regulatory licenses	1,677,603	-	-	-	1,677,603
Fines and forfeitures	777,485	-	-	-	777,485
Use of money and property	142,259	-	135	466	142,860
Charges for services	2,819,182	-	-	-	2,819,182
Miscellaneous	107,966	-	-	-	107,966
Gifts and contributions	52,888	95,604	-	-	148,492
Recovered costs	477,639	-	-	-	477,639
Intergovernmental					
Commonwealth	5,589,825	293,119	-	-	5,882,944
Federal	305,402	835,206	-	-	1,140,608
Total revenues	<u>75,525,488</u>	<u>1,223,929</u>	<u>745,710</u>	<u>466</u>	<u>77,495,593</u>
EXPENDITURES					
Current:					
General government	5,797,523	-	-	-	5,797,523
Judicial administration	1,968,347	-	-	-	1,968,347
Public safety	10,775,667	-	-	-	10,775,667
Public works	5,399,784	-	228,499	-	5,628,283
Health and welfare	2,017,673	-	-	82,963	2,100,636
Parks, recreation, and cultural	4,573,151	-	-	-	4,573,151
Community development	3,486,346	-	-	-	3,486,346
Economic development	351,837	-	-	-	351,837
Education	33,801,767	-	-	-	33,801,767
Capital outlay	-	7,035,360	-	-	7,035,360
Debt service:					
Principal retirement	3,317,300	-	-	-	3,317,300
Interest and fiscal charges	1,219,100	-	-	-	1,219,100
Total expenditures	<u>72,708,495</u>	<u>7,035,360</u>	<u>228,499</u>	<u>82,963</u>	<u>80,055,317</u>
Excess (deficiency) of revenues over expenditures	<u>2,816,993</u>	<u>(5,811,431)</u>	<u>517,211</u>	<u>(82,497)</u>	<u>(2,559,724)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from debt issuance	155,000	14,805,000	930,000	-	15,890,000
Premiums from issuance of bonds	441,950	1,050,548	70,000	-	1,562,498
Proceeds from sale of capital assets	2,887,859	-	-	-	2,887,859
Transfers in	21,816,842	1,532,627	99,744	-	23,449,213
Transfers out	(2,563,671)	(1,113,176)	-	-	(3,676,847)
Total other financing sources (uses)	<u>22,737,980</u>	<u>16,274,999</u>	<u>1,099,744</u>	<u>-</u>	<u>40,112,723</u>
Net change in fund balance	25,554,973	10,463,568	1,616,955	(82,497)	37,552,999
FUND BALANCES AT JULY 1	<u>17,263,808</u>	<u>2,852,172</u>	<u>-</u>	<u>512,453</u>	<u>20,628,433</u>
FUND BALANCES AT JUNE 30	<u>\$ 42,818,781</u>	<u>\$ 13,315,740</u>	<u>\$ 1,616,955</u>	<u>\$ 429,956</u>	<u>\$ 58,181,432</u>

CITY OF FALLS CHURCH, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

Net Change in Fund Balance - Governmental Funds **\$ 37,552,999**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 6,596,552	
Capital contribution	252,000	
Depreciation expense	<u>(2,889,768)</u>	3,958,784

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the property sold. (1,069,891)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Debt proceeds	(15,890,000)	
Debt premiums	(1,562,498)	
Change in deferred inflow of resources	<u>327,104</u>	(17,125,394)

Assets transferred to and from proprietary funds that are not considered a current financial resource are reported only in the Statement of Activities for governmental funds. 3,318,862

The repayment of the principal of long-term debt consumes current financial resources of governmental funds. However, the transaction has no effect on net position. 3,317,300

Some expenses reported in the Statement of Activities, such as compensated absences and other post-employment benefits do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences	51,100	
Change in long-term amounts due to other governments	<u>(34,958)</u>	16,142

Governmental funds report the effect of bond issuance costs, premiums and discounts when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of those differences is as follows:

Amortization of discounts and premiums	119,690	
Amortization of gain/loss from refundings	(105,124)	
Change in accrued interest payable	<u>(296,807)</u>	(282,241)

Change in Net Position - Governmental Activities **\$ 29,686,561**

CITY OF FALLS CHURCH, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 48,189,700	\$ 48,189,700	\$ 49,289,149	\$ 1,099,449
Other local taxes	13,904,600	13,904,600	14,286,090	381,490
Permits, privilege fees, and regulatory licenses	776,000	1,076,000	1,677,603	601,603
Fines and forfeitures	691,000	691,000	777,485	86,485
Use of money and property	128,500	128,500	142,259	13,759
Charges for services	2,863,985	2,903,985	2,819,182	(84,803)
Miscellaneous	960,000	991,300	107,966	(883,334)
Gifts and contributions	13,000	42,000	52,888	10,888
Recovered costs	539,000	539,000	477,639	(61,361)
Intergovernmental				
Commonwealth	5,141,604	5,165,104	5,589,825	424,721
Federal	289,986	539,526	305,402	(234,124)
Total revenues	<u>73,497,375</u>	<u>74,170,715</u>	<u>75,525,488</u>	<u>1,354,773</u>
EXPENDITURES				
Current:				
General government	5,725,640	5,861,925	5,797,523	64,402
Judicial administration	1,950,096	2,009,921	1,968,347	41,574
Public safety	10,410,363	11,165,262	10,775,667	389,595
Public works	5,459,649	5,763,455	5,399,784	363,671
Health and welfare	2,400,436	2,463,599	2,017,673	445,926
Parks, recreation, and cultural	4,631,111	4,732,566	4,573,151	159,415
Community development	3,130,161	3,356,443	3,486,346	(129,903)
Economic development	362,923	383,946	351,837	32,109
Education	33,801,770	33,801,770	33,801,767	3
Debt service:				
Principal retirement	3,317,300	3,317,300	3,317,300	-
Interest and fiscal charges	1,428,254	1,223,060	1,219,100	3,960
Total expenditures	<u>72,617,703</u>	<u>74,079,247</u>	<u>72,708,495</u>	<u>1,370,752</u>
Excess (deficiency) of revenues over expenditures	<u>879,672</u>	<u>91,468</u>	<u>2,816,993</u>	<u>2,725,525</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	259,000	346,450	155,000	(191,450)
Premiums from issuance of bonds	-	-	441,950	441,950
Proceeds from sale of capital assets	-	2,887,859	2,887,859	-
Transfers in	150,000	150,000	21,816,842	21,666,842
Transfers out	(600,000)	(1,632,371)	(2,563,671)	(931,300)
Total other financing sources (uses)	<u>(191,000)</u>	<u>1,751,938</u>	<u>22,737,980</u>	<u>20,986,042</u>
Net change in fund balance	<u>\$ 688,672</u>	<u>\$ 1,843,406</u>	<u>\$ 25,554,973</u>	<u>\$ 23,711,567</u>

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-Type Activities – Enterprise Funds			
	Water	Sewer	Storm Water	Totals
ASSETS				
Current assets:				
Cash and investments	\$ -	\$ 6,398,663	\$ 988,356	\$ 7,387,019
Receivables, net	-	1,045,478	788,876	1,834,354
Due from other funds	-	-	450,464	450,464
Due from other governments	-	474,021	35,352	509,373
Inventories	-	2,959	-	2,959
Restricted cash and cash equivalents	-	1,186,358	851,320	2,037,678
Total current assets	-	9,107,479	3,114,368	12,221,847
Noncurrent assets:				
Deferred OPEB charges	-	26,000	16,000	42,000
Capital assets, net	-	18,450,083	2,473,830	20,923,913
Total noncurrent assets	-	18,476,083	2,489,830	20,965,913
Total assets	-	27,583,562	5,604,198	33,187,760
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	-	948,872	143,827	1,092,699
Accrued interest	-	128,872	17,739	146,611
Due to other funds	-	115,022	-	115,022
Compensated absences, current	-	20,611	27,375	47,986
Debt, current	-	707,837	35,000	742,837
Total current liabilities	-	1,921,214	223,941	2,145,155
Noncurrent liabilities:				
Compensated absences	-	26,342	17,850	44,192
Debt	-	12,115,370	816,041	12,931,411
Total noncurrent liabilities	-	12,141,712	833,891	12,975,603
Total liabilities	-	14,062,926	1,057,832	15,120,758
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue	-	-	764,451	764,451
Total deferred inflows of resources	-	-	764,451	764,451
NET POSITION				
Net investment in capital assets	-	8,655,222	1,622,789	10,278,011
Unrestricted	-	4,865,414	2,159,126	7,024,540
Total net position	\$ -	\$ 13,520,636	\$ 3,781,915	\$ 17,302,551

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-Type Activities – Enterprise Funds			
	Water	Sewer	Storm Water	Totals
OPERATING REVENUES				
Charges for fees and services	\$ 11,080,923	\$ 3,603,322	\$ 764,451	\$ 15,448,696
Rent	99,187	-	-	99,187
Miscellaneous	88,941	-	-	88,941
Total operating revenues	11,269,051	3,603,322	764,451	15,636,824
OPERATING EXPENSES				
Source of supply	3,938,560	-	-	3,938,560
Distribution system	1,298,335	-	-	1,298,335
Collection and disposal	-	1,490,883	437,863	1,928,746
Water connections	252,327	-	-	252,327
Administration	3,994,098	360,932	629,692	4,984,722
Depreciation and amortization	1,632,741	622,974	109,267	2,364,982
Total operating expenses	11,116,061	2,474,789	1,176,822	14,767,672
Operating income (loss)	152,990	1,128,533	(412,371)	869,152
NONOPERATING REVENUES (EXPENSES)				
Availability fees	2,352,628	584,243	-	2,936,871
Interest and investment revenue	28,576	8,228	828	37,632
Interest expense	(2,769,840)	(330,439)	(8,482)	(3,108,761)
Net nonoperating revenues (expenses)	(388,636)	262,032	(7,654)	(134,258)
Income (loss) before contributions, special items, and transfers	(235,646)	1,390,565	(420,025)	734,894
CAPITAL CONTRIBUTIONS	183,853	-	144,361	328,214
SPECIAL ITEM: LOSS ON SALE OF WATER UTILITY (Note 19)	(70,838,968)	-	-	(70,838,968)
TRANSFERS IN (OUT)	(27,148,807)	-	4,057,579	(23,091,228)
Change in net position	(98,039,568)	1,390,565	3,781,915	(92,867,088)
NET POSITION AT JULY 1, AS RESTATED (Note 17)	98,039,568	12,130,071	-	110,169,639
NET POSITION AT JUNE 30	\$ -	\$ 13,520,636	\$ 3,781,915	\$ 17,302,551

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-type Activities – Enterprise Funds			Totals
	Water	Sewer	Storm water	
OPERATING ACTIVITIES				
Receipts from customers	\$ 14,254,338	\$ 3,284,560	\$ 740,026	\$ 18,278,924
Receipts from other sources	188,128	-	(35,352)	152,776
Interfund reimbursements	(828,797)	(140,031)	(105,847)	(1,074,675)
Payments to suppliers	(8,090,214)	(1,185,586)	(320,250)	(9,596,050)
Payments to employees	(2,559,197)	(354,539)	(470,528)	(3,384,264)
Net cash provided by (used in) operating activities	2,964,258	1,604,404	(191,951)	4,376,711
NONCAPITAL FINANCING ACTIVITIES				
Transfers (to) from other funds	(24,582,144)	-	2,044,475	(22,537,669)
Interfund borrowing	(1,238,116)	(6,350)	(450,464)	(1,694,930)
Net cash provided by (used in) noncapital financing activities	(25,820,260)	(6,350)	1,594,011	(24,232,599)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of water utility	7,257,416	-	-	7,257,416
Availability fees	2,244,988	584,243	-	2,829,231
Intergovernmental capital grants	107,640	-	-	107,640
Purchases of capital assets	(208,313)	(1,048,792)	(406,910)	(1,664,015)
Proceeds from long-term debt	-	1,039,404	852,825	1,892,229
Principal paid on capital debt	(18,493,883)	(634,093)	-	(19,127,976)
Interest paid on capital debt	(3,402,483)	(466,292)	(9,127)	(3,877,902)
Net cash provided by (used in) capital and related financing activities	(12,494,635)	(525,530)	436,788	(12,583,377)
INVESTING ACTIVITIES				
Interest and investment revenue	28,576	8,228	828	37,632
Net increase (decrease) in cash and cash equivalents	(35,322,061)	1,080,752	1,839,676	(32,401,633)
CASH AND CASH EQUIVALENTS JULY 1	35,322,061	6,504,269	-	41,826,330
CASH AND CASH EQUIVALENTS JUNE 30	\$ -	\$ 7,585,021	\$ 1,839,676	\$ 9,424,697
RECONCILIATION TO EXHIBIT 8				
Cash and investments	\$ -	\$ 6,398,663	\$ 988,356	\$ 7,387,019
Restricted cash and cash equivalents	-	1,186,358	851,320	2,037,678
Total	\$ -	\$ 7,585,021	\$ 1,839,676	\$ 9,424,697
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 152,990	\$ 1,128,533	\$ (412,371)	\$ 869,152
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,632,741	622,974	109,267	2,364,982
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	3,795,127	(271,794)	(824,228)	2,699,105
Prepays	5,097	-	-	5,097
Deferred OPEB charges	-	2,000	(16,000)	(14,000)
Increase (decrease) in:				
Accounts payable, other liabilities, and OPEB	(1,912,035)	151,662	141,705	(1,618,668)
Unearned revenue and deferred rent	(92,837)	-	764,451	671,614
Customer deposits	(424,124)	(46,968)	-	(471,092)
Compensated absences	(192,701)	17,997	45,225	(129,479)
Net cash provided by (used in) operating activities	\$ 2,964,258	\$ 1,604,404	\$ (191,951)	\$ 4,376,711
NONCASH INVESTING AND FINANCING ACTIVITIES:				
Developer contributions	\$ 183,853	\$ -	\$ 144,361	\$ 183,853
Capital asset purchases included in accounts payable	\$ 14,714	\$ 264,378	\$ 2,122	\$ 279,092
Capitalized interest	\$ -	\$ 133,513	\$ 16,600	\$ 133,513
Capital assets transferred from within the City	\$ -	\$ -	\$ 2,013,104	\$ -

See Note 19 for additional noncash transactions for the water fund.

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	Post-Employment Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents (Note 4)	\$ 1,948,792	\$ 3,461,555
Investments (Note 4)	113,396,411	-
Contributions receivable	129,637	-
Interest and dividends receivable	18,768	-
Receivables, net	-	1,057,541
Due from general fund	-	112,797
Total assets	<u>115,493,608</u>	<u>4,631,893</u>
LIABILITIES		
Accounts payable	48,885	-
Due to general fund	729,618	32,922
Amounts held for others	-	4,598,971
Total liabilities	<u>778,503</u>	<u>4,631,893</u>
NET POSITION		
Held in trust for:		
Pension benefits	105,912,781	-
Other post-employment benefits	8,802,324	-
Total net position restricted for post-employment benefits	<u>\$ 114,715,105</u>	<u>\$ -</u>

CITY OF FALLS CHURCH, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2014**

	Post-Employment Trust Funds
ADDITIONS	
Employer contributions	\$ 3,623,563
Employer contributions - water proceeds	4,583,250
Employee contributions	894,141
Investment earnings:	
Interest	43,011
Dividends	1,381,996
Net change in fair value	15,124,128
Total investment earnings	<u>16,549,135</u>
Less investment expense	<u>(451,774)</u>
Net investment earnings	<u>16,097,361</u>
 Total additions	 <u>25,198,315</u>
 DEDUCTIONS	
Benefits	5,476,717
Contribution to Fairfax Water benefits plans	2,667,586
Administration	<u>77,964</u>
Total deductions	<u>8,222,267</u>
Change in net position	16,976,048
NET POSTION AT JULY 1	<u>97,739,057</u>
NET POSITION AT JUNE 30	<u><u>\$ 114,715,105</u></u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The City of Falls Church, Virginia (the “City”) incorporated as an independent city in 1948 under laws of the Commonwealth of Virginia. The City operates under a Council-Manager form of government and provides municipal services such as general administration, police, fire, street maintenance, sanitation, health and social services, recreation, library, planning and community development. Those services are provided either directly by the City or through contracts with the Counties of Arlington and Fairfax, Virginia. Through the City of Falls Church School Board, the City provides elementary and secondary education to residents.

The accompanying financial statements present the City and its component units.

Discretely presented component units are legally separate entities for which the elected officials of the primary government are financially accountable, the entity’s governing body is not substantially the same as that of the primary government, and the entities do not provide services solely to or for the benefit of the primary government. They are reported in separate columns to emphasize they are legally separate from the primary government. The following organizations are reported as discretely presented component units and neither publish their own financial reports.

The City of Falls Church Public School Board (the “School Board”) is responsible for elementary and secondary education within the City’s jurisdiction. The members of the School Board are elected. The School Board is fiscally dependent upon the City because City Council approves the School Board’s budget and provides a substantial portion of the School Board’s funds for operations, and issues all debt.

The Falls Church Economic Development Authority (the “EDA”) was created by City Council to promote economic development within the City. The City Council appoints all members of the EDA board. The EDA is fiscally accountable to the Council and the City is potentially liable for any operating deficits. The Council must approve all EDA debt issuances.

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. 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. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Likewise, the primary government is reported separately from its component units.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of these financial statements is on major governmental and enterprise funds, which are presented in separate columns. All remaining governmental funds are aggregated and reported in one column as nonmajor funds.

Major Governmental Funds: The General Fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds). The Special Transportation fund is used to account for transportation taxes charged and uses of funds through the Northern Virginia Transportation Commission.

Proprietary Funds: The Water Fund, the Sewer Fund, and Storm Water Fund are used to account for the financing, construction, and operations of the City's water, sewer, and storm water systems. City Council approved the sale of the water utility, effective January 3, 2014. See Note 19.

Non Major Special Revenue Funds: The City has one non-major special revenue fund, the Affordable Housing Unit Fund. This fund was originally established with a commitment from City Council. The fund has since received contributions from developers for affordable housing initiatives. The City expects to continue to receive contributions from developers and other entities to this fund.

The City also reports the following fiduciary funds:

Post-Employment Trust Funds: These funds are used to account for the activities of the City's two defined benefit pension plans, the Basic Pension Plan and the Police Pension Plan, which cover all regular and police employees of the City, respectively, as well as the City's and School Board's other post-employment benefit trust funds, which provides for health and life insurance coverage for the City's and School Board's retirees.

Agency Funds: These funds account for assets held in an agency capacity for the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of operations.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except that the fiduciary fund financial statements for the agency funds do not have a measurement focus. Under the economic resources measurement focus and the accrual basis of accounting, revenues are generally recognized when earned and expenses are recognized at the time a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied.

Amounts reported as program revenues in the government-wide financial statements 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 program revenues. Likewise, general revenues include all taxes. The City charges all costs except interest on long-term obligations and depreciation to the appropriate function at the time such costs are incurred. Depreciation has been allocated to each function. Interest on long-term obligations is shown as a separate line item in the government-wide financial statements.

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 water and sewer funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition, including availability fees charged to new customers, are reported as nonoperating revenues and expenses.

For the post-employment trust funds, both member and employer contributions to each plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues from the use of money and from intergovernmental reimbursement grants are recorded as earned. Other revenues are considered to be available if they are collectible within 60 days after year end. The primary revenues susceptible to accrual include property, business licenses, and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recognized only when payment is due. General capital asset acquisitions are reported as capital outlays in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity

Deposits and Investments

The City's cash and investments other than amounts held in fiduciary funds include certificates of deposit, Local Government Investment Pool assets, overnight repurchase agreements, short-term U.S. Government obligations and other highly liquid investments which are readily convertible to known amounts of cash and mature within three months of the date acquired by the City.

Receivables and Payables

Activities within the funds that are representative of lending/borrowing arrangements are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of net assets as "internal balances".

All trade and property taxes receivables, including those for the water and sewer funds, are shown net of an allowance for estimated uncollectible amounts. The allowance is calculated using historical collection data and, in certain cases, specific account analysis.

Accounts payable and accrued liabilities include amounts due to vendors and employees for goods and services received as of year end.

Inventories and Prepaids

Inventories are valued at the lower of cost (using the first in, first out method) or market and 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 prepaids.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Real Estate and Business Personal Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments, on June 5 and December 5. The City bills and collects its own taxes. Real estate and business-related personal property taxes are levied each calendar year on all taxable property located in the City, and are accounted for in the General Fund. Therefore, real estate and business-related personal property taxes that are due within the current fiscal year and collected within 60 days subsequent to year-end are recorded as revenue. The real estate tax rates for calendar years 2013 and 2014 were \$1.27 and \$1.305, respectively per \$100 of assessed value.

Personal Property Taxes

The City levies personal property taxes on motor vehicles and other personal property. These levies are assessed on a calendar year basis as of January 1. Personal property taxes are due on October 5 and are considered delinquent if not received by the due date. On January 1, personal property taxes become an enforceable lien on related property. The tax rate for calendar year 2013 was \$4.84 per \$100 of assessed value. Under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA), the City received approximately \$2.02 million for the State's share of the local personal property tax payment with the remainder collected by the City.

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 those estimates.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the Statement of Net Position. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Capital Assets (Continued)

Capital assets are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Infrastructure	20-50
Water and sewer system	20-50
Purchased capacity	20-40
Buildings	50
Improvements other than buildings	10-20
Machinery and equipment	5-20
Library collections	5
Intangibles (software)	3

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category. A deferred charge on refunding reported in the government-wide statement of net position 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.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has two types of items. One item occurs only under a modified accrual basis of accounting. The item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 60 days of year-end and the property taxes levied to fund future years. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is the unearned storm water fees reported in the government-wide statement of net position and in the proprietary funds statement of net position.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Compensated Absences

All reporting entity employees earn annual leave and sick leave based on a prescribed formula. In addition, employees may accrue compensatory leave for hours worked in excess of their scheduled hours. Upon termination of employment, permanent City employees are entitled to payment of 100% of unused annual leave, generally 25% of unused sick leave, and all of their compensatory leave not to exceed 40 hours for certain employees or 100 hours for other employees. School Board employees are paid up to 40 days of their annual leave and all sick leave at the rate of \$3.75 per hour.

All compensated absences currently payable are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Termination Benefits

The School Board makes payments to eligible employees upon retirement equal to 100% of the average of the three highest years of salaries earned by the employee. The payment is paid monthly in up to 60 equal installments. If the retiree dies during the benefit period, the payments cease. In 2003, the School Board adopted a “sunset” provision for this benefit which restricted eligibility to employees who were already employed by the School Board and had a minimum age of 45 years and 5 years of satisfactory service by July 1, 2002.

The liability for this benefit is estimated using the eligible employees’ last salary as of June 30, including employer social security and medicare taxes and was approximately \$3.2 million as of June 30. This liability is liquidated by the School Operating Fund.

Long-term Obligations

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. 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, as well as bond issuance costs, during the current period. The face value of the debt issued plus premium is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- **Nonspendable** - Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council through adoption of a resolution. Only City Council may modify or rescind the commitment.
- **Assigned** - Amounts the City intends to use for a specified purpose; intent can be expressed by City Council or by the City Manager or Finance Director, who has been designated this Authority.
- **Unassigned** –Amounts that are available for any purpose; positive amounts are reported only in the General Fund.

Restricted Amounts

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Minimum Fund Balance Policy

The General Fund reserve target is 17%, but not less than 12%, of current year expenditures. In the event that the unassigned fund balance is used for unforeseen emergency needs, the City shall restore the unassigned fund balance to 12% of General Fund expenditures within two fiscal years. To the extent additional funds are necessary to restore the Unassigned Fund Balance to 17% of General Fund expenditures, such funds shall be accumulated in no more than three approximately equal contributions each fiscal year. This provides for full recovery of the targeted fund balance amount within five years.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2014 total \$478,342 in the general fund.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net position for public safety and judicial administration represents unspent forfeited assets and fees.

School Board Debt/Capital Asset Reporting

The City issues debt to finance the construction of school facilities because the School Board does not have borrowing or taxing authority. The City reports this debt in its financial statements. The capital assets acquired by such debt are reported by the City until such time as the outstanding indebtedness is retired, at which time, the net book value is transferred to and reported by the School Board.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Intergovernmental Agreements

The City has agreements with several governmental units to provide certain governmental services to the City. They are detailed below:

County of Fairfax

The City, the County of Fairfax (“Fairfax”), and the City of Fairfax comprise the Fairfax-Falls Church Community Services Board (CSB), established under State mandate in 1969, to provide mental health, mental retardation and drug and alcohol abuse treatment services to residents of the three jurisdictions. The CSB uses Fairfax as its fiscal agent. During 2014, the City paid the CSB approximately \$606 thousand.

The City makes payments for the full cost of the local portion of public assistance payments and for the use of special County health and recreation facilities by City residents. During 2014, the City paid approximately \$842 thousand for these services.

The City uses Fairfax’s landfills for waste disposal and charges are based on tipping fees. During 2014, the City paid approximately \$117 thousand.

The City has an agreement with Fairfax to share in the cost of its sewage treatment facilities. During 2014, the City paid approximately \$699 thousand for sewage treatment costs. In addition, the City issued a note payable to Fairfax for \$5,005,000 during 2000 to pay for the City’s share of the costs to upgrade the Alexandria Sanitation Treatment Plant. The City paid approximately \$328 thousand in debt service towards this note during 2014. Additional information on this debt can be found in Note 10. In 2008, another upgrade was commenced at the Alexandria Sanitation Treatment Plant. The City paid approximately \$1 million in 2014 for its share of the costs of the upgrade. All amounts relating to the City’s share of these capital costs are recorded as capital assets in the Sewer Fund.

The City had an agreement with Fairfax to bill for sewer services on Fairfax’s behalf. The City remitted approximately \$19.4 million in sewer revenue receipts during 2014. For this service, the City received approximately \$548 thousand in compensation. With the sale of the water system, the City is no longer providing this service but is still collecting on previously billed amounts.

County of Arlington

The City contracts its fire and rescue, jail, E-911, radio bandwidth, and certain judicial services, to Arlington County, Virginia (“Arlington”). During 2014, the City paid Arlington approximately \$2.1 million for fire and rescue services, \$1.2 million for jail services, \$410 thousand for E-911 and radio bandwidth services, and \$389 thousand for judicial services.

The City also receives payment from Arlington for its share of the cost of operating a girls’ home facility. Payments received during 2014 amounted to approximately \$662 thousand.

The City has an agreement with Arlington to share in the cost of its sewage treatment facilities. During 2014, the City paid Arlington approximately \$631 thousand, of which \$444 thousand is for operating costs and \$187 thousand is for major upgrades to the treatment facilities. \$444 thousand is recorded as an expense and \$187 thousand is recorded as construction-in-progress in the Sewer Fund, and will be transferred to purchased capacity once the plant is in service.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Intergovernmental Agreements (Continued)

Fairfax Water

In 2014, with the sale of the water system to Fairfax Water, the City contracted Fairfax Water to perform sewer billing and collection services. During 2014, Fairfax Water billed \$1.1 million in sewer fees and remitted \$516 thousand to the City. The City paid Fairfax Water \$30 thousand for these services.

United States Department of Army Corp. of Engineers ("Army")

The City had an agreement with the Army to purchase water and to share water treatment facility maintenance costs through January 2014. During 2014, the City paid approximately \$2 million to the Army for water and \$1.2 million towards facility maintenance costs. These costs are recorded as an expense in the Water Fund. The City also paid the Army \$2.1 million for debt service on the City's share of certain debt. This agreement transferred with the sale of the water system.

Northern Virginia Criminal Justice Training Academy (NVCJA)

Along with other local jurisdictions, the City entered into an agreement to assist in financing NVCJA which was established to provide training to local law enforcement officers. The City appoints members of the governing body of NVCJA, however, it does not retain an ongoing financial interest. During 2014, the City paid NVCJA approximately \$47 thousand for its share of operating and debt service costs.

Northern Virginia Transportation Commission (NVTC)

The NVTC is a joint venture with the cities of Alexandria, Fairfax, and Falls Church and the counties of Arlington, Fairfax, and Loudoun. It was established to improve the transportation systems composed of transit facilities, public highways, and other modes of transportation. The Commonwealth of Virginia has authorized a 2% fuel tax to be used for transportation systems through NVTC. While each jurisdiction effectively controls NVTC's use of motor fuel tax proceeds from that jurisdiction, they do not have an explicit measurable equity interest in NVTC. Information regarding NVTC is provided in NVTC's separately published financial statements, which are available to the general public from its offices at 4350 North Fairfax Drive, Suite 720, Arlington, Virginia 20243

Northern Virginia Transportation Authority (NVTa)

The NVTa is a joint venture with the cities of Alexandria, Fairfax, Manassas, Manassas Park, and Falls Church and the counties of Arlington, Fairfax, Loudoun, and Prince William. The Authority is responsible for long-range transportation planning for regional transportation projects in Northern Virginia and sets regional transportation policies and priorities for regional transportation projects. While the jurisdictions have representatives as members of the governing body of the Authority, the jurisdictions do not have an explicit measurable equity interest in NVTa. Beginning in 2014, House Bill 2313 gave the Authority responsibility over the collection and distribution of certain dedicated taxes for transportation including 1% additional sales tax, 2% additional transient and occupancy tax and 1.5% additional grantor's tax. By law, 30% of these additional revenues are distributed to the jurisdictions provided they implement the commercial and industrial tax of 12.5 cents, or dedicate some other funds towards transportation. The other 70% will be used towards regional transportation projects approved by the Authority and implemented by the jurisdictions. In 2014, the City received approximately \$746 thousand of these taxes.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Intergovernmental Agreements (Continued)

Joint Ventures

Washington Metropolitan Area Transit Authority (WMATA)

The City participates in a joint venture with other local jurisdictions to share in the cost of a regional transportation system but does not maintain an equity interest in WMATA. The City is required to make certain contributions annually to WMATA pursuant to the Interjurisdictional Funding Agreement for Bus Service and the Fifth Interim Capital Contributions Agreement, which were executed in fiscal years 1999 and 1992, respectively. During 2014, the City's required contributions amounted to approximately \$3.2 million. The City received \$1.4 million from the Virginia Department of Rail and Public Transportation to pay for this obligation. The remaining \$1.8 million came from tax revenue and other sources. Complete financial statements of WMATA may be obtained at 600 5th Street, NW, Washington, DC 20001.

Note 3. Stewardship, Compliance, and Accountability

Budgetary Information

Formal budgetary integration is employed as a management control device during the year. Budgets for all governmental funds of the primary government and component units are adopted by the City Council on an annual basis consistent with GAAP with the exception of capital leases. The Council adopts project length budgets for the capital projects funds. The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. On a date fixed by the Council, the City Manager submits to Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution. Appropriated annual budgets are adopted for the General, Special Revenue, and Capital Projects Funds of the primary government and School Board. If for any reason, the Council fails to adopt the appropriation ordinance prior to July 1, the previous fiscal year's budget remains in effect on a month-to-month basis until the Council adopts the budgets.
4. The Appropriations Ordinance is adopted at the fund and department level. The appropriation for each department can be revised only by the Council. The Council may revise the appropriations for each department through a resolution as long as the total budget for the fund does not change. The City Manager is authorized to transfer unencumbered balances within departments only.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 3. Stewardship, Compliance, and Accountability (Continued)

Budgetary Information (Continued)

5. Unencumbered appropriations lapse on June 30 for all City units except for those of the Capital Projects Fund, which are carried into the following year on a continuing appropriation basis unless there have been no expenditures in the project for the last three fiscal years. Encumbrance accounting is employed in governmental funds and proprietary funds. Encumbrances outstanding at year end are reported as assignments of fund balances unless they are already restricted or committed, and do not constitute expenditures or liabilities because the expenses have not yet been incurred; rather, the commitments are automatically reappropriated and honored during the subsequent year.
6. Original and final budgeted amounts are shown. The City required budget amendments during the year, representing a net increase of approximately \$968 thousand in the general fund.

Note 4. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Investment Policy - In accordance with the Code of Virginia and other applicable law, including regulations, the City’s investment policy permits investments in U.S. Government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, the State Treasurer’s State Non-Arbitrage Program (SNAP, a pooled investment fund) and the State Treasurer’s Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the City’s position in the pools is the same as the value of the pool shares.

The City’s investments are subject to credit risk, concentration of credit risk, interest rate risk, and custodial risk as described below. The City’s investments are not subject to foreign currency risk.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk:

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following: Moody’s Investors Service, Standard & Poor’s, and Fitch Investors Service, provided that the issuing corporation has a net worth of at least \$50 million and its long term debt is rated “A” or better by Moody’s and Standard & Poor’s. Banker’s acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investors Service.

Although State Statute does not impose credit standards on repurchase agreement counterparties, bankers’ acceptances or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk.

As of June 30, 57% of the portfolio was invested in LGIP and 43% was invested in SNAP.

Concentration of Credit Risk:

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the portfolio will be invested in the commercial paper of any single issuer. The Policy establishes limitations on the holdings on non-U.S. Government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted for commercial paper is 35% of the portfolio.

Interest Rate Risk:

As a means of limiting exposure to fair value losses arising from rising interest rates, the Policy limits the investment of operating funds to investments with a stated maturity of no more than 1 year from the date of purchase, with no more than 10% with maturities of more than six months from date of purchase. Reserve funds for the Water and Sewer Funds may be invested in securities with longer maturities and proceeds from the sale of bonds must be invested in SNAP to manage arbitrage requirements.

Custodial Credit Risk:

The Policy requires that all investment securities purchased by the City be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, all of the City’s investments are held in a bank’s trust department in the City’s name.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Deposits and Investments (Continued)

Investments (Continued)

The City's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S & P Credit Rating</u>
Primary Government:		
LGIP	\$ 27,703,453	AAAm
SNAP	21,019,412	AAAm
Primary government investments	48,722,865	
Component Unit – School Board:		
LGIP	2,123,766	AAAm
Component Unit – EDA:		
LGIP	1,951,863	AAAm
Component unit investments	4,075,629	
Total investments	\$ 52,798,494	

Cash and investments consist of the following:

	<u>Component Units</u>		
	<u>Primary Government</u>	<u>School Board</u>	<u>Economic Development Authority</u>
Deposits and investments:			
Demand deposits	\$ 30,637,633	\$ 4,000	\$ -
LGIP	27,703,453	2,123,766	1,951,863
SNAP	21,019,412	-	-
	\$ 79,360,498	2,127,766	\$ 1,951,863

Cash and investments are reflected in the financial statements as follows:

Statement of net position:			
Cash and investments	\$ 58,341,086	\$ 2,127,766	\$ 1,951,863
Restricted cash and cash equivalents	21,019,412	-	-
	\$ 79,360,498	\$ 2,127,766	\$ 1,951,863

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Deposits and Investments (Continued)

Investments (Continued)

Restricted cash and cash equivalents consist of unspent bond proceeds and customer deposits.

Post-Employment Trust Funds

As of June 30, the City's post-employment trust funds had the following cash, cash equivalents, and investments:

<u>Investment Type</u>	<u>Fair Value</u>
Money market funds	\$ 1,948,792
Domestic equities	62,774,050
Domestic fixed income	15,881,052
International equities	31,200,842
Real estate investment trusts	<u>3,540,467</u>
Total cash, cash equivalents, and investments	<u>\$ 115,345,203</u>

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including City Council resolutions, the Pension Fund's investment policy permits investments in domestic fixed income securities, domestic and international equities and real estate investment trusts. The authority and responsibility for the administration, management and operation of the City retirement plans are vested in the Retirement Board as described in the City Ordinance #1097. Investments of the Pension Fund are held by trustees.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Deposits and Investments (Continued)

Post-Employment Trust Funds (Continued)

Pension Funds

Concentration of Credit Risk:

The Policy establishes limitations on portfolio composition by issuer and by investment type in order to control concentration of credit risk. It is the responsibility of the Retirement Board to rebalance the portfolio. The following table shows concentration of credit risk as allowed by the investment policy, and actual concentration as of June 30:

	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
Domestic equities	48%	62%	54%
Domestic fixed income	12%	20%	14%
International equities	15%	23%	21%
Equity – Infrastructure	3%	7%	6%
Real estate investment fund	8%	12%	3%

Market Risk:

Investments of the pension fund are held for the long term and may be subject to short-term fluctuations in fair value due to market conditions and changes in interest rates. Foreign currency risk, a subset of market risk, is controlled by limiting exposure to international equities. The performance of specific investment types in the portfolio will periodically result in actual balances above or below the limitations set by policy.

Other Post-Employment Benefits (OPEB) Fund

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including City Council resolutions, the OPEB Fund's investment policy permits investments in domestic fixed income securities, domestic and international equities and real estate investment trusts. The authority and responsibility for the administration, management and operation of the City OPEB trust fund is vested in the Pension Board as described in the City Ordinance 1903. Investments of the OPEB Fund are held by trustees.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Deposits and Investments (Continued)

Post-Employment Trust Funds (Continued)

Other Post-Employment Benefits (OPEB) Fund (Continued)

Concentration of Credit Risk:

The Policy establishes limitations on portfolio composition by issuer and by investment type in order to control concentration of credit risk. It is the responsibility of the Finance Board to direct the funds manager to rebalance the portfolio. The following table shows concentration of credit risk as allowed by the investment policy, and actual concentration as of June 30:

	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
Domestic equities	49%	63%	46%
Domestic fixed income	18%	26%	29%
International equities	15%	23%	25%

Market Risk:

Investments of the OPEB fund are held for the long term and may be subject to short-term fluctuations in fair value due to market conditions and changes in interest rates. Foreign currency risk, a subset of market risk, is controlled for by limiting exposure to international equities. The performance of specific investment types in the portfolio will periodically result in actual balances above or below the limitations set by policy.

Note 5. Receivables

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Receivables:			
Accounts-Billed	\$ 1,870,441	\$ 1,580,354	\$ 3,450,795
Accounts-Unbilled	-	400,000	400,000
Other	599,275	-	599,275
Property taxes:			
Delinquent	1,597,136	-	1,597,136
Not yet due	27,546,650	-	27,546,650
Total receivables	<u>31,613,502</u>	<u>1,980,354</u>	<u>33,593,856</u>
Allowances for uncollectibles:			
Accounts receivable	(1,549,850)	(146,000)	(1,695,850)
Property taxes:			
Delinquent	(313,700)	-	(313,700)
Not yet due	(54,200)	-	(54,200)
Total allowances for uncollectibles	<u>(1,917,750)</u>	<u>(146,000)</u>	<u>(2,063,750)</u>
Total net receivables	<u>\$ 29,695,752</u>	<u>\$ 1,834,354</u>	<u>\$ 31,530,106</u>

(Continued)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 6. Due from/to Other Governments

Amounts due from other governments are as follows:

	Governmental Activities	Business-type Activities	Component Unit – School Board
Commonwealth of Virginia			
State sales tax	\$ -	\$ -	\$ 381,685
Other state school funds	-	-	3,458
Local sales tax	690,337	-	-
Communication tax	145,742	-	-
Transportation funds	132,333	-	-
Grants for capital projects	116,870	-	-
Other state funds	73,294	-	-
Total	<u>1,158,576</u>	<u>-</u>	<u>385,143</u>
Federal			
Grants for capital projects	455,550	-	-
Other federal funds	7,532	35,352	53,541
Total	<u>463,082</u>	<u>35,352</u>	<u>53,541</u>
Other governments			
Fairfax County	-	474,021	-
Arlington County	199,955	-	-
Total due from other governments	<u>\$ 1,821,613</u>	<u>\$ 509,373</u>	<u>\$ 438,684</u>

Amounts due to other governments consist of \$124,265 to the Federal Highway Administration for vehicles purchased with federal funds and sold as part of the water utility sale. Other amounts are owed to Arlington, the Department of Motor Vehicles and Northern Virginia Transportation Authority.

Note 7. Interfund Receivables, Payables, and Transfers

The City's cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds are accounted for through interfund receivable and payable accounts. Interfund receivables and payables typically result when funds overdraw their share of the pooled cash and from interfund reimbursements for administrative costs. All amounts are expected to be paid within one year.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Interfund Receivables, Payables, and Transfers (Continued)

Inter-fund balances consisted of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Fund:		
General	\$ 4,025,387	\$ 535,146
Capital Projects	-	3,314,628
Special Transportation	4,807	-
Major Proprietary Funds:		
Sewer	-	115,022
Storm water	450,464	-
Major Component Unit:		
School Board	133,879	-
Fiduciary Funds:		
Basic Plan	-	77,077
Police Plan	-	23,930
OPEB Benefits	-	494,730
School OPEB Benefits	-	133,879
Agency	112,797	32,922
	<u>\$ 4,727,334</u>	<u>\$ 4,727,334</u>

The general fund charges administrative costs to the Water, Sewer, and Storm Water Funds. The charges to the Water Fund were approximately \$676,000, approximately \$115,000 to the Sewer Fund, and approximately \$85,000 to the Storm Water Fund during 2014. These are reimbursements for services provided.

Transfers consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 21,816,842	\$ 2,563,671
Governmental activities items not included in governmental funds	5,318,153	1,999,291
Capital projects	1,532,627	1,113,176
Special transportation	99,744	-
Water	-	27,148,807
Storm water	4,057,579	-
	<u>\$ 32,824,945</u>	<u>\$ 32,824,945</u>

The majority of the transfers listed above relate to the sale of the water utility and are further described in Note 19. The amounts transferred to the Storm Water Fund relate to the transfer of various assets from Governmental Activities, the General Fund, the Capital Projects Fund and the Water Fund for the commencement of operational activity in that fund.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Interfund Receivables, Payables, and Transfers (Continued)

Due to/from balances between the City and its component units consisted of the following and are the result of accounts payable balances to be refunded by the general fund for the School Board and the amount necessary to cover the tax rebate owed to BJ's in the Economic Development Authority :

	<u>Due To</u>	<u>Due From</u>
Primary Government: General fund	\$ -	\$ 5,708,004
Component Units:		
School Board	5,458,004	-
EDA	250,000	-
	<u>\$ 5,708,004</u>	<u>\$ 5,708,004</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets

Capital asset activity was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital asset, non-depreciable:				
Land	\$ 8,423,880	\$ 2,202,800	\$ (1,065,192)	\$ 9,561,488
Construction in progress	7,167,721	2,043,947	(6,862,540)	2,349,128
Total capital assets, non-depreciable	<u>15,591,601</u>	<u>4,246,747</u>	<u>(7,927,732)</u>	<u>11,910,616</u>
Capital assets, being depreciated:				
Buildings and systems	63,328,035	10,485,424	-	73,813,459
Machinery and equipment	11,569,927	1,197,126	(553,280)	12,213,773
Improvements other than buildings	4,853,810	163,961	(16,837)	5,000,934
Infrastructure	10,056,921	252,000	(4,861,277)	5,447,644
Intangibles	1,532,929	6,959	-	1,539,888
Library collections	2,058,328	251,331	(230,766)	2,078,893
Total capital assets, depreciable:	<u>93,399,950</u>	<u>12,356,801</u>	<u>(5,662,160)</u>	<u>100,094,591</u>
Less accumulated depreciation for:				
Buildings and systems	(21,080,507)	(1,891,724)	-	(22,972,231)
Machinery and equipment	(8,996,816)	(1,146,815)	556,224	(9,587,407)
Improvements other than buildings	(3,023,250)	(256,224)	16,070	(3,263,404)
Infrastructure	(6,418,906)	(97,534)	3,186,776	(3,329,664)
Intangibles	(1,452,717)	(27,087)	-	(1,479,804)
Library collections	(1,518,231)	(218,339)	230,767	(1,505,803)
Total accumulated depreciation	<u>(42,490,427)</u>	<u>(3,637,723)</u>	<u>3,989,837</u>	<u>(42,138,313)</u>
Total capital assets, depreciable, net	<u>50,909,523</u>	<u>8,719,078</u>	<u>(1,672,323)</u>	<u>57,956,278</u>
Capital assets, net	<u>\$ 66,501,124</u>	<u>\$ 12,965,825</u>	<u>\$ (9,600,055)</u>	<u>\$ 69,866,894</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-Type Activities:</u>				
<u>Water fund:</u>				
Capital asset, non-depreciable:				
Land	\$ 2,594,882	\$ -	\$ (2,594,882)	\$ -
Construction in progress	414,385	92,495	(506,880)	-
Total capital assets, non-depreciable	<u>3,009,267</u>	<u>92,495</u>	<u>(3,101,762)</u>	<u>-</u>
Capital assets, depreciable:				
Building and systems	103,572,189	276,347	(103,848,536)	-
Machinery and equipment	3,912,449	-	(3,912,449)	-
Improvements other than buildings	73,876	8,610	(82,486)	-
Purchased capacity	25,630,284	-	(25,630,284)	-
Other intangible	36,801	-	(36,801)	-
Total capital assets, depreciable:	<u>133,225,599</u>	<u>284,957</u>	<u>(133,510,556)</u>	<u>-</u>
Less accumulated depreciation for:				
Building and systems	(45,761,994)	(1,096,718)	46,858,712	-
Machinery and equipment	(2,070,878)	(160,125)	2,231,003	-
Improvements other than buildings	(41,982)	(3,750)	45,732	-
Purchased capacity	(6,765,347)	(372,149)	7,137,496	-
Other intangible	(31,301)	-	31,301	-
Total accumulated depreciation	<u>(54,671,502)</u>	<u>(1,632,742)</u>	<u>56,304,244</u>	<u>-</u>
Total capital assets depreciable, net	<u>78,554,097</u>	<u>(1,347,785)</u>	<u>(77,206,312)</u>	<u>-</u>
Capital assets, net	<u>\$ 81,563,364</u>	<u>\$ (1,255,290)</u>	<u>\$ (80,308,074)</u>	<u>\$ -</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-Type Activities:</u>				
<u>Sewer fund:</u>				
Capital assets, non-depreciable:				
Construction in progress	\$ 3,991,331	\$ 1,340,061	\$ (57,036)	\$ 5,274,356
Total capital assets, non-depreciable	3,991,331	1,340,061	(57,036)	5,274,356
Capital assets, depreciable:				
Building and systems	6,004,364	28,378	-	6,032,742
Machinery and equipment	160,905	-	-	160,905
Purchased capacity	12,962,576	85,281	-	13,047,857
Other intangibles	9,900	-	-	9,900
Total capital assets, depreciable:	19,137,745	113,659	-	19,251,404
Less accumulated depreciation for:				
Building and systems	(2,064,723)	(100,344)	-	(2,165,067)
Machinery and equipment	(156,603)	(3,687)	-	(160,290)
Purchased capacity	(3,221,477)	(518,943)	-	(3,740,420)
Other intangibles	(9,900)	-	-	(9,900)
Total accumulated depreciation	(5,452,703)	(622,974)	-	(6,075,677)
Total capital assets depreciable, net	13,685,042	(509,315)	-	13,175,727
Capital assets, net	\$ 17,676,373	\$ 830,746	\$ (57,036)	\$ 18,450,083

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-Type Activities:</u>				
<u>Storm Water fund:</u>				
Capital asset, non-depreciable:				
Construction in progress	\$ -	\$ 509,801	\$ (118,706)	\$ 391,095
Total capital assets, non-depreciable	-	509,801	(118,706)	391,095
Capital assets, depreciable:				
Machinery and equipment	-	353,714	-	353,714
Infrastructure	-	5,037,188	-	5,037,188
Total capital assets, depreciable:	-	5,390,902	-	5,390,902
Less accumulated depreciation for:				
Machinery and equipment	-	(23,986)	-	(23,986)
Infrastructure	-	(3,284,181)	-	(3,284,181)
Total accumulated depreciation	-	(3,308,167)	-	(3,308,167)
Total capital assets depreciable, net	-	2,082,735	-	2,082,735
Capital assets, net	-	2,592,536	(118,706)	2,473,830
Business-type capital assets, net	\$ 99,239,737	\$ 2,167,992	\$ (80,483,816)	\$ 20,923,913

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Component Unit – School Board:</u>				
Capital asset, non-depreciable:				
Land	\$ 1,273,354	\$ -	\$ -	\$ 1,273,354
Total capital assets, non-depreciable	<u>1,273,354</u>	<u>-</u>	<u>-</u>	<u>1,273,354</u>
Capital assets, depreciable:				
Buildings and systems	1,311,055	-	-	1,311,055
Machinery and equipment	3,130,376	138,913	(35,387)	3,233,902
Improvements other than buildings	367,722	-	-	367,722
Library collections	699,039	42,421	-	741,460
Intangibles	7,996	-	-	7,996
Leasehold improvements	21,080	-	-	21,080
Total capital assets, depreciable	<u>5,537,268</u>	<u>181,334</u>	<u>(35,387)</u>	<u>5,683,215</u>
Less accumulated depreciation for:				
Buildings and systems	(392,046)	(31,700)	-	(423,746)
Machinery and equipment	(1,841,658)	(242,764)	1,769	(2,082,653)
Improvements other than buildings	(9,639)	(18,562)	-	(28,201)
Library collections	(583,471)	(47,927)	-	(631,398)
Intangibles	(7,996)	-	-	(7,996)
Leasehold improvements	(8,783)	(2,108)	-	(10,891)
Total accumulated depreciation	<u>(2,843,593)</u>	<u>(343,061)</u>	<u>1,769</u>	<u>(3,184,885)</u>
Total capital assets, depreciable, net	<u>2,693,675</u>	<u>(161,727)</u>	<u>(33,618)</u>	<u>2,498,330</u>
Capital assets, net	<u>\$ 3,967,029</u>	<u>\$ (161,727)</u>	<u>\$ (33,618)</u>	<u>\$ 3,771,684</u>
<u>Component Unit – EDA:</u>				
Capital assets, not being depreciated:				
Land	<u>\$ 517,255</u>	<u>\$ -</u>	<u>\$ (517,255)</u>	<u>\$ -</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Primary Government - Governmental activities:	
General government	\$ 228,065
Judicial administration	39,812
Public safety	301,680
Public works	283,404
Health and welfare	1,958
Education	1,486,922
Parks, recreation, and cultural	527,836
Community development	20,091
Total governmental activities	<u>\$ 2,889,768</u>
Primary Government – Business-type activities:	
Water	\$ 1,632,741
Sewer	622,974
Storm Water	109,267
Total business-type activities	<u>\$ 2,364,982</u>
Component Unit – School Board:	
Education	<u>\$ 343,061</u>

Governmental activities depreciation does not agree to the increase in accumulated depreciation due to the transfer of assets and accumulated depreciation of \$747,955 from the water fund. Storm water depreciation does not agree to the increase in accumulated depreciation due to the transfer of assets and associated depreciation of \$3,198,900 from the water fund and governmental activities.

Note 9. Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also include unearned revenue amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. At year end, the various components of deferred inflows of resources reported in the financial statements were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Governmental Funds</u>
Unavailable				
Delinquent property taxes	\$ -	\$ -	\$ -	\$ 972,003
Other	-	-	-	471,218
Unearned				
Property taxes not yet due	27,556,924	-	27,556,924	27,701,924
Unearned other	<u>174,008</u>	<u>764,451</u>	<u>938,459</u>	<u>174,008</u>
Total unavailable/unearned revenue	<u>\$ 27,730,932</u>	<u>\$ 764,451</u>	<u>\$ 28,495,383</u>	<u>\$ 29,319,153</u>

(Continued)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Unavailable/Unearned Revenue (Continued)

The Affordable Housing fund loans money to first-time homebuyers to be repaid when the homebuyers sell or refinance the property. In addition to reflecting an expenditure for the loan disbursement, a receivable with offsetting unearned revenue is reported at the fund level. On the government-wide statements, the disbursement results only in a loan receivable with no offset.

Note 10. Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

Primary Government

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
General obligation bonds	\$ 34,484,600	\$15,890,000	\$ 3,317,300	\$ 47,057,300	\$ 3,422,300
Bond premiums and discounts, net	839,287	1,562,498	119,690	2,282,095	-
Compensated absences	<u>1,966,257</u>	<u>1,585,710</u>	<u>1,636,810</u>	<u>1,915,157</u>	<u>1,188,198</u>
Total long-term liabilities	<u>\$ 37,290,144</u>	<u>\$19,038,208</u>	<u>\$ 5,073,800</u>	<u>\$ 51,254,552</u>	<u>\$ 4,610,498</u>

Business-type Activities:

Water fund:

General obligation bonds	\$ 16,385,000	\$ -	\$ 16,385,000	\$ -	\$ -
Notes payable	3,353,793	-	3,353,793	-	-
Bond premiums and discounts, net	439,910	-	439,910	-	-
Compensated absences	<u>390,525</u>	<u>178,210</u>	<u>568,735</u>	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>\$ 20,569,228</u>	<u>\$ 178,210</u>	<u>\$ 20,747,438</u>	<u>\$ -</u>	<u>\$ -</u>

Sewer fund:

General obligation bonds	\$ 6,658,537	\$ 950,000	\$ 267,890	\$ 7,340,647	\$ 328,561
Revenue bonds	2,404,160	-	161,141	2,243,019	166,011
Notes payable	3,081,223	-	205,062	2,876,161	213,265
Bond premium and discount	292,607	89,404	18,631	363,380	-
Compensated absences	<u>28,956</u>	<u>60,339</u>	<u>42,342</u>	<u>46,953</u>	<u>20,611</u>
Total long-term liabilities	<u>\$ 12,465,483</u>	<u>\$ 1,099,743</u>	<u>\$ 695,066</u>	<u>\$ 12,870,160</u>	<u>\$ 728,448</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Liabilities (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Business-type Activities (Continued):					
Storm water fund:					
General obligation bonds	\$ -	\$ 780,000	\$ -	\$ 780,000	\$ 35,000
Bond premium and discount	-	72,825	1,784	71,041	-
Compensated absences	-	69,172	23,947	45,225	27,375
Total long-term liabilities	<u>\$ -</u>	<u>\$ 921,997</u>	<u>\$ 25,731</u>	<u>\$ 896,266</u>	<u>\$ 62,375</u>
Business-type activities					
Total long-term liabilities	<u>\$ 33,034,711</u>	<u>\$ 2,199,950</u>	<u>\$ 21,468,235</u>	<u>\$ 13,766,426</u>	<u>\$ 790,823</u>
Component Unit- School Board:					
Termination benefits	\$ 3,418,000	\$ 71,756	\$ 249,756	\$ 3,240,000	\$ 285,000
Compensated absences	1,112,462	33,653	-	1,146,115	481,600
Other long-term obligations	-	1,105,320	-	1,105,320	369,942
Capital leases	87,222	-	69,286	17,936	17,936
Total long-term liabilities	<u>\$ 4,617,684</u>	<u>\$ 1,210,729</u>	<u>\$ 319,042</u>	<u>\$ 5,509,371</u>	<u>\$ 1,154,478</u>

Annual debt service requirements to maturity are as follows:

Governmental Activities				Business-type Activities					
General Obligation Bonds				General Obligation Bonds		Revenue Bonds		Notes Payable	
Principal	Interest			Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 3,422,300	\$ 1,572,824	\$ 363,561	\$ 327,389	\$ 166,011	\$ 66,055	\$ 213,265	\$ 115,046	
2016	3,525,000	1,431,138	379,424	311,077	171,029	61,037	221,795	106,516	
2017	3,575,000	1,318,813	390,485	295,526	176,198	55,868	230,667	97,644	
2018	3,715,000	1,193,578	396,751	279,613	181,524	50,542	239,894	88,417	
2019	3,785,000	1,083,933	408,228	264,657	187,011	45,056	249,489	78,822	
2020-2024	17,668,332	3,780,172	2,276,225	1,053,874	1,023,335	136,997	1,405,368	236,187	
2025-2029	7,158,334	1,869,465	2,664,320	543,508	337,911	10,188	315,683	12,627	
2030-2034	4,208,334	571,956	1,241,653	89,485	-	-	-	-	
2035-2039	-	-	-	-	-	-	-	-	
2040-2042	-	-	-	-	-	-	-	-	
	<u>\$ 47,057,300</u>	<u>\$ 12,821,879</u>	<u>\$ 8,120,647</u>	<u>\$ 3,165,129</u>	<u>\$ 2,243,019</u>	<u>\$ 425,743</u>	<u>\$ 2,876,161</u>	<u>\$ 735,259</u>	

(Continued)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Liabilities (Continued)

The following are the general obligation bonds that were outstanding as of June 30:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
City:						
General obligation	3.32%	01/21/2005	04/01/2015	\$ 1,023,000	\$ 102,300	\$ -
General obligation	4.00%	03/08/2007	08/01/2021	\$ 6,260,000	4,970,000	-
General obligation	2.00-4.00%	03/06/2012	08/01/2024	\$ 15,300,000	15,300,000	-
General obligation	2.00-3.00%	12/22/2011	01/15/2032	\$ 8,570,000	5,175,000	-
General obligation	2.00-5.00%	12/18/2013	07/01/2033	\$ 17,620,000	15,890,000	1,730,000
VRA bond	2.13-5.13%	10/01/2011	10/01/2031	\$ 3,125,000	-	2,930,000
VRA line of credit	3.35%	05/13/2009	09/01/2029	\$ 4,100,000	-	3,460,647
VPSA bond	4.60-6.10%	05/02/1996	01/15/2017	\$ 2,445,000	330,000	-
General Obligation Bond	3.40-5.00%	03/18/2004	04/01/2015	\$ 32,340,000	1,175,000	-
VPSA bond	4.10-5.10%	05/11/2006	07/15/2026	\$ 1,935,000	1,235,000	-
VPSA bond	4.25%	12/15/2011	12/01/2030	\$ 3,000,000	2,880,000	-
					<u>\$ 47,057,300</u>	<u>\$ 8,120,647</u>
Sewer revenue bond	3.00%	01/01/2006	07/01/2025	\$ 3,275,000	<u>\$ -</u>	<u>\$ 2,243,019</u>
Note payable – Fairfax	4.00%	06/30/2000	06/30/2025	\$ 5,005,000	<u>\$ -</u>	<u>\$ 2,876,161</u>

Revenue Bonds

The revenue bond has a rate covenant which states that the City will fix and collect rates, fees and other charges for the use of and for services furnished or to be furnished by the System so that in each fiscal year, the net revenues available for debt service will equal at least 115% of the amount required during the fiscal year to pay the principal and interest on all the revenue bonds. The City met this covenant in the current year.

Current Year Defeasance of Debt

During the year, the City used existing cash and proceeds from the sale of the water utility system to advance refund approximately \$15,780,000 in outstanding bonds including bond issuances in 2006, 2007, 2009, and 2011. The proceeds were placed in irrevocable trust with an escrow agent to fund future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's long-term debt. The amount still outstanding as of June 30, 2014 was \$12,075,000.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Liabilities (Continued)

Obligations Under Capital Leases

The School Board leased equipment, vehicles and buses under various capital leases expiring at various dates through 2014. The assets acquired have a cost of \$800,595 and accumulated depreciation of \$740,371, resulting in a net book value of \$60,223. The present value of minimum lease payments is \$17,936.

Other Long-term Obligations

During the year, the School Board entered into a three year computer lease which was not capitalized due to capitalization policies for a total of \$1,105,320 in lease payments. The present value of minimum lease payments is shown below:

	<u>Component-Unit School Board</u>
2015	\$ 369,942
2016	370,394
2017	<u>364,984</u>
Total	<u>\$ 1,105,320</u>

Note 11. Commitments and Contingent Liabilities

Contingent Liabilities: Federal programs in which the City participates were audited in accordance with provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Pursuant to the provisions of this document, all major programs were tested for compliance with applicable grant requirements. While no matters of material noncompliance were disclosed by audit, the Federal government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, future disallowances of current grant program expenditures, if any, would be immaterial.

The City is a defendant in various lawsuits. Although the outcome is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse affect on its financial condition.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Commitments and Contingent Liabilities (Continued)

Construction and Improvement Contracts: The City has the following active construction and improvement commitments as of June 30:

Project	Amount Spent-to-Date	Remaining Commitment
Governmental Activities:		
Broad Street and Pennsylvania Street traffic signal	\$ 220,881	\$ 314,075
IT fiber optics cables	205,757	11,810
S West Street roadbed reconstruction	128,604	945,213
Traffic signals management system	474,770	18,007
City Hall safety renovations	642,052	179,104
Jesse Thackrey Pre-school	858,556	1,902,907
Thomas Jefferson Expansion	5,740,045	43,847
Thomas Jefferson Renovation	4,075,180	90,927
Thomas Jefferson portable classrooms	-	397,094
Tennis courts and basketball courts	-	149,211
Business-Type Activities -Sewer:		
Pearson streambank restoration	339,148	1,418,575
Sewer relining	7,500	492,500
Total	<u>\$ 12,692,493</u>	<u>\$ 5,963,270</u>

Operating Lease Commitments

The City and School Board lease office facilities and other equipment under various long-term lease agreements. Total costs for such leases were approximately \$126 thousand to the City and approximately \$273 thousand to the School Board during 2014. The future minimum lease payments for these leases are shown below:

	Primary Government Governmental Activities	Component Unit School Board
2015	\$ 26,251	\$ 321,701
2016	-	334,087
2017	-	346,949
2018	-	360,306
2019	-	374,178
Total	<u>\$ 26,351</u>	<u>\$ 1,737,221</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System

Plan Description

The City contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Only the City's Constitutional Officers and their employees and members of the state teacher pool participate in VRS. All other employees participate in the City administered pension plan. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set out below:

VRS PLAN 1

About VRS Plan 1 – VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election – VRS non-hazardous duty covered plan members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

Retirement Contributions – Members contribute up to 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5.00% member contribution; all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Vesting – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Calculating the Benefit – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

Normal Retirement Age – Age 65.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Cost-of-Living Adjustment (COLA) in Retirement – (Continued)

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Average Final Compensation – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

About the Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees.*
- School division employees.
- Political subdivision employees.*
- Judges appointed or elected to an original term on or after January 1, 2014.
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

***Non-Eligible Members**

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Retirement Contributions – A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Vesting (Continued)

Distribution is not required by law until age 70½.

Calculating the Benefit

Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation – Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier – The retirement multiplier is 1.00%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended June 30, 2014 was 11.16 % of the annual covered payroll.

The School Board's contribution rate for 2014 was 11.66% of annual covered payroll. Total contributions made to the VRS statewide teacher pool for professional employees by the School Board for the fiscal years ending June 30, 2014, 2013, and 2012 were \$3,147,912, \$3,111,301, and \$2,076,938, respectively, and were equal to the required contributions for each year.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Annual Pension Cost

For the fiscal year ended June 30, 2014, the City's annual pension cost of \$115,854 for VRS was equal to the required and actual contributions.

Three-Year Trend Information
City

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$ 115,854	100%	\$ -
June 30, 2013	\$ 108,949	100%	\$ -
June 30, 2012	\$ 66,398	100%	\$ -

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the City assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

Funded Status and Funding Progress

For the City employees, as of June 30, 2013, the most recent actuarial valuation date, the plan was 111.16% funded. The actuarial accrued liability for benefits was \$3,479,522, and the actuarial value of assets was \$3,867,680, resulting in a net overfunding – on actuarial accrued asset of \$388,158. The covered payroll (annual payroll of active employees covered by the plan) was \$1,107,113, and the ratio of the UAAL to the covered payroll was (35.06%).

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Funded Status and Funding Progress (Continued)

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 13. Basic and Police Pension Plans

Summary of Significant Accounting Policies

The financial statements of the Basic and Police Pension Plans are prepared using the accrual basis of accounting. Plan contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30. Securities without an established market are reported at estimated fair value.

Member and employee contributions to the Plans are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the Plans.

In the fiscal year ending June 30, 2014, the plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). The objective of GASB 67 is to improve the usefulness of pension information included in the financial reports of state and local government pension plans for making decisions and assessing accountability. GASB 67 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB 67 replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributed Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. GASB 67 requires changing the presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The total and net pension liability, determined in accordance with GASB 67, is presented in Note 13 and in the Required Supplementary Information section.

Plan Description

The City's Basic Pension Plan is a cost sharing multiple-employer defined benefit pension plan, covering all permanent employees of the City who are scheduled to work twenty hours or more per week, except police officers who are covered under the Police Pension Plan. School Board employees who work less than 80% of full time and are not eligible to participate in VRS, but meet the City pension plan's requirements, are eligible for the City's Basic Pension plan.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 13. Basic and Police Pension Plans (Continued)

Plan Description (Continued)

The Police Pension Plan is a single-employer defined benefit pension plan covering the City's police officers that work on a full-time basis.

Both Plans are authorized by City Council and are administered by the City. Benefit provisions are established and amended by City resolutions. Participants are 100% vested after five years of participation.

The Plans do not issue stand-alone financial reports.

Upon retirement, a participant in either of the two City Plans would receive a monthly retirement allowance, which is determined based on a certain percentage of the participant's average final compensation at the date of retirement and the number of years of the participant's credited service. In the event of death prior to retirement eligibility, the participant's accumulated contributions are paid to the participant's designated beneficiaries in a lump sum. If a participant were vested and eligible for early or regular retirement at time of death, the designated beneficiary would receive a monthly retirement allowance.

The City's membership in the Basic and Police Pension Plans as of July 1, 2014, the date of the most recent valuation, were as follows:

	<u>Basic</u>	<u>Police</u>
Retirees and beneficiaries	212	30
Terminated vested members	78	7
Active members	<u>256</u>	<u>30</u>
Total	<u><u>546</u></u>	<u><u>67</u></u>

Contributions

The City Council establishes and may amend the contribution requirements of both plans. The City is required to contribute at an actuarially-determined rate. For 2014, the total contributions rate was 18.94% of annual covered payroll for the Basic Pension Plan, with employees contributing 5.0% and 33.25% for the Police Pension Plan, with employees contributing 7.0%. In 2001, the plan was amended to allow permanent employees who were formerly temporary employees who worked more than 20 hours per week to buy back that period for which they were not eligible due to their temporary status. The rate of contribution by these employees is 5% of current salary for each month they are buying back. Administrative costs are borne by the assets of the plans.

On July 28, 2008, the City Council approved an amendment to the plans to allow employees to purchase up to four years credit for service with other governmental employers; Federal, military, State or local. The contribution for the purchase of credit is to be actuarially determined in order to make such purchase financially neutral to the pension funds.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 13. Basic and Police Pension Plans (Continued)

Contributions (Continued)

Total contributions to the basic pension plan for the year ended June 30, 2014 amounted to \$4,749,065, of which \$4,021,770 was made by the City on behalf of its employees. The contributed amounts were based on a percentage of actuarially determined amounts as described above and were based on an actuarial valuation for the prior period. The total basic pension contributions represent funding for normal costs. Contributions made by the City represent 34.47% of covered payroll for the year.

Total contributions to the police pension plan for the year ended June 30, 2014 amounted to \$792,516, of which \$625,670 was made by the City on behalf of its employees. The contributed amounts were based on a percentage of actuarially determined amounts as described above and were based on an actuarial valuation for the prior period. The total police pension contributions represent funding for normal costs. Contributions made by the City represent 33.71% of covered payroll for the year.

Investments

Refer to Note 4 for the City's policy in regard to the allocation of invested assets.

The following investments, other than those issued or explicitly guaranteed by the U.S. government, represent 5 percent or more of the Basic pension plan's fiduciary net position:

<u>Investment</u>	<u>Market Value</u>	<u>Percent of net position</u>
Mfs Growth R5 (US Bank)	\$20,066,878	24.23%
TIF Foreign Equity Series	\$6,464,485	7.81%
Mfs International Growth Fund (US Bank)	\$6,255,507	7.55%
Northern Trust Aggregate Bond Index Fund – Lending	\$5,218,453	6.30%
Lazard Global (US Bank)	\$5,172,072	6.25%
Principal MidCap (I)	\$5,098,969	6.16%

The following investments, other than those issued or explicitly guaranteed by the U.S. government, represent 5 percent or more of the Police pension plan's fiduciary net position:

<u>Investment</u>	<u>Market Value</u>	<u>Percent of net position</u>
Mfs Growth R5 (US Bank)	\$5,601,870	24.23%
TIF Foreign Equity Series	\$1,802,703	7.80%
Mfs International Growth Fund (US Bank)	\$6,255,507	7.55%
Principal MidCap (I)	\$1,427,796	6.18%
Lazard Global (US Bank)	\$1,425,374	6.17%

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 13. Basic and Police Pension Plans (Continued)

Net Pension Liability (Asset) (Continued)

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.50 percent for the basic plan and 16.73 percent for the police plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The components of the net pension asset of the City at June 30, 2014, were as follows:

	Basic	Police
Total pension liability	\$ 80,787,616	\$ 23,558,049
Plan fiduciary net position	82,802,022	23,110,759
City's net pension liability (asset)	<u>\$ (2,014,406)</u>	<u>\$ 447,290</u>
Plan fiduciary net position as a percentage of the total pension liability	102.49%	98.10%

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following relevant actuarial information:

	Basic	Police
Actuarial valuation date	June 30, 2014	June 30, 2014
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Amount, Open	Level Dollar Amount, Open
Amortization period	10 years	15 years
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases	4.50%	4.50%
Inflation	2.75%	2.75%
Amortization growth rate	0.00%	0.00%

Both plans use the RP-2000 Combined Healthy Mortality Generationally Projected to with Scale AA for healthy lives.

The investment rate of return on pension plan investments was determined using the actual rates of return for the past ten years.

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate assumption lowered from 7.50% to 7.00% with the June 30, 2014 valuation.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 13. Basic and Police Pension Plans (Continued)

Net Pension Liability (Asset) (Continued)

The following presents the net pension liability of the City basic and police plans, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Basic Plan			
Net pension liability (asset)	\$ 7,588,036	\$ (2,014,406)	\$ (10,051,027)
Plan fiduciary net position as a percentage of the total pension liability	91.6%	102.5%	113.8%
Police Plan			
Net pension liability	\$ 3,484,937	\$ 447,290	\$ (2,079,020)
Plan fiduciary net position as a percentage of the total pension liability	86.9%	98.1%	109.9%

Note 14. Other Post-employment Benefits

Plan Description

The City provides post-employment health care insurance benefits for employees who are eligible for retirement benefits and who retire from the City under City Council resolution number 82-20. There is no provision for deferral of benefits for employees who separate from City employment without retiring. The School Board also provides post-employment health insurance benefits for eligible retirees. An irrevocable trust fund was established in 2007 by action of City Council for purposes of pooling, accumulating and accounting for assets necessary to fund the City's and the School Board's future obligations for other post employment benefits. The trust fund is administered by the OPEB Finance Board consisting of the City Treasurer, Chief Financial Officer, and a citizen appointee. The plans do not issue separate financial statements.

Summary of Significant Accounting Policies

Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30. Securities without an established market are reported at estimated fair value.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 14. Other Post-employment Benefits (Continued)

Plan Descriptions and Contribution Information

The City and School Board OPEB plans are single-employer defined benefit post-employment healthcare plans that cover retired City and School Board employees. The City pays up to one-half of the health insurance premiums for employees hired before April 1, 2008. For employees hired on or after April 1, 2008 who complete at least ten years of service, the City pays 2% of the premium for each year of service up to a maximum of 50%. The School Board pays up to forty percent of the health insurance premiums of School Board employees depending on years of service and/or date of hire. The City Council and the School Board have the authority to change these benefits.

Membership in the plan consisted of the following at June 30, 2012, the date of the latest actuarial valuation:

	<u>City</u>	<u>School Board</u>
Retirees and beneficiaries	98	52
Active members	246	390
Total	<u>344</u>	<u>442</u>

Annual OPEB Cost and Net OPEB Obligation

Contribution requirements are established by City Council and the School Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually.

The City's and the School Board's OPEB cost (expense) is based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's and the School Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in their net OPEB asset.

	<u>City</u>	<u>School Board</u>
Annual Required Contribution (ARC)	\$ 847,000	\$ 358,000
Interest on prior year OPEB asset	(70,000)	(64,000)
Adjustment to the ARC	67,000	62,000
Net OPEB cost	<u>844,000</u>	<u>356,000</u>
Contributions made	3,349,000	455,000
Increase (decrease) in net OPEB asset	2,505,000	99,000
Net OPEB asset, beginning of year	<u>939,000</u>	<u>859,000</u>
Net OPEB assets, end of year	<u>\$ 3,444,000</u>	<u>\$ 958,000</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 14. Other Post-employment Benefits (Continued)

Trend Information

The City's and School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the past three years were as follows:

Fiscal Year Ended	City			School Board		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
June 30, 2014	\$ 844,000	396.80%	\$ (3,406,209)	\$ 356,000	99.44%	\$ (958,000)
June 30, 2013	\$ 902,000	99.45%	\$ (939,000)	\$ 509,000	101.19%	\$ (859,000)
June 30, 2012	\$ 887,000	99.33%	\$ (976,000)	\$ 509,000	99.22%	\$ (807,000)

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2012, the most recent actuarial valuation date, are as follows:

Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ([b-a]/c)
City	\$ 2,384,000	\$ 11,124,000	\$ 8,740,000	21.47%	\$ 10,155,323	86.06%
School Board	\$ 2,429,050	\$ 5,273,000	\$ 3,024,000	42.70%	\$ 13,784,302	21.94%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employments, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required supplementary information presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the City in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 14. Other Post-employment Benefits (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plans (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and School Board and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following methods and assumptions were used as of June 30, 2012, the valuation upon which the 2014 ARC is based on:

	<u>City and School Board</u>
Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of payroll
Remaining Amortization period	25 years
Asset valuation method	5-year Smoothed Method
Actuarial assumptions:	
Payroll growth rate	4.50%
Investment rate of return	7.50%
Consumer Price Index	2.75%
Healthcare cost trend	Getzen Model
2012	7.10%
2013	6.70%
Ultimate	4.70%

Note 15. Risk Management

The City participates in the Commonwealth of Virginia's Law Enforcement Liability Plan, called VA Risk2, operated by the Division of Risk Management of the Commonwealth's Department of General Services. It was created in accordance with Sec. 2.1-526.8:1 of the Code of Virginia, which says that the State shall have the right and duty to defend any suit seeking damages or compensation against the City's officials and employees on account of wrongful acts even if any of the allegations of the suits are groundless, false, or fraudulent and may make investigation and settlement of any claims or suit as deemed expedient. The limits of VA Risk2 coverage are \$1,000,000 per claim.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance through the Virginia Municipal Liability (VML) Insurance Programs. The City also carries workers' compensation insurance through the VML Insurance Programs. This program is administered by a servicing contractor, which furnishes claims review and processing services. Each member jointly and severally agrees to assume, pay and discharge any liability. The City pays VML Insurance Programs contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Programs and claims awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Programs may assess all members in the proportion, which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 15. Risk Management (Continued)

The School Board carries commercial insurance through the VML Insurance Programs for property, casualty, general liability, and automobile coverage. Errors and omissions coverage are provided through the VaRISK 2 pool. Workers' compensation insurance is provided through School Systems of Virginia, a group self-insurance association. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

CITY OF FALLS CHURCH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 16. Fund Balances

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

	General Fund	Other Governmental Funds
Nonspendable:		
Prepays	\$ 9,716	\$ -
Inventories	189,865	-
Total nonspendable	<u>199,581</u>	<u>-</u>
Restricted for:		
Capital projects	310,263	11,760,192
Grants	250,150	-
Special transportation	-	856,688
Affordable housing	-	22,224
Total restricted	<u>560,413</u>	<u>12,639,104</u>
Committed to:		
Capital projects	3,395,859	1,555,548
Future development costs	300,000	-
Debt service	66,000	-
Special transportation	-	760,267
Affordable housing	-	407,732
Total committed	<u>3,761,859</u>	<u>2,723,547</u>
Assigned to:		
General administration	64,079	-
Public safety	127,081	-
Public works	240,663	-
Health and welfare	973	-
Parks, recreation and cultural	2,398	-
Community development	30,598	-
Economic development	12,550	-
Future development costs	597,000	-
Subsequent years appropriations	1,896,250	-
Pension contribution	9,200,000	-
Capital reserve	12,616,842	-
Total assigned	<u>24,788,434</u>	<u>-</u>
Unassigned	<u>13,508,494</u>	<u>-</u>
Total fund balance	<u><u>\$ 42,818,781</u></u>	<u><u>\$ 15,362,651</u></u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 17. Restatement

Beginning net position has been restated to properly reflect amounts in accordance with implementing **GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities***. GASB Statement No. 65 requires the reclassification of items as deferred outflows and inflows that were previously reported as assets and liabilities. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred, except any portion related to prepaid insurance costs. Bond issuance costs that were capitalized as a part of various debt issuances in prior years were required to be retroactively expensed as reflected below.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Net Position, June 30, 2013, as previously stated	\$ 52,305,898	\$ 110,446,232	\$ 98,269,214	\$ 12,177,018
To retroactively expense debt issuance costs	<u>(330,218)</u>	<u>(276,593)</u>	<u>(229,646)</u>	<u>(46,947)</u>
Net Position, June 30, 2013, as restated	<u>\$ 51,975,680</u>	<u>\$ 110,169,639</u>	<u>\$ 98,039,568</u>	<u>\$ 12,130,071</u>

Note 18. Subsequent Events

In July 2014, the City authorized the issuance of \$15,600,000 GO Public Improvement Bonds to finance the expansion of Mt. Daniel Elementary School. This bond issuance was put through a special referendum election in November 2014 whereby the voters elected to approve it. In November 2014, the City Council authorized the issuance of up to \$12,360,000 GO Public Improvement Bonds to finance Mt. Daniel as well as sewer and storm water system improvements. The City expects to sell these bonds in December 2014.

In October 2014, City Council approved using approximately \$9.2 million of water sale proceeds to fully fund the pension fund and placing \$11.3 million in capital reserves.

Note 19. Sale of Water Utility System

Effective January 3, 2014, the City of Falls Church sold its water utility system to Fairfax Water.

The following were the principal terms of the sale:

- Fairfax Water purchased the Falls Church water system assets for \$40 million. Certain of the City's water utility assets, including three undeveloped land parcels located in Fairfax County totaling approximately 9 acres, were conveyed to Fairfax Water.
- Approximately \$32.6 million of cash collected through availability fees, that was in the water fund and designated to be used for the expansion of the water system, conveyed to Fairfax Water.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 19. Sale of Water Utility System (Continued)

- The City retained liability for all outstanding debt and used the sale proceeds to pay off all water fund debt in 2014 except for one note payable outlined below.
- The City conveyed approximately \$2.7 million for pension and OPEB obligations for active Water Utility employees to Fairfax Water as outlined in Exhibit 12, as well as compensated absences. Fairfax Water placed the pension and OPEB funds into a separate trust account to continue to provide for the benefits of the City's Water Utility employees who became employees of Fairfax Water upon the sale of the Water Utility under the same provisions as the City's Basic pension and OPEB plans.
- Fairfax Water acquired the City's existing water supply contract with the Washington Aqueduct and became the retail water supplier for the City's existing customers both inside the City and in the City's current area of service in eastern Fairfax County.
- Fairfax Water guaranteed a uniform water rate for the customers in the City's service area to ensure that City residents are treated equally to the City's existing Fairfax County customers.
- Fairfax Water offered guaranteed employment (terminable only for cause) to all of the City's water system employees at comparable pay and benefits for a period of at least three years.
- Within two years from the sale closing, Fairfax Water will provide and assess uniform water rates to all customers in the City's service area to Fairfax Water's rates and will thereafter maintain a uniform rate for all customers, barring any extraordinary utility requirements.
- The City's boundary with Fairfax County was adjusted to include within the City's corporate limits the three parcels on which the George Mason High School and Mary Ellen Henderson Middle School complex and athletic facilities are located, a connecting parcel at the intersection of Haycock Road and Route 7 (Broad Street), as well as several City-owned parcels near the intersection of Shreve Road and Gordons Road. The boundary adjustment amounted to approximately 42 acres. Thirty percent of the schools parcels may be used for any purpose, while the remaining portion must be used for education-related purposes for fifty years.
- Fairfax Water will meet twice a year with the City of Falls Church to discuss water system issues, and will maintain a payment office in the City for payment of water bills.

Assets and liabilities remaining after the sale including remaining proceeds were transferred to the general fund, storm water fund, and governmental activities as follows:

Fund transfers:	
General	\$ 21,816,841
Storm water	13,813
Total	<u>21,830,654</u>
Government-wide transfers:	
Capital assets	2,476,166
Deferred OPEB asset	2,841,987
Total government-wide transfers	<u>5,318,153</u>
Total transfers from water sale	<u>\$ 27,148,807</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 19. Sale of Water Utility (Continued)

The components of the loss on the sale of water utility system is as follows:

Net proceeds from sale of water utility	\$ 7,446,227
Assumption of note payable by Fairfax Water	1,244,910
Gain on advance refunding of debt	799,615
Transfer of net capital assets to Fairfax Water	(77,818,095)
Transfer of inventory to Fairfax Water	(369,966)
Transfer to pension plan	(2,065,328)
Other	<u>(76,331)</u>
Loss on sale of water utility system	<u><u>\$ (70,838,968)</u></u>

Note 20. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 20. New Accounting Standards (Continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

Management has not yet evaluated the effects, if any, of adopting these standards.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULES OF FUNDING PROGRESS

Year Ended June 30, 2014

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
VIRGINIA RETIREMENT SYSTEM						
A. City Constitutional Officers:						
June 30, 2010	\$ 3,639,494	\$ 3,300,658	\$ (338,836)	110.27%	\$ 1,077,970	(31.43%)
June 30, 2011	\$ 3,720,251	\$ 3,472,680	\$ (247,571)	107.13%	\$ 1,080,248	(22.92%)
June 30, 2012	\$ 3,687,614	\$ 3,525,916	\$ (161,698)	104.59%	\$ 1,019,807	(15.86%)
June 30, 2013	\$ 3,867,680	\$ 3,479,522	\$ (388,158)	111.16%	\$ 1,107,113	(35.06%)
OTHER POST-EMPLOYMENT BENEFITS						
A. City:						
June 30, 2008	\$ 1,013,000	\$ 10,417,000	\$ 9,404,000	9.72%	n/a	n/a
June 30, 2010	\$ 1,795,000	\$ 11,456,000	\$ 9,661,000	15.67%	n/a	n/a
June 30, 2012	\$ 2,384,000	\$ 11,124,000	\$ 8,740,000	21.43%	n/a	n/a
B. School Board:						
June 30, 2008	\$ 610,000	\$ 6,632,000	\$ 6,022,000	9.20%	n/a	n/a
June 30, 2010	\$ 1,270,000	\$ 6,040,000	\$ 4,770,000	21.03%	n/a	n/a
June 30, 2012	\$ 2,249,000	\$ 5,273,000	\$ 3,024,000	42.65%	n/a	n/a

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

For the Year Ended June 30, 2014

	Basic	Police
Total Pension Liability		
Service Cost	\$ 1,477,682	\$ 451,780
Interest (includes interest on service cost)	5,662,883	1,596,234
Differences between expected and actual experience	(1,621,231)	(162,138)
Changes of assumptions	4,182,659	1,319,923
Benefit payments, including refunds of member contributions	(5,883,600)	(958,185)
Net change in total pension liability	3,818,393	2,247,614
Total pension liability - beginning	76,969,223	21,310,435
Total pension liability - ending	\$ 80,787,616	\$ 23,558,049
Plan fiduciary net position		
Contributions - employer	\$ 4,021,770	\$ 625,670
Contributions - member	727,295	166,846
Net investment income	11,795,982	3,316,859
Benefit payments, including refunds of member contributions	(5,883,599)	(958,185)
Administrative expenses	(58,740)	(19,151)
Net change in plan fiduciary net position	10,602,708	3,132,039
Plan fiduciary net position - beginning	72,199,314	19,978,720
Plan fiduciary net position - ending	\$ 82,802,022	\$ 23,110,759
Net pension liability (asset) - ending	\$ (2,014,406)	\$ 447,290
Plan fiduciary net position as a percentage of total pension liability	102.49%	98.10%
Covered employee payroll	\$ 13,776,586	\$ 2,351,051
Net pension liability (asset) as a percentage of covered employee payroll	-14.62%	19.03%

Notes to Schedule:

Data will be presented from the time GASB 67 was first implemented in fiscal year 2014 until 10 years of trend data is achieved.

Changes of assumptions. In 2014, the rate of investment return was lowered from 7.50% to 7.00%.

EXHIBIT 15**CITY OF FALLS CHURCH, VIRGINIA****SCHEDULE OF PENSION CONTRIBUTIONS****For the Year Ended June 30, 2014**

	Basic	Police
Actuarially determined contribution	\$ 2,131,000	\$ 599,000
Contributions in relation to the actuarially determined contribution	4,021,770	625,670
Contribution deficiency (excess)	<u>\$ (1,890,770)</u>	<u>\$ (26,670)</u>
Covered-employee payroll	<u>\$ 13,776,586</u>	<u>\$ 2,351,051</u>
Contributions as a percentage of covered-employee payroll	29.19%	26.61%

Notes to Schedule:

Valuation Date: June 30, 2014

Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior.

Key Methods and Assumptions Used to Determine Contribution Rates

	Basic	Police
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Market value	Market value
Amortization Method	Level dollar open over 10 years	Level dollar open over 15 years
Discount Rate	7.00%	7.00%
Amortiation Growth Rate	0.00%	0.00%
Inflation	2.75%	2.75%
Salary Increases	4.50%	4.50%
Mortality for both plans is RP-2000 Combined Healthy Mortality Generationally Projected to with Scale AA for healthy lives		

EXHIBIT 16**CITY OF FALLS CHURCH, VIRGINIA****SCHEDULE OF INVESTMENT RETURNS****For the Year Ended June 30, 2014**

	Basic	Police
Annual money-weighted rate of return, net of investment expense	16.50%	16.73%

CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL BY DEPARTMENT
GENERAL FUND
Year Ended June 30, 2014**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 48,189,700	\$ 48,189,700	\$ 49,289,149	\$ 1,099,449
Other local taxes	13,904,600	13,904,600	14,286,090	381,490
Permits, privilege fees, and regulatory licenses	776,000	1,076,000	1,677,603	601,603
Fines and forfeitures	691,000	691,000	777,485	86,485
Use of money and property	128,500	128,500	142,259	13,759
Charges for services	2,863,985	2,903,985	2,819,182	(84,803)
Miscellaneous	960,000	3,879,159	107,966	(3,771,193)
Gifts and contributions	13,000	42,000	52,888	10,888
Recovered costs	539,000	539,000	477,639	(61,361)
Intergovernmental				
Commonwealth	5,141,604	5,165,104	5,589,825	424,721
Federal	289,986	539,526	305,402	(234,124)
Total revenues	73,497,375	77,058,574	75,525,488	(1,533,086)
EXPENDITURES				
Current:				
Clerk of Court	48,305	48,305	37,768	10,537
Commission of Revenue	802,700	802,747	772,206	30,541
Development services	1,601,082	1,703,400	1,568,955	134,445
Executive management	3,407,861	3,442,850	3,159,608	283,242
Finance	1,347,105	1,308,177	1,304,529	3,648
Human services	4,161,472	4,269,437	3,775,974	493,463
Legislative	691,088	849,643	857,803	(8,160)
Library services	1,923,927	1,964,882	1,933,417	31,465
Public safety	8,440,983	8,768,358	8,533,556	234,802
Public works	5,753,214	6,057,227	5,689,883	367,344
Recreation and parks	3,054,400	3,114,900	2,970,849	144,051
Registrar	295,863	270,863	268,600	2,263
Sheriff	1,691,433	2,046,480	2,057,555	(11,075)
Treasurer	590,950	618,597	511,277	107,320
Non-departmental	38,807,320	38,813,381	39,266,515	(453,134)
Total expenditures	72,617,703	74,079,247	72,708,495	1,370,752
Excess (deficiency) of revenues over expenditures	879,672	2,979,327	2,816,993	(162,334)
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	259,000	346,450	155,000	(191,450)
Premiums from issuance of bonds	-	-	441,950	441,950
Proceeds from sale of capital assets	-	2,887,859	2,887,859	-
Transfers in	150,000	150,000	21,816,842	21,666,842
Transfers out	(1,500,000)	(2,563,671)	(2,563,671)	-
Total other financing sources (uses)	(1,091,000)	820,638	22,737,980	21,917,342
Net change in fund balance	\$ (211,328)	\$ 3,799,965	\$ 25,554,973	\$ 21,755,008

CITY OF FALLS CHURCH, VIRGINIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

Note 1. The State of Virginia requires all local governments prepare, approve, adopt and execute an annual budget. The budgeting process is based on estimates of revenues and expenditures. The City budgets are prepared on a modified-accrual basis of accounting in accordance with generally accepted accounting principles.

The City maintains budgetary controls to ensure compliance with legal provisions in the appropriated budget approved by the City Council. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the department level and thus the supplemental budget to actual comparison is presented at this level. Amounts that do not fall under departmental control are categorized as nondepartmental even though they may relate to a particular function.

OTHER SUPPLEMENTARY INFORMATION

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FIDUCIARY FUNDS

Basic Pension Fund

To account for the assets held in trust by the City for the employees and beneficiaries of the defined benefit basic pension plan

Police Pension Fund

To account for the assets held in trust by the City for the employees and beneficiaries of the defined benefit police pension plan.

Other Post-Employment Benefits Fund

To account for the costs associated with providing healthcare benefits to current and future eligible retirees of the City.

School Board Other Post-Employment Benefits Fund

To account for the costs associated with providing healthcare benefits to current and future eligible retirees of the School Board.

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF FIDUCIARY NET POSITION
POST-EMPLOYMENT TRUST FUNDS

June 30, 2014

	City		Other Post- Employment Benefits	School Board Other Post- Employment Benefits	Totals
	Basic Plan	Police Plan			
ASSETS					
Cash and cash equivalents	\$ 890,896	\$ 335,285	\$ 453,908	\$ 268,703	\$ 1,948,792
Investments:					
Domestic equity securities	43,980,450	12,291,121	2,510,920	1,486,410	60,268,901
Domestic fixed income securities	12,382,791	3,433,679	1,614,175	955,556	18,386,201
International equity securities	17,550,215	4,883,602	1,362,820	806,759	24,603,396
Equity - Infrastructure	5,172,072	1,425,374	-	-	6,597,446
Real estate investment trust	2,803,081	737,386	-	-	3,540,467
Total investments	81,888,609	22,771,162	5,487,915	3,248,725	113,396,411
Contributions receivable:					
Employer	73,986	22,985	-	-	96,971
Employee	26,537	6,129	-	-	32,666
Total contributions receivable	100,523	29,114	-	-	129,637
Interest and dividends receivable	14,671	4,097	-	-	18,768
Total assets	82,894,699	23,139,658	5,941,823	3,517,428	115,493,608
LIABILITIES					
Accounts payable	15,600	4,969	-	28,316	48,885
Due to general fund	77,077	23,930	494,732	133,879	729,618
Total liabilities	92,677	28,899	494,732	162,195	778,503
NET POSITION					
Held in trust for:					
Pension benefits	82,802,022	23,110,759	-	-	105,912,781
Other post-employment benefits	-	-	5,447,091	3,355,233	8,802,324
Total net position restricted for pension post-employment benefits	\$ 82,802,022	\$ 23,110,759	\$ 5,447,091	\$ 3,355,233	\$ 114,715,105

CITY OF FALLS CHURCH, VIRGINIA

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2014**

	<u>City</u>		<u>Other Post- Employment Benefits</u>	<u>School Board Other Post- Employment Benefits</u>	
	<u>Basic Plan</u>	<u>Police Plan</u>			<u>Total</u>
ADDITIONS					
Employer contributions	\$ 1,956,442	\$ 625,670	\$ 683,401	\$ 358,050	\$ 3,623,563
Employer contributions - water proceeds	2,065,328	-	2,517,922	-	4,583,250
Employee contributions	727,295	166,846	-	-	894,141
Investment earnings:					
Interest	8,487	34,471	53	-	43,011
Dividends	928,465	242,668	124,619	86,244	1,381,996
Net increase in fair value of investments	11,183,466	3,134,009	476,504	330,149	15,124,128
Total investment earnings	12,120,418	3,411,148	601,176	416,393	16,549,135
Less investment expense	(324,436)	(94,289)	(19,523)	(13,526)	(451,774)
Net investment earnings	11,795,982	3,316,859	581,653	402,867	16,097,361
 Total additions	 16,545,047	 4,109,375	 3,782,976	 760,917	 25,198,315
DEDUCTIONS					
Benefits	3,899,515	958,185	475,810	143,207	5,476,717
Contribution to Fairfax Water benefits plans	1,984,084	-	683,502	-	2,667,586
Administration	58,740	19,151	73	-	77,964
 Total deductions	 5,942,339	 977,336	 1,159,385	 143,207	 8,222,267
 Change in net position	 10,602,708	 3,132,039	 2,623,591	 617,710	 16,976,048
NET POSITION AT JULY 1	<u>72,199,314</u>	<u>19,978,720</u>	<u>2,823,500</u>	<u>2,737,523</u>	<u>97,739,057</u>
 NET POSITION AT JUNE 30	 <u>\$ 82,802,022</u>	 <u>\$23,110,759</u>	 <u>\$ 5,447,091</u>	 <u>\$ 3,355,233</u>	 <u>\$ 114,715,105</u>

AGENCY FUNDS

Fairfax County Water Authority Fund

To account for monies received and disbursed on behalf of the Authority for sewer services.

Northern Virginia Criminal Justice Training Academy Fund

To account for monies received and disbursed on behalf of the Academy.

SCHEDULE 3**CITY OF FALLS CHURCH, VIRGINIA****COMBINING STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2014**

	Fairfax County Water Authority	Northern Virginia Criminal Justice Academy	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 3,461,555	\$ 3,461,555
Other receivables	1,057,541	-	1,057,541
Due from general fund	112,797	-	112,797
Total assets	<u>\$ 1,170,338</u>	<u>\$ 3,461,555</u>	<u>\$ 4,631,893</u>
LIABILITIES			
Amounts held for others	\$ 1,170,338	\$ 3,428,633	\$ 4,598,971
Due to general fund	-	32,922	32,922
Total liabilities	<u>\$ 1,170,338</u>	<u>\$ 3,461,555</u>	<u>\$ 4,631,893</u>

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2014

	Balances July 1, 2013	Additions	Deductions	Balances June 30, 2014
Fairfax County Water Authority				
ASSETS				
Other receivables	\$ 2,483,544	\$ 16,373,914	\$ 17,799,917	\$ 1,057,541
Due from general fund	1,925,599	17,637,741	19,450,543	112,797
Total assets	<u>\$ 4,409,143</u>	<u>\$ 34,011,655</u>	<u>\$ 37,250,460</u>	<u>\$ 1,170,338</u>
LIABILITIES				
Amounts held for others	\$ 4,409,143	\$ 34,011,655	\$ 37,250,460	\$ 1,170,338
Total liabilities	<u>\$ 4,409,143</u>	<u>\$ 34,011,655</u>	<u>\$ 37,250,460</u>	<u>\$ 1,170,338</u>
Northern Virginia Criminal Justice Academy				
ASSETS				
Cash and cash equivalents	\$ 3,328,085	\$ 2,024,607	\$ 1,891,137	\$ 3,461,555
Total assets	<u>\$ 3,328,085</u>	<u>\$ 2,024,607</u>	<u>\$ 1,891,137</u>	<u>\$ 3,461,555</u>
LIABILITIES				
Amounts held for others	\$ 3,297,409	\$ 3,935,759	\$ 3,804,535	\$ 3,428,633
Due to general fund	30,676	5,834,507	5,832,261	32,922
Total liabilities	<u>\$ 3,328,085</u>	<u>\$ 9,770,266</u>	<u>\$ 9,636,796</u>	<u>\$ 3,461,555</u>
Totals				
ASSETS				
Cash and cash equivalents	\$ 3,328,085	\$ 2,024,607	\$ 1,891,137	\$ 3,461,555
Other receivables	2,483,544	16,373,914	17,799,917	1,057,541
Due from general fund	1,925,599	17,637,741	19,450,543	112,797
Total assets	<u>\$ 7,737,228</u>	<u>\$ 36,036,262</u>	<u>\$ 39,141,597</u>	<u>\$ 4,631,893</u>
LIABILITIES				
Amounts held for others	\$ 7,706,552	\$ 37,947,414	\$ 41,054,995	\$ 4,598,971
Due to general fund	30,676	5,834,507	5,832,261	32,922
Total liabilities	<u>\$ 7,737,228</u>	<u>\$ 43,781,921</u>	<u>\$ 46,887,256</u>	<u>\$ 4,631,893</u>

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

Major Governmental Funds

School Operating Fund

The School Operating Fund is a special revenue fund that accounts for the operations of the City's school system. Financing is provided by the State and Federal Governments as well as contributions from the general fund.

School Community Service Fund

The School Community Service Fund is a special revenue fund that accounts for transactions related to donations, daycare operations, and rental income for the school system.

Nonmajor Governmental Funds

School Food Service Fund

The School Food Service Fund is a special revenue fund that accounts for the City's school lunch program. Financing is provided from lunch sales and state and federal reimbursements.

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	<u>Major</u>		<u>Non-major</u>	
	<u>School</u>	<u>School</u>	<u>School</u>	<u>Total</u>
	<u>Operating</u>	<u>Community</u>	<u>Food</u>	<u>Governmental</u>
		<u>Service</u>	<u>Service</u>	<u>Funds</u>
ASSETS				
Cash and investments	\$ 1,002,713	\$ 823,849	\$ 301,204	\$ 2,127,766
Due from fiduciary funds	133,879	-	-	133,879
Due from primary government	5,267,021	190,983	-	5,458,004
Due from other governments	422,397	-	16,287	438,684
Prepays	14,891	6,837	-	21,728
Total assets	<u>\$ 6,840,901</u>	<u>\$ 1,021,669</u>	<u>\$ 317,491</u>	<u>\$ 8,180,061</u>
LIABILITIES				
Accounts payable and other liabilities	<u>\$ 5,318,262</u>	<u>\$ 83,530</u>	<u>\$ 62,352</u>	<u>\$ 5,464,144</u>
Total liabilities	<u>5,318,262</u>	<u>83,530</u>	<u>62,352</u>	<u>5,464,144</u>
FUND BALANCES				
Nonspendable:				
Prepays	14,891	6,837	-	21,728
Assigned:				
Education	<u>1,507,748</u>	<u>931,302</u>	<u>255,139</u>	<u>2,694,189</u>
Total fund balances	<u>1,522,639</u>	<u>938,139</u>	<u>255,139</u>	<u>2,715,917</u>
Total liabilities and fund balances	<u>\$ 6,840,901</u>	<u>\$ 1,021,669</u>	<u>\$ 317,491</u>	<u>\$ 8,180,061</u>

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total Fund Balance - Governmental Funds \$ 2,715,917

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.

Nondepreciable	\$ 1,273,354	
Depreciable, net	<u>2,498,330</u>	3,771,684

Deferred OPEB charges reported in governmental activities use current financial resources and therefore are reported as expenditures in the governmental fund financial statements but are reported as an asset in the governmental activities on the Statement of Net Position.

958,000

Governmental activities recognize rent expense equally over the term of the lease agreement whereas governmental funds report only the outlays for rent payments as expenditures. The difference is included in other liabilities in the governmental activities of the Statement of Net Position.

(133,562)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Termination benefits	(3,240,000)	
Compensated absences	(1,146,115)	
Other lease liability	(1,105,320)	
Capital lease payable	<u>(17,936)</u>	<u>(5,509,371)</u>

Total Net Position - Governmental Activities

\$ 1,802,668

CITY OF FALLS CHURCH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	Major		Non-major	
	School	School	School	Total
	Operating	Community	Food	Governmental
		Service	Service	Funds
REVENUES				
Revenue from use of money and property	\$ 25,712	\$ 83,935	\$ -	\$ 109,647
Charges for services	237,621	1,368,744	652,919	2,259,284
Fines	62,500	-	-	62,500
Miscellaneous	54,377	26,619	745	81,741
Intergovernmental:				
Federal	471,686	-	110,633	582,319
Commonwealth	5,517,878	-	-	5,517,878
Payments from City	33,682,700	92,900	-	33,775,600
Total revenues	40,052,474	1,572,198	764,297	42,388,969
EXPENDITURES				
Current:				
Education	38,553,523	1,291,258	810,525	40,655,306
Capital outlay	839,063	94,809	2,960	936,832
Debt service:				
Principal retirement	69,286	-	-	69,286
Interest and fiscal charges	6,501	-	-	6,501
Total expenditures	39,468,373	1,386,067	813,485	41,667,925
Excess (deficiency) of revenues over expenditures	584,101	186,131	(49,188)	721,044
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	98,796	98,796
Transfers out	(27,796)	(71,000)	-	(98,796)
Total other financing sources (uses)	(27,796)	(71,000)	98,796	-
Net change in fund balance	556,305	115,131	49,608	721,044
FUND BALANCE AT JULY 1	966,334	823,008	205,531	1,994,873
FUND BALANCE AT JUNE 30	<u>\$ 1,522,639</u>	<u>\$ 938,139</u>	<u>\$ 255,139</u>	<u>\$ 2,715,917</u>

CITY OF FALLS CHURCH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Net Change in Fund Balance - Governmental Funds \$ 721,044

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 181,334	
Depreciation expense	<u>(343,061)</u>	(161,727)

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the property sold. (33,618)

Governmental funds report outlays for the contribution to the other post-employment benefit trust fund. It also reports outlays for implicit subsidies of other post-employment benefit provided to retirees. Governmental activities recognize an expense that is equal to the annual required contribution (ARC) and the amortization of prior underpayments/overpayments in the governmental activities of the Statement of Changes in Net Position. 99,050

Governmental activities recognize rent expense equally over the term of the lease agreement whereas governmental funds report only the outlays for rent payments as expenditure. (6,035)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in termination benefits	\$ 178,532	
Change in compensated absences	(33,653)	
Acquisition of non-capitalized equipment by lease	<u>(1,105,320)</u>	(960,441)

The repayment of the principal of long-term debt consumes current financial resources of governmental funds. However, the transaction has no effect on net position. 69,286

Change in Net Position - Governmental Activities \$ (272,441)

CITY OF FALLS CHURCH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - SCHOOL OPERATING FUND
Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	\$ 26,000	\$ 26,000	\$ 25,712	\$ (288)
Charges for services	354,900	354,900	237,621	(117,279)
Fines	-	-	62,500	62,500
Miscellaneous	350,000	350,000	54,377	(295,623)
Intergovernmental:				
Federal	506,800	506,800	471,686	(35,114)
Commonwealth	5,474,900	5,474,900	5,517,878	42,978
Primary government	33,682,700	33,682,700	33,682,700	-
Total revenues	40,395,300	40,395,300	40,052,474	(342,826)
EXPENDITURES				
Current:				
Education	39,994,600	39,786,597	38,553,523	1,233,074
Capital outlay	928,200	1,046,203	839,063	207,140
Debt service:				
Principal retirement	-	-	69,286	(69,286)
Interest and fiscal charges	-	-	6,501	(6,501)
Total expenditures	40,922,800	40,832,800	39,468,373	1,364,427
Excess (deficiency) of revenues over expenditures	(527,500)	(437,500)	584,101	1,021,601
OTHER FINANCING SOURCES (USES)				
Transfers in	41,500	(48,500)	(27,796)	20,704
Total other financing sources (uses)	41,500	(48,500)	(27,796)	20,704
Net change in fund balances	\$ (486,000)	\$ (486,000)	\$ 556,305	\$ 1,042,305

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - SCHOOL COMMUNITY SERVICE FUND
Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	\$ 64,800	\$ 64,800	\$ 83,935	\$ 19,135
Charges for services	1,326,600	1,326,600	1,368,744	42,144
Miscellaneous	50,000	50,000	26,619	(23,381)
Intergovernmental:				
Payments from City	92,900	92,900	92,900	-
Total revenues	1,534,300	1,534,300	1,572,198	37,898
EXPENDITURES				
Current:				
Education	1,465,300	1,480,077	1,291,258	188,819
Capital outlay	217,500	188,223	94,809	93,414
Total expenditures	1,682,800	1,668,300	1,386,067	282,233
Excess (deficiency) of revenues over expenditures	(148,500)	(134,000)	186,131	320,131
OTHER FINANCING USES				
Transfers out	(56,500)	(71,000)	(71,000)	-
Total other financing uses	(56,500)	(71,000)	(71,000)	-
Net change in fund balances	\$ (205,000)	\$ (205,000)	\$ 115,131	\$ 320,131

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2014

	Thomas Jefferson Elementary	Mt. Daniel Elementary	Mary Ellen Henderson Middle School	George Mason High School	Total
ASSETS					
Cash and cash equivalents	\$ 21,843	\$ 41,489	\$ 40,389	\$ 345,821	\$ 449,542
Total assets	<u>\$ 21,843</u>	<u>\$ 41,489</u>	<u>\$ 40,389</u>	<u>\$ 345,821</u>	<u>\$ 449,542</u>
LIABILITIES					
Amounts held for others	\$ 21,843	\$ 41,489	\$ 40,389	\$ 345,821	\$ 449,542
Total liabilities	<u>\$ 21,843</u>	<u>\$ 41,489</u>	<u>\$ 40,389</u>	<u>\$ 345,821</u>	<u>\$ 449,542</u>

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2014

	Balances July 1, 2013	Additions	Deductions	Balances June 30, 2014
THOMAS JEFFERSON ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 26,236	\$ 60,445	\$ 64,838	\$ 21,843
Total assets	<u>\$ 26,236</u>	<u>\$ 60,445</u>	<u>\$ 64,838</u>	<u>\$ 21,843</u>
Liabilities				
Amounts held for others	\$ 26,236	\$ 60,445	\$ 64,838	\$ 21,843
Total liabilities	<u>\$ 26,236</u>	<u>\$ 60,445</u>	<u>\$ 64,838</u>	<u>\$ 21,843</u>
MT. DANIEL ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 28,777	\$ 42,200	\$ 29,488	\$ 41,489
Total assets	<u>\$ 28,777</u>	<u>\$ 42,200</u>	<u>\$ 29,488</u>	<u>\$ 41,489</u>
Liabilities				
Amounts held for others	\$ 28,777	\$ 42,200	\$ 29,488	\$ 41,489
Total liabilities	<u>\$ 28,777</u>	<u>\$ 42,200</u>	<u>\$ 29,488</u>	<u>\$ 41,489</u>
MARY ELLEN HENDERSON MIDDLE SCHOOL				
Assets				
Cash and cash equivalents	\$ 31,701	\$ 80,232	\$ 71,544	\$ 40,389
Total assets	<u>\$ 31,701</u>	<u>\$ 80,232</u>	<u>\$ 71,544</u>	<u>\$ 40,389</u>
Liabilities				
Amounts held for others	\$ 31,701	\$ 80,232	\$ 71,544	\$ 40,389
Total liabilities	<u>\$ 31,701</u>	<u>\$ 80,232</u>	<u>\$ 71,544</u>	<u>\$ 40,389</u>
GEORGE MASON HIGH SCHOOL				
Assets				
Cash and cash equivalents	\$ 336,890	\$ 484,830	\$ 475,899	\$ 345,821
Total assets	<u>\$ 336,890</u>	<u>\$ 484,830</u>	<u>\$ 475,899</u>	<u>\$ 345,821</u>
Liabilities				
Amounts held for others	\$ 336,890	\$ 484,830	\$ 475,899	\$ 345,821
Total liabilities	<u>\$ 336,890</u>	<u>\$ 484,830</u>	<u>\$ 475,899</u>	<u>\$ 345,821</u>
TOTAL				
Assets				
Cash and cash equivalents	\$ 423,604	\$ 667,707	\$ 641,769	\$ 449,542
Total assets	<u>\$ 423,604</u>	<u>\$ 667,707</u>	<u>\$ 641,769</u>	<u>\$ 449,542</u>
Liabilities				
Amounts held for others	\$ 423,604	\$ 667,707	\$ 641,769	\$ 449,542
Total liabilities	<u>\$ 423,604</u>	<u>\$ 667,707</u>	<u>\$ 641,769</u>	<u>\$ 449,542</u>

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DISCRETELY PRESENTED COMPONENT UNIT – ECONOMIC DEVELOPMENT AUTHORITY

Economic Development Authority Fund

To account for the promotion of economic development of the City. All activities necessary to provide such services are included in the fund.

CITY OF FALLS CHURCH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2014

ASSETS

Cash and investments	\$ 1,951,863
Accounts receivable	3,080
Due from primary government	<u>250,000</u>
Total assets	<u><u>\$ 2,204,943</u></u>

LIABILITIES

Accounts payable and other liabilities	<u>\$ 250,400</u>
Total liabilities	<u>250,400</u>

FUND BALANCE

Assigned	<u>1,954,543</u>
Total fund balance	<u>1,954,543</u>
Total liabilities and fund balance	<u><u>\$ 2,204,943</u></u>

There are no differences between the amounts reported above as the fund balance and the amounts reported as net position on the Statement of Net Position (Exhibit 1).

SCHEDULE 14

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND**

Year Ended June 30, 2014

REVENUES

Use of money and property	\$ 621
Miscellaneous	22,686
Total revenue	<u>23,307</u>

EXPENDITURES

Current:

Economic development	<u>21,641</u>
Total expenditures	<u>21,641</u>
Excess of revenues over expenditures	<u>1,666</u>

OTHER FINANCING SOURCES

Proceeds from sale of capital assets	<u>1,833,641</u>
Total other financing sources	<u>1,833,641</u>
Net change in fund balance	1,835,307

FUND BALANCE AT JULY 1

119,236

FUND BALANCE AT JUNE 30

\$ 1,954,543

Reconciliation of amounts reported for governmental activities in the Statement of Activities:

Net change in fund balance	1,835,307
----------------------------	-----------

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the property sold.

(517,255)

Change in net position of governmental activities

\$ 1,318,052

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STATISTICAL SECTION

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STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<u>Contents</u>	<u>Pages</u>
<i>Financial Trends – Tables 1 – 4</i>	
These tables contain financial trend information to help the reader understand how the government's financial performance and well-being have changed over time.	96-100
<i>Revenue Capacity – Tables 5 – 8</i>	
These tables contain information to help the reader assess the government's most significant local revenue source, real estate and personal property taxes.	101-104
<i>Debt Capacity – Tables 9 – 11</i>	
These schedules contain trend information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	105-107
<i>Demographic and Economic Information – Tables 12 – 13</i>	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place	108-109
<i>Operating Information – Tables 14 – 16</i>	
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and activities it performs	110-113

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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TABLE 1

CITY OF FALLS CHURCH, VIRGINIA

NET POSITION BY COMPONENT

Last Ten Fiscal Years

(accrual basis of accounting)

(unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities										
Net investment in capital assets	\$ 38,525,915	\$ 39,248,950	\$ 31,282,109	\$ 30,402,986	\$ 28,758,627	\$ 27,502,320	\$ 25,612,690	\$ 23,379,076	\$ 18,918,420	\$ 19,354,251
Restricted	12,342,829	390,112	110,929	152,686	70,153	-	-	-	-	-
Unrestricted	30,793,497	12,666,836	15,584,623	8,624,721	4,027,491	9,312,853	14,477,291	16,859,105	19,001,599	15,126,942
Total governmental activities net position	<u>\$ 81,662,241</u>	<u>\$ 52,305,898</u>	<u>\$ 46,977,661</u>	<u>\$ 39,180,393</u>	<u>\$ 32,856,271</u>	<u>\$ 36,815,173</u>	<u>\$ 40,089,981</u>	<u>\$ 40,238,181</u>	<u>\$ 37,920,019</u>	<u>\$ 34,481,193</u>
Business-type activities										
Net investment in capital assets	\$ 10,278,011	\$ 75,135,994	\$ 71,450,170	\$ 67,031,493	\$ 60,677,853	\$ 60,392,743	\$ 51,078,151	\$ 50,471,649	\$ 50,534,282	\$ 49,170,424
Unrestricted	7,024,540	35,310,238	30,167,055	29,197,725	28,109,384	21,437,246	11,185,756	26,947,631	21,757,554	22,433,855
Total business-type activities net position	<u>\$ 17,302,551</u>	<u>\$ 110,446,232</u>	<u>\$ 101,617,225</u>	<u>\$ 96,229,218</u>	<u>\$ 88,787,237</u>	<u>\$ 81,829,989</u>	<u>\$ 62,263,907</u>	<u>\$ 77,419,280</u>	<u>\$ 72,291,836</u>	<u>\$ 71,604,279</u>
Primary government										
Net investment in capital assets	\$ 48,803,926	\$ 114,384,944	\$ 102,732,279	\$ 97,434,479	\$ 89,436,480	\$ 87,895,063	\$ 76,690,841	\$ 73,850,725	\$ 69,452,702	\$ 68,524,675
Restricted	12,342,829	390,112	110,929	152,686	70,153	-	-	-	-	-
Unrestricted	37,818,037	47,977,074	45,751,678	37,822,446	32,136,875	30,750,099	25,663,047	43,806,736	40,759,153	37,560,797
Total primary government net position	<u>\$ 98,964,792</u>	<u>\$ 162,752,130</u>	<u>\$ 148,594,886</u>	<u>\$ 135,409,611</u>	<u>\$ 121,643,508</u>	<u>\$ 118,645,162</u>	<u>\$ 102,353,888</u>	<u>\$ 117,657,461</u>	<u>\$ 110,211,855</u>	<u>\$ 106,085,472</u>

Notes:

The City restated net position as of June 30, 2009, 2010, 2013, and 2014. The restatements are not included in the prior data.

TABLE 2

CITY OF FALLS CHURCH, VIRGINIA
CHANGES IN NET POSITION BY COMPONENT
Last Ten Fiscal Years
 (accrual basis of accounting)
 (unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses										
Governmental activities										
General government	\$ 6,002,133	\$ 5,367,731	\$ 4,788,719	\$ 4,493,498	\$ 4,964,439	\$ 5,117,721	\$ 5,482,600	\$ 4,786,763	\$ 4,129,020	\$ 3,935,683
Judicial administration	2,010,133	1,873,922	1,610,517	1,531,960	1,517,515	1,522,844	1,398,558	1,291,039	1,245,977	1,156,203
Public safety	10,908,109	9,788,047	9,434,025	8,954,827	9,363,766	8,809,226	8,195,664	7,982,071	6,995,489	7,017,277
Public works	6,648,977	6,285,870	5,336,869	5,920,960	5,013,021	5,639,536	6,489,819	5,288,565	6,332,313	4,127,607
Health and welfare	2,021,528	2,218,700	2,003,105	2,105,699	2,201,229	2,365,068	2,626,378	3,316,750	3,018,356	2,740,167
Education and payments to schools	35,381,445	32,035,481	29,064,131	29,276,052	30,768,947	31,371,993	30,878,770	29,072,459	26,379,915	23,400,685
Parks, recreation, and cultural	4,892,129	4,603,123	4,392,338	4,449,481	4,486,619	4,745,375	3,862,621	3,598,289	3,306,719	3,158,648
Community development	3,486,360	3,307,046	1,745,896	1,439,852	1,435,053	2,379,992	2,231,172	1,700,846	1,132,733	1,163,151
Economic development	353,517	314,171	323,036	322,405	351,233	395,505	385,564	359,538	373,963	294,554
Interest	1,501,342	1,116,712	1,278,045	1,410,283	1,555,466	1,661,998	1,713,885	1,746,086	1,661,368	2,220,727
Total governmental activities	73,205,673	66,910,803	59,976,681	59,905,017	61,657,288	64,009,258	63,265,031	59,142,406	54,575,853	49,214,702
Business-type activities										
Water	13,885,901	20,930,432	19,271,724	17,690,104	17,240,177	17,509,332	31,372,591	17,195,584	16,289,183	14,878,376
Sewer	2,805,228	2,546,447	2,887,321	1,937,681	2,078,222	1,989,719	5,381,002	2,781,966	2,088,637	2,028,151
Storm water	1,185,304	-	-	-	-	-	-	-	-	-
Total business-type activities expense	17,876,433	23,476,879	22,159,045	19,627,785	19,318,399	19,499,051	36,753,593	19,977,550	18,377,820	16,906,527
Total primary government expenses	91,082,106	90,387,682	82,135,726	79,532,802	80,975,687	83,508,309	100,018,624	79,119,956	72,953,673	66,121,229
Program revenues										
Governmental activities										
Charges for services										
Parks and recreation	1,925,368	1,895,540	1,784,380	1,822,851	1,565,668	1,398,036	890,329	851,479	806,936	718,591
Judicial administration	1,067,969	990,687	1,106,413	1,189,447	1,111,368	1,039,920	985,851	702,289	704,344	672,226
Public safety	2,021,982	1,158,033	1,054,488	640,353	637,012	510,075	606,394	970,613	773,476	1,414,384
Other activities	936,543	1,050,301	957,930	790,385	492,204	410,406	478,329	376,376	362,644	403,120
Operating grants and contributions	3,756,117	3,470,652	2,133,526	2,151,480	2,249,881	3,545,362	3,538,063	3,661,138	3,099,444	2,806,914
Capital grants and contributions	1,276,720	569,648	807,771	560,269	592,880	1,156	100,534	138,488	-	-
Total governmental activities program revenues	10,984,699	9,134,861	7,844,508	7,154,785	6,649,013	6,904,955	6,599,500	6,700,383	5,746,844	6,015,235
Business-type activities										
Charges for services										
Water	14,017,794	24,363,306	22,770,417	21,710,937	19,846,413	21,366,915	20,289,970	22,321,609	18,936,968	17,150,392
Sewer	3,603,322	3,312,868	3,073,519	2,641,877	2,638,970	2,755,257	2,504,749	3,602,944	2,581,621	2,731,556
Storm water	764,451	-	-	-	-	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-	-	-	25,843,936	-	-
Capital grants and contributions	328,214	4,255,493	1,496,722	2,717,914	284,330	236,655	479,911	839,993	1,532,935	1,907,477
Total business-type activities program revenues	18,713,781	31,931,667	27,340,658	27,070,728	22,769,713	24,358,827	23,274,630	52,608,482	23,051,524	21,789,425
Total primary government program revenues	29,698,480	41,066,528	35,185,166	34,225,513	29,418,726	31,263,782	29,874,130	59,308,865	28,798,368	27,804,660
Net (expense) revenue										
Governmental activities	\$(62,220,974)	\$(57,775,942)	\$(52,132,173)	\$(52,750,232)	\$(55,008,275)	\$(57,104,303)	\$(56,665,531)	\$(52,442,023)	\$(48,829,009)	\$(43,199,467)
Business-type activities	837,348	8,454,788	5,181,613	7,442,943	3,451,314	4,859,776	(13,478,963)	32,630,932	4,673,704	4,882,898
Total primary government net expense (Continued)	\$(61,383,626)	\$(49,321,154)	\$(46,950,560)	\$(45,307,289)	\$(51,556,961)	\$(52,244,527)	\$(70,144,494)	\$(19,811,091)	\$(44,155,305)	\$(38,316,569)

TABLE 2
(Continued)

CITY OF FALLS CHURCH, VIRGINIA

CHANGES IN NET POSITION BY COMPONENT

Last Ten Fiscal Years
(accrual basis of accounting)
(unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
General property taxes	44,777,426	42,216,103	39,381,606	38,879,467	36,000,253	34,828,753	33,878,025	32,844,128	29,624,514	26,248,419
Personal property	4,602,697	4,258,749	4,156,728	3,678,885	3,381,964	3,539,667	3,287,380	3,303,768	3,327,582	3,137,750
Business licenses, based on gross receipts	3,545,053	3,374,891	3,259,871	3,284,068	2,698,584	2,819,183	3,138,550	3,053,349	2,936,648	2,913,022
Local sales and use	3,778,221	3,737,117	3,899,279	3,619,912	3,035,145	2,042,219	3,962,354	4,222,823	4,263,902	3,828,328
Consumer's utility	2,183,795	2,142,459	2,102,986	2,180,644	2,063,222	2,084,240	2,143,666	2,018,214	1,595,837	1,645,515
Motor vehicle decals	311,704	313,245	319,335	238,177	226,723	226,978	208,790	216,892	202,229	223,394
Real estate recordation taxes	483,192	602,651	475,057	371,514	369,453	446,906	712,026	301,751	213,868	232,243
Occupancy, tobacco, and other	4,682,907	3,867,148	3,833,289	3,789,771	3,298,074	3,139,911	3,468,099	2,754,408	3,150,953	2,454,441
Intergovernmental, non-categorical aid	2,139,198	2,020,878	2,020,878	2,020,878	2,020,878	2,020,878	2,038,599	1,983,445	1,535,838	1,495,015
Use of money and property	142,860	141,673	105,827	75,495	85,531	83,428	466,667	855,866	569,561	546,512
Miscellaneous	99,286	279,265	229,637	110,572	72,104	55,159	137,001	150,420	71,029	43,674
Capital contribution	252,000	-	-	-	-	-	-	-	-	-
Special item-gain on sales of capital assets	1,817,968	-	-	735,367	-	-	-	-	-	-
Transfers	23,091,228	150,000	150,000	89,604	(2,202,601)	2,404,041	3,076,174	3,055,121	4,775,874	4,764,256
Total governmental activities	91,907,535	63,104,179	59,934,493	59,074,354	51,049,330	53,691,363	56,517,331	54,760,185	52,267,835	47,532,569
Business-type activities:										
Use of money and property	136,819	319,150	281,920	213,217	63,385	356,324	1,393,656	1,361,932	759,782	650,041
Miscellaneous	(32,638)	59,428	74,474	125,305	(28,339)	204,136	6,108	33,637	29,945	38,202
Special item: Loss from sale of water fund	(68,652,061)	-	-	-	-	-	-	-	-	-
Insurance recovery of legal costs, net	-	-	-	-	1,025,632	-	-	-	-	-
Transfers	(25,156,556)	(150,000)	(150,000)	(89,604)	2,202,601	(2,404,041)	(3,076,174)	(3,055,121)	(4,775,874)	(4,764,256)
Total business-type activities	(93,704,436)	228,578	206,394	248,918	3,263,279	(1,843,581)	(1,676,410)	(1,659,552)	(3,986,147)	(4,076,013)
Total primary government	(1,796,901)	63,332,757	60,140,887	59,323,272	54,312,609	51,847,782	54,840,921	53,100,633	48,281,688	43,456,556
Changes in Net Position										
Governmental activities	29,686,561	5,328,237	7,802,320	6,324,122	(3,958,945)	(3,412,940)	(148,200)	2,318,162	3,438,826	4,333,102
Business-type activities	(92,867,088)	8,683,366	5,388,007	7,691,861	6,714,593	3,016,195	(15,155,373)	30,971,380	687,557	806,885
Total primary government	(63,180,527)	14,011,603	13,190,327	14,015,983	2,755,648	(396,745)	(15,303,573)	33,289,542	4,126,383	5,139,987

Notes:

The City restated net position as of June 30, 2009, 2010, 2013, and 2014. The restatements are not included in prior data.

TABLE 3

CITY OF FALLS CHURCH, VIRGINIA

FUND BALANCES - GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

(unaudited)

	2014	2013	2012	2011		
Post-GASB 54 implementation:						
General Fund						
Nonspendable	\$ 199,581	\$ 268,619	\$ 280,819	\$ 251,358		
Restricted	560,413	159,715	110,929	247,364		
Committed	3,761,859	1,418,300	-	-		
Assigned	24,788,434	595,253	760,861	380,682		
Unassigned	13,508,494	14,821,921	13,716,496	7,041,658		
Total general fund	<u>\$ 42,818,781</u>	<u>\$ 17,263,808</u>	<u>\$ 14,869,105</u>	<u>\$ 7,921,062</u>		
 All Other Governmental Funds						
Restricted	\$ 12,639,104	\$ 1,990,159	\$ 7,519,397	\$ 134,686		
Committed	2,723,547	1,374,466	856,344	1,401,402		
Total all other governmental funds	<u>\$ 15,362,651</u>	<u>\$ 3,364,625</u>	<u>\$ 8,375,741</u>	<u>\$ 1,536,088</u>		
 Pre-GASB 54 implementation:						
	2010	2009	2008	2007	2006	2005
General Fund						
Reserved	\$ 1,124,698	\$ 1,265,850	\$ 1,494,647	\$ 1,531,626	\$ 1,024,193	\$ 1,161,401
Unreserved	2,674,638	2,894,988	9,830,681	12,666,003	15,129,189	12,631,956
Total general fund	<u>\$ 3,799,336</u>	<u>\$ 4,160,838</u>	<u>\$ 11,325,328</u>	<u>\$ 14,197,629</u>	<u>\$ 16,153,382</u>	<u>\$ 13,793,357</u>
 All Other Governmental Funds						
Reserved	\$ 395,238	\$ 1,423,401	\$ 543,425	\$ 2,281,152	\$ 2,281,152	\$ 5,151,445
Unreserved:						
Designated:						
Capital projects fund	656,967	4,513,944	4,643,132	1,375,326	1,375,326	4,530,899
Special revenue fund	539,152	537,799	381,159	504,325	431,941	414,219
Total all other governmental funds	<u>\$ 1,591,357</u>	<u>\$ 6,475,144</u>	<u>\$ 5,567,716</u>	<u>\$ 4,160,803</u>	<u>\$ 4,088,419</u>	<u>\$ 10,096,563</u>

Note: In FY 2011, the City implemented GASB Statement No. 54.

TABLE 4

CITY OF FALLS CHURCH, VIRGINIA

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Last Ten Fiscal Years
(modified accrual basis of accounting)
(unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
General property taxes	\$ 49,289,149	\$ 46,405,519	\$ 43,870,383	\$ 42,146,436	\$ 39,476,351	\$ 38,456,297	\$ 37,603,499	\$ 35,601,262	\$ 33,248,625	\$ 28,777,104
Other local taxes	15,031,665	14,068,000	13,868,919	13,379,038	11,610,183	10,759,416	13,621,231	12,554,667	12,350,831	11,284,301
Permits, fees, and licenses	1,677,603	916,677	634,184	404,899	511,285	322,639	440,771	757,587	442,556	479,042
Fines and forfeitures	777,485	672,757	763,353	727,990	610,267	481,319	482,961	344,063	649,377	1,302,463
Charges for services	2,819,182	3,107,315	2,844,768	2,837,487	2,528,088	2,387,814	1,869,435	1,655,668	1,423,258	1,292,015
Use of money and property	142,860	141,673	105,827	75,495	85,531	83,428	466,667	855,866	569,561	546,512
Miscellaneous	107,966	265,161	204,908	117,019	150,691	65,129	108,705	591,414	62,800	148,820
Gifts and contributions	148,492	313,575	218,930	77,687	42,328	1,243,431	1,342,652	-	-	-
Recovered costs	477,639	509,488	540,765	461,219	1,869,125	1,429,477	1,341,695	1,469,148	2,012,726	2,236,692
Intergovernmental:										
Commonwealth	5,882,944	5,093,110	3,913,214	3,855,857	4,036,330	4,013,417	4,143,211	4,025,954	4,633,990	3,018,725
Federal	1,140,608	776,311	896,997	798,217	719,247	304,030	207,090	1,105,665	1,001,162	851,358
Total revenues	77,495,593	72,269,586	67,862,248	64,881,344	61,639,426	59,546,397	61,627,917	58,961,294	56,394,886	49,937,032
Expenditures										
General government	5,797,523	5,240,051	4,439,532	4,143,809	5,866,102	5,874,181	6,058,525	5,674,088	5,722,648	5,251,876
Judicial administration	1,968,347	1,820,027	1,594,048	1,486,558	1,457,627	1,459,252	1,352,188	1,230,303	1,205,050	1,094,018
Public safety	10,775,667	9,731,518	9,389,094	8,787,149	8,896,616	8,513,351	8,185,464	7,644,603	6,704,083	6,996,497
Public works	5,628,283	5,759,636	5,266,144	5,325,810	5,256,273	5,478,550	5,834,441	4,555,196	5,410,065	4,147,696
Health and welfare	2,100,636	2,263,633	1,992,565	2,121,788	2,229,111	2,371,178	2,608,446	3,143,233	3,021,934	2,719,107
Parks, recreation, and cultural	4,573,151	4,323,040	4,100,421	4,190,243	4,133,292	4,359,681	3,659,333	3,290,829	3,123,316	2,962,822
Community development	3,486,346	3,324,309	1,754,043	1,416,195	1,419,982	2,227,411	2,175,626	1,753,211	1,430,897	1,424,396
Education	33,801,767	30,426,504	27,685,031	27,874,069	29,347,120	29,670,612	29,567,369	27,636,683	25,076,471	22,930,601
Economic development	351,837	308,788	321,839	316,857	346,937	398,893	378,698	353,294	369,331	292,876
Capital outlay	7,035,360	7,533,141	1,197,634	931,504	1,021,914	2,398,084	2,590,974	4,141,088	9,612,382	19,091,875
Debt service:										
Principal retirement	3,317,300	3,155,583	2,426,259	3,649,375	3,651,127	3,776,678	3,547,623	3,396,430	3,350,886	2,135,828
Interest and fiscal charges	1,219,100	1,149,770	1,649,369	1,445,377	1,578,008	1,679,629	1,710,747	1,826,240	1,905,769	1,956,871
Total expenditures	80,055,317	75,036,000	61,815,979	61,688,734	65,204,109	68,207,500	67,669,434	64,645,198	66,932,832	71,004,463
Excess of revenues over (under) expenditures	(2,559,724)	(2,766,414)	6,046,269	3,192,610	(3,564,683)	(8,661,103)	(6,041,517)	(5,683,904)	(10,537,946)	(21,067,431)
Other Financing Sources (Uses)										
Premium on issuance of bonds	1,562,498	-	909,336	-	-	-	-	44,215	70,192	-
Payment to refunded bond escrow agent	-	-	(17,437,909)	-	-	-	-	(6,181,352)	-	(4,660,000)
Proceeds from borrowing	15,890,000	-	-	-	-	-	2,428,800	-	1,935,000	1,875,500
Proceeds from capital leases	2,887,859	-	-	-	-	-	6,550	-	72,950	39,250
Proceeds from sale of assets	-	-	-	784,243	521,995	-	-	-	-	-
Premium paid to refund bonds	-	-	-	-	-	-	-	-	-	(42,425)
Original issue discount	-	-	-	-	-	-	-	(24,351)	-	-
Issuance of debt	-	-	24,120,000	-	-	-	-	6,347,686	35,811	4,808,034
Transfers in	23,449,213	2,183,076	150,000	150,000	-	2,404,041	3,076,174	3,055,121	4,775,874	4,764,256
Transfers out	(3,676,847)	(2,033,076)	-	(60,396)	(2,202,601)	-	-	-	-	-
Contributions to OPEB Trust fund in excess of ARC	-	-	-	-	-	-	(376,176)	-	-	-
Total other financing sources (uses)	40,112,723	150,000	7,741,427	873,847	(1,680,606)	2,404,041	5,135,348	3,241,319	6,889,827	6,784,615
Net change in fund balances	\$ 37,552,999	\$ (2,616,414)	\$ 13,787,696	\$ 4,066,457	\$ (5,245,289)	\$ (6,257,062)	\$ (1,282,345)	\$ (2,442,585)	\$ (3,648,119)	\$ (14,282,816)
Debt service as a percentage of noncapital expenditures:	6.21%	6.38%	6.72%	8.39%	8.15%	8.29%	8.08%	8.63%	9.17%	7.88%

Notes:

Beginning in 2011, administrative costs charged to the Water Fund and Sewer Fund are classified as reduction in expenditures. In prior years, they were classified as revenues.

TABLE 5

CITY OF FALLS CHURCH, VIRGINIA

ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Real Property (1)		Personal Property (2)		Total Taxable Assessed Value	Total Direct Tax Rate(3)	Actual Taxable Value(4)	Value as a Percentage of Assessed Value
	Residential Property	Commercial Property	Motor Vehicles	Other				
2014	\$ 2,709,552,300	\$ 750,401,064	\$ 108,271,948	\$ 34,045,965	\$ 3,602,271,277	\$ 1.44	\$ 3,602,271,277	100.00%
2013	2,564,206,400	735,795,454	104,900,347	32,764,812	3,437,667,013	1.43	3,437,667,013	100.00
2012	2,475,618,900	712,880,090	99,424,184	29,155,268	3,317,078,442	1.41	3,317,078,442	100.00
2011	2,394,344,500	699,546,159	95,126,548	28,060,359	3,217,077,566	1.39	3,217,077,566	100.00
2010	2,322,521,050	748,726,900	90,559,076	29,022,854	3,190,829,880	1.29	3,190,829,880	100.00
2009	2,370,165,500	859,139,200	89,133,212	29,936,779	3,348,374,691	1.18	3,348,374,691	100.00
2008	2,450,402,450	896,737,950	84,474,526	35,890,466	3,467,505,392	1.15	3,467,505,392	100.00
2007	2,416,612,400	843,540,824	92,006,545	32,870,681	3,385,030,450	1.15	3,385,030,450	100.00
2006	2,237,877,000	695,254,574	98,754,264	28,887,704	3,060,773,542	1.17	3,060,773,542	100.00
2005	1,919,327,908	597,294,900	96,525,026	27,654,180	2,640,802,014	1.23	2,640,802,014	100.00

(1) Source: Falls Church Office of Real Estate Assessment. Amounts are reported net of exempt property.

(2) Source: Falls Church Treasurer's office. Amounts are reported net of exempt property.

(3) Total Direct Tax Rate is calculated using the weighted average method. Rates are per \$100 of valuation.

(4) Virginia code requires assessment at full market value.

CITY OF FALLS CHURCH, VIRGINIA

DIRECT PROPERTY TAX RATES

Last Ten Fiscal Years

(unaudited)

<u>Year</u>	<u>Real Property (1st half of the Fiscal Year)</u>	<u>Real Property (2nd Half of the Fiscal Year)</u>	<u>Personal Property</u>	<u>Total Direct Rate (1)</u>
2014	\$ 1.305	\$ 1.305	\$ 4.84	\$ 1.44
2013	1.270	1.305	4.84	1.43
2012	1.270	1.270	4.84	1.41
2011	1.240	1.270	4.71	1.39
2010	1.070	1.240	4.71	1.29
2009	1.030	1.070	4.71	1.18
2008	1.010	1.030	4.71	1.15
2007	1.010	1.010	4.71	1.15
2006	1.030	1.010	4.71	1.17
2005	1.080	1.030	4.71	1.23

Note: Total Direct Tax Rate is calculated using the weighted average method. Rates are per \$100 of valuation.

TABLE 7

CITY OF FALLS CHURCH VIRGINIA

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

(unaudited)

Taxpayer	2014			2005		
	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Falls Church Country Club (Apartments)	\$ 83,274,100	1	2.35 %	\$ 57,141,000	1	2.11 %
TMW Pearson Square LLC	82,371,000	2	2.32	-		-
Eden Center, Inc.	53,187,800	3	1.50	45,152,800	2	1.67
BJ's GL I, LLC & II, LLC	30,175,000	4	0.85	-		-
Kahn B Franklin et al	27,504,800	5	0.77	22,225,800	4	0.82
Wooddell Family Ltd Partnership	26,250,000	6	0.74	-		-
Federal Realty Investment Trust	25,076,100	7	0.71	18,219,100	6	0.67
James E. Koons	24,796,800	8	0.70	25,276,400	3	0.93
West Falls Parcel, Inc	23,997,800	9	0.68	17,690,000	7	0.65
Aimco Merrill House, LLC	22,097,400	10	0.62	-		-
Kaiser Foundation Health Plan, Inc.	-		-	19,805,100	5	0.73
Noland Co. Inc.	-		-	14,735,800	8	0.54
George Mason Square, LLC	-		-	14,116,800	9	0.52
Totals	<u>\$ 398,730,800</u>		<u>11.24 %</u>	<u>\$ 234,362,800</u>		<u>8.64 %</u>

TABLE 8

CITY OF FALLS CHURCH, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Calendar Years
(unaudited)

Year Ended June 30	Taxes Levied for the Year	Collected within the Year of the Levy		Collections in Subsequent Years*	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2014	\$ 49,238,690	\$ 48,431,361	98.36 %	\$ -	\$ 48,431,361	98.36 %
2013	46,555,785	45,686,242	98.13	636,764	46,323,006	99.50
2012	44,302,168	43,620,632	98.46	540,521	44,161,153	99.68
2011	42,206,923	41,495,508	98.31	599,651	42,095,159	99.74
2010	39,481,422	38,778,261	98.22	612,737	39,390,998	99.77
2009	37,850,131	37,062,585	97.92	717,184	37,779,769	99.81
2008	37,149,427	36,183,444	97.40	913,919	37,097,363	99.86
2007	35,866,351	34,449,695	96.05	1,379,753	35,829,448	99.90
2006	32,599,183	31,271,297	95.93	1,293,702	32,564,999	99.90
2005	28,698,695	27,539,424	95.96	1,151,320	28,690,744	99.97

Notes: Property tax levies and collections include real estate taxes and personal property taxes, and excludes Commonwealth of Virginia Personal Property Tax Relief Act (PPTRA) reimbursement.

TABLE 9

CITY OF FALLS CHURCH, VIRGINIA
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Governmental Activities			Business-type Activities			Total Primary Government	Percentage of Personal Income (1)	Debt Per Capita
	General Obligation Bonds	Lease Payable	Capital Leases	General Obligation Bonds	Note Payable*	Revenue Bonds			
2014	\$ 47,057,300	\$ -	\$ 1,105,320	\$ 8,120,647	\$ 2,876,161	\$2,243,020	\$61,402,448	N/A	% \$ 4,546
2013	34,484,600	-	-	23,043,537	6,435,016	2,404,160	66,367,313	0.08	4,913
2012	37,640,183	-	-	23,902,864	6,979,830	2,482,949	71,005,826	0.09	5,338
2011	32,039,513	-	-	25,298,037	7,842,215	2,712,398	67,892,163	0.09	5,333
2010	35,681,948	-	9,338	19,819,925	8,892,713	2,859,769	67,263,693	0.09	5,454
2009	39,309,481	-	32,932	14,085,814	10,325,018	3,002,816	66,756,061	0.07	4,432
2008	42,827,780	217,500	73,810	12,820,000	-	2,432,409	58,371,499	0.08	5,013
2007	43,644,216	435,000	152,147	5,050,000	-	6,759	49,288,122	0.07	4,334
2006	46,160,418	652,500	317,326	-	-	6,894	47,137,138	0.07	4,245
2005	47,171,034	852,500	450,942	-	-	7,000	48,481,476	0.07	4,386

(1) Based on personal income for Fairfax, Fairfax City and Falls Church shown on Table 12

N/A There is no census data available for personal income.

* The City restated net position as of June 30, 2009, 2010, and 2013. The restatements are not included in the prior data.

TABLE 10

CITY OF FALLS CHURCH, VIRGINIA

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Fiscal Years

(unaudited)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
2014	\$ 55,177,947	\$ -	\$ 55,177,947	1.53 %	\$ 4,085
2013	57,528,137	-	57,528,137	1.67	4,259
2012	61,543,047	-	61,543,047	1.86	4,670
2011	57,337,550	-	57,337,550	1.78	4,504
2010	55,501,873	-	55,501,873	1.74	4,501
2009	53,395,295	-	53,395,295	1.59	4,430
2008	55,647,780	-	55,647,780	1.60	4,779
2007	43,644,216	-	43,644,216	1.29	3,838
2006	46,160,418	-	46,160,418	1.51	4,157
2005	47,171,034	-	47,171,034	1.79	4,267

CITY OF FALLS CHURCH VIRGINIA

TABLE 11

LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Debt limit	\$ 357,216,255	\$ 334,774,418	\$ 325,124,867	\$ 312,665,676	\$ 328,521,957	\$ 333,108,780	\$ 359,008,750	\$ 356,527,840	\$ 339,609,980	\$ 271,054,630
Total net debt applicable to limit	58,054,108	63,963,154	68,522,877	65,179,765	64,403,924	63,753,245	55,939,090	49,281,363	47,130,244	48,474,476
Legal debt margin	<u>\$ 299,162,147</u>	<u>\$ 270,811,264</u>	<u>\$ 256,601,990</u>	<u>\$ 247,485,911</u>	<u>\$ 264,118,033</u>	<u>\$ 269,355,535</u>	<u>\$ 303,069,660</u>	<u>\$ 307,246,477</u>	<u>\$ 292,479,736</u>	<u>\$ 222,580,154</u>
Total net debt applicable to the limit as a percentage of debt limit	16.25%	19.11%	21.08%	20.85%	19.60%	19.14%	15.58%	13.82%	13.88%	17.88%

Legal Debt Margin Calculation for Fiscal Year 2014

Assessed value	<u>\$ 3,572,162,553</u>
Debt limit (10% of assessed value)	\$ 357,216,255
Less debt applicable to limit:	
General obligation bonds	55,177,947
Notes payable	<u>2,876,161</u>
Legal debt margin	<u>\$ 299,162,147</u>

CITY OF FALLS CHURCH, VIRGINIA

DEMOGRAPHIC STATISTICS
Last Ten Calendar Years
(unaudited)

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Personal Income (3)	School Enrollment(4)	Unemployment Rate (5)
2014	13,508	\$ N/A	\$ N/A	2,344	4.00 %
2013	13,508	83,835,355	71,752	2,234	3.90
2012	13,179	83,415,846	72,205	2,122	4.00
2011	12,731	78,392,046	70,371	2,069	4.30
2010	12,332	75,161,493	67,776	2,010	4.40
2009	12,054	71,954,372	67,010	1,941	7.20
2008	11,645	75,302,775	70,145	1,905	4.00
2007	11,373	73,256,103	70,067	1,870	3.10
2006	11,104	69,554,932	67,455	1,845	2.90
2005	11,054	65,598,555	63,731	1,848	3.30

Sources:

- (1) Source: For 2001-2009 and 2011 Weldon Cooper Center for Public Service; numbers are estimates as of July 1, 2012 uses the same data as 2001. Year 2010 is based on U.S. Census estimate as of April 1, 2010.
- (2)Source: US Department of Commerce, Bureau of Economic Analysis for Fairfax, Fairfax City & Falls Church.
- (3)Source: US Department of Commerce, Bureau of Economic Analysis. Per Capita Rate for Fairfax, Fairfax City and Falls Church.
- (4) Source: City of Falls Church Public School Board. These numbers do not include pre-kindegarten
- (5) Source: Virginia Employment Commission

TABLE 13

CITY OF FALLS CHURCH, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Eight Years Ago
(unaudited)

Employer	2014			2006		
	Employees	Rank	Percentage of Total City Employment (2)	Employees	Rank	Percentage of Total City Employment
Falls Church City Schools	533	1	7.62 %	375	1	5.92 %
Falls Church City Government	290	2	3.95	261	3	4.12
BG Healthcare Services	280	3	3.82			
Kaiser Permanente	265	4	3.61	375	2	5.92
Tax Analysts	182	5	2.48	150	5	2.37
Koon's Ford & Nissan	163	6	2.22	196	4	3.10
VL Home Health Care, Inc	160	7	2.18			
Giant Food Store	130	8	1.77	67	9	1.06
Care Options	127	9	1.73			
BJ's Wholesale Club	125	10	1.70			
Don Beyer Volvo				104	6	1.64
United States Postal Service				97	7	1.53
Knowlogy				85	8	1.34
Center for Multicultural Human Services				58	10	0.92
Total	2,255		30.74 %	1,768		27.92 %

Source: Finance and Economic Development Office

Total employment estimate of 7,339 for 2014 and 6,331 for 2006 from Virginia Employment Commission.
2006 is the first year employment data was available.

TABLE 14

CITY OF FALLS CHURCH, VIRGINIA

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Fiscal Years

(unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<u>Function/Program</u>										
General government	39.74	37.90	35.55	35.92	37.88	38.87	38.25	37.75	37.75	34.75
Judicial administration	13.61	13.76	12.76	13.26	13.26	17.01	17.01	17.01	11.60	12.60
Public safety	51.10	51.20	51.20	52.20	55.20	53.60	53.35	51.60	58.40	57.00
Public works	27.65	28.94	28.60	28.00	35.75	34.08	32.58	31.58	28.96	28.41
Health and Welfare	4.80	5.00	5.00	5.90	7.85	8.85	8.85	9.75	8.00	9.09
Parks, recreation, and cultural	29.95	29.95	30.05	31.55	33.35	36.35	36.35	34.48	44.69	42.09
Community development	15.81	15.81	13.81	13.81	13.81	13.81	13.75	13.75	12.75	12.75
Economic development	2.00	2.00	2.00	2.00	3.00	3.00	3.00	3.00	3.00	3.00
Water	-	57.60	57.85	56.98	53.65	52.27	52.32	52.32	52.04	52.04
Sewer	4.25	4.30	4.30	4.10	4.10	4.15	4.10	4.10	4.10	4.05
Storm water	9.20	-	-	-	-	-	-	-	-	-
Total	198.11	246.46	241.12	243.72	257.85	261.99	259.56	255.34	261.29	255.78

Source: City Adopted Budget

TABLE 15

CITY OF FALLS CHURCH, VIRGINIA										
OPERATING INDICATORS BY FUNCTION/PROGRAM										
Last Ten Fiscal Years (unaudited)										
Function/Program	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Government										
Communications										
Number of Media Releases	N/A	N/A	167	118	95	90	94	109	94	122
Number of Periodical Publications	N/A	N/A	2	N/A	N/A	10	10	10	9	6
eFOCUS Newsletter Subscribers	N/A	N/A	1,388	N/A	N/A	1,267	1,454	1,580	1,628	N/A
Judicial Administration										
Court Services										
Aurora House Recidivism	0%	0%	0%	8%	0%	29%	16%	25%	10%	14%
Aura House Program Completion	90%	98%	83%	92%	73%	78%	83%	50%	62%	90%
Court Services Juvenile Recidivism	5%	9%	10%	16%	16%	22%	9%	13%	14%	8%
Court Services Adult Recidivism	4%	6%	6%	23%	23%	33%	15%	20%	22%	7%
Public safety										
Police										
Part I Crimes (1)	303	309	270	268	329	441	384	365	370	370
Calls for Service	26,210	27,411	26,189	26,485	25,862	28,319	26,467	23,407	25,171	25,347
Accidents	182	180	188	224	235	231	231	255	257	278
Traffic Enforcement	4,749	5,314	5,704	8,614	8,113	8,950	7,042	5,052	5,281	5,243
DWI Arrests	108	106	127	95	91	70	63	54	49	53
Inspections										
Plan Review	821	N/A	666	N/A	671	442	577	552	490	490
Stop Work Orders	10	N/A	10	N/A	8	8	16	11	21	21
Public works										
Refuse collected (tons)	219	2,073	2,015	2,150	2,178	2,415	2,704	2,711	2,845	2,799
Recycling collected (tons)	2,806	3,364	3,241	3,315	3,077	3,690	4,544	3,618	2,728	3,261
Street Resurfacing (miles)	3	2	-	1	2	2	2	2	2	2
Health and Welfare										
Housing and Human Services										
Information/Referral Contacts	2,399	2,136	2,459	3,149	2,971	2,882	2,555	2,674	1,786	2,375
Education										
Student Membership	2,344	2,234	2,122	2,069	2,010	1,941	1,906	1,873	1,845	1,848
Parks, Recreational and Cultural										
Parks & Recreation										
Special Events	172	174	171	181	160	164	132	130	133	127
Class participants	3,981	4,065	3,072	2,663	2,654	2,307	2,140	2,765	2,920	2,750
Room Reservations	6,376	6,237	6,455	6,569	5,982	6,205	6,548	6,150	6,132	6,027
Tennis Reservations	1,021	642	922	1,422	1,760	1,723	1,570	1,460	1,226	1,150
Youth Sports Participants	2,677	2,509	2,423	1,987	2,542	2,431	2,207	2,358	1,932	1,839
Adult Sports Teams	118	114	111	114	99	100	102	117	108	61
Teen Dance Participants	625	750	827	777	979	1,260	1,875	2,152	1,799	1,699
Teen Center Attendance	1,300	1,500	1,722	3,500	3,675	4,000	4,250	4,976	4,851	4,428
Summer Camps Offered	220	274	224	244	223	201	196	186	224	196
Summer Camp Participants	5,103	5,432	5,000	5,002	4,163	4,258	4,211	4,073	3,769	3,562
Senior Center lunch meals served	660	521	519	928	1,255	1,588	1,824	1,760	2,360	3,028

TABLE 15
(Continued)

CITY OF FALLS CHURCH, VIRGINIA

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

(unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Library:										
Size of collection (all formats)	132,031	147,659	146,422	142,728	143,365	159,631	154,175	150,709	130,472	127,236
Total circulation of all materials	461,394	446,563	442,480	426,272	452,498	429,286	365,861	346,637	341,626	335,912
Total visits to library (door count)	316,430	297,468	307,466	283,773	232,379	219,831	203,743	2,002,002	192,222	212,322
Number of registered borrowers	28,362	25,914	24,056	28,395	25,263	23,357	25,155	25,470	23,003	22,428
Number of website visits/yr	N/A	226,961	137,342	154,284	182,373	166,258	135,579	141,932	164,839	154,570
Number of programs/yr	654	554	518	603	298	345	297	312	357	351
Attendance at programs	18,924	17,370	15,761	20,345	11,710	14,235	12,773	11,321	11,998	10,976
Community development:										
Planning										
Development Inquiries	N/A	N/A	20,353	8,927	8,927	9,905	6,400	6,200	6,000	N/A
Plans Reviewed	N/A	N/A	2	26	26	34	52	49	20	N/A
Code/Policy Review	N/A	N/A	N/A	N/A	N/A	72	35	18	25	N/A
Zoning										
Development Inquiries	N/A	N/A	N/A	2,100	2,100	2,570	2,000	2,200	1,500	N/A
Permits/Plans Reviewed	N/A	N/A	708	600	600	660	1,700	2,100	2,000	N/A
Urban Forestry										
Development Inquiries	N/A	N/A	N/A	N/A	N/A	1,400	2,400	1,200	1,300	N/A
Permits/Plans Reviewed	N/A	N/A	N/A	N/A	N/A	192	443	75	56	N/A
Trees Planted/removed/pruned	1,067	708	N/A	N/A	N/A	825	859	897	369	N/A
Water										
New connection applications	N/A	74	218	265	23	53	60	90	374	90
Water main breaks	N/A	165	93	148	118	141	112	172	100	102

Sources:

Reported by individual departments

Notes:

N/A- Not available

(1) Part I crimes are defined as murder, rape, robbery, aggravated assault, burglary, grand larceny, auto theft, arson.

Library - Librarian

Building permits - City Planner

TABLE 16

CITY OF FALLS CHURCH, VIRGINIA

CAPITAL ASSET STATISTICS BY FUNCTION

Last Ten Fiscal Years
(unaudited)

Function/Program	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Government										
City Hall	1	1	1	1	1	1	1	1	1	1
Judicial Administration (1)										
Court Services										
Aurora House (Facility)	1	1	1	1	1	1	1	1	1	1
Aurora House Passenger Van	2	2	1	1	1	1	1	1	1	1
Court Services Passenger Van	1	1	1	1	1	1	1	1	1	N/A
Public safety (2)										
Fire Stations (3)	1	1	1	1	1	1	1	1	1	1
Public works										
Streets-Miles/Lane Miles	32	32	32	32	32	32	32	32	32	32
Traffic signals	29	29	29	29	29	29	34	34	30	30
Streetlights	142	142	142	142	142	142	136	136	136	124
Refuse Trucks	-	-	-	5	5	5	5	5	4	4
Education										
School Buildings	4	4	4	4	4	4	4	4	4	3
Parks, Recreational and Cultural										
Recreation & Parks:										
Community Center	1	1	1	1	1	1	1	1	1	1
Gage House/Senior Center	1	1	1	1	1	1	1	1	1	1
Cherry Hill Farmhouse & Barn	1	1	1	1	1	1	1	1	1	1
Neighborhood Parks	13	13	13	13	13	13	13	13	12	11
Tennis courts	10	10	10	10	10	10	10	10	10	10
Basketball courts	5	5	5	5	5	5	5	5	5	5
Vehicles	7	7	7	6	6	6	6	6	5	3
Library:										
Library (Facility)	1	1	1	1	1	1	1	1	1	1
Community development:										
Urban Forestry										
Vehicles	3	3	3	3	3	3	3	3	2	2
Water										
Water Mains (Miles)	-	502	500	497	497	497	497	496	491	489
Tanks	-	10	10	10	10	10	10	10	10	10
Pumps	-	29	29	29	29	29	29	28	28	28
Fire Hydrants	-	3,286	3,253	3,220	3,201	3,201	3,188	3,169	3,132	3,097
Sewer										
Sanitary Sewer Mains (Miles)	47	44	44	44	44	43	43	43	N/A	43
Sanitary Sewer Manholes	1,155	1,190	1,186	1,186	1,175	1,001	1,001	1,001	N/A	998
Stormwater										
Storm Sewer Mains (Miles)	31	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Storm Sewer Structures	1,754	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes

NA-Not Available

(1) The City Hall Serves as the City Court House

(2) The police station is located in City Hall

(3) Fire Services are provided by Arlington County under contract

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COMPLIANCE SECTION

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of City Council
City of Falls Church, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 4, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.** However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency in internal control. **We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item 12-1 to be a significant deficiency.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

City of Falls Church's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
December 4, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

To the Honorable Members of City Council
City of Falls Church, Virginia

Report on Compliance for Each Major Federal Program

We have audited the City of Falls Church, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
December 4, 2014

CITY OF FALLS CHURCH, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2014

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Sheriff Internal Controls

State Agency Requirements

Education
Urban Highway Maintenance
Stormwater Management Program

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

LOCAL COMPLIANCE MATTERS

City Charter
City Code
Other City Regulations

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements was reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the City are:

<u>Name of Program</u>	<u>CFDA #</u>
Title IV-B – Special Education – Grants to States	84.027
Title IV-B – Special Education – Preschool Grants	84.173
Highway Planning and Construction	20.205

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The City was determined to be a **low-risk auditee**.

CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

12-1: SEGREGATION OF DUTIES (Significant Deficiency)

Condition:

One of the more important aspects of any internal control structure is the segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and either not be detected or concealed. We noted segregation of duties issues related to cash receipts, write-off of receivables, and payroll at the City, and accounts payable, payroll, and journal entries at the School Board.

Recommendation:

We recommended that proper segregation of duties be implemented wherever possible.

Management's Response:

The auditee concurs with this recommendation.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

14-01: Unclaimed Property

Condition:

We noted nineteen outstanding checks totaling \$3,977.71 that are greater than one year old and have not been appropriately reported to the Commonwealth as unclaimed property.

Recommendation:

Checks that are older than one year as of the first day of the fiscal year should be reported to the Commonwealth on the unclaimed property report due by November 1st annually.

Management's Response:

A system has been put in place to periodically review and void checks that have been reissued/outstanding. This process will eliminate this condition.

CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

14-02: Budget Compliance

Condition:

The City spent \$129,903 more on community development than budgeted. It is a violation of the *Code of Virginia* to expend funds in excess of appropriations.

Recommendation:

We recommend that the City review budget to actual reports on a monthly basis and amend the budgets when necessary.

Management's Response:

Management will request budget adjustments on a more current basis to align with expenditures.

14-03: Highway Finance Survey Submission

Condition:

The City submitted their FY2013 Highway Finance Survey on May 2, 2014, after the March 15, 2014 due date.

Recommendation:

We recommend that the City be mindful of submission deadlines.

Management's Response:

Management will oversee report submission and ensure it is completed timely.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal CFDA Number	Cluster Expenditures	Federal Expenditures
U.S. Department of Agriculture			
Pass-through payments:			
Commonwealth of Virginia Department of Agriculture and Consumer Services			
National School Lunch Program	10.555	\$ 100,003	
School Breakfast Program	10.553	12,577	
Subtotal for Cluster			\$ 112,580
Total U.S. Department of Agriculture			112,580
U.S. Department of Homeland Security			
Direct payments:			
United States Secret Service			
High Intensity Drug Trafficking Area	97.000		2,870
Total U.S. Department of Homeland Security			2,870
U.S. Environmental Protection Agency			
Direct payments:			
Congressionally Mandated Projects	66.202		144,361
Total U.S. Environmental Protection Agency			144,361
U.S. Department of Housing and Urban Development			
Direct payments:			
Economic Development Initiative - Congressionally Earmarked	14.251		28,240
Pass-through payments:			
County of Arlington, Virginia:			
Community Development Block Grants/Entitlement Grants	14.218		51,665
Home Investments Partnership Program	14.239		22,122
Total U.S. Department of Housing and Urban Development			102,027
U.S. Department of Justice			
Direct payments:			
Seized assets	16.000		68,255
Total U.S. Department of Justice			68,255
U.S. Department of Transportation			
Pass-through payments:			
Commonwealth Virginia Department of Transportation			
Highway Planning and Construction	20.205		637,154
State and Community Highway Safety	20.600		11,687
Northern Virginia Transportation Commission			
Federal Transit Capital Investment Grants	20.500		199,578
Total U.S. Department of Transportation			848,419
U.S. Department of Education			
Pass-through payments:			
Commonwealth of Virginia Department of Education:			
Special Education - Grants to States	84.027	391,657	
Special Education - Preschool Grants	84.173	10,324	
Subtotal for Cluster			401,981
Title I - Grants to Local Educational Agencies	84.010		27,077
English Language Acquisition Grants	84.365		11,333
Improving Teacher Quality State Grants	84.367		19,479
Vocational Education - Basic Grants to States	84.048		11,815
Total U.S. Department of Education			471,685
Total Expenditures of Federal Awards			\$ 1,750,197

See accompanying notes to the schedule.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

I. Basis of Presentation

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

II. Non-Cash Assistance

The City of Falls Church participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The accompanying Schedule of Expenditure of Federal Awards includes commodity distributions of \$38,566 from the National School Lunch Program.