CITY OF FALLS CHURCH, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Prepared by:

City of Falls Church, Virginia
Finance Department

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CITY OF FALLS CHURCH, VIRGINIA
TABLE OF CONTENTS

INTRODUCTORY SECTION

Officials i
Organization Chart ii
Letter of Transmittal ..... iii-viii

FINANCIAL SECTION

Independent Auditor's Report 1-3

Management's Discussion and Analysis 4a

Basic Financial Statements

Government-Wide Financial Statements
Exhibit 1 – Statement of Net Position 5
Exhibit 2 – Statement of Activities 6

Fund Financial Statements
Exhibit 3 – Balance Sheet – Governmental Funds 7
Exhibit 4 – Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position 8
Exhibit 5 – Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 9
Exhibit 6 – Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 10
Exhibit 7 – Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund 11
Exhibit 8 – Statement of Net Position – Proprietary Funds 12
Exhibit 9 – Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds 13
Exhibit 10 – Statement of Cash Flows – Proprietary Funds 14
Exhibit 11 – Statement of Fiduciary Net Position– Fiduciary Funds 15
Exhibit 12 – Statement of Changes in Fiduciary Net Position – Post-employment Trust Funds 16
Notes to Financial Statements 17-94

Required Supplementary Information

Exhibit 13 – Schedules of Funding Progress 96
Exhibit 14 – Schedules of Changes in the Net Pension Liability and Related Ratios 97
Exhibit 15 – Schedules of Pension Contributions 98
Exhibit 16 – Schedules of Pension Investment Returns 99
Exhibit 17 – Schedule of Employer Share of Net Pension Liability 100

FINANCIAL SECTION (Continued)

Required Supplementary Information (Continued)

Exhibit 18 – Schedule of Pension Contributions 101
Exhibit 19 – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual by Department – General Fund 102
Notes to Required Supplementary Information.....103

Other Supplementary Information

Combining Fund Statements and Schedules

Fiduciary Funds.....106
Schedule 1 – Combining Statement of Fiduciary Net Position – Post-Employment Trust Funds 107
Schedule 2 – Combining Statement of Changes in Fiduciary Net Position - Post-Employment Trust Funds 108
Agency Funds.....109
Schedule 3 – Combining Statement of Fiduciary Net Position – Agency Funds.....110
Schedule 4 – Combining Statement of Changes in Assets and Liabilities – Agency Funds.....111
Discretely Presented Component Unit – School Board.....112
Schedule 5 – Balance Sheet – Governmental Funds.....113
Schedule 6 – Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position 114
Schedule 7 – Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....115
Schedule 8 – Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....116
Schedule 9 – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – School Operating Fund 117
Schedule 10 – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – School Community Service Fund 118
Schedule 11 – Statement of Fiduciary Net Position – Agency Funds.....119
Schedule 12 – Statement of Changes in Assets and Liabilities – Agency Funds.....120
Discretely Presented Component Unit – Economic Development Authority.....121
Schedule 13 – Balance Sheet- Governmental Fund 122
Schedule 14 – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund.....123

STATISTICAL SECTION

Table 1 – Net Position by Component.....126
Table 2 – Changes in Net Position by Component.....127
Table 3 – Fund Balances - Governmental Funds.....129

STATISTICAL SECTION (Continued)

Table 4 – Changes in Fund Balances - Governmental Funds....130
Table 5 – Assessed Value and Actual Value of Taxable Property....131
Table 6 – Direct Property Tax Rates....132
Table 7 – Principal Property Taxpayers....133
Table 8 – Property Tax Levies and Collections....134
Table 9 – Ratios of Outstanding Debt by Type....135
Table 10 – Ratios of General Bonded Debt Outstanding....136
Table 11 – Legal Debt Margin Information....137
Table 12 – Demographic Statistics....138
Table 13 – Principal Employers....139
Table 14 – Full-time Equivalent City Government Employees by Function/Program....140
Table 15 – Operating Indicators by Function/Program....141
Table 16 – Capital Assets Statistics by Function....143

COMPLIANCE SECTION

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*....145

Independent Auditor's Report on Compliance For Each Major Program and Internal Control Over Compliance Required by *OMB Circular A-133*....147

Summary of Compliance Matters....149

Schedule of Findings and Questioned Costs....150

Schedule of Expenditures of Federal Awards....153

Notes to the Schedule of Expenditures of Federal Awards....154

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INTRODUCTORY SECTION

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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

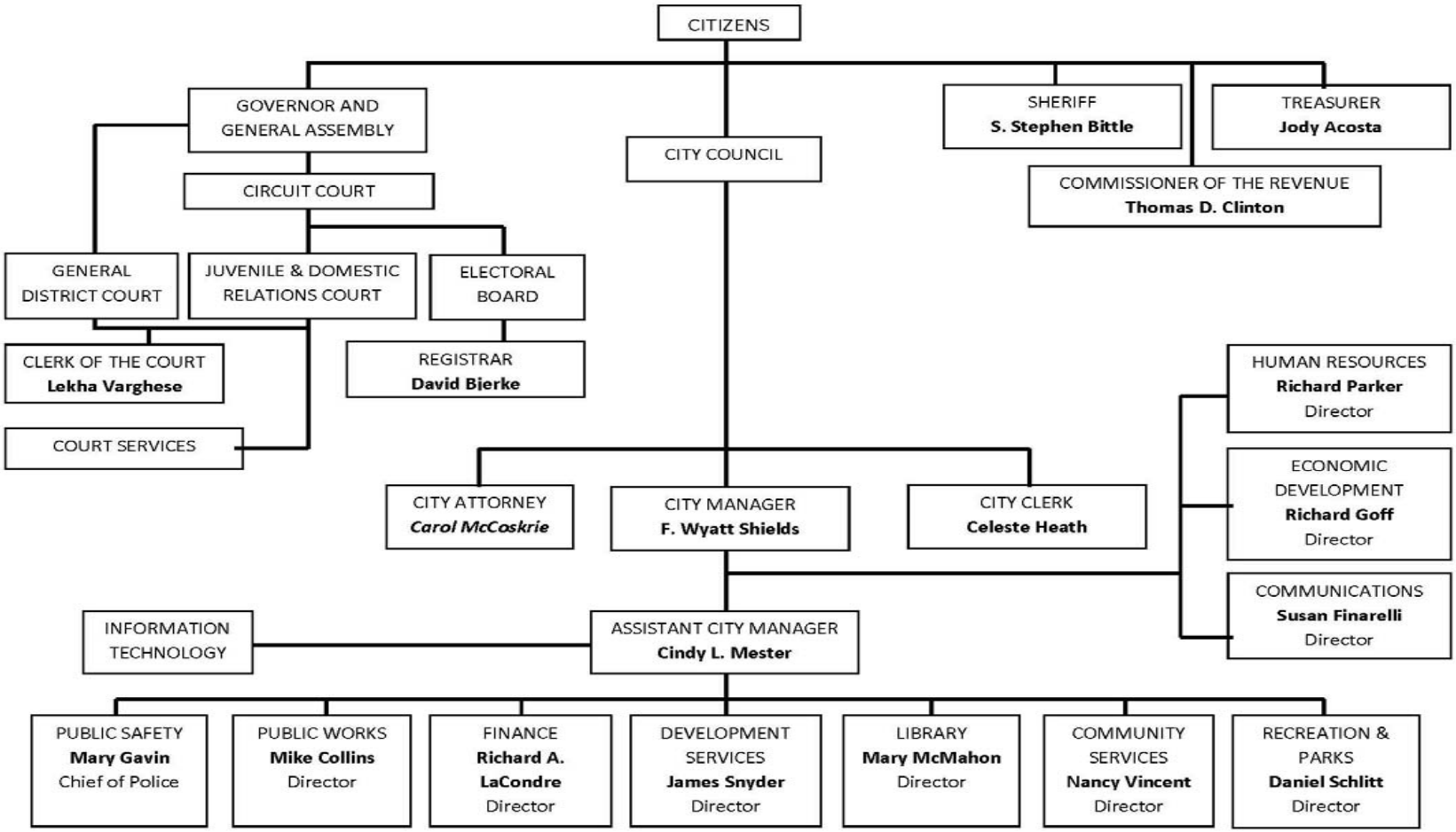
OFFICIALS

F. Wyatt Shields, City Manager
Cindy L. Mester, Assistant City Manager
Richard A. LaCondre, Chief Financial Officer
Carol W. McCoskrie, City Attorney
Celeste Heath, City Clerk
Jody Acosta, 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, 2015



January 14, 2016

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, 2015, 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, 2015, 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, 2015 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 storm- water and sanitary sewer services to its residents. The storm-water and sanitary 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 benefits from over $500 million in new development and investment 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 and other development on underutilized infill sites. Collectively these projects produce about $7.1 million in gross revenue and $2.8 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, sold its final available suite in 2014. 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 $21.66 per square foot (full service). Newer space, which is scarce, averages $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 third quarter of 2015. By comparison, Fairfax County's office vacancy rate is 17.1 percent and Arlington County averages 20.8 percent vacancy, with rents ranging from $28.39 – $39.42 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 will change for Class A office space built close to the East or West Falls Church Metro stations is an unanswered question.

The city is experiencing a significant trend in attracting medical practices and has long supported a strong market for small professional office tenants. In 2013, office property at 510 N. Washington Street was purchased by an affiliate of 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. An experienced Arlington restauranteur purchased the former Blue and Grey Building at 205 W. Park Avenue to renovate as an upscale café.

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. Tenants in the 44,000-square-foot office and retail building include the Falls Church U.S. Postal Service customer center, two restaurants, and multiple office users. 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. CoStar reports the vacancy rate for retail space in the city is 1.7 percent through the third quarter of 2015, with average retail rent in the city at $25.64 (triple net). This does not include far higher rates for space at the Eden Center, which is not reflected in CoStar data.

Food and beverage businesses have been the source of greatest demand for commercial 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, Subway, Dunkin’ Donuts, Sweet Frog, Zinga, Happy Tart, Locker Room, Pita Pouch, Plaka Grill, Lil’ City Creamery, 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 chose Falls Church as the location for its second facility in the Washington, DC region. 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 W. 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. Management reports that the Hilton is performing No. 1 in the greater Falls Church market for room occupancy. Next door, a Burger King restaurant will be replaced by the “Kensington,” a five-story assisted living facility with ground level retail now under construction. 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 is building a $106 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 $78 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 will be completed in 2016.

An application is under final consideration for a large mixed-use project on more than four acres at the northeast corner of West and Broad streets. "Mason Row" would consist of 340 apartments, a 145-room Hilton Home2 extended stay hotel, and about 100,000 square feet of retail space, including a multi-screen, dine-in movie theater.

An application was filed in 2015 by Insight Property Group for a mixed-use project on three acres at the intersection of Routes 7 and 29 in the center of Falls Church. "Broad and Washington" features a 50,000-square-foot national organic grocery, 36,000 square feet of office, 20,000 square feet of retail, and 324 apartments.

Tradition Homes has purchased two adjacent parcels of commercial land at 819/821 W. Broad Street. The developers have a conceptual plan to build 59 residential condos over a ground floor of retail and a second floor of office, to include their new corporate headquarters, with parking underground. Nearby, at 419/421 W. Broad Street, the owner of Inns of Virginia has applied to convert and expand the hotel from 32 to 76 rooms as a Holiday Inn Express.

The owner of a small and aging office building at 400 N. Washington Street filed an application to replace the existing structure with a $34 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 now connects with the Orange Line.

Post-recession years have brought intense activity from investors pursuing land assembly and higher density development opportunities in Falls Church. 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 multi-family residential market still shows strength for new rental housing, especially smaller units targeted to young professionals in the Washington, DC area. The market for age-restricted, active senior apartments is emerging in the city and developers are taking notice. Interest by developers in building multi-family condos on a scale of 50-60 units or fewer is also gaining some momentum in the city.

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. Good Fortune, a New York-based Asian grocery chain, opened a 43,000-square-foot flagship store at the Eden Center in 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 each year through June 2015 has exceeded expectations and the Falls Church BJ's store now ranks second only to Giant grocery in generating sales tax revenue for the city.

Employment, Education and Household Income Trends

The Bureau of Labor Statistics reported at September 2015 that the City of Falls Church has the lowest unemployment rate for any city in Virginia at 3.0 percent. Forbes reported in 2014 that Falls Church has an annual median household income of $121,250, the highest in the United States. The U.S. Census Bureau in 2013 reported that 74.4 percent of Falls Church City residents 25 years or older have earned a bachelor's degree or higher – a level of educational attainment unsurpassed in the nation.

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	Richard A. LaCondre, MPA
City Manager	Chief Financial O

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FINANCIAL SECTION

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BROWNEDWARDS
certified public accountants

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, 2015, 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.

Your Success is Our Focus
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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, 2015, 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.

Changes in Accounting Principle

As described in Note 16 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, 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 January 14, 2016, 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
January 14, 2016

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, 2015.

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

In 2015 the City adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The overall effect of this new standard is to reflect the City's long-term pension obligations directly in the financial statements. Previously, such amounts were mostly disclosed, but were not recognized as long as the City was current with its required pension contributions. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the City records a net pension liability or net pension asset directly on the statement of net position. Beginning net position has been restated as discussed in Note 16, and this has had a significant impact on the City's net position, in particular, to its Component Unit, School Board. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

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 on a government-wide basis was $73 million at June 30, 2015. Of this balance, $103 million is the Primary Government's and -$30 million is the component units'. The negative net position for the component unit is due to the recognition of net pension liability as a result of the School Board's participation in the Virginia Retirement System pension plan.
- For fiscal year 2015, taxes and other revenues of the City's governmental activities amounted to $78.3 million and expenses and transfers amounted to $75.9 million, which resulted in an increase in net position for the City's governmental activities of $2.4 million.
- Revenues of the City's business-type activities were $6.3 million, and expenses, losses, and transfers were $4.4 million, which resulted in an increase in net position for the City's business-type activities of approximately $1.9 million.

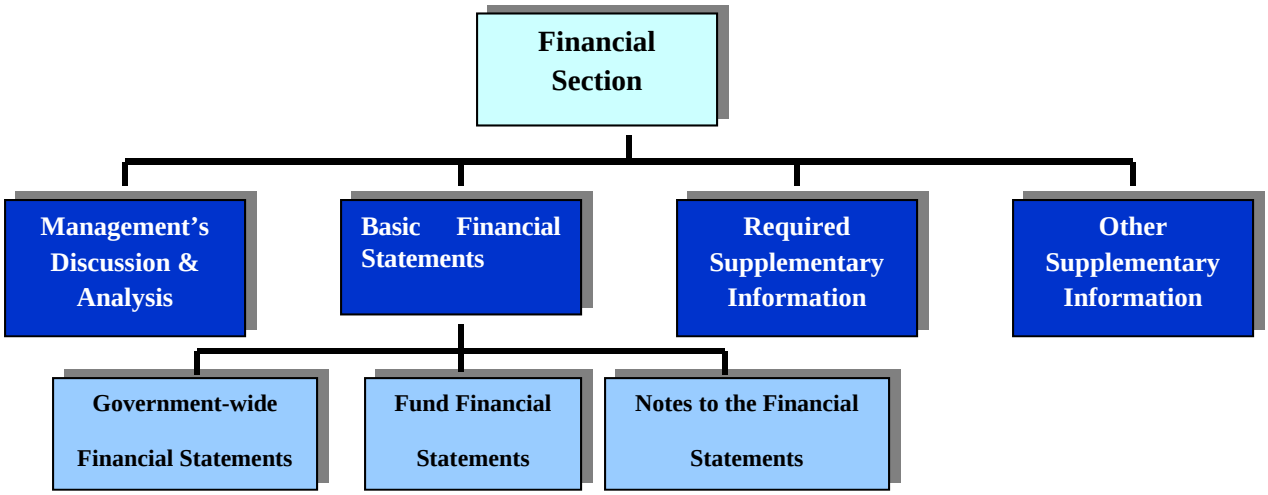
HIGHLIGHTS FOR FUND FINANCIAL STATEMENTS

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. GASB Statement No. 68 did not have any impact on the City's fund financial statements.

- The City's governmental funds reported expenditures and other financing uses in excess of revenues and other financing sources of $4.1 million for the fiscal year due largely to an additional contribution of $9.2 million made by the City to the Basic and Police Pension Plans using the proceeds from the sale of the Water system.
- The City's General Fund reported a fund balance of $31.3 million at June 30, 2015, a decrease of $11.5 million from June 30, 2014.
- The ending General Fund unassigned fund balance as of June 30, 2015 of $14.3 million was 18.6% of expenditures. Committed fund balance as of June 30, 2015 was $13.8 million. Of this, $11.0 million is for future capital projects. Assigned fund balance as of June 30, 2015 was $2.3 million. Non spendable and restricted fund balance as of June 30, 2015 was $0.9 million.
- The City's revenues from the Commonwealth of Virginia are $1.2 million less than budgeted due to a change in procedures by the Commonwealth resulting in grants for the City's Washington Metro Area Transit Authority (WMATA) obligations being disbursed directly to the Northern Virginia Transportation Commission (NVTC) instead of to the City.
- The City's Capital Projects Fund reported an increase in fund balance of $6.1 million, resulting in a balance of $19.5 million at June 30, 2015. This increase is due mainly to the issuance of debt for the Mt. Daniel Elementary School project.
- The City's Sewer fund reported an increase in net position of $777 thousand in FY2015. 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.
- The Storm Water Fund generated an increase in net position of $1.1 million largely due to a $783 thousand capital grant received from the Federal government to improve the Pearson Branch and Coe Branch stream banks.

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 position and how they have changed during the fiscal year.

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 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.

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 two 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 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 two 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 money received and disbursed on behalf of the Fairfax County and the Northern Virginia Criminal Justice Academy.

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 represents a summary of the net position of the primary government as of June 30, 2015 and 2014.

Summary of Net Position
As of June 30, 2015 and 2014
($ In Thousands)

	2015		2014	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Assets:				
Current and other assets	$ 76,237	$ 10,569	$ 105,235	$ 12,149
Capital assets, net	73,918	24,485	69,867	20,924
Total assets	150,155	35,054	175,102	33,073
Deferred Outflows of Resources	15,202	294	611	-
Liabilities:				
Other liabilities	11,058	1,290	15,066	1,239
Long-term liabilities	59,368	14,412	51,255	13,766
Total liabilities	70,426	15,702	66,320	15,006
Deferred Inflows of Resources	10,956	286	27,731	764
Net Position:				
Invested in capital assets, net of related debt	36,184	12,134	38,526	10,278
Restricted for other projects	758	-	583	-
Unrestricted	47,033	7,226	42,554	7,025
Total net position	$ 83,975	$ 19,360	$ 81,662	$ 17,303

The decrease in current and other assets for governmental activities of $29.0 million is due primarily to two events: (1) the additional contributions made by the City to the Basic and Police Pension Plans of $9.2 million and (2) the change in the City's real estate tax year to coincide with its fiscal year. The City's former tax year was based on a calendar year with one-half being due in the current fiscal year and the other half being due in the subsequent fiscal year, resulting in a receivable in the City's financial statements for the second half of the tax at June 30. The City changed its tax year to coincide with the fiscal year and in FY2015, it recognized a short 2015 real estate tax year for 6 months only. This tax was due in FY2015 and was mostly collected in FY2015.

Net capital assets for governmental activities increased by $4 million, primarily due to investments in capital infrastructure of $7.1 million and depreciation of $3.1 million. Capital investments were made mainly in the construction of Jesse Thackrey Pre-School, renovation of the Mt. Daniel Elementary School, installation of portable classrooms, construction of various transportation infrastructure, as well as the improvement of West End Park and the reconstruction of tennis and basketball courts. Current and other assets for business-type activities decreased by $1.6 million during FY2015 due to investments in storm water drainage facility, the restoration of two stream banks, the upgrade of sanitary sewer treatment facilities and the rehabilitation of sanitary sewer pipes.

Deferred outflows increased by $14.6 million for the governmental activities and by $0.3 million for the business-type activities as a result of the implementation of GASB Statement No. 68. Notes 13 through 15 includes information on the deferred outflows of the City related to its pension plans.

The decrease in other liabilities for governmental activities of $4.0 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 $8.1 million and by $0.6 million for business-type activities, due to the issuance of new general obligation debt.

During FY2015, the net position invested in capital assets, net of related debt, decreased for the City's governmental activities by $2.3 million mainly due to the issuance of new bonds that are not yet fully invested in capital assets. It increased for the business-type activities by $1.9 million primarily due to the construction of capital assets.

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STATEMENT OF ACTIVITIES

The following table summarizes the changes in net position for the primary government for the years ended June 30, 2015 and 2014:

Summary of Changes in Net Position
For the Fiscal Years Ended June 30, 2015 and 2014
($ In Thousands)

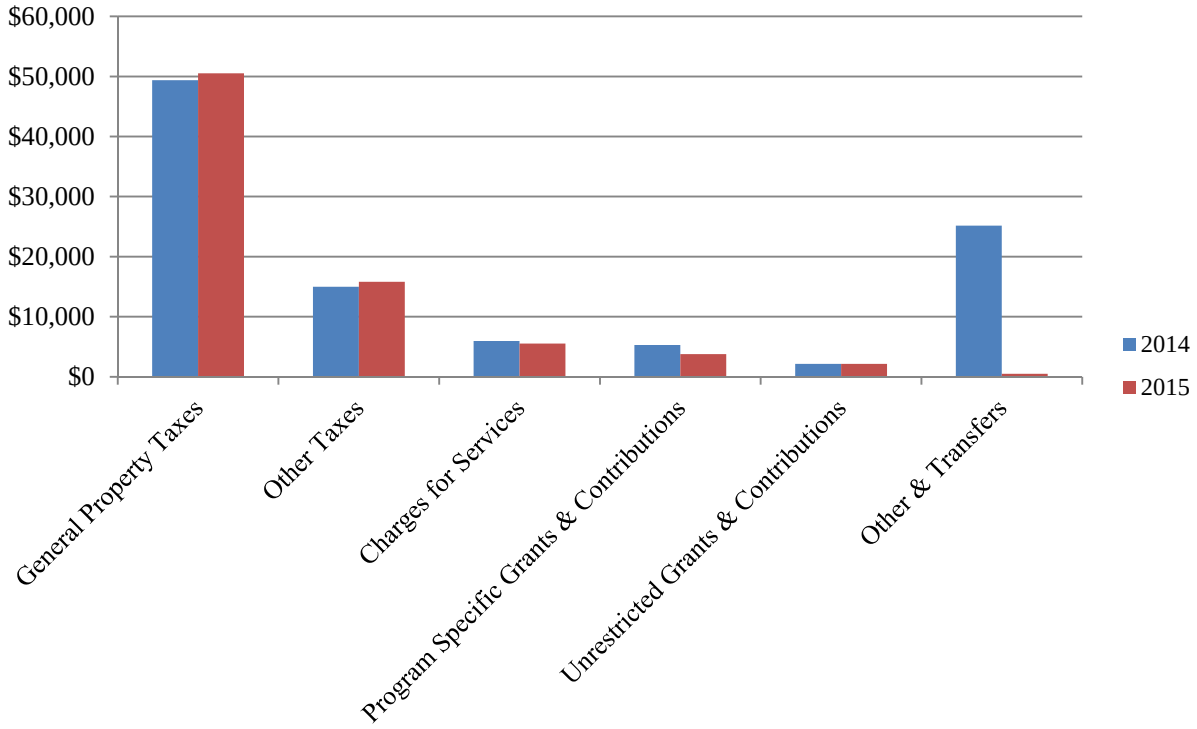
	2015		2014	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Revenues:				
Program revenues:				
Charges for services	$ 5,539	$ 5,439	$ 5,952	$ 18,386
Operating grants & contributions	2,175	-	3,756	-
Capital grants & contributions	1,592	866	1,529	328
General revenues:				
General property taxes	50,526	-	49,380	-
Business license taxes, based on gross receipts	3,722	-	3,545	-
Local sales & use taxes	4,003	-	3,778	-
Consumer's utility taxes	2,231	-	2,184	-
Motor vehicle decals	334	-	312	-
Recordation	487	-	483	-
Occupancy, tobacco, & other taxes	5,044	-	4,683	-
Unrestricted grants & contributions	2,139	-	2,139	-
Revenue from use of money and property	276	8	142	137
Other	132	-	99	89
Special item - gain/(loss) on sale of capital assets	-	-	1,818	(70,839)
Total revenues	78,200	6,313	79,800	(51,899)
Expenses:				
General government administration	6,702	-	6,002	-
Judicial administration	2,005	-	2,010	-
Public safety	10,834	-	10,908	-
Public works	6,507	3,985	6,649	14,768
Health and welfare	2,065	-	2,022	-
Education and payments to schools	38,558	-	35,381	-
Parks, recreation, and cultural	4,970	-	4,892	-
Community development	2,053	-	3,486	-
Economic development	397	-	354	-
Interest expense	1,801	382	1,501	3,109
Total expenses	75,892	4,367	73,205	17,877
Excess/(deficiency) before transfers	2,308	1,946	6,595	(69,776)
Transfers	89	(89)	23,091	(23,091)
Change in net assets	2,397	1,857	29,686	(92,867)
Net position, beginning of year*	81,578	17,503	51,976	110,170
Net position, end of year	$ 83,975	$ 19,360	$ 81,662	$ 17,303

*As restated. See Note 15.

Governmental Activities

Revenues and transfers for the City's governmental activities were $78.3 million for fiscal year 2015 and $102.9 million for fiscal year 2014. Sources of revenue for fiscal year 2015 and 2014 are comprised of the following items:

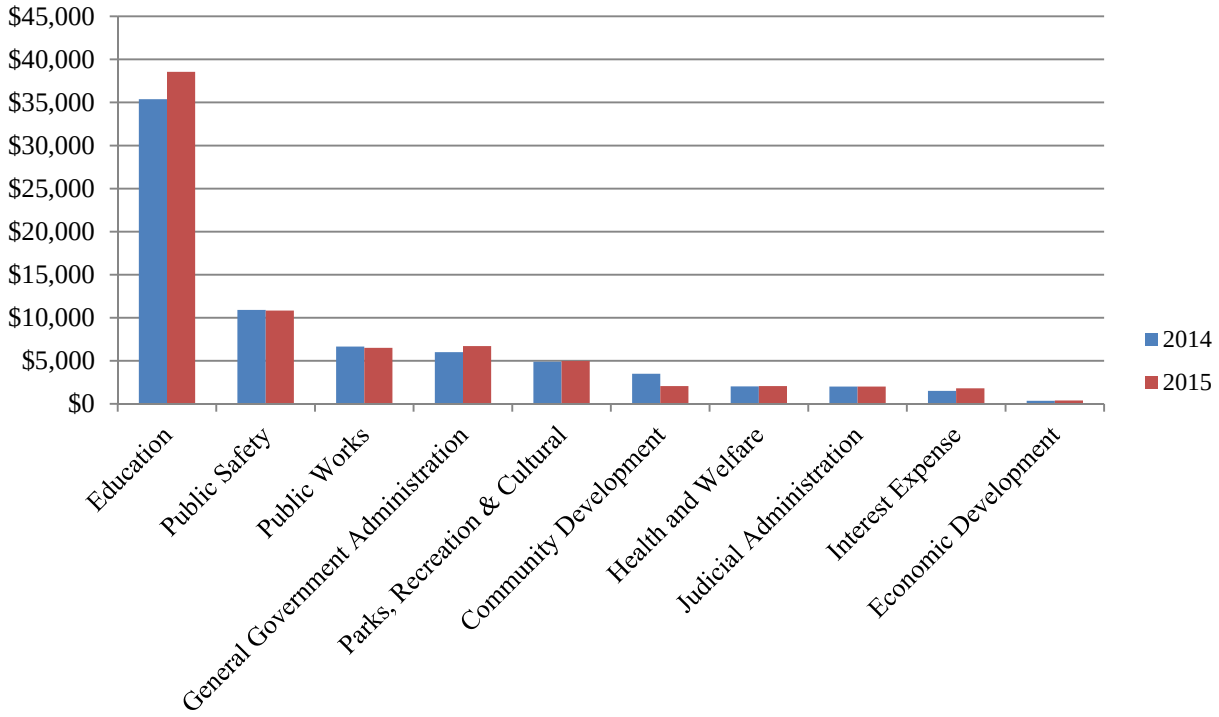
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014
($ IN THOUSANDS)



Taxes constitute the largest source of City revenues, amounting to $66.3 million for fiscal year 2015 and $64.4 million for fiscal year 2014. Real property taxes ($45.9 million in fiscal year 2015 and $44.8 million in fiscal year 2014) represent approximately 69% of tax revenues in FY2015 and 70% in FY2014.

The cost of all governmental activities in fiscal year 2015 was $75.9 million, and in fiscal year 2014 was $73.2 million. The increase of approximately 4% in FY2015 over FY2014 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 in both fiscal years 2015 and 2014; education expenses totaled $38.6 million in fiscal year 2015 and $35.4 million in fiscal year 2014. Public safety expenses represent the second largest expense in both of the fiscal years, totaling $10.8 million in fiscal year 2015 and $10.9 million in fiscal year 2014. General government administration totaled $6.7 million in fiscal year 2015 and $6.0 million in FY2014, representing the third largest expense for the City in FY2015 and the fourth largest expense in FY2015. Public works expenses totaled $6.5 million for fiscal year 2015 and $6.6 million for 2014, representing the fourth largest expense for the City in FY2015 and the third largest expense in FY2014.

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014
($ 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, 2015 and 2014
($ In Thousands)

	2015		2014	
Functions/Programs	**Total Cost**	**Net Cost**	**Total Cost**	**Net Cost**
Education and payments to schools	$ 38,558	$ 37,878	$ 35,381	$ 35,374
Public safety	10,834	8,686	10,908	8,360
General government administration	6,702	6,246	6,002	5,635
Public works	6,507	4,142	6,649	3,801
Parks, recreation, and cultural	4,970	2,829	4,892	2,729
Health and welfare	2,065	1,986	2,022	1,914
Community development	2,053	1,929	3,486	1,927
Other	4,202	2,891	3,865	2,481
Total	$ 75,891	$ 66,587	$ 73,205	$ 62,221

Some of the cost of governmental activities was paid by those who directly benefited from the programs ($5.5 million in 2015 and $6.0 million in 2014) and other governments and organizations that subsidized certain programs with grants and contributions ($3.8 million in 2015 and $5.3 million in 2014). The remaining net cost services of the $66.6 million in 2015 and $66.2 million in 2014 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 Sewer Fund reported an increase in net position of $0.8 million for fiscal year 2015 and an increase of $1.4 million for fiscal year 2014. In fiscal year 2015, total revenues of the Sewer Fund were $3.9 million as compared to total costs and transfers of $3.1 million. In fiscal year 2014, total revenues of the Sewer Fund were $4.2 million and total costs and transfers were $2.8 million. The Sewer Fund recovers its costs primarily through user charges. While the City has increased the consumption rate for the sewer services by 9% in FY2015, there was a decrease in actual consumption, making the revenues flat from year to year.

The Storm Water Fund reported an increase in net position of $1.1 million for fiscal year 2015 and an increase of $3.8 million for fiscal year 2014. Total revenues in FY2015 were $2.4 million and expenses and transfers were $1.3 million. Total revenues in FY2014 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. The Storm Water Fund was established in FY2014. Transfers in included transfers of cash and capital assets from the General Government.

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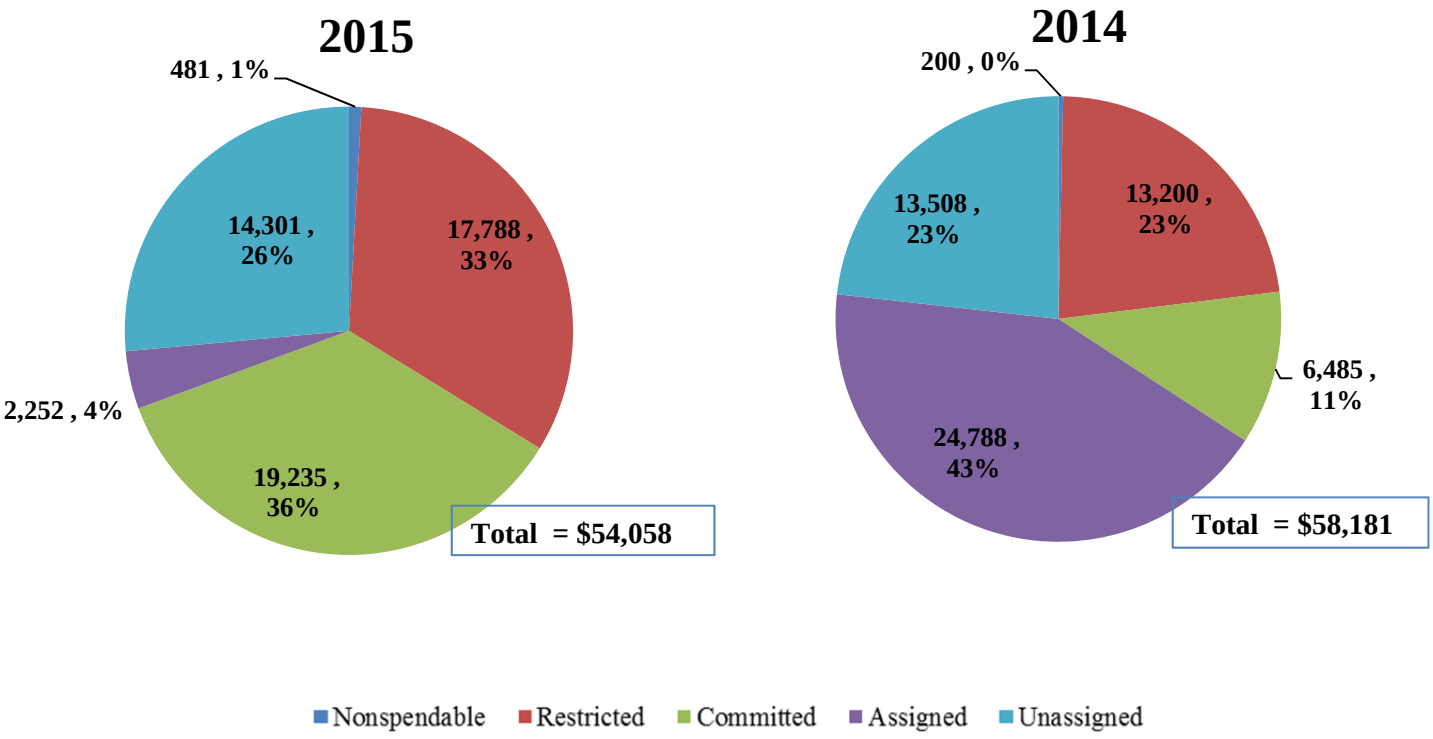
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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.

The following charts represent the components of City's governmental fund balances as of June 30, 2015 and 2014.

GOVERNMENTAL FUNDS – FUND BALANCES

AS OF JUNE 30, 2015 AND 2014 ($ IN THOUSANDS)



Overall, the fund balance for all governmental funds decreased by approximately $4.1 million in FY2015 and increased by $37.6 million in FY2014. In FY2015, total revenues and other financing sources were $89.7 million and total expenditures, other financing uses, and special item were $93.8 million. Total revenues and other financing sources were $117.6 million in FY2014 and expenditures and other financing uses were $80.0 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 as a result of the sale of the water system. In FY2015, included in the expenditures, other financing uses, and special item was an additional contribution of $9.2 million to the City's Basic and Police Pension Plans.

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 the FY2016 operating and capital budgets ($2.2 million in FY2015 and $1.8 million in FY2014) and for future capital expenditures ($11 million in FY2015 and $3.8 million in FY2014). Assigned fund balance represents amounts that were assigned to capital reserves, future development inspection costs, and encumbered amounts for various expenditures other than capital projects. The assigned fund balance decreased in FY2015 due to the commitment to capital reserves of $11.3 million as well as a contribution to the Basic and Police Pension Plans of $9.2 million. 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 FY2015 also added to the City's unassigned fund balance. The ending General Fund unassigned fund balance as of June 30, 2015 of $14.3 million was 18.6% of expenditures.

The following shows the fund balances of these funds as of June 30, 2015 and 2014:

Fund Balances - Governmental Funds
As of June 30, 2015 and 2014
($ In Thousands)

	General Fund		Capital Projects Fund		Special Transportation Fund		Affordable Dwelling Unit Fund		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Non-spendable	$ 192	$ 200	$ -	$ -	$ -	$ -	$ 289	$ -	$ 481	$ 200
Restricted	758	560	16,439	11,761	591	857	-	22	17,788	13,200
Committed	13,841	3,762	3,023	1,556	2,372	760	-	408	19,236	6,486
Assigned	2,252	24,788	-	-	-	-	-	-	2,252	24,788
Unassigned	14,301	13,508	-	-	-	-	-	-	14,301	13,508
Total	$ 31,344	$ 42,818	$ 19,462	$ 13,317	$ 2,963	$ 1,617	$ 289	$ 430	$ 54,058	$ 58,182

The following shows the changes in the individual fund balances for fiscal years 2015 and 2014:

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*	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenues and other financing sources	$ 76,932	$ 98,264	$ 12,958	$ 17,499	$ 2,411	$ 1,846	$ -	$ -	$ 89,670	$ 115,976
Expenditures and other financing uses	88,406	72,709	6,812	7,035	1,065	229	141	83	93,793	78,423
Changes in Fund Balances	(11,474)	25,555	6,146	10,464	1,346	1,617	(141)	(83)	(4,123)	37,553
Fund balance at beginning of year	42,818	17,263	13,316	2,852	1,617	-	430	513	58,181	20,628
Fund balance at end of year	$ 31,344	$ 42,818	$ 19,462	$ 13,316	$ 2,963	$ 1,617	$ 289	$ 430	$ 54,058	$ 58,181

*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.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget appropriations, which include expenditures and other financing uses, exceeded the original budget by $11.5 million or 14.4%. The increase was mainly due to the appropriation by the Council during the fiscal year to contribute an additional $9.2 million to the Basic and Police Pension Plans.

The final amended budget revenues and other financing sources were more than the original budget by $0.6 million or 0.8%. The change is mostly due to additional grants awarded to the City during the year.

Actual revenues and other financing sources were less than final budget amounts by $0.9 million or 1.2%, and actual expenditures and other financing uses were $3.0 million or 3.3% less than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2015, include the following:

- Actual revenues from the Commonwealth of Virginia are less than the budgeted amount by $1.2 million due to a change in the Commonwealth's procedures. In FY2015, they designated the NVTC as the grantee for the grant related to the City's obligations to WMATA.

- Actual departmental expenditures were less than budgeted amounts by $3.0 million. Community Development was below budget by $1.4 million mostly due to the change in procedures by the state with regards to a grant as mentioned above. Public Works was below budget by $698 thousand primarily due to some projects that were not completed and are being carried forward as encumbrances into FY2016. General Government was also below budget by $492 thousand mostly due to under-spending in technology. Low utilization of social services resulted in actual expenditures being lower than budgeted amount for Health and Welfare by $357 thousand. In total, for the General Fund, approximately $966 thousand in un-liquidated encumbrances are being carried forward into FY2015.

CAPITAL ASSETS AND LONG-TERM DEBT

The City's investment in capital assets as of June 30, 2015 and 2014, amounted to approximately $98.4 million and $90.8 million, respectively, (net of accumulated depreciation and amortization) as summarized in the following table:

Capital Assets
As of June 30, 2015 and 2014
($ In Thousands)

	2015			2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 9,561	$ -	$ 9,561	$ 9,561	$ -	$ 9,561
Construction in progress	3,317	3,710	7,027	2,349	5,666	8,015
Buildings and system	76,482	6,877	83,359	73,813	6,033	79,846
Improvements other than buildings	14,765	1,846	16,611	12,214		12,214
Machinery and equipment	5,446	571	6,017	5,001	515	5,516
Purchased capacity	-	15,550	15,550	-	13,048	13,048
Intangibles	5,565	10	5,575	1,540	10	1,550
Infrastructure	1,516	6,187	7,703	5,448	5,038	10,486
Library collections	2,141	-	2,141	2,079	-	2,079
Accumulated depreciation	(44,877)	(10,266)	(55,143)	(42,138)	(9,384)	(51,522)
Total Capital Assets, Net	$ 73,916	$ 24,485	$ 98,401	$ 69,867	$ 20,926	$ 90,793

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

- The City completed the construction of the Jesse Thackrey Preschool and began to renovate the Mt. Daniel Elementary School.
- The City also made various improvements to transportation infrastructure, including traffic signals, and has several roadbed and sidewalk improvement projects underway.
- The City is almost finished with an over $500 thousand (dollars) of improvements at West End Park.

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 are $3.5 billion in 2015 and in 2014. The City's total long-term debt that is applicable to this limit was $66.8 million as of June 30, 2015 and $58.1 million as of June 30, 2014, and is well within the limits set by the Constitution of the Commonwealth of Virginia.

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, 2015 and 2014, total debt outstanding was 1.9% and 1.7%, respectively, of taxable assessed value of real property. General Fund debt service payments were 6.8% and 6.2% of General Fund expenditures in FY2015 and FY2014, 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, 2015 and 2014:

Outstanding Long-Term Debts
As of June 30, 2015 and 2014
($ In Thousands)

	2015			2014		
	Govern-mental Activities	Business-Type Activities	Total	Govern-mental Activities	Business-Type Activities	Total
General obligation bonds issued for:						
Schools	$ 41,291	$ -	$ 41,291	$ 32,628	$ -	$ 32,628
Community center	1,197	-	1,197	1,342	-	1,342
Fire station	2,435	-	2,435	3,783	-	3,783
City hall	4,954	-	4,954	5,900	-	5,900
Open space	143	-	143	254	-	254
Other	4,015	-	4,015	3,150	-	3,150
Water system	-	-	-	-	0	-
Sewer system	-	7,652	7,652	-	7,341	7,341
Stormwater system	-	1,445	1,445	-	780	780
Revenue bonds issued for:						
Sewer system	-	2,077	2,077	-	2,243	2,243
Note payable issued for:						
Water system	-	-	-	-	-	-
Sewer system	-	2,663	2,663	-	2,876	2,876
Capital leases and other	4,886	575	5,461	4,197	526	4,723
Total	$ 58,921	$ 14,412	$ 73,333	$ 51,254	$ 13,766	$ 65,020

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

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 2016:

- The percentage change in real property taxes for fiscal year 2016 is projected to be an increase of 6.1% over the FY2015 budget.

Per the fiscal year 2016 adopted budget, revenues are $83.0 million, a 3.1% increase over the fiscal year 2015 original adopted budget of $80.6 million. Revenue from real property taxes will make up 59.2% of total revenues, as compared to 57.5% in fiscal year 2015. Other taxes account for 24.2% of General Fund revenue in 2015, as compared to 24.7% in 2015.

In FY2016, there is a decrease in Basic Pension Plan required contribution to 17.86% from 19.11% of covered payroll in FY2015. There is an increase to the required contribution in the Police Pension Plan to 36.55% from 34.34% of covered payroll in FY2015. Both years include employee contributions of 5.0% and 7.0% for the basic plan and police plan, respectively. Contributions to the Virginia Retirement System, which covers Constitutional Officers and the majority of School Board employees, are subject to action by the General Assembly. These contributions are set on a biennial basis and are the same rate in FY2016 as they were in FY2015.

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT WIDE FINANCIAL STATEMENTS

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EXHIBIT 1

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2015

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Totals	School Board	Economic Development Authority
ASSETS					
Cash and investments (Note 4)	$ 39,855,541	$ 7,781,359	$ 47,636,900	$ 4,599,865	$ 1,940,906
Receivables, net (Note 5)	7,738,991	1,349,766	9,088,757	23,134	3,072
Internal balances (Note 7)	393,997	(393,997)	-	-	-
Due from agency funds	55,447	-	55,447	-	-
Due from fiduciary funds	761,503	-	761,503	111,285	-
Due from primary government	-	-	-	2,525,374	250,000
Due from other governments (Note 6)	1,622,697	223,342	1,846,039	501,633	-
Prepaids	8,457	-	8,457	170,697	-
Inventories	183,684	17,353	201,037	-	-
Restricted cash and cash equivalents (Note 4)	19,828,272	1,087,237	20,915,509	-	-
Deferred OPEB charges (Note 14)	3,423,000	34,000	3,457,000	1,158,000	-
Net pension asset (Note 17)	2,366,100	75,778	2,441,878	394,046	-
Capital assets: (Note 8)					
Nondepreciable	12,878,663	3,710,723	16,589,386	1,273,354	-
Depreciable, net	61,039,047	20,774,766	81,813,813	2,732,541	-
Total assets	150,155,399	34,660,327	184,815,726	13,489,929	2,193,978
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions (Note 17)	14,694,207	293,551	14,987,758	6,741,840	-
Deferred amount on refunding	507,313	-	507,313	-	-
Total deferred outflows of resources	15,201,520	293,551	15,495,071	6,741,840	-
LIABILITIES					
Accounts payable and other liabilities	5,611,535	736,999	6,348,534	5,375,776	250,000
Accrued interest	801,750	158,946	960,696	-	-
Customer deposits	1,829,335	-	1,829,335	-	-
Due to component unit	2,775,374	-	2,775,374	-	-
Due to other governments (Note 6)	40,323	-	40,323	-	-
Noncurrent liabilties:					
Net pension liability (Note 17)	447,293	-	447,293	35,117,000	-
Deferred rent	-	-	-	133,562	-
Due within one year (Note 10)	5,366,699	881,060	6,247,759	1,298,841	-
Due in more than one year (Note 10)	53,553,997	13,531,073	67,085,070	3,865,829	-
Total liabilities	70,426,306	15,308,078	85,734,384	45,791,008	250,000
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions (Note 17)	6,206,939	285,815	6,492,754	6,698,185	-
Unearned revenue (Note 9)	4,749,135	-	4,749,135	-	-
Total deferred inflows of resources	10,956,074	285,815	11,241,889	6,698,185	-
NET POSITION					
Net investment in capital assets	36,184,034	12,134,206	48,318,240	3,728,541	-
Restricted for:					
Grants	758,208	-	758,208	-	-
Unrestricted	47,032,297	7,225,779	54,258,076	(35,985,965)	1,943,978
Total net position	$ 83,974,539	$ 19,359,985	$ 103,334,524	$ (32,257,424)	$ 1,943,978

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, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position				
					Primary Government			Component Units	
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Totals**	**School Board**	**Economic Development Authority**
Primary Government:									
Governmental activities:									
General government	$ 6,702,227	$ 252,659	$ 203,575	$ -	$ (6,245,993)		$ (6,245,993)		
Judicial administration	2,004,502	997,514	311,756	-	(695,232)		(695,232)		
Public safety	10,833,749	1,656,508	427,094	64,637	(8,685,510)		(8,685,510)		
Public works	6,507,428	516,515	1,002,566	846,500	(4,141,847)		(4,141,847)		
Health and welfare	2,064,532	6,300	72,502	-	(1,985,730)		(1,985,730)		
Parks, recreation, and cultural	4,970,253	1,988,182	153,541	-	(2,828,530)		(2,828,530)		
Community development	2,053,265	121,005	3,750	-	(1,928,510)		(1,928,510)		
Economic development	396,685	-	-	-	(396,685)		(396,685)		
Education	38,558,239	-	-	680,358	(37,877,881)		(37,877,881)		
Interest	1,800,681	-	-	-	(1,800,681)		(1,800,681)		
Total governmental activities	75,891,561	5,538,683	2,174,784	1,591,495	(66,586,599)		(66,586,599)		
Business-type activities:									
Sewer	3,126,518	3,898,179	-	-		771,661	771,661		
Storm water	1,240,370	1,540,980	-	865,968		1,166,578	1,166,578		
Total business-type activities	4,366,888	5,439,159	-	865,968		1,938,239	1,938,239		
Total primary government	$ 80,258,449	$ 10,977,842	$ 2,174,784	$ 2,457,463	(66,586,599)	1,938,239	(64,648,360)		
Discretely Presented Component Units:									
School Board	$ 44,886,362	$ 2,872,667	$ 6,442,957	$ -				$ (35,570,738)	$ -
Economic Development Authority	34,630	-	-	-				-	(34,630)
Total component units	$ 44,920,992	$ 2,872,667	$ 6,442,957	$ -				(35,570,738)	(34,630)
		General revenues:							
		General property taxes			50,525,464	-	50,525,464	-	-
		Other local taxes:							
		Business licenses			3,722,282	-	3,722,282	-	-
		Local sales and use			4,003,421	-	4,003,421	-	-
		Consumer utility			2,231,129	-	2,231,129	-	-
		Motor vehicle decals			333,921	-	333,921	-	-
		Real estate recordation taxes			487,332	-	487,332	-	-
		Occupancy, tobacco, and other			5,044,324	-	5,044,324	-	-
		Payments from City			-	-	-	36,859,530	-
		Intergovernmental, non-categorical aid			2,139,070	-	2,139,070	-	-
		Investment earnings, unrestricted			276,177	8,240	284,417	119,540	2,315
		Gain on sale of property			34,062	-	34,062	-	-
		Miscellaneous			96,229	-	96,229	64,958	21,750
		Transfers			89,490	(89,490)	-	-	-
		Total general revenues and transfers			68,982,901	(81,250)	68,901,651	37,044,028	24,065
		Change in net position			2,396,302	1,856,989	4,253,291	1,473,290	(10,565)
		NET POSITION AT JULY 1, AS RESTATED (Note 15)			81,578,237	17,502,996	99,081,233	(33,730,714)	1,954,543
		NET POSITION AT JUNE 30			$ 83,974,539	$ 19,359,985	$ 103,334,524	$ (32,257,424)	$ 1,943,978

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

FUND FINANCIAL STATEMENTS

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EXHIBIT 3

CITY OF FALLS CHURCH, VIRIGNIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General	Capital Projects	Special Transportation	Other Governmental	Total Governmental
ASSETS					
Cash and investments	$ 36,711,533	$ 1,192,902	$ 1,661,839	$ 289,267	$ 39,855,541
Receivables, net	6,775,632	680,358	-	283,001	7,738,991
Due from other funds	776,644	93,785	340,518	-	1,210,947
Due from other governments	1,162,915	197,248	283,157	-	1,643,320
Prepaids	8,457	-	-	-	8,457
Inventories	183,684	-	-	-	183,684
Restricted cash and cash equivalents	453,068	18,518,516	856,688	-	19,828,272
Total assets	$ 46,071,933	$ 20,682,809	$ 3,142,202	$ 572,268	$ 70,469,212
LIABILITIES					
Accounts payable and other liabilities	$ 4,310,590	$ 1,146,259	$ 154,686	$ -	$ 5,611,535
Customer deposits	1,829,335	-	-	-	1,829,335
Due to component units	2,775,374	-	-	-	2,775,374
Due to other governments	40,323	-	-	-	40,323
Total liabilities	8,955,622	1,146,259	154,686	-	10,256,567
DEFFERED INFLOWS OF RESOURCES					
Unavailable/unearned revenue	5,771,891	74,722	25,000	283,001	6,154,614
Total deferred inflows of resources	5,771,891	74,722	25,000	283,001	6,154,614
FUND BALANCES					
Fund balances (Note 21):					
Nonspendable	192,141	-	-	289,267	481,408
Restricted	758,208	16,438,899	590,611	-	17,787,718
Committed	13,840,859	3,022,929	2,371,905	-	19,235,693
Assigned	2,251,649	-	-	-	2,251,649
Unassigned	14,301,563	-	-	-	14,301,563
Total fund balances	31,344,420	19,461,828	2,962,516	289,267	54,058,031
Total liabilities, deferred inflows of resources and fund balances	$ 46,071,933	$ 20,682,809	$ 3,142,202	$ 572,268	$ 70,469,212

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

EXHIBIT 4

CITY OF FALLS CHURCH, VIRIGNIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2015

Total Fund Balance		$ 54,058,031
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	$ 12,878,663	
Depreciable, net	61,039,047	
		73,917,710
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.		3,423,000
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds		1,405,479
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources for 2015 employer contributions	$ 14,694,207	
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	(6,206,939)	
Net pension asset - Basic and Police Plans	2,366,100	
Net pension liability - VRS Plan	(447,293)	
		10,406,075
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	$ (54,035,000)	
Premium, discounts and refundings, net of accumulated amortization	(2,724,506)	
Deferred amount on refunding, net of accumulated amortization	507,313	
Compensated absences	(2,161,190)	
		(58,413,383)
Interest on long-term liabilities is not accrued in governmental funds, but is recognized as an expenditure when due.		(801,750)
Total Net Position - Governmental Activities		$ 83,974,539

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

EXHIBIT 5

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	General	Capital Projects	Special Transportation	Other Governmental	Total Governmental
REVENUES					
General property taxes	$ 50,587,189	$ -	$ -	$ -	$ 50,587,189
Other local taxes	15,073,834	-	810,633	-	15,884,467
Permits, privilege fees, and regulatory licenses	1,543,975	-	-	-	1,543,975
Fines and forfeitures	662,700	-	-	-	662,700
Use of money and property	275,503	-	325	349	276,177
Charges for services	3,149,616	-	-	-	3,149,616
Miscellaneous	145,705	-	-	-	145,705
Gifts and contributions	21,432	711,123	-	-	732,555
Recovered costs	492,274	-	-	-	492,274
Intergovernmental					
Commonwealth	4,051,623	237,705	207,927	-	4,497,255
Federal	307,354	370,103	-	-	677,457
Total revenues	76,311,205	1,318,931	1,018,885	349	78,649,370
EXPENDITURES					
Current:					
General government	6,569,485	-	-	-	6,569,485
Judicial administration	2,147,174	-	-	-	2,147,174
Public safety	11,187,199	-	-	-	11,187,199
Public works	5,285,860	-	-	-	5,285,860
Health and welfare	2,092,220	-	-	141,038	2,233,258
Parks, recreation, and culturual	4,831,460	-	-	-	4,831,460
Community development	2,073,612	-	-	-	2,073,612
Economic development	420,937	-	-	-	420,937
Education	36,889,734	-	-	-	36,889,734
Capital outlay	-	6,689,843	1,065,331	-	7,755,174
Debt service:					
Principal retirement	3,422,300	-	-	-	3,422,300
Interest and fiscal charges	1,777,290	-	-	-	1,777,290
Total expenditures	76,697,271	6,689,843	1,065,331	141,038	84,593,483
Excess (deficiency) of revenues over expenditures	(386,066)	(5,370,912)	(46,446)	(140,689)	(5,944,113)
OTHER FINANCING SOURCES (USES)					
Proceeds from debt issuance	-	10,400,000	-	-	10,400,000
Premiums from issuance of bonds	612,326	-	-	-	612,326
Proceeds from sale of capital assets	8,386	-	-	-	8,386
Transfers in	-	1,238,643	1,392,007	-	2,630,650
Transfers out	(2,509,007)	(121,643)	-	-	(2,630,650)
Total other financing sources (uses)	(1,888,295)	11,517,000	1,392,007	-	11,020,712
SPECIAL ITEM					
Contribution of water proceeds to pension plans	(9,200,000)	-	-	-	(9,200,000)
Net change in fund balance	(11,474,361)	6,146,088	1,345,561	(140,689)	(4,123,401)
FUND BALANCES AT JULY 1	42,818,781	13,315,740	1,616,955	429,956	58,181,432
FUND BALANCES AT JUNE 30	$ 31,344,420	$ 19,461,828	$ 2,962,516	$ 289,267	$ 54,058,031

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

EXHIBIT 6

CITY OF FALLS CHURCH, VIRIGNIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

Net Change in Fund Balance - Governmental Funds		$ (4,123,401)
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	$ 7,081,426	
Depreciation expense	(3,145,777)	
		3,935,649
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.		25,676
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Debt proceeds	(10,400,000)	
Debt premiums	(612,326)	
Change in deferred inflow of resources	(161,742)	
		(11,174,068)
Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Employer pension contributions	14,694,207	
Pension expense	(4,204,128)	
		10,490,079
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.		89,490
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.		3,422,300
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		(246,033)
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	169,915	
Amortization of gain/loss from refundings	(104,066)	
Change in accrued interest payable	(89,239)	
		(23,390)
Change in Net Position - Governmental Activities		$ 2,396,302

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

EXHIBIT 7

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
General property taxes	$ 51,116,700	$ 51,116,700	$ 50,587,189	$ (529,511)
Other local taxes	15,078,000	15,078,000	15,073,834	(4,166)
Permits, privilege fees, and regulatory licenses	1,019,000	1,185,000	1,543,975	358,975
Fines and forfeitures	734,000	734,000	662,700	(71,300)
Use of money and property	212,000	212,000	275,503	63,503
Charges for services	3,026,730	3,066,730	3,149,616	82,886
Miscellaneous	41,000	56,000	145,705	89,705
Gifts and contributions	14,000	43,000	21,432	(21,568)
Recovered costs	268,100	414,316	492,274	77,958
Intergovernmental				
Commonwealth	5,160,633	5,224,757	4,051,623	(1,173,134)
Federal	232,501	300,965	307,354	6,389
Total revenues	76,902,664	77,431,468	76,311,205	(1,120,263)
EXPENDITURES				
Current:				
General government	6,856,115	7,062,134	6,569,485	492,649
Judicial administration	2,037,705	2,182,705	2,147,174	35,531
Public safety	10,732,151	11,160,949	11,187,199	(26,250)
Public works	5,332,515	5,984,191	5,285,860	698,331
Health and welfare	2,489,789	2,449,226	2,092,220	357,006
Parks, recreation, and culturual	4,740,164	4,872,812	4,831,460	41,352
Community development	3,386,830	3,438,679	2,073,612	1,365,067
Economic development	473,590	473,590	420,937	52,653
Education	36,889,734	36,889,734	36,889,734	-
Debt service:				
Principal retirement	3,422,300	3,422,300	3,422,300	-
Interest and fiscal charges	1,791,824	1,791,824	1,777,290	14,534
Total expenditures	78,152,717	79,728,144	76,697,271	3,030,873
Excess (deficiency) of revenues over expenditures	(1,250,053)	(2,296,676)	(386,066)	1,910,610
OTHER FINANCING SOURCES (USES)				
Premiums from issuance of bonds	359,000	418,129	612,326	194,197
Proceeds from sale of capital assets	-	-	8,386	8,386
Transfers out	(1,752,000)	(2,509,007)	(2,509,007)	-
Total other financing sources (uses)	(1,393,000)	(2,090,878)	(1,888,295)	202,583
SPECIAL ITEM				
Contribution of water proceeds to pension plans	-	(9,200,000)	(9,200,000)	-
Net change in fund balance	$ (2,643,053)	$(13,587,554)	$(11,474,361)	$ 2,113,193

EXHIBIT 8

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Business-Type Activities – Enterprise Funds		
	Sewer	**Storm Water**	**Totals**
ASSETS			
Current assets:			
Cash and investments	$ 6,655,375	$ 1,125,984	$ 7,781,359
Receivables, net	1,304,077	45,689	1,349,766
Due from other governments	40,483	182,859	223,342
Inventories	13,318	4,035	17,353
Restricted cash and cash equivalents	524,029	563,208	1,087,237
Total current assets	8,537,282	1,921,775	10,459,057
Noncurrent assets:			
Deferred OPEB charges	24,000	10,000	34,000
Net pension asset	31,640	44,138	75,778
Capital assets, net	19,454,061	5,031,428	24,485,489
Total noncurrent assets	19,509,701	5,085,566	24,595,267
Total assets	28,046,983	7,007,341	35,054,324
DEFFERED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	97,803	195,748	293,551
Total deferred outflows of resources	97,803	195,748	293,551
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	487,591	249,408	736,999
Accrued interest	131,490	27,456	158,946
Due to other funds	135,229	258,768	393,997
Compensated absences, current	21,563	17,249	38,812
Debt, current	767,248	75,000	842,248
Total current liabilities	1,543,121	627,881	2,171,002
Noncurrent liabilities:			
Compensated absences	21,378	27,169	48,547
Debt	12,005,082	1,477,444	13,482,526
Total noncurrent liabilities	12,026,460	1,504,613	13,531,073
Total liabilities	13,569,581	2,132,494	15,702,075
DEFFERED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	119,335	166,480	285,815
Total deferred inflows of resources	119,335	166,480	285,815
NET POSITION			
Net investment in capital assets	8,655,222	3,478,984	12,134,206
Unrestricted	5,800,648	1,425,131	7,225,779
Total net position	$ 14,455,870	$ 4,904,115	$ 19,359,985

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

EXHIBIT 9

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2015

	Business-Type Activities – Enterprise Funds		
	Sewer	Storm Water	Totals
OPERATING REVENUES			
Charges for fees and services	$ 3,827,459	$ 1,540,980	$ 5,368,439
Total operating revenues	3,827,459	1,540,980	5,368,439
OPERATING EXPENSES			
Collection and disposal	1,566,696	516,043	2,082,739
Administration	468,849	551,413	1,020,262
Depreciation and amortization	733,598	148,056	881,654
Total operating expenses	2,769,143	1,215,512	3,984,655
Operating income	1,058,316	325,468	1,383,784
NONOPERATING REVENUES (EXPENSES)			
Availability fees	70,720	-	70,720
Interest and investment revenue	5,986	2,254	8,240
Interest expense	(357,375)	(24,858)	(382,233)
Net nonoperating revenues (expenses)	(280,669)	(22,604)	(303,273)
Income before contributions and transfers	777,647	302,864	1,080,511
CAPITAL CONTRIBUTIONS	-	865,968	865,968
TRANSFERS OUT	-	(89,490)	(89,490)
Change in net position	777,647	1,079,342	1,856,989
NET POSITION AT JULY 1, AS RESTATED (Note 16)	13,678,223	3,824,773	17,502,996
NET POSITION AT JUNE 30	$ 14,455,870	$ 4,904,115	$ 19,359,985

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

EXHIBIT 10

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2015

	Business-type Activities – Enterprise Funds		
	Sewer	Storm water	Totals
OPERATING ACTIVITIES			
Receipts from customers	$ 4,183,881	$ 1,519,716	$ 5,703,597
Receipts from other sources	-	(147,507)	(147,507)
Interfund reimbursements	(173,183)	(181,838)	(355,021)
Payments to suppliers	(1,812,225)	(245,369)	(2,057,594)
Payments to employees	(431,748)	(679,428)	(1,111,176)
Net cash provided by operating activities	1,766,725	265,574	2,032,299
NONCAPITAL FINANCING ACTIVITIES			
Interfund borrowing	20,207	709,232	729,439
Net cash provided by noncapital financing activities	20,207	709,232	729,439
CAPITAL AND RELATED FINANCING ACTIVITIES			
Availability fees	70,720	-	70,720
Purchases of capital assets	(1,752,772)	(1,797,206)	(3,549,978)
Proceeds from long-term debt	678,564	741,214	1,419,778
Principal paid on capital debt	(707,838)	(35,000)	(742,838)
Interest paid on capital debt	(487,209)	(36,552)	(523,761)
Net cash used in capital and related financing activities	(2,198,535)	(1,127,544)	(3,326,079)
INVESTING ACTIVITIES			
Interest and investment revenue	5,986	2,254	8,240
Net decrease in cash and cash equivalents	(405,617)	(150,484)	(556,101)
CASH AND CASH EQUIVALENTS JULY 1	7,585,021	1,839,676	9,424,697
CASH AND CASH EQUIVALENTS JUNE 30	$ 7,179,404	$ 1,689,192	$ 8,868,596
RECONCILIATION TO EXHIBIT 8			
Cash and investments	$ 6,655,375	$ 1,125,984	$ 7,781,359
Restricted cash and cash equivalents	524,029	563,208	1,087,237
Total	$ 7,179,404	$ 1,689,192	$ 8,868,596
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	$ 1,058,316	$ 325,468	$ 1,383,784
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	733,598	148,056	881,654
Pension expense net of employer contributions	(34,003)	(30,548)	(64,551)
Change in assets and liabilities:			
(Increase) decrease in:			
Receivables, net	356,422	595,680	952,102
Inventory	(10,359)	(4,035)	(14,394)
Deferred OPEB charges	2,000	6,000	8,000
Increase (decrease) in:			
Accounts payable, other liabilities, and OPEB	(335,237)	(9,789)	(345,026)
Unearned revenue and deferred rent	-	(764,451)	(764,451)
Compensated absences	(4,012)	(807)	(4,819)
Net cash provided by operating activities	$ 1,766,725	$ 265,574	$ 2,032,299
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Developer contributions	$ -	$ 865,968	$ 865,968
Capital asset purchases included in accounts payable	$ 138,334	$ 117,492	$ 255,826
Capitalized interest	$ 110,849	$ 16,600	$ 127,449
Capital assets transferred within the City	$ -	$ (89,490)	$ (89,490)

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

EXHIBIT 11

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2015

	Post-Employment Trust Funds			
	Basic Pension Plan	Police Pension Plan	Other Post-Employment Benefits	Agency Funds
ASSETS				
Cash and cash equivalents (Note 4)	$ 1,929,549	$ 632,365	$ 83,294	$ 3,899,683
Investments (Note 4)	88,749,099	26,131,502	9,781,380	-
Contributions receivable	156,722	33,208	-	-
Interest and dividends receivable	-	12,334	-	-
Receivables, net	-	-	-	914,151
Due from general fund	-	-	-	2,414
Total assets	90,835,370	26,809,409	9,864,674	4,816,248
LIABILITIES				
Accounts payable	52,410	15,450	11,909	-
Due to general fund	172,305	54,106	646,377	57,861
Amounts held for others	-	-	-	4,758,387
Total liabilities	224,715	69,556	658,286	4,816,248
NET POSITION				
Held in trust for:				
Pension benefits	90,610,655	26,739,853	-	-
Other post-employment benefits	-	-	9,206,388	-
Total net position restricted for post-employment benefits	$ 90,610,655	$ 26,739,853	$ 9,206,388	$ -

EXHIBIT 12

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2015

	Basic Pension Plan	Police Pension Plan	Other Post-Employment Benefits
ADDITIONS			
Employer contributions	$ 8,345,533	$ 3,593,989	$ 997,316
Employee contributions	724,852	177,685	-
Investment earnings:			
Interest	13,747	34,821	65
Dividends	1,020,896	282,578	197,693
Net change in fair value	2,426,767	664,427	(139,403)
Total investment earnings	3,461,410	981,826	58,355
Less investment expense	(402,793)	(117,711)	(34,025)
Net investment earnings	3,058,617	864,115	24,330
Total additions	12,129,002	4,635,789	1,021,646
DEDUCTIONS			
Benefits	4,272,618	991,773	600,066
Administration	47,750	14,921	17,515
Total deductions	4,320,368	1,006,694	617,581
Change in net position	7,808,634	3,629,095	404,065
NET POSITION AT JULY 1	82,802,021	23,110,758	8,802,323
NET POSITION AT JUNE 30	$ 90,610,655	$ 26,739,853	$ 9,206,388

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.

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 Sewer Fund and Storm Water Fund are used to account for the financing, construction, and operations of the City's sewer and storm water systems.

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.

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 sewer and storm water 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 sewer and storm water 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.

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 sewer fund, 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.

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

During 2015, the City switched from billing real estate taxes on a calendar year to a fiscal year. In order to incorporate the switch, 2015 was a "short tax year". For the short tax year, 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 on June 5. The City bills and collects its own taxes. Real estate and business-related personal property taxes are levied each fiscal 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 rate for calendar years 2014 and fiscal year 2015 were $1.305 and $1.315, 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 2015 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.

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:

	Years
Infrastructure	20-50
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 statements which present financial position report a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has four items that qualify for reporting in this category. The first item is contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The second is changes in assumptions when determining the net pension asset or liability; this will be amortized over five years. The third is the net difference between projected and actual experience of the pension plans. This difference will be recognized over the average expected remaining service life of all active and inactive members of the plan. As of the measurement date, this period was five years for the Basic Plan and three years for the Police Plan. The fourth is a deferred charge on refunding reported in the government-wide statement of net position which 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources which represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has four items that qualify for reporting in this category. One item occurs only under the modified accrual basis of accounting; this 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. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second is unearned revenue, which results from collections of storm water fees for future years. This results when amounts have been collected from the customers and costs have not yet been incurred by the City. The third is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period. The fourth is the net difference between projected and actual experience of the pension plans. This difference will be recognized over the average expected remaining service life of all active and inactive members of the plan. As of the measurement date, this period was five years for the Basic Plan and three years for the Police Plan.

An additional deferred inflow or outflow results from participation in the Virginia Retirement System's teacher cost sharing pool and the Basic Pension Plan, where changes in proportion and differences between employer contributions and the proportionate share of employer contributions are reported as a deferred inflow or outflow, as appropriate.

Pensions

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

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Compensated Absences (Continued)

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 had already met eligibility requirements 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 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.

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% within two fiscal years. To the extent additional funds are necessary to restore the Unassigned Fund Balance to 17%; 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.

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, total $966,184 in the general fund.

Net Position

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 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.

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.

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 2015, the City paid the CSB approximately $630 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 2015, the City paid approximately $759 thousand for these services.

The City uses Fairfax's landfills for waste disposal and charges are based on tipping fees. During 2015, the City paid approximately $107 thousand.

Note 2. Intergovernmental Agreements

County of Fairfax (Continued)

The City has an agreement with Fairfax to share in the cost of its sewage treatment facilities. During 2015, the City paid approximately $716 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 2015. 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 $749 thousand in 2015 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.

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 2015, the City paid Arlington approximately $2.5 million for fire and rescue services, $612 thousand for jail services, $408 thousand for E-911 and radio bandwidth services, and $490 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 2015 amounted to approximately $679 thousand.

The City has an agreement with Arlington to share in the cost of its sewage treatment facilities. During 2015, the City paid Arlington approximately $483 thousand, of which $471 thousand is for operating costs and $12 thousand is for major upgrades to the treatment facilities. $471 thousand is recorded as an expense and $12 thousand is recorded as construction-in-progress in the Sewer Fund, and will be transferred to purchased capacity once the plant is in service.

Fairfax Water

Fairfax Water performs sewer billing and collection services. During 2015, Fairfax Water billed $3.6 million in sewer fees and remitted $3.7 million to the City. The City paid Fairfax Water $100 thousand for these services.

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 2015, the City paid NVCJA approximately $49 thousand for its share of operating and debt service costs.

Note 2. Intergovernmental Agreements (Continued)

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.

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 2015, the City received approximately $811 thousand of these taxes.

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 2015, the City's required contributions amounted to approximately $3.1 million. The City received $1.3 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 Projects and Special Transportation Funds. The Council adopts project length budgets for these 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 Ordinance. 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 through resolution by the Council. The City Manager is authorized to transfer unencumbered balances within departments only.
5. Unencumbered appropriations lapse on June 30 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 $10.9 million 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.

Note 4. Deposits and Investments (Continued)

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.

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, 1.7% of the portfolio was invested in LGIP, 57.3% was invested in SNAP, and 41.0% in the Virginia Municipal League Virginia Investment Pool (VML).

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.

Note 4. Deposits and Investments (Continued)

Investments (Continued)

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 Sewer and Storm Water 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.

The City's investments consisted of the following:

Investment Type	Fair Value	S & P Credit Rating
Primary Government:		
LGIP	$ 613,566	AAAm
SNAP	20,915,508	AAAm
VML	14,997,230	AAAm
Primary government investments	36,526,304	
Component Unit – School Board:		
LGIP	4,579,577	AAAm
Component Unit – EDA:		
LGIP	1,940,906	AAAm
Component unit investments	6,520,483	
Total investments	$ 43,046,787	

Note 4. Deposits and Investments (Continued)

Investments (Continued)

Cash and investments consist of the following:

		Component Units	
	Primary Government	School Board	Economic Development Authority
Deposits and investments:			
Demand deposits	$ 32,026,105	$ 20,288	$ -
LGIP	613,566	4,579,577	1,940,906
SNAP	20,915,508	-	-
VML	14,997,230	-	-
	$ 68,552,409	4,599,865	$ 1,940,906

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

Statement of net position:			
Cash and investments	$ 47,636,900	$ 4,599,865	$ 1,940,906
Restricted cash and cash equivalents	20,915,509	-	-
	$ 68,552,409	$ 4,599,865	$ 1,940,906

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:

Investment Type	Fair Value
Money market funds	$ 2,645,209
Domestic equities	65,534,448
Domestic fixed income	21,609,917
International equities	26,475,644
Real estate investment trusts	3,942,656
Infrastructure	7,099,315
Total cash, cash equivalents, and investments	$ 127,307,189

Note 4. Deposits and Investments (Continued)

Post-Employment Trust Funds (Continued)

Pension Funds

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.

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:

	Minimum	Maximum	Actual
Domestic equities	48%	62%	52%
Domestic fixed income	12%	20%	17%
International equities	15%	23%	21%
Equity – Infrastructure	3%	7%	6%
Real estate investment fund	8%	12%	4%

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.

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:

	Minimum	Maximum	Actual
Domestic equities	49%	63%	56%
Domestic fixed income	18%	26%	25%
International equities	15%	23%	20%

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:

	Governmental Activities	Business-type Activities	Total
Receivables:			
Accounts-Billed	$ 2,443,412	$ 962,766	$ 3,406,178
Accounts-Unbilled	-	533,000	533,000
Other	741,149	-	741,149
Property taxes:			
Delinquent	1,844,269	-	1,844,269
Not yet due	4,605,891	-	4,605,891
Total receivables	9,634,721	1,495,766	11,130,487
Allowances for uncollectibles:			
Accounts receivable	(1,521,330)	(146,000)	(1,667,330)
Property taxes:			
Delinquent	(303,900)	-	(303,900)
Not yet due	(70,500)	-	(70,500)
Total allowances for uncollectibles	(1,895,730)	(146,000)	(2,041,730)
Total net receivables	$ 7,738,991	$ 1,349,766	$ 9,088,757

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	$ -	$ -	$ 428,249
Local sales tax	736,163	-	-
Communication tax	140,731	-	-
Transportation funds	283,157	-	-
Grants for capital projects	72,940	82,500	-
Other state funds	68,223	-	-
Total	1,301,214	82,500	428,249
Federal			
Grants for capital projects	124,308	100,359	-
Other federal funds	19,807	-	73,384
Total	144,115	100,359	73,384
Other governments			
Fairfax County	-	40,483	-
Arlington County	81,336	-	-
Fairfax Water Authority	64,770	-	-
Northern Virginia Cigarette Tax Board	31,262	-	-
Total	177,368	40,483	-
Total due from other governments	$ 1,622,697	$ 223,342	$ 501,633

Amounts due to other governments of $40,323 consist of amounts 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.

Inter-fund balances consisted of the following:

	Interfund Receivables	Interfund Payables
Major Fund:		
General	$ 776,644	$ -
Capital Projects	93,785	-
Special Transportation	340,518	-
Major Proprietary Funds:		
Sewer	-	135,229
Storm water	-	258,768
Major Component Unit:		
School Board	111,285	-
Fiduciary Funds:		
Basic Plan	-	172,305
Police Plan	-	54,106
OPEB Benefits	-	535,092
School OPEB Benefits	-	111,285
Agency	2,414	57,861
	$ 1,324,646	$ 1,324,646

The general fund charges administrative costs to the Sewer and Storm Water Funds for reimbursement of services provided. This is shown as interfund receivables in the general fund and interfund payables in the proprietary funds.

Transfers consisted of the following:

	Transfers In	Transfers Out
General fund	$ -	$ 2,509,007
Governmental activities	89,490	-
Capital projects	1,238,643	121,643
Special transportation	1,392,007	-
Storm water	-	89,490
	$ 2,720,140	$ 2,720,140

The majority of amounts transferred relate to capital asset activity.

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 :

	Due To	Due From
Primary Government: General fund	$ -	$ 2,775,374
Component Units:		
School Board	2,525,374	-
EDA	250,000	-
	$ 2,775,374	$ 2,775,374

Note 8. Capital Assets

Capital asset activity was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital asset, non-depreciable:				
Land	$ 9,561,488	$ -	$ -	$ 9,561,488
Construction in progress	2,349,128	2,760,777	(1,792,730)	3,317,175
Total capital assets, non-depreciable	11,910,616	2,760,777	(1,792,730)	12,878,663
Capital assets, being depreciated:				
Buildings and systems	73,813,459	2,678,392	(9,718)	76,482,133
Machinery and equipment	12,213,773	2,673,111	(121,688)	14,765,196
Improvements other than buildings	5,000,934	525,400	(80,038)	5,446,296
Infrastructure	5,447,644	117,255	-	5,564,899
Intangibles	1,539,888	5,500	(29,000)	1,516,388
Library collections	2,078,893	254,564	(192,335)	2,141,122
Total capital assets, depreciable	100,094,591	6,254,222	(432,779)	105,916,034
Less accumulated depreciation for:				
Buildings and systems	(22,972,231)	(1,813,350)	9,718	(24,775,863)
Machinery and equipment	(9,587,407)	(703,535)	116,688	(10,174,254)
Improvements other than buildings	(3,263,404)	(279,915)	59,362	(3,483,957)
Infrastructure	(3,329,664)	(98,165)	-	(3,427,829)
Intangibles	(1,479,804)	(25,479)	29,000	(1,476,283)
Library collections	(1,505,803)	(225,333)	192,335	(1,538,801)
Total accumulated depreciation	(42,138,313)	(3,145,777)	407,103	(44,876,987)
Total capital assets, depreciable, net	57,956,278	3,108,445	(25,676)	61,039,047
Capital assets, net	$ 69,866,894	$ 5,869,222	$ (1,818,406)	$ 73,917,710

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Sewer fund:				
Capital assets, non-depreciable:				
Construction in progress	$ 5,274,356	$ 879,722	$ (2,497,851)	$ 3,656,227
Total capital assets, non-depreciable	5,274,356	879,722	(2,497,851)	3,656,227
Capital assets, depreciable:				
Building and systems	6,032,742	843,843	-	6,876,585
Machinery and equipment	160,905	10,000	-	170,905
Purchased capacity	13,047,857	2,501,862	-	15,549,719
Other intangibles	9,900	-	-	9,900
Total capital assets, depreciable	19,251,404	3,355,705	-	22,607,109
Less accumulated depreciation for:				
Building and systems	(2,165,067)	(108,782)	-	(2,273,849)
Machinery and equipment	(160,290)	(1,615)	-	(161,905)
Purchased capacity	(3,740,420)	(623,201)	-	(4,363,621)
Other intangibles	(9,900)	-	-	(9,900)
Total accumulated depreciation	(6,075,677)	(733,598)	-	(6,809,275)
Total capital assets depreciable, net	13,175,727	2,622,107	-	15,797,834
Capital assets, net	$ 18,450,083	$ 3,501,829	$ (2,497,851)	$ 19,454,061

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Storm Water fund:				
Capital asset, non-depreciable:				
Construction in progress	$ 391,095	$ 53,202	$ (389,801)	$ 54,496
Total capital assets, non-depreciable	391,095	53,202	(389,801)	54,496
Capital assets, depreciable:				
Machinery and equipment	353,714	46,517	-	400,231
Improvements other than buildings	-	1,845,706	-	1,845,706
Infrastructure	5,037,188	1,150,030	-	6,187,218
Total capital assets, depreciable	5,390,902	3,042,253	-	8,433,155
Less accumulated depreciation for:				
Machinery and equipment	(23,986)	(28,922)	-	(52,908)
Improvements other than buildings	-	(15,381)	-	(15,381)
Infrastructure	(3,284,181)	(103,753)	-	(3,387,934)
Total accumulated depreciation	(3,308,167)	(148,056)	-	(3,456,223)
Total capital assets depreciable, net	2,082,735	2,894,197	-	4,976,932
Capital assets, net	2,473,830	2,947,399	(389,801)	5,031,428
Business-type capital assets, net	$ 20,923,913	$ 6,449,228	$ (2,887,652)	$ 24,485,489

Note 8. Capital Assets (Continued)

Component Unit – School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset, non-depreciable:				
Land	$ 1,273,354	$ -	$ -	$ 1,273,354
Total capital assets, non-depreciable	1,273,354	-	-	1,273,354
Capital assets, depreciable:				
Buildings and systems	1,311,055	118,132	(236,506)	1,192,681
Machinery and equipment	3,233,902	663,957	(339,082)	3,558,777
Improvements other than buildings	367,722	-	-	367,722
Library collections	741,460	40,513	(44,729)	737,244
Intangibles	7,996	-	-	7,996
Leasehold improvements	21,080	-	-	21,080
Total capital assets, depreciable	5,683,215	822,602	(620,317)	5,885,500
Less accumulated depreciation for:				
Buildings and systems	(423,746)	(32,886)	65,195	(391,437)
Machinery and equipment	(2,082,655)	(306,979)	325,308	(2,064,326)
Improvements other than buildings	(28,201)	(18,562)	-	(46,763)
Library collections	(631,398)	(42,769)	44,729	(629,438)
Intangibles	(7,996)	-	-	(7,996)
Leasehold improvements	(10,891)	(2,108)	-	(12,999)
Total accumulated depreciation	(3,184,887)	(403,304)	435,232	(3,152,959)
Total capital assets, depreciable, net	2,498,328	419,298	(185,085)	2,732,541
Capital assets, net	$ 3,771,682	$ 419,298	$ (185,085)	$ 4,005,895

Note 8. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Primary Government - Governmental activities:	
General government	$ 226,794
Judicial administration	50,935
Public safety	251,204
Public works	401,159
Health and welfare	1,041
Education	1,665,969
Parks, recreation, and cultural	528,838
Community development	19,837
Total governmental activities	$ 3,145,777
Primary Government – Business-type activities:	
Sewer	$ 733,598
Storm Water	148,056
Total business-type activities	$ 881,654
Component Unit – School Board:	
Education	$ 403,304

Note 9. Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables 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 unavailable/unearned revenue reported in the financial statements were as follows:

	Governmental Activities	Governmental Funds
Unavailable		
Delinquent property taxes	$ -	$ 1,055,278
Other	-	350,201
Unearned		
Property taxes not yet due	4,602,820	4,602,820
Unearned other	146,315	146,315
Total unavailable/unearned revenue	$ 4,749,135	$ 6,154,614

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

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
General obligation bonds	$ 47,057,300	$10,400,000	$ 3,422,300	$ 54,035,000	$ 4,045,000
Bond premiums and discounts, net	2,282,095	612,326	169,915	2,724,506	-
Compensated absences	1,915,157	1,767,778	1,521,745	2,161,190	1,321,699
Total long-term liabilities	$ 51,254,552	$12,780,104	$ 5,113,960	$ 58,920,696	$ 5,366,699
Business-type Activities:					
Sewer fund:					
General obligation bonds	$ 7,340,647	$ 640,000	$ 328,562	$ 7,652,085	$ 374,424
Revenue bonds	2,243,019	-	166,011	2,077,008	171,029
Notes payable	2,876,161	-	213,265	2,662,896	221,795
Bond premiums and discounts, net	363,380	38,564	21,603	380,341	-
Compensated absences	46,953	25,958	29,970	42,941	21,563
Total long-term liabilities	$ 12,870,160	$ 704,522	$ 759,411	$ 12,815,271	$ 788,811
Storm water fund:					
General obligation bonds	$ 780,000	$ 700,000	$ 35,000	$ 1,445,000	$ 75,000
Bond premiums and discounts, net	71,041	41,214	4,811	107,444	-
Compensated absences	45,225	41,847	42,654	44,418	17,249
Total long-term liabilities	$ 896,266	$ 783,061	$ 82,465	$ 1,596,862	$ 92,249
Business-type activities Total long-term liabilities	$ 13,766,426	$ 1,487,583	$ 841,876	$ 14,412,133	$ 881,060

Note 10. Long-Term Liabilities (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Component Unit- School Board:					
Termination benefits	$ 3,240,000	$ 35,000	$ 321,000	$ 2,954,000	$ 352,000
Compensated absences	1,146,115	51,823	-	1,197,938	511,976
Other long-term obligations	1,105,320	-	369,942	735,378	366,790
Capital leases	17,935	371,267	111,848	277,354	68,075
Total long-term liabilities	$ 5,509,370	$ 458,090	$ 802,790	$ 5,164,670	$ 1,298,841

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
2016	$ 4,045,000	$ 1,768,729	$ 449,424	$ 354,445	$ 171,029	$ 61,037	$ 221,795	$ 106,516
2017	4,095,000	1,626,263	460,485	334,957	176,198	55,868	230,667	97,644
2018	4,235,000	1,490,628	466,751	317,644	181,524	50,542	239,894	88,417
2019	4,305,000	1,370,582	478,228	301,289	187,011	45,056	249,489	78,822
2020	4,320,000	1,254,162	494,924	283,033	192,663	39,403	259,469	68,842
2021-2025	19,294,998	4,320,997	2,688,256	1,090,312	1,054,265	106,066	1,461,582	179,972
2026-2030	7,963,335	2,267,784	2,939,017	507,997	114,318	1,715	-	-
2031-2035	5,776,667	499,925	1,120,000	71,663	-	-	-	-
2036-2040	-	-	-	-	-	-	-	-
2041-2042	-	-	-	-	-	-	-	-
	$ 54,035,000	$ 14,599,070	$ 9,097,085	$ 3,261,340	$ 2,077,008	$ 359,687	$ 2,662,896	$ 620,213

Other Long-term Obligations

During 2014, 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:

	Component-Unit School Board
2016	$ 370,394
2017	370,394
Total lease payments	740,788
Less amount representing interest	(5,410)
	$ 735,378

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
General obligation	4.00%	03/08/2007	08/01/2021	$ 6,260,000	$ 4,435,000	$ -
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	4,800,000	-
General obligation	2.00-5.00%	12/18/2013	07/01/2033	$ 17,620,000	14,920,000	1,645,000
General obligation	2.00-5.00%	12/23/2014	07/15/2030	$ 11,740,000	10,400,000	1,340,000
VRA bond	2.13-5.13%	10/01/2011	10/01/2031	$ 3,125,000	-	2,825,000
VRA line of credit	3.35%	05/13/2009	09/01/2029	$ 4,100,000	-	3,287,085
VPSA bond	4.60-6.10%	05/02/1996	01/15/2017	$ 2,445,000	220,000	-
VPSA bond	4.10-5.10%	05/11/2006	07/15/2026	$ 1,935,000	1,140,000	-
VPSA bond	4.25%	12/15/2011	12/01/2030	$ 3,000,000	2,820,000	-
					$ 54,035,000	$ 9,097,085
Sewer revenue bond	3.00%	01/01/2006	07/01/2025	$ 3,275,000	$ -	$ 2,077,008
Note payable – Fairfax	4.00%	06/30/2000	06/30/2025	$ 5,005,000	$ -	$ 2,662,896

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.

Defeasance of Debt

During 2014, 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. 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, 2015 was $4,495,000.

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 2015. The assets acquired have a cost of $848,774 and accumulated depreciation of $539,521, resulting in a net book value of $309,253. The present value of minimum lease payments is $277,354.

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.

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:		
Public safety information technology upgrade	$ 46,113	$ 196,758
Jesse Thackrey Pre-school	2,380,772	11,679
Mt. Daniel Elementary School	1,383,393	14,298,223
Coe Bridge	44,959	55,294
West End Park improvements	482,210	43,298
Business-Type Activities:		
Storm water Coe Bridge project	29,058	12,527
Storm water Great Falls/Little Falls drainage	548,805	48,970
Sewer relining	289,951	210,048
Total	$ 5,205,261	$ 14,876,797

Note 11. Commitments and Contingent Liabilities (Continued)

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 $61 thousand to the City and approximately $321 thousand to the School Board. The City does not have outstanding leases at June 30, 2015. The future minimum lease payments for School Board leases are shown below:

	Component Unit School Board
2016	$ 334,087
2017	346,949
2018	360,306
2019	374,178
Total	$ 1,415,520

Note 12. Basic and Police Pension Plans

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. Northern Virginia Criminal Justice Training Academy full-time employees are also eligible for the plan.

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. The Plan does not have any automatic postemployment benefit changes. 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 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 were as follows:

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

Note 12. Basic and Police Pension Plans (Continued)

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 2015 and 2014, the total contributions rate was 14.11% and 18.94 of annual covered payroll, respectively for the Basic Pension Plan, with employees contributing 5.0%. For the Police Pension Plan, the total contribution rate was 29.55% and 33.25% for 2015 and 2014, respectively, 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.

Total employer contributions to the Basic Pension Plan for the years ended June 30, 2015 and 2014 amounted to $8,344,320 and $4,021,770, respectively. 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 57.59% and 29.19% of covered payroll for the years 2015 and 2014, respectively. Included in the 2015 contribution is $6.3 million contributed using proceeds from the sale of the water system.

Total employer contributions to the Police Pension Plan for the years ended June 30, 2015 and 2014 amounted to $3,593,989 and $625,670, respectively. 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 141.59% and 26.61% of covered payroll for the years 2015 and 2014, respectively. Included in the 2015 contribution is $2.9 million contributed using proceeds from the sale of the water system.

Note 12. Basic and Police Pension Plans (Continued)

Investments

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.

As of the June 30, 2014 actuarial valuation, the return on the actuarial value of assets was 13.10% and 13.41% for the Basic and Police Plans, respectively.

Actuarial Assumptions

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 Sex distinct Combined Healthy Mortality Generationally Projected 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.

Note 12. Basic and Police Pension Plans (Continued)

Changes in Net Pension Liability/(Asset) - Basic Plan

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability/ (Asset) (a) – (b)**
Balances at June 30, 2013	$ 76,969,223	$ 72,199,314	$ 4,769,909
Changes for the year:			
Service cost	1,477,682	-	1,477,682
Interest	5,662,883	-	5,662,883
Differences between expected and actual experience	(1,621,231)	-	(1,621,231)
Changes of assumptions*	4,182,659	-	4,182,659
Contributions – employer	-	4,021,770	(4,021,770)
Contributions – employee	-	727,295	(727,295)
Net investment income	-	11,795,982	(11,795,982)
Benefit payments, including refunds of employee contributions	(5,883,600)	(5,883,600)	-
Administrative expenses	-	(58,740)	58,740
Net changes	3,818,393	10,602,707	(6,784,314)
Balances at June 30, 2014	$ 80,787,616	$ 82,802,021	$ (2,014,405)

*Decrease of discount rate from 7.50% to 7.0%.

Note 12. Basic and Police Pension Plans (Continued)

Changes in Net Pension Liability - Police Plan

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) – (b)**
Balances at June 30, 2013	$ 21,310,435	$ 19,978,720	$ 1,331,715
Changes for the year:			
Service cost	451,780	-	451,780
Interest	1,596,234	-	1,596,234
Differences between expected and actual experience	(162,138)	-	(162,138)
Changes of assumptions*	1,319,923	-	1,319,923
Contributions – employer	-	625,670	(625,670)
Contributions – employee	-	166,846	(166,846)
Net investment income	-	3,316,856	(3,316,856)
Benefit payments, including refunds of employee contributions	(958,185)	(958,185)	-
Administrative expenses	-	(19,151)	19,151
Net changes	2,247,614	3,132,036	(884,422)
Balances at June 30, 2014	$ 23,558,049	$ 23,110,756	$ 447,293

*Decrease of discount rate from 7.50% to 7.0%.

Note 12. Basic and Police Pension Plans (Continued)

Sensitivity of the Net Pension Liability (Asset)

The following presents the net pension liability (asset) of the City basic and police plans, calculated using the discount rate of 7.00%, as well as what the net pension liability (asset) 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	$ (2,014,405)	$ (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 (asset)	$ 3,484,937	$ 447,293	$ (2,079,020)
Plan fiduciary net position as a percentage of the total pension liability	86.9%	98.1%	109.9%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, pension expense was $669,815 and $275,226 for the Basic and Police Plans, respectively. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the Plans arose from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Basic Plan:		
Differences between expected and actual experience	$ -	$ 1,080,821
Change in assumptions	2,788,439	-
Net difference between projected and actual earnings on pension plan investments	-	5,139,978
Employer contributions subsequent to the measurement date	8,344,320	-
	$ 11,132,759	$ 6,220,799

Note 12. Basic and Police Pension Plans (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Police Plan:		
Differences between expected and actual experience	$ -	$ 129,710
Change in assumptions	1,055,938	-
Net difference between projected and actual earnings on pension plan investments	-	1,460,206
Employer contributions subsequent to the measurement date	3,593,989	-
	$ 4,649,927	$ 1,589,916

Employer contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Decrease to Pension Expense	
	Basic	Police
2016	$ 431,184	$ 133,494
2017	431,186	133,494
2018	1,284,994	133,494
2019	1,284,996	133,496
Thereafter	-	-

Payables to the Pension Plans

At June 30, 2015, payables to the Basic and Police Pension Plans totaled $111,265 and $33,208, respectively.

Note 13. Allocation of Basic Pension Plan

The City and Component Unit – School Board portions of the cost sharing multiple-employer defined benefit pension plan are noted below and represent 73% and 18% of the total plan, respectively. The Northern Virginia Criminal Justice Training Academy's portion of the Basic Pension Plan of 9%, is reported in the Academy's financial report. Proportionate shares did not change from the previous year. Overall plan information that includes all three participants, the City, School Board, and Academy can be found in Note 12.

Membership

Membership in the Basic Pension Plan as of July 1, 2014, the date of the most recent valuation, was as follows:

	City	Schools
Retirees and beneficiaries	151	41
Terminated vested members	56	15
Active members	182	50
Total	389	106

Contributions

Total contributions to the basic pension plan for the year ended June 30, 2015 amounted to $7,771,386 for the City and $384,313 for the Schools. Contributions made by the City and Schools represent 74.52% and 14.11% of covered payroll for the year, respectively.

Changes in Net Pension Liability/(Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability/ (Asset) (a) – (b)**
Basic Plan - City			
Balances at June 30, 2013	$ 56,118,645	$ 52,640,882	$ 3,477,763
Changes for the year:			
Service cost	1,077,385	-	1,077,385
Interest	4,128,836	-	4,128,836
Differences between expected and actual experience	(1,182,048)	-	(1,182,048)
Changes of assumptions	3,049,598	-	3,049,598
Contributions – employer	-	3,455,739	(3,455,739)
Contributions – employee	-	530,274	(530,274)
Net investment income	-	8,040,021	(8,040,021)
Benefit payments, including refunds of employee contributions	(4,289,762)	(4,289,762)	-
Administrative expenses	-	(42,828)	42,828
Net changes	2,784,009	7,693,444	(4,909,435)
Balances at June 30, 2014	$ 58,902,654	$ 60,334,326	$ (1,431,672)

Note 13. Allocation of Basic Pension Plan (Continued)

Changes in Net Pension Liability/(Asset) (Continued)

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) – (b)**
Basic Plan - Schools			
Balances at June 30, 2013	$ 14,137,630	$ 13,261,499	$ 876,131
Changes for the year:			
Service cost	271,419	-	271,419
Interest	1,040,153	-	1,040,153
Differences between expected and actual experience	(297,786)	-	(297,786)
Changes of assumptions	768,267	-	768,267
Contributions – employer	-	382,752	(382,752)
Contributions – employee	-	133,589	(133,589)
Net investment income	-	2,546,678	(2,546,678)
Benefit payments, including refunds of employee contributions	(1,080,694)	(1,080,694)	-
Administrative expenses	-	(10,789)	10,789
Net changes	701,359	1,971,536	(1,270,177)
Balances at June 30, 2014	$ 14,838,989	$ 15,233,035	$ (394,046)

Note 13. Allocation of Basic Pension Plan (Continued)

Sensitivity of the Net Pension Liability (Asset)

The following presents the net pension liability (asset) of the City basic plan, calculated using the discount rate of 7.00%, as well as what the net pension liability (asset) 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 - City			
Net pension liability (asset)	$ 5,392,948	$ (1,431,672)	$ (7,143,438)
Plan fiduciary net position as a percentage of the total pension liability	91.6%	102.5%	113.8%
Basic Plan - Schools			
Net pension liability (asset)	$ 1,484,327	$ (394,046)	$ (1,966,122)
Plan fiduciary net position as a percentage of the total pension liability	91.6%	102.5%	113.8%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City and Schools recognized pension expense of $645,947 and $15,347, respectively. At June 30, 2015, the City and Schools reported deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

	Deferred Outflows of Resources		**Deferred Inflows of Resources**	
	City	Schools	City	Schools
Differences between expected and actual experience	$ 450,067	$ -	$ 51,801	$ 269,309
Change in assumptions	1,981,787	545,458	-	-
Change in proportion	83,205	37,953	141,674	-
Net difference between projected and actual earnings on investments	-	-	4,421,225	1,216,876
Employer contributions subsequent to the measurement date	7,771,386	384,313	-	-
	$ 10,286,445	$ 967,724	$ 4,614,700	1,486,185

Note 13. Allocation of Basic Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Employer contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Decrease to Pension Expense	
	Basic - City	Basic - Schools
2016	$ 136,553	$ 200,024
2017	136,554	200,024
2018	913,269	251,363
2019	913,265	251,363
Thereafter	-	-

Payables to the Pension Plans

At June 30, 2015, payables to the Basic Pension Plan from the City and Schools totaled $79,410 and $21,429, respectively.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan

Plan Description

Constitutional officers and their employees of the City of Falls Church, Virginia, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 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 Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 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 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.	**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 Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • 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.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

Eligible Members	**Eligible Members**	**Eligible Members**
Employees are in 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 1 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 Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Employees are in 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. **Hybrid Opt-In Election** Eligible Plan 2 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 2 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 have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through 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: • 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 Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

Retirement Contributions	Retirement Contributions	Retirement Contributions
Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but 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.	Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.	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.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

Creditable Service	**Creditable Service**	**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.	Same as Plan 1.	**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 Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (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.	**Vesting** Same as Plan 1.	**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 (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contributions 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.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

		Vesting (Continued) **Defined Contributions Component: (Continued)** • 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. Distribution is not required by law until age 70½.
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.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1. **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.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** 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%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	**Sheriffs and regional jail superintendents:** Same as Plan 1.	**Sheriffs and regional jail superintendents:** Not applicable.
Political subdivision hazardous duty employees: 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.	**Political subdivision hazardous duty employees:** Same as Plan 1.	**Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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%. **Eligibility:** 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.	**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%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

(Continued)

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued) **Eligibility:** (Continued) 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.	**Cost-of-Living Adjustment (COLA) in Retirement (Continued)**	**Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
Exceptions to COLA Effective Dates: 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.	**Exceptions to COLA Effective Dates:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued) **Exceptions to COLA Effective Dates:** (Continued) • 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.	**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.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Plan Description (Continued)

Purchase of Prior Service	**Purchase of Prior Service**	**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.	Same as Plan 1.	**Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Inactive members or their beneficiaries currently receiving benefits	11
Inactive members:	
Vested inactive members	5
Non-vested inactive members	4
Inactive members active elsewhere in VRS	3
Total inactive members	12
Active members	17
Total covered employees	40

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been 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.

The political subdivision's contractually required contribution rate for the year ended June 30, 2015 was 2.80% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $51,386 and $74,651 for the years ended June 30, 2015 and June 30, 2014, respectively.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 60% of deaths are assumed to be service related.

Largest 10 – LEOS:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 –LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50 %	6.28 %	1.04 %
Emerging Market Equity	6.00 %	10.00 %	0.60 %
Fixed Income	15.00 %	0.09 %	0.01 %
Emerging Debt	3.00 %	3.51 %	0.11 %
Rate Sensitive Credit	4.50 %	3.51 %	0.16 %
Non Rate Sensitive Credit	4.50 %	5.00 %	0.23 %
Convertibles	3.00 %	4.81 %	0.14 %
Public Real Estate	2.25 %	6.12 %	0.14 %
Private Real Estate	12.75 %	7.10 %	0.91 %
Private Equity	12.00 %	10.41 %	1.25 %
Cash	1.00 %	(1.50)%	(0.02)%
Total	100.00 %		5.83 %
		Inflation	2.50 %
		* Expected arithmetic nominal return	8.33 %

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Discount Rate

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 System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. 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 active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2013	$ 3,479,522	$ 4,067,897	$ (588,375)
Changes for the year:			
Service cost	115,154	-	115,154
Interest	239,734	-	239,734
Differences between expected and actual experience	-	-	-
Contributions – employer	-	74,651	(74,651)
Contributions – employee	-	59,778	(59,778)
Net investment income	-	645,679	(645,679)
Benefit payments, including refunds of employee contributions	(109,503)	(109,503)	-
Administrative expenses	-	(3,423)	3,423
Other changes	-	34	(34)
Net changes	245,385	667,216	(421,831)
Balances at June 30, 2014	$ 3,724,907	$ 4,735,113	$ (1,010,206)

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability (asset) of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability (asset)	$ (576,962)	$ (1,010,206)	$ (1,374,447)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the political subdivision recognized pension expense of $(59,042). At June 30, 2015, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	288,138
Employer contributions subsequent to the measurement date	51,386	-
Total	$ 51,386	$ 288,138

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2016	$ (72,034)
2017	(72,034)
2018	(72,034)
2019	(72,036)
Thereafter	-

Payables to the Pension Plan

At June 30, 2015, approximately $7,957 was payable to the Virginia Retirement System for the legally required contributions related to June 2015 payroll.

Note 15. Defined Benefit Pension Plan – Teacher Cost Sharing Pool

General Information about the Teacher Cost Sharing Pool

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service. The plan description and actuarial assumptions are substantially the same as those described in Note 14.

Note 15. Defined Benefit Pension Plan – Teacher Cost Sharing Pool (Continued)

General Information about the Teacher Cost Sharing Pool (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been 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 requiring that 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. Each school division's contractually required contribution rate for the year ended June 30, 2015 was 14.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the Teacher Retirement Plan was 18.20%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2015. Contributions to the pension plan from the school division were $3,717,116 and $2,477,823 for the years ended June 30, 2015 and June 30, 2014, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the school division reported a liability of $35,117,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the school division's proportion was 0.29059% as compared to 0.27236% at June 30, 2013.

For the year ended June 30, 2015, the school division recognized pension expense of $3,232,000. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

Note 15. Defined Benefit Pension Plan – Teacher Cost Sharing Pool (Continued)

General Information about the Teacher Cost Sharing Pool (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At June 30, 2015, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	5,212,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,057,000	-
Employer contributions subsequent to the measurement date	3,717,116	-
Total	$ 5,774,116	$ 5,212,000

The deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Reduction to Pension Expense
2016	$ (849,000)
2017	(849,000)
2018	(849,000)
2019	(849,000)
Thereafter	241,000

Note 15. Defined Benefit Pension Plan – Teacher Cost Sharing Pool (Continued)

General Information about the Teacher Cost Sharing Pool (Continued)

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's proportionate share of the VRS teacher employee retirement plan net pension liability	$ 51,566,000	$ 35,117,000	$ 21,574,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2015, approximately $462,249 was payable to the Virginia Retirement System for the legally required contributions related to June 2015 payroll.

Note 16. Adoption of New Standard and Prior Period Restatement

In the current year the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. This standard 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 new 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. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

Most employees of the City and nonprofessional employees of Falls Church Public Schools participate in the City's Basic and Police pension plans. The City's Constitutional officers and their employees participate in the Virginia Retirement System (VRS) pension plan. Teachers at Falls Church Public Schools participate in a teacher cost sharing plan provided by the VRS. Each of these plans is described in further detail in Notes 12-15. The restatement below reflects the effects of adopting GASB No. 68 for both the VRS and City pension plans.

In addition to the implementation of GASB Statement No. 68, the Sewer fund had a restatement of $181,483 related to billing errors in the previous fiscal year. The previously reported net position of $13,520,636 is restated below as $13,702,119 to reflect this adjustment.

The following is a summary of the restatements to net position at the City resulting from the adoption of GASB Statement No. 68:

	Net Position, July 1, 2014, as Previously Reported	Recognition of Pension Related Asset and Deferred Outflows – Basic Plan	Recognition of Pension Related Asset and Deferred Outflows – Police Plan	Recognition of Pension Liability and Deferred Outflows –VRS	Net Position, July 1, 2014, as Restated
Governmental Activities	$ 81,662,241	$ (40,985)	$ (706,045)	$ 663,026	$ 81,578,237
Business-Type Activities					
Sewer	13,702,119	(23,896)	-	-	13,678,223
Storm water	3,781,915	42,858	-	-	3,824,773
Total business-type activities	17,484,034	18,962	-	-	17,502,996
Total net position	$ 99,146,275	$ (22,023)	$ (706,045)	$ 663,026	$ 99,081,233

Note 16. Adoption of New Standard and Prior Period Restatement

The following is a summary of the restatements to net position at the Schools resulting from the adoption of GASB Statement No. 68:

Net position, July 1, 2014, as previously reported	$ 1,802,668
To implement GASB No. 68 – VRS	(35,040,000)
To reflect full pension add-on liability – Basic Pension Plan	(493,382)
Net position July 1, 2014, as restated	$ (33,730,714)

Note 17. Summary of Pension Elements

A summary of the pension-related financial statement elements is as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government	School Board
Net pension asset				
Basic Pension Plan	$ 1,355,894	$ 75,778	$ 1,431,672	$ 394,046
VRS – Constitutional Officers	1,010,206	-	1,010,206	-
Total net pension asset	$ 2,366,100	$ 75,778	$ 2,441,878	$ 394,046
Deferred outflows of resources				
Change in assumptions –				
Basic Pension Plan	$ 1,876,891	$ 104,896	$ 1,981,787	$ 545,458
Police Pension Plan	1,055,938	-	1,055,938	-
Differences between expected and actual experience – Basic Pension Plan	450,067	-	450,067	-
Change in proportion –				
Basic Pension Plan	-	83,205	83,205	37,953
VRS – Teacher Cost Sharing Pool	-	-	-	2,057,000
Pension contributions subsequent to measurement date-				
Basic Pension Plan	7,665,936	105,450	7,771,386	384,313
Police Pension Plan	3,593,989	-	3,593,989	-
VRS – Constitutional Officers	51,386	-	51,386	-
VRS – Teacher Cost Sharing Pool	-	-	-	3,717,116
Total deferred outflows of resources	$ 14,694,207	$ 293,551	$ 14,987,758	$ 6,741,840
Net pension liability				
Police Pension Plan	$ 447,293	$ -	$ 447,293	$ -
VRS – Teacher Cost Sharing Pool	-	-	-	35,117,000
Total net pension liability	$ 447,293	$ -	$ 447,293	$ 35,117,000
Deferred inflows of resources				
Net difference between projected and actual earnings on plan investments -				
Basic Pension Plan	$ 4,187,211	$ 234,014	$ 4,421,225	$ 1,216,876
Police Pension Plan	1,460,206	-	1,460,206	-
VRS – Constitutional Officers	288,138	-	288,138	-
VRS – Teacher Cost Sharing Pool	-	-	-	5,212,000
Differences between expected and actual experience –				
Basic Pension Plan	-	51,801	51,801	269,309
Police Pension Plan	129,710	-	129,710	-
Change in proportion -Basic Pension Plan	141,674	-	141,674	-
Total deferred inflows of resources	$ 6,206,939	$ 285,815	$ 6,492,754	$ 6,698,185

Note 18. Basic and Police Pension Plans – Fiduciary Information

As described in Note 12, the City offers Basic and Police Pension Plans to certain employees. As permitted by GASB No. 68, the pension-related assets, liabilities and other financial statement elements recorded in the accompanying basic financial statements for June 30, 2015 are based on a pension plan measurement date of June 30, 2014. This is consistent with other pension items arising from those employees that participate in the Virginia Retirement System (VRS); the VRS information reported in the current year is based on a June 30, 2014 measurement date. Therefore, all amounts summarized in Note 17 – Summary of Pension Elements, are based on a measurement date of June 30, 2014.

Because the City does not issue a separate financial report for the Basic and Police Pension plans, the City must also report certain information for those plans as of and for the year ended June 30, 2015, the most recent measurement date for those plans. This information is disclosed below in this footnote. Exhibits 11 and 12, as well as certain required supplementary information that follows the notes to the financial statements, also report fiduciary information regarding these plans as of June 30, 2015.

As discussed in Note 12, the City's Basic Pension plan is a cost sharing plan which also includes employees of the Northern Virginia Criminal Justice Training Academy; the amounts below are for the plan as a whole.

Summary of Significant Accounting Policies

The fiduciary 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.

Plan Description

The City's membership in the Basic and Police Pension Plans as of June 30, 2015, the date of the most recent valuation, were as follows:

	Basic	Police
Retirees and beneficiaries	224	30
Terminated vested members	79	7
Active members	271	32
Total	574	69

Contributions

For 2015, the total contribution rate was 14.11% of annual covered payroll for the Basic Pension Plan, with employees contributing 5.0%, and 29.55% for the Police Pension Plan, with employees contributing 7.0%. Other contribution information for 2015 is disclosed in Note 12.

Note 18. Basic and Police Pension Plans – Fiduciary Information (Continued)

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:

Investment	Market Value	Percent of Net Position
Mfs Growth R5 (US Bank)	$17,529,842	19.33%
Northern Trust Collective Aggregate Bond Index Fund – Lending Tier H	$7,176,927	7.91%
Northern Trust Collective Intermediate Bond Index Fund – Lending	$7,034,718	7.76%
TIF Foreign Equity Series	$6,425,762	7.09%
Principal MidCap (I)	$5,375,589	5.93%
Mfs International Growth Fund (US Bank)	$5,333,267	5.88%
Lazard Global (US Bank)	$5,031,789	5.55%

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:

Investment	Market Value	Percent of Net Position
Mfs Growth R5 (US Bank)	$5,187,087	19.38%
Northern Trust Collective Aggregate Bond Index Fund – Lending Tier H	$2,316,100	8.65%
Principal MidCap (I)	$1,576,622	5.89%
Mfs International Growth Fund (US Bank)	$1,538,138	5.75%
Northern Trust Collective Intermediate Bond Index Fund – Lending	$1,506,098	5.63%
Lazard Global (US Bank)	$1,386,714	5.18%

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.69 percent for the basic plan and 3.59 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.

Note 18. Basic and Police Pension Plans – Fiduciary Information (Continued)

Net Pension Asset

The components of the net pension asset of the Plans at June 30, 2015, were as follows:

	Basic	Police
Total pension liability	$ 83,215,546	$ 24,651,745
Plan fiduciary net position	90,610,653	26,739,848
Plan's net pension asset	$ (7,395,107)	$ (2,088,103)
Plan fiduciary net position as a percentage of the total pension liability	108.9%	108.5%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following relevant actuarial information:

	Basic	Police
Actuarial valuation date	June 30, 2015	June 30, 2015
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Amount, Open	Level Dollar Amount, Open
Amortization period	15 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 Sex distinct Combined Healthy Mortality Generationally Projected 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.

Note 18. Basic and Police Pension Plans – Fiduciary Information (Continued)

Sensitivity of the Net Pension Liability (Asset)

The following presents the net pension liability (asset) of the Basic and Police plans, calculated using the discount rate of 7.00%, as well as what the net pension liability (asset) 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)	$ 2,424,525	$ (7,395,107)	$ (15,618,005)
Plan fiduciary net position as a percentage of the total pension liability	97.4%	108.9%	120.8%
Police Plan			
Net pension liability (asset)	$ 1,076,150	$ (2,088,103)	$ (4,726,341)
Plan fiduciary net position as a percentage of the total pension liability	96.1%	108.5%	121.5%

Note 19. 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.

Note 19. 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, 2014, the date of the latest actuarial valuation:

	City	School Board
Retirees and beneficiaries	101	57
Active members	199	432
Total	300	489

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.

	City	School Board
Annual Required Contribution (ARC)	$ 862,000	$ 355,000
Interest on prior year OPEB asset	(241,000)	(67,000)
Adjustment to the ARC	253,000	70,000
Net OPEB cost	874,000	358,000
Contributions made	887,000	558,000
Increase (decrease) in net OPEB asset	13,000	200,000
Net OPEB asset, beginning of year	3,444,000	958,000
Net OPEB assets, end of year	$ 3,457,000	$ 1,158,000

Note 19. 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:

	City			School Board		
Fiscal Year Ended	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, 2015	$ 874,000	101.48%	$ (3,457,000)	$ 358,000	93.41%	$ (1,158,000)
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)

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2014, 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	$ 5,447,091	$ 12,184,210	$ 6,737,119	44.7%	$ N/A	N/A
School Board	$ 3,355,232	$ 5,835,896	$ 2,480,664	57.5%	$ N/A	N/A

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.

Note 19. 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, 2014, the valuation upon which the 2015 ARC is based on:

	City and School Board
Actuarial valuation date	July 1, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay Closed
Remaining Amortization period	22 years
Asset valuation method	5-year Smoothed Method
Actuarial assumptions:	
Rate of general wage increase	2.75%
Investment rate of return	7.00%
Healthcare cost trend	OptumInsight Models

Note 20. 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:l 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.

Note 20. 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.

Note 21. 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:		
Prepaids	$ 8,457	$ -
Inventories	183,684	-
Affordable housing	-	289,267
Total nonspendable	192,141	289,267
Restricted for:		
Capital projects	452,361	16,438,899
Grants	305,847	-
Special transportation	-	590,611
Total restricted	758,208	17,029,510
Committed to:		
Capital projects	12,943,859	3,022,929
Future development costs	611,000	-
FY16 budget costs	286,000	-
Special transportation	-	2,371,905
Total committed	13,840,859	5,394,834
Assigned to:		
Subsequent years appropriations	966,184	-
Capital reserve	1,285,465	-
Total assigned	2,251,649	-
Unassigned	14,301,563	-
Total fund balance	$ 31,344,420	$ 22,713,611

Note 22. Subsequent Events

In August 2015, the City authorized and closed on the issuance of $6,540,000 GO Public Improvement Bonds to finance capital projects and equipment.

Note 23. New Accounting Standards

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

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 20, 2017.

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

REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT 13

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULES OF FUNDING PROGRESS
Year Ended June 30, 2015

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
OTHER POST-EMPLOYMENT BENEFITS						
A. City:						
June 30, 2010	$ 1,795,000	$ 11,456,000	$ 9,661,000	15.67%	$ 11,095,713	87.07%
June 30, 2012	$ 2,384,000	$ 11,124,000	$ 8,740,000	21.43%	$ 10,155,323	86.06%
June 30, 2014	$ 5,447,091	$ 12,184,210	$ 6,737,119	44.71%	n/a	n/a
B. School Board:						
June 30, 2010	$ 1,270,000	$ 6,040,000	$ 4,770,000	21.03%	$ 14,400,004	33.12%
June 30, 2012	$ 2,249,000	$ 5,273,000	$ 3,024,000	42.65%	$ 13,784,302	21.94%
June 30, 2014	$ 3,355,232	$ 5,835,896	$ 2,480,664	57.49%	n/a	n/a

EXHIBIT 14

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILTY AND RELATED RATIOS
For the Year Ended June 30, 2015

	Measurement Dates				
	June 30, 2015		June 30, 2014		
	Basic	Police	Basic	Police	Constitutional Officers
Total Pension Liability					
Service Cost	$ 1,605,981	$ 493,645	$ 1,477,682	$ 451,780	$ 115,154
Interest (includes interest on service cost)	5,618,010	1,648,907	5,662,883	1,596,234	239,734
Differences between expected and actual experience	(523,443)	(57,083)	(1,621,231)	(162,138)	-
Changes of assumptions	-	-	4,182,659	1,319,923	-
Benefit payments, including refunds of member contributions	(4,272,618)	(991,773)	(5,883,600)	(958,185)	(109,503)
Net change in total pension liability	2,427,930	1,093,696	3,818,393	2,247,614	245,385
Total pension liability - beginning	80,787,616	23,558,049	76,969,223	21,310,435	3,479,522
Total pension liability - ending	$ 83,215,546	$ 24,651,745	$ 80,787,616	$ 23,558,049	$ 3,724,907
Plan fiduciary net position					
Contributions - employer	$ 8,345,532	$ 3,593,989	$ 4,021,770	$ 625,670	$ 74,651
Contributions - member	724,853	177,685	727,295	166,846	59,778
Net investment income	3,081,767	871,317	11,795,982	3,316,856	645,679
Benefit payments, including refunds of member contributions	(4,272,618)	(991,773)	(5,883,600)	(958,185)	(109,503)
Administrative expenses	(70,902)	(22,126)	(58,740)	(19,151)	(3,389)
Net change in plan fiduciary net position	7,808,632	3,629,092	10,602,707	3,132,036	667,216
Plan fiduciary net position - beginning	82,802,021	23,110,756	72,199,314	19,978,720	4,067,897
Plan fiduciary net position - ending	$ 90,610,653	$ 26,739,848	$ 82,802,021	$ 23,110,756	$ 4,735,113
Net pension liability (asset) - ending	$ (7,395,107)	$ (2,088,103)	$ (2,014,405)	$ 447,293	$ (1,010,206)
Plan fiduciary net position as a percentage of total pension liability	108.89%	108.47%	102.49%	98.10%	127.12%
Covered employee payroll	$ 14,488,440	$ 2,538,363	$ 13,776,586	$ 2,351,051	$ 1,196,317
Net pension liability (asset) as a percentage of covered employee payroll	-51.04%	-82.26%	-14.62%	19.03%	-84.44%

Notes to Schedule:

Data will be presented from the time GASB 67 and 68 were first implemented in fiscal year 2014 and 2015, respectively until 10 years of trend data is achieved.
Reporting dates are one year subsequent to the measurement dates.

Changes of assumptions. In 2014, the rate of investment return for the Basic and Police plans 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, 2015 and One Year Prior

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Basic Plan - Total Plan					
2015	$ 2,571,401	$ 8,344,320	$ (5,772,919)	$ 14,488,440	57.59%
2014	$ 2,131,000	$ 4,021,770	$ (1,890,770)	$ 13,776,586	29.19%
Police Plan					
2015	$ 897,868	$ 3,593,989	$ (2,696,121)	$ 2,538,363	141.59%
2014	$ 599,000	$ 625,670	$ (26,670)	$ 2,351,051	26.61%
Constitutional Officers					
2015	$ 51,386	$ 51,386	$ -	$ 1,086,779	4.73%
2014	$ 74,651	$ 74,651	$ -	$ 1,196,317	6.24%

Schedule is intended to show information for 10 years. Since 2014 was the first year for this presentation, no other data is available. However, additional years will be included as they become available. Reporting dates are one year later than the measurement dates.

EXHIBIT 16

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF PENSION INVESTMENT RETURNS
For the Year Ended June 30, 2015 and One Year Prior

	Basic	Police
Annual money-weighted rate of return, net of investment expense		
June 30, 2014	16.50%	16.73%
June 30, 2015	3.69%	3.59%

EXHIBIT 17

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
June 30, 2015

Reporting Date, Year Ended June 30 (1)	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Basic Plan - City					
2015	72.91%	$ (1,431,672)	$ 10,420,367	-13.74%	102.43%
Basic Plan - Schools					
2015	18.37%	$ (394,046)	$ 2,867,047	-13.74%	102.66%
VRS Teacher Retirement Plan					
2015	0.29%	$ 35,117,000	$ 21,122,520	166.25%	70.88%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available. Reporting dates are one year subsequent to the measurement dates.

EXHIBIT 18

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2015

Reporting Date, Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Basic Plan - City					
2015	$ 1,874,821	$ 7,771,386	$ (5,896,565)	$ 10,427,953	74.52%
Basic Plan - Schools					
2015	$ 472,312	$ 384,313	$ 87,999	$ 2,723,691	14.11%
VRS Teacher Retirement Plan					
2015	$ 3,717,116	$ 3,717,116	$ -	$ 21,122,520	17.60%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available. Reporting dates are one year subsequent to the measurement date.

EXHIBIT 19

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, 2015

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
General property taxes	$ 51,116,700	$ 51,116,700	$ 50,587,189	$ (529,511)
Other local taxes	15,078,000	15,078,000	15,073,834	(4,166)
Permits, privilege fees, and regulatory licenses	1,019,000	1,185,000	1,543,975	358,975
Fines and forfeitures	734,000	734,000	662,700	(71,300)
Use of money and property	212,000	212,000	275,503	63,503
Charges for services	3,026,730	3,066,730	3,149,616	82,886
Miscellaneous	41,000	56,000	145,705	89,705
Gifts and contributions	14,000	43,000	21,432	(21,568)
Recovered costs	268,100	414,316	492,274	77,958
Intergovernmental				
Commonwealth	5,160,633	5,224,757	4,051,623	(1,173,134)
Federal	232,501	300,965	307,354	6,389
Total revenues	76,902,664	77,431,468	76,311,205	(1,120,263)
EXPENDITURES				
Current:				
Clerk of Court	49,947	44,947	39,055	5,892
Commission of Revenue	816,773	766,773	749,112	17,661
Development services	1,669,001	2,238,718	2,182,639	56,079
Executive management	3,737,021	3,688,100	3,269,298	418,802
Finance	1,401,888	1,401,888	1,382,064	19,824
Human services	4,188,892	4,148,329	3,874,089	274,240
Legislative	728,858	728,858	691,207	37,651
Library services	2,005,805	2,080,128	2,081,204	(1,076)
Public safety	8,784,992	9,098,821	9,148,968	(50,147)
Public works	5,630,865	6,367,405	5,670,695	696,710
Recreation and parks	3,088,144	3,168,708	3,079,871	88,837
Registrar	279,818	259,758	249,121	10,637
Sheriff	1,714,508	1,864,508	1,799,877	64,631
Treasurer	703,347	718,347	538,376	179,971
Non-departmental	43,352,858	43,152,856	41,941,695	1,211,161
Total expenditures	78,152,717	79,728,144	76,697,271	3,030,873
Excess (deficiency) of revenues over expenditures	(1,250,053)	(2,296,676)	(386,066)	1,910,610
SPECIAL ITEM				
Contribution of water proceeds to pension plans	-	(9,200,000)	(9,200,000)	-
OTHER FINANCING SOURCES (USES)				
Premiums from issuance of bonds	359,000	418,129	612,326	194,197
Proceeds from sale of capital assets	-	-	8,386	8,386
Transfers out	(1,752,000)	(2,509,007)	(2,509,007)	-
Total other financing sources (uses)	(1,393,000)	(2,090,878)	(1,888,295)	202,583
Net change in fund balance	$ (2,643,053)	$ (13,587,554)	$ (11,474,361)	$ 2,113,193

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

Note 1. Budget

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.

Note 2. Changes of Benefit Terms

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Note 3. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 –LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Note 3. Changes of Assumptions (Continued)

Teacher cost-sharing pool

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

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OTHER SUPPLEMENTARY INFORMATION

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FIDUCIARY FUNDS

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.

SCHEDULE 1

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT TRUST FUNDS
June 30, 2015

	City	School Board	Totals
ASSETS			
Cash and cash equivalents	$ 51,900	$ 31,394	$ 83,294
Investments:			
Domestic equity securities	3,402,414	2,058,103	5,460,517
Domestic fixed income securities	1,501,623	908,324	2,409,947
International equity securities	1,190,680	720,236	1,910,916
Total investments	6,094,717	3,686,663	9,781,380
Total assets	6,146,617	3,718,057	9,864,674
LIABILITIES			
Accounts payable	-	11,909	11,909
Due to general fund	535,092	111,285	646,377
Total liabilities	535,092	123,194	658,286
NET POSITION			
Held in trust for:			
Other post-employment benefits	5,611,525	3,594,863	9,206,388
Total net position restricted for pension post-employment benefits	$ 5,611,525	$ 3,594,863	$ 9,206,388

SCHEDULE 2

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2015

	City	School Board	Total
ADDITIONS			
Employer contributions	$ 662,896	$ 334,420	$ 997,316
Investment earnings:			
Interest	65	-	65
Dividends	123,646	74,047	197,693
Net increase in fair value of investments	(87,206)	(52,197)	(139,403)
Total investment earnings	36,505	21,850	58,355
Less investment expense	(20,769)	(13,256)	(34,025)
Net investment earnings	15,736	8,594	24,330
Total additions	678,632	343,014	1,021,646
DEDUCTIONS			
Benefits	502,281	97,785	600,066
Administration	11,917	5,598	17,515
Total deductions	514,198	103,383	617,581
Change in net position	164,434	239,631	404,065
NET POSITION AT JULY 1	5,447,091	3,355,232	8,802,323
NET POSITION AT JUNE 30	$ 5,611,525	$ 3,594,863	$ 9,206,388

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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, 2015

	Fairfax County Water Authority	Northern Virginia Criminal Justice Academy	Total
ASSETS			
Cash and cash equivalents	$ -	$ 3,899,683	$ 3,899,683
Other receivables	914,151	-	914,151
Due from general fund	2,414	-	2,414
Total assets	$ 916,565	$ 3,899,683	$ 4,816,248
LIABILITIES			
Amounts held for others	$ 916,565	$ 3,841,822	$ 4,758,387
Due to general fund	-	57,861	57,861
Total liabilities	$ 916,565	$ 3,899,683	$ 4,816,248

SCHEDULE 4

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2015

	Balances July 1, 2014	Additions	Deductions	Balances June 30, 2015
Fairfax County Water Authority				
ASSETS				
Other receivables	$ 1,057,541	$ -	$ 143,390	$ 914,151
Due from general fund	112,797	138,976	249,359	2,414
Total assets	$ 1,170,338	$ 138,976	$ 392,749	$ 916,565
LIABILITIES				
Amounts held for others	$ 1,170,338	$ 138,976	$ 392,749	$ 916,565
Total liabilities	$ 1,170,338	$ 138,976	$ 392,749	$ 916,565
Northern Virginia Criminal Justice Academy				
ASSETS				
Cash and cash equivalents	$ 3,461,555	$ 3,380,364	$ 2,942,236	$ 3,899,683
Total assets	$ 3,461,555	$ 3,380,364	$ 2,942,236	$ 3,899,683
LIABILITIES				
Amounts held for others	$ 3,428,633	$ 3,974,258	$ 3,561,069	$ 3,841,822
Due to general fund	32,922	6,942,550	6,917,611	57,861
Total liabilities	$ 3,461,555	$ 10,916,808	$ 10,478,680	$ 3,899,683
Totals				
ASSETS				
Cash and cash equivalents	$ 3,461,555	$ 3,380,364	$ 2,942,236	$ 3,899,683
Other receivables	1,057,541	-	143,390	914,151
Due from general fund	112,797	138,976	249,359	2,414
Total assets	$ 4,631,893	$ 3,519,340	$ 3,334,985	$ 4,816,248
LIABILITIES				
Amounts held for others	$ 4,598,971	$ 4,113,234	$ 3,953,818	$ 4,758,387
Due to general fund	32,922	6,942,550	6,917,611	57,861
Total liabilities	$ 4,631,893	$ 11,055,784	$ 10,871,429	$ 4,816,248

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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.

SCHEDULE 5

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

	Major		Non-major	
	School Operating	School Community Service	School Food Service	Total Governmental Funds
ASSETS				
Cash and investments	$ 2,492,530	$ 1,775,931	$ 331,404	$ 4,599,865
Accounts receivable	20,290	-	2,844	23,134
Due from fiduciary funds	111,285	-	-	111,285
Due from primary government	3,091,949	-	-	3,091,949
Due from other governments	494,641	-	6,992	501,633
Prepaids	162,721	7,976	-	170,697
Total assets	$ 6,373,416	$ 1,783,907	$ 341,240	$ 8,498,563
LIABILITIES				
Accounts payable and other liabilities	$ 5,258,596	$ 61,617	$ 55,563	$ 5,375,776
Due to primary government	-	566,575	-	566,575
Total liabilities	5,258,596	628,192	55,563	5,942,351
FUND BALANCES				
Nonspendable:				
Prepaids	162,721	7,976	-	170,697
Assigned:				
Education	952,099	1,147,739	285,677	2,385,515
Total fund balances	1,114,820	1,155,715	285,677	2,556,212
Total liabilities and fund balances	$ 6,373,416	$ 1,783,907	$ 341,240	$ 8,498,563

SCHEDULE 6

CITY OF FALLS CHURCH, VIRIGNIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2015

Total Fund Balance - Governmental Funds		$ 2,556,212
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	2,732,541	
		4,005,895
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.		1,158,000
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)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources for 2015 employer contributions	4,101,429	
Deferred outflows of resources for changes in assumptions	545,458	
Deferred outflows of resources for change in proportion share of Basic Pension Plan	37,953	
Deferred outflows of resources due to changes in proportion and differences between employer contributions and proportionate share of contributions – teacher cost sharing pension plan	2,057,000	
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	(6,428,876)	
Deferred inflows or resources due to differences between expected and actual experience	(269,309)	
Net pension asset - basic pension plan	394,046	
Net pension liability - teacher cost sharing pension plan	(35,117,000)	
		(34,679,299)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Termination benefits	(2,954,000)	
Compensated absences	(1,197,938)	
Other lease liability	(735,378)	
Capital lease payable	(277,354)	
		(5,164,670)
Total Net Position - Governmental Activities		$(32,257,424)

SCHEDULE 7

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, 2015

	Major		Non-major	
	School Operating	School Community Service	School Food Service	Total Governmental Funds
REVENUES				
Revenue from use of money and property	$ 43,524	$ 76,340	$ -	$ 119,864
Charges for services	413,574	1,593,901	710,464	2,717,939
Fines	147,930	-	-	147,930
Miscellaneous	64,291	109,373	3,000	176,664
Intergovernmental:				
Federal	473,904	-	115,991	589,895
Commonwealth	5,741,355	-	6,798	5,748,153
Payments from City	36,746,200	113,330	-	36,859,530
Total revenues	43,630,778	1,892,944	836,253	46,359,975
EXPENDITURES				
Current:				
Education	42,580,376	1,589,318	873,803	45,043,497
Capital outlay	1,291,634	23,550	31,912	1,347,096
Debt service:				
Principal retirement	481,790	-	-	481,790
Interest and fiscal charges	18,564	-	-	18,564
Total expenditures	44,372,364	1,612,868	905,715	46,890,947
Excess (deficiency) of revenues over expenditures	(741,586)	280,076	(69,462)	(530,972)
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	371,267	-	-	371,267
Transfers in	-	-	100,000	100,000
Transfers out	(37,500)	(62,500)	-	(100,000)
Total other financing sources (uses)	333,767	(62,500)	100,000	371,267
Net change in fund balance	(407,819)	217,576	30,538	(159,705)
FUND BALANCE AT JULY 1	1,522,639	938,139	255,139	2,715,917
FUND BALANCE AT JUNE 30	$ 1,114,820	$ 1,155,715	$ 285,677	$ 2,556,212

SCHEDULE 8

CITY OF FALLS CHURCH, VIRIGNIA
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, 2015

Net Change in Fund Balance - Governmental Funds		$ (159,705)
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	$ 822,602	
Depreciation expense	(403,304)	
		419,298
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.		(185,085)
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.		200,000
Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Employer pension contributions	4,101,429	
Pension expense	(3,247,347)	
		854,082
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	$ 286,000	
Change in compensated absences	(51,823)	
Acquisition of non-capitalized equipment by lease	(371,267)	
		(137,090)
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.		481,790
Change in Net Position - Governmental Activities		$ 1,473,290

SCHEDULE 9

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, 2015

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	$ 36,000	$ 36,000	$ 43,524	$ 7,524
Charges for services	552,000	552,000	413,574	(138,426)
Fines	80,000	80,000	147,930	67,930
Miscellaneous	220,000	220,000	64,291	(155,709)
Intergovernmental:				
Federal	471,500	471,500	473,904	2,404
Commonwealth	5,860,400	5,860,400	5,741,355	(119,045)
Primary government	36,746,200	36,746,200	36,746,200	-
Total revenues	43,966,100	43,966,100	43,630,778	(335,322)
EXPENDITURES				
Current:				
Education	43,418,200	43,051,483	42,580,376	471,107
Capital outlay	418,500	921,723	1,291,634	(369,911)
Debt service:				
Principal retirement	370,400	370,394	481,790	(111,396)
Interest and fiscal charges	-	-	18,564	(18,564)
Total expenditures	44,207,100	44,343,600	44,372,364	(28,764)
Excess (deficiency) of revenues over expenditures	(241,000)	(377,500)	(741,586)	(364,086)
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	371,267	371,267
Transfers in (out)	21,000	(37,500)	(37,500)	-
Total other financing sources (uses)	21,000	(37,500)	333,767	371,267
Net change in fund balances	$ (220,000)	$ (415,000)	$ (407,819)	$ 7,181

SCHEDULE 10

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, 2015

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	$ 64,800	$ 64,800	$ 76,340	$ 11,540
Charges for services	1,363,680	1,363,680	1,593,901	230,221
Miscellaneous	50,000	50,000	109,373	59,373
Intergovernmental:				
Payments from City	113,320	113,320	113,330	10
Total revenues	1,591,800	1,591,800	1,892,944	301,144
EXPENDITURES				
Current:				
Education	1,574,300	1,599,029	1,589,318	9,711
Capital outlay	83,000	93,121	23,550	69,571
Total expenditures	1,657,300	1,692,150	1,612,868	79,282
Excess (deficiency) of revenues over expenditures	(65,500)	(100,350)	280,076	380,426
OTHER FINANCING USES				
Transfers out	(62,500)	(62,500)	(62,500)	-
Total other financing uses	(62,500)	(62,500)	(62,500)	-
Net change in fund balances	$ (128,000)	$ (162,850)	$ 217,576	$ 380,426

SCHEDULE 11

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2015

	Thomas Jefferson Elementary	Mt. Daniel Elementary	Mary Ellen Henderson Middle School	George Mason High School	Total
ASSETS					
Cash and cash equivalents	$ 31,877	$ 51,693	$ 39,585	$ 366,450	$ 489,605
Total assets	$ 31,877	$ 51,693	$ 39,585	$ 366,450	$ 489,605
LIABILITIES					
Amounts held for others	$ 31,877	$ 51,693	$ 39,585	$ 366,450	$ 489,605
Total liabilities	$ 31,877	$ 51,693	$ 39,585	$ 366,450	$ 489,605

SCHEDULE 12

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, 2015

	Balances July 1, 2014	Additions	Deductions	Balances June 30, 2015
THOMAS JEFFERSON ELEMENTARY				
Assets				
Cash and cash equivalents	$ 21,843	$ 66,114	$ 56,080	$ 31,877
Total assets	$ 21,843	$ 66,114	$ 56,080	$ 31,877
Liabilities				
Amounts held for others	$ 21,843	$ 66,114	$ 56,080	$ 31,877
Total liabilities	$ 21,843	$ 66,114	$ 56,080	$ 31,877
MT. DANIEL ELEMENTARY				
Assets				
Cash and cash equivalents	$ 41,489	$ 46,283	$ 36,079	$ 51,693
Total assets	$ 41,489	$ 46,283	$ 36,079	$ 51,693
Liabilities				
Amounts held for others	$ 41,489	$ 46,283	$ 36,079	$ 51,693
Total liabilities	$ 41,489	$ 46,283	$ 36,079	$ 51,693
MARY ELLEN HENDERSON MIDDLE SCHOOL				
Assets				
Cash and cash equivalents	$ 40,389	$ 103,641	$ 104,445	$ 39,585
Total assets	$ 40,389	$ 103,641	$ 104,445	$ 39,585
Liabilities				
Amounts held for others	$ 40,389	$ 103,641	$ 104,445	$ 39,585
Total liabilities	$ 40,389	$ 103,641	$ 104,445	$ 39,585
GEORGE MASON HIGH SCHOOL				
Assets				
Cash and cash equivalents	$ 345,831	$ 408,547	$ 387,928	$ 366,450
Total assets	$ 345,831	$ 408,547	$ 387,928	$ 366,450
Liabilities				
Amounts held for others	$ 345,831	$ 408,547	$ 387,928	$ 366,450
Total liabilities	$ 345,831	$ 408,547	$ 387,928	$ 366,450
TOTAL				
Assets				
Cash and cash equivalents	$ 449,552	$ 624,585	$ 584,532	$ 489,605
Total assets	$ 449,552	$ 624,585	$ 584,532	$ 489,605
Liabilities				
Amounts held for others	$ 449,552	$ 624,585	$ 584,532	$ 489,605
Total liabilities	$ 449,552	$ 624,585	$ 584,532	$ 489,605

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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.

SCHEDULE 13

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2015

ASSETS		
Cash and investments	$	1,940,906
Accounts receivable		3,072
Due from primary government		250,000
Total assets	$	2,193,978
LIABILITIES		
Accounts payable and other liabilities	$	250,000
Total liabilities		250,000
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue		3,072
Total deferred inflows of resources		3,072
FUND BALANCE		
Assigned		1,940,906
Total fund balance		1,940,906
Total liabilities, deferred inflows of resources and fund balance	$	2,193,978

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total fund balance	$	1,940,906
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.		3,072
Net position of governmental activities	$	1,943,978

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, 2015

REVENUES	
Use of money and property	$ 2,315
Miscellaneous	18,678
Total revenue	20,993
EXPENDITURES	
Current:	
Economic development	34,630
Total expenditures	34,630
Deficiency of revenues over expenditures	(13,637)
Net change in fund balance	(13,637)
FUND BALANCE AT JULY 1	1,954,543
FUND BALANCE AT JUNE 30	$ 1,940,906

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

Net change in fund balance	(13,637)
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds	3,072
Change in net position of governmental activities	$ (10,565)

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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.

Contents **Pages**

Financial Trends – Tables 1 – 4

These tables contain financial trend information to help the reader understand how the government's financial performance and well-being have changed over time. 126-130

Revenue Capacity – Tables 5 – 8

These tables contain information to help the reader assess the government's most significant local revenue source, real estate and personal property taxes. 131-134

Debt Capacity – Tables 9 – 11

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. 135-137

Demographic and Economic Information – Tables 12 – 13

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place 138-139

Operating Information – Tables 14 – 16

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 140-143

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)

	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental activities										
Net investment in capital assets	$ 36,184,034	$ 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
Restricted	758,208	12,342,829	390,112	110,929	152,686	70,153	-	-	-	-
Unrestricted	47,032,297	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
Total governmental activities net position	$ 83,974,539	$ 81,662,241	$ 52,305,898	$ 46,977,661	$ 39,180,393	$ 32,856,271	$ 36,815,173	$ 40,089,981	$ 40,238,181	$ 37,920,019
Business-type activities										
Net investment in capital assets	$ 12,134,206	$ 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
Unrestricted	7,225,779	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
Total business-type activities net position	$ 19,359,985	$ 17,302,551	$ 110,446,232	$ 101,617,225	$ 96,229,218	$ 88,787,237	$ 81,829,989	$ 62,263,907	$ 77,419,280	$ 72,291,836
Primary government										
Net investment in capital assets	$ 48,318,240	$ 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
Restricted	758,208	12,342,829	390,112	110,929	152,686	70,153	-	-	-	-
Unrestricted	54,258,076	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
Total primary government net position	$ 103,334,524	$ 98,964,792	$ 162,752,130	$ 148,594,886	$ 135,409,611	$ 121,643,508	$ 118,645,162	$ 102,353,888	$ 117,657,461	$ 110,211,855

Notes:
The City restated net position as of June 30, 3009, 2010, 2013, 2014, and 2015. The restatements are not included in the prior data.
*GASB Statement No. 68 was adopted in fiscal year 2015.

CITY OF FALLS CHURCH, VIRGINIA

CHANGES IN NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)
(unaudited)

	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
Expenses										
Governmental activities										
General government	$ 6,702,227	$ 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
Judicial administration	2,004,502	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
Public safety	10,833,749	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
Public works	6,507,428	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
Health and welfare	2,064,532	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
Education and payments to schools	38,558,239	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
Parks, recreation, and cultural	4,970,253	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
Community development	2,053,265	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
Economic development	396,685	353,517	314,171	323,036	322,405	351,233	395,505	385,564	359,538	373,963
Interest	1,800,681	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
Total governmental activities	75,891,561	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
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
Sewer	3,126,518	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
Storm water	1,240,370	1,185,304	-	-	-	-	-	-	-	-
Total business-type activities expense	4,366,888	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
Total primary government expenses	80,258,449	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
Program revenues										
Governmental activities										
Charges for services										
Parks and recreation	1,988,182	1,925,368	1,895,540	1,784,380	1,822,851	1,565,668	1,398,036	890,329	851,479	806,936
Judicial administration	997,514	1,067,969	990,687	1,106,413	1,189,447	1,111,368	1,039,920	985,851	702,289	704,344
Public safety	1,656,508	2,021,982	1,158,033	1,054,488	640,353	637,012	510,075	606,394	970,613	773,476
Other activities	896,479	936,543	1,050,301	957,930	790,385	492,204	410,406	478,329	376,376	362,644
Operating grants and contributions	2,174,784	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
Capital grants and contributions	1,591,495	1,276,720	569,648	807,771	560,269	592,880	1,156	100,534	138,488	-
Total governmental activities program revenues	9,304,962	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
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
Sewer	3,898,179	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
Storm water	1,540,980	764,451	-	-	-	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-	-	-	-	25,843,936	-
Capital grants and contributions	865,968	328,214	4,255,493	1,496,722	2,717,914	284,330	236,655	479,911	839,993	1,532,935
Total business-type activities program revenues	6,305,127	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
Total primary government program revenues	15,610,089	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
Net (expense) revenue										
Governmental activities	$(66,586,599)	$(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)
Business-type activities	1,938,239	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
Total primary government net expense	(64,648,360)	(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)

(Continued)

CITY OF FALLS CHURCH, VIRGINIA

CHANGES IN NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)
(unaudited)

	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
General property taxes	45,947,755	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
Personal property	4,577,709	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
Business licenses, based on gross receipts	3,722,282	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
Local sales and use	4,003,421	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
Consumer's utility	2,231,129	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
Motor vehicle decals	333,921	311,704	313,245	319,335	238,177	226,723	226,978	208,790	216,892	202,229
Real estate recordation taxes	487,332	483,192	602,651	475,057	371,514	369,453	446,906	712,026	301,751	213,868
Occupacy, tobacco, and other	5,044,324	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
Intergovernmental, non-categorical aid	2,139,070	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
Use of money and property	276,177	142,860	141,673	105,827	75,495	85,531	83,428	466,667	855,866	569,561
Miscellaneous	96,229	99,286	279,265	229,637	110,572	72,104	55,159	137,001	150,420	71,029
Capital contribution	-	252,000	-	-	-	-	-	-	-	-
Special item-gain on sales of capital assets	34,062	1,817,968	-	-	735,367	-	-	-	-	-
Transfers	89,490	23,091,228	150,000	150,000	89,604	(2,202,601)	2,404,041	3,076,174	3,055,121	4,775,874
Total governmental activities	68,982,901	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
Business-type activities:										
Use of money and property	8,240	136,819	319,150	281,920	213,217	63,385	356,324	1,393,656	1,361,932	759,782
Miscellaneous	-	(32,638)	59,428	74,474	125,305	(28,339)	204,136	6,108	33,637	29,945
Special item: Loss from sale of water fund	-	(68,652,061)	-	-	-	-	-	-	-	-
Insurance recovery of legal costs, net	-	-	-	-	-	1,025,632	-	-	-	-
Transfers	(89,490)	(25,156,556)	(150,000)	(150,000)	(89,604)	2,202,601	(2,404,041)	(3,076,174)	(3,055,121)	(4,775,874)
Total business-type activities	(81,250)	(93,704,436)	228,578	206,394	248,918	3,263,279	(1,843,581)	(1,676,410)	(1,659,552)	(3,986,147)
Total primary government	68,901,651	(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
Changes in Net Position										
Governmental activities	2,396,302	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
Business-type activities	1,856,989	(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
Total primary government	4,253,291	(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

Notes:
The City restated net position as of June 30, 3009, 2010, 2013, 2014, and 2015. The restatements are not included in the prior data.
*GASB Statement No. 68 was adopted in fiscal year 2015.

TABLE 3

CITY OF FALLS CHURCH, VIRGINIA

FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(unaudited)

	2015	2014	2013	2012	2011
Post-GASB 54 implementation:					
General Fund					
Nonspendable	$ 192,141	$ 199,581	$ 268,619	$ 280,819	$ 251,358
Restricted	758,208	560,413	159,715	110,929	247,364
Committed	13,840,859	3,761,859	1,418,300	-	-
Assigned	2,251,649	24,788,434	595,253	760,861	380,682
Unassigned	14,301,563	13,508,494	14,821,921	13,716,496	7,041,658
Total general fund	$ 31,344,420	$ 42,818,781	$ 17,263,808	$ 14,869,105	$ 7,921,062
All Other Governmental Funds					
Nonspendable	$ 289,267	$ -	$ -	$ -	$ -
Restricted	17,029,510	12,639,104	1,990,159	7,519,397	134,686
Committed	5,394,834	2,723,547	1,374,466	856,344	1,401,402
Total all other governmental funds	$ 22,713,611	$ 15,362,651	$ 3,364,625	$ 8,375,741	$ 1,536,088
Pre-GASB 54 implementation:	**2010**	**2009**	**2008**	**2007**	**2006**
General Fund					
Reserved	$ 1,124,698	$ 1,265,850	$ 1,494,647	$ 1,531,626	$ 1,024,193
Unreserved	2,674,638	2,894,988	9,830,681	12,666,003	15,129,189
Total general fund	$ 3,799,336	$ 4,160,838	$ 11,325,328	$ 14,197,629	$ 16,153,382
All Other Governmental Funds					
Reserved	$ 395,238	$ 1,423,401	$ 543,425	$ 2,281,152	$ 2,281,152
Unreserved:					
Designated:					
Capital projects fund	656,967	4,513,944	4,643,132	1,375,326	1,375,326
Special revenue fund	539,152	537,799	381,159	504,325	431,941
Total all other governmental funds	$ 1,591,357	$ 6,475,144	$ 5,567,716	$ 4,160,803	$ 4,088,419

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)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues										
General property taxes	50,587,189	$ 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
Other local taxes	15,884,467	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
Permits, fees, and licenses	1,543,975	1,677,603	916,677	634,184	404,899	511,285	322,639	440,771	757,587	442,556
Fines and forfeitures	662,700	777,485	672,757	763,353	727,990	610,267	481,319	482,961	344,063	649,377
Charges for services	276,177	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
Use of money and property	3,149,616	142,860	141,673	105,827	75,495	85,531	83,428	466,667	855,866	569,561
Miscellaneous	145,705	107,966	265,161	204,908	117,019	150,691	65,129	108,705	591,414	62,800
Gifts and contributions	732,555	148,492	313,575	218,930	77,687	42,328	1,243,431	1,342,652	-	-
Recovered costs	492,274	477,639	509,488	540,765	461,219	1,869,125	1,429,477	1,341,695	1,469,148	2,012,726
Intergovernmental:										
Commonwealth	4,497,255	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
Federal	677,457	1,140,608	776,311	896,997	798,217	719,247	304,030	207,090	1,105,665	1,001,162
Total revenues	78,649,370	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
Expenditures										
General government	6,569,485	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
Judicial administration	2,147,174	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
Public safety	11,187,199	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
Public works	5,285,860	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
Health and welfare	2,233,258	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
Parks, recreation, and cultural	4,831,460	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
Community development	2,073,612	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
Education	420,937	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
Economic development	36,889,734	351,837	308,788	321,839	316,857	346,937	398,893	378,698	353,294	369,331
Capital outlay	7,755,174	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
Debt service:										
Principal retirement	3,422,300	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
Interest and fiscal charges	1,777,290	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
Total expenditures	84,593,483	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
Excess of revenues over (under) expenditures	(5,944,113)	(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)
Other Financing Sources (Uses)										
Premium on issuance of bonds	612,326	1,562,498	-	909,336	-	-	-	-	44,215	70,192
Payment to refunded bond escrow agent	-	-	-	(17,437,909)	-	-	-	-	(6,181,352)	-
Proceeds from borrowing	10,400,000	15,890,000	-	-	-	-	-	2,428,800	-	1,935,000
Proceeds from capital leases	-	2,887,859	-	-	-	-	-	6,550	-	72,950
Proceeds from sale of assets	8,386	-	-	-	784,243	521,995	-	-	-	-
Premium paid to refund bonds	-	-	-	-	-	-	-	-	-	-
Originial issue discount	-	-	-	-	-	-	-	-	(24,351)	-
Issuance of debt	-	-	-	24,120,000	-	-	-	-	6,347,686	35,811
Transfers in	2,630,650	23,449,213	2,183,076	150,000	150,000	-	2,404,041	3,076,174	3,055,121	4,775,874
Transfers out	(2,630,650)	(3,676,847)	(2,033,076)	-	(60,396)	(2,202,601)	-	-	-	-
Contribution of water proceeds to pensions	(9,200,000)	-	-	-	-	-	-	-	-	-
Contributions to OPEB Trust fund in excess of ARC	-	-	-	-	-	-	-	(376,176)	-	-
Total other financing sources (uses)	1,820,712	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
Net change in fund balances	$ (4,123,401)	$ 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)
Debt service as a percentage of noncapital expenditures:	6.77%	6.21%	6.38%	6.72%	8.39%	8.15%	8.29%	8.08%	8.63%	9.17%

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.

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				
2015	$ 2,810,748,200	$ 749,676,103	$ 110,351,553	$ 31,546,003	$ 3,702,321,859	$ 1.44	$ 3,702,321,859	100.00%
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

(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)

Year	Real Property (1st half of the Fiscal Year)	Real Property (2nd Half of the Fiscal Year)	Personal Property	Total Direct Rate (1)
2015	$ 1.305	$ 1.305	$ 4.84	$ 1.44
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

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

CITY OF FALLS CHURCH VIRGINIA

PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago
(unaudited)

	2015			2006		
Taxpayer	**Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value**	**Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value**
TWM Pearson Square, LLC	$ 82,371,000	1	2.34 %	$ -		- %
Falls Church Country Club (Apartments)	75,048,500	2	2.13	57,141,000	1	2.11
Eden Center, Inc.	53,187,800	3	1.51	45,152,800	2	1.67
BJ'S GL I, LLC & II, LLC	30,175,000	4	0.86	-		-
Kahn B Franklin et al	27,504,800	5	0.78	22,225,800	4	0.82
Wooddell Familty Ltd Partnership	26,250,000	6	0.75	-		-
Federal Realty Investment Trust	23,412,000	7	0.67	18,219,100	6	0.67
Koons Falls Ch Properties, Inc.	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	0.63	-		-
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	$ 388,841,100		11.05 %	$ 234,362,800		8.64 %

Source: Fall Church Office of Real Estate Assessment. Values as of January 1. Beginning in FY2015, the City changed its tax year to coincide with the fiscal year, using the assessment as of the previous January 1. During the transition year in FY2015, the assessment as of January 1, 2014 was the basis for revenues.

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
2015	$ 50,614,459	$ 49,637,858	98.07 %	$ -	$ 49,637,858	98.07 %
2014	49,385,166	48,431,361	98.07	701,033	49,132,394	99.49
2013	46,557,040	45,686,242	98.13	699,770	46,386,012	99.63
2012	44,296,165	43,620,632	98.47	558,335	44,178,967	99.74
2011	42,206,497	41,495,508	98.32	619,138	42,114,646	99.78
2010	39,478,140	38,778,261	98.23	622,894	39,401,155	99.80
2009	37,850,131	37,062,585	97.92	723,034	37,785,619	99.83
2008	37,149,427	36,183,444	97.40	917,086	37,100,530	99.87
2007	35,866,351	34,449,695	96.05	1,381,400	35,831,095	99.90
2006	32,599,183	31,271,297	95.93	1,293,646	32,564,943	99.89

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)

	Governmental Activities			Business-type Activities					
Fiscal Year	General Obligation Bonds	Notes Payable	Capital Leases	General Obligation Bonds	Note Payable*	Revenue Bonds	Total Primary Government	Percentage of Personal Income (1)	Debt Per Capita
2015	$ 54,035,000	$ 735,378	$ 277,354	$ 9,097,085	$ 2,662,896	$2,077,008	$68,884,721	N/A %	$ 5,065
2014	47,057,300	1,105,320	-	8,120,647	2,876,161	2,243,020	$61,402,448	0.07	4,515
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

(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, 2013, and 2014. 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
2015	$ 63,132,085	$ -	$ 63,132,085	1.71 %	$ 4,642
2014	55,177,947	-	55,177,947	1.53	4,057
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

TABLE 11

CITY OF FALLS CHURCH VIRGINIA

LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(unaudited)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Debt limit	$ 351,883,470	$ 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
Total net debt applicable to limit	66,807,713	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
Legal debt margin	$ 285,075,757	$ 299,162,147	$ 270,811,264	$ 256,601,990	$ 247,485,911	$ 264,118,033	$ 269,355,535	$ 303,069,660	$ 307,246,477	$ 292,479,736
Total net debt applicable to the limit as a percentage of debt limit	18.99%	16.25%	19.11%	21.08%	20.85%	19.60%	19.14%	15.58%	13.82%	13.88%

Legal Debt Margin Calculation for Fiscal Year 2015

Assessed value	$ 3,518,834,700
Debt limit (10% of assessed value)	$ 351,883,470
Less debt applicable to limit:	
General obligation bonds	63,132,085
Capital leases	277,354
Notes payable	3,398,274
Legal debt margin	$ 285,075,757

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)
2015	13,601	$ N/A	$ N/A	2,455	3.60 %
2014	13,601	88,180,013	75,007	2,421	4.00
2013	13,508	83,835,355	71,752	2,272	3.90
2012	13,179	83,415,846	72,205	2,178	4.00
2011	12,731	78,392,046	70,371	2,079	4.30
2010	12,332	75,161,493	67,776	2,017	4.40
2009	12,054	71,954,372	67,010	1,967	7.20
2008	11,645	75,302,775	70,145	1,940	4.00
2007	11,373	73,256,103	70,067	1,900	3.10
2006	11,104	69,554,932	67,455	1,872	2.90

Sources:
(1) Source: For 2001-2009 Weldon Cooper Center for Public Service; numbers are estimates as of July 1. Years 2010-2014 are based on U.S. Census estimate. 2015 uses the 2014 estimate.
(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.
(5) Source: Virginia Employment Commission

CITY OF FALLS CHURCH, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago
(unaudited)

	2015			2006		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment (2)**	**Employees**	**Rank**	**Percentage of Total City Employment**
Falls Church City Schools	560	1	7.30 %	375	1	5.92 %
Falls Church City Government	332	2	4.33	261	3	4.12
BG Healthcare Services	280	3	3.65			
Kaiser Permanante	265	4	3.46	375	2	5.92
Tax Analysts	182	5	2.37	150	5	2.37
Koon's Ford & Nissan	167	6	2.18	196	4	3.10
VL Home Health Care, Inc	160	7	2.09			
Giant Food Store	130	8	1.70	67	9	1.06
Care Options	130	9	1.70			
BJ's Wholesale Club	125	10	1.63			
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	2,331		30.41 %	1,768		27.92 %

Source: Finance and Economic Development Office
Total employment estimate of 7,667 for 2015 and 6,331 for 2006 from Virginia Employment Commission.

TABLE 14

CITY OF FALLS CHURCH, VIRGINIA

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(unaudited)

Function/Program	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General government	45.74	39.74	37.90	35.55	35.92	37.88	38.87	38.25	37.75	37.75
Judicial administration	13.61	13.61	13.76	12.76	13.26	13.26	17.01	17.01	17.01	11.60
Public safety	51.60	51.10	51.20	51.20	52.20	55.20	53.60	53.35	51.60	58.40
Public works	29.95	27.65	28.94	28.60	28.00	35.75	34.08	32.58	31.58	28.96
Health and Welfare	4.80	4.80	5.00	5.00	5.90	7.85	8.85	8.85	9.75	8.00
Parks, recreation, and cultural	30.05	29.95	29.95	30.05	31.55	33.35	36.35	36.35	34.48	44.69
Community development	15.90	15.81	15.81	13.81	13.81	13.81	13.81	13.75	13.75	12.75
Economic development	3.00	2.00	2.00	2.00	2.00	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
Sewer	4.50	4.25	4.30	4.30	4.10	4.10	4.15	4.10	4.10	4.10
Storm water	8.65	9.20	-	-	-	-	-	-	-	-
Total	207.80	198.11	246.46	241.12	243.72	257.85	261.99	259.56	255.34	261.29

Source: City Adopted Budget

CITY OF FALLS CHURCH, VIRGINIA

OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(unaudited)

Function/Program	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Government										
Communications										
Number of Media Releases	207	N/A	N/A	167	118	95	90	94	109	94
Number of Periodical Publications	-	N/A	N/A	2	N/A	N/A	10	10	10	9
eFOCUS Newsletter Subscribers	940	N/A	N/A	1,388	N/A	N/A	1,267	1,454	1,580	1,628
Number of Social Media Followers	3,716	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Judicial Administration										
Court Services										
Aurora House Recidivism	0%	0%	0%	0%	8%	0%	29%	16%	25%	10%
Aura House Program Completion	100%	90%	98%	83%	92%	73%	78%	83%	50%	62%
Court Services Juvenile Recidivism	6%	5%	9%	10%	16%	16%	22%	9%	13%	14%
Court Services Adult Recidivism	0%	4%	6%	6%	23%	23%	33%	15%	20%	22%
Public safety										
Police										
Part I Crimes (1)	310	303	309	270	268	329	441	384	365	370
Calls for Service	23,574	26,210	27,411	26,189	26,485	25,862	28,319	26,467	23,407	25,171
Accidents	204	182	180	188	224	235	231	231	255	257
Traffic Enforcement	3,313	4,749	5,314	5,704	8,614	8,113	8,950	7,042	5,052	5,281
DWI Arrests	97	108	106	127	95	91	70	63	54	49
Inspections										
Plan Review	923	821	N/A	666	N/A	671	442	577	552	490
Stop Work Orders	11	10	N/A	10	N/A	8	8	16	11	21
Fire Marshal										
Fire Inspections Performed	281	186	198	182	152	N/A	N/A	N/A	N/A	N/A
Fire Code Violations Cited	1,009	359	514	646	308	N/A	N/A	N/A	N/A	N/A
Fire Code Permits Issued	282	147	123	119	101	N/A	N/A	N/A	N/A	N/A
Fires Reported and Investigated	8	5	7	2	3	N/A	N/A	N/A	N/A	N/A
Estimated Fire/Explosion Loss	$ 1,538,000	$ 1,763,500	$ 259,500	$ 13,000	$ 2,200	N/A	N/A	N/A	N/A	N/A
Public works										
Refuse collected (tons)	1,977	2,149	2,073	2,015	2,150	2,178	2,415	2,704	2,711	2,845
Recycling collected (tons)	2,926	2,806	3,364	3,241	3,315	3,077	3,690	4,544	3,618	2,728
Street Resurfacing (miles)	3.50	2.75	2	-	1	2	2	2	2	2
Health and Welfare										
Housing and Human Services										
Information/Referral Contacts	2,396	2,399	2,136	2,459	3,149	2,971	2,882	2,555	2,674	1,786
Education										
Student Membership	2,455	2,421	2,272	2,178	2,079	2,017	1,967	1,940	1,900	1,872
Parks, Recreational and Cultural										
Parks & Recreation										
Special Events	174	172	174	171	181	160	164	132	130	133
Class participants	3,134	3,981	4,065	3,072	2,663	2,654	2,307	2,140	2,765	2,920
Room Reservations	7,035	6,376	6,237	6,455	6,569	5,982	6,205	6,548	6,150	6,132
Tennis Reservations (2)	440	1,021	642	922	1,422	1,760	1,723	1,570	1,460	1,226
Youth Sports Participants	3,226	2,677	2,509	2,423	1,987	2,542	2,431	2,207	2,358	1,932
Adult Sports Teams	120	118	114	111	114	99	100	102	117	108
Teen Dance Participants	500	625	750	827	777	979	1,260	1,875	2,152	1,799
Teen Center Attendance	900	1,300	1,500	1,722	3,500	3,675	4,000	4,250	4,976	4,851
Summer Camps Offered	192	220	274	224	244	223	201	196	186	224
Summer Camp Participants	5,810	5,103	5,432	5,000	5,002	4,163	4,258	4,211	4,073	3,769
Senior Center lunch meals served	792	660	521	519	928	1,255	1,588	1,824	1,760	2,360

CITY OF FALLS CHURCH, VIRGINIA

OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(unaudited)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Library:										
Size of collection (all formats)	144,100	132,031	147,659	146,422	142,728	143,365	159,631	154,175	150,709	130,472
Total circulation of all materials	469,102	461,394	446,563	442,480	426,272	452,498	429,286	365,861	346,637	341,626
Total visits to library (door count)	325,512	316,430	297,468	307,466	283,773	232,379	219,831	203,743	2,002,002	192,222
Number of registered borrowers	29,025	28,362	25,914	24,056	28,395	25,263	23,357	25,155	25,470	23,003
Number of website visits/yr	187,993	N/A	226,961	137,342	154,284	182,373	166,258	135,579	141,932	164,839
Number of programs/yr	785	654	554	518	603	298	345	297	312	357
Attendance at programs	28,119	18,924	17,370	15,761	20,345	11,710	14,235	12,773	11,321	11,998
Community development:										
Planning										
Development Inquiries	23,732	N/A	N/A	20,353	8,927	8,927	9,905	6,400	6,200	6,000
Plans Reviewed	N/A	N/A	N/A	2	26	26	34	52	49	20
Code/Policy Review	N/A	N/A	N/A	N/A	N/A	N/A	72	35	18	25
Zoning										
Development Inquiries	366	N/A	N/A	N/A	2,100	2,100	2,570	2,000	2,200	1,500
Permits/Plans Reviewed	N/A	N/A	N/A	708	600	600	660	1,700	2,100	2,000
Urban Forestry										
Development Inquiries	N/A	N/A	N/A	N/A	N/A	N/A	1,400	2,400	1,200	1,300
Permits/Plans Reviewed	N/A	N/A	N/A	N/A	N/A	N/A	192	443	75	56
Trees Planted/removed/pruned	1,372	1,067	708	N/A	N/A	N/A	825	859	897	369
Water										
New connection applications	N/A	N/A	74	218	265	23	53	60	90	374
Water main breaks	N/A	N/A	165	93	148	118	141	112	172	100

Sources:
Reported by individual departments
Notes:
N/A- Not available
(1) Part I crimes are defined as murder, rape, robbery, aggravated assult, burglary, grand larceny, auto theft, arson.
(2) Four courts were under renovation and out of service during 2015.
Library - Librarian
Building permits - City Planner

CITY OF FALLS CHURCH, VIRGINIA

CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years
(unaudited)

Function/Program	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
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	2	1	1	1	1	1	1	1
Court Services Passenger Van	1	1	1	1	1	1	1	1	1	1
Public safety (2)										
Fire Stations (3)	1	1	1	1	1	1	1	1	1	1
Public works										
Streets-Miles/Lane Miles	73	72	32	32	32	32	32	32	32	32
Traffic signals	28	28	29	29	29	29	29	34	34	30
Streetlights	191	198	142	142	142	142	142	136	136	136
Refuse Trucks	-	-	-	-	5	5	5	5	5	4
Education										
School Buildings	5	4	4	4	4	4	4	4	4	4
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	13	12
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	7	6	6	6	6	6	5
Library:										
Library (Facility	1	1	1	1	1	1	1	1	1	1
Community development:										
Urban Forestry										
Vehicles	4	3	3	3	3	3	3	3	3	2
Water										
Water Mains (Miles)	-	-	502	500	497	497	497	497	496	491
Tanks	-	-	10	10	10	10	10	10	10	10
Pumps	-	-	29	29	29	29	29	29	28	28
Fire Hydrants	-	-	3,286	3,253	3,220	3,201	3,201	3,188	3,169	3,132
Sewer										
Sanitary Sewer Mains (Miles)	43	47	44	44	44	44	43	43	43	N/A
Sanitary Sewer Manholes	1,012	1,155	1,190	1,186	1,186	1,175	1,001	1,001	1,001	N/A
Stormwater										
Storm Sewer Mains (Miles)	27	31	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Storm Sewer Structures	1,400	1,754	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

COMPLIANCE SECTION

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BROWNEDWARDS
certified public accountants

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 14, 2016.

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 purpose 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.

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 2012-001 to be a significant deficiency.**

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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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are identified in the schedule of findings and questioned costs as Items 2015-002 and 2015-003.**

City of Falls Church's Responses 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
January 14, 2016

BROWNEDWARDS
certified public accountants

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, 2015. 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, 2015.

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Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Item 2015-001. Our opinion on the major federal program is not modified with respect to this matter.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
January 14, 2016

CITY OF FALLS CHURCH, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS
June 30, 2015

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, 2015

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 For Each Major Program and on Internal Control over Compliance Required by *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 **one audit finding related to the major program**.
7. The major program of the City is:

Name of Program	CFDA #
Congressionally Mandated Projects	66.202

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, 2015

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2012-001: 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 and write-off of receivables 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

2015-001: CONGRESSIONALLY MANDATED PROJECTS – CFDA 66.202

Condition and Context: Of the five expenditures tested, one reimbursement request was submitted prior to the invoice being paid.

Criteria: Compliance requirements state that expenditures must be paid by the locality prior to requesting reimbursement.

Effect: Compliance requirements were not followed and reimbursement was requested prior to payment of the invoice.

Recommendation: We recommend that reimbursement requests should be submitted only after the corresponding expenditures have been paid.

Management's Response and Planned Corrective Action: The auditee concurs with this recommendation and will verify that payment has occurred prior to reimbursement request submission.

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

2015-002: HIGHWAY MAINTENANCE – INELIGIBLE STREETS

Condition: Of the twenty work orders tested, work was performed on an ineligible street for one work order and was submitted to the state of Virginia for reimbursement.

Recommendation: We recommend that reimbursement only be requested for work done on eligible streets.

Management's Response: The auditee concurs with this recommendation.

2015-003: BUDGET COMPLIANCE

Condition: The City spent $1,076, $50,147, $369,911 and $129,960 more on library services, public safety, school operating capital and school operating debt service, respectively than budgeted. It is a violation of the Code of Virginia to expend funds in excess of appropriations.

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

Management's Response: The auditee concurs with this recommendation. In the future, management will request budget adjustments on a more current basis to align with expenditures.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

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	$ 101,259	
School Breakfast Program	10.553	16,809	
Subtotal for Cluster			$ 118,068
Total U.S. Department of Agriculture			118,068
U.S. Department of Homeland Security			
Direct payments:			
United States Secret Service			
High Intensity Drug Trafficking Area	97.000		3,075
Total U.S. Department of Homeland Security			3,075
U.S. Environmental Protection Agency			
Direct payments:			
Congressionally Mandated Projects	66.202		783,468
Total U.S. Environmental Protection Agency			783,468
U.S. Department of Housing and Urban Development			
Pass-through payments:			
County of Arlington, Virginia:			
Community Development Block Grants/Entitlement Grants	14.218		52,102
Home Investments Partnership Program	14.239		20,400
Total U.S. Department of Housing and Urban Development			72,502
U.S. Department of Justice			
Direct payments:			
Seized assets	16.000		103,227
Total U.S. Department of Justice			103,227
U.S. Department of Transportation			
Pass-through payments:			
Commonwealth Virginia Department of Transportation			
Highway Planning and Construction	20.205		191,601
State and Community Highway Safety	20.600		8,730
Northern Virginia Transportation Commission			
Federal Transit Capital Investment Grants	20.500		177,854
Total U.S. Department of Transportation			378,185
U.S. Department of Education			
Pass-through payments:			
Commonwealth of Virginia Department of Education:			
Special Education - Grants to States	84.027	374,297	
Special Education - Preschool Grants	84.173	9,699	
Subtotal for Cluster			383,996
Title I - Grants to Local Educational Agencies	84.010		35,900
English Language Acquisition Grants	84.365		17,247
Improving Teacher Quality State Grants	84.367		23,632
Vocational Education - Basic Grants to States	84.048		13,128
Total U.S. Department of Education			473,903
Total Expenditures of Federal Awards			$ 1,932,428

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, 2015

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 $30,624 from the National School Lunch Program.