

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

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	17-88
--	--------------

Required Supplementary Information

Exhibit 13 – Schedules of Funding Progress.....	89
Exhibit 14 - Schedules of Changes in the Net Pension Liability and Related Ratios – Basic Pension Plan	90
Exhibit 15 - Schedules of Changes in the Net Pension Liability and Related Ratios – Police Pension Plan	91
Exhibit 16 - Schedules of Changes in the Net Pension Liability and Related Ratios – Constitutional Officers Plan	92

FINANCIAL SECTION (Continued)

Required Supplementary Information (Continued)

Exhibit 17 - Schedules of Pension Contributions 93
Exhibit 18 - Schedules of Investment Returns 94
Exhibit 19 - Schedule of Employer’s Share of Net Pension Liability (Asset) 95
Exhibit 20 - Schedule of Pension Contributions – VRS Plan..... 96
Exhibit 21 – Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual by Department – General Fund 97
Notes to Required Supplementary Information..... 98

Other Supplementary Information

Combining Fund Statements and Schedules

Fiduciary Funds..... 100
Schedule 1 – Combining Statement of Fiduciary Net Position – Post-Employment
Trust Funds 101
Schedule 2 – Combining Statement of Changes in Fiduciary Net Position -
Post-Employment Trust Funds..... 102
Agency Funds..... 103
Schedule 3– Combining Statement of Fiduciary Net Position – Agency Funds..... 104
Schedule 4– Combining Statement of Changes in Assets and Liabilities – Agency Funds..... 105
Discretely Presented Component Unit – School Board..... 106
Schedule 5– Balance Sheet – Governmental Funds 107
Schedule 6- Reconciliation of the Balance Sheet of the Governmental Funds to the
Statement of Net Position 108
Schedule 7– Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds 109
Schedule 8- Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Statement of Activities 110
Schedule 9– Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – School Operating Fund 111
Schedule 10– Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – School Community Service Fund 112
Schedule 11– Statement of Fiduciary Net Position – Agency Funds..... 113
Schedule 12– Statement of Changes in Assets and Liabilities – Agency Funds..... 114
Discretely Presented Component Unit – Economic Development Authority..... 115
Schedule 13– Balance Sheet- Governmental Fund 116
Schedule 14– Schedule of Revenues, Expenditures, and Changes in Fund
Balance – Governmental Fund..... 117

STATISTICAL SECTION

Table 1 – Net Position by Component.....	119
Table 2 – Changes in Net Position by Component.....	120
Table 3 – Fund Balances - Governmental Funds.....	121
Table 4 – Changes in Fund Balances - Governmental Funds.....	122
Table 5 – Assessed Value and Actual Value of Taxable Property.....	123
Table 6 – Direct Property Tax Rates.....	124
Table 7 – Principal Property Taxpayers.....	125
Table 8 – Property Tax Levies and Collections.....	126
Table 9 – Ratios of Outstanding Debt by Type.....	127
Table 10 – Ratios of General Bonded Debt Outstanding.....	128
Table 11 – Legal Debt Margin Information.....	129
Table 12 – Demographic Statistics.....	130
Table 13 – Principal Employers.....	131
Table 14 – Full-time Equivalent City Government Employees by Function/Program.....	132
Table 15 – Operating Indicators by Function/Program.....	133
Table 16 – Capital Assets Statistics by Function.....	134

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 <i>Government Auditing Standards</i>	135
Independent Auditor’s Report on Compliance For Each Major Program and Internal Control Over Compliance Required by the Uniform Guidance.....	137
Summary of Compliance Matters.....	139
Schedule of Findings and Questioned Costs.....	140
Schedule of Expenditures of Federal Awards.....	143
Notes to the Schedule of Expenditures of Federal Awards.....	152

INTRODUCTORY SECTION

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CITY OF FALLS CHURCH, VIRGINIA

CITY COUNCIL

David Tarter, Mayor
Marybeth Connelly, Vice Mayor

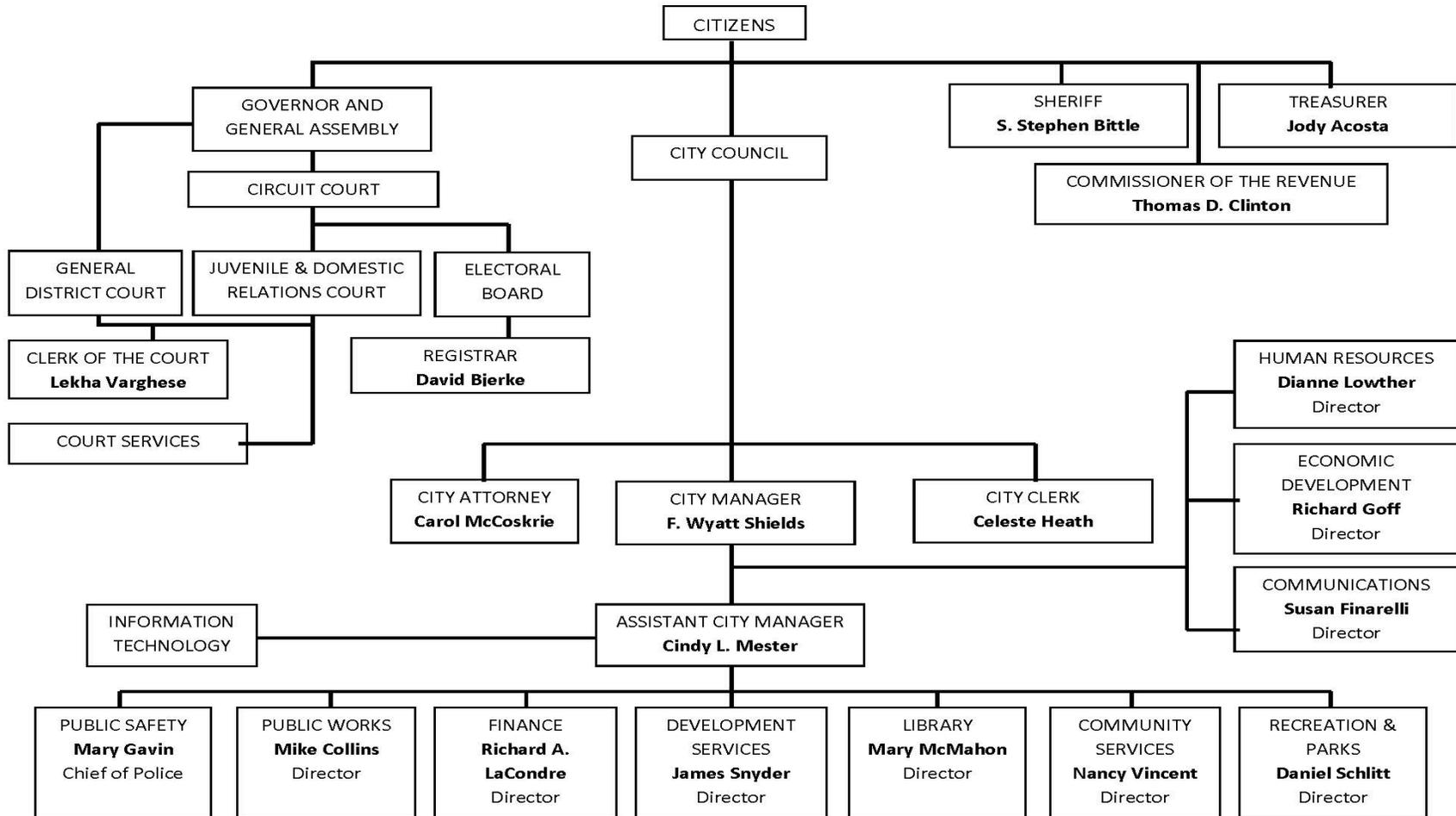
Dan Sze
Karen Oliver
Letty Hardi

Phil Duncan
David Snyder

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, 2016





CITY OF FALLS CHURCH

November 28, 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, 2016, 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, 2016, 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 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, 2016 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 approximately 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 Manager, the City Attorney and City 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 \$540 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), Northgate (2014), 301 W. Broad (2016), and Lincoln at Tinner Hill (2016) 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, with gross revenue expected to reach \$10.9 million per year and net revenue \$4.8 million annually when the most recent buildings are fully occupied.

Commercial space in the mixed-use buildings has added 370,000 square feet to the City's inventory, including a 60,000 square foot Harris Teeter grocery that opened in July 2016. The Tax Analysts Building, a physically detached component of the Pearson Square project on South Maple Avenue, contains 85,000 square feet of fully occupied Class A office and retail space. 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 averages more than 50 years in age, according to CoStar, which also reports the average rent at \$21.68 per square foot (full service). Newer space, averages \$30 per square foot, full service. The City's convenient location, and competitive office rental rates contribute to a vacancy rate of 6.1 percent, lower by comparison, to Northern Virginia's direct office vacancy rate is 18.9 percent through the third quarter of 2016.

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 restaurateur purchased the former Blue and Grey Building at 205 W. Park Avenue to renovate as an upscale café, with construction now underway.

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 3.5 percent November 2016, with average retail rent in the city at \$22.70/sf (triple net). This does not include far higher rates for space at the Eden Center, which is not reflected in CoStar data. This compares with a vacancy rate of 5.1 percent in Northern Virginia and average rent of \$26.16/sf (triple net) through the first quarter of 2016, according to Delta Associates.

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 has been replaced by the “Kensington,” a five-story assisted living facility with ground level retail that will open in early 2017. 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

A land entitlement application was approved in early 2016 for a \$155 million mixed-use project on 4.3 acres at the northeast corner of West and Broad streets. “Mason Row” will consist of 340 apartments, a 145-room 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 about three acres at the intersection of Routes 7 and 29 in the center of Falls Church. The “Broad and Washington” developer is currently in the process of amending its application to revise a mix of uses more balanced with office and retail content in the commercial space.

At 419/421 W. Broad Street, the owner of Inns of Virginia has approval to replace its small existing facility with a 76-room hotel.

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.

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.

Employment, Education and Household Income Trends

The Bureau of Labor Statistics reported at April 2016 that the City of Falls Church has the lowest unemployment rate for any city in Virginia at 2.2 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 finance 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.

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

Respectfully submitted,



F. Wyatt Shields
City Manager



Melissa Ryman
Acting Director of Finance

FINANCIAL SECTION

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INDEPENDENT AUDITOR’S REPORT

To the Honorable Members of the 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 the City of Falls Church, Virginia (the “City”), as of and for the year ended June 30, 2016, 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of June 30, 2016, 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 accordance with accounting principles generally accepted in the United States of America.

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 basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

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 November 28, 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 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
November 28, 2016

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 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, 2016.

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

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 \$83 million at June 30, 2016. Of this balance, \$112 million is the Primary Government's and -\$29 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 2016, taxes and other revenues of the City's governmental activities amounted to \$84.5 million and expenses and transfers amounted to \$80.2 million, which resulted in an increase in net position for the City's governmental activities of \$4.3 million.
- Revenues of the City's business-type activities were \$7.9 million, and expenses and transfers were \$4.2 million, which resulted in an increase in net position for the City's business-type activities of approximately \$3.7 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 governmental funds comprise of the General Fund, the Capital Projects Fund, the Special Transportation Fund, and the Affordable Dwelling Unit Fund.

The City's proprietary funds, the Sewer and Storm Water funds, are also presented in the fund financial statements but are presented using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used to prepare the government-wide financial statements.

The following are highlights of the City's governmental funds:

- In total, the City's governmental funds reported revenues and other financing sources of in excess of expenditures and other financing uses of \$555 thousand.
- The City's General Fund reported a fund balance of \$29.5 million at June 30, 2016, a decrease of \$1.9 million from June 30, 2015. This decrease is due to the transfer of committed capital reserve balances to the City's Capital Projects Fund and Special Transportation Fund.
- In the General Fund, the unassigned fund balance as of June 30, 2016 of \$14.4 million was 17.8% of expenditures. Committed fund balance as of June 30, 2016 was \$11.9 million. Of this, \$11.0 million is for future capital projects. Assigned fund balance as of June 30, 2016 was \$2.5 million. Non spendable and restricted fund balance as of June 30, 2016 was \$0.6 million.
- The City's Capital Projects Fund reported an increase in fund balance of \$1.0 million, resulting in a balance of \$20.5 million at June 30, 2016. This increase is due mainly to the receipt of voluntary concessions from a developer for school capital costs.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

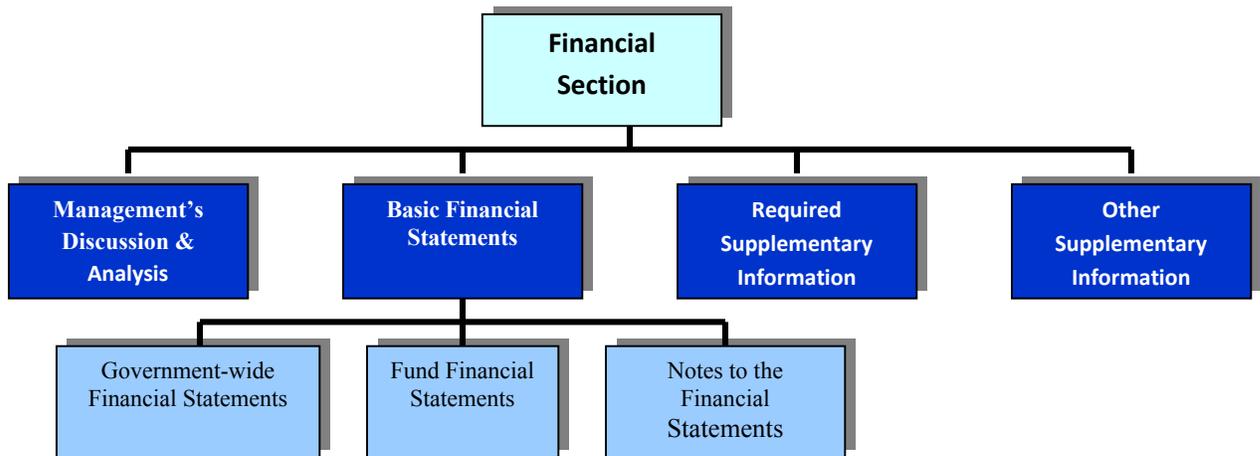
- The City's Special Transportation Fund also reported an increase in fund balance of \$1.4 million, mainly due to the issuance of bonds for certain projects and which are not yet spent.

The following are highlights of the City's proprietary funds:

- The City's Sewer fund reported an increase in net position of \$3.4 million in FY2016 primarily due to the receipt of availability fees from developers of \$2.1 million. The City continues to fund the upgrade of sewer treatment plants with its inter-jurisdictional partners, Arlington County and Alexandria Renew, 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 \$306 thousand partly due to developer contributions of capital assets (storm water pipes) of \$100 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

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 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.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

The General Fund is the main operating fund of the City and consequently, the largest of the governmental funds. 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.

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.

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**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

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, 2016 and 2015.

Summary of Net Position				
As of June 30, 2016 and 2015				
(\$ In Thousands)				
	2016		2015	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Assets:				
Current and other assets	\$ 85,403	\$ 14,496	\$ 76,237	\$ 10,569
Capital assets, net	77,657	25,243	73,918	24,485
Total assets	<u>163,060</u>	<u>39,739</u>	<u>150,155</u>	<u>35,054</u>
Deferred Outflows of Resources	<u>6,112</u>	<u>223</u>	<u>15,202</u>	<u>294</u>
Liabilities:				
Other liabilities	13,505	932	11,058	1,290
Long-term liabilities	<u>59,312</u>	<u>15,395</u>	<u>59,368</u>	<u>14,412</u>
Total liabilities	<u>72,817</u>	<u>16,327</u>	<u>70,426</u>	<u>15,702</u>
Deferred Inflows of Resources	<u>8,083</u>	<u>369</u>	<u>10,956</u>	<u>286</u>
Net Position:				
Invested in capital assets, net of related debt	38,821	11,598	36,184	12,134
Restricted for other projects	425	-	758	-
Unrestricted	<u>49,026</u>	<u>11,668</u>	<u>47,033</u>	<u>7,226</u>
Total net position	<u>\$ 88,272</u>	<u>\$ 23,266</u>	<u>\$ 83,975</u>	<u>\$ 19,360</u>

The increase in current and other assets for governmental activities of \$9.2 million is due primarily to the increase in net pension assets as a result of the additional contributions made by the City to the Basic and Police Pension Plans of \$9.2 million in fiscal year 2015.

Net capital assets for governmental activities increased by \$3.7 million, primarily due to investments in capital infrastructure of \$7.9 million and depreciation of \$3.5 million. Capital investments were made mainly in the reconstruction a roadbed at South West Street, renovation of the Mt. Daniel Elementary School, park and athletic field and track improvements, as well as replacements of vehicles and radio equipment.

Current and other assets for business-type activities increased by \$3.9 million during FY2016 due to the receipts of availability fees of \$2.1 million and unspent bond proceeds of \$1.1 million.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

Net capital assets for business-type activities increased by \$0.8 million due to continued contributions towards improvements at the Alexandria Renew sewer treatment plant and relining of the sanitary sewer pipes.

Deferred outflows decreased by \$9.1 million for the governmental activities and by \$0.1 million for the business-type activities. The deferred outflow in fiscal year 2015 included the additional contribution of \$9.2 million that is now recognized as expense in fiscal year 2016. Notes 13 through 15 includes information on the deferred outflows of the City related to its pension plans.

The increase in other liabilities for governmental activities of \$2.5 million is mostly due to timing differences in the payment of certain intergovernmental obligations between the two years.

For the business-type activities, there was an increase of \$1.0 million in long-term liabilities, due to the issuance of new general obligation debt for capital improvements.

During FY2016, the net position invested in capital assets, net of related debt, increased for the City's governmental activities by \$2.6 million mainly due to the construction of facilities and infrastructure and purchase of new machinery and equipment as noted above. It decreased for the business-type activities by \$536 thousand primarily due to the issuance of new debt which have not yet been spent on the construction of infrastructure.

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**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

Statement of Activities

The following table summarizes the changes in net position for the primary government for the years ended June 30, 2016 and 2015:

Summary of Changes in Net Position For the Fiscal Years Ended June 30, 2016 and 2015 (\$ In Thousands)				
	2016		2015	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Revenues:				
Program revenues:				
Charges for services	\$ 4,916	\$ 7,770	\$ 5,539	\$ 5,439
Operating grants & contributions	2,630	-	2,175	-
Capital grants & contributions	4,287	104	1,592	866
General revenues:				
General property taxes	53,731	-	50,526	-
Business license taxes, based on gross receipts	3,974	-	3,722	-
Local sales & use taxes	4,210	-	4,003	-
Consumer's utility taxes	2,147	-	2,231	-
Motor vehicle decals	336	-	334	-
Recordation	392	-	487	-
Occupancy, tobacco, & other taxes	5,166	-	5,044	-
Unrestricted grants & contributions	2,021	-	2,139	-
Revenue from use of money and property	483	93	276	8
Other	140	-	132	-
Total revenues	84,433	7,967	78,200	6,313
Expenses:				
General government administration	6,909	-	6,702	-
Judicial administration	2,068	-	2,005	-
Public safety	11,412	-	10,834	-
Public works	7,873	3,840	6,507	3,985
Health and welfare	2,161	-	2,065	-
Education and payments to schools	40,198	-	38,558	-
Parks, recreation, and cultural	5,045	-	4,970	-
Community development	2,276	-	2,053	-
Economic development	458	-	397	-
Interest expense	1,791	343	1,801	382
Total expenses	80,191	4,183	75,892	4,367
Excess/(deficiency) before transfers	4,242	3,784	2,308	1,946
Transfers	64	(64)	89	(89)
Change in net assets	4,306	3,720	2,397	1,857
Net position, beginning of year*	83,966	19,546	81,578	17,503
Net position, end of year	\$ 88,272	\$ 23,266	\$ 83,975	\$ 19,360

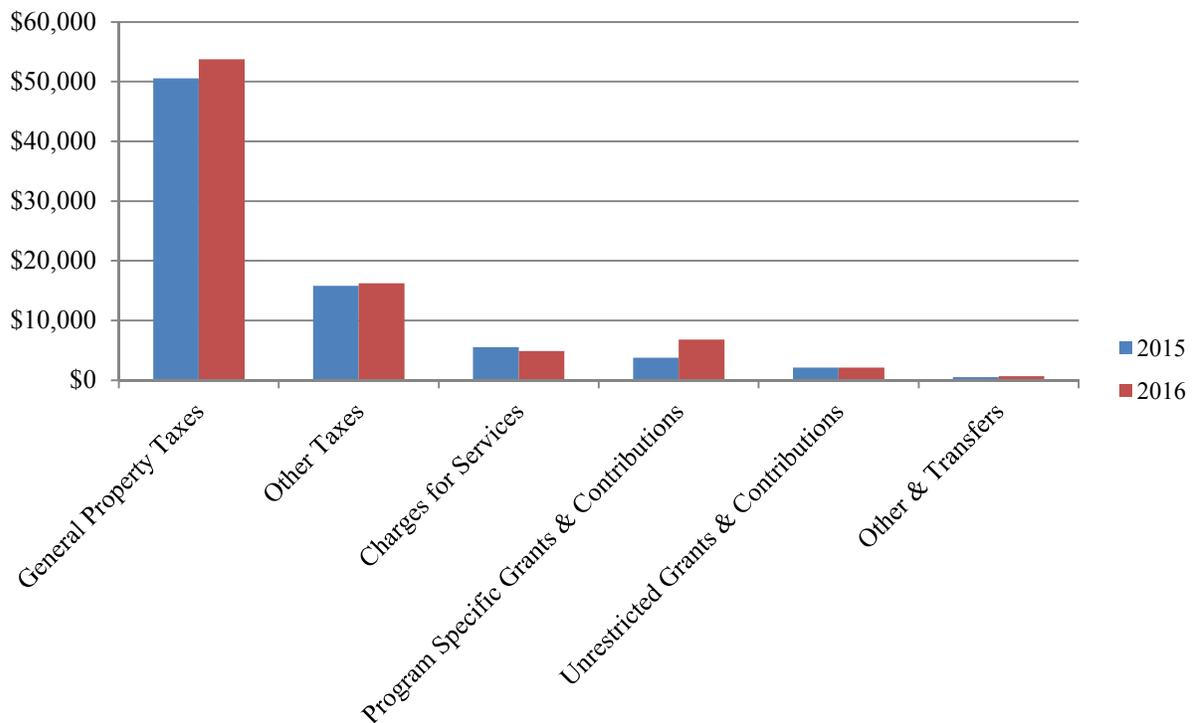
*As restated. See Note 15.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

Governmental Activities

Revenues and transfers for the City's governmental activities were \$84.5 million for fiscal year 2016 and \$78.3 million for fiscal year 2015. Sources of revenue for fiscal year 2016 and 2015 are comprised of the following items:

**REVENUES
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015
(\$ IN THOUSANDS)**

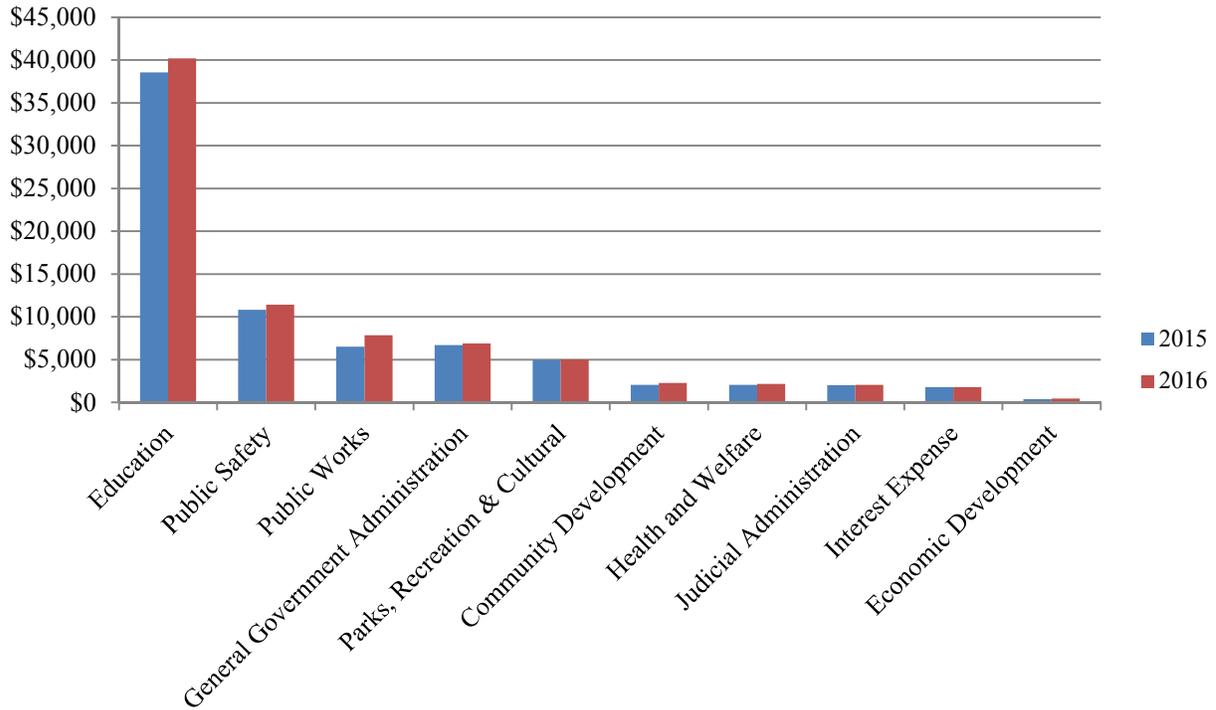


Taxes constitute the largest source of City revenues, amounting to \$70.0 million for fiscal year 2016 and \$66.3 million for fiscal year 2015. Real property taxes (\$48.7 million in fiscal year 2016 and \$45.9 million in fiscal year 2015) represent approximately 70% of tax revenues in FY2016 and 69% in FY2015.

The cost of all governmental activities in fiscal year 2016 was \$80.2 million, and in fiscal year 2015 was \$75.9 million. The increase of approximately 5.6% in FY2016 over FY2015 is largely due to two factors: (1) increased spending for education (\$40.2 million in fiscal year 2016 and \$38.6 million in fiscal year 2015) as a result of salary improvements for teachers and increased retirement contributions to the Virginia Retirement System (VRS), and (2) increased spending in public works (\$7.9 million in fiscal year 2016 and \$6.5 million in fiscal year 2015) largely due to additional spending in road maintenance as part of a new grant received, downtown area improvements, and increase in public transportation costs. Education was the City's largest program in both fiscal years 2016 and 2015. Public safety expenses represent the second largest expense in both of the fiscal years, totaling \$11.4 million in fiscal year 2016 and \$10.8 million in fiscal year 2015. Public works represented the third largest expense for the City in FY2016 and the fourth largest expense in FY2015. General government administration totaled \$6.9 million in fiscal year 2016 and \$6.7 million in FY2015, representing the fourth largest expense for the City in FY2016 and the third largest expense in FY2015.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

**EXPENDITURES
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015
(\$ 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, 2016 and 2015				
(\$ In Thousands)				
Functions/Programs	2016		2015	
	Total Cost	Net Cost	Total Cost	Net Cost
Education and payments to schools	\$ 40,198	\$ 38,185	\$ 38,558	\$ 37,878
Public safety	11,412	9,619	10,834	8,686
Public works	7,873	3,968	6,507	4,142
General government administration	6,909	6,759	6,702	6,246
Parks, recreation, and cultural	5,045	2,793	4,970	2,829
Health and welfare	2,162	2,015	2,065	1,986
Community development	2,276	2,134	2,053	1,929
Other	4,316	2,886	4,202	2,891
Total	\$ 80,191	\$ 68,359	\$ 75,891	\$ 66,587

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$4.9 million in 2016 and \$5.5 million in 2015) and other governments and organizations that subsidized certain programs with grants and contributions (\$6.8 million in 2016 and \$3.8 million in 2015). The remaining net cost services of the \$68.5 million in 2016 and \$66.6 million in 2015 was subsidized by the taxpayers.

The net cost for education and payment to schools is shown net of developer concessions towards capital costs. 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 \$3.4 million for fiscal year 2016 and an increase of \$0.8 million for fiscal year 2015. In fiscal year 2016, total revenues of the Sewer Fund were \$6.3 million as compared to total costs of \$2.9 million. In fiscal year 2015, total revenues of the Sewer Fund were \$3.9 million and total costs and transfers were \$3.1 million. The Sewer Fund recovers its costs primarily through direct user charges. The increase in revenues in FY2016 was mainly due to the receipt of \$2.1 million in availability fees, most of which was from a large mixed-use real estate project in the City. These fees are designated to pay for future system capacity expansion to ensure continuity of service to its customers.

The Storm Water Fund reported an increase in net position of \$0.3 million for fiscal year 2016 and an increase of \$1.1 million for fiscal year 2015. Total revenues in FY2016 were \$1.6 million and expenses and transfers were \$1.3 million. Total revenues in FY2015 were \$2.4 million, and expenses and transfers were \$1.3 million. The fee for the storm water was \$18.00 per 200 square feet of impervious surface for the two years. In FY2015, additional revenue of \$0.9 million in the form of capital grants were received for a project that was completed in FY2015.

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**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

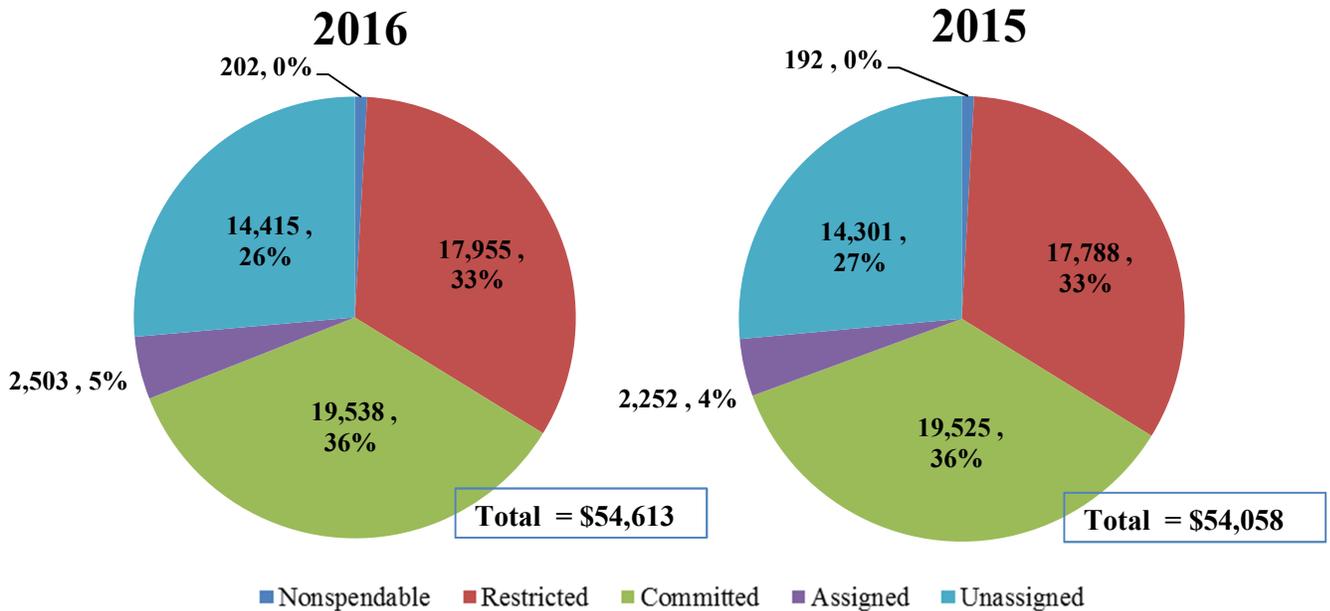
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing 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 City reports fund balance in accordance with accounting principles generally accepted in the United States of America (GAAP), which categorizes fund balance into five classification based upon constraints placed on the use of resources. Note 23 provides additional information on the fund balance categories.

The following charts represent the components of City's combined governmental fund balances as of June 30, 2016 and 2015.

GOVERNMENTAL FUNDS – FUND BALANCES

AS OF JUNE 30, 2016 AND 2015 (\$ IN THOUSANDS)



Overall, the fund balance for all governmental funds increased by approximately \$0.6 million in FY2016 (\$84.6 million in revenues and \$4.8 million in other financing sources less total expenditures and other financing uses of \$88.9 million) and decreased by \$4.1 million in FY2015 (\$78.6 million in revenues and \$11 million in other financing sources less \$84.6 million in total expenditures and other financing uses and \$9.2 million in additional contribution to the City's Basic and Police Pension Plans).

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016**

The increase of \$6 million in revenues was due to an increase in assessed values of real property of 5% (half of the increase is attributable to new construction) coupled with a one cent increase in real estate tax rate. The City also received voluntary concessions from a developer in the amount of \$2 million for school capital costs. The City also received \$11 million in bond proceeds and premiums in FY2015 while only \$4.7 million in debt were issued in FY2016.

The increase of \$4.3 million in expenditures were in the areas of education (\$1.7 million), public safety (\$0.9 million), public works (0.6 million) and debt service (0.6 million). In FY2015, the City also made additional contributions to the City's Basic and Police Pension Plans in the amount of \$9.2 million using the proceeds from the sale of its water system in 2014.

Approximately 26% of the total fund balance consists of unassigned fund balance in the General Fund. This fund balance provides the City with some margin of financial safety to address unforeseen emergencies or declines in revenues. Committed fund balance makes up about 36% of the City's fund balance and represents amounts committed by the City Council for the succeeding operating and capital budgets (\$1.6 million in FY2016 and \$2.2 million in FY2015), for future capital expenditures (\$9.4 million in FY2016 and \$11.0 million in FY2015), and for costs associated with future development inspections (\$0.9 million in FY2016 and \$0.6 million in FY2015). Restricted fund balance which makes up 33% of the City's fund balance are grants and bond proceeds which have not yet been spent for their specified purpose. A majority of this amount is from bond proceeds to be used for the financing of capital projects. Assigned fund balance which makes up about 5% of the City's fund balance represents amounts that were assigned to capital reserves and encumbered amounts for various expenditures other than capital projects. Non-spendable fund balance comprises approximately 0.4% of the City's fund balance and includes amounts that are not available for spending such as inventory and prepaid expenses.

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 FY2016 also added to the City's unassigned fund balance. The ending General Fund unassigned fund balance as of June 30, 2016 of \$14.4 million was 17.8% of expenditures.

The following shows the fund balances of these funds by fund as of June 30, 2016 and 2015:

Fund Balances - Governmental Funds										
As of June 30, 2016 and 2015										
(\$ In Thousands)										
	General Fund		Capital Projects Fund		Special Transportation Fund		Affordable Dwelling Unit Fund		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Non-spendable	\$ 202	\$ 192	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 202	\$ 192
Restricted	426	758	15,989	16,439	1,540	591	-	-	17,955	17,788
Committed	11,910	13,841	4,499	3,023	2,839	2,372	290	289	19,538	19,525
Assigned	2,503	2,252	-	-	-	-	-	-	2,503	2,252
Unassigned	14,415	14,301	-	-	-	-	-	-	14,415	14,301
Total	\$ 29,456	\$ 31,344	\$ 20,488	\$ 19,462	\$ 4,379	\$ 2,963	\$ 290	\$ 289	\$ 54,613	\$ 54,058

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

The following shows the changes in the individual fund balances for fiscal years 2016 and 2015:

Changes in Fund Balances - Governmental Funds For the Fiscal Years Ended June 30, 2016 and 2015 (\$ In Thousands)										
	General Fund		Capital Projects Fund		Special Transportation Fund		Affordable Dwelling Unit Fund		Total*	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenues and other financing sources	\$ 81,298	\$ 76,932	\$ 6,550	\$ 12,958	\$ 3,666	\$ 2,411	\$ 1	\$ -	\$ 89,304	\$ 89,670
Expenditures and other financing uses	83,186	88,406	5,524	6,812	2,250	1,065	-	141	88,749	93,793
Changes in Fund Balances	(1,888)	(11,474)	1,026	6,146	1,416	1,346	1	(141)	555	(4,123)
Fund balance at beginning of year	31,344	42,818	19,462	13,316	2,963	1,617	289	430	54,058	58,181
Fund balance at end of year	<u>\$ 29,456</u>	<u>\$ 31,344</u>	<u>\$ 20,488</u>	<u>\$ 19,462</u>	<u>\$ 4,379</u>	<u>\$ 2,963</u>	<u>\$ 290</u>	<u>\$ 289</u>	<u>\$ 54,613</u>	<u>\$ 54,058</u>

*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 Sewer and Storm Water 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 \$2.3 million or 2.8%. Approximately \$1 million of the increase is from encumbrances from FY2015 that were carried forward into FY2016. The remaining was from additional grants and other revenues received by the City during the year.

The final amended budget revenues and other financing sources were more than the original budget by \$0.9 million or 1.1%. The change is mostly due to additional grants and debt proceeds received during the year.

Actual revenues and other financing sources were slightly higher than final budget amounts by \$0.4 million and actual expenditures and other financing uses were \$1.5 million or 1.9% less than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2016 include the following:

- Actual departmental expenditures were less than budgeted amounts by \$1.6 million. The Department of Public Safety was below budget by \$243 thousand primarily due to police officer vacancies. Low utilization of social services resulted in actual expenditures being lower than budgeted amount for the Department of Human Services by \$282 thousand. The Department of Public Works came in under budget by \$127 thousand, however, most of this balance has been encumbered and is being carried forward into FY2017. In total, for the General Fund, approximately \$275 thousand in unliquidated encumbrances are being carried forward into FY2017.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

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, 2016 and 2015						
(\$ In Thousands)						
	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 9,561	\$ -	\$ 9,561	\$ 9,561	\$ -	\$ 9,561
Construction in progress	5,698	4,607	10,305	3,317	3,710	7,027
Buildings and system	76,521	7,506	84,027	76,482	6,877	83,359
Machinery and equipment	15,162	581	15,743	14,765	1,846	16,611
Improvements other than buildings	6,275	1,876	8,151	5,446	571	6,017
Purchased capacity	-	15,570	15,570	-	15,550	15,550
Infrastructure	6,932	6,365	13,297	5,565	6,187	11,752
Intangibles	1,525	10	1,535	1,516	10	1,526
Library collections	2,040	-	2,040	2,141	-	2,141
Accumulated depreciation	(46,058)	(11,272)	(57,330)	(44,877)	(10,266)	(55,143)
Total Capital Assets, Net	\$ 77,656	\$ 25,243	\$ 102,899	\$ 73,916	\$ 24,485	\$ 98,401

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

- The City completed the reconstruction of the roadbed at South West Street.
- The City reconstructed the field turf and rebuilt the track at George Mason High School.
- The City completed the development of West End Park.
- Some renovation was done at Mt. Daniel Elementary School although a majority of the project is still on hold pending a redesign of the project.
- The City replaced three old dump trucks in FY2016.

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 credit ratings of Aa1 from Moody's Investor Services and 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 were \$375.5 million in 2016 and \$351.9 million in 2015. The City's total long-term debt that is applicable to this limit was \$68.4 million as of June 30, 2016 and \$66.8 million as of June 30, 2015, and is well within the limits set by the Constitution of the Commonwealth of Virginia.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

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, 2016 and 2015, total debt outstanding was 1.5% and 1.6%, respectively, of taxable assessed value of real property. General Fund debt service payments were 7.3% and 6.8% of General Fund expenditures in FY2016 and FY2015, respectively. Both ratios are below the City's debt limit policy of 12% of General Fund expenditures. The City also has a policy of 5-year payout ratio of 25% and a 10-year payout ratio of 50% for its General Fund debt service. As of June 30, 2016, the City's 5-year payout ratio was 43% and 10-year payout ratio was 75%. As of June 30, 2015, the City's 5-year payout ratio was 39% and 10-year payout ratio was 75%.

The School Board Component Unit relies upon the City to provide full faith and credit for any general obligation debt incurred. Therefore, the City reports general obligation debt incurred for school capital improvements as its own. The School Board reports as its own liability obligations for capital leases, compensated absences and pension.

The following table shows a summary of the City's outstanding debt as of June 30, 2016 and 2015:

Outstanding Long-Term Debts						
As of June 30, 2016 and 2015						
(\$ In Thousands)						
	2016			2015		
	Govern- mental Activities	Business-Type Activities	Total	Govern- mental Activities	Business-Type Activities	Total
General obligation bonds issued for:						
Schools	\$ 40,229	\$ -	\$ 40,229	\$ 41,291	\$ -	\$ 41,291
Community center	1,048	-	1,048	1,197	-	1,197
Fire station	2,140	-	2,140	2,435	-	2,435
City hall	4,682	-	4,682	4,954	-	4,954
Open space	135	-	135	143	-	143
Transportation	2,309	-	2,309	1,356	-	1,356
Other	4,115	-	4,115	2,659	-	2,659
Sewer system	-	7,981	7,981	-	7,652	7,652
Stormwater system	-	2,534	2,534	-	1,445	1,445
Revenue bonds issued for:						
Sewer system	-	1,906	1,906	-	2,077	2,077
Note payable issued for:						
Sewer system	-	2,441	2,441	-	2,663	2,663
Capital leases and other	4,654	533	5,187	4,886	575	5,461
Total	\$ 59,312	\$ 15,395	\$ 74,707	\$ 58,921	\$ 14,412	\$ 73,333

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

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

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 2017:

- The City's adopted budget for fiscal year 2017 includes a 3.8% increase in the assessed values of taxable real property with no increase on the tax rate. 86% of the increase is a result of new construction, particularly in large mixed-use buildings.
- Residential assessed values are stable. Median single family home value as of January 1, 2016 increased slightly to \$742,100 from \$729,500 as of January 1, 2015 and continues to outperform the Washington Metro area and US markets.
- The City's unemployment rate continues to decrease; June 2016 unemployment rate was 2.7% as compared to June 2015 unemployment rate of 3.6%.

Revenues from new developments that are projected to be completed during the year contributed to the estimated overall revenue growth (excluding receipts from debt proceeds, transfers, and use of fund balance) of 3.8% or \$3.1 million as compared to the fiscal year 2016 budget. Total tax revenues are projected to grow by 4.7% or \$3.2 million over the fiscal year 2016 budget. \$1.8 million of this comes from real estate assessed values growth. The real estate tax rate is being held flat in fiscal year 2017 at \$1.315 per \$100 of assessed value. The City increased its personal property tax rate from \$4.84 per \$100 of assessed value to \$5.00 per \$100 of assessed value. Revenue from real property taxes will make up 59.1% of total revenues in fiscal year 2017, similar to fiscal year 2016. Other taxes account for 25.0% of General Fund revenue in fiscal year 2017, as compared to 24.2% in fiscal year 2016.

Programmatic expenditures in the General Fund remain relatively stable as compared to the fiscal year 2016 budget with the exception of the City's locally-funded contribution to the Washington Metropolitan Area Transportation Authority (WMATA) transportation expenditures which is projected to increase by \$417 thousand, an increase of 282% over its contribution in fiscal year 2016. The increase is due to a combination of increased costs at WMATA as well as a reduction in gas tax revenues. Gas tax revenues are restricted revenues that are deposited with the Northern Virginia Transportation Commission (NVTC) for the purpose of paying WMATA obligations. As these revenues go down, the City has to contribute more.

The City's transfer to the School Board increased by 3.6% or \$1.4 million. Debt service increased by 9.2% or \$539 thousand as a result of the issuance of \$10.4 million in new debt in fiscal year 2015.

In fiscal year 2017, contribution to the Basic Pension Plan decreased from 17.86% in fiscal year 2016 to 12.71% of covered payroll. Contribution to the Police Pension Plan also decreased from 36.55% to 30.01% of covered payroll. Both years include employee contributions of 5.0% and 7.0% for the Basic Pension Plan and Police Pension Plan, respectively. Contributions to the Virginia Retirement System (VRS), which covers the City's Constitutional Officers also decreased from 7.8% to 6.76%. Contributions by the School Board to the VRS increased slightly from 15.12% to 15.77% of covered payroll. These rates for both plans include a 5% employee contribution. These contribution rates to the VRS are subject to action by the General Assembly.

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. Specifically, capital investments in facilities and infrastructure, funding of employee health care and compensation costs, and increased local funding of state mandated programs will continue to be the focus areas of future budget deliberation.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

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,

A handwritten signature in black ink, appearing to read "MRyman". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Melissa Ryman
Acting Director of Finance

BASIC FINANCIAL STATEMENTS

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GOVERNMENT WIDE FINANCIAL STATEMENTS

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CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2016

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Totals	School Board	Economic Development Authority
ASSETS					
Cash and investments (Note 4)	\$ 43,197,701	\$ 10,614,480	\$ 53,812,181	\$ 2,686,903	\$ 1,949,494
Receivables, net (Note 5)	7,381,816	871,195	8,253,011	16,433	2,979
Internal balances (Note 7)	301,119	(301,119)	-	-	-
Due from agency funds	61,642	-	61,642	-	-
Due from fiduciary funds	1,250,803	-	1,250,803	193,776	-
Due from primary government	-	-	-	4,983,623	250,000
Due from other governments (Note 6)	2,285,772	669,234	2,955,006	506,492	-
Prepays	18,815	-	18,815	13,367	-
Inventories	182,964	18,536	201,500	-	-
Restricted cash and cash equivalents (Note 4)	19,082,205	2,209,166	21,291,371	-	-
Net OPEB asset (Note 18)	3,688,000	33,000	3,721,000	1,324,000	-
Net pension asset (Note 16)	7,952,398	381,449	8,333,847	1,390,211	-
Capital assets: (Note 8)					
Nondepreciable	15,258,846	4,606,703	19,865,549	1,273,354	-
Depreciable, net	62,397,698	20,636,185	83,033,883	2,695,738	-
Total assets	163,059,779	39,738,829	202,798,608	15,083,897	2,202,473
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions (Note 16)	5,696,601	222,853	5,919,454	9,136,162	-
Deferred amount on refunding	415,090	-	415,090	-	-
Total deferred outflows of resources	6,111,691	222,853	6,334,544	9,136,162	-
LIABILITIES					
Accounts payable and other liabilities	5,590,699	774,696	6,365,395	5,726,120	250,000
Accrued interest	813,333	158,086	971,419	-	-
Customer deposits	1,497,876	-	1,497,876	-	-
Due to component unit	5,233,623	-	5,233,623	-	-
Due to other governments (Note 6)	368,967	-	368,967	-	-
Noncurrent liabilities:					
Net pension liability (Note 16)	-	-	-	40,438,000	-
Due within one year (Note 10)	5,974,881	1,046,162	7,021,043	1,371,036	-
Due in more than one year (Note 10)	53,337,397	14,348,551	67,685,948	3,015,792	-
Total liabilities	72,816,776	16,327,495	89,144,271	50,550,948	250,000
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions (Note 16)	2,599,309	368,632	2,967,941	4,422,604	-
Unearned revenue (Note 9)	5,483,241	-	5,483,241	-	-
Total deferred inflows of resources	8,082,550	368,632	8,451,182	4,422,604	-
NET POSITION					
Net investment in capital assets	38,820,954	11,597,722	50,418,676	3,759,812	-
Restricted for:					
Grants	425,551	-	425,551	-	-
Unrestricted	49,025,639	11,667,833	60,693,472	(34,513,305)	1,952,473
Total net position	\$ 88,272,144	\$ 23,265,555	\$ 111,537,699	\$ (30,753,493)	\$ 1,952,473

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

CITY OF FALLS CHURCH, VIRGINIA
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2016

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Totals	School Board	Economic Development Authority
Primary Government:									
Governmental activities:									
General government	\$ 6,909,252	\$ (66,265)	\$ 215,746	\$ -	\$ (6,759,771)		\$ (6,759,771)		
Judicial administration	2,068,457	986,955	325,899	-	(755,603)		(755,603)		
Public safety	11,411,724	1,320,831	364,212	107,595	(9,619,086)		(9,619,086)		
Public works	7,872,682	495,367	1,243,429	2,166,022	(3,967,864)		(3,967,864)		
Health and welfare	2,161,544	6,740	139,831	-	(2,014,973)		(2,014,973)		
Parks, recreation, and cultural	5,044,608	2,030,695	221,202	-	(2,792,711)		(2,792,711)		
Community development	2,276,387	141,730	750	-	(2,133,907)		(2,133,907)		
Economic development	457,658	-	-	-	(457,658)		(457,658)		
Education	40,197,569	-	-	2,012,948	(38,184,621)		(38,184,621)		
Interest	1,791,263	-	118,830	-	(1,672,433)		(1,672,433)		
Total governmental activities	80,191,144	4,916,053	2,629,899	4,286,565	(68,358,627)		(68,358,627)		
Business-type activities:									
Sewer	2,872,497	6,198,048	-	3,500		3,329,051	3,329,051		
Storm water	1,310,670	1,571,696	-	100,000		361,026	361,026		
Total business-type activities	4,183,167	7,769,744	-	103,500		3,690,077	3,690,077		
Total primary government	\$ 84,374,311	\$ 12,685,797	\$ 2,629,899	\$ 4,390,065	(68,358,627)	3,690,077	(64,668,550)		
Discretely Presented Component Units:									
School Board	\$ 47,149,008	\$ 2,816,889	\$ 7,318,598	\$ -			\$ (37,013,521)	\$ -	
Economic Development Authority	18,148	-	-	-			-	(18,148)	
Total component units	\$ 47,167,156	\$ 2,816,889	\$ 7,318,598	\$ -			(37,013,521)	(18,148)	
General revenues:									
General property taxes					53,731,454	-	53,731,454	-	-
Other local taxes:									
Business licenses					3,973,548	-	3,973,548	-	-
Local sales and use					4,209,733	-	4,209,733	-	-
Consumer utility					2,146,829	-	2,146,829	-	-
Motor vehicle decals					336,404	-	336,404	-	-
Real estate recordation taxes					391,911	-	391,911	-	-
Occupancy, tobacco, and other					5,166,228	-	5,166,228	-	-
Payments from City					-	-	-	38,523,156	-
Intergovernmental, non-categorical aid					2,020,878	-	2,020,878	-	-
Revenue from use of money and property, unrestricted					482,609	93,405	576,014	160,748	6,251
Miscellaneous					140,472	192	140,664	87,077	20,392
Transfers					64,517	(64,517)	-	-	-
Total general revenues and transfers					72,664,583	29,080	72,693,663	38,770,981	26,643
Change in net position					4,305,956	3,719,157	8,025,113	1,757,460	8,495
NET POSITION AT JULY 1, AS RESTATED (Note 22)					83,966,188	19,546,398	103,512,586	(32,510,953)	1,943,978
NET POSITION AT JUNE 30					\$ 88,272,144	\$ 23,265,555	\$ 111,537,699	\$ (30,753,493)	\$ 1,952,473

FUND FINANCIAL STATEMENTS

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CITY OF FALLS CHURCH, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Special Transportation</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
ASSETS					
Cash and investments	\$ 36,029,794	\$ 4,222,860	\$ 2,654,845	\$ 290,202	\$ 43,197,701
Receivables, net	7,098,815	-	-	283,001	7,381,816
Due from other funds	1,563,564	50,000	-	-	1,613,564
Due from other governments	1,295,023	216,240	774,509	-	2,285,772
Prepays	18,815	-	-	-	18,815
Inventories	182,964	-	-	-	182,964
Restricted cash and cash equivalents	613,625	16,899,154	1,569,426	-	19,082,205
Total assets	<u>\$ 46,802,600</u>	<u>\$ 21,388,254</u>	<u>\$ 4,998,780</u>	<u>\$ 573,203</u>	<u>\$ 73,762,837</u>
LIABILITIES					
Accounts payable and other liabilities	\$ 4,220,354	\$ 775,198	\$ 595,147	\$ -	\$ 5,590,699
Customer deposits	1,497,876	-	-	-	1,497,876
Due to component units	5,233,623	-	-	-	5,233,623
Due to other governments	43,088	-	-	-	43,088
Total liabilities	<u>10,994,941</u>	<u>775,198</u>	<u>595,147</u>	<u>-</u>	<u>12,365,286</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable/unearned revenue	6,351,946	124,722	25,000	283,001	6,784,669
Total deferred inflows of resources	<u>6,351,946</u>	<u>124,722</u>	<u>25,000</u>	<u>283,001</u>	<u>6,784,669</u>
FUND BALANCES					
Fund balances (Note 23):					
Nonspendable	201,779	-	-	-	201,779
Restricted	425,551	15,989,325	1,539,912	-	17,954,788
Committed	11,909,590	4,499,009	2,838,721	290,202	19,537,522
Assigned	2,503,296	-	-	-	2,503,296
Unassigned	14,415,497	-	-	-	14,415,497
Total fund balances	<u>29,455,713</u>	<u>20,488,334</u>	<u>4,378,633</u>	<u>290,202</u>	<u>54,612,882</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 46,802,600</u>	<u>\$ 21,388,254</u>	<u>\$ 4,998,780</u>	<u>\$ 573,203</u>	<u>\$ 73,762,837</u>

CITY OF FALLS CHURCH, VIRGINIA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2016**

Total Fund Balance		\$ 54,612,882
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	\$ 15,258,846	
Depreciable, net	62,397,698	77,656,544
Long-term liabilities, such as due to other governments, are not current financial resources and therefore certain amounts are not reported in the governmental funds.		
		(325,879)
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.		
		3,688,000
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds		
		1,301,428
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources for 2016 employer contributions	\$ 2,147,121	
Deferred outflows of resources for change in assumptions - Basic and Police	1,723,518	
Deferred outflows of resources for change in proportion - Basic Plan	134,148	
Deferred outflows of resources for contribution difference - Basic Plan	1,684,051	
Deferred outflows of resources for the difference between expected experience - VRS	7,763	
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	(1,585,870)	
Deferred inflows of resources for contribution differences - Basic Plan	(66,593)	
Deferred inflows of resources for change in proportion - Basic Plan	(209,653)	
Deferred inflows of resources for the net difference between projected and actual experience on pension plan investments - Basic and Police Plan	(737,193)	
Net pension asset - all plans	7,952,398	11,049,690
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	\$ (54,657,852)	
Premium, discounts and refundings, net of accumulated amortization	(2,539,614)	
Deferred amount on refunding, net of accumulated amortization	415,090	
Capital leases	(60,673)	
Compensated absences	(2,054,139)	(58,897,188)
Interest on long-term liabilities is not accrued in governmental funds, but is recognized as an expenditure when due.		
		(813,333)
Total Net Position - Governmental Activities		\$ 88,272,144

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Special Transportation</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
REVENUES					
General property taxes	\$ 53,951,291	\$ -	\$ -	\$ -	\$ 53,951,291
Other local taxes	15,370,979	-	823,944	-	16,194,923
Permits, privilege fees, and regulatory licenses	1,211,625	-	-	-	1,211,625
Fines and forfeitures	623,251	-	-	-	623,251
Use of money and property	481,230	-	444	935	482,609
Charges for services	2,997,544	-	-	-	2,997,544
Miscellaneous	92,794	-	-	-	92,794
Gifts and contributions	83,824	-	-	-	83,824
Voluntary Concessions	-	2,012,950	-	-	2,012,950
Recovered costs	370,918	-	-	-	370,918
Intergovernmental					
Commonwealth	4,095,314	686,103	873,777	-	5,655,194
Federal	493,177	429,762	-	-	922,939
Total revenues	<u>79,771,947</u>	<u>3,128,815</u>	<u>1,698,165</u>	<u>935</u>	<u>84,599,862</u>
EXPENDITURES					
Current:					
General government	6,858,045	-	-	-	6,858,045
Judicial administration	2,112,412	-	-	-	2,112,412
Public safety	12,071,602	-	-	-	12,071,602
Public works	5,841,732	-	-	-	5,841,732
Health and welfare	2,166,326	-	-	-	2,166,326
Parks, recreation, and cultural	4,794,740	-	-	-	4,794,740
Community development	2,311,668	-	-	-	2,311,668
Economic development	460,337	-	-	-	460,337
Education	38,554,169	-	-	-	38,554,169
Capital outlay	-	5,524,309	2,249,562	-	7,773,871
Debt service:					
Principal retirement	4,053,392	-	-	-	4,053,392
Interest and fiscal charges	1,872,349	-	-	-	1,872,349
Total expenditures	<u>81,096,772</u>	<u>5,524,309</u>	<u>2,249,562</u>	<u>-</u>	<u>88,870,643</u>
Excess (deficiency) of revenues over expenditures	<u>(1,324,825)</u>	<u>(2,395,494)</u>	<u>(551,397)</u>	<u>935</u>	<u>(4,270,781)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from debt issuance	1,367,852	2,300,000	1,000,000	-	4,667,852
Proceeds from capital lease	69,065	-	-	-	69,065
Proceeds from sale of capital assets	88,715	-	-	-	88,715
Transfers in	-	1,122,000	967,514	-	2,089,514
Transfers out	(2,089,514)	-	-	-	(2,089,514)
Total other financing sources (uses)	<u>(563,882)</u>	<u>3,422,000</u>	<u>1,967,514</u>	<u>-</u>	<u>4,825,632</u>
Net change in fund balance	(1,888,707)	1,026,506	1,416,117	935	554,851
FUND BALANCES AT JULY 1	<u>31,344,420</u>	<u>19,461,828</u>	<u>2,962,516</u>	<u>289,267</u>	<u>54,058,031</u>
FUND BALANCES AT JUNE 30	<u>\$ 29,455,713</u>	<u>\$ 20,488,334</u>	<u>\$ 4,378,633</u>	<u>\$ 290,202</u>	<u>\$ 54,612,882</u>

CITY OF FALLS CHURCH, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

Net Change in Fund Balance - Governmental Funds		\$ 554,851
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Capital outlays	\$ 7,020,214	
Depreciation expense	(3,464,534)	
Contributed capital	<u>176,380</u>	3,732,060
<p>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.</p>		
		(49,390)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Debt proceeds	(4,667,852)	
Capital lease proceeds	(69,065)	
Change in deferred inflow of resources	<u>(144,309)</u>	(4,881,226)
<p>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.</p>		
Employer pension contributions	2,147,121	
Pension expense	<u>(1,503,506)</u>	643,615
<p>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.</p>		
		64,517
<p>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.</p>		
		4,053,392
<p>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.</p>		
Change in compensated absences		107,051
<p>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:</p>		
Amortization of discounts and premiums	184,892	
Amortization of gain/loss from refundings	(92,223)	
Change in accrued interest payable	<u>(11,583)</u>	<u>81,086</u>
Change in Net Position - Governmental Activities		<u><u>\$ 4,305,956</u></u>

CITY OF FALLS CHURCH, VIRGINIA

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

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
General property taxes	\$ 53,917,896	\$ 53,917,896	\$ 53,951,291	\$ 33,395
Other local taxes	15,178,000	15,193,600	15,370,979	177,379
Permits, privilege fees, and regulatory licenses	1,484,412	1,484,412	1,211,625	(272,787)
Fines and forfeitures	769,000	769,000	623,251	(145,749)
Use of money and property	332,360	332,360	481,230	148,870
Charges for services	2,902,731	3,002,731	2,997,544	(5,187)
Miscellaneous	88,000	88,000	92,794	4,794
Gifts and contributions	13,000	73,000	83,824	10,824
Recovered costs	289,500	419,500	370,918	(48,582)
Intergovernmental				
Commonwealth	3,986,619	4,019,271	4,095,314	76,043
Federal	246,632	473,215	493,177	19,962
Total revenues	<u>79,208,150</u>	<u>79,772,985</u>	<u>79,771,947</u>	<u>(1,038)</u>
EXPENDITURES				
Current:				
General government	6,828,052	7,390,377	6,858,045	532,332
Judicial administration	2,035,589	2,035,589	2,112,412	(76,823)
Public safety	12,111,528	12,610,507	12,071,602	538,905
Public works	5,410,138	5,965,068	5,841,732	123,336
Health and welfare	2,294,050	2,355,263	2,166,326	188,937
Parks, recreation, and cultural	4,766,057	4,919,757	4,794,740	125,017
Community development	2,088,391	2,291,296	2,311,668	(20,372)
Economic development	462,188	472,296	460,337	11,959
Education	38,448,913	38,554,169	38,554,169	-
Debt service:				
Principal retirement	4,045,000	4,045,000	4,053,392	(8,392)
Interest and fiscal charges	1,785,730	1,923,345	1,872,349	50,996
Total expenditures	<u>80,275,636</u>	<u>82,562,667</u>	<u>81,096,772</u>	<u>1,465,895</u>
Excess (deficiency) of revenues over expenditures	<u>(1,067,486)</u>	<u>(2,789,682)</u>	<u>(1,324,825)</u>	<u>1,464,857</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	834,000	1,157,871	1,367,852	209,981
Proceeds from capital lease	-	-	69,065	69,065
Proceeds from sale of capital assets	-	9,000	88,715	79,715
Transfers out	(2,089,514)	(2,089,514)	(2,089,514)	-
Total other financing sources (uses)	<u>(1,255,514)</u>	<u>(922,643)</u>	<u>(563,882)</u>	<u>358,761</u>
Net change in fund balance	<u>\$ (2,323,000)</u>	<u>\$ (3,712,325)</u>	<u>\$ (1,888,707)</u>	<u>\$ 1,823,618</u>

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2016

	Business-Type Activities – Enterprise Funds		
	Sewer	Storm Water	Totals
ASSETS			
Current assets:			
Cash and investments	\$ 8,953,778	\$ 1,660,702	\$ 10,614,480
Receivables, net	852,756	18,439	871,195
Due from other governments	669,234	-	669,234
Inventories	12,469	6,067	18,536
Restricted cash and cash equivalents	726,979	1,482,187	2,209,166
Total current assets	11,215,216	3,167,395	14,382,611
Noncurrent assets:			
Net OPEB asset	26,000	7,000	33,000
Net pension asset	146,415	235,034	381,449
Capital assets, net	20,299,509	4,943,379	25,242,888
Total noncurrent assets	20,471,924	5,185,413	25,657,337
Total assets	31,687,140	8,352,808	40,039,948
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	75,466	147,387	222,853
Total deferred outflows of resources	75,466	147,387	222,853
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	581,944	192,752	774,696
Accrued interest	122,785	35,301	158,086
Due to other funds	137,190	163,929	301,119
Compensated absences, current	26,313	32,248	58,561
Debt, current	843,089	144,512	987,601
Total current liabilities	1,711,321	568,742	2,280,063
Noncurrent liabilities:			
Compensated absences	10,903	3,580	14,483
Debt	11,842,641	2,491,427	14,334,068
Total noncurrent liabilities	11,853,544	2,495,007	14,348,551
Total liabilities	13,564,865	3,063,749	16,628,614
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	142,348	226,284	368,632
Total deferred inflows of resources	142,348	226,284	368,632
NET POSITION			
Net investment in capital assets	7,896,418	3,701,304	11,597,722
Unrestricted	10,158,975	1,508,858	11,667,833
Total net position	\$ 18,055,393	\$ 5,210,162	\$ 23,265,555

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

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2016

	Business-Type Activities – Enterprise Funds		
	Sewer	Storm Water	Totals
OPERATING REVENUES			
Charges for fees and services	\$ 4,073,248	\$ 1,571,696	\$ 5,644,944
Total operating revenues	<u>4,073,248</u>	<u>1,571,696</u>	<u>5,644,944</u>
OPERATING EXPENSES			
Collection and disposal	1,428,463	397,224	1,825,687
Administration	422,955	585,502	1,008,457
Depreciation and amortization	758,510	247,607	1,006,117
Total operating expenses	<u>2,609,928</u>	<u>1,230,333</u>	<u>3,840,261</u>
Operating income	<u>1,463,320</u>	<u>341,363</u>	<u>1,804,683</u>
NONOPERATING REVENUES (EXPENSES)			
Availability fees	2,124,800	-	2,124,800
Miscellaneous	192	-	192
Interest and investment revenue	83,867	9,538	93,405
Interest expense	<u>(262,569)</u>	<u>(80,337)</u>	<u>(342,906)</u>
Net nonoperating revenues (expenses)	<u>1,946,290</u>	<u>(70,799)</u>	<u>1,875,491</u>
Income before contributions and transfers	3,409,610	270,564	3,680,174
CAPITAL CONTRIBUTIONS	3,500	100,000	103,500
TRANSFERS OUT	-	<u>(64,517)</u>	<u>(64,517)</u>
Change in net position	3,413,110	306,047	3,719,157
NET POSITION AT JULY 1, AS RESTATED (Note 22)	<u>14,642,283</u>	<u>4,904,115</u>	<u>19,546,398</u>
NET POSITION AT JUNE 30	<u>\$ 18,055,393</u>	<u>\$ 5,210,162</u>	<u>\$ 23,265,555</u>

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2016

	Business-type Activities – Enterprise Funds		
	Sewer	Storm water	Totals
OPERATING ACTIVITIES			
Receipts from customers	\$ 4,082,231	\$ 1,598,946	\$ 5,681,177
Interfund reimbursements	(164,574)	(167,571)	(332,145)
Payments to suppliers	(1,404,875)	(168,102)	(1,572,977)
Payments to employees	(501,592)	(727,033)	(1,228,625)
Net cash provided by operating activities	2,011,190	536,240	2,547,430
NONCAPITAL FINANCING ACTIVITIES			
Interfund borrowing	1,961	(94,839)	(92,878)
Net cash provided by (used in) noncapital financing activities	1,961	(94,839)	(92,878)
CAPITAL AND RELATED FINANCING ACTIVITIES			
Availability fees	2,124,800	-	2,124,800
Purchases of capital assets	(1,180,917)	(8,245)	(1,189,162)
Proceeds from long-term debt	707,832	1,164,317	1,872,149
Principal paid on capital debt	(771,876)	(75,000)	(846,876)
Interest paid on capital debt	(475,504)	(78,314)	(553,818)
Net cash provided by capital and related financing activities	404,335	1,002,758	1,407,093
INVESTING ACTIVITIES			
Interest and investment revenue	83,867	9,538	93,405
Net increase in cash and cash equivalents	2,501,353	1,453,697	3,955,050
CASH AND CASH EQUIVALENTS JULY 1	7,179,404	1,689,192	8,868,596
CASH AND CASH EQUIVALENTS JUNE 30	<u>\$ 9,680,757</u>	<u>\$ 3,142,889</u>	<u>\$ 12,823,646</u>
RECONCILIATION TO EXHIBIT 8			
Cash and investments	\$ 8,953,778	\$ 1,660,702	\$ 10,614,480
Restricted cash and cash equivalents	726,979	1,482,187	2,209,166
Total	<u>\$ 9,680,757</u>	<u>\$ 3,142,889</u>	<u>\$ 12,823,646</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 1,463,320	\$ 341,363	\$ 1,804,683
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	758,510	247,607	1,006,117
Pension expense net of employer contributions	(69,425)	(82,731)	(152,156)
Change in assets and liabilities:			
(Increase) decrease in:			
Receivables, net	8,983	210,109	219,092
Inventory	849	(2,032)	(1,183)
Deferred OPEB charges	(2,000)	3,000	1,000
Increase (decrease) in:			
Accounts payable, other liabilities, and OPEB	(143,322)	10,373	(132,949)
Compensated absences	(5,725)	(8,590)	(14,315)
Net cash provided by operating activities	<u>\$ 2,011,190</u>	<u>\$ 719,099</u>	<u>\$ 2,730,289</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Developer contributions	\$ 3,500	\$ 100,000	\$ 103,500
Capital asset purchases included in accounts payable	\$ 376,009	\$ 125,463	\$ 501,472
Capitalized interest	\$ 181,674	\$ -	\$ 181,674
Capital assets transferred within the City	\$ -	\$ (64,517)	\$ (64,517)

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2016

	Post-Employment Trust Funds			
	Basic Pension Plan	Police Pension Plan	Other Post- Employment Benefits	Agency Funds
ASSETS				
Cash and cash equivalents	\$ 1,356,582	\$ 435,335	\$ 83,564	\$ 4,331,556
Investments	88,163,472	26,520,200	10,767,503	-
Contributions receivable	128,563	36,899	-	-
Interest and dividends receivable	-	6,668	-	-
Receivables, net	-	-	-	869,232
Total assets	<u>89,648,617</u>	<u>26,999,102</u>	<u>10,851,067</u>	<u>5,200,788</u>
LIABILITIES				
Accounts payable	108,022	30,816	1,045	-
Due to general fund	298,526	92,131	1,053,921	61,642
Amounts held for others	-	-	-	5,139,146
Total liabilities	<u>406,548</u>	<u>122,947</u>	<u>1,054,966</u>	<u>5,200,788</u>
NET POSITION				
Held in trust for:				
Pension benefits	89,242,069	26,876,155	-	-
Other post-employment benefits	-	-	9,796,101	-
Total net position restricted for post-employment benefits	<u>\$ 89,242,069</u>	<u>\$ 26,876,155</u>	<u>\$ 9,796,101</u>	<u>\$ -</u>

CITY OF FALLS CHURCH, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2016**

	<u>Basic Pension Plan</u>	<u>Police Pension Plan</u>	<u>Other Post- Employment Benefits</u>
ADDITIONS			
Employer contributions	\$ 1,972,956	\$ 751,332	\$ 1,022,011
Employee contributions	789,920	250,909	-
Investment earnings:			
Interest	14,178	55,780	269
Dividends	1,093,939	314,604	197,885
Net decrease in fair value of investments	(153,612)	(37,994)	(233,773)
Total investment earnings	954,505	332,390	(35,619)
Less investment expenses	(469,701)	(136,776)	(9,900)
Net investment earnings	484,804	195,614	(45,519)
 Total additions	 <u>3,247,680</u>	 <u>1,197,855</u>	 <u>976,492</u>
DEDUCTIONS			
Benefits	4,561,229	1,041,507	386,713
Administration	55,037	20,046	66
 Total deductions	 <u>4,616,266</u>	 <u>1,061,553</u>	 <u>386,779</u>
 Change in net position	 (1,368,586)	 136,302	 589,713
NET POSITION AT JULY 1	<u>90,610,655</u>	<u>26,739,853</u>	<u>9,206,388</u>
NET POSITION AT JUNE 30	<u>\$ 89,242,069</u>	<u>\$ 26,876,155</u>	<u>\$ 9,796,101</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Likewise, the primary government is reported separately from its component units.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

Fair Value Measurements

The government categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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 tax 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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

Inventories and Prepays

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.

Real Estate and Business Personal Property Taxes

The City bills real estate taxes on a fiscal 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 6 and December 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 fiscal year 2016 was \$1.315, 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 2016 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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets (Continued)

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.

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 five items that qualify for reporting in this category related to the pension. 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 item related to pensions is changes in assumptions when determining the net pension asset or liability. The final three items related to pensions are the net difference between projected and actual experience of the pension plans, the difference between each employer's actual contributions, and changes in proportionate shares. These differences 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 three years for the Basic Plan and five years for the Police Plan.

The City also recognizes a deferred outflow for the 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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 six 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 final three items are the net difference between projected and actual experience of the pension plans, changes in proportionate shares, and the difference between each employer's actual contributions. These differences 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 three years for the Basic Plan and five 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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 \$275,046 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 2016, the City paid the CSB approximately \$685 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 2016, the City paid approximately \$833 thousand for these services.

The City uses Fairfax’s landfills for waste disposal and charges are based on tipping fees. During 2016, the City paid approximately \$120 thousand.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2. Intergovernmental Agreements (Continued)

County of Fairfax (Continued)

The City has an agreement with Fairfax to share in the cost of its sewage treatment facilities. During 2016, the City paid approximately \$760 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 2016. 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 \$789 thousand in 2016 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 2016, the City paid Arlington approximately \$2.6 million for fire and rescue services, \$521 thousand for jail services, \$574 thousand for E-911 and radio bandwidth services, and \$455 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 2016 amounted to approximately \$672 thousand.

The City has an agreement with Arlington to share in the cost of its sewage treatment facilities. During 2016, the City paid Arlington approximately \$414 thousand, of which \$412 thousand is for operating costs and \$2 thousand is for major upgrades to the treatment facilities. \$412 thousand is recorded as an expense and \$2 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 2016, Fairfax Water billed \$3.8 million in sewer fees and remitted \$4.1 million to the City. The City paid Fairfax Water \$104 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 2016, the City paid NVCJA approximately \$49 thousand for its share of operating and debt service costs.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 2016, the City received approximately \$824 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 2016, the City's required contributions amounted to approximately \$2.9 million. The City received \$1.2 million from the Virginia Department of Rail and Public Transportation to pay for this obligation. The remaining \$1.7 million came from tax revenue and other sources. Complete financial statements of WMATA may be obtained at 600 5th Street, NW, Washington, DC 20001.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 \$1.4 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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 5.5% of the portfolio was invested in LGIP, 55.1% was invested in SNAP, and 39.4% 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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S & P Credit Rating</u>
Primary Government:		
LGIP	\$ 2,114,663	AAAm
SNAP	21,291,371	AAAm
VML	<u>15,236,729</u>	AAf
Primary government investments	<u>38,642,763</u>	
Component Unit – School Board:		
LGIP	2,673,656	AAAm
Component Unit – EDA:		
LGIP	<u>1,949,494</u>	AAAm
Component unit investments	<u>4,623,150</u>	
Total investments	<u>\$ 43,265,913</u>	

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 36,460,789	\$ 13,247	\$ -
LGIP	2,114,663	2,673,656	1,949,494
SNAP	21,291,371	-	-
VML	15,236,729	-	-
	\$ 75,103,552	2,686,903	\$ 1,949,494

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

Statement of net position:			
Cash and investments	\$ 53,812,181	\$ 2,686,903	\$ 1,949,494
Restricted cash and cash equivalents	21,291,371	-	-
	\$ 75,103,552	\$ 2,686,903	\$ 1,949,494

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	\$ 1,875,480
Domestic equities	65,492,945
Domestic fixed income	21,062,513
International equities	24,460,503
Real estate investment trusts	6,695,422
Infrastructure	7,739,793
Total cash, cash equivalents, and investments	\$ 127,326,656

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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:

	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 4. Deposits and Investments (Continued)

Post-Employment Trust Funds (Continued)

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

Concentration of Credit Risk:

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

	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
Domestic equities	49%	63%	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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 4. Deposits and Investments (Continued)

Fair Value:

The City and Schools categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City and Schools have the following recurring fair value measurements as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks/equity securities:				
Health Care	\$ 4,568,238	\$ -	\$ -	\$ 4,568,238
Financials	5,167,456	-	-	5,167,456
Industrial Goods	2,453,754	-	-	2,453,754
Basic Materials	5,179,156	-	-	5,179,156
Information Technology	7,283,228	-	-	7,283,228
Utilities	349,056	-	-	349,056
Consumer Goods	3,595,839	-	-	3,595,839
Services	3,967,237	-	-	3,967,237
International (MFS)	24,434,290	6,322,890	-	30,757,180
Insurance Services	-	-	1,195,042	1,195,042
Mutual funds	29,285,212	-	-	29,285,212
Property funds	-	-	6,695,422	6,695,422
	<u>\$ 86,283,466</u>	<u>\$ 6,322,890</u>	<u>\$ 7,890,464</u>	<u>\$ 100,496,820</u>

Mutual funds and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Equity securities classified in Level 2 of the fair value hierarchy are valued using quoted prices for similar securities, interest rates, prepayment speed and credit risk. Level 3 investments use unobservable inputs for valuations of real estate and debt including pricing models and discounted cash flow models.

Net Asset Value

Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy per a provision of GASB Statement 72, *Fair Value Measurement and Application*. The following investments are valued at NAV:

<u>Investment</u>	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
MFB NT Collective Investments	\$ 17,214,562	Quarterly	30-60 days
Lazard Global Listed Infrastructure Trust	7,739,793	Quarterly	30-60 days
	<u>\$ 24,954,355</u>		

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 5. Receivables

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Receivables:			
Accounts-Billed	\$ 1,675,805	\$ 419,195	\$ 2,095,000
Accounts-Unbilled	-	558,000	558,000
Other	717,223	-	717,223
Property taxes:			
Delinquent	1,546,521	-	1,546,521
Not yet due	5,289,997	-	5,289,997
Total receivables	<u>9,229,546</u>	<u>977,195</u>	<u>10,206,741</u>
Allowances for uncollectibles:			
Accounts receivable	(1,517,230)	(106,000)	(1,623,230)
Property taxes:			
Delinquent	(260,500)	-	(260,500)
Not yet due	(70,000)	-	(70,000)
Total allowances for uncollectibles	<u>(1,847,730)</u>	<u>(106,000)</u>	<u>(1,953,730)</u>
Total net receivables	<u>\$ 7,381,816</u>	<u>\$ 871,195</u>	<u>\$ 8,253,011</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ -	\$ -	\$ 464,843
Local sales tax	779,794	-	-
Communication tax	135,895	-	-
Transportation funds	774,509	-	-
Grants for capital projects	34,068	-	-
Other state funds	101,094	-	-
Total	<u>1,825,360</u>	<u>-</u>	<u>464,843</u>
Federal			
Grants for capital projects	182,127	-	-
Other federal funds	118,382	-	41,649
Total	<u>300,509</u>	<u>-</u>	<u>41,649</u>
Other governments			
Fairfax County	-	513,248	-
Arlington County	107,416	155,986	-
Fairfax Water Authority	30,024	-	-
Other	22,463	-	-
Total	<u>159,903</u>	<u>669,234</u>	<u>-</u>
Total due from other governments	<u>\$ 2,285,772</u>	<u>\$ 669,234</u>	<u>\$ 506,492</u>

Amounts due to other governments of \$43,088 on the fund statements and \$368,967 in governmental activities consist of amounts owed to Arlington, the Department of Motor Vehicles and Northern Virginia Transportation Authority.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 1,613,564	\$ 5,283,623
Capital Projects	50,000	-
Major Proprietary Funds:		
Sewer	-	137,190
Storm water	-	163,929
Major Component Units:		
School Board	5,177,399	-
EDA	250,000	-
Fiduciary Funds:		
OPEB Benefits	-	1,250,803
School OPEB Benefits	-	193,776
Agency	-	61,642
	\$ 7,090,963	\$ 7,090,963

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	\$ -	\$ 2,089,514
Governmental activities	64,517	-
Capital projects	1,122,000	-
Special transportation	967,514	-
Storm water	-	64,517
	\$ 2,154,031	\$ 2,154,031

The majority of amounts transferred relate to capital asset activity.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 by the Economic Development Authority :

	Due To	Due From
Primary Government: General fund	\$ -	\$ 5,233,623
Component Units:		
School Board	4,983,623	-
EDA	250,000	-
	\$ 5,233,623	\$ 5,233,623

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Capital Assets

Capital asset activity was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital asset, non-depreciable:				
Land	\$ 9,561,488	\$ -	\$ -	\$ 9,561,488
Construction in progress	3,317,175	3,051,025	(670,842)	5,697,358
Total capital assets, non-depreciable	<u>12,878,663</u>	<u>3,051,025</u>	<u>(670,842)</u>	<u>15,258,846</u>
Capital assets, being depreciated:				
Buildings and systems	76,482,133	38,836	-	76,520,969
Machinery and equipment	14,765,196	1,709,023	(1,311,926)	15,162,293
Improvements other than buildings	5,446,296	1,393,305	(564,453)	6,275,148
Infrastructure	5,564,899	1,475,085	(107,893)	6,932,091
Intangibles	1,516,388	8,924	-	1,525,312
Library collections	2,141,122	247,402	(348,524)	2,040,000
Total capital assets, depreciable	<u>105,916,034</u>	<u>4,872,575</u>	<u>(2,332,796)</u>	<u>108,455,813</u>
Less accumulated depreciation for:				
Buildings and systems	(24,775,863)	(1,825,900)	1,290	(26,600,473)
Machinery and equipment	(10,174,254)	(940,250)	1,307,942	(9,806,562)
Improvements other than buildings	(3,483,957)	(319,306)	549,049	(3,254,214)
Infrastructure	(3,427,829)	(128,135)	76,603	(3,479,361)
Intangibles	(1,476,283)	(18,065)	-	(1,494,348)
Library collections	(1,538,801)	(232,878)	348,522	(1,423,157)
Total accumulated depreciation	<u>(44,876,987)</u>	<u>(3,464,534)</u>	<u>2,283,406</u>	<u>(46,058,115)</u>
Total capital assets, depreciable, net	<u>61,039,047</u>	<u>1,408,041</u>	<u>(49,390)</u>	<u>62,397,698</u>
Capital assets, net	<u>\$ 73,917,710</u>	<u>\$ 4,459,066</u>	<u>\$ (720,232)</u>	<u>\$ 77,656,544</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
<u>Sewer fund:</u>				
Capital assets, non-depreciable:				
Construction in progress	\$ 3,656,227	\$ 970,476	\$ (20,000)	\$ 4,606,703
Total capital assets, non-depreciable	3,656,227	970,476	(20,000)	4,606,703
Capital assets, depreciable:				
Building and systems	6,876,585	629,691	-	7,506,276
Machinery and equipment	170,905	3,791	-	174,696
Purchased capacity	15,549,719	20,000	-	15,569,719
Other intangibles	9,900	-	-	9,900
Total capital assets, depreciable	22,607,109	653,482	-	23,260,591
Less accumulated depreciation for:				
Building and systems	(2,273,849)	(123,533)	-	(2,397,382)
Machinery and equipment	(161,905)	(1,395)	-	(163,300)
Purchased capacity	(4,363,621)	(633,582)	-	(4,997,203)
Other intangibles	(9,900)	-	-	(9,900)
Total accumulated depreciation	(6,809,275)	(758,510)	-	(7,567,785)
Total capital assets depreciable, net	15,797,834	(105,028)	-	15,692,806
Capital assets, net	<u>\$ 19,454,061</u>	<u>\$ 865,448</u>	<u>\$ (20,000)</u>	<u>\$ 20,299,509</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
<u>Storm Water fund:</u>				
Capital asset, non-depreciable:				
Construction in progress	\$ 54,496	\$ -	\$ (54,496)	\$ -
Total capital assets, non-depreciable	54,496	-	(54,496)	-
Capital assets, depreciable:				
Machinery and equipment	400,231	6,000	-	406,231
Improvements other than buildings	1,845,706	29,950	-	1,875,656
Infrastructure	6,187,218	178,104	-	6,365,322
Total capital assets, depreciable	8,433,155	214,054	-	8,647,209
Less accumulated depreciation for:				
Machinery and equipment	(52,908)	(29,922)	-	(82,830)
Improvements other than buildings	(15,381)	(92,285)	-	(107,666)
Infrastructure	(3,387,934)	(125,400)	-	(3,513,334)
Total accumulated depreciation	(3,456,223)	(247,607)	-	(3,703,830)
Total capital assets depreciable, net	4,976,932	(33,553)	-	4,943,379
Capital assets, net	5,031,428	(33,553)	(54,496)	4,943,379
Business-type capital assets, net	<u>\$ 24,485,489</u>	<u>\$ 831,895</u>	<u>\$ (74,496)</u>	<u>\$ 25,242,888</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	<u>1,273,354</u>	<u>-</u>	<u>-</u>	<u>1,273,354</u>
Capital assets, depreciable:				
Buildings and systems	1,192,682	-	-	1,192,682
Machinery and equipment	3,558,777	326,764	(116,159)	3,769,382
Improvements other than buildings	367,722	-	-	367,722
Library collections	737,244	44,054	(248,375)	532,923
Intangibles	7,996	-	-	7,996
Leasehold improvements	21,080	-	-	21,080
Total capital assets, depreciable	<u>5,885,501</u>	<u>370,818</u>	<u>(364,534)</u>	<u>5,891,785</u>
Less accumulated depreciation for:				
Buildings and systems	(391,437)	(31,993)	-	(423,430)
Machinery and equipment	(2,064,326)	(308,674)	116,159	(2,256,841)
Improvements other than buildings	(46,763)	(18,561)	-	(65,324)
Library collections	(629,438)	(46,286)	248,375	(427,349)
Intangibles	(7,996)	-	-	(7,996)
Leasehold improvements	(12,999)	(2,108)	-	(15,107)
Total accumulated depreciation	<u>(3,152,959)</u>	<u>(407,622)</u>	<u>364,534</u>	<u>(3,196,047)</u>
Total capital assets, depreciable, net	<u>2,732,542</u>	<u>(36,804)</u>	<u>-</u>	<u>2,695,738</u>
Capital assets, net	<u>\$ 4,005,896</u>	<u>\$ (36,804)</u>	<u>\$ -</u>	<u>\$ 3,969,092</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Primary Government - Governmental activities:	
General government	\$ 230,554
Judicial administration	65,967
Public safety	455,682
Public works	478,283
Health and welfare	958
Education	1,638,524
Parks, recreation, and cultural	571,545
Community development	23,021
Total governmental activities	<u>\$ 3,464,534</u>
Primary Government – Business-type activities:	
Sewer	\$ 758,510
Storm Water	247,607
Total business-type activities	<u>\$ 1,006,117</u>
Component Unit – School Board:	
Education	<u>\$ 407,622</u>

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:

	<u>Governmental Activities</u>	<u>Governmental Funds</u>
Unavailable		
Delinquent property taxes	\$ -	\$ 835,440
Other	-	465,988
Unearned		
Property taxes not yet due	5,289,996	5,289,996
Other	193,245	193,245
Total unavailable/unearned revenue	<u>\$ 5,483,241</u>	<u>\$ 6,784,669</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 9. Unavailable/Unearned Revenue (Continued)

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

Note 10. Long-Term Liabilities

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

Primary Government

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
General obligation bonds	\$ 54,035,000	\$ 4,667,852	\$ 4,045,000	\$ 54,657,852	\$ 4,543,230
Bond premiums and discounts, net	2,724,506	-	184,892	2,539,614	-
Capital leases	-	69,065	8,392	60,673	14,601
Compensated absences	<u>2,161,190</u>	<u>2,001,719</u>	<u>2,108,770</u>	<u>2,054,139</u>	<u>1,417,050</u>
Total long-term liabilities	<u>\$ 58,920,696</u>	<u>\$ 6,738,636</u>	<u>\$ 6,347,054</u>	<u>\$ 59,312,278</u>	<u>\$ 5,974,881</u>
<u>Business-type Activities:</u>					
Sewer fund:					
General obligation bonds	\$ 7,652,085	\$ 707,832	\$ 379,051	\$ 7,980,866	\$ 436,224
Revenue bonds	2,077,008	-	171,029	1,905,979	176,198
Notes payable	2,662,896	-	221,795	2,441,101	230,667
Bond premiums and discounts, net	380,341	-	22,557	357,784	-
Compensated absences	<u>42,941</u>	<u>33,577</u>	<u>39,302</u>	<u>37,216</u>	<u>26,313</u>
	<u>\$ 12,815,271</u>	<u>\$ 741,409</u>	<u>\$ 833,734</u>	<u>\$ 12,722,946</u>	<u>\$ 869,402</u>
Storm water fund:					
General obligation bonds	\$ 1,445,000	\$ 1,164,317	\$ 75,000	\$ 2,534,317	\$ 144,512
Bond premiums and discounts, net	107,444	-	5,822	101,622	-
Compensated absences	<u>44,418</u>	<u>55,535</u>	<u>64,125</u>	<u>35,828</u>	<u>32,248</u>
	<u>\$ 1,596,862</u>	<u>\$ 1,219,852</u>	<u>\$ 144,947</u>	<u>\$ 2,671,767</u>	<u>\$ 176,760</u>
Total long-term liabilities	<u>\$ 14,412,133</u>	<u>\$ 1,961,261</u>	<u>\$ 978,681</u>	<u>\$ 15,394,713</u>	<u>\$ 1,046,162</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 10. Long-Term Liabilities (Continued)

<u>Component Unit- School Board:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Termination benefits	\$ 2,954,000	\$ 4,000	\$ 367,000	\$ 2,591,000	\$ 421,000
Compensated absences	1,197,938	20,022	-	1,217,960	511,466
Other long-term obligations	735,378	-	366,790	368,588	368,588
Capital leases	277,354	-	68,074	209,280	69,982
Total long-term liabilities	<u>\$ 5,164,670</u>	<u>\$ 24,022</u>	<u>\$ 801,864</u>	<u>\$ 4,386,828</u>	<u>\$ 1,371,036</u>

Annual debt service requirements to maturity are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>					
	<u>General Obligation Bonds</u>		<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 4,543,230	\$ 1,720,116	\$ 580,736	\$ 355,299	\$ 176,198	\$ 55,868	\$ 230,667	\$ 97,644
2018	4,645,694	1,576,530	568,446	336,699	181,524	50,542	239,894	88,417
2019	4,715,694	1,448,949	578,758	319,331	187,011	45,056	249,489	78,822
2020	4,730,694	1,324,992	594,212	300,138	192,663	39,403	259,469	68,842
2021	4,780,694	1,183,362	609,811	278,491	198,486	33,580	269,848	58,463
2022-2026	17,455,135	4,000,871	3,223,415	1,048,699	970,097	74,201	1,191,734	121,509
2027-2031	8,719,029	2,104,575	3,162,488	457,988	-	-	-	-
2032-2036	5,067,682	305,123	1,197,317	62,538	-	-	-	-
	<u>\$ 54,657,852</u>	<u>\$ 13,664,518</u>	<u>\$ 10,515,183</u>	<u>\$ 3,159,183</u>	<u>\$ 1,905,979</u>	<u>\$ 298,650</u>	<u>\$ 2,441,101</u>	<u>\$ 513,697</u>

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:

	<u>Component-Unit School Board</u>
2017	<u>\$ 370,394</u>
Total lease payments	370,394
Less amount representing interest	<u>(1,806)</u>
	<u>\$ 368,588</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 3,880,000	\$ -
General obligation	2.00-4.00%	03/06/2012	08/01/2024	\$ 15,300,000	13,930,000	-
General obligation	2.00-3.00%	12/22/2011	01/15/2032	\$ 8,570,000	4,430,000	-
General obligation	2.00-5.00%	12/18/2013	07/01/2033	\$ 17,620,000	13,955,000	1,555,000
General obligation	2.00-5.00%	12/23/2014	07/15/2030	\$ 11,740,000	9,880,000	1,270,000
General obligation	1.48%	08/31/2015	07/15/2020	\$ 1,180,000	1,180,000	-
General obligation	2.31%	08/31/2015	07/15/2035	\$ 5,360,000	3,487,852	1,872,149
VRA bond	2.13-5.13%	10/01/2011	10/01/2031	\$ 3,125,000	-	2,715,000
VRA line of credit	3.35%	05/13/2009	09/01/2029	\$ 4,100,000	-	3,103,034
VPSA bond	4.60-6.10%	05/02/1996	01/15/2017	\$ 2,445,000	110,000	-
VPSA bond	4.10-5.10%	05/11/2006	07/15/2026	\$ 1,935,000	1,045,000	-
VPSA bond	4.25%	12/15/2011	12/01/2030	\$ 3,000,000	2,760,000	-
					<u>\$ 54,657,852</u>	<u>\$ 10,515,183</u>
Sewer revenue bond	3.00%	01/01/2006	07/01/2025	\$ 3,275,000	<u>\$ -</u>	<u>\$ 1,905,979</u>
Note payable – Fairfax	4.00%	06/30/2000	06/30/2025	\$ 5,005,000	<u>\$ -</u>	<u>\$ 2,441,101</u>

Revenue Bonds

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

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, 2016 was \$3,360,000.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 10. Long-Term Liabilities (Continued)

Obligations Under Capital Leases

The City leased equipment and vehicles under various capital leases expiring at various dates through 2020. The assets acquired have a cost of \$300,858 and accumulated depreciation of \$242,153, resulting in a net book value of \$58,705. The present value of minimum lease payments is \$60,673.

The School Board leased equipment, vehicles and buses under various capital leases expiring at various dates through 2019. The assets acquired have a cost of \$848,774 and accumulated depreciation of \$613,201, resulting in a net book value of \$235,573. The present value of minimum lease payments is \$209,280.

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 the Uniform Guidance, *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 effect on its financial condition.

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

<u>Project</u>	<u>Amount Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities:		
Bus shelters	\$ 93,420	\$ 101,365
Component Unit – School Board:		
Thomas Jefferson Elementary School HVAC Upgrade	362,000	938,000
Total	<u>\$ 455,420</u>	<u>\$ 1,039,365</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 \$8 thousand to the City and approximately \$334 thousand to the School Board. The future minimum lease payments for the City and School Board leases are shown below:

		<u>Component Unit</u>		
	<u>City</u>	<u>School Board</u>		
2017	\$ 8,330	\$ 346,949		
2018	4,900	360,306		
2019	4,900	374,178		
2020	1,633	-		
Total	<u>\$ 19,763</u>	<u>\$ 1,081,433</u>		

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2015 were as follows:

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

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 2016 and 2015, the total contributions rate was 12.86% and 14.11% 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 27.34% and 29.55% for 2016 and 2015, 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, 2016 and 2015 amounted to \$1,972,491 and \$8,344,320, 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 13.13% and 57.59% of covered payroll for the years 2016 and 2015, 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, 2016 and 2015 amounted to \$751,332 and \$3,593,989, 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 29.55% and 141.59% of covered payroll for the years 2016 and 2015, respectively. Included in the 2015 contribution is \$2.9 million contributed using proceeds from the sale of the water system.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 12. Basic and Police Pension Plans (Continued)

Investments

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.

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, 2015, using the following relevant actuarial information:

	<u>Basic</u>	<u>Police</u>
Actuarial valuation date	June 30, 2013	June 30, 2013
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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2014	\$ 80,787,616	\$ 82,802,021	\$ (2,014,405)
Changes for the year:			
Service cost	1,605,981	-	1,605,981
Interest	5,618,010	-	5,618,010
Differences between expected and actual experience	(523,443)	-	(523,443)
Contributions – employer	-	8,345,532	(8,345,532)
Contributions – employee	-	724,853	(724,853)
Net investment income	-	3,081,767	(3,081,767)
Benefit payments	(4,272,618)	(4,272,618)	-
Administrative expenses	-	(70,902)	70,902
Net changes	2,427,930	7,808,632	(5,380,702)
Balances at June 30, 2015	\$ 83,215,546	\$ 90,610,653	\$ (7,395,107)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 12. Basic and Police Pension Plans (Continued)

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a) – (b)
Balances at June 30, 2014	\$ 23,558,049	\$ 23,110,756	\$ 447,293
Changes for the year:			
Service cost	493,645	-	493,645
Interest	1,648,907	-	1,648,907
Differences between expected and actual experience	(57,083)	-	(57,083)
Contributions – employer	-	3,593,989	(3,593,989)
Contributions – employee	-	177,685	(177,685)
Net investment income	-	871,317	(871,317)
Benefit payments	(991,773)	(991,773)	-
Administrative expenses	-	(22,126)	22,126
Net changes	1,093,696	3,629,092	(2,535,396)
Balances at June 30, 2015	\$ 24,651,745	\$ 26,739,848	\$ (2,088,103)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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)	\$ 2,424,525	\$ (7,395,107)	\$ (15,618,005)
Plan fiduciary net position as a percentage of the total pension liability (asset)	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 (asset)	96.1%	108.5%	121.5%

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

For the year ended June 30, 2016, pension expense was \$580,995 and \$297,704 for the Basic and Police Plans, respectively. At June 30, 2016, 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	\$ -	\$ 889,373
Change in assumptions	1,394,220	-
Net difference between projected and actual earnings on pension plan investments	-	1,553,370
Employer contributions subsequent to the measurement date	1,972,491	-
	<u>\$ 3,366,711</u>	<u>\$ 2,442,743</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ -	\$ 142,948
Change in assumptions	791,954	-
Net difference between projected and actual earnings on pension plan investments	-	422,094
Employer contributions subsequent to the measurement date	751,332	-
	\$ 1,543,286	\$ 565,042

Employer contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2017. 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,	Increase (Decrease) to Pension Expense	
	Basic	Police
2017	\$ (30,263)	\$ 23,354
2018	(884,072)	23,354
2019	(709,593)	23,354
2020	575,405	156,850
Thereafter	-	-

Payables to the Pension Plans

At June 30, 2016, payables to the Basic and Police Pension Plans totaled \$105,986 and \$36,898, respectively.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 72% and 19% 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 changed from the previous year with a 1% decrease in the City share and a 1% increase in the School Board share. 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, 2015, the date of the most recent valuation, was as follows:

	<u>City</u>	<u>Schools</u>
Retirees and beneficiaries	161	42
Terminated vested members	57	15
Active members	195	51
Total	<u>413</u>	<u>108</u>

Contributions

Total contributions to the basic pension plan for the year ended June 30, 2016 amounted to \$1,446,667 for the City and \$346,038 for the Schools. Contributions made by the City and Schools represent 13.22% and 12.88% of covered payroll for the year, respectively.

Changes in Net Pension Liability/(Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/ (Asset)
	(a)	(b)	(a) – (b)
Basic Plan - City			
Balances at June 30, 2014	\$ 58,902,654	\$ 60,334,326	\$ (1,431,672)
Changes for the year:			
Service cost	1,155,894	-	1,155,894
Interest	4,043,524	-	4,043,524
Differences between expected and actual experience	(376,744)	-	(376,744)
Contributions – employer	-	7,770,179	(7,770,179)
Contributions – employee	-	521,708	(521,708)
Net investment income	-	472,723	(472,723)
Benefit payments, including refunds of employee contributions	(3,075,187)	(3,078,187)	-
Administrative expenses	-	(51,031)	51,031
Net changes	<u>1,747,487</u>	<u>5,638,392</u>	<u>(3,890,905)</u>
Balances at June 30, 2015	<u>\$ 60,650,141</u>	<u>\$ 65,972,718</u>	<u>\$ (5,322,577)</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2014	\$ 14,838,989	\$ 15,233,035	\$ (394,046)
Changes for the year:			
Service cost	301,910	-	301,910
Interest	1,056,135	-	1,056,135
Differences between expected and actual experience	(98,403)	-	(98,403)
Contributions – employer	-	386,087	(386,087)
Contributions – employee	-	136,266	(136,266)
Net investment income	-	1,746,783	(1,746,783)
Benefit payments, including refunds of employee contributions	(803,214)	(803,214)	-
Administrative expenses	-	(13,329)	13,329
Net changes	456,428	1,452,593	(996,165)
Balances at June 30, 2015	\$ 15,295,417	\$ 16,685,628	\$ (1,390,211)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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:

	<u>1% Decrease 6.00%</u>	<u>Discount Rate 7.00%</u>	<u>1% Increase 8.00%</u>
Basic Plan - City			
Net pension liability (asset)	\$ 1,745,035	\$ (5,322,576)	\$ (11,240,951)
Plan fiduciary net position as a percentage of the total pension liability (asset)	97.4 %	108.9 %	120.8 %
Basic Plan - Schools			
Net pension liability (asset)	\$ 455,788	\$ (1,390,211)	\$ (2,936,038)
Plan fiduciary net position as a percentage of the total pension liability (asset)	97.4 %	108.9 %	120.8 %

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

For the year ended June 30, 2016, the City and Schools recognized pension expense (income) of \$1,180,177 and (\$404,324), respectively. At June 30, 2016, the City and Schools reported deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>City</u>	<u>Schools</u>	<u>City</u>	<u>Schools</u>
Differences between expected and actual experience	\$ -	\$ -	\$ 640,120	\$ 167,194
Change in assumptions	1,003,480	262,100	-	-
Change in proportion	188,950	18,977	209,653	7,207
Contribution difference	1,684,051	-	309,225	923,184
Net difference between projected and actual earnings on investments	-	-	1,118,027	292,019
Employer contributions subsequent to the measurement date	1,446,667	346,038	-	-
	<u>\$ 4,323,148</u>	<u>\$ 627,115</u>	<u>\$ 2,277,025</u>	<u>1,389,604</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2017. 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,	Increase (Decrease) to Pension Expense	
	Basic - City	Basic - Schools
2017	\$ 740,230	\$ (519,235)
2018	(44,193)	(564,066)
2019	(510,724)	(133,397)
2020	414,143	108,171
Thereafter	-	-

Payables to the Pension Plans

At June 30, 2016, payables to the Basic Pension Plan from the City and Schools totaled \$76,124 and \$19,988, 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 an agent multiple-employer plan 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. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 is as follows:

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.

- **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.
- **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.
- **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.
- **Vesting** – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit** – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

(Continued)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Plan Description (Continued)

Plan 1 (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.
- **Service Retirement Multiplier** – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age** – Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service, for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. 50 with at least five years of creditable service for hazardous duty employees.
- **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%.
- **Disability Coverage** for 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.

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.

- **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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Plan Description (Continued)

Plan 2 (Continued)

- **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.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – 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. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Plan Description (Continued)

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

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes 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 and 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.
- **Retirement Contributions** – A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
- **Creditable Service** –
 - **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service and is generally subject to the same terms as in Plans 1 and 2.
 - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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. 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 –**
 - **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.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** 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. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
 - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Earliest Unreduced Retirement Eligibility –**
 - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
- **Earliest Reduced Retirement Eligibility –**
 - **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement**
 - **Defined Benefit Component:** Same as Plan 2.
- **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 an 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.
- **Purchase of Prior Service –** As with Plans 1 and 2, members may choose to purchase prior service credits subject to the Plan provisions.

Employees Covered by Benefit Terms

As of the June 30, 2014 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	3
Inactive members active elsewhere in VRS	3
Total inactive members	11
Active members	19
Total covered employees	41

(Continued)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (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 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, 2016 was 4.16% 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 employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$45,257 and \$51,386 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The political subdivision’s net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision’s Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

Inflation	2.50%
General Employees - Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees - Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Actuarial Assumptions (Continued)

Mortality rates: General employees - 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2014 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:

General Employees - Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

Public Safety Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; adjustment to rates of service retirement for females (Non 10 Largest); decrease in rates of male disability (Largest 10, only); decrease in male and female rates of disability (Non 10 Largest) increase in rates of withdrawal, and reduce rates of salary increase by 0.25% per year.

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:

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Long-Term Expected Rate of Return (Continued)

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
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 %		<u>5.83 %</u>
	Inflation		<u>2.50 %</u>
	Expected arithmetic nominal return		<u>8.33 %</u>

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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Changes in Net Pension Liability/(Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) (a) – (b)
Balances at June 30, 2014	\$ 3,724,907	\$ 4,735,113	\$ (1,010,206)
Changes for the year:			
Service cost	125,830	-	125,830
Interest	255,657	-	255,657
Differences between expected and actual experience	11,357	-	11,357
Contributions – employer	-	32,780	(32,780)
Contributions – employee	-	59,345	(59,345)
Net investment income	-	216,702	(216,702)
Benefit payments, including refunds of employee contributions	(145,323)	(145,323)	-
Administrative expenses	-	(2,977)	2,977
Other changes	-	(45)	45
Net changes	247,521	160,482	87,039
Balances at June 30, 2015	\$ 3,972,428	\$ 4,895,595	\$ (923,167)

Sensitivity of the Net Pension Liability (Asset) 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)	\$ (459,151)	\$ (923,167)	\$ (1,313,324)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$125,874. At June 30, 2016, 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	\$ 7,763	\$ -
Net difference between projected and actual earnings on pension plan investments	-	125,874
Employer contributions subsequent to the measurement date	45,257	-
Total	\$ 53,020	\$ 125,874

The \$45,257 reported as 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, 2017. 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
2017	\$ (45,882)
2018	(45,882)
2019	(48,903)
2020	22,556

Payables to the Pension Plan

At June 30, 2016, approximately \$5,451 was payable to the Virginia Retirement System for the legally required contributions related to June 2016 payroll.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

General Information about the Teacher Cost Sharing Plan

Plan Description

All full-time, salaried permanent (professional) employees of Virginia school divisions, including Falls Church Public Schools, (the “School Division”), are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is a multiple employer cost-sharing plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia.

Prior to the adoption of GASB Statement No. 68 in fiscal year 2015, Virginia local school divisions were required to disclose information about their contributions to the teacher cost-sharing plan, but not report a proportionate share of the plan’s net pension liability. Upon adoption of the new pension standards in 2015, the School Division now reports its proportionate share of the plan’s net pension liability as well as certain other deferred inflows and/or outflows as disclosed below.

Plan participants are covered under three different benefit structures – Plan 1, Plan 2, and Hybrid. The provisions and features of the plans, as well as all actuarial assumptions, are substantially the same as those described in Note 14.

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, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The portion of this transfer allocated to the School Division, included in Operating Grants and Contributions in the Statement of Activities, was \$620,000. The actuarial rate for the Teacher Retirement Plan was 18.20%, however, it was reduced to 17.64% as a result of the transfer.

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, 2016. Contributions to the pension plan from the school division were \$3,426,047 and \$3,463,586 for the years ended June 30, 2016 and June 30, 2015, respectively.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

General Information about the Teacher Cost Sharing Plan (Continued)

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

At June 30, 2016, the school division reported a liability of \$40,438,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 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, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was 0.32128% as compared to 0.29059% at June 30, 2014.

For the year ended June 30, 2016, the school division recognized pension expense of \$4,187,000. Since there was a change in proportionate share between measurement dates, 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.

At June 30, 2016, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 557,000
Net difference between projected and actual earnings on pension plan investments	-	2,476,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	5,083,000	-
Employer contributions subsequent to the measurement date	<u>3,426,047</u>	<u>-</u>
Total	<u>\$ 8,509,047</u>	<u>\$ 3,033,000</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

General Information about the Teacher Cost Sharing Plan (Continued)

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

The \$3,426,047 reported as 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Reduction to Pension Expense</u>
2017	\$ 129,000
2018	129,000
2019	129,000
2020	1,357,000
2021	306,000

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 of the school division 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:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
School division’s proportionate share of the VRS Teacher Employee Retirement plan net pension liability	<u>\$ 59,176,000</u>	<u>\$ 40,438,000</u>	<u>\$ 25,011,000</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

General Information about the Teacher Cost Sharing Plan (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-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, 2016, approximately \$321,612 was payable to the Virginia Retirement System for the legally required contributions related to June 2016 payroll.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 16. Summary of Pension Elements

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>School Board</u>
Net pension asset				
Basic Pension Plan	\$ 4,941,128	\$ 381,449	\$ 5,322,577	\$ 1,390,211
Police Pension Plan	2,088,103	-	2,088,103	-
VRS – Constitutional Officers	923,167	-	923,167	-
Total net pension asset	<u>\$ 7,952,398</u>	<u>\$ 381,449</u>	<u>\$ 8,333,847</u>	<u>\$ 1,390,211</u>
Deferred outflows of resources				
Change in assumptions –				
Basic Pension Plan	\$ 931,564	\$ 71,916	\$ 1,003,480	\$ 262,100
Police Pension Plan	791,954	-	791,954	-
Differences between expected and actual experience –				
VRS – Constitutional Officers	7,763	-	7,763	-
Contribution difference – Basic Pension Plan	1,684,051	-	1,684,051	-
Change in proportion –				
Basic Pension Plan	134,148	54,802	188,950	18,977
VRS – Teacher Cost Sharing Pool	-	-	-	5,083,000
Pension contributions subsequent to measurement date-				
Basic Pension Plan	1,350,532	96,135	1,446,667	346,038
Police Pension Plan	751,332	-	751,332	-
VRS – Constitutional Officers	45,257	-	45,257	-
VRS – Teacher Cost Sharing Pool	-	-	-	3,426,047
Total deferred outflows of resources	<u>\$ 5,696,601</u>	<u>\$ 222,853</u>	<u>\$ 5,919,454</u>	<u>\$ 9,136,162</u>
Net pension liability				
VRS – Teacher Cost Sharing Pool	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,438,000</u>
Deferred inflows of resources				
Net difference between projected and actual earnings on plan investments -				
Basic Pension Plan	\$ 1,037,902	\$ 80,125	\$ 1,118,027	\$ 292,019
Police Pension Plan	422,094	-	422,094	-
VRS – Constitutional Officers	125,874	-	125,874	-
VRS – Teacher Cost Sharing Pool	-	-	-	2,476,000
Differences between expected and actual experience –				
Basic Pension Plan	594,245	45,875	640,120	167,194
Police Pension Plan	142,948	-	142,948	-
VRS – Teacher Cost Sharing Pool	-	-	-	557,000
Contribution difference – Basic Pension Plan	66,593	242,632	309,225	923,184
Change in proportion -Basic Pension Plan	209,653	-	209,653	7,207
Total deferred inflows of resources	<u>\$ 2,599,309</u>	<u>\$ 368,632</u>	<u>\$ 2,967,941</u>	<u>\$ 4,422,604</u>

(Continued)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. 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, 2016 are based on a pension plan measurement date of June 30, 2015. 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, 2015 measurement date. Therefore, all amounts summarized in Note 17 – Summary of Pension Elements, are based on a measurement date of June 30, 2015.

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, 2016, 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, 2016.

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, 2016, the date of the most recent valuation, were as follows:

	Basic	Police
Retirees and beneficiaries	240	31
Terminated vested members	80	8
Active members	266	33
Total	586	72

Contributions

For 2016, the total contribution rate was 13.13% 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 2016 is disclosed in Note 12.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. 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:

<u>Investment</u>	<u>Market Value</u>	<u>Percent of Net Position</u>
Mfs Growth R5 (US Bank)	\$17,876,446	20.03%
Northern Trust Collective Intermediate Bond Index Fund – Lending	\$6,807,798	7.63%
Northern Trust Collective Aggregate Bond Index Fund – Lending Tier H	\$6,800,020	7.62%
Mfs International Growth Fund (US Bank)	\$6,246,322	7.00%
Lazard Global (US Bank)	\$6,067,616	6.80%
TIF Foreign Equity Series	\$5,532,859	6.20%
Principal MidCap (I)	\$5,312,151	5.95%
UBS Trumbull Property Fund	\$5,175,629	5.80%

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

<u>Investment</u>	<u>Market Value</u>	<u>Percent of Net Position</u>
Mfs Growth R5 (US Bank)	\$5,475,009	20.37%
Northern Trust Collective Aggregate Bond Index Fund – Lending Tier H	\$2,034,853	7.57%
Mfs International Growth Fund (US Bank)	\$1,859,947	6.92%
Lazard Global (US Bank)	\$1,672,178	6.22%
Principal MidCap (I)	\$1,588,819	5.91%
Northern Trust Collective Intermediate Bond Index Fund – Lending	\$1,571,891	5.85%
TIF Foreign Equity Series	\$1,559,784	5.80%
UBS Trumbull Property Fund	\$1,519,792	5.65%

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.77 percent for the basic plan and 0.88 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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. Basic and Police Pension Plans – Fiduciary Information (Continued)

Net Pension Asset

The components of the net pension asset of the Plans at June 30, 2016, were as follows:

	Basic	Police
Total pension liability	\$ 88,526,868	\$ 26,583,851
Plan fiduciary net position	89,242,069	26,876,165
Plan's net pension asset	<u>\$ (715,201)</u>	<u>\$ (292,314)</u>
Plan fiduciary net position as a percentage of the total pension liability	100.8%	101.1%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, 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	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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. 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)	\$ 10,053,960	\$ (715,201)	\$ (9,670,218)
Plan fiduciary net position as a percentage of the total pension liability	89.9%	100.8%	112.2%
Police Plan			
Net pension liability (asset)	\$ 3,192,781	\$ (292,314)	\$ (3,176,234)
Plan fiduciary net position as a percentage of the total pension liability	89.4%	101.1%	113.4%

Note 18. Other Post-employment Benefits

Plan Description

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

Summary of Significant Accounting Policies

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

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. 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)	\$ 745,000	\$ 463,000
Interest on prior year OPEB asset	(242,000)	(81,000)
Adjustment to the ARC	249,000	83,000
Net OPEB cost	752,000	465,000
Contributions made	1,016,000	631,000
Increase in net OPEB asset	264,000	166,000
Net OPEB asset, beginning of year	3,457,000	1,158,000
Net OPEB assets, end of year	\$ 3,721,000	\$ 1,324,000

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Other Post-employment Benefits (Continued)

Trend Information

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

Fiscal Year Ended	City			School Board		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
June 30, 2016	\$ 752,000	100.94%	\$ (3,721,000)	\$ 465,000	100.43%	\$ (1,324,000)
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)

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.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. 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 19. Virginia Health Insurance Credit Program

Plan Description

The City of Falls Church School Board (School Board) participates in the Virginia Health Insurance Credit Program for its professional employees. The program is a cost-sharing multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS) and is considered other postemployment benefits (OPEB). Eligible retirees who have 15 or more years of creditable VRS service and are enrolled in a qualified health insurance plan may participate in the program. The retiree receives \$4.00 per year of creditable service as a credit towards their monthly health insurance premiums not to exceed the retiree's monthly insurance premium.

Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/205-annual-report.pdf> or obtained by writing to the VRS at P.O. Box 2500, Richmond, VA 23218-2500.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 19. Virginia Health Insurance Credit Program (Continued)

Funding Policy

The School Board is required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute an actuarially determined amount necessary to fund its participation in the program. The School Board's contribution rate for fiscal year 2016 was 1.06 percent of annual covered payroll. Total contributions made by the School Board to the program for the fiscal years ending June 30, 2016, 2015, and 2014 were \$262,326, \$283,515, and \$233,542, respectively, and were equal to the required contributions for each year.

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. 2.1-526.8:1 of the Code of Virginia, which says that the State shall have the right and duty to defend any suit seeking damages or compensation against the City's officials and employees on account of wrongful acts even if any of the allegations of the suits are groundless, false, or fraudulent and may make investigation and settlement of any claims or suit as deemed expedient. The limits of VA Risk2 coverage are \$1,000,000 per claim.

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

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. Self-Insurance

City and School employees are covered by a professionally administered risk sharing program which provides health coverage for employees of the City and Schools on a cost-reimbursement basis. Dependents are covered by the program provided they pay a premium to the City and Schools. Under the program, health insurance claims are separately rated from other groups, and the City and School claims experience is factored into the premiums assessed in subsequent periods. However, gains and losses resulting from the City and School claims experience is not settled directly with the City and Schools, but instead is shared by the pool. If the City and Schools were to exit the risk pool, it could be assessed a settlement charge that would not exceed any net loss resulting from the City and School's most recent year's claims experience. The City and Schools have no plans to exit the pool.

(Continued)

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 22. Prior Period Restatement

The following is a summary of the restatement to net position:

	Sewer Fund	DPCU- School
Net position, June 30, 2015, as previously stated	\$ 14,455,870	\$ 32,257,423
To record additional revenue for sewer billings	46,905	-
To record adjustment to Arlington treatment costs	148,688	-
To correct FY15 carrying charges	(9,180)	-
Error in recording pension contributions subsequent to yearend	-	253,530
Net position, June 30, 2015, as restated	\$ 14,642,283	\$ 32,510,953

Note 23. Fund Balances

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

	General Fund	Other Governmental Funds
Nonspendable:		
Prepays	\$ 18,815	\$ -
Inventories	182,964	-
Total nonspendable	201,779	-
Restricted for:		
Capital projects	295,843	15,989,325
Grants	129,708	-
Special transportation	-	1,539,912
Total restricted	425,551	17,529,237
Committed to:		
Capital projects	9,377,730	4,499,009
Future development costs	888,000	-
FY17 budget costs	1,643,860	-
Affordable housing	-	290,202
Special transportation	-	2,838,721
Total committed	11,909,590	7,627,932
Assigned to:		
Subsequent years appropriations	275,046	-
Capital reserve	2,228,250	-
Total assigned	2,503,296	-
Unassigned	14,415,497	-
Total fund balance	\$ 29,455,713	\$ 25,157,169

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 24. Subsequent Events

In July 2016, the City authorized and closed on the issuance of \$8,700,000 GO Bonds for capital costs related to the public library. Citizens approved the issuance at the November 8, 2016 election.

In November 2016, the City issued \$7,189,000 in GO Bonds for capital costs and to refund current debt. \$1,010,000 of the issuance was new debt and the remaining is to refund current debt.

Note 25. New Accounting Standards

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

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. 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 30, 2017.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 25. New Accounting Standards (Continued)

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 25. New Accounting Standards (Continued)

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017.

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULES OF FUNDING PROGRESS

Year Ended June 30, 2016

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
			Unfunded Actuarial Accrued Liability (UAAL)			UAAL as a Percentage of Covered Payroll
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>		<u>Funded Ratio</u>	<u>Covered Payroll</u>	
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

CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS -
BASIC PENSION PLAN**

For the Year Ended June 30, 2016

	<u>Measurement Dates - Plan Year</u>		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total Pension Liability			
Service Cost	\$ 1,539,198	\$ 1,605,981	\$ 1,477,682
Interest (includes interest on service cost)	5,773,189	5,618,010	5,662,883
Differences between expected and actual experience	(595,377)	(523,443)	(1,621,231)
Changes of assumptions	3,155,541	-	4,182,659
Benefit payments, including refunds of member contributions	<u>(4,561,229)</u>	<u>(4,272,618)</u>	<u>(5,883,600)</u>
Net change in total pension liability	5,311,322	2,427,930	3,818,393
Total pension liability - beginning	<u>83,215,546</u>	<u>80,787,616</u>	<u>76,969,223</u>
Total pension liability - ending	<u>\$ 88,526,868</u>	<u>\$ 83,215,546</u>	<u>\$ 80,787,616</u>
Plan fiduciary net position			
Contributions - employer	\$ 1,972,956	\$ 8,345,532	\$ 4,021,770
Contributions - member	789,920	724,853	727,295
Net investment income	507,418	3,081,767	11,795,982
Benefit payments, including refunds of member contributions	(4,561,229)	(4,272,618)	(5,883,600)
Administrative expenses	<u>(77,649)</u>	<u>(70,902)</u>	<u>(58,740)</u>
Net change in plan fiduciary net position	(1,368,584)	7,808,632	10,602,707
Plan fiduciary net position - beginning	<u>90,610,653</u>	<u>82,802,021</u>	<u>72,199,314</u>
Plan fiduciary net position - ending	<u>\$ 89,242,069</u>	<u>\$ 90,610,653</u>	<u>\$ 82,802,021</u>
Net pension liability (asset) - ending	<u>\$ (715,201)</u>	<u>\$ (7,395,107)</u>	<u>\$ (2,014,405)</u>
Plan fiduciary net position as a percentage of total pension liability	100.81%	108.89%	102.49%
Covered employee payroll	<u>\$ 15,023,723</u>	<u>\$ 14,488,440</u>	<u>\$ 13,776,586</u>
Net pension liability (asset) as a percentage of covered employee payroll	-4.76%	-51.04%	-14.62%

Notes to Schedule:

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

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

CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS -
POLICE PENSION PLAN
For the Year Ended June 30, 2016**

	<u>Measurement Dates - Plan Year</u>		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total Pension Liability			
Service Cost	\$ 550,412	\$ 493,645	\$ 451,780
Interest (includes interest on service cost)	1,727,698	1,648,907	1,596,234
Differences between expected and actual experience	85,941	(57,083)	(162,138)
Changes of assumptions	609,562	-	1,319,923
Benefit payments, including refunds of member contributions	<u>(1,041,507)</u>	<u>(991,773)</u>	<u>(958,185)</u>
Net change in total pension liability	1,932,106	1,093,696	2,247,614
Total pension liability - beginning	<u>24,651,745</u>	<u>23,558,049</u>	<u>21,310,435</u>
Total pension liability - ending	<u><u>\$ 26,583,851</u></u>	<u><u>\$ 24,651,745</u></u>	<u><u>\$ 23,558,049</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 751,332	\$ 3,593,989	\$ 625,670
Contributions - member	250,909	177,685	166,846
Net investment income	202,768	871,317	3,316,856
Benefit payments, including refunds of member contributions	<u>(1,041,507)</u>	<u>(991,773)</u>	<u>(958,185)</u>
Administrative expenses	<u>(27,185)</u>	<u>(22,126)</u>	<u>(19,151)</u>
Net change in plan fiduciary net position	136,317	3,629,092	3,132,036
Plan fiduciary net position - beginning	<u>26,739,848</u>	<u>23,110,756</u>	<u>19,978,720</u>
Plan fiduciary net position - ending	<u><u>\$ 26,876,165</u></u>	<u><u>\$ 26,739,848</u></u>	<u><u>\$ 23,110,756</u></u>
Net pension liability (asset) - ending	<u><u>\$ (292,314)</u></u>	<u><u>\$ (2,088,103)</u></u>	<u><u>\$ 447,293</u></u>
Plan fiduciary net position as a percentage of total pension liability	101.10%	108.47%	98.10%
Covered employee payroll	<u><u>\$ 2,542,578</u></u>	<u><u>\$ 2,538,363</u></u>	<u><u>\$ 2,351,051</u></u>
Net pension liability (asset) as a percentage of covered employee payroll	-11.50%	-82.26%	19.03%

Notes to Schedule:

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

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

CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS -
CONSTITUTIONAL OFFICERS
For the Year Ended June 30, 2016**

	<u>Measurement Dates - Plan Year</u>	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total Pension Liability		
Service Cost	\$ 125,830	\$ 115,154
Interest (includes interest on service cost)	255,657	239,734
Differences between expected and actual experience	11,357	-
Benefit payments, including refunds of member contributions	(145,323)	(109,503)
Net change in total pension liability	247,521	245,385
Total pension liability - beginning	3,724,907	3,479,522
Total pension liability - ending	<u>\$ 3,972,428</u>	<u>\$ 3,724,907</u>
Plan fiduciary net position		
Contributions - employer	\$ 32,780	\$ 74,651
Contributions - member	59,345	59,778
Net investment income	216,702	645,679
Benefit payments, including refunds of member contributions	(145,323)	(109,503)
Administrative expenses	(3,022)	(3,389)
Net change in plan fiduciary net position	160,482	667,216
Plan fiduciary net position - beginning	4,735,113	4,067,897
Plan fiduciary net position - ending	<u>\$ 4,895,595</u>	<u>\$ 4,735,113</u>
Net pension liability (asset) - ending	<u>\$ (923,167)</u>	<u>\$ (1,010,206)</u>
Plan fiduciary net position as a percentage of total pension liability	123.24%	127.12%
Covered employee payroll	<u>\$ 1,086,779</u>	<u>\$ 1,196,317</u>
Net pension liability (asset) as a percentage of covered employee payroll	-84.95%	-84.44%

Notes to Schedule:

Data will be presented from the time GASB 68 was first implemented in fiscal year 2015 until 10 years of trend data is achieved.

Reporting dates are one year subsequent to the measurement dates.

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF PENSION CONTRIBUTIONS
For the Year Ended June 30, 2016 and Two Years Prior

Entity Fiscal 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					
2016	\$ 1,972,956	\$ 1,972,956	\$ -	\$ 15,023,723	13.13%
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					
2016	\$ 751,332	\$ 751,332	\$ -	\$ 2,542,578	29.55%
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					
2016	\$ 45,257	\$ 45,257	\$ -	\$ 1,086,779	4.16%
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.

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF PENSION INVESTMENT RETURNS
For the Year Ended June 30, 2016 and Two Years Prior

	<u>Basic</u>	<u>Police</u>
Annual money-weighted rate of return, net of investment expense		
June 30, 2014	16.50%	16.73%
June 30, 2015	3.69%	3.59%
June 30, 2016	0.71%	0.88%

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY (ASSET)
June 30, 2016

Reporting Date, Year Ended June 30	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 (Asset)
Basic Plan - City					
2015	72.91%	\$ (1,431,672)	\$ 10,420,367	-13.74%	102.43%
2016	71.97%	\$ (5,322,577)	\$ 10,939,965	-48.65%	102.43%
Basic Plan - Schools					
2015	18.37%	\$ (394,046)	\$ 2,867,047	-13.74%	102.66%
2016	18.80%	\$ (1,390,211)	\$ 2,685,735	-51.76%	102.66%
VRS Teacher Retirement Plan					
2015	0.29%	\$ 35,117,000	\$ 21,122,520	166.25%	70.88%
2016	0.32%	40,438,000	\$ 24,618,277	164.26%	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.

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2016

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%
2016	\$ 1,445,007	\$ 1,446,667	\$ (1,660)	\$ 11,006,079	13.14%
Basic Plan - Schools					
2015	\$ 472,312	\$ 384,313	\$ 87,999	\$ 2,723,691	14.11%
2016	\$ 352,614	\$ 346,038	\$ 6,576	\$ 2,685,731	12.88%
VRS Teacher Retirement Plan					
2015	\$ 3,717,116	\$ 3,717,116	\$ -	\$ 21,122,520	17.60%
2016	\$ 3,703,000	\$ 3,703,000	\$ -	\$ 24,618,277	15.04%

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.

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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
General property taxes	\$ 53,917,896	\$ 53,917,896	\$ 53,951,291	\$ 33,395
Other local taxes	15,178,000	15,193,600	15,370,979	177,379
Permits, privilege fees, and regulatory licenses	1,484,412	1,484,412	1,211,625	(272,787)
Fines and forfeitures	769,000	769,000	623,251	(145,749)
Use of money and property	332,360	332,360	481,230	148,870
Charges for services	2,902,731	3,002,731	2,997,544	(5,187)
Miscellaneous	88,000	88,000	92,794	4,794
Gifts and contributions	13,000	73,000	83,824	10,824
Recovered costs	289,500	419,500	370,918	(48,582)
Intergovernmental				
Commonwealth	3,986,619	4,019,271	4,095,314	76,043
Federal	246,632	473,215	493,177	19,962
Total revenues	<u>79,208,150</u>	<u>79,772,985</u>	<u>79,771,947</u>	<u>(1,038)</u>
EXPENDITURES				
Current:				
Clerk of Court	42,140	42,140	38,389	3,751
Commission of Revenue	793,913	793,913	752,160	41,753
Development services	2,030,042	2,133,547	2,186,780	(53,233)
Executive management	3,597,435	3,980,268	3,810,490	169,778
Finance	1,363,923	1,373,523	1,365,435	8,088
Human services	4,155,165	4,219,853	3,937,883	281,970
Legislative	766,869	766,869	629,596	137,273
Library services	2,013,299	2,064,089	2,038,719	25,370
Public safety	9,943,097	10,436,009	10,192,296	243,713
Public works	5,816,432	6,385,512	6,258,552	126,960
Recreation and parks	3,092,531	3,202,783	3,087,698	115,085
Registrar	295,812	295,812	251,118	44,694
Sheriff	1,608,191	1,608,191	1,491,844	116,347
Treasurer	738,158	738,158	548,189	189,969
Non-departmental	44,200,629	44,704,000	44,507,623	196,377
Total expenditures	<u>80,457,636</u>	<u>82,744,667</u>	<u>81,096,772</u>	<u>1,647,895</u>
Excess (deficiency) of revenues over expenditures	<u>(1,249,486)</u>	<u>(2,971,682)</u>	<u>(1,324,825)</u>	<u>1,646,857</u>
OTHER FINANCING SOURCES (USES)				
Premiums from issuance of bonds	834,000	1,157,871	1,367,852	209,981
Proceeds from capital lease	-	-	69,065	69,065
Proceeds from sale of capital assets	-	9,000	88,715	79,715
Transfers out	(2,089,514)	(2,089,514)	(2,089,514)	-
Total other financing sources (uses)	<u>(1,255,514)</u>	<u>(922,643)</u>	<u>(563,882)</u>	<u>358,761</u>
Net change in fund balance	<u>\$ (2,505,000)</u>	<u>\$ (3,894,325)</u>	<u>\$ (1,888,707)</u>	<u>\$ 2,005,618</u>

CITY OF FALLS CHURCH, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

Note 1. Budget

The State of Virginia requires all local governments to 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 actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

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

CITY OF FALLS CHURCH, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

Note 3. Changes of Assumptions (Continued)

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

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

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.

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT TRUST FUNDS

June 30, 2016

	<u>City</u>	<u>School Board</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 52,068	\$ 31,496	\$ 83,564
Investments:			
Domestic equity securities	3,721,735	2,289,291	6,011,026
Domestic fixed income securities	1,642,552	1,010,357	2,652,909
International equity securities	1,302,427	801,141	2,103,568
Total investments	<u>6,666,714</u>	<u>4,100,789</u>	<u>10,767,503</u>
 Total assets	 <u>6,718,782</u>	 <u>4,132,285</u>	 <u>10,851,067</u>
LIABILITIES			
Accounts payable	-	1,045	1,045
Due to general fund	860,145	193,776	1,053,921
 Total liabilities	 <u>860,145</u>	 <u>194,821</u>	 <u>1,054,966</u>
NET POSITION			
Held in trust for:			
Other post-employment benefits	5,858,637	3,937,464	9,796,101
 Total net position restricted for pension post-employment benefits	 <u>\$ 5,858,637</u>	 <u>\$ 3,937,464</u>	 <u>\$ 9,796,101</u>

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2016

	<u>City</u>	<u>School Board</u>	<u>Total</u>
ADDITIONS			
Employer contributions	\$ 594,411	\$ 427,600	\$ 1,022,011
Investment earnings:			
Interest	168	101	269
Dividends	123,097	74,788	197,885
Net decrease in fair value of investments	(145,511)	(88,262)	(233,773)
Total investment earnings	(22,246)	(13,373)	(35,619)
Less investment expenses	(6,600)	(3,300)	(9,900)
Net investment earnings	(28,846)	(16,673)	(45,519)
 Total additions	 565,565	 410,927	 976,492
DEDUCTIONS			
Benefits	318,387	68,326	386,713
Administration	66	-	66
 Total deductions	 318,453	 68,326	 386,779
 Change in net position	 247,112	 342,601	 589,713
NET POSITION AT JULY 1	<u>5,611,525</u>	<u>3,594,863</u>	<u>9,206,388</u>
 NET POSITION AT JUNE 30	 <u>\$ 5,858,637</u>	 <u>\$ 3,937,464</u>	 <u>\$ 9,796,101</u>

AGENCY FUNDS

Fairfax County Water Authority Fund

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

Northern Virginia Criminal Justice Training Academy Fund

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

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF FIDUCIARY NET POSITION
 AGENCY FUNDS
 June 30, 2016

	Fairfax County Water Authority	Northern Virginia Criminal Justice Academy	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 4,331,556	\$ 4,331,556
Other receivables	869,232	-	869,232
Total assets	<u>\$ 869,232</u>	<u>\$ 4,331,556</u>	<u>\$ 5,200,788</u>
LIABILITIES			
Amounts held for others	\$ 838,070	\$ 4,301,076	\$ 5,139,146
Due to general fund	31,162	30,480	61,642
Total liabilities	<u>\$ 869,232</u>	<u>\$ 4,331,556</u>	<u>\$ 5,200,788</u>

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2016

	<u>Balances</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2016</u>
Fairfax County Water Authority				
ASSETS				
Other receivables	\$ 914,151	\$ -	\$ 44,919	\$ 869,232
Due from general fund	2,414	-	2,414	-
Total assets	<u>\$ 916,565</u>	<u>\$ -</u>	<u>\$ 47,333</u>	<u>\$ 869,232</u>
LIABILITIES				
Amounts held for others	\$ 916,565	\$ -	\$ 78,495	\$ 838,070
Due to general fund	-	68,875	37,713	31,162
Total liabilities	<u>\$ 916,565</u>	<u>\$ 68,875</u>	<u>\$ 116,208</u>	<u>\$ 869,232</u>
Northern Virginia Criminal Justice Academy				
ASSETS				
Cash and cash equivalents	\$ 3,899,683	\$ 1,322,555	\$ 890,682	\$ 4,331,556
Total assets	<u>\$ 3,899,683</u>	<u>\$ 1,322,555</u>	<u>\$ 890,682</u>	<u>\$ 4,331,556</u>
LIABILITIES				
Amounts held for others	\$ 3,841,822	\$ 5,013,776	\$ 4,554,522	\$ 4,301,076
Due to general fund	57,861	5,877,077	5,904,458	30,480
Total liabilities	<u>\$ 3,899,683</u>	<u>\$ 10,890,853</u>	<u>\$ 10,458,980</u>	<u>\$ 4,331,556</u>
Totals				
ASSETS				
Cash and cash equivalents	\$ 3,899,683	\$ 1,322,555	\$ 890,682	\$ 4,331,556
Other receivables	914,151	-	44,919	869,232
Due from general fund	2,414	-	2,414	-
Total assets	<u>\$ 4,816,248</u>	<u>\$ 1,322,555</u>	<u>\$ 938,015</u>	<u>\$ 5,200,788</u>
LIABILITIES				
Amounts held for others	\$ 4,758,387	\$ 5,013,776	\$ 4,633,017	\$ 5,139,146
Due to general fund	57,861	5,945,952	5,942,171	61,642
Total liabilities	<u>\$ 4,816,248</u>	<u>\$ 10,959,728</u>	<u>\$ 10,575,188</u>	<u>\$ 5,200,788</u>

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

Major Governmental Funds

School Operating Fund

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

School Community Service Fund

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

Nonmajor Governmental Funds

School Food Service Fund

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

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	<u>Major</u>		<u>Non-major</u>	
	<u>School</u>	<u>School</u>	<u>School</u>	<u>Total</u>
	<u>Operating</u>	<u>Community</u>	<u>Food</u>	<u>Governmental</u>
		<u>Service</u>	<u>Service</u>	<u>Funds</u>
ASSETS				
Cash and investments	\$ 1,124,543	\$ 1,162,057	\$ 400,303	\$ 2,686,903
Accounts receivable	3,131	13,066	236	16,433
Due from fiduciary funds	193,776	-	-	193,776
Due from primary government	4,704,668	278,955	-	4,983,623
Due from other governments	480,594	-	25,898	506,492
Prepays	13,367	-	-	13,367
Total assets	<u>\$ 6,520,079</u>	<u>\$ 1,454,078</u>	<u>\$ 426,437</u>	<u>\$ 8,400,594</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 5,480,881	\$ 52,910	\$ 71,678	\$ 5,605,469
Total liabilities	<u>5,480,881</u>	<u>52,910</u>	<u>71,678</u>	<u>5,605,469</u>
FUND BALANCES				
Nonspendable:				
Prepays	13,367	-	-	13,367
Assigned:				
Education	1,025,831	1,401,168	354,759	2,781,758
Total fund balances	<u>1,039,198</u>	<u>1,401,168</u>	<u>354,759</u>	<u>2,795,125</u>
Total liabilities and fund balances	<u>\$ 6,520,079</u>	<u>\$ 1,454,078</u>	<u>\$ 426,437</u>	<u>\$ 8,400,594</u>

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
 RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 June 30, 2016

Total Fund Balance - Governmental Funds		\$ 2,795,125
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.		
Nondepreciable	\$ 1,273,354	
Depreciable, net	<u>2,695,738</u>	3,969,092
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.		
		1,324,000
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.		
		(120,651)
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 2016 employer contributions	3,772,085	
Deferred outflows of resources for changes in assumptions	262,100	
Deferred outflows of resources for change in proportion share of Basic Pension Plan	18,977	
Deferred outflows of resources due to changes in proportion - teacher cost sharing pension plan	5,083,000	
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	(2,768,019)	
Deferred inflows or resources due to differences between expected and actual experience	(724,194)	
Deferred inflows or resources due to differences between expected and actual contributions	(923,184)	
Deferred inflows of resources due to changes in proportion - Basic Pension Plan	(7,207)	
Net pension asset - basic pension plan	1,390,211	
Net pension liability - teacher cost sharing pension plan	<u>(40,438,000)</u>	(34,334,231)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Termination benefits	(2,591,000)	
Compensated absences	(1,217,960)	
Other lease liability	(368,588)	
Capital lease payable	<u>(209,280)</u>	(4,386,828)
Total Net Position - Governmental Activities		<u>\$ (30,753,493)</u>

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, 2016

	<u>Major</u>		<u>Non-major</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
	<u>School</u> <u>Operating</u>	<u>School</u> <u>Community</u> <u>Service</u>	<u>School</u> <u>Food</u> <u>Service</u>	
REVENUES				
Revenue from use of money and property	\$ 38,646	\$ 118,815	\$ -	\$ 157,461
Charges for services	421,453	1,632,507	725,326	2,779,286
Fines	30,690	-	-	30,690
Miscellaneous	94,613	104,373	2,500	201,486
Intergovernmental:				
Federal	527,718	-	98,238	625,956
Commonwealth	5,960,572	-	7,858	5,968,430
Payments from City	38,403,956	119,200	-	38,523,156
	<u>45,477,648</u>	<u>1,974,895</u>	<u>833,922</u>	<u>48,286,465</u>
EXPENDITURES				
Current:				
Education	44,392,002	1,658,618	837,340	46,887,960
Capital outlay	678,500	23,324	-	701,824
Debt service:				
Principal retirement	434,864	-	-	434,864
Interest and fiscal charges	22,904	-	-	22,904
	<u>45,528,270</u>	<u>1,681,942</u>	<u>837,340</u>	<u>48,047,552</u>
Excess (deficiency) of revenues over expenditures	<u>(50,622)</u>	<u>292,953</u>	<u>(3,418)</u>	<u>238,913</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	72,500	72,500
Transfers out	(25,000)	(47,500)	-	(72,500)
	<u>(25,000)</u>	<u>(47,500)</u>	<u>72,500</u>	<u>-</u>
Net change in fund balance	(75,622)	245,453	69,082	238,913
FUND BALANCE AT JULY 1	<u>1,114,820</u>	<u>1,155,715</u>	<u>285,677</u>	<u>2,556,212</u>
FUND BALANCE AT JUNE 30	<u>\$ 1,039,198</u>	<u>\$ 1,401,168</u>	<u>\$ 354,759</u>	<u>\$ 2,795,125</u>

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, 2016

Net Change in Fund Balance - Governmental Funds		\$ 238,913
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Capital outlays	\$ 370,818	
Depreciation expense	<u>(407,622)</u>	(36,804)
<p>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.</p>		
		166,000
<p>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.</p>		
		12,911
<p>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.</p>		
Employer pension contributions	3,772,085	
Special state contribution	620,000	
Pension expense	<u>(3,793,487)</u>	598,598
<p>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.</p>		
Change in termination benefits	\$ 363,000	
Change in compensated absences	<u>(20,022)</u>	342,978
<p>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.</p>		
		<u>434,864</u>
Change in Net Position - Governmental Activities		<u>\$ 1,757,460</u>

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Revenue from use of money and property	\$ 36,000	\$ 36,000	\$ 38,646	\$ 2,646
Charges for services	405,000	405,000	421,453	16,453
Fines	126,000	126,000	30,690	(95,310)
Miscellaneous	300,000	300,000	94,613	(205,387)
Intergovernmental:				
Federal	499,800	499,800	527,718	27,918
Commonwealth	5,945,200	5,945,200	5,960,572	15,372
Primary government	38,298,700	38,403,956	38,403,956	-
Total revenues	<u>45,610,700</u>	<u>45,715,956</u>	<u>45,477,648</u>	<u>(238,308)</u>
EXPENDITURES				
Current:				
Education	44,944,750	45,007,022	44,392,002	615,020
Capital outlay	460,550	680,940	678,500	2,440
Debt service:				
Principal retirement	370,400	370,394	434,864	(64,470)
Interest and fiscal charges	-	-	22,904	(22,904)
Total expenditures	<u>45,775,700</u>	<u>46,058,356</u>	<u>45,528,270</u>	<u>530,086</u>
Excess (deficiency) of revenues over expenditures	<u>(165,000)</u>	<u>(342,400)</u>	<u>(50,622)</u>	<u>291,778</u>
OTHER FINANCING USES				
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(25,000)</u>	<u>(15,000)</u>
Total other financing uses	<u>(10,000)</u>	<u>(10,000)</u>	<u>(25,000)</u>	<u>(15,000)</u>
Net change in fund balances	<u>\$ (175,000)</u>	<u>\$ (352,400)</u>	<u>\$ (75,622)</u>	<u>\$ 276,778</u>

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Revenue from use of money and property	\$ 64,800	\$ 64,800	\$ 118,815	\$ 54,015
Charges for services	1,409,100	1,409,100	1,632,507	223,407
Miscellaneous	50,000	50,000	104,373	54,373
Intergovernmental:				
Payments from City	119,200	119,200	119,200	-
Total revenues	<u>1,643,100</u>	<u>1,643,100</u>	<u>1,974,895</u>	<u>331,795</u>
EXPENDITURES				
Current:				
Education	1,635,600	1,735,181	1,658,618	76,563
Capital outlay	83,000	28,919	23,324	5,595
Total expenditures	<u>1,718,600</u>	<u>1,764,100</u>	<u>1,681,942</u>	<u>82,158</u>
Excess (deficiency) of revenues over expenditures	<u>(75,500)</u>	<u>(121,000)</u>	<u>292,953</u>	<u>413,953</u>
OTHER FINANCING USES				
Transfers out	<u>(62,500)</u>	<u>(67,000)</u>	<u>(47,500)</u>	<u>19,500</u>
Total other financing uses	<u>(62,500)</u>	<u>(67,000)</u>	<u>(47,500)</u>	<u>19,500</u>
Net change in fund balances	<u>\$ (138,000)</u>	<u>\$ (188,000)</u>	<u>\$ 245,453</u>	<u>\$ 433,453</u>

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
 STATEMENT OF FIDUCIARY NET POSITION
 AGENCY FUNDS
 June 30, 2016

	<u>Thomas Jefferson Elementary</u>	<u>Mt. Daniel Elementary</u>	<u>Mary Ellen Henderson Middle School</u>	<u>George Mason High School</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 25,149	\$ 54,614	\$ 47,972	\$ 370,713	\$ 498,448
Total assets	<u>\$ 25,149</u>	<u>\$ 54,614</u>	<u>\$ 47,972</u>	<u>\$ 370,713</u>	<u>\$ 498,448</u>
LIABILITIES					
Amounts held for others	\$ 25,149	\$ 54,614	\$ 47,972	\$ 370,713	\$ 498,448
Total liabilities	<u>\$ 25,149</u>	<u>\$ 54,614</u>	<u>\$ 47,972</u>	<u>\$ 370,713</u>	<u>\$ 498,448</u>

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2016

	<u>Balances</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2016</u>
THOMAS JEFFERSON ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 31,877	\$ 56,218	\$ 62,946	\$ 25,149
Total assets	<u>\$ 31,877</u>	<u>\$ 56,218</u>	<u>\$ 62,946</u>	<u>\$ 25,149</u>
Liabilities				
Amounts held for others	\$ 31,877	\$ 56,218	\$ 62,946	\$ 25,149
Total liabilities	<u>\$ 31,877</u>	<u>\$ 56,218</u>	<u>\$ 62,946</u>	<u>\$ 25,149</u>
MT. DANIEL ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 51,693	\$ 31,772	\$ 28,851	\$ 54,614
Total assets	<u>\$ 51,693</u>	<u>\$ 31,772</u>	<u>\$ 28,851</u>	<u>\$ 54,614</u>
Liabilities				
Amounts held for others	\$ 51,693	\$ 31,772	\$ 28,851	\$ 54,614
Total liabilities	<u>\$ 51,693</u>	<u>\$ 31,772</u>	<u>\$ 28,851</u>	<u>\$ 54,614</u>
MARY ELLEN HENDERSON MIDDLE SCHOOL				
Assets				
Cash and cash equivalents	\$ 39,585	\$ 126,833	\$ 118,446	\$ 47,972
Total assets	<u>\$ 39,585</u>	<u>\$ 126,833</u>	<u>\$ 118,446</u>	<u>\$ 47,972</u>
Liabilities				
Amounts held for others	\$ 39,585	\$ 126,833	\$ 118,446	\$ 47,972
Total liabilities	<u>\$ 39,585</u>	<u>\$ 126,833</u>	<u>\$ 118,446</u>	<u>\$ 47,972</u>
GEORGE MASON HIGH SCHOOL				
Assets				
Cash and cash equivalents	\$ 366,450	\$ 415,206	\$ 410,943	\$ 370,713
Total assets	<u>\$ 366,450</u>	<u>\$ 415,206</u>	<u>\$ 410,943</u>	<u>\$ 370,713</u>
Liabilities				
Amounts held for others	\$ 366,450	\$ 415,206	\$ 410,943	\$ 370,713
Total liabilities	<u>\$ 366,450</u>	<u>\$ 415,206</u>	<u>\$ 410,943</u>	<u>\$ 370,713</u>
TOTAL				
Assets				
Cash and cash equivalents	\$ 489,605	\$ 630,029	\$ 621,186	\$ 498,448
Total assets	<u>\$ 489,605</u>	<u>\$ 630,029</u>	<u>\$ 621,186</u>	<u>\$ 498,448</u>
Liabilities				
Amounts held for others	\$ 489,605	\$ 630,029	\$ 621,186	\$ 498,448
Total liabilities	<u>\$ 489,605</u>	<u>\$ 630,029</u>	<u>\$ 621,186</u>	<u>\$ 498,448</u>

DISCRETELY PRESENTED COMPONENT UNIT – ECONOMIC DEVELOPMENT AUTHORITY

Economic Development Authority Fund

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

CITY OF FALLS CHURCH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2016

ASSETS	
Cash and investments	\$ 1,949,494
Accounts receivable	2,979
Due from primary government	<u>250,000</u>
Total assets	<u><u>\$ 2,202,473</u></u>
LIABILITIES	
Accounts payable and other liabilities	<u>\$ 250,000</u>
Total liabilities	<u>250,000</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	<u>2,979</u>
Total deferred inflows of resources	<u>2,979</u>
FUND BALANCE	
Assigned	<u>1,949,494</u>
Total fund balance	<u>1,949,494</u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 2,202,473</u></u>

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

Total fund balance	\$ 1,949,494
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.	<u>2,979</u>
Net position of governmental activities	<u><u>\$ 1,952,473</u></u>

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, 2016

REVENUES

Use of money and property	\$ 6,251
Miscellaneous	20,485
	<hr/>
Total revenue	26,736
	<hr/>

EXPENDITURES

Current:

Economic development	18,148
	<hr/>
Total expenditures	18,148
	<hr/>
Excess of revenues over expenditures	8,588
	<hr/>
Net change in fund balance	8,588

FUND BALANCE AT JULY 1 1,940,906

FUND BALANCE AT JUNE 30 \$ 1,949,494

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

Net change in fund balance 8,588

Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds

(93)

Change in net position of governmental activities

\$ 8,495

STATISTICAL SECTION

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STATISTICAL SECTION

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

<u>Contents</u>	<u>Pages</u>
<i>Financial Trends – Tables 1 – 4</i> These tables contain financial trend information to help the reader understand how the government's financial performance and well-being have changed over time.	119-122
<i>Revenue Capacity – Tables 5 – 8</i> These tables contain information to help the reader assess the government's most significant local revenue source, real estate and personal property taxes.	123-126
<i>Debt Capacity – Tables 9 – 11</i> These schedules contain trend information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	127-129
<i>Demographic and Economic Information – Tables 12 – 13</i> These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place	130-131
<i>Operating Information – Tables 14 – 16</i> These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and activities it performs	132-134

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

TABLE 1

CITY OF FALLS CHURCH, VIRGINIA

NET POSITION BY COMPONENT

Last Ten Fiscal Years

(accrual basis of accounting)

(unaudited)

	2016	2015*	2014	2013	2012	2011	2010	2009	2008	2007
Governmental activities										
Net investment in capital assets	\$ 38,820,954	\$ 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
Restricted	425,551	758,208	12,342,829	390,112	110,929	152,686	70,153	-	-	-
Unrestricted	49,025,639	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
Total governmental activities net position	<u>\$ 88,272,144</u>	<u>\$ 83,974,539</u>	<u>\$ 81,662,241</u>	<u>\$ 52,305,898</u>	<u>\$ 46,977,661</u>	<u>\$ 39,180,393</u>	<u>\$ 32,856,271</u>	<u>\$ 36,815,173</u>	<u>\$ 40,089,981</u>	<u>\$ 40,238,181</u>
Business-type activities										
Net investment in capital assets	\$ 11,597,722	\$ 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
Unrestricted	11,667,833	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
Total business-type activities net position	<u>\$ 23,265,555</u>	<u>\$ 19,359,985</u>	<u>\$ 17,302,551</u>	<u>\$ 110,446,232</u>	<u>\$ 101,617,225</u>	<u>\$ 96,229,218</u>	<u>\$ 88,787,237</u>	<u>\$ 81,829,989</u>	<u>\$ 62,263,907</u>	<u>\$ 77,419,280</u>
Primary government										
Net investment in capital assets	\$ 50,418,676	\$ 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
Restricted	425,551	758,208	12,342,829	390,112	110,929	152,686	70,153	-	-	-
Unrestricted	60,693,472	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
Total primary government net position	<u>\$ 111,537,699</u>	<u>\$ 103,334,524</u>	<u>\$ 98,964,792</u>	<u>\$ 162,752,130</u>	<u>\$ 148,594,886</u>	<u>\$ 135,409,611</u>	<u>\$ 121,643,508</u>	<u>\$ 118,645,162</u>	<u>\$ 102,353,888</u>	<u>\$ 117,657,461</u>

Notes:

The City restated net position as of June 30, 2009, 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)

	2016	2015*	2014	2013	2012	2011	2010	2009	2008	2007
Expenses										
Governmental activities										
General government	\$ 6,909,252	\$ 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
Judicial administration	2,068,457	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
Public safety	11,411,724	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
Public works	7,872,682	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
Health and welfare	2,161,544	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
Education and payments to schools	40,197,569	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
Parks, recreation, and cultural	5,044,608	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
Community development	2,276,387	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
Economic development	457,658	396,685	353,517	314,171	323,036	322,405	351,233	395,505	385,564	359,538
Interest	1,791,263	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
Total governmental activities	80,191,144	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
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
Sewer	2,872,497	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
Storm water	1,310,670	1,240,370	1,185,304	-	-	-	-	-	-	-
Total business-type activities expense	4,183,167	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
Total primary government expenses	84,374,311	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
Program revenues										
Governmental activities										
Charges for services										
Parks and recreation	2,030,695	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
Judicial administration	986,955	997,514	1,067,969	990,687	1,106,413	1,189,447	1,111,368	1,039,920	985,851	702,289
Public safety	1,320,831	1,656,508	2,021,982	1,158,033	1,054,488	640,353	637,012	510,075	606,394	970,613
Other activities	577,572	896,479	936,543	1,050,301	957,930	790,385	492,204	410,406	478,329	376,376
Operating grants and contributions	2,511,069	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
Capital grants and contributions	4,286,565	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	11,713,687	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
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
Sewer	6,198,048	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
Storm water	1,571,696	1,540,980	764,451	-	-	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-	-	-	-	-	25,843,936
Capital grants and contributions	103,500	865,968	328,214	4,255,493	1,496,722	2,717,914	284,330	236,655	479,911	839,993
Total business-type activities program revenues	7,873,244	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
Total primary government program revenues	19,586,931	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
Net (expense) revenue										
Governmental activities	\$(68,477,457)	\$(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)
Business-type activities	3,690,077	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
Total primary government net expense (Continued)	(64,787,380)	(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)

TABLE 2
(Continued)

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

	2016	2015*	2014	2013	2012	2011	2010	2009	2008	2007
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
General property taxes	48,693,996	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
Personal property	5,037,458	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
Business licenses, based on gross receipts	3,973,548	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
Local sales and use	4,209,733	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
Consumer's utility	2,146,829	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
Motor vehicle decals	336,404	333,921	311,704	313,245	319,335	238,177	226,723	226,978	208,790	216,892
Real estate recordation taxes	391,911	487,332	483,192	602,651	475,057	371,514	369,453	446,906	712,026	301,751
Occupancy, tobacco, and other	5,166,228	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
Intergovernmental, non-categorical aid	2,139,708	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
Use of money and property	482,608	276,177	142,860	141,673	105,827	75,495	85,531	83,428	466,667	855,866
Miscellaneous	189,863	96,229	99,286	279,265	229,637	110,572	72,104	55,159	137,001	150,420
Capital contribution	-	-	252,000	-	-	-	-	-	-	-
Special item: Gain (loss) on sales of capital asset	(49,390)	34,062	1,817,968	-	-	735,367	-	-	-	-
Transfers	64,517	89,490	23,091,228	150,000	150,000	89,604	(2,202,601)	2,404,041	3,076,174	3,055,121
Total governmental activities	<u>72,783,413</u>	<u>68,982,901</u>	<u>91,907,535</u>	<u>63,104,179</u>	<u>59,934,493</u>	<u>59,074,354</u>	<u>51,049,330</u>	<u>53,691,363</u>	<u>56,517,331</u>	<u>54,760,185</u>
Business-type activities:										
Use of money and property	93,405	8,240	136,819	319,150	281,920	213,217	63,385	356,324	1,393,656	1,361,932
Miscellaneous	192	-	(32,638)	59,428	74,474	125,305	(28,339)	204,136	6,108	33,637
Special item: Loss from sale of water func	-	-	(68,652,061)	-	-	-	-	-	-	-
Insurance recovery of legal costs, net	-	-	-	-	-	-	1,025,632	-	-	-
Transfers	(64,517)	(89,490)	(25,156,556)	(150,000)	(150,000)	(89,604)	2,202,601	(2,404,041)	(3,076,174)	(3,055,121)
Total business-type activities	<u>29,080</u>	<u>(81,250)</u>	<u>(93,704,436)</u>	<u>228,578</u>	<u>206,394</u>	<u>248,918</u>	<u>3,263,279</u>	<u>(1,843,581)</u>	<u>(1,676,410)</u>	<u>(1,659,552)</u>
Total primary government	<u>72,812,493</u>	<u>68,901,651</u>	<u>(1,796,901)</u>	<u>63,332,757</u>	<u>60,140,887</u>	<u>59,323,272</u>	<u>54,312,609</u>	<u>51,847,782</u>	<u>54,840,921</u>	<u>53,100,633</u>
Changes in Net Position										
Governmental activities	4,305,956	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
Business-type activities	3,719,157	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
Total primary government	<u>8,025,113</u>	<u>4,253,291</u>	<u>(63,180,527)</u>	<u>14,011,603</u>	<u>13,190,327</u>	<u>14,015,983</u>	<u>2,755,648</u>	<u>(396,745)</u>	<u>(15,303,573)</u>	<u>33,289,542</u>

Notes:

The City restated net position as of June 30, 2009, 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)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Post-GASB 54 implementation:						
General Fund						
Nonspendable	\$ 201,779	\$ 192,141	\$ 199,581	\$ 268,619	\$ 280,819	\$ 251,358
Restricted	425,551	758,208	560,413	159,715	110,929	247,364
Committed	11,909,590	13,840,859	3,761,859	1,418,300	-	-
Assigned	1,582,296	2,251,649	24,788,434	595,253	760,861	380,682
Unassigned	15,336,497	14,301,563	13,508,494	14,821,921	13,716,496	7,041,658
Total general fund	<u>\$ 29,455,713</u>	<u>\$ 31,344,420</u>	<u>\$ 42,818,781</u>	<u>\$ 17,263,808</u>	<u>\$ 14,869,105</u>	<u>\$ 7,921,062</u>
All Other Governmental Funds						
Nonspendable	\$ -	\$ 289,267	\$ -	\$ -	\$ -	\$ -
Restricted	17,529,237	17,029,510	12,639,104	1,990,159	7,519,397	134,686
Committed	7,627,932	5,394,834	2,723,547	1,374,466	856,344	1,401,402
Total all other governmental funds	<u>\$ 25,157,169</u>	<u>\$ 22,713,611</u>	<u>\$ 15,362,651</u>	<u>\$ 3,364,625</u>	<u>\$ 8,375,741</u>	<u>\$ 1,536,088</u>
Pre-GASB 54 implementation:						
General Fund						
Reserved	\$ 1,124,698	\$ 1,265,850	\$ 1,494,647	\$ 1,531,626		
Unreserved	2,674,638	2,894,988	9,830,681	12,666,003		
Total general fund	<u>\$ 3,799,336</u>	<u>\$ 4,160,838</u>	<u>\$ 11,325,328</u>	<u>\$ 14,197,629</u>		
All Other Governmental Funds						
Reserved	\$ 395,238	\$ 1,423,401	\$ 543,425	\$ 2,281,152		
Unreserved:						
Designated:						
Capital projects fund	656,967	4,513,944	4,643,132	1,375,326		
Special revenue fund	539,152	537,799	381,159	504,325		
Total all other governmental funds	<u>\$ 1,591,357</u>	<u>\$ 6,475,144</u>	<u>\$ 5,567,716</u>	<u>\$ 4,160,803</u>		

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

CITY OF FALLS CHURCH, VIRGINIA

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

(unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues										
General property taxes	53,951,291	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
Other local taxes	16,194,923	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
Permits, fees, and licenses	1,211,625	1,543,975	1,677,603	916,677	634,184	404,899	511,285	322,639	440,771	757,587
Fines and forfeitures	623,251	662,700	777,485	672,757	763,353	727,990	610,267	481,319	482,961	344,063
Charges for services	2,997,544	3,149,616	2,819,182	3,107,315	2,844,768	2,837,487	2,528,088	2,387,814	1,869,435	1,655,668
Use of money and property	482,609	275,503	142,860	141,673	105,827	75,495	85,531	83,428	466,667	855,866
Miscellaneous	92,794	145,705	107,966	265,161	204,908	117,019	150,691	65,129	108,705	591,414
Gifts and contributions	83,824	732,555	148,492	313,575	218,930	77,687	42,328	1,243,431	1,342,652	-
Voluntary Concessions	2,012,950	-	-	-	-	-	-	-	-	-
Recovered costs	370,918	492,274	477,639	509,488	540,765	461,219	1,869,125	1,429,477	1,341,695	1,469,148
Intergovernmental:										
Commonwealth	5,655,194	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
Federal	922,939	677,457	1,140,608	776,311	896,997	798,217	719,247	304,030	207,090	1,105,665
Total revenues	84,599,862	78,648,696	77,495,593	72,269,586	67,862,248	64,881,344	61,639,426	59,546,397	61,627,917	58,961,294
Expenditures										
General government	6,858,045	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
Judicial administration	2,112,412	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
Public safety	12,071,602	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
Public works	5,841,732	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
Health and welfare	2,166,326	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
Parks, recreation, and cultural	4,794,740	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
Community development	2,311,668	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
Education	38,554,169	36,889,734	33,801,767	30,426,504	27,685,031	27,874,069	29,347,120	29,670,612	29,567,369	27,636,683
Economic development	460,337	420,937	351,837	308,788	321,839	316,857	346,937	398,893	378,698	353,294
Capital outlay	7,773,871	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
Debt service:										
Principal retirement	4,053,392	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
Interest and fiscal charges	1,872,349	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
Total expenditures	88,870,643	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
Excess of revenues over (under) expenditures	(4,270,781)	(5,944,787)	(2,559,724)	(2,766,414)	6,046,269	3,192,610	(3,564,683)	(8,661,103)	(6,041,517)	(5,683,904)
Other Financing Sources (Uses)										
Premium on issuance of bonds	-	612,326	1,562,498	-	909,336	-	-	-	-	44,215
Payment to refunded bond escrow agent	-	-	-	-	(17,437,909)	-	-	-	-	(6,181,352)
Proceeds from borrowing	4,667,852	10,400,000	15,890,000	-	-	-	-	-	2,428,800	-
Proceeds from capital leases	69,065	-	2,887,859	-	-	-	-	-	6,550	-
Proceeds from sale of assets	88,715	8,386	-	-	-	784,243	521,995	-	-	-
Original issue discount	-	-	-	-	-	-	-	-	-	(24,351)
Issuance of debt	-	-	-	-	24,120,000	-	-	-	-	6,347,686
Transfers in	2,089,514	2,630,650	23,449,213	2,183,076	150,000	150,000	-	2,404,041	3,076,174	3,055,121
Transfers out	(2,089,514)	(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)	4,825,632	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
Net change in fund balances	\$ 554,851	\$ (4,124,075)	\$ 37,552,999	\$ (2,616,414)	\$ 13,787,696	\$ 4,066,457	\$ (5,245,289)	\$ (6,257,062)	\$ (1,282,345)	\$ (2,442,585)
Debt service as a percentage of noncapital expenditures:	7.31%	6.77%	6.21%	6.38%	6.72%	8.39%	8.15%	8.29%	8.08%	8.63%

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				
2016	\$ 3,004,576,500	\$ 750,495,000	\$ 117,414,292	\$ 32,407,907	\$ 3,904,893,699	\$ 1.45	\$ 3,904,893,699	100.00%
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

(1) Source: Falls Church Office of Real Estate Assessment. Amounts are reported net of exempt property.
(2) Source: Falls Church Treasurer's office. Amounts are reported net of exempt property.
(3) Total Direct Tax Rate is calculated using the weighted average method. Rates are per \$100 of valuation.
(4) Virginia code requires assessment at full market value.

CITY OF FALLS CHURCH, VIRGINIA

DIRECT PROPERTY TAX RATES

Last Ten Fiscal Years

(unaudited)

<u>Year</u>	<u>Real Property (1st half of the Fiscal Year)</u>	<u>Real Property (2nd Half of the Fiscal Year)</u>	<u>Personal Property</u>	<u>Total Direct Rate (1)</u>
2016	\$ 1.315	\$ 1.315	\$ 4.84	\$ 1.45
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

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

TABLE 7

CITY OF FALLS CHURCH VIRGINIA

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

(unaudited)

Taxpayer	2016			2005		
	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
TWM Pearson Square, LLC	\$ 86,138,600	1	2.29 %	\$ 23,335,400	6	0.73 %
Falls Church Country Club (Apartments)	83,274,100	2	2.22	61,851,900	1	1.94
Eden Center, Inc.	55,545,100	3	1.48	48,798,000	2	1.53
Wooddell Family Ltd Partnership	44,899,100	4	1.20	-	-	-
Washreit Roosevelt Towers LLC	32,244,100	5	0.86	-	-	-
Falls Church DVMT Partners LLC	30,888,300	6	0.82	-	-	-
BJ'S GL I, LLC & II, LLC	30,175,000	7	0.80	-	-	-
West Falls Parcel, Inc.	23,997,800	8	0.64	21,280,800	9	0.67
Federal Realty Investment Trust	23,412,000	9	0.62	22,189,200	8	0.70
Aimco Merrill House, LLC	22,097,400	10	0.59	-	-	-
Byron Condominium	-	-	-	40,100,400	3	1.26
Koons, James	-	-	-	29,548,400	4	0.93
Kahn B Franklin et al	-	-	-	24,102,100	5	0.76
Kaiser Foundation Health Plan, Inc.	-	-	-	22,902,500	7	0.72
Noland Co. Inc.	-	-	-	20,005,600	10	0.63
Totals	<u>\$ 432,671,500</u>		<u>11.52 %</u>	<u>\$ 314,114,300</u>		<u>9.87 %</u>

Source: Fall Church Office of Real Estate Assessment. Values as of January 1.

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
2016	\$ 53,442,443	\$ 52,681,973	98.58 %	\$ -	\$ 52,681,973	98.58 %
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.

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

Fiscal Year	Governmental Activities			Business-type Activities			Total Primary Government	Percentage of Personal Income (1)	Debt Per Capita
	General Obligation Bonds	Notes Payable	Capital Leases	General Obligation Bonds	Note Payable*	Revenue Bonds			
2016	\$ 54,657,852	\$ 368,587	\$ 269,952	\$ 10,691,381	\$ 2,441,103	\$1,905,979	\$70,334,854	N/A %	\$ 4,959
2015	54,035,000	735,378	277,354	9,097,085	2,662,896	2,077,008	\$68,884,721	0.08	4,857
2014	47,057,300	1,105,320	-	8,120,647	2,876,161	2,243,020	\$61,402,448	0.07	4,541
2013	34,484,600	-	-	23,043,537	6,435,016	2,404,160	66,367,313	0.08	4,984
2012	37,640,183	-	-	23,902,864	6,979,830	2,482,949	71,005,826	0.09	5,479
2011	32,039,513	-	-	25,298,037	7,842,215	2,712,398	67,892,163	0.09	5,402
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	5,538
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

(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
2016	\$ 65,349,233	\$ -	\$ 65,349,233	1.67 %	\$ 4,608
2015	63,132,085	-	63,132,085	1.71	4,451
2014	55,177,947	-	55,177,947	1.53	4,081
2013	57,528,137	-	57,528,137	1.67	4,321
2012	61,543,047	-	61,543,047	1.86	4,749
2011	57,337,550	-	57,337,550	1.78	4,563
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

CITY OF FALLS CHURCH VIRGINIA

TABLE 11

LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Debt limit	\$ 375,507,150	\$ 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
Total net debt applicable to limit	68,436,277	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
Legal debt margin	<u>\$ 307,070,873</u>	<u>\$ 285,075,757</u>	<u>\$ 299,162,147</u>	<u>\$ 270,811,264</u>	<u>\$ 256,601,990</u>	<u>\$ 247,485,911</u>	<u>\$ 264,118,033</u>	<u>\$ 269,355,535</u>	<u>\$ 303,069,660</u>	<u>\$ 307,246,477</u>
Total net debt applicable to the limit as a percentage of debt limit	18.23%	18.99%	16.25%	19.11%	21.08%	20.85%	19.60%	19.14%	15.58%	13.82%

Legal Debt Margin Calculation for Fiscal Year 2015

Assessed value	<u>\$ 3,755,071,500</u>
Debt limit (10% of assessed value)	\$ 375,507,150
Less debt applicable to limit:	
General obligation bonds	65,349,233
Capital leases	277,354
Notes payable	<u>2,809,690</u>
Legal debt margin	<u>\$ 307,070,873</u>

CITY OF FALLS CHURCH, VIRGINIA

DEMOGRAPHIC STATISTICS
Last Ten Calendar Years
(unaudited)

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Personal Income (3)	Median Age (4)	School Enrollment(5)	Unemployment Rate (6)
2016	14,183	\$ N/A	\$ N/A		2,509	2.70 %
2015	14,183	88,419,380	74,923	38.3	2,456	3.60
2014	13,522	85,035,629	72,296	36.7	2,421	4.00
2013	13,315	81,649,454	69,677	37.0	2,272	3.90
2012	12,960	83,573,905	72,193	36.9	2,178	4.00
2011	12,567	79,750,194	69,875	38.8	2,079	4.30
2010	12,332	73,998,797	65,960	40.4	2,017	4.40
2009	12,054	70,472,656	64,104	41.0	1,967	7.20
2008	11,645	73,573,852	68,281	N/A	1,940	4.00
2007	11,373	73,065,544	68,907	N/A	1,900	3.10

Sources:

(1) Source: For 2001-2009 and 2011-2014 Weldon Cooper Center for Public Service; numbers are estimates as of July 1. Year 2010 is based on U.S. Census estimate. 2016 uses the same data as 2015.

(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: U.S. Census Bureau American Community Survey 5-Year Estimates

(5) Source: City of Falls Church Public School Board.

(6) Source: Virginia Employment Commission

CITY OF FALLS CHURCH, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago
(unaudited)

Employer	2016			2007		
	Employees	Rank	Percentage of Total City Employment (2)	Employees	Rank	Percentage of Total City Employment
Falls Church City Schools	576	1	7.51 %	485	2	7.47 %
Falls Church City Government	312	2	4.07	273	3	4.20
BG Healthcare Services	280	3	3.65	-	-	-
Kaiser Permanente	257	4	3.35	491	1	7.56
Tax Analysts	182	5	2.37	200	4	3.08
Koon's Ford	167	6	2.18	139	5	2.14
VL Home Health Care, Inc	160	7	2.09	-	-	-
BJ's Wholesale Club	125	8	1.63	-	-	-
Don Beyer Volvo	119	9	1.55	88	7	1.36
Giant Food Store	115	10	1.50	130	6	2.00
United States Postal Service	-		-	88	8	1.36
Center for Multicultural Human	-		-	84	9	1.29
Knowlogy	-		-	75	10	1.15
Total	2,293		29.90 %	2,053		31.61 %

Source: Finance and Economic Development Office

Total employment estimate of 7,635 for 2016 and 6,494 for 2007 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	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government	46.90	45.74	39.74	37.90	35.55	35.92	37.88	38.87	38.25	37.75
Judicial administration	13.73	13.61	13.61	13.76	12.76	13.26	13.26	17.01	17.01	17.01
Public safety	54.60	51.60	51.10	51.20	51.20	52.20	55.20	53.60	53.35	51.60
Public works	30.10	29.95	27.65	28.94	28.60	28.00	35.75	34.08	32.58	31.58
Health and Welfare	4.80	4.80	4.80	5.00	5.00	5.90	7.85	8.85	8.85	9.75
Parks, recreation, and cultural	31.25	30.05	29.95	29.95	30.05	31.55	33.35	36.35	36.35	34.48
Community development	16.00	15.90	15.81	15.81	13.81	13.81	13.81	13.81	13.75	13.75
Economic development	3.00	3.00	2.00	2.00	2.00	2.00	3.00	3.00	3.00	3.00
Water	-	-	-	57.60	57.85	56.98	53.65	52.27	52.32	52.32
Sewer	4.92	4.50	4.25	4.30	4.30	4.10	4.10	4.15	4.10	4.10
Storm water	7.98	8.65	9.20	-	-	-	-	-	-	-
Total	213.28	207.80	198.11	246.46	241.12	243.72	257.85	261.99	259.56	255.34

Source: City Adopted Budget

CITY OF FALLS CHURCH, VIRGINIA

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

(unaudited)

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General Government										
Communications										
Number of Media Releases	236	207	N/A	N/A	167	118	95	90	94	109
Number of Periodical Publications	-	-	N/A	N/A	2	N/A	N/A	10	10	10
eFOCUS Newsletter Subscribers	1,142	940	N/A	N/A	1,388	N/A	N/A	1,267	1,454	1,580
Number of Social Media Followers	5,347	3,716	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Judicial Administration										
Court Services										
Aurora House Recidivism	N/A	0%	0%	0%	0%	8%	0%	29%	16%	25%
Aura House Program Completion	N/A	100%	90%	98%	83%	92%	73%	78%	83%	50%
Court Services Juvenile Recidivism	N/A	6%	5%	9%	10%	16%	16%	22%	9%	13%
Court Services Adult Recidivism	N/A	0%	4%	6%	6%	23%	23%	33%	15%	20%
Public safety										
Police										
Part I Crimes (1)	353	310	303	309	270	268	329	441	384	365
Calls for Service	31,387	23,574	26,210	27,411	26,189	26,485	25,862	28,319	26,467	23,407
Accidents	197	204	182	180	188	224	235	231	231	255
Traffic Enforcement	3,311	3,313	4,749	5,314	5,704	8,614	8,113	8,950	7,042	5,052
DWI Arrests	56	97	108	106	127	95	91	70	63	54
Inspections										
Plan Review	990	923	821	N/A	666	N/A	671	442	577	552
Stop Work Orders	24	11	10	N/A	10	N/A	8	8	16	11
Fire Marshal										
Fire Inspections Performed	289	281	186	198	182	152	N/A	N/A	N/A	N/A
Fire Code Violations Cited	997	1,009	359	514	646	308	N/A	N/A	N/A	N/A
Fire Code Permits Issued	267	282	147	123	119	101	N/A	N/A	N/A	N/A
Fires Reported and Investigated	9	8	5	7	2	3	N/A	N/A	N/A	N/A
Estimated Fire/Explosion Loss	\$ 120,000	\$ 1,538,000	\$ 1,763,500	\$ 259,500	\$ 13,000	\$ 2,200	N/A	N/A	N/A	N/A
Public works										
Refuse collected (tons)	N/A	1,977	2,149	2,073	2,015	2,150	2,178	2,415	2,704	2,711
Recycling collected (tons)	N/A	2,926	2,806	3,364	3,241	3,315	3,077	3,690	4,544	3,618
Street Resurfacing (miles)	N/A	3.50	2.75	2	-	1	2	2	2	2
Health and Welfare										
Housing and Human Services										
Information/Referral Contacts	3,009	2,396	2,399	2,136	2,459	3,149	2,971	2,882	2,555	2,674
Education										
Student Membership	2,509	2,456	2,421	2,272	2,178	2,079	2,017	1,967	1,940	1,900
Parks, Recreational and Cultural										
Parks & Recreation										
Special Events	195	174	172	174	171	181	160	164	132	130
Class participants	3,146	3,134	3,981	4,065	3,072	2,663	2,654	2,307	2,140	2,765
Room Reservations	6,028	7,035	6,376	6,237	6,455	6,569	5,982	6,205	6,548	6,150
Tennis Reservations (2)	854	440	1,021	642	922	1,422	1,760	1,723	1,570	1,460
Youth Sports Participants	3,036	3,226	2,677	2,509	2,423	1,987	2,542	2,431	2,207	2,358
Adult Sports Teams	96	120	118	114	111	114	99	100	102	117
Teen Dance Participants	400	500	625	750	827	777	979	1,260	1,875	2,152
Teen Center Attendance	700	900	1,300	1,500	1,722	3,500	3,675	4,000	4,250	4,976
Summer Camps Offered	263	192	220	274	224	244	223	201	196	186
Summer Camp Participants	5,689	5,810	5,103	5,432	5,000	5,002	4,163	4,258	4,211	4,073
Senior Center lunch meals served	198 (3)	792	660	521	519	928	1,255	1,588	1,824	1,760

TABLE 15
(Continued)

CITY OF FALLS CHURCH, VIRGINIA

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

(unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Library:										
Size of collection (all formats)	148,636	144,100	132,031	147,659	146,422	142,728	143,365	159,631	154,175	150,709
Total circulation of all materials	465,687	469,102	461,394	446,563	442,480	426,272	452,498	429,286	365,861	346,637
Total visits to library (door count)	310,251	325,512	316,430	297,468	307,466	283,773	232,379	219,831	203,743	2,002,002
Number of registered borrowers	27,413	29,025	28,362	25,914	24,056	28,395	25,263	23,357	25,155	25,470
Number of website visits/yr	566,877	187,993	N/A	226,961	137,342	154,284	182,373	166,258	135,579	141,932
Number of programs/yr	738	785	654	554	518	603	298	345	297	312
Attendance at programs	27,087	28,119	18,924	17,370	15,761	20,345	11,710	14,235	12,773	11,321
Community development:										
Planning										
Development Inquiries	29,802	23,732	N/A	N/A	20,353	8,927	8,927	9,905	6,400	6,200
Plans Reviewed	N/A	N/A	N/A	N/A	2	26	26	34	52	49
Code/Policy Review	N/A	72	35	18						
Zoning										
Development Inquiries	492	366	N/A	N/A	N/A	2,100	2,100	2,570	2,000	2,200
Permits/Plans Reviewed	N/A	N/A	N/A	N/A	708	600	600	660	1,700	2,100
Urban Forestry										
Development Inquiries	N/A	1,400	2,400	1,200						
Permits/Plans Reviewed	N/A	192	443	75						
Trees Planted/removed/pruned	1,372	1,372	1,067	708	N/A	N/A	N/A	825	859	897
Water										
New connection applications	N/A	N/A	N/A	74	218	265	23	53	60	90
Water main breaks	N/A	N/A	N/A	165	93	148	118	141	112	172

Sources:

Reported by individual departments

Notes:

N/A- Not available

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

(2) Four courts were under renovation and out of service during the year.

(3) The Senior Center Meals program was canceled as of August 31, 2015.

Library - Librarian

Building permits - City Planner

CITY OF FALLS CHURCH, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years
 (unaudited)

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
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	2	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	73	72	32	32	32	32	32	32	32
Traffic signals	28	28	28	29	29	29	29	29	34	34
Streetlights	191	191	198	142	142	142	142	142	136	136
Refuse Trucks	-	-	-	-	-	5	5	5	5	5
Education										
School Buildings	5	5	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	13
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	7	6	6	6	6	6
Library:										
Library (Facility)	1	1	1	1	1	1	1	1	1	1
Community development:										
Urban Forestry										
Vehicles	4	4	3	3	3	3	3	3	3	3
Water										
Water Mains (Miles)	-	-	-	502	500	497	497	497	497	496
Tanks	-	-	-	10	10	10	10	10	10	10
Pumps	-	-	-	29	29	29	29	29	29	28
Fire Hydrants	-	-	-	3,286	3,253	3,220	3,201	3,201	3,188	3,169
Sewer										
Sanitary Sewer Mains (Miles)	43	43	47	44	44	44	44	43	43	43
Sanitary Sewer Manholes	1,013	1,012	1,155	1,190	1,186	1,186	1,175	1,001	1,001	1,001
Stormwater										
Storm Sewer Mains (Miles)	27	27	31	N/A						
Storm Sewer Structures	1,400	1,400	1,754	N/A						

Notes

NA-Not Available

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

(2) The police station is located in City Hall

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

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COMPLIANCE SECTION

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 28, 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.**

Compliance and Other Matters

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

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
November 28, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. The City's major federal program is 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 the City's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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 its major federal program for the year ended June 30, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 28, 2016

CITY OF FALLS CHURCH, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2016

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, 2016

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 the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings related to the major program**.
7. The major program of the City is:

Name of Program	<u>CFDA #</u>
Special Education Cluster – Grants to States	84.027
Special Education Cluster – Preschool Grants	84.173

8. The **threshold for** distinguishing Type A and B programs was **\$750,000**.
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, 2016

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

None.

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 and will evaluate eligible streets more closely.

CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)

2015-003: BUDGET COMPLIANCE

Condition: The City spent \$76,823, \$20,372 and \$87,374 more on judicial administration, community development, 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.

2016-001: WELDON COOPER SURVEY

Condition: The City overstated expenditures on the Weldon Cooper Survey submitted to the Virginia Department of Transportation.

Recommendation: The City should have an individual designated to perform a thorough review and reconciliation of the Weldon Cooper Survey prior to submission.

Management's Response: Management concurs with this recommendation and will implement a review process.

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal CFDA Number	Pass-through ID Number	Federal Expenditures	Total Expenditures by Cluster
U.S. Department of Agriculture				
Pass-through payments:				
Services				
National School Lunch Program	10.555	2015IN109941/ 201616N109941	87,870	
School Breakfast Program	10.553	2015IN109941/ 201616N109941	12,918	
Subtotal for Cluster			<u>100,788</u>	\$ 100,788
Total U.S. Department of Agriculture			<u>100,788</u>	<u>100,788</u>
US Department of Treasury				
Direct payments:				
Treasury Executive Office for Asset Forfeiture	21.000	N/A	8,599	8,599
			<u>8,599</u>	<u>8,599</u>
U.S. Department of Homeland Security				
Direct payments:				
United States Secret Service High Intensity Drug Trafficking Area	97.000	N/A	7,300	7,300
Pass-through payments:				
Virginia Department of Emergency Management Disaster Recovery	97.xxx	N/A	84,212	84,212
Total U.S. Department of Homeland Security			<u>91,512</u>	<u>91,512</u>
U.S. Department of Housing and Urban Development				
Pass-through payments:				
County of Arlington, Virginia:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	116,113	116,113
Home Investments Partnership Program	14.239	N/A	23,718	23,718
Total U.S. Department of Housing and Urban Development			<u>139,831</u>	<u>139,831</u>
U.S. Department of Justice				
Direct payments:				
Seized assets	16.000	N/A	107,595	107,595
Total U.S. Department of Justice			<u>107,595</u>	<u>107,595</u>
U.S. Department of Transportation				
Pass-through payments:				
Commonwealth Virginia Department of Transportation				
Highway Planning and Construction	20.205	100689/103632/ 102555/107952	218,903	218,903
State and Community Highway Safety	20.600	N/A	2,127	2,127
Northern Virginia Transportation Commission				
Federal Transit Capital Investment Grants	20.500	72510-18/72507-08/ 72508-19/72510-57	217,368	217,368
Washington Metropolitan Area Transit Authority National Infrastructure Investments (TIGER Discretionary Grants)	20.933	N/A	27,370	27,370
Total U.S. Department of Transportation			<u>465,768</u>	<u>465,768</u>
U.S. Department of Education				
Pass-through payments:				
Commonwealth of Virginia Department of Education:				
Special Education - Grants to States	84.027	H027A140107	397,265	
Special Education - Preschool Grants	84.173	H173A140112	9,694	
Subtotal for Cluster			<u>406,959</u>	406,959
Title I - Grants to Local Educational Agencies	84.010	S010A140046/ S010A150046	40,923	40,923
English Language Acquisition Grants	84.365	S365A130046/ S365A140046	32,636	32,636
Improving Teacher Quality State Grants	84.367	S367A130044/ S367A140044/ S367A150044	33,227	33,227
Vocational Education - Basic Grants to States	84.048	V048A140046/ V048A150046	13,974	13,974
Total U.S. Department of Education			<u>527,719</u>	<u>527,719</u>
Total Expenditures of Federal Awards			<u>\$ 1,441,812</u>	<u>\$ 1,441,812</u>

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, 2016

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 \$20,459 from the National School Lunch Program.

III. De Minimis Indirect Cost Rate

The City did not elect to use the 10% de minimus indirect cost rate.