

**CITY OF FALLS CHURCH, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

**Prepared by:**

**City of Falls Church, Virginia**  
**Finance Department**

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# INTRODUCTORY SECTION

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**CITY OF FALLS CHURCH, VIRGINIA**

**CITY COUNCIL**

David Tarter, Mayor  
Marybeth Connelly, Vice Mayor

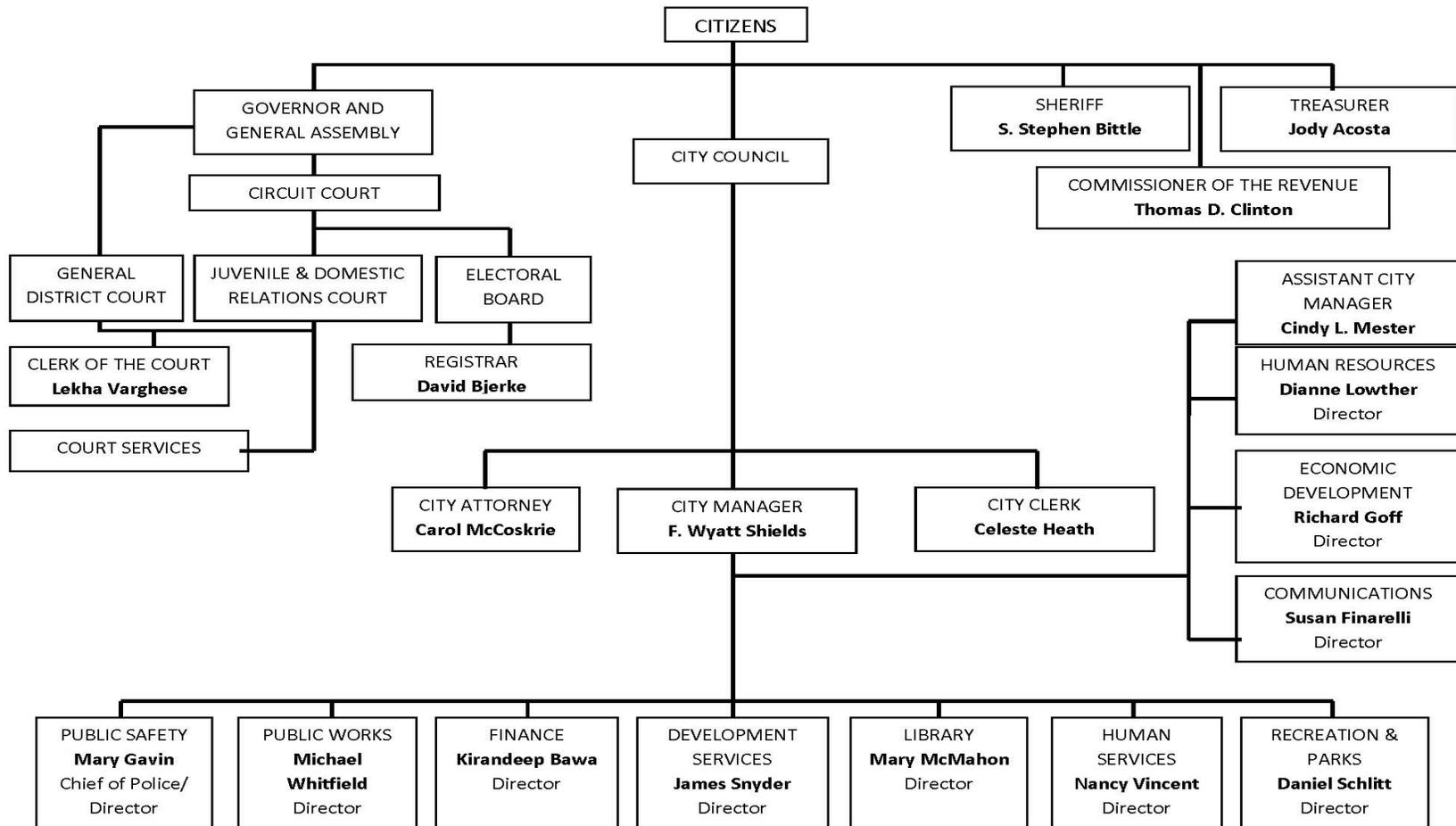
Dan Sze  
Karen Oliver  
David F. Snyder

Phil Duncan  
Letty Hardi

**OFFICIALS**

F. Wyatt Shields, City Manager  
Cindy L. Mester, Assistant City Manager  
Kirandeep Bawa, 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  
Dr. Peter Noonan, Superintendent of Schools

# CITY OF FALLS CHURCH, VIRGINIA ORGANIZATIONAL CHART As of JUNE 30, 2017





# CITY OF FALLS CHURCH

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November 30, 2017

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, 2017, 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, 2017, 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, 2017 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 DEVELOPMENT TRENDS**

### **The Local Marketplace and Mixed-Use Development**

The City of Falls Church benefits from over \$545 million in new development and investment along its primary commercial corridors in recent years. 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 \$10.6 million in gross revenue and \$3.8 million in net revenue for the City annually. At the end of calendar year 2017, very nearly all eight of the mixed use projects built since 2003 are fully stabilized. Only the Lincoln at Tinner

Hill building lacks full commercial occupancy, awaiting a new Target store scheduled to open in March of 2018. The remainder of the vacant ground floor space in the building is expected to lease up relatively quickly after Target opens.

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. Included in that total is the Tax Analysts Building, a physically detached component of the Pearson Square project on South Maple Avenue, containing 85,000 square feet of fully occupied Class A office and retail space. The Good Fortune Grocery store, along with the Harris Teeter grocery has contributed to a rise in sales and meals tax receipts in the City in the past two years.

### **Office Trends**

Office space in the City averages more than 50 years in age, according to CoStar, which also reports the average rent at \$23.25 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 8.3 percent – lower, by comparison, to Northern Virginia's direct office vacancy rate of nearly 20 percent.

The City trend in attracting medical practices and small professional office tenants continues. In 2013, office properties at 500/510/520 N. Washington Street were purchased by an affiliate of Inova Health Systems as a mid-range real estate 'hold' and long-term health facility development opportunity. Since that purchase, health and wellness related Inova offices have renovated and moved into some of the available spaces. Properties at 500/510 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. They have recently added a walk-in medical clinic to their offerings in these buildings. There are many new and existing dental and medical practices in both older and new office buildings in the City, including in the newer mixed use buildings.

The Kerns Group of architects purchased and renovated the former Odd Fellows Building on N. Maple Avenue in 2013 for their headquarters with space available for retail or office sublease. The "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 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 is vacant space for retail. As it becomes available, this space is quickly backfilled, and at higher rent. CoStar reports the vacancy rate for retail space in the City in November 2017 is 2.3 percent, even lower than last November's 3.5% rate. Average retail rent in the City at \$26.98/sf (triple net), also trending up since last year. This does not include far higher rates for space at the Eden Center, which is not reflected in CoStar data. This also compares with higher vacancy rates and higher average rents in the rest of Northern Virginia.

In 2016, the City saw the grand opening of the 60,000 Harris Teeter store in the 301 W. Broad project, and the opening of the 43,000 square foot Good Fortune grocery in the Eden Center. In 2018, the City anticipates the opening of another grocery addition, a new Aldi grocery store in the late fall. In early 2018, a smaller specialty grocer, Troika Gastronom, will also be relocating into much larger space in the same Tower Square shopping center on Hillwood Avenue as the Aldi grocery. Food and beverage businesses have also been the source of great demand for commercial space in Falls Church. Most recently during 2017 we saw the openings of Liberty BBQ, Falls Church Distillers (the first distillery in the City has been an exciting and very popular destination option), and a re-opening of the popular Afghan restaurant, Panjshir, in a new and larger space, as well as and Mediterranean Chicken and Ramen Factory 42 in the strip center in the 300 block of S. Washington Street. In 2018, we anticipate openings for many other food and beverage establishments including

Northside Social on the corner of Park and N. Maple; a new brewery, Audacious Aleworks, and Bakeshop (both Audacious Aleworks and Bakeshop will open in the strip shopping center across from The Falls Church). Dominion Wine and Beer, at 107 Rowell Court will also be opening a second floor tasting room. In the past few years many other food/beverage operators have also joined the list of diverse offerings in the City including Einstein Brothers Bagels, Pizzeria Orso, Chipotle, Paisano's, Sfizi, 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 and Lil' City Creamery, all serving to bolster the City's meals tax revenue.

The health, fitness and beauty boom continues in a big way in the City. Back 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. Since then, we have seen many spas, hair styling (including the latest popular trend of barbershops), yoga, crossfit, boxing, cycling and other concepts open their doors in Falls Church. In late 2017, Orangetheory Fitness and CycleBar most recently joined those ranks.

### **Pipeline Projects**

A land entitlement application was approved in 2016 for a \$155 million mixed-use project on 4.3 acres at the northeast corner of West and Broad streets. "Founders Row" was anticipated to consist of 322 apartments, a 145-room hotel, and about 100,000 square feet of retail/restaurant space, including a multi-screen, dine-in Movie Theater. Modifications to the approvals of that project are expected to be considered by City Council in early 2018, changing the composition of the project to include 72 age restricted rental apartments, in substitution for the hotel. Construction for that major project could get started in mid-to-late 2018.

An application was filed in 2015 by Insight Property Group for a mixed-use project on almost three acres at the intersection of Routes 7 and 29 in the center of Falls Church. The "Broad and Washington" developer is in the process of concluding their visits with City Boards and Commissions and finalizing their negotiations with the City and the project's neighbors, including revisions to the massing of the project and strengthening the retail/commercial mix of uses in the project, to include no less than 13,800 SF of restaurant space. Second reading for that project is anticipated in the Spring of 2018; construction could potentially begin in the late fall of 2018.

Intense interest and activity from investors pursuing land assembly and higher density development opportunities in the City of Falls Church continues. 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 and empty nesters 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.

## **George Mason High School Campus/10 acre redevelopment project**

The most significant and important future land use project anticipated in the City was formally and officially “launched” on November 7, 2017, when 64% of City voters authorized the issuance of up to \$120 million in bonds to pay for a new high school in the City. The next steps in the project include the schools planning for the design of the school and the City government marketing up to 10 acres of campus land for economic development, to help pay for the new school. Both the school design and an economic development agreement are scheduled to be completed in spring 2019. The design process will include multiple opportunities for public input and comment. The schedule currently calls for the new high school to begin construction in 2019, and open in summer 2021. The commercial development on up to 10 acres of the campus would commence after the new school is open.

## **Employment, Education and Household Income Trends**

In September of 2017, the Virginia Employment Commission reported that the City of Falls Church has only a 2.6 percent unemployment rate, compared to the state-wide Virginia rate of 3.5 percent and a nationwide rate of 3.9 percent. Forbes reported in July of 2017 that the City of Falls Church has an annual median household income of \$122,092, the second highest of any jurisdiction in the United States; the City is the smallest jurisdiction on Forbes list. The Forbes annual article also highlights the City’s extremely high educational attainment level – 78.8% of our adult residents have a bachelor’s degree or higher, which is the highest for any city or county in the country

## **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



Kiran Bawa  
Director of Finance

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## **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, 2017, 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, 2017, 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.

## ***Change in Accounting Principle***

As described in Note 19 to the financial statements, in 2017, the City adopted new accounting guidance, *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pensions*. Our opinion is not modified with respect to this matter

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information as listed in the table of contents, and statistical section, are presented for purposes of additional analysis and are not a required part of the 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 January 10, 2018 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  
January 10, 2018

**CITY OF FALLS CHURCH, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FINANCIAL SECTION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



**CITY OF FALLS CHURCH, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2017**

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, 2017.

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 \$90.9 million at June 30, 2017. Of this balance, \$120.1 million is the Primary Government's and negative \$29.2 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 FY2017, taxes and other revenues of the City's governmental activities amounted to \$87.2 million and expenses and transfers amounted to \$81.7 million, which resulted in an increase in net position for the City's governmental activities of \$5.5 million.
- Revenues of the City's business-type activities were \$7.4 million, and expenses and transfers were \$4.5 million, which resulted in an increase in net position for the City's business-type activities of approximately \$2.9 million.

**HIGHLIGHTS FOR FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the City's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting for the City's governmental funds. The City's governmental funds comprise of the General Fund, the Capital Projects Fund, the Special Transportation Fund, FCCTV 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 \$1.4 million.
- The City's General Fund reported a total fund balance of \$29.4 million at June 30, 2017, a decrease of \$32 thousand from June 30, 2016. The City transferred committed capital reserve balances to the City's Capital Projects Fund in the amount of \$2 million resulting in this decrease in fund balance.
- In the General Fund, the unassigned fund balance as of June 30, 2017 of \$15.0 million was 18.2% of expenditures. Committed fund balance as of June 30, 2017 was \$10.6 million. Of this, \$9.7 million is for future capital projects. Assigned fund balance as of June 30, 2017 was \$2.4 million. Non spendable and restricted fund balance as of June 30, 2017 was \$1.4 million.
- The City's Capital Projects Fund reported an increase in fund balance of \$2.4 million, resulting in a balance of \$22.9 million at June 30, 2017. This increase is due mainly to the receipt of voluntary concessions from a developer for school capital costs which has not yet been expended.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2017**

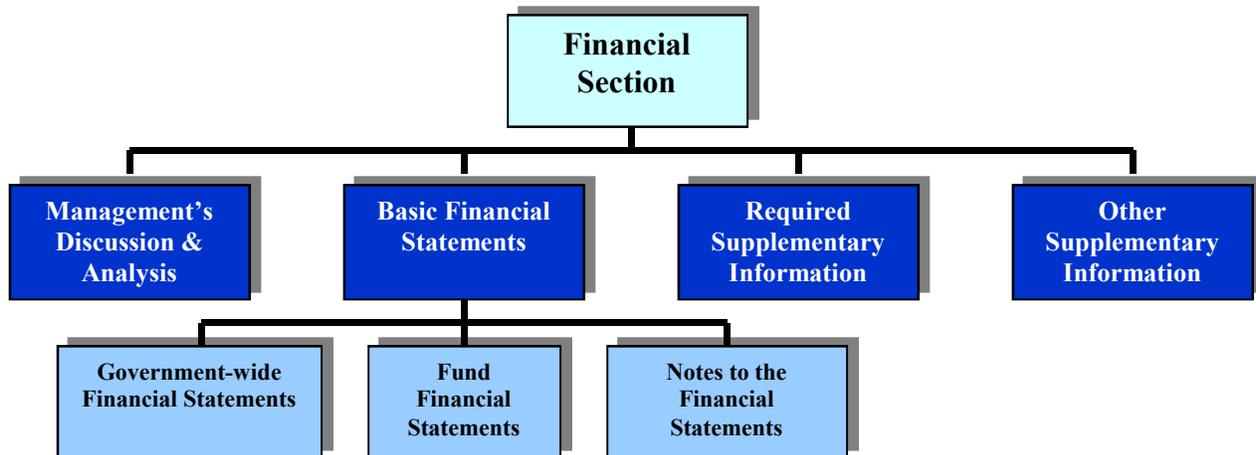
- The City's Special Transportation Fund also reported a decrease in fund balance of \$912 thousand, mainly due to the use of prior year bond proceeds to fund current year capital outlay.

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

- The City's Sewer fund reported an increase in net position of \$2.6 million in FY2017 primarily due to the receipt of availability fees from developers of \$1.4 million. These receipts are designated by the City to be used for future system expansion. 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 \$291 thousand. The fund pays for principal on debt and purchases of capital infrastructure and equipment from this excess of revenue over expenses.

**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, 2017**

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 five governmental funds: (1) the General Fund, (2) the Capital Projects Fund, (3) the Special Transportation Fund, (4) the Affordable Dwelling Units Fund, and (5) the newly-established Falls Church City Television (FCCTV) Fund.

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

**CITY OF FALLS CHURCH, VIRGINIA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2017**

of major capital facilities (other than those financed by the Proprietary Funds). The Special Transportation Fund is used to account for activities related to transportation, including but not limited to, the additional tax revenues received through the Northern Virginia Transportation Authority (NVTA) specifically levied for certain transportation and transit expenditures. The Affordable Dwelling Units Fund accounts for the City’s planned investments in affordable housing. The FCCTV Fund accounts for the expenditures in the operation of a TV station that provides public service programs and is mainly funded with a transfer from the General Fund.

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, 2017**

**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, 2017 and 2016.

<b>Summary of Net Position</b>				
<b>As of June 30, 2017 and 2016</b>				
<b>(\$ In Thousands)</b>				
	<b>2017</b>		<b>2016</b>	
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
<b>Assets:</b>				
Current and other assets	\$ 79,157	\$ 14,958	\$ 85,403	\$ 14,496
Capital assets, net	79,219	26,114	77,657	25,243
Total assets	<u>158,376</u>	<u>41,072</u>	<u>163,060</u>	<u>39,739</u>
Deferred Outflows of Resources	<u>9,307</u>	<u>520</u>	<u>6,112</u>	<u>223</u>
<b>Liabilities:</b>				
Other liabilities	11,798	584	13,505	932
Long-term liabilities	<u>55,617</u>	<u>14,538</u>	<u>59,312</u>	<u>15,395</u>
Total liabilities	<u>67,415</u>	<u>15,122</u>	<u>72,817</u>	<u>16,327</u>
Deferred Inflows of Resources	<u>6,470</u>	<u>164</u>	<u>8,083</u>	<u>369</u>
<b>Net Position:</b>				
Invested in capital assets, net of related debt	41,538	12,247	38,821	11,598
Restricted for other projects	1,167	-	425	-
Unrestricted	<u>51,092</u>	<u>14,059</u>	<u>49,026</u>	<u>11,668</u>
Total net position	<u>\$ 93,797</u>	<u>\$ 26,306</u>	<u>\$ 88,272</u>	<u>\$ 23,266</u>

The decrease in current and other assets for governmental activities of \$6.2 million is due primarily to a decrease in net pension assets. Net pension assets decreased in FY2017 due to service cost and interest cost being higher than contributions and investment gains during the measurement period and also due to changes in mortality assumptions implemented during the measurement period.

Net capital assets for governmental activities increased by \$1.6 million, primarily due to replacements of old heating, ventilation and air conditioning systems at the school buildings, reconstruction of roadbeds, replacement of vehicles, and construction of new bus shelters. These investments in capital assets totaled \$5.2 million; depreciation offset was \$3.6 million.

Current and other assets for business-type activities increased by \$0.5 million during FY2017 mostly as a result of receipt of availability fees in the Sewer Fund of \$1.4 million.

**CITY OF FALLS CHURCH, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2017**

Net capital assets for business-type activities increased by \$0.9 million due to continued investments in capital infrastructure. This consists mainly of upgrades at the Alexandria Renew sewer treatment plant of \$0.6 million, the relining of sanitary sewer and storm water pipes of \$0.7 million, and the purchase of a new sewer vacuum truck and backhoe for \$0.4 million.

The increase in deferred outflows of \$3.2 million for the governmental activities and \$0.3 million for the business-type activities is due to actual investment earnings being lower than projected during the measurement period. Notes 12 through 14 includes information on the deferred outflows of the City related to its pension plans.

The decrease in other liabilities for governmental activities of \$1.7 million was mostly due to timing differences in the payment of biweekly payroll obligations between the two years. In addition, accounts payable for capital projects decreased in FY2017 because of a corresponding decrease in construction activity in FY2017. Other liabilities for business-type activities also decreased by \$0.3 million mostly because the relining of sanitary sewer pipes were completed earlier in FY2017 than it was in FY2016.

Long-term liabilities for governmental activities decreased by \$3.4 million due to regular annual principal payments on general obligation bonds in the amount of \$4.5 million. This was slightly offset by the issuance of bonds of \$1 million in FY2017.

For the business-type activities, there was a decrease of \$0.9 million in long-term liabilities, due mostly to the payment of regular annual principal on debt of \$0.8 million.

During FY2017, the net position invested in capital assets, net of related debt, increased for the City's governmental activities by \$2.7 million mainly due to the capital activities noted previously. It also increased for the business-type activities by \$0.6 million also due to continued investments in infrastructure and equipment.

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**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2017**

**STATEMENT OF ACTIVITIES**

The following table summarizes the changes in net position for the primary government for the years ended June 30, 2017 and 2016:

<b>Summary of Changes in Net Position For the Fiscal Years Ended June 30, 2017 and 2016 (\$ In Thousands)</b>				
	<b>2017</b>		<b>2016</b>	
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Revenues:				
Program revenues:				
Charges for services	\$ 4,349	\$ 7,306	\$ 4,916	\$ 7,770
Operating grants & contributions	3,047	-	2,630	-
Capital grants & contributions	3,465	-	4,287	104
General revenues:				
General property taxes	56,072	-	53,731	-
Business license taxes, based on gross receipts	4,110	-	3,974	-
Local sales & use taxes	4,604	-	4,210	-
Consumer's utility taxes	2,149	-	2,147	-
Motor vehicle decals	347	-	336	-
Recordation	475	-	392	-
Occupancy, tobacco, & other taxes	5,420	-	5,166	-
Unrestricted grants & contributions	2,021	-	2,021	-
Revenue from use of money and property	445	35	483	93
Other	86	24	140	-
Special item - gain/(loss) on sale of capital assets	595	-	-	-
<b>Total revenues</b>	<b>87,185</b>	<b>7,365</b>	<b>84,433</b>	<b>7,967</b>
Expenses:				
General government administration	7,094	-	6,909	-
Judicial administration	2,314	-	2,068	-
Public safety	11,376	-	11,412	-
Public works	7,084	4,119	7,873	3,840
Health and welfare	2,262	-	2,161	-
Education and payments to schools	41,479	-	40,198	-
Parks, recreation, and cultural	5,339	-	5,045	-
Community development	2,676	-	2,276	-
Economic development	454	-	458	-
Interest expense	1,581	343	1,791	343
<b>Total expenses</b>	<b>81,659</b>	<b>4,462</b>	<b>80,191</b>	<b>4,183</b>
Excess/(deficiency) before transfers	5,526	2,903	4,242	3,784
Transfers	-	-	64	(64)
Change in net assets	5,526	2,903	4,306	3,720
Net position, beginning of year*	88,272	23,404	83,966	19,546
Net position, end of year	<b>\$ 93,798</b>	<b>\$ 26,307</b>	<b>\$ 88,272</b>	<b>\$ 23,266</b>

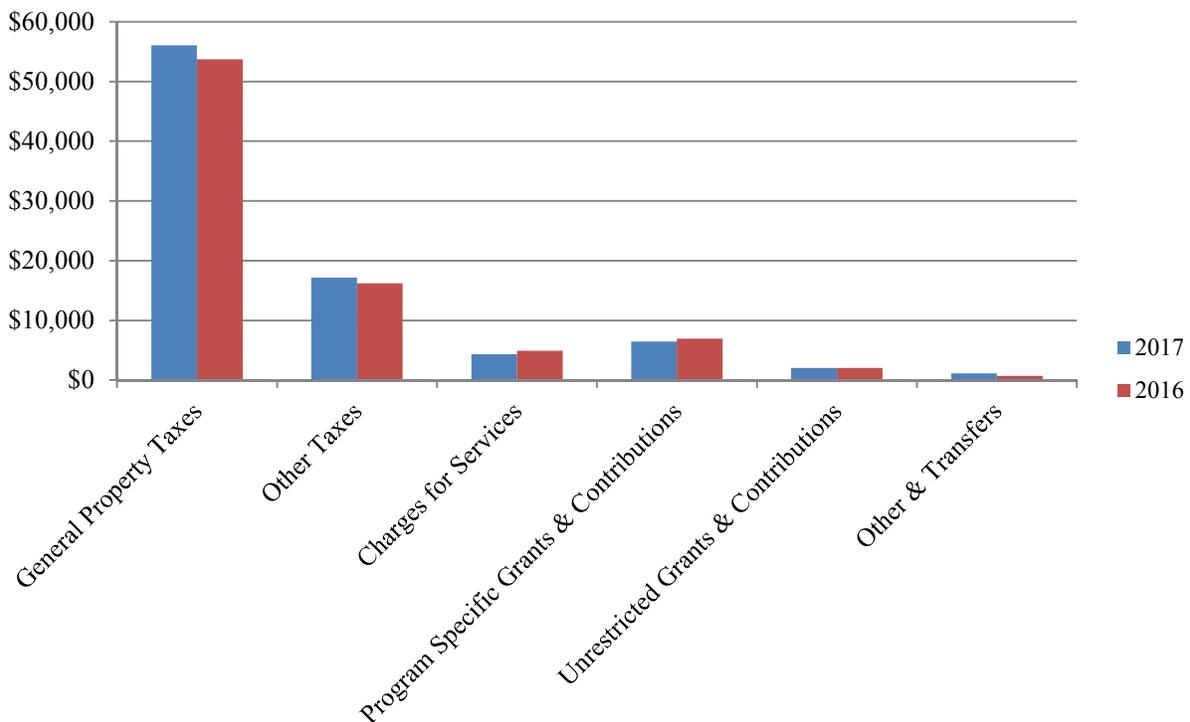
\*As restated. See Note 23.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2017**

**Governmental Activities**

Revenues and transfers for the City's governmental activities were \$87.2 million for FY2017 and \$84.4 million for FY2016. Sources of revenue for FY2017 and 2016 are comprised of the following items:

**REVENUES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016  
(\$ IN THOUSANDS)**

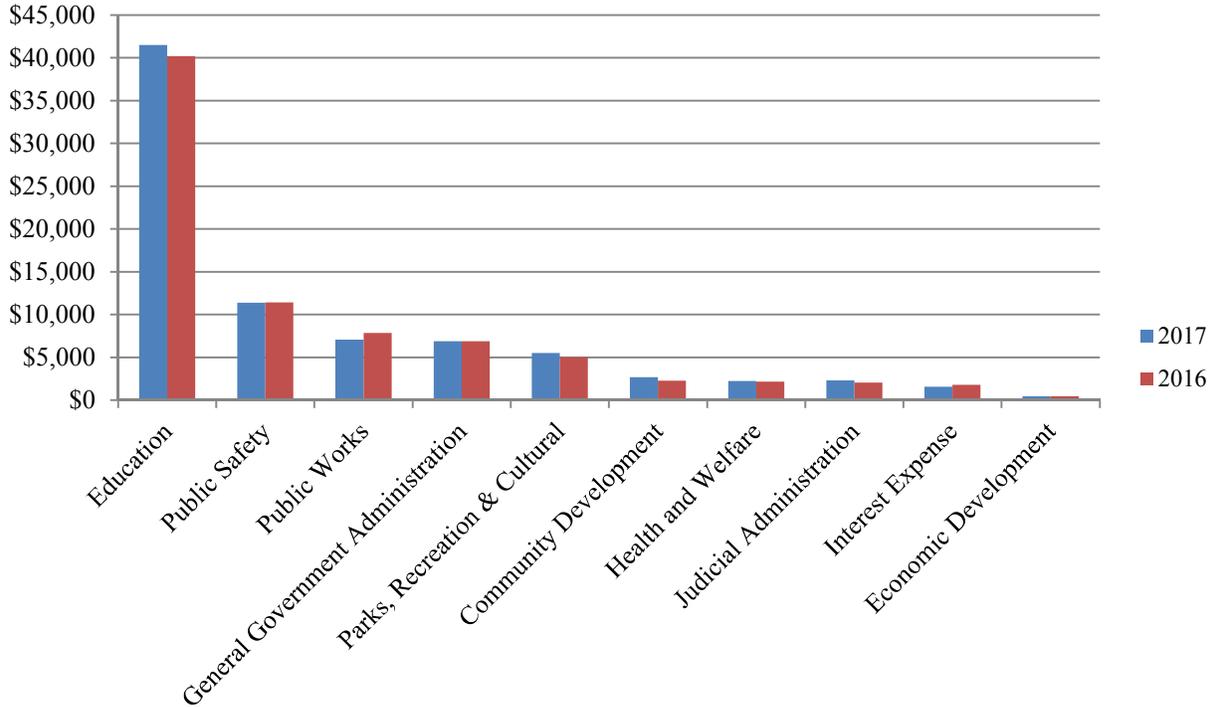


Taxes constitute the largest source of City revenues, amounting to \$73.2 million for FY2017 and \$70.0 million for FY2016. Real property taxes (\$50.4 million in FY2017 and \$48.7 million in FY2016) represent approximately 69% of tax revenues in FY2017 and 70% in FY2016.

The cost of all governmental activities in FY2017 was \$81.7 million, and in FY2016 was \$80.2 million. The increase of approximately 1.8% in FY2017 over FY2016 was largely due to increased spending for education (\$41.5 million in FY2017 and \$40.2 million in FY2016) as a result of enrollment increase of 6.4%. Education was the City's largest program in both fiscal years 2017 and 2016. Public safety expenses represent the second largest expense in both of the fiscal years, totaling \$11.4 million in FY2017 and FY2016. Public works expense for the City in FY2017 at \$7.1 million and in FY2016 at \$7.9 million.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2017**

**EXPENDITURES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016  
(\$ 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).

<b>Net Cost of City's Governmental Activities</b>				
<b>For the Fiscal Years Ended June 30, 2017 and 2016</b>				
<b>(\$ In Thousands)</b>				
<b>Functions/Programs</b>	<b>2017</b>		<b>2016</b>	
	<b>Total Cost</b>	<b>Net Cost</b>	<b>Total Cost</b>	<b>Net Cost</b>
Education and payments to schools	\$ 41,479	\$ 39,667	\$ 40,198	\$ 38,185
Public safety	11,376	9,870	11,412	9,619
Public works	7,084	3,747	7,873	3,968
General government administration	7,094	6,835	6,909	6,759
Parks, recreation, and cultural	5,339	3,051	5,045	2,793
Health and welfare	2,262	1,858	2,162	2,015
Community development	2,677	2,530	2,276	2,134
Other	4,349	3,241	4,316	2,886
<b>Total</b>	<b>\$ 81,660</b>	<b>\$ 70,799</b>	<b>\$ 80,191</b>	<b>\$ 68,359</b>

**CITY OF FALLS CHURCH, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2017**

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$4.3 million in FY2017 and \$4.9 million in FY2016) and other governments and organizations that subsidized certain programs with grants and contributions (\$6.5 million in FY2017 and \$6.8 million in FY2016). The remaining net cost services of the \$70.8 million in FY2017 and \$68.5 million in FY2016 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 also reported in the component unit School Board.

**Business-type Activities**

The Sewer Fund reported an increase in net position of \$2.6 million for FY2017 and an increase of \$3.4 million for FY2016. In FY2017, total revenues of the Sewer Fund were \$5.8 million as compared to total costs of \$3.1 million. In FY2016, total revenues of the Sewer Fund were \$6.3 million and total costs and transfers were \$2.9 million. The Sewer Fund recovers its costs primarily through direct user charges. The decrease in revenues in FY2017 was mainly due to a smaller amount of availability fees collected from developers (\$1.4 million in FY2017 and \$2.1 million in FY2016). These fees are designated to pay for future system capacity expansion to ensure continuity of service to its customers and vary significantly from year to year depending on the volume of new development activity in the City's sewer service area.

The Storm Water Fund showed stable results of operations in FY2017 as compared to FY2016. There was an increase in net position of \$0.3 million for both FY2017 and FY2016. Total revenues in FY2017 and in FY2016 were \$1.6 million and expenses and transfers were \$1.3 million also for both years. The fee for the storm water was \$18.00 per 200 square feet of impervious surface for the two years.

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**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2017**

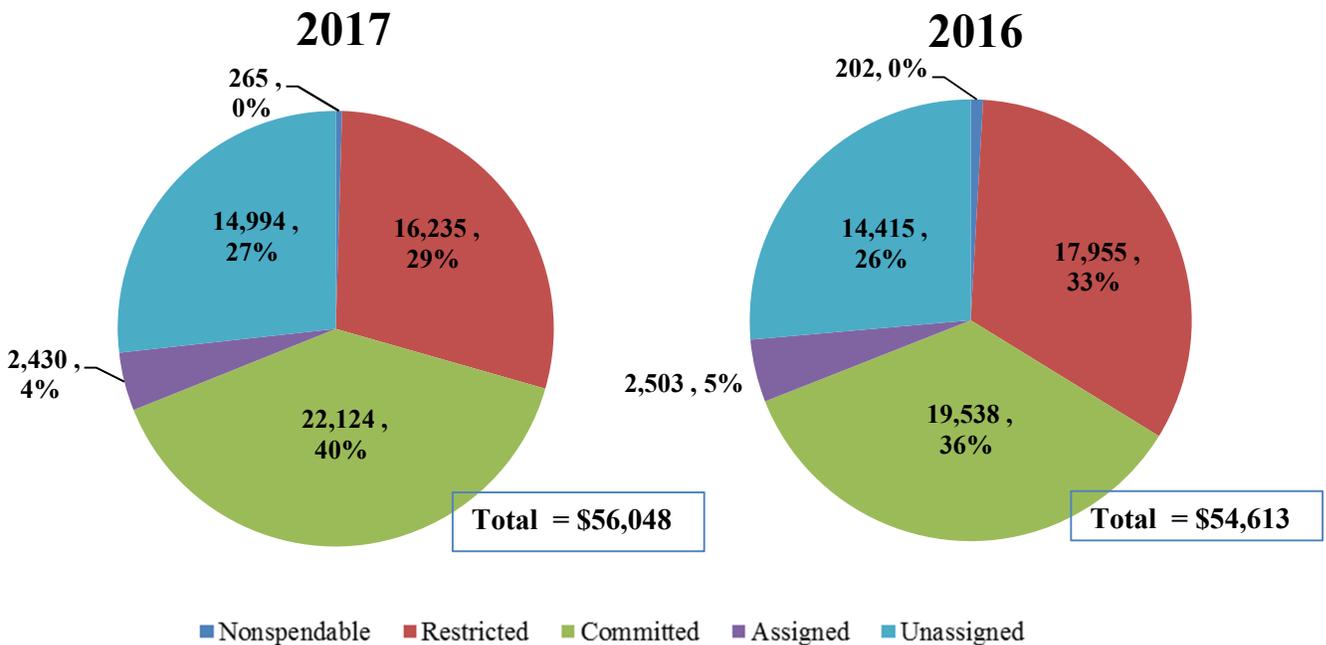
**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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 classifications based upon constraints placed on the use of resources. Note 24 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, 2017 and 2016.

**GOVERNMENTAL FUNDS – FUND BALANCES  
AS OF JUNE 30, 2017 AND 2016 (\$ IN THOUSANDS)**



Overall, the fund balance for all governmental funds increased by approximately \$1.4 million in FY2017 (\$86.7 million in revenues and \$1.6 million in other financing sources less total expenditures and other financing uses of \$86.9 million) and increased by \$0.6 million in FY2016 (\$84.6 million in revenues and \$4.8 million in other financing sources less \$88.9 million in total expenditures and other financing uses). The increase was mostly as a result of the receipt of voluntary concessions for school capital costs from a developer recorded in the Capital Project Fund that have not yet been spent.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2017**

Revenues increased by \$2.2 million in FY2017 mainly due to an increase in assessed values of real property of 3.8% (86% of this increase in assessed values is attributable to new construction). Personal property revenues also increased by \$0.5 million due to an increase in assessed values and a tax rate increase. The City also experienced a \$0.9 million increase in other local taxes, with \$0.6 million of the increase attributed to sales and meals tax revenues. The City received \$1.6 million in voluntary concessions from developers in FY2017 while in FY2016, it received \$2.0 million. Voluntary concessions vary greatly from year to year as they depend on the completion of large commercial or multi-family properties. The City also sold land resulting in proceeds of \$0.6 million. In FY2017, the City only issued \$1.0 million in new debt to finance capital expenditures for its governmental funds while in FY2016 the City issued \$4.7 million. The issuance of debt largely depends on the projected cash outflow for capital projects.

The decrease of \$2.0 million in expenditures was primarily due to less construction activity in the capital project fund. In FY2017, construction at the Mt. Daniel Elementary School was suspended due to the delay in the permitting process. The City also reconstructed synthetic turf and field track in FY2016. Expenditure for education increased by \$1.3 million from FY2016 to FY2017 due mostly to a 6.4% increase in enrollment.

Approximately 27% 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 40% of the City's fund balance and represents amounts committed by the City Council for future capital expenditures (\$9.7 million in FY2017 and \$9.4 million in FY2016), and for costs associated with future development inspections (\$0.9 million in FY2017 and in FY2016). Restricted fund balance which makes up 29% 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 4% 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 ending General Fund unassigned fund balance as of June 30, 2017 of \$15.0 million represents 18.2% of General Fund expenditures.

The following shows the fund balances of these funds by fund as of June 30, 2017 and 2016:

<b>Fund Balances - Governmental Funds</b>										
<b>As of June 30, 2017 and 2016</b>										
<b>(\$ In Thousands)</b>										
	<b>General Fund</b>		<b>Capital Projects Fund</b>		<b>Special Transportation Fund</b>		<b>Other Governmental Funds</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Non-spendable	\$ 265	\$ 202	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265	\$ 202
Restricted	1,168	426	14,387	15,989	680	1,540	-	-	16,235	17,955
Committed	10,567	11,910	8,479	4,499	2,787	2,839	291	290	22,124	19,538
Assigned	2,430	2,503	-	-	-	-	-	-	2,430	2,503
Unassigned	14,994	14,415	-	-	-	-	-	-	14,994	14,415
<b>Total</b>	<b>\$ 29,424</b>	<b>\$ 29,456</b>	<b>\$ 22,866</b>	<b>\$ 20,488</b>	<b>\$ 3,467</b>	<b>\$ 4,379</b>	<b>\$ 291</b>	<b>\$ 290</b>	<b>\$ 56,048</b>	<b>\$ 54,613</b>

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2017**

The following shows the changes in the individual fund balances for fiscal years 2017 and 2016:

	<b>General Fund</b>		<b>Capital Projects Fund</b>		<b>Special Transportation Fund</b>		<b>Other Governmental Funds</b>		<b>Total*</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenues and other financing sources	\$ 85,278	\$ 81,298	\$ 4,744	\$ 6,550	\$ 2,601	\$ 3,666	\$ 185	\$ 1	\$ 88,367	\$ 89,304
Expenditures and other financing uses	85,311	83,186	2,365	5,524	3,513	2,250	184	-	86,932	88,749
Changes in Fund Balances	(33)	(1,888)	2,379	1,026	(912)	1,416	1	1	1,435	555
Fund balance at beginning of year	29,456	31,344	20,488	19,462	4,379	2,963	290	289	54,613	54,058
Fund balance at end of year	<u>\$ 29,423</u>	<u>\$ 29,456</u>	<u>\$ 22,867</u>	<u>\$ 20,488</u>	<u>\$ 3,467</u>	<u>\$ 4,379</u>	<u>\$ 291</u>	<u>\$ 290</u>	<u>\$ 56,048</u>	<u>\$ 54,613</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**

Final amended budget appropriations for the General Fund, which include expenditures and other financing uses, were higher than the original budget by \$1.5 million or 1.7%. \$0.6 million of the increase represents use of assigned and committed fund balances for capital programs. \$0.3 million of the increase is from encumbrances from FY2016 that were carried forward into FY2017. The remaining was from additional grants and other revenues received by the City during the fiscal year.

The final amended budget revenues and other financing sources were more than the original budget by \$0.2 million or 0.2%. The change is mostly due to additional grants and other revenues received during the year.

Actual revenues and other financing sources were slightly higher than final budget amounts by \$1.0 million and actual expenditures and other financing uses were \$1.7 million. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2017 include the following:

- Actual departmental expenditures were less than budgeted amounts by \$1.6 million. The Department of Executive Management was below budget by \$0.3 million due to position vacancies. Low utilization of social services resulted in actual expenditures being lower than budgeted amount for the Department of Human Services by \$0.2 million. The Department of Public Works came in under budget by \$0.6 million, however, most of this balance has been encumbered and is being carried forward into FY2017. In total, for the General Fund, approximately \$523 thousand in unliquidated encumbrances are being carried forward into FY2018.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2017**

**CAPITAL ASSETS AND LONG-TERM DEBT**

The City's investment in capital assets as of June 30, 2017 and 2016, amounted to approximately \$105.3 million and \$102.9 million, respectively, (net of accumulated depreciation and amortization) as summarized in the following table:

<b>Capital Assets</b>						
<b>As of June 30, 2017 and 2016</b>						
<b>(\$ In Thousands)</b>						
	<b>2017</b>			<b>2016</b>		
	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
Land	\$ 9,561	\$ -	\$ 9,561	\$ 9,561	\$ -	\$ 9,561
Construction in progress	6,278	199	6,477	5,698	4,607	10,305
Buildings and system	76,665	7,994	84,659	76,521	7,506	84,027
Machinery and equipment	17,230	872	18,102	15,162	581	15,743
Improvements other than buildings	6,622	1,876	8,498	6,275	1,876	8,151
Purchased capacity	-	20,811	20,811	-	15,570	15,570
Infrastructure	8,470	6,670	15,140	6,932	6,365	13,297
Intangibles	1,540	10	1,550	1,525	10	1,535
Library collections	2,160	-	2,160	2,040	-	2,040
Accumulated depreciation	(49,307)	(12,318)	(61,625)	(46,058)	(11,272)	(57,330)
<b>Total Capital Assets, Net</b>	<b>\$ 79,219</b>	<b>\$ 26,114</b>	<b>\$ 105,333</b>	<b>\$ 77,656</b>	<b>\$ 25,243</b>	<b>\$ 102,899</b>

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

- The City completed the reconstruction of the roadbed at Roosevelt Boulevard.
- The Mt. Daniel Elementary School was on hold pending a redesign of the project to comply with permitting requirements; project is set to re-start in July 2017.
- The City completed the replacement of heating, ventilation and air conditioning systems at the Thomas Jefferson Elementary School and at the George Mason High School.
- The City has several ongoing transportation projects which are still largely in the architectural and engineering phase.
- The City is engaged with firm to complete the architectural and engineering phase for the City Hall renovations.

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 \$389.1 million in 2017 and \$375.5 million in 2016. The City's total long-term debt that is applicable to this limit was \$63.9 million as of June 30, 2017 and \$68.4 million as of June 30, 2016, 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, 2017**

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, 2017 and 2016, total debt outstanding was 1.3% and 1.5%, respectively, of taxable assessed value of real property. General Fund debt service payments were 7.7% and 7.3% of General Fund expenditures in FY2017 and FY2016, 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, 2017, the City's 5-year payout ratio was 47% and 10-year payout ratio was 76%. As of June 30, 2016, the City's 5-year payout ratio was 43% 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, 2017 and 2016:

<b>Outstanding Long-Term Debts</b>						
<b>As of June 30, 2017 and 2016</b>						
<b>(\$ In Thousands)</b>						
	<b>2017</b>			<b>2016</b>		
	<b>Govern- mental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Govern- mental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
General obligation bonds issued for:						
Schools	\$ 37,165	\$ -	\$ 37,165	\$ 40,229	\$ -	\$ 40,229
Community center	891	-	891	1,048	-	1,048
Fire station	2,125	-	2,125	2,140	-	2,140
City hall	4,412	-	4,412	4,682	-	4,682
Open space	126	-	126	135	-	135
Transportation	2,328	-	2,328	2,309	-	2,309
Other	4,077	-	4,077	4,115	-	4,115
Sewer system	-	12,459	12,459	-	7,981	7,981
Stormwater system	-	1,715	1,715	-	2,534	2,534
Revenue bonds issued for:						
Sewer system	-	-	-	-	1,906	1,906
Note payable issued for:						
Sewer system	-	-	-	-	2,441	2,441
Capital leases and other	4,493	364	4,857	4,654	533	5,187
<b>Total</b>	<b>\$ 55,617</b>	<b>\$ 14,538</b>	<b>\$ 70,155</b>	<b>\$ 59,312</b>	<b>\$ 15,395</b>	<b>\$ 74,707</b>

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, 2017**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The following economic factors are reflected in the General Fund adopted budget for the FY2018:

- The City's adopted budget for FY2018 includes a 3.6% increase in the assessed values of taxable real property as well as an increase of 1.5 cents to the real estate tax rate. 60% 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, 2017 increased slightly to \$749,850 from \$742,100 as of January 1, 2016 and continues to outperform the Washington Metro area and US markets.
- Other revenues are expected to remain largely unchanged in FY2018 as compared to FY2017 actuals.

Programmatic expenditures in the General Fund remain relatively stable as compared to the FY2017 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 \$304 thousand, an increase of 40% over its contribution in FY2017. The increase is due to a combination of increased costs and reduced revenues at WMATA which is being passed down to contributing localities. The City's locally-funded contributions to WMATA have been on the rise for the last few years and it is expected to continue to be a challenge in future years.

The City's transfer to the School Board increased by 3.3% or \$1.3 million. Debt service will increase slightly by 1.2% or \$76 thousand as a result of the issuance of \$1 million in new debt in FY2017.

In FY2018, contribution to the Basic Pension Plan will increase slightly from 12.54% in FY2017 to 13.93% of covered payroll. Contribution to the Police Pension Plan will also increase from 30.01% to 30.84% of covered payroll. Contributions to the Virginia Retirement System (VRS), which covers the City's Constitutional Officers remains the same at 6.76%. Contributions by the School Board to the VRS will also remain unchanged at 15.77% of covered payroll. All rates for all plans include a 5% employee contribution. The 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 and vibrant community will continue to be a challenge. Over the next five years, capital needs are expected to dominate the budgetary decisions. For the General Fund and the Schools, the City adopted a \$165 million capital improvements program for FY2018-FY2022. The increase of 1.5 cents to the real estate tax rate (approximately \$600,000) was appropriated to be placed in capital reserves in order to bolster our reserves in anticipation of the issuance of debt for several large projects including \$117.3 million for the replacement of the high school building, \$11 million for the renovation of City Hall, and \$8.3 million for the expansion of the library. Other areas that will continue to be addressed are competitive compensation to attract and retain a skilled work force and increased local funding of state mandated programs.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2017**

**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 "Kiran Bawa", with a long horizontal flourish extending to the right.

Kiran Bawa  
Director of Finance

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# **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, 2017

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Totals	School Board	Economic Development Authority
<b>ASSETS</b>					
Cash and investments (Note 4)	\$ 46,123,350	\$ 12,521,017	\$ 58,644,367	\$ 2,914,137	\$ 2,122,861
Receivables, net (Note 5)	7,687,395	865,394	8,552,789	106,589	19,135
Internal balances (Note 7)	(281)	281	-	-	-
Due from agency funds	52,580	-	52,580	-	-
Due from fiduciary funds	1,531,073	-	1,531,073	247,156	-
Due from primary government	-	-	-	5,344,337	-
Due from other governments (Note 6)	2,240,310	476,140	2,716,450	501,330	-
Prepays	82,049	-	82,049	15,667	-
Inventories	182,964	18,536	201,500	-	-
Restricted cash and cash equivalents (Note 4)	16,354,106	1,012,528	17,366,634	-	-
Net OPEB asset (Note 18)	3,701,000	28,000	3,729,000	1,366,000	-
Net pension asset (Note 16)	1,201,864	35,588	1,237,452	127,854	-
Capital assets: (Note 8)					
Nondepreciable	15,839,577	198,774	16,038,351	1,273,354	-
Depreciable, net	63,379,607	25,915,641	89,295,248	2,539,103	-
Total assets	158,375,594	41,071,899	199,447,493	14,435,527	2,141,996
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows related to pensions (Note 16)	8,969,966	364,209	9,334,175	11,749,476	-
Deferred amount on refunding	336,722	156,010	492,732	-	-
Total deferred outflows of resources	9,306,688	520,219	9,826,907	11,749,476	-
<b>LIABILITIES</b>					
Accounts payable and other liabilities	4,278,620	424,484	4,703,104	6,131,462	250,000
Accrued interest	753,612	159,071	912,683	-	-
Customer deposits	1,372,435	-	1,372,435	-	-
Due to component unit	5,344,337	-	5,344,337	-	-
Due to other governments (Note 6)	48,855	-	48,855	-	-
Noncurrent liabilities:					
Net pension liability (Note 16)	-	-	-	45,483,000	-
Due within one year (Note 10)	6,242,698	1,105,388	7,348,086	1,099,541	-
Due in more than one year (Note 10)	49,374,302	13,432,125	62,806,427	2,475,052	-
Total liabilities	67,414,859	15,121,068	82,535,927	55,189,055	250,000
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows related to pensions (Note 16)	642,477	164,054	806,531	2,112,109	-
Unearned revenue (Note 9)	5,827,723	-	5,827,723	-	-
Total deferred inflows of resources	6,470,200	164,054	6,634,254	2,112,109	-
<b>NET POSITION</b>					
Net investment in capital assets	41,537,609	12,247,022	53,784,631	3,515,935	-
Restricted for:					
Grants	1,167,594	-	1,167,594	-	-
Unrestricted	51,092,020	14,059,974	65,151,994	(34,632,096)	1,891,996
Total net position	\$ 93,797,223	\$ 26,306,996	\$ 120,104,219	\$ (31,116,161)	\$ 1,891,996

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

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2017**

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
<b>Primary Government:</b>									
Governmental activities:									
General government	\$ 7,093,808	\$ (11,019)	\$ 208,960	\$ 61,315	\$ (6,834,552)		\$ (6,834,552)		
Judicial administration	2,313,556	697,794	290,513	-	(1,325,249)		(1,325,249)		
Public safety	11,376,143	979,683	422,269	103,915	(9,870,276)		(9,870,276)		
Public works	7,084,612	500,121	1,430,481	1,406,999	(3,747,011)		(3,747,011)		
Health and welfare	2,261,565	6,090	397,742	-	(1,857,733)		(1,857,733)		
Parks, recreation, and cultural	5,339,143	2,029,253	178,308	80,202	(3,051,380)		(3,051,380)		
Community development	2,676,887	146,659	-	-	(2,530,228)		(2,530,228)		
Economic development	453,829	-	-	-	(453,829)		(453,829)		
Education	41,479,234	-	-	1,812,410	(39,666,824)		(39,666,824)		
Interest	1,580,885	-	118,703	-	(1,462,182)		(1,462,182)		
Total governmental activities	81,659,662	4,348,581	3,046,976	3,464,841	(70,799,264)		(70,799,264)		
Business-type activities:									
Sewer	3,146,582	5,710,832	-	-		2,564,250	2,564,250		
Storm water	1,315,994	1,595,168	-	-		279,174	279,174		
Total business-type activities	4,462,576	7,306,000	-	-		2,843,424	2,843,424		
Total primary government	\$ 86,122,238	\$ 11,654,581	\$ 3,046,976	\$ 3,464,841	(70,799,264)		(67,955,840)		
<b>Discretely Presented Component Units:</b>									
School Board	\$ 50,425,684	\$ 2,868,800	\$ 7,190,882	\$ -			\$ (40,366,002)	\$ -	
Economic Development Authority	86,056	-	-	-			-	(86,056)	
Total component units	\$ 50,511,740	\$ 2,868,800	\$ 7,190,882	\$ -			(40,366,002)	(86,056)	
General revenues:									
General property taxes					56,072,124	-	56,072,124	-	-
Other local taxes:									
Business licenses					4,110,102	-	4,110,102	-	-
Local sales and use					4,603,600	-	4,603,600	-	-
Consumer utility					2,149,523	-	2,149,523	-	-
Motor vehicle decals					347,080	-	347,080	-	-
Real estate recordation taxes					475,481	-	475,481	-	-
Occupancy, tobacco, and other					5,420,378	-	5,420,378	-	-
Payments from City					-	-	-	39,817,030	-
Intergovernmental, non-categorical aid					2,020,878	-	2,020,878	-	-
Revenue from use of money and property, unrestricted					444,740	35,492	480,232	93,552	6,444
Gain on sale of capital asset					594,786	-	594,786	-	-
Miscellaneous					85,651	24,287	109,938	92,752	19,135
Total general revenues and transfers					76,324,343	59,779	76,384,122	40,003,334	25,579
Change in net position					5,525,079	2,903,203	8,428,282	(362,668)	(60,477)
<b>NET POSITION AT JULY 1, AS RESTATED (Note 23)</b>					88,272,144	23,403,793	111,675,937	(30,753,493)	1,952,473
<b>NET POSITION AT JUNE 30</b>					\$ 93,797,223	\$ 26,306,996	\$ 120,104,219	\$ (31,116,161)	\$ 1,891,996

# **FUND FINANCIAL STATEMENTS**

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## CITY OF FALLS CHURCH, VIRGINIA

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2017**

	<u>General</u>	<u>Capital Projects</u>	<u>Special Transportation</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>ASSETS</b>					
Cash and investments	\$ 35,005,143	\$ 8,631,768	\$ 2,195,293	\$ 291,146	\$ 46,123,350
Receivables, net	7,404,394	-	-	283,001	7,687,395
Due from other funds	1,583,372	-	-	-	1,583,372
Due from other governments	1,809,408	29,556	213,950	-	2,052,914
Prepays	82,049	-	-	-	82,049
Inventories	182,964	-	-	-	182,964
Restricted cash and cash equivalents	620,686	14,555,008	1,178,412	-	16,354,106
Total assets	<u>\$ 46,688,016</u>	<u>\$ 23,216,332</u>	<u>\$ 3,587,655</u>	<u>\$ 574,147</u>	<u>\$ 74,066,150</u>
<b>LIABILITIES</b>					
Accounts payable and other liabilities	\$ 3,915,223	\$ 252,841	\$ 110,556	\$ -	\$ 4,278,620
Customer deposits	1,372,435	-	-	-	1,372,435
Due to component units	5,344,337	-	-	-	5,344,337
Due to other governments	48,855	-	-	-	48,855
Total liabilities	<u>10,680,850</u>	<u>252,841</u>	<u>110,556</u>	<u>-</u>	<u>11,044,247</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable/unearned revenue	6,583,783	97,072	10,000	283,001	6,973,856
Total deferred inflows of resources	<u>6,583,783</u>	<u>97,072</u>	<u>10,000</u>	<u>283,001</u>	<u>6,973,856</u>
<b>FUND BALANCES</b>					
Fund balances (Note 24):					
Nonspendable	265,013	-	-	-	265,013
Restricted	1,167,594	14,387,303	679,956	-	16,234,853
Committed	10,566,999	8,479,116	2,787,143	291,146	22,124,404
Assigned	2,430,163	-	-	-	2,430,163
Unassigned	14,993,614	-	-	-	14,993,614
Total fund balances	<u>29,423,383</u>	<u>22,866,419</u>	<u>3,467,099</u>	<u>291,146</u>	<u>56,048,047</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 46,688,016</u>	<u>\$ 23,216,332</u>	<u>\$ 3,587,655</u>	<u>\$ 574,147</u>	<u>\$ 74,066,150</u>

## CITY OF FALLS CHURCH, VIRGINIA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
June 30, 2017**

<b>Total Fund Balance</b>		\$ 56,048,047
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the funds.</p>		
Nondepreciable	\$ 15,839,577	
Depreciable, net	63,379,607	79,219,184
<p>Long-term receivables, such as due from other governments, are not current financial resources and therefore certain amounts are not reported in the governmental funds.</p>		
		187,396
<p>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.</p>		
		3,701,000
<p>Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds</p>		
		1,146,133
<p>Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.</p>		
Deferred outflows of resources for 2017 employer contributions	\$ 1,440,155	
Deferred outflows of resources for change in assumptions - Basic and Police	2,442,809	
Deferred outflows of resources for change in proportion - Basic Plan	43,391	
Deferred outflows of resources for contribution difference - Basic Plan	995,863	
Deferred outflows of resources for the difference between expected and actual experience - Police and VRS	251,801	
Deferred outflows of resources for the net difference between projected and actual investment earnings on pension plan investments	3,795,947	
Deferred inflows of resources for contribution differences - Basic Plan	(66,593)	
Deferred inflows of resources for change in proportion - Basic Plan	(89,132)	
Deferred inflows of resources for the net difference between projected and actual experience on pension plan investments - Basic and Police Plan	(486,752)	
Net pension asset - all plans	1,201,864	9,529,353
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Bonds payable, including unamortized deferred amounts	\$ (51,124,622)	
Premium and discounts, net of accumulated amortization	(2,354,723)	
Deferred amount on refunding, net of accumulated amortization	336,722	
Capital leases	(46,072)	
Compensated absences	(2,091,583)	(55,280,278)
<p>Interest on long-term liabilities is not accrued in governmental funds, but is recognized as an expenditure when due.</p>		
		(753,612)
<b>Total Net Position - Governmental Activities</b>		<b>\$ 93,797,223</b>

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2017**

	<u>General</u>	<u>Capital Projects</u>	<u>Special Transportation</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>REVENUES</b>					
General property taxes	\$ 56,233,419	\$ -	\$ -	\$ -	\$ 56,233,419
Other local taxes	16,233,559	-	866,589	61,314	17,161,462
Permits, privilege fees, and regulatory licenses	1,036,162	-	-	-	1,036,162
Fines and forfeitures	490,773	-	-	-	490,773
Use of money and property	443,100	-	696	944	444,740
Charges for services	2,708,257	-	-	-	2,708,257
Miscellaneous	74,667	-	-	-	74,667
Gifts and contributions	47,152	80,202	30,000	-	157,354
Voluntary concessions	-	1,604,960	-	-	1,604,960
Recovered costs	376,684	-	-	-	376,684
Intergovernmental					
Commonwealth	4,817,538	30,457	565,958	-	5,413,953
Federal	658,091	101,590	55,141	-	814,822
Payments from schools	-	235,100	-	-	235,100
Total revenues	<u>83,119,402</u>	<u>2,052,309</u>	<u>1,518,384</u>	<u>62,258</u>	<u>86,752,353</u>
<b>EXPENDITURES</b>					
Current:					
General government	6,411,375	-	-	184,165	6,595,540
Judicial administration	2,159,891	-	-	-	2,159,891
Public safety	11,308,852	-	-	-	11,308,852
Public works	5,415,516	-	-	-	5,415,516
Health and welfare	2,211,781	-	-	-	2,211,781
Parks, recreation, and cultural	4,883,003	-	-	-	4,883,003
Community development	3,231,194	-	-	-	3,231,194
Economic development	437,004	-	-	-	437,004
Education	39,848,512	-	-	-	39,848,512
Capital outlay	-	2,366,084	2,170,321	-	4,536,405
Debt service:					
Principal retirement	4,557,831	-	-	-	4,557,831
Interest and fiscal charges	1,746,848	-	-	-	1,746,848
Total expenditures	<u>82,211,807</u>	<u>2,366,084</u>	<u>2,170,321</u>	<u>184,165</u>	<u>86,932,377</u>
Excess (deficiency) of revenues over expenditures	<u>907,595</u>	<u>(313,775)</u>	<u>(651,937)</u>	<u>(121,907)</u>	<u>(180,024)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from debt issuance	612,000	248,000	150,000	-	1,010,000
Proceeds from sale of capital assets	605,189	-	-	-	605,189
Transfers in	941,723	2,443,860	932,126	122,851	4,440,560
Transfers out	(3,098,837)	-	(1,341,723)	-	(4,440,560)
Total other financing sources (uses)	<u>(939,925)</u>	<u>2,691,860</u>	<u>(259,597)</u>	<u>122,851</u>	<u>1,615,189</u>
Net change in fund balance	(32,330)	2,378,085	(911,534)	944	1,435,165
<b>FUND BALANCES AT JULY 1</b>	<u>29,455,713</u>	<u>20,488,334</u>	<u>4,378,633</u>	<u>290,202</u>	<u>54,612,882</u>
<b>FUND BALANCES AT JUNE 30</b>	<u>\$ 29,423,383</u>	<u>\$ 22,866,419</u>	<u>\$ 3,467,099</u>	<u>\$ 291,146</u>	<u>\$ 56,048,047</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, 2017**

<b>Net Change in Fund Balance - Governmental Funds</b>		\$ 1,435,165
<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	\$ 4,967,255	
Depreciation expense	(3,650,124)	
Contributed capital	<u>249,992</u>	1,567,123
<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>		
		(4,283)
<p>Revenues in the funds that do not provide current financial resources are not reported as revenues in the Statement of Activities.</p>		
Debt proceeds	(1,010,000)	
Change in deferred inflow of resources	<u>358,061</u>	(651,939)
<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	1,440,155	
Pension expense	<u>(2,960,492)</u>	(1,520,337)
<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>		
		4,557,831
<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 other post-employment benefits		13,000
Change in compensated absences		(37,444)
<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	184,891	
Amortization of gain/loss from refundings	(78,368)	
Change in accrued interest payable	<u>59,440</u>	<u>165,963</u>
<b>Change in Net Position - Governmental Activities</b>		<u><u>\$ 5,525,079</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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 55,927,464	\$ 55,927,464	\$ 56,233,419	\$ 305,955
Other local taxes	16,366,000	16,366,000	16,233,559	(132,441)
Permits, privilege fees, and regulatory licenses	1,730,100	1,280,100	1,036,162	(243,938)
Fines and forfeitures	676,100	676,100	490,773	(185,327)
Use of money and property	283,260	283,260	443,100	159,840
Charges for services	2,768,477	2,768,477	2,708,257	(60,220)
Miscellaneous	59,000	59,000	74,667	15,667
Gifts and contributions	12,500	41,300	47,152	5,852
Recovered costs	284,500	387,500	376,684	(10,816)
Intergovernmental				
Commonwealth	4,048,912	4,484,729	4,817,538	332,809
Federal	354,671	397,778	658,091	260,313
Total revenues	<u>82,510,984</u>	<u>82,671,708</u>	<u>83,119,402</u>	<u>447,694</u>
<b>EXPENDITURES</b>				
Current:				
General government	6,889,044	6,820,514	6,411,375	409,139
Judicial administration	2,188,259	2,250,742	2,159,891	90,851
Public safety	11,449,752	11,629,151	11,308,852	320,299
Public works	5,541,111	6,067,483	5,415,516	651,967
Health and welfare	2,214,309	2,247,125	2,211,781	35,344
Parks, recreation, and cultural	4,907,414	4,944,380	4,883,003	61,377
Community development	3,111,136	3,224,069	3,231,194	(7,125)
Economic development	439,548	439,548	437,004	2,544
Education	39,848,512	39,848,512	39,848,512	-
Debt service:				
Principal retirement	4,543,230	4,543,230	4,557,831	(14,601)
Interest and fiscal charges	1,826,474	1,826,474	1,746,848	79,626
Total expenditures	<u>82,958,789</u>	<u>83,841,228</u>	<u>82,211,807</u>	<u>1,629,421</u>
Excess (deficiency) of revenues over expenditures	<u>(447,805)</u>	<u>(1,169,520)</u>	<u>907,595</u>	<u>2,077,115</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from debt issuance	649,000	649,000	612,000	(37,000)
Proceeds from sale of capital assets	-	-	605,189	605,189
Transfers in	942,126	942,126	941,723	(403)
Transfers out	(2,593,631)	(3,193,631)	(3,098,837)	94,794
Reserves - tax credits	(250,000)	(971,000)	-	971,000
Total other financing sources (uses)	<u>(1,252,505)</u>	<u>(2,573,505)</u>	<u>(939,925)</u>	<u>1,633,580</u>
Net change in fund balance	<u>\$ (1,700,310)</u>	<u>\$ (3,743,025)</u>	<u>\$ (32,330)</u>	<u>\$ 3,710,695</u>

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

## CITY OF FALLS CHURCH, VIRGINIA

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2017**

	<b>Business-Type Activities – Enterprise Funds</b>		
	<b>Sewer</b>	<b>Storm Water</b>	<b>Totals</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 10,851,672	\$ 1,669,345	\$ 12,521,017
Receivables, net	848,254	17,140	865,394
Due from other governments	476,140	-	476,140
Due from other funds	-	281	281
Inventories	12,469	6,067	18,536
Restricted cash and cash equivalents	611,401	401,127	1,012,528
Total current assets	<u>12,799,936</u>	<u>2,093,960</u>	<u>14,893,896</u>
Noncurrent assets:			
Net OPEB asset	27,000	1,000	28,000
Net pension asset	13,782	21,806	35,588
Capital assets, net	20,769,622	5,344,793	26,114,415
Total noncurrent assets	<u>20,810,404</u>	<u>5,367,599</u>	<u>26,178,003</u>
Total assets	<u>33,610,340</u>	<u>7,461,559</u>	<u>41,071,899</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount on refunding	156,010	-	156,010
Deferred outflows related to pensions	139,559	224,650	364,209
Total deferred outflows of resources	<u>295,569</u>	<u>224,650</u>	<u>520,219</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other liabilities	210,742	213,742	424,484
Accrued interest	132,295	26,776	159,071
Compensated absences, current	26,633	34,309	60,942
Debt, current	951,968	92,478	1,044,446
Total current liabilities	<u>1,321,638</u>	<u>367,305</u>	<u>1,688,943</u>
Noncurrent liabilities:			
Compensated absences	14,086	-	14,086
Debt	11,700,131	1,717,908	13,418,039
Total noncurrent liabilities	<u>11,714,217</u>	<u>1,717,908</u>	<u>13,432,125</u>
Total liabilities	<u>13,035,855</u>	<u>2,085,213</u>	<u>15,121,068</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	63,934	100,120	164,054
Total deferred inflows of resources	<u>63,934</u>	<u>100,120</u>	<u>164,054</u>
<b>NET POSITION</b>			
Net investment in capital assets	8,601,079	3,645,943	12,247,022
Unrestricted	12,205,041	1,854,933	14,059,974
Total net position	<u>\$ 20,806,120</u>	<u>\$ 5,500,876</u>	<u>\$ 26,306,996</u>

## CITY OF FALLS CHURCH, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2017**

	<b>Business-Type Activities – Enterprise Funds</b>		
	<b>Sewer</b>	<b>Storm Water</b>	<b>Totals</b>
<b>OPERATING REVENUES</b>			
Charges for fees and services	\$ 4,296,752	\$ 1,595,168	\$ 5,891,920
Total operating revenues	4,296,752	1,595,168	5,891,920
<b>OPERATING EXPENSES</b>			
Collection and disposal	1,558,154	484,692	2,042,846
Administration	401,260	528,969	930,229
Depreciation and amortization	886,127	260,691	1,146,818
Total operating expenses	2,845,541	1,274,352	4,119,893
Operating income	1,451,211	320,816	1,772,027
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Availability fees	1,414,080	-	1,414,080
Miscellaneous	24,287	-	24,287
Interest and investment revenue	23,952	11,540	35,492
Interest expense	(301,041)	(41,642)	(342,683)
Net nonoperating revenues (expenses)	1,161,278	(30,102)	1,131,176
Change in net position	2,612,489	290,714	2,903,203
<b>NET POSITION AT JULY 1, AS RESTATED (Note 23)</b>	18,193,631	5,210,162	23,403,793
<b>NET POSITION AT JUNE 30</b>	<b>\$ 20,806,120</b>	<b>\$ 5,500,876</b>	<b>\$ 26,306,996</b>

## CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2017

	Business-type Activities – Enterprise Funds		
	Sewer	Storm water	Totals
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 4,632,586	\$ 1,596,467	\$ 6,229,053
Interfund reimbursements	(146,074)	(158,841)	(304,915)
Payments to suppliers	(1,412,092)	(168,000)	(1,580,092)
Payments to employees	(457,261)	(650,262)	(1,107,523)
Net cash provided by operating activities	2,617,159	619,364	3,236,523
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
Interfund borrowing	(137,190)	(164,210)	(301,400)
Net cash used in noncapital financing activities	(137,190)	(164,210)	(301,400)
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Availability fees	1,414,080	-	1,414,080
Purchases of capital assets	(1,521,810)	(663,391)	(2,185,201)
Proceeds from long-term debt	6,741,072	-	6,741,072
Principal paid on capital debt	(6,765,498)	(101,645)	(6,867,143)
Principal transferred to sewer fund	-	(718,082)	(718,082)
Interest paid on capital debt	(588,775)	(55,993)	(644,768)
Net cash used in capital and related financing activities	(720,931)	(1,539,111)	(2,260,042)
<b>INVESTING ACTIVITIES</b>			
Interest and investment revenue	23,952	11,540	35,492
Net increase (decrease) in cash and cash equivalents	1,782,990	(1,072,417)	710,573
<b>CASH AND CASH EQUIVALENTS JULY 1</b>	9,680,757	3,142,889	12,823,646
<b>CASH AND CASH EQUIVALENTS JUNE 30</b>	\$ 11,463,747	\$ 2,070,472	\$ 13,534,219
<b>RECONCILIATION TO EXHIBIT 8</b>			
Cash and investments	\$ 10,851,672	\$ 1,669,345	\$ 12,521,017
Restricted cash and cash equivalents	611,401	401,127	1,012,528
Total	\$ 11,463,073	\$ 2,070,472	\$ 13,533,545
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income	\$ 1,451,211	\$ 320,816	\$ 1,772,027
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	886,127	260,691	1,146,818
Pension expense net of employer contributions	(9,874)	9,801	(73)
Change in assets and liabilities:			
(Increase) decrease in:			
Receivables, net	335,834	1,299	337,133
Deferred OPEB charges	(1,000)	6,000	5,000
Increase (decrease) in:			
Accounts payable, other liabilities, and OPEB	(48,642)	22,276	(26,366)
Compensated absences	3,503	(1,519)	1,984
Net cash provided by operating activities	\$ 2,617,159	\$ 619,364	\$ 3,236,523
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>			
Capital asset purchases included in accounts payable	\$ 53,449	\$ 124,177	\$ 177,626
Capitalized interest	\$ 132,703	\$ -	\$ 132,703

## CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

June 30, 2017

	<b>Post-Employment Trust Funds</b>			
	<b>Basic Pension Plan</b>	<b>Police Pension Plan</b>	<b>Other Post- Employment Benefits</b>	<b>Agency Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,167,605	\$ 566,692	\$ 84,194	\$ 4,740,152
Investments	97,827,913	30,248,209	13,291,484	-
Contributions receivable	25,079	-	-	-
Interest and dividends receivable	-	8,140	-	-
Receivables, net	-	-	-	853,618
Total assets	<u>100,020,597</u>	<u>30,823,041</u>	<u>13,375,678</u>	<u>5,593,770</u>
<b>LIABILITIES</b>				
Accounts payable	96,110	28,866	14,850	-
Due to general fund	236,010	74,495	1,467,725	52,580
Amounts held for others	-	-	-	5,541,190
Total liabilities	<u>332,120</u>	<u>103,361</u>	<u>1,482,575</u>	<u>5,593,770</u>
<b>NET POSITION</b>				
Held in trust for:				
Pension benefits	99,688,477	30,719,680	-	-
Other post-employment benefits	-	-	11,893,103	-
Total net position restricted for post-employment benefits	<u>\$ 99,688,477</u>	<u>\$ 30,719,680</u>	<u>\$ 11,893,103</u>	<u>\$ -</u>

## CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
POST-EMPLOYMENT TRUST FUNDS

Year Ended June 30, 2017

	<u>Basic Pension Plan</u>	<u>Police Pension Plan</u>	<u>Other Post- Employment Benefits</u>
<b>ADDITIONS</b>			
Employer contributions	\$ 1,160,820	\$ 624,490	\$ 1,019,153
Employee contributions	755,822	273,088	-
Investment earnings:			
Interest	8,559	31,283	631
Dividends	1,228,789	367,526	335,187
Net increase in fair value of investments	12,630,266	3,752,971	1,169,641
Total investment earnings	13,867,614	4,151,780	1,505,459
Less investment expenses	(463,254)	(132,669)	(9,800)
Net investment earnings	13,404,360	4,019,111	1,495,659
 Total additions	 <u>15,321,002</u>	 <u>4,916,689</u>	 <u>2,514,812</u>
<b>DEDUCTIONS</b>			
Benefits	4,827,875	1,051,184	398,405
Administration	46,720	21,980	19,405
 Total deductions	 <u>4,874,595</u>	 <u>1,073,164</u>	 <u>417,810</u>
 Change in net position	 10,446,407	 3,843,525	 2,097,002
<b>NET POSITION AT JULY 1</b>	<u>89,242,070</u>	<u>26,876,155</u>	<u>9,796,101</u>
<b>NET POSITION AT JUNE 30</b>	<u>\$ 99,688,477</u>	<u>\$ 30,719,680</u>	<u>\$ 11,893,103</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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, 2017**

**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 two non-major special revenue funds, the Affordable Housing Unit Fund and the Falls Church Community Television Fund. The Affordable Housing Unit 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 Falls Church Community Television Fund was originally established with a commitment from City Council, the School Board and the public to deliver programming via cable channels, YouTube video uploads, and public broadcasting and online streaming of City Council, School Board, Planning Commission and other public meetings. The fund is supported by local taxes and grants from the General 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, 2017**

**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, 2017**

**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 taxes, 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, 2017**

**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 2017 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 2017 was \$5.00 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, 2017**

**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 six 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 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 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, 2017**

**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 five 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 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.

*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, 2017**

**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 \$2.2 million as of June 30. This liability is liquidated by the School Operating Fund.

*Long-term Obligations*

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face value of the debt issued plus premium is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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, 2017**

**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 \$523,096 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 2017, the City paid the CSB approximately \$752 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 2017, the City paid approximately \$226 thousand for these services.

The City uses Fairfax’s landfills for waste disposal and charges are based on tipping fees. During 2017, the City paid approximately \$118 thousand for these services.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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 2017, the City paid approximately \$741 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 \$2.5 million in debt service towards this note during 2017. 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 \$502 thousand in 2017 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 2017, the City paid Arlington approximately \$2.4 million for fire and rescue services, \$585 thousand for jail services, \$521 thousand for E-911 and radio bandwidth services, and \$656 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 2017 amounted to approximately \$422 thousand.

The City has an agreement with Arlington to share in the cost of its sewage treatment facilities. During 2017, the City paid Arlington approximately \$395 thousand for operating costs.

*Fairfax Water*

Fairfax Water performs sewer billing and collection services. During 2017, Fairfax Water billed \$4.4 million in sewer fees and remitted \$4.1 million to the City. The City paid Fairfax Water \$100 thousand for these services.

*Northern Virginia Criminal Justice Training Academy (NVCJA)*

Along with other local jurisdictions, the City entered into an agreement to assist in financing NVCJA which was established to provide training to local law enforcement officers. The City appoints members of the governing body of NVCJA, however, it does not retain an ongoing financial interest. During 2017, the City paid NVCJA approximately \$48 thousand for its share of operating and debt service costs.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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 2017, the City received approximately \$867 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 2017, the City's required contributions amounted to approximately \$3 million. The City received \$1.3 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, 2017**

**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 \$2.0 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, 2017**

**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). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The carrying 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, 30% of the portfolio was invested in SNAP and 70% in the Virginia Municipal League 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, 2017**

**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 &amp; P Credit Rating</u>
Primary Government:		
SNAP	\$ 17,366,634	AAAm
VML	<u>39,692,782</u>	AAf
Primary government investments	<u>57,059,416</u>	
Component Unit – School Board:		
LGIP	2,894,454	AAAm
Component Unit – EDA:		
LGIP	<u>2,122,861</u>	AAAm
Component unit investments	<u>5,017,315</u>	
Total investments	<u><u>\$ 62,076,731</u></u>	

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 4. Deposits and Investments (Continued)**

**Investments (Continued)**

Cash and investments consist of the following:

	<b>Component Units</b>		
	<b>Primary Government</b>	<b>School Board</b>	<b>Economic Development Authority</b>
Deposits and investments:			
Demand deposits	\$ 18,951,585	\$ 19,683	\$ -
LGIP	-	2,894,454	2,122,861
SNAP	17,366,634	-	-
VML	39,692,782	-	-
	\$ 76,011,001	2,914,137	\$ 2,122,861

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

Statement of net position:			
Cash and investments	\$ 58,644,367	\$ 2,914,137	\$ 2,122,861
Restricted cash and cash equivalents	17,366,634	-	-
	\$ 76,011,001	\$ 2,914,137	\$ 2,122,861

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:

<b>Investment Type</b>	<b>Fair Value</b>
Money market funds	\$ 2,818,491
Domestic equities	75,590,105
Domestic fixed income	21,313,736
International equities	28,991,650
Real estate investment trusts	6,988,148
Infrastructure	8,483,967
Total cash, cash equivalents, and investments	\$ 144,186,097

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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%	53%
Domestic fixed income	12%	20%	14%
International equities	15%	23%	21%
Real estate investment fund	8%	12%	5%
Infrastructure	3%	7%	7%

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, 2017**

**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%	58%
Domestic fixed income	18%	26%	22%
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, 2017**

**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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks/equity securities:				
Health Care	\$ 5,248,074	\$ -	\$ -	\$ 5,248,074
Financials	6,114,168	-	-	6,114,168
Industrial Goods	1,616,052	-	-	1,616,052
Basic Materials	5,023,260	-	-	5,023,260
Information Technology	8,390,626	-	-	8,390,626
Utilities	483,338	-	-	483,338
Consumer Goods	4,110,586	-	-	4,110,586
Services	4,815,490	-	-	4,815,490
International (MFS)	23,341,776	9,819,124	-	33,160,900
Insurance Services	-	-	1,202,298	1,202,298
Mutual funds	48,387,514	-	-	48,387,514
Property funds	-	-	6,988,148	6,988,148
	<u>\$ 107,530,884</u>	<u>\$ 9,819,124</u>	<u>\$ 8,190,446</u>	<u>\$ 125,540,454</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 and interest rates. Level 3 investments use unobservable inputs for valuations of real estate and debt including pricing models and discounted cash flow models.

**Net Asset Value (NAV)**

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>
Northern Trust Collective Investments	\$ 17,162,309	Quarterly	30-60 days
Lazard Global Listed Infrastructure Trust	8,483,967	Quarterly	30-60 days
	<u>\$ 25,646,276</u>		

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 5. Receivables**

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Receivables:			
Accounts-Billed	\$ 1,642,467	\$ 388,214	\$ 2,030,681
Accounts-Unbilled	-	583,180	583,180
Other	687,473	-	687,473
Property taxes:			
Delinquent	1,386,556	-	1,386,556
Not yet due	5,734,029	-	5,734,029
Total receivables	<u>9,450,525</u>	<u>971,394</u>	<u>10,421,919</u>
Allowances for uncollectibles:			
Accounts receivable	(1,482,430)	(106,000)	(1,588,430)
Property taxes:			
Delinquent	(223,800)	-	(223,800)
Not yet due	(56,900)	-	(56,900)
Total allowances for uncollectibles	<u>(1,763,130)</u>	<u>(106,000)</u>	<u>(1,869,130)</u>
Total net receivables	<u>\$ 7,687,395</u>	<u>\$ 865,394</u>	<u>\$ 8,552,789</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 6. Due from/to Other Governments**

Amounts due from other governments are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Component Unit – School Board</b>
Commonwealth of Virginia			
State sales tax	\$ -	\$ -	\$ 493,954
Local sales tax	816,001	-	-
Communication tax	133,414	-	-
Transportation funds	213,950	-	-
Grants for capital projects	336,101	-	-
Other state funds	128,595	-	-
Total	<u>1,628,061</u>	<u>-</u>	<u>493,954</u>
Federal			
FEMA funds	238,492	-	-
Grants for capital projects	24,111	-	-
Other federal funds	25,185	-	7,376
Total	<u>287,788</u>	<u>-</u>	<u>7,376</u>
Other governments			
Fairfax County	-	476,140	-
Arlington County:			
EMS	93,571	-	-
Judicial and public safety	187,396	-	-
Fairfax Water Authority	12,726	-	-
Other	30,768	-	-
Total	<u>324,461</u>	<u>476,140</u>	<u>-</u>
Total due from other governments	<u>\$ 2,240,310</u>	<u>\$ 476,140</u>	<u>\$ 501,330</u>

Amounts due to other governments of \$48,855 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, 2017**

**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.

Due to/from balances between the City and its component unit School Board consisted of \$5,344,337 and are the result of accounts payable balances to be refunded by the general fund for the School Board.

Interfund balances and due to/from amounts consisted of the following:

	<u>Interfund Receivables/ Due From</u>	<u>Interfund Payables/ Due To</u>
Major Fund:		
General	\$ 1,583,372	\$ 5,344,337
Major Proprietary Funds:		
Storm water	281	-
Major Component Units:		
School Board	5,591,493	-
Fiduciary Funds:		
Pension Benefits	-	310,504
OPEB Benefits	-	1,220,569
School OPEB Benefits	-	247,156
Agency	-	52,580
	<u>\$ 7,175,146</u>	<u>\$ 7,175,146</u>

Transfers consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 941,723	\$ 3,098,837
Capital projects	2,443,860	-
Special transportation	932,126	1,341,723
FCCTV	122,851	-
	<u>\$ 4,440,560</u>	<u>\$ 4,440,560</u>

The majority of amounts transferred relate to funding needs for capital asset activity.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 8. Capital Assets**

Capital asset activity was as follows:

**Primary Government**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b><u>Governmental Activities:</u></b>				
Capital asset, non-depreciable:				
Land	\$ 9,561,488	\$ -	\$ -	\$ 9,561,488
Construction in progress	5,697,358	1,255,500	(674,769)	6,278,089
Total capital assets, non-depreciable	<u>15,258,846</u>	<u>1,255,500</u>	<u>(674,769)</u>	<u>15,839,577</u>
Capital assets, being depreciated:				
Buildings and systems	76,520,969	144,068	-	76,665,037
Machinery and equipment	15,162,293	2,217,160	(149,884)	17,229,569
Improvements other than buildings	6,275,148	347,375	-	6,622,523
Infrastructure	6,932,091	1,607,059	(69,433)	8,469,717
Intangibles	1,525,312	14,800	-	1,540,112
Library collections	2,040,000	306,054	(186,306)	2,159,748
Total capital assets, depreciable	<u>108,455,813</u>	<u>4,636,516</u>	<u>(405,623)</u>	<u>112,686,706</u>
Less accumulated depreciation for:				
Buildings and systems	(26,600,473)	(1,806,669)	-	(28,407,142)
Machinery and equipment	(9,806,562)	(1,092,757)	149,884	(10,749,435)
Improvements other than buildings	(3,254,214)	(320,583)	-	(3,574,797)
Infrastructure	(3,479,361)	(170,177)	64,950	(3,584,588)
Intangibles	(1,494,348)	(12,584)	-	(1,506,932)
Library collections	(1,423,157)	(247,354)	186,306	(1,484,205)
Total accumulated depreciation	<u>(46,058,115)</u>	<u>(3,650,124)</u>	<u>401,140</u>	<u>(49,307,099)</u>
Total capital assets, depreciable, net	<u>62,397,698</u>	<u>986,392</u>	<u>(4,483)</u>	<u>63,379,607</u>
Capital assets, net	<u>\$ 77,656,544</u>	<u>\$ 2,241,892</u>	<u>\$ (679,252)</u>	<u>\$ 79,219,184</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 8. Capital Assets (Continued)**

**Primary Government (Continued)**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b><u>Business-Type Activities:</u></b>				
<b><u>Sewer fund:</u></b>				
Capital assets, non-depreciable:				
Construction in progress	\$ 4,606,703	\$ 634,787	\$ (5,241,490)	\$ -
Total capital assets, non-depreciable	4,606,703	634,787	(5,241,490)	-
Capital assets, depreciable:				
Building and systems	7,506,276	401,418	-	7,907,694
Machinery and equipment	174,696	320,035	(100,700)	394,031
Purchased capacity	15,569,719	5,241,490	-	20,811,209
Other intangibles	9,900	-	-	9,900
Total capital assets, depreciable	23,260,591	5,962,943	(100,700)	29,122,834
Less accumulated depreciation for:				
Building and systems	(2,397,382)	(130,394)	-	(2,527,776)
Machinery and equipment	(163,300)	(17,320)	100,700	(79,920)
Purchased capacity	(4,997,203)	(738,413)	-	(5,735,616)
Other intangibles	(9,900)	-	-	(9,900)
Total accumulated depreciation	(7,567,785)	(886,127)	100,700	(8,353,212)
Total capital assets depreciable, net	15,692,806	5,076,816	-	20,769,622
Capital assets, net	\$ 20,299,509	\$ 5,711,603	\$ (5,241,490)	\$ 20,769,622

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 8. Capital Assets (Continued)**

**Primary Government (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>Business-Type Activities:</u></b>				
<b><u>Storm Water fund:</u></b>				
Capital asset, non-depreciable:				
Construction in progress	\$ -	\$ 198,774	\$ -	\$ 198,774
Total capital assets, non-depreciable	-	198,774	-	198,774
Capital assets, depreciable:				
Building and systems	-	86,499	-	86,499
Machinery and equipment	406,231	72,046	-	478,277
Improvements other than buildings	1,875,656	-	-	1,875,656
Infrastructure	6,365,322	304,786	-	6,670,108
Total capital assets, depreciable	8,647,209	463,331	-	9,110,540
Less accumulated depreciation for:				
Building and systems	-	(2,662)	-	(2,662)
Machinery and equipment	(82,830)	(32,052)	-	(114,882)
Improvements other than buildings	(107,666)	(93,876)	-	(201,542)
Infrastructure	(3,513,334)	(132,101)	-	(3,645,435)
Total accumulated depreciation	(3,703,830)	(260,691)	-	(3,964,521)
Total capital assets depreciable, net	4,943,379	202,640	-	5,146,019
Capital assets, net	4,943,379	401,414	-	5,344,793
Business-type capital assets, net	\$ 25,242,888	\$ 6,113,017	\$ (5,241,490)	\$ 26,114,415

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 8. Capital Assets (Continued)**

**Component Unit – School Board:**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
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	3,769,382	255,120	-	4,024,502
Improvements other than buildings	367,722	-	-	367,722
Library collections	532,923	-	(59,786)	473,137
Intangibles	7,996	-	-	7,996
Leasehold improvements	21,080	-	-	21,080
Total capital assets, depreciable	<u>5,891,785</u>	<u>255,120</u>	<u>(59,786)</u>	<u>6,087,119</u>
Less accumulated depreciation for:				
Buildings and systems	(423,430)	(31,994)	-	(455,424)
Machinery and equipment	(2,256,841)	(318,542)	-	(2,575,383)
Improvements other than buildings	(65,324)	(18,562)	-	(83,886)
Library collections	(427,349)	(40,549)	59,786	(408,112)
Intangibles	(7,996)	-	-	(7,996)
Leasehold improvements	(15,107)	(2,108)	-	(17,215)
Total accumulated depreciation	<u>(3,196,047)</u>	<u>(411,755)</u>	<u>59,786</u>	<u>(3,548,016)</u>
Total capital assets, depreciable, net	<u>2,695,738</u>	<u>(156,635)</u>	<u>-</u>	<u>2,539,103</u>
Capital assets, net	<u>\$ 3,969,092</u>	<u>\$ (156,635)</u>	<u>\$ -</u>	<u>\$ 3,812,457</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 8. Capital Assets (Continued)**

Depreciation expense was charged to functions/programs as follows:

Primary Government - Governmental activities:	
General government	\$ 212,582
Judicial administration	64,912
Public safety	569,796
Public works	550,788
Health and welfare	958
Education	1,650,722
Parks, recreation, and cultural	570,221
Community development	30,145
Total governmental activities	<u>\$ 3,650,124</u>
Primary Government – Business-type activities:	
Sewer	\$ 886,127
Storm Water	260,691
Total business-type activities	<u>\$ 1,146,818</u>
Component Unit – School Board:	
Education	<u>\$ 411,755</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	\$ -	\$ 674,145
Other	-	471,988
Unearned		
Property taxes not yet due	5,677,129	5,677,129
Other	<u>150,594</u>	<u>150,594</u>
Total unavailable/unearned revenue	<u>\$ 5,827,723</u>	<u>\$ 6,973,856</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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**

<b><u>Governmental Activities:</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due within One Year</u></b>
General obligation bonds	\$ 54,657,852	\$ 1,010,000	\$ 4,543,230	\$ 51,124,622	\$ 4,790,694
Bond premiums and discounts, net	2,539,614	-	184,891	2,354,723	-
Capital leases	60,673	-	14,601	46,072	17,436
Compensated absences	<u>2,054,139</u>	<u>1,971,328</u>	<u>1,933,884</u>	<u>2,091,583</u>	<u>1,434,568</u>
Total long-term liabilities	<u>\$ 59,312,278</u>	<u>\$ 2,981,328</u>	<u>\$ 6,676,606</u>	<u>\$ 55,617,000</u>	<u>\$ 6,242,698</u>
<b><u>Business-type Activities:</u></b>					
Sewer fund:					
General obligation bonds	\$ 7,980,866	\$ 6,897,082	\$ 2,419,092	\$ 12,458,856	\$ 951,968
Revenue bonds	1,905,979	-	1,905,979	-	-
Notes payable	2,441,101	-	2,441,101	-	-
Bond premiums and discounts, net	357,784	-	164,541	193,243	-
Compensated absences	<u>37,216</u>	<u>40,390</u>	<u>36,887</u>	<u>40,719</u>	<u>26,633</u>
	<u>\$ 12,722,946</u>	<u>\$ 6,937,472</u>	<u>\$ 6,967,600</u>	<u>\$ 12,692,818</u>	<u>\$ 978,601</u>
Storm water fund:					
General obligation bonds	\$ 2,534,317	\$ -	\$ 819,727	\$ 1,714,590	\$ 92,478
Bond premiums and discounts, net	101,622	-	5,826	95,796	-
Compensated absences	<u>35,828</u>	<u>59,749</u>	<u>61,268</u>	<u>34,309</u>	<u>34,309</u>
	<u>\$ 2,671,767</u>	<u>\$ 59,749</u>	<u>\$ 886,821</u>	<u>\$ 1,844,695</u>	<u>\$ 126,787</u>
Total long-term liabilities	<u>\$ 15,394,713</u>	<u>\$ 6,997,221</u>	<u>\$ 7,854,421</u>	<u>\$ 14,537,513</u>	<u>\$ 1,105,388</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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	\$ 2,591,000	\$ 14,000	\$ 452,000	\$ 2,153,000	\$ 498,000
Compensated absences	1,217,960	-	92,889	1,125,071	488,806
Other long-term obligations	368,588	-	368,588	-	-
Capital leases	209,280	199,732	112,490	296,522	112,735
Total long-term liabilities	<u>\$ 4,386,828</u>	<u>\$ 213,732</u>	<u>\$ 1,025,967</u>	<u>\$ 3,574,593</u>	<u>\$ 1,099,541</u>

Annual debt service requirements to maturity are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>General Obligation</u>		<u>General Obligation</u>	
	<u>Bonds</u>		<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 4,790,694	\$ 1,592,065	\$ 1,044,446	\$ 352,797
2019	4,864,694	1,460,236	1,077,758	312,741
2020	4,882,694	1,334,306	1,100,212	286,321
2021	4,934,694	1,190,667	1,123,811	257,337
2022	4,761,694	1,047,436	1,140,560	227,919
2023-2027	14,835,548	3,512,459	5,014,796	754,463
2028-2032	8,536,109	1,717,381	2,950,360	277,479
2033-2037	3,518,495	157,549	721,503	32,523
	<u>\$ 51,124,622</u>	<u>\$ 12,012,099</u>	<u>\$ 14,173,446</u>	<u>\$ 2,501,580</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 10. Long-Term Liabilities (Continued)**

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

	<b>Interest Rates</b>	<b>Date Issued</b>	<b>Final Maturity Date</b>	<b>Amount of Original Issue</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
General obligation	4.00%	03/08/2007	08/01/2021	\$ 6,260,000	\$ 3,300,000	\$ -
General obligation	2.00-4.00%	03/06/2012	08/01/2024	\$ 15,300,000	12,530,000	-
General obligation	2.00-3.00%	12/22/2011	01/15/2032	\$ 8,570,000	4,060,000	-
General obligation	2.00-5.00%	12/18/2013	07/01/2033	\$ 17,620,000	12,995,000	1,465,000
General obligation	2.00-5.00%	12/23/2014	07/15/2030	\$ 11,740,000	9,360,000	1,200,000
General obligation	1.48%	08/31/2015	07/15/2020	\$ 1,180,000	940,000	-
General obligation	2.31%	08/31/2015	07/15/2035	\$ 5,360,000	3,279,622	1,760,379
General obligation 2016A	1.24%	11/16/2016	7/15/2021	\$ 607,000	607,000	-
General obligation 2016B	1.41%	11/16/2016	7/15/2026	\$ 4,071,000	152,000	3,919,000
General obligation 2016C	1.79%	11/16/2016	7/15/2031	\$ 2,511,000	251,000	2,260,000
VRA bond	2.13-5.13%	10/01/2011	10/01/2031	\$ 3,125,000	-	660,000
VRA line of credit	3.35%	05/13/2009	09/01/2029	\$ 4,100,000	-	2,909,067
VPSA bond	4.10-5.10%	05/11/2006	07/15/2026	\$ 1,935,000	950,000	-
VPSA bond	4.25%	12/15/2011	12/01/2030	\$ 3,000,000	2,700,000	-
					<u>\$ 51,124,622</u>	<u>\$ 14,173,446</u>

**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, 2017 was \$2,460,000.

**Current Year Refunding**

On November 16, 2016, the City entered into an agreement to refund \$6,179,000 and issue new debt of \$1,010,000. The interest rate on the Series 2016 Bond varies from 1.240% to 1.790%, and the Bond is prepayable in whole or in part, at any time, without penalty. The Series 2016 Bond was used to refund a note payable to Fairfax County, a 2005 VRS Cleanwater loan, and 2011A VRA VFPF Bonds, in order to achieve debt service savings. Total debt service savings over the life of the loan equals approximately \$569,279, or \$548,755 on a net present value basis. Net present value savings as a percent of refunded par equals 7.34%. The refunded debt had an outstanding balance of \$6,179,000 with interest rates ranging from 2.13% to 5.13%, and was callable any time.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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 \$255,966, resulting in a net book value of \$44,892. The present value of minimum lease payments is \$46,072.

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 \$1,048,506 and accumulated depreciation of \$698,625, resulting in a net book value of \$349,881. The present value of minimum lease payments is \$296,522.

**Note 11. Commitments and Contingent Liabilities**

Contingent Liabilities: Federal programs in which the City participates were audited in accordance with provisions of U.S. Office of Management and Budget and the Uniform Guidance. 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 the 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:		
Mt. Daniel Elementary School renovation and expansion	\$ 3,053,833	\$ 14,689,167

**CITY OF FALLS CHURCH, VIRGINIA**  
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**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 \$347 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>		
2018	\$ 8,330	\$ 360,306		
2019	4,900	374,178		
2020	1,633	-		
Total	<u>\$ 14,863</u>	<u>\$ 734,484</u>		

**CITY OF FALLS CHURCH, VIRGINIA**  
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**Note 12. Basic and Police Pension Plans**

The City administers two pension plans. Fiduciary information for these plans as of June 30, 2017 is provided in Note 17. The net pension liability is based on a measurement date of June 30, 2016 as discussed in the following note.

**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, 2016 were as follows:

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

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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 2017 and 2016, the total contributions rate was 7.54% and 12.86% 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 23.01% and 27.34% for 2017 and 2016, 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, 2017 and 2016 amounted to \$1,160,277 and \$1,972,491, 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 7.68% and 13.13% of covered payroll for the years 2017 and 2016, respectively.

Total employer contributions to the Police Pension Plan for the years ended June 30, 2017 and 2016 amounted to \$624,490 and \$751,332, 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 22.13% and 29.55% of covered payroll for the years 2017 and 2016, respectively.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 12. Basic and Police Pension Plans (Continued)**

**Investments**

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 0.71 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.

As of the June 30, 2016 actuarial valuation, the return on the actuarial value of assets was 7.41% and 7.84% for the Basic and Police Plans, respectively.

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following relevant actuarial information:

	<u>Basic</u>	<u>Police</u>
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%

The Basic Plan uses the RP-2000 Combined Healthy Mortality Generationally Projected with Scale AA for healthy lives. The Police Plan uses 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, 2017**

**Note 12. Basic and Police Pension Plans (Continued)**

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

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability/ (Asset) (a) – (b)</b>
Balances at June 30, 2015	\$ 83,215,546	\$ 90,610,653	\$ (7,395,107)
Changes for the year:			
Service cost	1,539,198	-	1,539,198
Interest	5,773,189	-	5,773,189
Differences between expected and actual experience	(595,377)	-	(595,377)
Changes in assumptions	3,155,541	-	3,155,541
Contributions – employer	-	1,972,956	(1,972,956)
Contributions – employee	-	789,920	(789,920)
Net investment income	-	507,418	(507,418)
Benefit payments	(4,561,229)	(4,561,229)	-
Administrative expenses	-	(77,649)	77,649
Net changes	<u>5,311,322</u>	<u>(1,368,584)</u>	<u>6,679,906</u>
Balances at June 30, 2016	<u>\$ 88,526,868</u>	<u>\$ 89,242,069</u>	<u>\$ (715,201)</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 12. Basic and Police Pension Plans (Continued)**

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

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability/ (Asset) (a) – (b)</b>
Balances at June 30, 2015	\$ 24,651,745	\$ 26,739,848	\$ (2,088,103)
Changes for the year:			
Service cost	550,412	-	550,412
Interest	1,727,698	-	1,727,698
Differences between expected and actual experience	85,941	-	85,941
Change in assumptions	609,562	-	609,562
Contributions – employer	-	751,332	(751,332)
Contributions – employee	-	250,909	(250,909)
Net investment income	-	202,768	(202,768)
Benefit payments	(1,041,507)	(1,041,507)	-
Administrative expenses	-	(27,185)	27,185
Net changes	<u>1,932,106</u>	<u>136,317</u>	<u>1,795,789</u>
Balances at June 30, 2016	<u>\$ 26,583,851</u>	<u>\$ 26,876,165</u>	<u>\$ (292,314)</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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 as of June 30, 2016, 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%
<b>Basic Plan</b>			
Net pension liability (asset)	\$ 10,053,960	\$ (715,201)	\$ (9,670,218)
Plan fiduciary net position as a percentage of the total pension liability (asset)	89.9%	100.8%	112.2%
<b>Police Plan</b>			
Net pension liability (asset)	\$ 3,192,781	\$ (292,314)	\$ (3,176,234)
Plan fiduciary net position as a percentage of the total pension liability (asset)	89.4%	101.1%	113.4%

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

For the year ended June 30, 2017, pension expense was \$2,299,201 and \$680,684 for the Basic and Police Plans, respectively. At June 30, 2017, deferred outflows of resources and deferred inflows of resources related to the Plans arose from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>Basic Plan:</b>		
Differences between expected and actual experience	\$ -	\$ 571,399
Change in assumptions	2,103,694	-
Net difference between projected and actual earnings on pension plan investments	3,772,843	-
Employer contributions subsequent to the measurement date	1,160,277	-
	<u>\$ 7,036,814</u>	<u>\$ 571,399</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 12. Basic and Police Pension Plans (Continued)**

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>Police Plan:</b>		
Differences between expected and actual experience	\$ 68,753	\$ 99,103
Change in assumptions	1,015,619	-
Net difference between projected and actual earnings on pension plan investments	1,108,080	-
Employer contributions subsequent to the measurement date	624,490	-
	\$ 2,816,942	\$ 99,103

Employer contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>Increase to Pension Expense</b>	
	<b>Basic</b>	<b>Police</b>
2018	\$ 1,123,472	\$ 495,801
2019	1,297,951	495,801
2020	1,729,561	629,298
2021	1,154,154	472,449
Thereafter	-	-

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 13. Allocation of Basic Pension Plan**

The City and Component Unit – School Board portions of the cost sharing multiple-employer defined benefit pension plan are noted below and represent 73% and 18% of the total plan, respectively. The Northern Virginia Criminal Justice Training Academy’s portion of the Basic Pension Plan of 9%, is reported in the Academy’s financial report. Proportionate shares changed from the previous year with a 1% increase in the City share and a 1% decrease 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, 2016, the date of the most recent valuation, was as follows:

	<u>City</u>	<u>Schools</u>
Retirees and beneficiaries	175	43
Terminated vested members	59	14
Active members	193	48
Total	<u>427</u>	<u>105</u>

**Contributions**

Total contributions to the basic pension plan for the year ended June 30, 2017 amounted to \$852,359 for the City and \$206,499 for the Schools. Contributions made by the City and Schools represent 7.71% and 7.54% of covered payroll for the year, respectively.

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

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability/ (Asset)</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) – (b)</b>
<b>Basic Plan - City</b>			
Balances at June 30, 2015	\$ 60,650,060	\$ 65,972,636	\$ (5,322,576)
Changes for the year:			
Service cost	1,120,813	-	1,120,813
Interest	4,203,921	-	4,203,921
Differences between expected and actual experience	(433,542)	-	(433,542)
Changes to assumptions	2,297,802	-	2,297,802
Contributions – employer	-	1,447,133	(1,447,133)
Contributions – employee	-	575,204	(575,204)
Net investment income	-	421,418	(421,418)
Benefit payments, including refunds of employee contributions	(3,321,395)	(3,321,395)	-
Administrative expenses	-	(56,542)	56,542
Net changes	<u>3,867,599</u>	<u>(934,182)</u>	<u>4,801,781</u>
Balances at June 30, 2016	<u>\$ 64,517,659</u>	<u>\$ 65,038,454</u>	<u>\$ (520,795)</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 13. Allocation of Basic Pension Plan (Continued)**

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

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) – (b)</b>
<b>Basic Plan - Schools</b>			
Balances at June 30, 2015	\$ 15,295,417	\$ 16,685,628	\$ (1,390,211)
Changes for the year:			
Service cost	275,156	-	275,156
Interest	1,032,050	-	1,032,050
Differences between expected and actual experience	(106,433)	-	(106,433)
Changes in assumptions	564,103	-	564,103
Contributions – employer	-	346,038	(346,038)
Contributions – employee	-	141,211	(141,211)
Net investment income	-	29,151	(29,151)
Benefit payments, including refunds of employee contributions	(815,393)	(815,393)	-
Administrative expenses	-	(13,881)	13,881
Net changes	949,483	(312,874)	1,262,357
Balances at June 30, 2016	\$ 16,244,900	\$ 16,372,54	\$ (127,854)

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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 as of June 30, 2016, 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%
<b>Basic Plan - City</b>			
Net pension liability (asset)	\$ 7,321,087	\$ (520,795)	\$ (7,041,654)
Plan fiduciary net position as a percentage of the total pension liability (asset)	89.9%	100.8%	112.2%
<b>Basic Plan - Schools</b>			
Net pension liability (asset)	\$ 1,797,309	\$ (127,854)	\$ (1,728,709)
Plan fiduciary net position as a percentage of the total pension liability (asset)	89.9%	100.8%	112.2%

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

For the year ended June 30, 2017, the City and Schools recognized pension expense of \$2,222,595 and \$49,422, respectively. At June 30, 2017, the City and Schools reported deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

	<b>Deferred Outflows of Resources</b>		<b>Deferred Inflows of Resources</b>	
	City	Schools	City	Schools
Differences between expected and actual experience	\$ -	\$ -	\$ 416,081	\$ 102,147
Change in assumptions	1,531,867	376,070	-	-
Change in proportion	57,702	39,029	89,132	3,603
Contribution difference	995,863	-	202,215	533,359
Net difference between projected and actual earnings on investments	2,747,307	674,457	-	-
Employer contributions subsequent to the measurement date	852,359	206,499	-	-
	<u>\$ 6,185,098</u>	<u>\$ 1,296,055</u>	<u>\$ 707,428</u>	<u>\$ 639,109</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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, 2018. 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
2018	\$ 1,594,821	\$ (314,389)
2019	930,627	249,325
2020	1,259,431	309,187
2021	840,432	206,324
Thereafter	-	-

**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. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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, 2017**

**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%.
  - **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
  - **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
    - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
    - The member retires on disability.
    - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
    - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
    - The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

**Plan 1 (Continued)**

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

**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.
- **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.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)**

**Plan Description (Continued)**

**Plan 2 (Continued)**

- **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%.
  - **Eligibility** – Same as Plan 1.
  - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

**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.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Retirement Contributions** – A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
- **Creditable Service** –
  - **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
  - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting** –
  - **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (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.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 14. Defined Benefit Pension Plan – Constitutional Officers Plan (Continued)**

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **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.
- **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.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility –**
  - **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (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.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Cost-of-Living Adjustment (COLA) in Retirement**
  - **Defined Benefit Component** – Same as Plan 2.
  - **Defined Contribution Component** – Not Applicable.
  - **Eligibility** – Same as Plan 1 and 2.
  - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 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** –
  - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
    - Hybrid Retirement Plan members are ineligible for ported service.
    - The cost for purchasing refunded service is the higher or 4% of creditable compensation or average final compensation.
    - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
  - **Defined Contribution Component** – Not Applicable.

**Employees Covered by Benefit Terms**

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Inactive members or their beneficiaries currently receiving benefits	12
Inactive members:	
Vested inactive members	6
Non-vested inactive members	5
Inactive members active elsewhere in VRS	3
Total inactive members	14
Active members	19
Total covered employees	45

(Continued)

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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, 2017 was 1.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$20,795 and \$45,257 for the years ended June 30, 2017 and June 30, 2016, respectively.

**Net Pension Liability**

The political subdivision’s net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

**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, 2017**

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

**Actuarial Assumptions (Continued)**

- \* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

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, 2015 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, 2017**

**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>

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

**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.

(Continued)

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

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

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension (Asset) (a) – (b)</b>
Balances at June 30, 2015	\$ 3,972,428	\$ 4,895,595	\$ (923,167)
Changes for the year:			
Service cost	115,519	-	115,519
Interest	273,085	-	273,085
Differences between expected and actual experience	288,621	-	288,621
Contributions – employer	-	30,313	(30,313)
Contributions – employee	-	66,058	(66,058)
Net investment income	-	85,110	(85,110)
Benefit payments, including refunds of employee contributions	(142,431)	(142,431)	-
Administrative expenses	-	(3,044)	3,044
Other changes	-	(36)	36
Net changes	534,794	35,970	498,824
Balances at June 30, 2016	\$ 4,507,222	\$ 4,931,565	\$ (424,343)

**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 as of June 30, 2016 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:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
Political subdivision's net pension liability (asset)	\$ 74,507	\$ (424,343)	\$ (845,242)

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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, 2017, the political subdivision recognized pension expense of \$99,686. At June 30, 2017, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 183,048	\$ -
Net difference between projected and actual earnings on pension plan investments	128,292	-
Employer contributions subsequent to the measurement date	20,795	-
Total	\$ 332,135	\$ -

The \$20,795 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>Reduction to Pension Expense</b>
2018	\$ 115,032
2019	71,406
2020	73,728
2021	51,174

**Pension Plan Data**

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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 public school divisions, including Falls Church Public Schools, (the “School Division”), are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employers pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously funded service.

The System administers three different benefit structures for covered employees in the VRS Teacher Retirement Plan – 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, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%.

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 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the school division were \$3,644,421 and \$3,426,047 for the years ended June 30, 2017 and June 30, 2016, respectively.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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, 2017, the school division reported a liability of \$45,483,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 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, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was 0.32455% as compared to 0.32128% at June 30, 2015.

For the year ended June 30, 2017, the school division recognized pension expense of \$5,208,000. 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, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ -	\$ 1,473,000
Net difference between projected and actual earnings on pension plan investments	2,598,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	4,211,000	-
Employer contributions subsequent to the measurement date	<u>3,644,421</u>	<u>-</u>
Total	<u>\$ 10,453,421</u>	<u>\$ 1,473,000</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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 \$3,644,421 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>Reduction to Pension Expense</b>
2018	\$ 993,000
2019	993,000
2020	2,235,000
2021	1,180,000
2022	(65,000)

***Net Pension Liability***

The net pension liability (NPL) is calculated separately for each system and represents that particular system’s total pension liability determined in accordance with GASB Statement No. 67, less that system’s fiduciary net position. As of June 30, 2016, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	<b>Teacher Employee Retirement Plan</b>
Total Pension Liability	\$ 44,182,326
Plan Fiduciary Net Position	30,168,211
Employers’ Net Pension Liability (Asset)	\$ 14,014,115
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.28%

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**General Information about the Teacher Cost Sharing Plan (Continued)**

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

The following presents the school division’s proportionate share of the net pension liability 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:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
School division’s proportionate share of the VRS Teacher Employee Retirement plan net pension liability	<u>\$ 64,836,000</u>	<u>\$ 45,483,000</u>	<u>\$ 29,540,000</u>

***Pension Plan Fiduciary Net Position***

Detailed information about the VRS Teacher Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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	\$ 485,207	\$ 35,588	\$ 520,795	\$ 127,854
Police Pension Plan	292,314	-	292,314	-
VRS – Constitutional Officers	424,343	-	424,343	-
Total net pension asset	<u>\$ 1,201,864</u>	<u>\$ 35,588</u>	<u>\$ 1,237,452</u>	<u>\$ 127,854</u>
Deferred outflows of resources				
Change in assumptions –				
Basic Pension Plan	\$ 1,427,190	\$ 104,677	\$ 1,531,867	\$ 376,070
Police Pension Plan	1,015,619	-	1,015,619	-
Differences between expected and actual experience –				
Police Pension Plan	68,753	-	68,753	-
VRS – Constitutional Officers	183,048	-	183,048	-
Net difference between projected and actual earnings on plan investments -				
Basic Pension Plan	2,559,575	187,732	2,747,307	674,457
Police Pension Plan	1,108,080	-	1,108,080	-
VRS – Constitutional Officers	128,292	-	128,292	-
VRS – Teacher Cost Sharing Pool	-	-	-	2,598,000
Contribution difference – Basic Pension Plan	995,863	-	995,863	-
Change in proportion –				
Basic Pension Plan	43,391	14,311	57,702	39,029
VRS – Teacher Cost Sharing Pool	-	-	-	4,211,000
Pension contributions subsequent to measurement date-				
Basic Pension Plan	794,870	57,489	852,359	206,499
Police Pension Plan	624,490	-	624,490	-
VRS – Constitutional Officers	20,795	-	20,795	-
VRS – Teacher Cost Sharing Pool	-	-	-	3,644,421
Total deferred outflows of resources	<u>\$ 8,969,966</u>	<u>\$ 364,209</u>	<u>\$ 9,334,175</u>	<u>\$ 11,749,476</u>
Net pension liability				
VRS – Teacher Cost Sharing Pool	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,483,000</u>
Deferred inflows of resources				
Differences between expected and actual experience –				
Basic Pension Plan	\$ 387,649	\$ 28,432	\$ 416,081	\$ 102,147
Police Pension Plan	99,103	-	99,103	-
VRS – Teacher Cost Sharing Pool	-	-	-	1,473,000
Contribution difference – Basic Pension Plan	66,593	135,622	202,215	533,359
Change in proportion -Basic Pension Plan	89,132	-	89,132	3,603
Total deferred inflows of resources	<u>\$ 642,477</u>	<u>\$ 164,054</u>	<u>\$ 806,531</u>	<u>\$ 2,112,109</u>

(Continued)

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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, 2017 are based on a pension plan measurement date of June 30, 2016. 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, 2016 measurement date. Therefore, all amounts summarized in Note 16 – Summary of Pension Elements, are based on a measurement date of June 30, 2016.

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, 2017, 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, 2017.

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, 2017, the date of the most recent valuation, were as follows:

	<b>Basic</b>	<b>Police</b>
Retirees and beneficiaries	243	31
Terminated vested members	86	9
Active members	264	34
Total	593	74

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Contributions**

For 2017, the total contribution rate was 12.54% of annual covered payroll for the Basic Pension Plan, with employees contributing 5.0% and the City contributing 7.68%. The total contribution rate was 30.01% for the Police Pension Plan, with employees contributing 7.0% and the City contributing 22.13%. Other contribution information for 2017 is disclosed in Note 12.

**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 (US Bank)	\$20,293,869	20.36%
MFS International Growth Fund (US Bank)	\$7,566,170	7.59%
Northern Trust Collective Intermediate Government Credit Bond Index Fund – Lending	\$6,791,226	6.81%
TIF International Equity Series	\$6,785,118	6.81%
Northern Trust Collective Aggregate Bond Index Fund – Lending Tier H	\$6,775,501	6.80%
Lazard Global (US Bank)	\$6,553,322	6.57%
Principal MidCap (I)	\$6,342,147	6.36%
UBS Trumbull Property Fund	\$5,401,910	5.42%

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 (US Bank)	\$6,563,132	21.37%
MFS International Growth Fund (US Bank)	\$2,252,954	7.33%
Northern Trust Collective Aggregate Bond Index Fund – Lending Tier H	\$2,027,516	6.60%
Lazard Global (US Bank)	\$1,930,645	6.28%
TIF International Equity Series	\$1,912,812	6.23%
Principal MidCap (I)	\$1,896,881	6.17%
UBS Trumbull Property Fund	\$1,586,238	5.16%
Northern Trust Collective Intermediate Government Credit Bond Index Fund – Lending	\$1,568,065	5.10%

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.16 percent for the basic plan and 14.92 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, 2017**

**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, 2017, were as follows:

	<u>Basic</u>	<u>Police</u>
Total pension liability	\$ 89,358,056	\$ 27,621,915
Plan fiduciary net position	99,688,472	30,719,680
Plan's net pension asset	<u>\$ (10,330,416)</u>	<u>\$ (3,097,765)</u>
Plan fiduciary net position as a percentage of the total pension liability	111.6%	111.2%

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following relevant actuarial information:

	<u>Basic</u>	<u>Police</u>
Actuarial valuation date	June 30, 2015	June 30, 2015
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Amount, Open	Level Dollar Amount, Open
Amortization period	15 years	15 years
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases	4.50%	4.50%
Inflation	2.75%	2.75%
Amortization growth rate	0.00%	0.00%

The Basic Plan uses the RP-2000 Combined Healthy Mortality Generationally Projected with Scale AA for healthy lives. The Police Plan uses 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, 2017**

**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 as of June 30, 2017, 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%
<b>Basic Plan</b>			
Net pension liability (asset)	\$ 398,895	\$ (10,330,416)	\$ (19,274,303)
Plan fiduciary net position as a percentage of the total pension liability	99.6%	111.6%	124.0%
<b>Police Plan</b>			
Net pension liability (asset)	\$ 473,941	\$ (3,097,765)	\$ (6,058,100)
Plan fiduciary net position as a percentage of the total pension liability	98.5%	111.2%	124.6%

**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 Pension 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, 2017**

**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, 2016, the date of the latest actuarial valuation:

	<b>City</b>	<b>School Board</b>
Retirees and beneficiaries with medical coverage	106	35
Retirees with life insurance	161	39
Active members	215	444
Total	482	518

**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.

	<b>City</b>	<b>School Board</b>
Annual Required Contribution (ARC)	\$ 753,000	\$ 462,000
Interest on prior year OPEB asset	(260,000)	(93,000)
Adjustment to the ARC	276,000	98,000
Net OPEB cost	769,000	467,000
Contributions made	777,000	509,000
Increase in net OPEB asset	8,000	42,000
Net OPEB asset, beginning of year	3,721,000	1,324,000
Net OPEB assets, end of year	\$ 3,729,000	\$ 1,366,000

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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, 2017	\$ 769,000	101.44%	\$ (3,729,000)	\$ 467,000	114.90%	\$ (1,366,000)
June 30, 2016	\$ 752,000	135.10%	\$ (3,721,000)	\$ 465,000	135.7%	\$ (1,324,000)
June 30, 2015	\$ 874,000	101.48%	\$ (3,457,000)	\$ 358,000	155.9%	\$ (1,158,000)

**Funded Status and Funding Progress**

The funded status of the plans as of June 30, 2016, 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	\$ 5,861,738	\$ 8,375,422	\$ 2,513,684	70.0%	\$ N/A	N/A
School Board	\$ 3,938,469	\$ 3,341,441	\$ (597,028)	117.9%	\$ 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, 2017**

**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 July 1, 2016, the valuation upon which the 2017 ARC is based on:

	<u><b>City and School Board</b></u>
Actuarial valuation date	July 1, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay Closed
Remaining Amortization period	20 years
Asset valuation method	Market Value
Actuarial assumptions:	
Rate of general wage increase	2.75%
Investment rate of return	7.00%
Healthcare cost trend:	
Pre-Medicare	5.00% - 10.00%
Medicare	7.00% - 10.00%

**Note 19. OPEB Plan – Fiduciary Information**

As described in Note 18, the City offers an OPEB Plan to certain employees. During 2017, the plan adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). The total and net OPEB liability, determined in accordance with GASB 74, is presented in the following note and in the Required Supplementary Information section.

Because the City does not issue a separate financial report for the OPEB plan, the City must also report certain information for those plans as of and for the year ended June 30, 2017, the most recent measurement date for those plan. 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, 2017.

As discussed in Note 18, the City’s OPEB 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.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 19. OPEB Plan – Fiduciary Information (Continued)**

**Summary of Significant Accounting Policies**

The fiduciary financial statements of the OPEB Plan 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 Plan as of June 30, 2017, the date of the most recent valuation, was as follows:

Retirees and beneficiaries	258	
Active members	676	
Total	934	

**Contributions**

For 2017, the total contribution rate was 2.34% of annual covered payroll. Other contribution information for 2017 is disclosed in Note 18.

**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 OPEB Plan’s fiduciary net position:

<u>Investment</u>	<u>Market Value</u>	<u>Percent of Net Position</u>
Large-cap Index Fund Adm (Vanguard)	\$5,434,493	45.69%
Short-term Bond Index Adm (Vanguard)	\$2,917,517	24.53%
Developing Markets Idx Admiral (Vanguard)	\$2,094,014	17.61%
Mid-Cap Index Fund Adm (Vanguard)	\$1,082,486	9.10%
Small-cap Index Fund Adm (Vanguard)	\$1,074,712	9.04%

For the year ended June 30, 2017, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense was 13.86 percent. 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, 2017**

**Note 19. OPEB Plan – Fiduciary Information (Continued)**

**Net OPEB Liability**

The components of the net OPEB liability of the Plan at June 30, 2017, were as follows:

Total OPEB liability	\$ 12,656,295
Plan fiduciary net position	12,127,132
Plan's net OPEB liability	<u>\$ 529,163</u>
Plan fiduciary net position as a percentage of the total OPEB liability	95.8%

**Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following relevant actuarial information:

Actuarial valuation date	July 1, 2014
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Amortization method	Level Percentage of pay, closed
Amortization period	22 years
Actuarial assumptions:	
Discount rate	7.00%
Healthcare Cost Trend Rates:	
Pre-Medicare	5.00% - 10.00%
Medicare	7.00% - 10.00%

The discount rate used to measure the total OPEB 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 19. OPEB Plan – Fiduciary Information (Continued)**

**Sensitivity of the Net OPEB Liability (Asset)**

The following presents the net OPEB liability (asset) as of June 30, 2017, calculated using the discount rate of 7.00%, as well as what the net OPEB 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>
Net OPEB liability (asset)	\$ 1,983,200	\$ 529,163	\$ (679,703)
Plan fiduciary net position as a percentage of the total OPEB liability	85.9%	95.8%	105.9%

The following presents the net OPEB liability (asset), calculated using healthcare cost trend rates described in the assumptions above, as well as what the net OPEB liability (asset) would be if it were calculated using rates that are 1-percentage-point lower (6.00%) or 1-percentage point higher (8.00%) than the current rates:

	<u>1% Decrease</u>	<u>Healthcare Trend</u>	<u>1% Increase</u>
Net OPEB liability (asset)	\$ (668,364)	\$ 529,163	\$ 1,939,201
Plan fiduciary net position as a percentage of the total OPEB liability	105.8%	95.8%	86.2%

**Note 20. 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, 2017**

**Note 20. 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, 2017, 2016, and 2015 were \$284,391, \$262,326, and \$283,515, respectively, and were equal to the required contributions for each year.

**Note 21. Risk Management**

The City participates in the Commonwealth of Virginia's Law Enforcement Liability Plan, called VARisk2, 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 22. 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, 2017**

**Note 23. Prior Period Restatement**

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

	<b>Sewer Fund</b>
Net position, June 30, 2016, as previously stated	\$ 18,055,393
To record adjustment to Arlington treatment costs	138,328
Net position, June 30, 2016, as restated	\$ 18,193,631

**Note 24. 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.

	<b>General Fund</b>	<b>Other Governmental Funds</b>
Nonspendable:		
Prepays	\$ 82,049	\$ -
Inventories	182,964	-
Total nonspendable	265,013	-
Restricted for:		
Capital projects	615,269	14,387,303
Grants	552,325	-
Special transportation	-	679,956
Total restricted	1,167,594	15,067,259
Committed to:		
Capital projects	9,678,999	8,479,116
Future development costs	888,000	-
Affordable housing	-	291,146
Special transportation	-	2,787,143
Total committed	10,566,999	11,557,405
Assigned to:		
Subsequent years appropriations	523,096	-
Capital reserve	1,907,067	-
Total assigned	2,430,163	-
Unassigned	14,993,614	-
Total fund balance	\$ 29,423,383	\$ 26,624,664

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 25. Tax Abatement Programs**

Section 40-352 to 40-360 of the City Code provides for the partial exemption of real estate taxes for rehabilitated commercial properties that meet certain eligibility criteria. These criteria include: (1) the structure must be no less than 20 years of age; (2) the structure must be substantially rehabilitated or renovated such that the assessed value of the structure is increased by no less than 100 percent over its assessed value on the date of the application, or replaced resulting in an increase or improvement of at least 10,000 square feet of office space by adding new office space, renovating or rehabilitating existing office space, or converting other uses to office space; (3) the structure must not contain residential rental units, condominium units, townhouses, or a single-family attached unit; and (4) the rehabilitation, renovation or replacement must be the result of a single project with all work undertaken pursuant to a single building permit or combination of permits issued within a 60-day period and completed within 24 months from the date the initial construction permit was issued. The partial exemption shall be the amount of real estate taxes resulting from the increase in assessed value attributable to the substantial rehabilitation, renovation, or replacement of the structure and will be applicable to subsequent assessments commencing on January 1 of the year following completion of the rehabilitation, renovation or replacement. 100% of the partial exemption shall be applicable for the first five years and 50% shall be applicable for the next five years. Currently, there are 4 properties that receive this exemption. In FY2017, total exemption granted under this program was \$114,036.

In 2008, the City and the Falls Church Economic Development Authority (EDA) entered into an Economic Development Agreement (“Agreement”) with 6607 Wilson Retail, LLC (Developer). The Agreement provides that the City shall share tax revenues generated from the opening of the Retail Center to be developed and constructed by 6607 Wilson Retail LLC in the following manner: (1) The City shall retain the first \$450,000 in local tax revenue generated by or from the Retail Center each year for the 12 full fiscal years of operation following the opening of the Retail Center; (2) the City shall receive up to an additional \$250,000 in a dollar-for-dollar sharing of local tax revenue in a band of revenue achieved the Retail Center and site between \$450,001 and \$950,000 each year; (3) the Developer shall receive up to \$250,000 in a dollar-for-dollar sharing of Local Tax Revenue in a band of revenue achieved the Retail Center and site between \$450,001 and \$950,000 each year; and (3) the City shall retain all local tax revenue generated by the retail center and site above \$950,000 in each year. The payments to the Developer began in FY2012 and will end in FY2023. In FY2017, the City paid \$250,000 of local tax revenues generated by the Retail Center and site with the Developer.

**Note 26. Subsequent Events**

In June 2017, the City Council authorized the issuance of \$120 million GO Bonds for capital costs related to the George Mason High School project and other capital projects. Citizens approved the referendum during the November 2017 election. This debt has not yet been issued.

The City entered into an agreement with Fairfax for a police firearms training center. The City’s portion of the project is \$1,200,000 with the first payment made in August 2017.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 27. New Accounting Standards**

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

**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 replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

**GASB Statement No. 81, *Irrevocable Split-Interest Agreements*** provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest 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.

**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 the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and 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, 2018.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 27. New Accounting Standards (Continued)**

**GASB Statement No. 83, *Certain Asset Retirement Obligations*** establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

**GASB Statement No. 84, *Fiduciary Activities*** establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

**GASB Statement No. 85, *Omnibus 2017*** addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 27. New Accounting Standards (Continued)**

**GASB Statement No. 86, *Certain Debt Extinguishment Issues*** improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

**GASB Statement No. 87, *Leases*** establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

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## CITY OF FALLS CHURCH, VIRGINIA

## SCHEDULES OF FUNDING PROGRESS

Year Ended June 30, 2017

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
			Unfunded Actuarial			
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<b>OTHER POST-EMPLOYMENT BENEFITS</b>						
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
June 30, 2016	\$ 5,861,738	\$ 8,375,422	\$ 2,513,684	69.99%	n/a	n/a
B. School Board - Health Insurance:						
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
June 30, 2016	\$ 3,938,469	\$ 3,341,441	\$ (597,028)	117.87%	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, 2017**

	<b>Measurement Dates - Plan Year</b>			
	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>Total Pension Liability</b>				
Service Cost	\$ 1,597,442	\$ 1,539,198	\$ 1,605,981	\$ 1,477,682
Interest (includes interest on service cost)	6,139,726	5,773,189	5,618,010	5,662,883
Differences between expected and actual experience	(1,068,167)	(595,377)	(523,443)	(1,621,231)
Changes of assumptions	(1,009,938)	3,155,541	-	4,182,659
Benefit payments, including refunds of member contributions	(4,827,875)	(4,561,229)	(4,272,618)	(5,883,600)
Net change in total pension liability	831,188	5,311,322	2,427,930	3,818,393
<b>Total pension liability - beginning</b>	<b>88,526,868</b>	<b>83,215,546</b>	<b>80,787,616</b>	<b>76,969,223</b>
<b>Total pension liability - ending</b>	<b>\$ 89,358,056</b>	<b>\$ 88,526,868</b>	<b>\$ 83,215,546</b>	<b>\$ 80,787,616</b>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 1,160,820	\$ 1,972,956	\$ 8,345,532	\$ 4,021,770
Contributions - member	755,822	789,920	724,853	727,295
Net investment income	13,427,809	507,418	3,081,767	11,795,982
Benefit payments, including refunds of member contributions	(4,827,875)	(4,561,229)	(4,272,618)	(5,883,600)
Administrative expenses	(70,173)	(77,649)	(70,902)	(58,740)
Net change in plan fiduciary net position	10,446,403	(1,368,584)	7,808,632	10,602,707
<b>Plan fiduciary net position - beginning</b>	<b>89,242,069</b>	<b>90,610,653</b>	<b>82,802,021</b>	<b>72,199,314</b>
<b>Plan fiduciary net position - ending</b>	<b>\$ 99,688,472</b>	<b>\$ 89,242,069</b>	<b>\$ 90,610,653</b>	<b>\$ 82,802,021</b>
<b>Net pension liability (asset) - ending</b>	<b>\$ (10,330,416)</b>	<b>\$ (715,201)</b>	<b>\$ (7,395,107)</b>	<b>\$ (2,014,405)</b>
Plan fiduciary net position as a percentage of total pension liability	111.56%	100.81%	108.89%	102.49%
Covered employee payroll	\$ 15,111,938	\$ 15,023,723	\$ 14,488,440	\$ 13,776,586
Net pension liability (asset) as a percentage of covered employee payroll	-68.36%	-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, 2017**

	Measurement Dates - Plan Year			
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability</b>				
Service Cost	\$ 647,878	\$ 550,412	\$ 493,645	\$ 451,780
Interest (includes interest on service cost)	1,869,430	1,727,698	1,648,907	1,596,234
Differences between expected and actual experience	(140,892)	85,941	(57,083)	(162,138)
Changes of assumptions	(287,168)	609,562	-	1,319,923
Benefit payments, including refunds of member contributions	(1,051,184)	(1,041,507)	(991,773)	(958,185)
Net change in total pension liability	1,038,064	1,932,106	1,093,696	2,247,614
<b>Total pension liability - beginning</b>	<b>26,583,851</b>	<b>24,651,745</b>	<b>23,558,049</b>	<b>21,310,435</b>
<b>Total pension liability - ending</b>	<b>\$ 27,621,915</b>	<b>\$ 26,583,851</b>	<b>\$ 24,651,745</b>	<b>\$ 23,558,049</b>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 600,676	\$ 751,332	\$ 3,593,989	\$ 625,670
Contributions - member	296,901	250,909	177,685	166,846
Net investment income	4,019,100	202,768	871,317	3,316,856
Benefit payments, including refunds of member contributions	(1,051,184)	(1,041,507)	(991,773)	(958,185)
Administrative expenses	(21,978)	(27,185)	(22,126)	(19,151)
Net change in plan fiduciary net position	3,843,515	136,317	3,629,092	3,132,036
<b>Plan fiduciary net position - beginning</b>	<b>26,876,165</b>	<b>26,739,848</b>	<b>23,110,756</b>	<b>19,978,720</b>
<b>Plan fiduciary net position - ending</b>	<b>\$ 30,719,680</b>	<b>\$ 26,876,165</b>	<b>\$ 26,739,848</b>	<b>\$ 23,110,756</b>
<b>Net pension liability (asset) - ending</b>	<b>\$ (3,097,765)</b>	<b>\$ (292,314)</b>	<b>\$ (2,088,103)</b>	<b>\$ 447,293</b>
Plan fiduciary net position as a percentage of total pension liability	111.21%	101.10%	108.47%	98.10%
Covered employee payroll	\$ 2,713,990	\$ 2,542,578	\$ 2,538,363	\$ 2,351,051
Net pension liability (asset) as a percentage of covered employee payroll	-114.14%	-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, 2017**

	<u>Measurement Dates - Plan Year</u>		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>Total Pension Liability</b>			
Service Cost	\$ 115,519	\$ 125,830	\$ 115,154
Interest (includes interest on service cost)	273,085	255,657	239,734
Differences between expected and actual experience	288,621	11,357	-
Benefit payments, including refunds of member contributions	<u>(142,431)</u>	<u>(145,323)</u>	<u>(109,503)</u>
Net change in total pension liability	534,794	247,521	245,385
<b>Total pension liability - beginning</b>	3,972,428	3,724,907	3,479,522
<b>Total pension liability - ending</b>	<u>\$ 4,507,222</u>	<u>\$ 3,972,428</u>	<u>\$ 3,724,907</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 30,313	\$ 32,780	\$ 74,651
Contributions - member	66,058	59,345	59,778
Net investment income	85,110	216,702	645,679
Benefit payments, including refunds of member contributions	(142,431)	(145,323)	(109,503)
Administrative expenses	<u>(3,080)</u>	<u>(3,022)</u>	<u>(3,389)</u>
Net change in plan fiduciary net position	35,970	160,482	667,216
<b>Plan fiduciary net position - beginning</b>	4,895,595	4,735,113	4,067,897
<b>Plan fiduciary net position - ending</b>	<u>\$ 4,931,565</u>	<u>\$ 4,895,595</u>	<u>\$ 4,735,113</u>
<b>Net pension liability (asset) - ending</b>	<u>\$ (424,343)</u>	<u>\$ (923,167)</u>	<u>\$ (1,010,206)</u>
Plan fiduciary net position as a percentage of total pension liability	109.41%	123.24%	127.12%
Covered employee payroll	<u>\$ 1,346,797</u>	<u>\$ 1,086,779</u>	<u>\$ 1,196,317</u>
Net pension liability (asset) as a percentage of covered employee payroll	-31.51%	-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. Measurement dates used are one year prior to the reporting date.

## CITY OF FALLS CHURCH, VIRGINIA

**SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS**  
**For the Year Ended June 30, 2017 and Three Years Prior**

<b>Entity Fiscal Year Ended June 30</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in Relation to Actuarially Determined Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Employee Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
<b>Basic Plan - Total Plan</b>					
2017	\$ 1,160,277	\$ 1,160,820	\$ (543)	\$ 15,111,938	7.68 %
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
<b>Police Plan</b>					
2017	\$ 624,490	\$ 624,490	\$ -	\$ 2,713,990	23.01 %
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	625,670	625,670	-	2,351,051	26.61
<b>Constitutional Officers</b>					
2017	\$ 20,795	\$ 20,795	\$ -	\$ 1,364,445	1.52 %
2016	45,257	45,257	-	1,344,074	3.37
2015	51,386	51,386	-	1,086,779	4.73
2014	74,651	74,651	-	1,196,317	6.24
<b>OPEB Plan</b>					
2017	\$ 1,251,564	\$ 1,034,153	\$ 217,411	\$ 44,208,669	2.34 %

Schedule is intended to show information for 10 years. Since 2014 was the first year for this presentation for pensions and 2017 was the first year for OPEB, 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 AND OPEB INVESTMENT RETURNS**  
**For the Year Ended June 30, 2017 and Three Years Prior**

	<u>Basic</u>	<u>Police</u>	<u>OPEB</u>
Annual money-weighted rate of return, net of investment expense			
June 30, 2014	16.50%	16.73%	N/A
June 30, 2015	3.69%	3.59%	N/A
June 30, 2016	0.71%	0.88%	N/A
June 30, 2017	15.16%	14.92%	13.86%

Schedule is intended to show information for 10 years. Since 2014 was the first year for this presentation for pensions and 2017 was the first year for OPEB, 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

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY (ASSET)**  
**June 30, 2017**

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)
<b>Basic Plan - City</b>					
2015	72.91 %	\$ (1,431,672)	\$ 10,420,367	(13.74) %	102.43 %
2016	71.97	(5,322,577)	10,939,965	(48.65)	108.89
2017	73.00	(520,795)	11,056,426	(4.71)	100.81
<b>Basic Plan - Schools</b>					
2015	18.37 %	\$ (394,046)	\$ 2,867,047	(13.74) %	102.43 %
2016	18.80	(1,390,211)	2,685,735	(51.76)	108.89
2017	18.80	(127,854)	2,740,090	(4.67)	100.81
<b>VRS Teacher Retirement Plan</b>					
2015	0.29 %	\$ 35,117,000	\$ 21,122,520	166.25 %	70.88 %
2016	0.32	40,438,000	24,618,277	164.26	70.68
2017	0.32	45,483,000	25,447,924	178.73	68.28

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, 2017**

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
<b>Basic Plan - City</b>					
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
2017	835,101	852,360	(17,259)	10,876,712	7.84
<b>Basic Plan - Schools</b>					
2015	\$ 472,312	\$ 384,313	\$ 87,999	\$ 2,723,691	14.11 %
2016	352,614	346,038	6,576	2,685,731	12.88
2017	218,122	206,499	11,623	2,840,908	7.27
<b>VRS Teacher Retirement Plan</b>					
2015	\$ 3,717,116	\$ 3,717,116	\$ -	\$ 21,122,520	17.60 %
2016	3,426,047	3,426,047	-	24,618,277	13.92
2017	3,644,421	3,644,421	-	25,447,924	14.32

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 CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

For the Year Ended June 30, 2017

	<b>Measurement Dates - Plan Year</b>
	<b>June 30, 2017</b>
<b>Total OPEB Liability</b>	
Service Cost	\$ 350,582
Interest (includes interest on service cost)	829,835
Benefit payments, including refunds of member contributions	(406,279)
Net change in total OPEB liability	774,138
<b>Total OPEB liability - beginning</b>	11,882,157
<b>Total OPEB liability - ending</b>	<u>\$ 12,656,295</u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 1,034,153
Net investment income	1,524,720
Benefit payments, including refunds of member contributions	(406,279)
Administrative expenses	(19,801)
Net change in plan fiduciary net position	2,132,793
<b>Plan fiduciary net position - beginning</b>	9,994,339
<b>Plan fiduciary net position - ending</b>	<u>\$ 12,127,132</u>
<b>Net OPEB liability - ending</b>	<u>\$ 529,163</u>
Plan fiduciary net position as a percentage of total OPEB liability	95.82%
Covered employee payroll	<u>\$ 44,208,669</u>
Net pension liability (asset) as a percentage of covered employee payroll	1.20%

**Notes to Schedule:**

Data will be presented from the time GASB 74 was first implemented in fiscal year 2017 until 10 years of trend data is achieved.

Measurement dates used are one year prior to the reporting 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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
General property taxes	\$ 55,927,464	\$ 55,927,464	\$ 56,233,419	\$ 305,955
Other local taxes	16,366,000	16,366,000	16,233,559	(132,441)
Permits, privilege fees, and regulatory licenses	1,730,100	1,280,100	1,036,162	(243,938)
Fines and forfeitures	676,100	676,100	490,773	(185,327)
Use of money and property	283,260	283,260	443,100	159,840
Charges for services	2,768,477	2,768,477	2,708,257	(60,220)
Miscellaneous	29,000	29,000	74,667	45,667
Gifts and contributions	12,500	41,300	47,152	5,852
Recovered costs	314,500	387,500	376,684	(10,816)
Intergovernmental				
Commonwealth	4,048,912	4,484,729	4,817,538	332,809
Federal	354,671	397,778	658,091	260,313
Total revenues	<u>82,510,984</u>	<u>82,641,708</u>	<u>83,119,402</u>	<u>477,694</u>
<b>EXPENDITURES</b>				
Current:				
Clerk of Court	42,919	42,919	38,356	4,563
Commission of Revenue	797,876	797,876	765,765	32,111
Development services	2,167,427	2,267,406	2,284,624	(17,218)
Executive management	3,549,613	3,521,947	3,227,203	294,744
Finance	1,470,454	1,378,533	1,370,875	7,658
Human services	4,111,628	4,158,421	3,988,063	170,358
Legislative	753,255	715,294	658,796	56,498
Library services	2,018,921	2,046,921	2,046,380	541
Public safety	9,515,603	9,595,002	9,386,235	208,767
Public works	5,955,304	6,493,960	5,895,607	598,353
Recreation and parks	3,229,715	3,238,551	3,124,524	114,027
Registrar	302,087	302,087	271,353	30,734
Sheriff	1,479,843	1,628,349	1,582,018	46,331
Treasurer	546,307	562,325	581,315	(18,990)
Non-departmental	47,017,837	47,091,637	46,990,693	100,944
Total expenditures	<u>82,958,789</u>	<u>83,841,228</u>	<u>82,211,807</u>	<u>1,629,421</u>
Excess (deficiency) of revenues over expenditures	<u>(447,805)</u>	<u>(1,199,520)</u>	<u>907,595</u>	<u>2,107,115</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Premiums from issuance of bonds	649,000	649,000	612,000	(37,000)
Proceeds from sale of capital assets	-	-	605,189	605,189
Transfers in	942,126	942,126	941,723	(403)
Transfers out	(2,593,631)	(3,193,631)	(3,098,837)	94,794
Total other financing sources (uses)	<u>(1,002,505)</u>	<u>(1,602,505)</u>	<u>(939,925)</u>	<u>662,580</u>
Net change in fund balance	<u>\$ (1,450,310)</u>	<u>\$ (2,802,025)</u>	<u>\$ (32,330)</u>	<u>\$ 2,769,695</u>

**CITY OF FALLS CHURCH, VIRGINIA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2017**

**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, 2017**

**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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# NONMAJOR GOVERNMENTAL FUNDS

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## **Affordable Dwelling Units Fund**

To account for funding to both maintain existing affordable housing and to develop additional affordable housing opportunities in the City for households with gross income less than 120% of the median income for the Washington Metropolitan statistical area. Funds are awarded on a rolling application basis through a public application process.

## **Falls Church Community Television Fund**

To deliver programming via cable channels, YouTube video uploads, and public broadcasting and online streaming of City Council, School Board, and Planning Commission and other public meetings.

CITY OF FALLS CHURCH, VIRGINIA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2017

	<u>Affordable Housing</u>	<u>FCCTV</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and investments	\$ 291,146	\$ -	\$ 291,146
Receivables, net	283,001	-	283,001
Total assets	<u>574,147</u>	<u>-</u>	<u>574,147</u>
<b>LIABILITIES</b>			
Unearned revenue	<u>283,001</u>	<u>-</u>	<u>283,001</u>
Total liabilities	<u>283,001</u>	<u>-</u>	<u>283,001</u>
<b>FUND BALANCE</b>			
Committed	<u>291,146</u>	<u>-</u>	<u>291,146</u>
Total liabilities and fund balance	<u>\$ 574,147</u>	<u>\$ -</u>	<u>\$ 574,147</u>

## CITY OF FALLS CHURCH, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2017**

	<u>Affordable Housing</u>	<u>FCCTV</u>	<u>Total Governmental</u>
<b>REVENUES</b>			
Other local taxes	\$ -	\$ 61,314	\$ 61,314
Use of money and property	944	-	944
Total revenues	<u>944</u>	<u>61,314</u>	<u>62,258</u>
<b>EXPENDITURES</b>			
Current:			
General government	-	184,165	184,165
Total expenditures	<u>-</u>	<u>184,165</u>	<u>184,165</u>
Excess (deficiency) of revenues over expenditures	<u>944</u>	<u>(122,851)</u>	<u>(121,907)</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers in	-	122,851	122,851
Total other financing sources	<u>-</u>	<u>122,851</u>	<u>122,851</u>
Net change in fund balance	944	-	944
<b>FUND BALANCES AT JULY 1</b>	<u>290,202</u>	<u>-</u>	<u>290,202</u>
<b>FUND BALANCES AT JUNE 30</b>	<u>\$ 291,146</u>	<u>\$ -</u>	<u>\$ 291,146</u>

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## FIDUCIARY FUNDS

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### **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, 2017

	<u>City</u>	<u>School Board</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 52,461	\$ 31,733	\$ 84,194
Investments:			
Domestic equity securities	4,728,161	2,945,790	7,673,951
Domestic fixed income securities	1,817,051	1,132,078	2,949,129
International equity securities	1,644,087	1,024,317	2,668,404
Total investments	<u>8,189,299</u>	<u>5,102,185</u>	<u>13,291,484</u>
 Total assets	 <u>8,241,760</u>	 <u>5,133,918</u>	 <u>13,375,678</u>
<b>LIABILITIES</b>			
Accounts payable	-	14,850	14,850
Due to general fund	1,220,569	247,156	1,467,725
 Total liabilities	 <u>1,220,569</u>	 <u>262,006</u>	 <u>1,482,575</u>
<b>NET POSITION</b>			
Held in trust for:			
Other post-employment benefits	<u>7,021,191</u>	<u>4,871,912</u>	<u>11,893,103</u>
 Total net position restricted for pension post-employment benefits	 <u>\$ 7,021,191</u>	 <u>\$ 4,871,912</u>	 <u>\$ 11,893,103</u>

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 OTHER POST-EMPLOYMENT TRUST FUNDS  
 Year Ended June 30, 2017

	<u>City</u>	<u>School Board</u>	<u>Total</u>
<b>ADDITIONS</b>			
Employer contributions	\$ 591,093	\$ 428,060	\$ 1,019,153
Investment earnings:			
Interest	393	238	631
Dividends	207,363	127,824	335,187
Net decrease in fair value of investments	724,129	445,512	1,169,641
Total investment earnings	931,885	573,574	1,505,459
Less investment expenses	(5,800)	(4,000)	(9,800)
Net investment earnings	926,085	569,574	1,495,659
 Total additions	 <u>1,517,178</u>	 <u>997,634</u>	 <u>2,514,812</u>
<b>DEDUCTIONS</b>			
Benefits	343,139	55,266	398,405
Administration	11,485	7,920	19,405
 Total deductions	 <u>354,624</u>	 <u>63,186</u>	 <u>417,810</u>
 Change in net position	 1,162,554	 934,448	 2,097,002
<b>NET POSITION AT JULY 1</b>	<u>5,858,637</u>	<u>3,937,464</u>	<u>9,796,101</u>
 <b>NET POSITION AT JUNE 30</b>	 <u>\$ 7,021,191</u>	 <u>\$ 4,871,912</u>	 <u>\$ 11,893,103</u>

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## **AGENCY FUNDS**

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### **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, 2017

	<b>Fairfax County Water Authority</b>	<b>Northern Virginia Criminal Justice Academy</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 4,740,152	\$ 4,740,152
Other receivables	853,618	-	853,618
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 853,618</u>	<u>\$ 4,740,152</u>	<u>\$ 5,593,770</u>
<b>LIABILITIES</b>			
Amounts held for others	\$ 821,250	\$ 4,719,940	\$ 5,541,190
Due to general fund	32,368	20,212	52,580
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>\$ 853,618</u>	<u>\$ 4,740,152</u>	<u>\$ 5,593,770</u>

## CITY OF FALLS CHURCH, VIRGINIA

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**Year Ended June 30, 2017**

	<u>Balances</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2017</u>
<b>Fairfax County Water Authority</b>				
<b>ASSETS</b>				
Other receivables	\$ 869,232	\$ -	\$ 15,614	\$ 853,618
Total assets	<u>\$ 869,232</u>	<u>\$ -</u>	<u>\$ 15,614</u>	<u>\$ 853,618</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 869,232	\$ -	\$ 47,982	\$ 821,250
Due to general fund	31,162	18,143	16,937	32,368
Total liabilities	<u>\$ 900,394</u>	<u>\$ 18,143</u>	<u>\$ 64,919</u>	<u>\$ 853,618</u>
<b>Northern Virginia Criminal Justice Academy</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,331,556	\$ 1,967,482	\$ 1,558,886	\$ 4,740,152
Total assets	<u>\$ 4,331,556</u>	<u>\$ 1,967,482</u>	<u>\$ 1,558,886</u>	<u>\$ 4,740,152</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 4,301,076	\$ 5,129,795	\$ 4,710,931	\$ 4,719,940
Due to general fund	30,480	6,678,413	6,688,681	20,212
Total liabilities	<u>\$ 4,331,556</u>	<u>\$ 11,808,208</u>	<u>\$ 11,399,612</u>	<u>\$ 4,740,152</u>
<b>Totals</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,331,556	\$ 1,967,482	\$ 1,558,886	\$ 4,740,152
Other receivables	869,232	-	15,614	853,618
Total assets	<u>\$ 5,200,788</u>	<u>\$ 1,967,482</u>	<u>\$ 1,574,500</u>	<u>\$ 5,593,770</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 5,170,308	\$ 5,129,795	\$ 4,758,913	\$ 5,541,190
Due to general fund	61,642	6,696,556	6,705,618	52,580
Total liabilities	<u>\$ 5,231,950</u>	<u>\$ 11,826,351</u>	<u>\$ 11,464,531</u>	<u>\$ 5,593,770</u>

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# **DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**

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## **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, 2017

	<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>
<b>ASSETS</b>				
Cash and investments	\$ 1,032,587	\$ 1,423,528	\$ 458,022	\$ 2,914,137
Accounts receivable	78,189	28,400	-	106,589
Due from fiduciary funds	247,156	-	-	247,156
Due from primary government	5,287,007	57,330	-	5,344,337
Due from other governments	494,758	-	6,572	501,330
Prepays	15,667	-	-	15,667
	<u>\$ 7,155,364</u>	<u>\$ 1,509,258</u>	<u>\$ 464,594</u>	<u>\$ 9,129,216</u>
Total assets				
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 5,852,237	\$ 121,088	\$ 64,259	\$ 6,037,584
	<u>5,852,237</u>	<u>121,088</u>	<u>64,259</u>	<u>6,037,584</u>
Total liabilities				
<b>FUND BALANCES</b>				
Nonspendable:				
Prepays	15,667	-	-	15,667
Assigned:				
Education	1,287,460	1,388,170	400,335	3,075,965
	<u>1,303,127</u>	<u>1,388,170</u>	<u>400,335</u>	<u>3,091,632</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 7,155,364</u>	<u>\$ 1,509,258</u>	<u>\$ 464,594</u>	<u>\$ 9,129,216</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, 2017

<b>Total Fund Balance - Governmental Funds</b>		\$ 3,091,632
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>2,539,103</u>	3,812,457
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.		
		1,366,000
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.		
		(93,878)
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 2017 employer contributions	3,850,920	
Deferred outflows of resources for changes in assumptions	376,070	
Deferred outflows of resources for change in proportion share of Basic Pension Plan	39,029	
Deferred outflows of resources due to changes in proportion - teacher cost sharing pension plan	4,211,000	
Deferred outflows of resources for the net difference between projected and actual investment earnings on pension plan investments	3,272,457	
Deferred inflows or resources due to differences between expected and actual experience	(1,575,147)	
Deferred inflows or resources due to differences between expected and actual contributions	(533,359)	
Deferred inflows of resources due to changes in proportion - Basic Pension Plan	(3,603)	
Net pension asset - basic pension plan	127,854	
Net pension liability - teacher cost sharing pension plan	<u>(45,483,000)</u>	(35,717,779)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Termination benefits	(2,153,000)	
Compensated absences	(1,125,071)	
Capital lease payable	<u>(296,522)</u>	(3,574,593)
<b>Total Net Position - Governmental Activities</b>		<u>\$ (31,116,161)</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, 2017**

	<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>	
<b>REVENUES</b>				
Revenue from use of money and property	\$ 43,354	\$ 49,140	\$ -	\$ 92,494
Charges for services	480,554	1,587,705	781,578	2,849,837
Fines	5,500	-	-	5,500
Miscellaneous	93,339	134,252	-	227,591
Intergovernmental:				
Federal	526,707	-	78,871	605,578
Commonwealth	6,458,323	-	6,663	6,464,986
Payments from City	39,708,000	109,030	-	39,817,030
	<u>47,315,777</u>	<u>1,880,127</u>	<u>867,112</u>	<u>50,063,016</u>
<b>EXPENDITURES</b>				
Current:				
Education	46,004,139	1,651,882	816,536	48,472,557
Capital outlay	776,980	171,243	50,000	998,223
Debt service:				
Principal retirement	481,077	-	-	481,077
Interest and fiscal charges	14,384	-	-	14,384
	<u>47,276,580</u>	<u>1,823,125</u>	<u>866,536</u>	<u>49,966,241</u>
Total expenditures				
Excess of revenues over expenditures	<u>39,197</u>	<u>57,002</u>	<u>576</u>	<u>96,775</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital leases	199,732	-	-	199,732
Transfers in	70,000	-	45,000	115,000
Transfers out	(45,000)	(70,000)	-	(115,000)
	<u>224,732</u>	<u>(70,000)</u>	<u>45,000</u>	<u>199,732</u>
Total other financing sources (uses)				
Net change in fund balance	263,929	(12,998)	45,576	296,507
<b>FUND BALANCE AT JULY 1</b>	<u>1,039,198</u>	<u>1,401,168</u>	<u>354,759</u>	<u>2,795,125</u>
<b>FUND BALANCE AT JUNE 30</b>	<u>\$ 1,303,127</u>	<u>\$ 1,388,170</u>	<u>\$ 400,335</u>	<u>\$ 3,091,632</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, 2017**

<b>Net Change in Fund Balance - Governmental Funds</b>		<b>\$ 296,507</b>
<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	\$ 255,120	
Depreciation expense	<u>(411,755)</u>	(156,635)
<p>Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Statement of Activities.</p>		
		(199,732)
<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>		
		42,000
<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>		
		26,773
<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	3,850,920	
Pension expense	<u>(5,234,468)</u>	(1,383,548)
<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	\$ 438,000	
Change in compensated absences	<u>92,889</u>	530,889
<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>481,078</u>
<b>Change in Net Position - Governmental Activities</b>		<b><u><u>\$ (362,668)</u></u></b>

**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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Revenue from use of money and property	\$ 41,000	\$ 41,000	\$ 43,354	\$ 2,354
Charges for services	437,000	437,000	480,554	43,554
Fines	154,800	154,800	5,500	(149,300)
Miscellaneous	315,000	315,000	93,339	(221,661)
Intergovernmental:				
Federal	514,400	514,400	526,707	12,307
Commonwealth	6,436,800	6,436,800	6,458,323	21,523
Primary government	39,708,000	39,708,000	39,708,000	-
Total revenues	<u>47,607,000</u>	<u>47,607,000</u>	<u>47,315,777</u>	<u>(291,223)</u>
<b>EXPENDITURES</b>				
Current:				
Education	46,780,250	46,813,189	46,004,139	809,050
Capital outlay	391,350	627,720	776,980	(149,260)
Debt service:				
Principal retirement	370,400	591,750	481,077	110,673
Interest and fiscal charges	-	-	14,384	(14,384)
Reserves	555,000	290,330	-	290,330
Total expenditures	<u>48,097,000</u>	<u>48,322,989</u>	<u>47,276,580</u>	<u>1,046,409</u>
Excess (deficiency) of revenues over expenditures	<u>(490,000)</u>	<u>(715,989)</u>	<u>39,197</u>	<u>755,186</u>
<b>OTHER FINANCING USES</b>				
Proceeds from capital leases	-	221,356	199,732	(21,624)
Transfers in	70,000	70,000	70,000	-
Transfers out	(45,000)	(45,000)	(45,000)	-
Total other financing uses	<u>25,000</u>	<u>246,356</u>	<u>224,732</u>	<u>(21,624)</u>
Net change in fund balances	<u>\$ (465,000)</u>	<u>\$ (469,633)</u>	<u>\$ 263,929</u>	<u>\$ 733,562</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Revenue from use of money and property	\$ 64,000	\$ 64,000	\$ 49,140	\$ (14,860)
Charges for services	1,609,770	1,609,770	1,587,705	(22,065)
Miscellaneous	173,030	173,030	134,252	(38,778)
Intergovernmental:				
Payments from City	109,030	109,030	109,030	-
Total revenues	<u>1,955,830</u>	<u>1,955,830</u>	<u>1,880,127</u>	<u>(75,703)</u>
<b>EXPENDITURES</b>				
Current:				
Education	1,979,630	1,844,140	1,651,882	192,258
Capital outlay	90,000	220,490	171,243	49,247
Total expenditures	<u>2,069,630</u>	<u>2,064,630</u>	<u>1,823,125</u>	<u>241,505</u>
Excess (deficiency) of revenues over expenditures	<u>(113,800)</u>	<u>(108,800)</u>	<u>57,002</u>	<u>165,802</u>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(70,000)</u>	<u>(75,000)</u>	<u>(70,000)</u>	<u>5,000</u>
Total other financing uses	<u>(70,000)</u>	<u>(75,000)</u>	<u>(70,000)</u>	<u>5,000</u>
Net change in fund balances	<u>\$ (183,800)</u>	<u>\$ (183,800)</u>	<u>\$ (12,998)</u>	<u>\$ 170,802</u>

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD  
 STATEMENT OF FIDUCIARY NET POSITION  
 AGENCY FUNDS  
 June 30, 2017

	<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>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 42,244	\$ 57,368	\$ 41,891	\$ 400,948	\$ 542,451
Total assets	<u>\$ 42,244</u>	<u>\$ 57,368</u>	<u>\$ 41,891</u>	<u>\$ 400,948</u>	<u>\$ 542,451</u>
<b>LIABILITIES</b>					
Amounts held for others	\$ 42,244	\$ 57,368	\$ 41,891	\$ 400,948	\$ 542,451
Total liabilities	<u>\$ 42,244</u>	<u>\$ 57,368</u>	<u>\$ 41,891</u>	<u>\$ 400,948</u>	<u>\$ 542,451</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, 2017**

	<u>Balances</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2017</u>
<b>THOMAS JEFFERSON ELEMENTARY</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 25,149	\$ 76,874	\$ 59,779	\$ 42,244
Total assets	<u>\$ 25,149</u>	<u>\$ 76,874</u>	<u>\$ 59,779</u>	<u>\$ 42,244</u>
<b>Liabilities</b>				
Amounts held for others	\$ 25,149	\$ 76,874	\$ 59,779	\$ 42,244
Total liabilities	<u>\$ 25,149</u>	<u>\$ 76,874</u>	<u>\$ 59,779</u>	<u>\$ 42,244</u>
<b>MT. DANIEL ELEMENTARY</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 54,614	\$ 32,849	\$ 30,095	\$ 57,368
Total assets	<u>\$ 54,614</u>	<u>\$ 32,849</u>	<u>\$ 30,095</u>	<u>\$ 57,368</u>
<b>Liabilities</b>				
Amounts held for others	\$ 54,614	\$ 32,849	\$ 30,095	\$ 57,368
Total liabilities	<u>\$ 54,614</u>	<u>\$ 32,849</u>	<u>\$ 30,095</u>	<u>\$ 57,368</u>
<b>MARY ELLEN HENDERSON MIDDLE SCHOOL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 47,972	\$ 85,743	\$ 91,824	\$ 41,891
Total assets	<u>\$ 47,972</u>	<u>\$ 85,743</u>	<u>\$ 91,824</u>	<u>\$ 41,891</u>
<b>Liabilities</b>				
Amounts held for others	\$ 47,972	\$ 85,743	\$ 91,824	\$ 41,891
Total liabilities	<u>\$ 47,972</u>	<u>\$ 85,743</u>	<u>\$ 91,824</u>	<u>\$ 41,891</u>
<b>GEORGE MASON HIGH SCHOOL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 370,713	\$ 453,061	\$ 422,826	\$ 400,948
Total assets	<u>\$ 370,713</u>	<u>\$ 453,061</u>	<u>\$ 422,826</u>	<u>\$ 400,948</u>
<b>Liabilities</b>				
Amounts held for others	\$ 370,713	\$ 453,061	\$ 422,826	\$ 400,948
Total liabilities	<u>\$ 370,713</u>	<u>\$ 453,061</u>	<u>\$ 422,826</u>	<u>\$ 400,948</u>
<b>TOTAL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 498,448	\$ 648,527	\$ 604,524	\$ 542,451
Total assets	<u>\$ 498,448</u>	<u>\$ 648,527</u>	<u>\$ 604,524</u>	<u>\$ 542,451</u>
<b>Liabilities</b>				
Amounts held for others	\$ 498,448	\$ 648,527	\$ 604,524	\$ 542,451
Total liabilities	<u>\$ 498,448</u>	<u>\$ 648,527</u>	<u>\$ 604,524</u>	<u>\$ 542,451</u>

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# **DISCRETELY PRESENTED COMPONENT UNIT – ECONOMIC DEVELOPMENT AUTHORITY**

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## **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, 2017**

<b>ASSETS</b>		
Cash and investments	\$	2,122,861
Accounts receivable		19,135
Total assets	\$	<u>2,141,996</u>
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$	<u>250,000</u>
Total liabilities		<u>250,000</u>
<b>FUND BALANCE</b>		
Assigned		<u>1,891,996</u>
Total fund balance		<u>1,891,996</u>
Total liabilities, deferred inflows of resources and fund balance	\$	<u>2,141,996</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, 2017

**REVENUES**

Use of money and property	\$ 6,444
Miscellaneous	22,114
Total revenue	<u>28,558</u>

**EXPENDITURES**

Current:

Economic development	<u>86,056</u>
Total expenditures	<u>86,056</u>
Excess of expenditures over revenues	<u>(57,498)</u>
Net change in fund balance	(57,498)

**FUND BALANCE AT JULY 1** 1,949,494

**FUND BALANCE AT JUNE 30** \$ 1,891,996

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

Net change in fund balance (57,498)

Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds (2,979)

**Change in net position of governmental activities** \$ (60,477)

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# STATISTICAL SECTION

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# STATISTICAL SECTION

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*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.*

<b><u>Contents</u></b>	<b><u>Pages</u></b>
<b><i>Financial Trends – Tables 1 – 4</i></b> These tables contain financial trend information to help the reader understand how the government's financial performance and well-being have changed over time.	127-131
<b><i>Revenue Capacity – Tables 5 – 8</i></b> These tables contain information to help the reader assess the government's most significant local revenue source, real estate and personal property taxes.	132-135
<b><i>Debt Capacity – Tables 9 – 11</i></b> 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.	136-138
<b><i>Demographic and Economic Information – Tables 12 – 13</i></b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place	139-140
<b><i>Operating Information – Tables 14 – 16</i></b> 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	141-144

**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)

	2017	2016	2015*	2014	2013	2012	2011	2010	2009	2008
<b>Governmental activities</b>										
Net investment in capital assets	\$ 41,537,609	\$ 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
Restricted	1,167,594	425,551	758,208	12,342,829	390,112	110,929	152,686	70,153	-	-
Unrestricted	51,092,020	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
Total governmental activities net position	<u>\$ 93,797,223</u>	<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>
<b>Business-type activities</b>										
Net investment in capital assets	\$ 12,247,022	\$ 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
Unrestricted	14,059,299	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
Total business-type activities net position	<u>\$ 26,306,321</u>	<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>
<b>Primary government</b>										
Net investment in capital assets	\$ 53,784,631	\$ 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
Restricted	1,167,594	425,551	758,208	12,342,829	390,112	110,929	152,686	70,153	-	-
Unrestricted	65,151,319	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
Total primary government net position	<u>\$ 120,103,544</u>	<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>

**Notes:**

The City restated net position as of June 30, 2009, 2010, 2013, 2014, 2015, and 2017. The restatements are not included in the prior data.

\*GASB Statement No. 68 was adopted in fiscal year 2015.

TABLE 2

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

	2017	2016	2015*	2014	2013	2012	2011	2010	2009	2008
<b>Expenses</b>										
<b>Governmental activities</b>										
General government	\$ 7,093,808	\$ 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
Judicial administration	2,313,556	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
Public safety	11,376,143	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
Public works	7,084,612	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
Health and welfare	2,261,565	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
Education and payments to schools	41,479,234	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
Parks, recreation, and cultural	5,339,143	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
Community development	2,676,887	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
Economic development	453,829	457,658	396,685	353,517	314,171	323,036	322,405	351,233	395,505	385,564
Interest	1,580,885	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
Total governmental activities	\$ 81,659,662	\$ 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
<b>Business-type activities</b>										
Water	\$ -	\$ -	\$ -	\$ 13,885,901	\$ 20,930,432	\$ 19,271,724	\$ 17,690,104	\$ 17,240,177	\$ 17,509,332	\$ 31,372,591
Sewer	3,146,582	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
Storm water	1,315,994	1,310,670	1,240,370	1,185,304	-	-	-	-	-	-
Total business-type activities expense	4,462,576	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
Total primary government expenses	\$ 86,122,238	\$ 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
<b>Program revenues</b>										
<b>Governmental activities</b>										
Charges for services										
Parks and recreation	\$ 2,029,253	\$ 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
Judicial administration	697,794	986,955	997,514	1,067,969	990,687	1,106,413	1,189,447	1,111,368	1,039,920	985,851
Public safety	979,683	1,320,831	1,656,508	2,021,982	1,158,033	1,054,488	640,353	637,012	510,075	606,394
Other activities	641,851	577,572	896,479	936,543	1,050,301	957,930	790,385	492,204	410,406	478,329
Operating grants and contributions	3,046,976	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
Capital grants and contributions	3,464,841	4,286,565	1,591,495	1,276,720	569,648	807,771	560,269	592,880	1,156	100,534
Total governmental activities program revenues	\$ 10,860,398	\$ 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
<b>Business-type activities</b>										
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
Sewer	5,710,832	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
Storm water	1,595,168	1,571,696	1,540,980	764,451	-	-	-	-	-	-
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
Total business-type activities program revenues	\$ 7,306,000	\$ 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
Total primary government program revenues	\$ 18,166,398	\$ 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
<b>Net (expense) revenue</b>										
Governmental activities	\$(70,799,264)	\$(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)
Business-type activities	2,843,424	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)
Total primary government net expense	\$(67,955,840)	\$(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)

(Continued)

TABLE 2  
(Continued)

CITY OF FALLS CHURCH, VIRGINIA

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

	2017	2016	2015*	2014	2013	2012	2011	2010	2009	2008
<b>General Revenues and Other Changes in Net Position</b>										
<b>Governmental activities:</b>										
Taxes										
General property taxes	\$ 50,699,679	\$ 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
Personal property	5,372,445	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
Business licenses, based on gross receipts	4,110,102	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
Local sales and use	4,603,600	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
Consumer's utility	2,149,523	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
Motor vehicle decals	347,080	336,404	333,921	311,704	313,245	319,335	238,177	226,723	226,978	208,790
Real estate recordation taxes	475,481	391,911	487,332	483,192	602,651	475,057	371,514	369,453	446,906	712,026
Occupancy, tobacco, and other	5,420,378	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
Intergovernmental, non-categorical aid	2,020,878	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
Use of money and property	444,740	482,608	276,177	142,860	141,673	105,827	75,495	85,531	83,428	466,667
Miscellaneous	85,651	189,863	96,229	99,286	279,265	229,637	110,572	72,104	55,159	137,001
Capital contribution	-	-	-	252,000	-	-	-	-	-	-
Special item: Gain (loss) on sales of capital assets	594,786	(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
Total governmental activities	<u>\$ 76,324,343</u>	<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>
<b>Business-type activities:</b>										
Use of money and property	\$ 35,492	\$ 93,405	\$ 8,240	\$ 136,819	\$ 319,150	\$ 281,920	\$ 213,217	\$ 63,385	\$ 356,324	\$ 1,393,656
Miscellaneous	24,287	192	-	(32,638)	59,428	74,474	125,305	(28,339)	204,136	6,108
Special item: Loss from sale of water fund	-	-	-	(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)
Total business-type activities	<u>\$ 59,779</u>	<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>
Total primary government	<u>\$ 76,384,122</u>	<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>
<b>Changes in Net Position</b>										
Governmental activities	\$ 5,525,079	\$ 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)
Business-type activities	2,903,203	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)
Total primary government	<u>\$ 8,428,282</u>	<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>

Notes:

The City restated net position as of June 30, 2009, 2010, 2013, 2014, 2015, and 2017. 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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Post-GASB 54 implementation:</b>							
General Fund							
Nonspendable	\$ 265,013	\$ 201,779	\$ 192,141	\$ 199,581	\$ 268,619	\$ 280,819	\$ 251,358
Restricted	1,167,594	425,551	758,208	560,413	159,715	110,929	247,364
Committed	10,566,999	11,909,590	13,840,859	3,761,859	1,418,300	-	-
Assigned	2,430,164	1,582,296	2,251,649	24,788,434	595,253	760,861	380,682
Unassigned	14,993,614	15,336,497	14,301,563	13,508,494	14,821,921	13,716,496	7,041,658
Total general fund	<u>\$ 29,423,384</u>	<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	15,067,259	17,529,237	17,029,510	12,639,104	1,990,159	7,519,397	134,686
Committed	11,557,405	7,627,932	5,394,834	2,723,547	1,374,466	856,344	1,401,402
Total all other governmental funds	<u>\$ 26,624,664</u>	<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>
<b>Pre-GASB 54 implementation:</b>							
General Fund							
Reserved	\$ 1,124,698	\$ 1,265,850	\$ 1,494,647				
Unreserved	2,674,638	2,894,988	9,830,681				
Total general fund	<u>\$ 3,799,336</u>	<u>\$ 4,160,838</u>	<u>\$ 11,325,328</u>				
All Other Governmental Funds							
Reserved	\$ 395,238	\$ 1,423,401	\$ 543,425				
Unreserved:							
Designated:							
Capital projects fund	656,967	4,513,944	4,643,132				
Special revenue fund	539,152	537,799	381,159				
Total all other governmental funds	<u>\$ 1,591,357</u>	<u>\$ 6,475,144</u>	<u>\$ 5,567,716</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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Revenues</b>										
General property taxes	\$ 56,233,419	\$ 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
Other local taxes	17,161,462	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
Permits, fees, and licenses	1,036,162	1,211,625	1,543,975	1,677,603	916,677	634,184	404,899	511,285	322,639	440,771
Fines and forfeitures	490,773	623,251	662,700	777,485	672,757	763,353	727,990	610,267	481,319	482,961
Charges for services	2,708,257	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
Use of money and property	444,740	482,609	275,503	142,860	141,673	105,827	75,495	85,531	83,428	466,667
Miscellaneous	74,667	92,794	145,705	107,966	265,161	204,908	117,019	150,691	65,129	108,705
Gifts and contributions	157,354	83,824	732,555	148,492	313,575	218,930	77,687	42,328	1,243,431	1,342,652
Voluntary concessions	1,604,960	2,012,950	-	-	-	-	-	-	-	-
Recovered costs	376,684	370,918	492,274	477,639	509,488	540,765	461,219	1,869,125	1,429,477	1,341,695
Intergovernmental:										
Commonwealth	5,413,953	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
Federal	814,822	922,939	677,457	1,140,608	776,311	896,997	798,217	719,247	304,030	207,090
Payment from schools	235,100	-	-	-	-	-	-	-	-	-
Total revenues	<u>\$ 86,752,353</u>	<u>\$ 84,599,862</u>	<u>\$ 78,648,696</u>	<u>\$ 77,495,593</u>	<u>\$ 72,269,586</u>	<u>\$ 67,862,248</u>	<u>\$ 64,881,344</u>	<u>\$ 61,639,426</u>	<u>\$ 59,546,397</u>	<u>\$ 61,627,917</u>
<b>Expenditures</b>										
General government	\$ 6,595,540	\$ 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
Judicial administration	2,159,891	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
Public safety	11,308,852	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
Public works	5,415,516	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
Health and welfare	2,211,781	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
Parks, recreation, and cultural	4,883,003	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
Community development	3,231,194	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
Education	39,848,512	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
Economic development	437,004	460,337	420,937	351,837	308,788	321,839	316,857	346,937	398,893	378,698
Capital outlay	4,536,405	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
Debt service:										
Principal retirement	4,557,831	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
Interest and fiscal charges	1,746,848	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
Total expenditures	<u>\$ 86,932,377</u>	<u>\$ 88,870,643</u>	<u>\$ 84,593,483</u>	<u>\$ 80,055,317</u>	<u>\$ 75,036,000</u>	<u>\$ 61,815,979</u>	<u>\$ 61,688,734</u>	<u>\$ 65,204,109</u>	<u>\$ 68,207,500</u>	<u>\$ 67,669,434</u>
Excess of revenues over (under) expenditures	<u>\$ (180,024)</u>	<u>\$ (4,270,781)</u>	<u>\$ (5,944,787)</u>	<u>\$ (2,559,724)</u>	<u>\$ (2,766,414)</u>	<u>\$ 6,046,269</u>	<u>\$ 3,192,610</u>	<u>\$ (3,564,683)</u>	<u>\$ (8,661,103)</u>	<u>\$ (6,041,517)</u>
<b>Other Financing Sources (Uses)</b>										
Premium on issuance of bonds	\$ 1,010,000	\$ -	\$ 612,326	\$ 1,562,498	\$ -	\$ 909,336	\$ -	\$ -	\$ -	\$ -
Payment to refunded bond escrow agent	-	-	-	-	-	(17,437,909)	-	-	-	-
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	605,189	88,715	8,386	-	-	-	784,243	521,995	-	-
Issuance of debt	-	-	-	-	-	24,120,000	-	-	-	-
Transfers in	4,440,560	2,089,514	2,630,650	23,449,213	2,183,076	150,000	150,000	-	2,404,041	3,076,174
Transfers out	(4,440,560)	(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)	<u>\$ 1,615,189</u>	<u>\$ 4,825,632</u>	<u>\$ 1,820,712</u>	<u>\$ 40,112,723</u>	<u>\$ 150,000</u>	<u>\$ 7,741,427</u>	<u>\$ 873,847</u>	<u>\$ (1,680,606)</u>	<u>\$ 2,404,041</u>	<u>\$ 5,135,348</u>
Net change in fund balances	<u>\$ 1,435,165</u>	<u>\$ 554,851</u>	<u>\$ (4,124,075)</u>	<u>\$ 37,552,999</u>	<u>\$ (2,616,414)</u>	<u>\$ 13,787,696</u>	<u>\$ 4,066,457</u>	<u>\$ (5,245,289)</u>	<u>\$ (6,257,062)</u>	<u>\$ (1,282,345)</u>
<b>Debt service as a percentage of noncapital expenditures:</b>	7.65%	7.31%	6.77%	6.21%	6.38%	6.72%	8.39%	8.15%	8.29%	8.08%

## 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				
2017	\$ 3,120,067,200	\$ 771,571,943	\$ 113,256,298	\$ 34,077,053	\$ 4,038,972,494	\$ 1.45	\$ 4,038,972,494	100.00%
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

(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>
2017	\$ 1.315	\$ 1.315	\$ 5.00	\$ 1.45
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

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

## CITY OF FALLS CHURCH VIRGINIA

## PRINCIPAL PROPERTY TAXPAYERS

Current Year and Ten Years Ago

(unaudited)

Taxpayer	2017			2007		
	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
TWM Pearson Square, LLC	\$ 89,357,400	1	2.30 %	\$ 60,600,000	1	1.82 %
Falls Church Country Club (Apartments)	79,075,600	2	2.03	59,324,700	2	1.78
Falls Church DVMT Partners LLC	77,679,700	3	2.00	-		-
Eden Center, Inc.	57,426,300	4	1.48	53,616,900	3	1.61
Lincoln Fchurch VA LLC	56,022,700	5	1.44	-		-
Wooddell Family Ltd Partnership	44,899,100	6	1.15	-		-
BJ'S GL I, LLC & II, LLC	30,778,500	7	0.79	-		-
Washreit Roosevelt Towers LLC	27,911,600	8	0.72	-		-
West Falls Parcel, Inc.	25,196,100	9	0.65	23,687,100	8	0.71
Federal Realty Investment Trust	23,756,600	10	0.61	24,196,100	7	0.73
Spectrum Condominiums	-		-	37,500,000	4	1.12
Koons, James	-		-	31,749,300	5	0.95
Kahn B Franklin et al	-		-	25,828,400	6	0.77
Kaiser Foundation Health Plan, Inc.	-		-	22,048,500	9	0.66
Aimco Merrill House, LLC	-		-	21,284,100	10	0.64
Totals	<u>\$ 512,103,600</u>		<u>13.16 %</u>	<u>\$ 359,835,100</u>		<u>10.79 %</u>

**Source:** Fall Church Office of Real Estate Assessment. Values as of January 1. Beginning in FY2015, the City changed its tax year to coincide with the fiscal year, using the assessment as of the previous January 1. FY2017 revenues are based on the assessments as of January 1, 2016.

**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
2017	\$ 55,987,234	\$ 55,298,718	98.77 %	\$ -	\$ 55,298,718	98.77 %
2016	53,392,734	52,681,973	98.67	570,572	53,252,545	99.74
2015	50,734,093	49,637,858	97.84	973,838	50,611,696	99.76
2014	49,399,801	48,431,361	98.04	866,678	49,298,039	99.79
2013	46,554,891	45,686,242	98.13	774,160	46,460,402	99.80
2012	44,293,509	43,620,632	98.48	591,449	44,212,081	99.82
2011	42,206,497	41,495,508	98.32	636,354	42,131,862	99.82
2010	39,478,140	38,778,261	98.23	640,280	39,418,541	99.85
2009	37,850,131	37,062,585	97.92	731,825	37,794,410	99.85
2008	37,149,427	36,183,444	97.40	923,999	37,107,443	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			
2017	\$ 51,124,621	\$ -	\$ 342,592	\$ 12,458,854	\$ -	\$ -	\$63,926,067	N/A %	4,526
2016	54,657,852	368,587	269,952	10,691,381	2,441,103	1,905,979	70,334,854	N/A	4,980
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

(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.

## CITY OF FALLS CHURCH, VIRGINIA

**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**  
**Last Ten Fiscal Years**  
(unaudited)

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Less: Amounts Available in Debt Service Funds</b>	<b>Total</b>	<b>Percentage of Estimated Actual Taxable Value of Property</b>	<b>Per Capita</b>
2017	\$ 63,583,475	\$ -	\$ 63,583,475	1.57 %	\$ 4,502
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

CITY OF FALLS CHURCH VIRGINIA

TABLE 11

LEGAL DEBT MARGIN INFORMATION  
Last Ten Fiscal Years  
(unaudited)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Debt limit	\$ 389,163,914	\$ 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
Total net debt applicable to limit	63,926,067	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
Legal debt margin	<u>\$ 325,237,847</u>	<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>
Total net debt applicable to the limit as a percentage of debt limit	16.43%	18.23%	18.99%	16.25%	19.11%	21.08%	20.85%	19.60%	19.14%	15.58%

Legal Debt Margin Calculation for Fiscal Year 2017

Assessed value	<u>\$ 3,891,639,143</u>
Debt limit (10% of assessed value)	\$ 389,163,914
Less debt applicable to limit:	
General obligation bonds	63,583,475
Capital leases	342,592
Notes payable	-
Legal debt margin	<u>\$ 325,237,847</u>

## CITY OF FALLS CHURCH, VIRGINIA

**DEMOGRAPHIC STATISTICS**  
**Last Ten Calendar Years**  
(unaudited)

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Personal Income (2)</b>	<b>Per Capita Personal Income (3)</b>	<b>Median Age (4)</b>	<b>School Enrollment(5)</b>	<b>Unemployment Rate (6)</b>
2017	14,123	\$ N/A	\$ N/A	N/A	2,670	2.90 %
2016	14,123	N/A	N/A	37.9	2,509	2.70
2015	14,183	88,419,380	74,923	38.1	2,456	3.60
2014	13,522	85,035,629	72,296	38.7	2,421	4.00
2013	13,315	81,649,454	69,677	38.8	2,272	3.90
2012	12,960	83,573,905	72,193	38.5	2,178	4.00
2011	12,567	79,750,194	69,875	39.2	2,079	4.30
2010	12,332	73,998,797	65,960	39.0	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

**Sources:**

(1) Source: For 2008-2009 and 2011-2016 Weldon Cooper Center for Public Service; numbers are estimates as of July 1. Year 2010 is based on U.S. Census estimate. 2017 uses the same data as 2016.

(2)Source: US Department of Commerce, Bureau of Economic Analysis for Fairfax, Fairfax City & Falls Church. 2016 and 2017 data not yet available.

(3)Source: Us Department of Commerce, Bureau of Economic Analysis. Per Capita Rate for Fairfax, Fairfax City and Falls Church. 2016 and 2017 data not yet available.

(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	2017			2008		
	Employees	Rank	Percentage of Total City Employment (2)	Employees	Rank	Percentage of Total City Employment
Falls Church City Schools	575	1	7.17 %	402	2	6.01 %
Falls Church City Government	345	2	4.30	289	3	4.32
Kaiser Permanente	325	3	4.05	580	1	8.68
BG Healthcare Services	280	4	3.49	-		-
Tax Analysts	182	5	2.27	184	4	2.75
Koon's Ford	167	6	2.10	126	6	1.89
VL Home Health Care, Inc	160	7	2.00	-		-
Harris Teeter	150	8	1.87	-		-
BJ's Wholesale Club	125	9	1.56	-		-
Don Beyer Volvo	119	10	1.48	98	7	1.47
Giant Food Store	-		-	146	5	2.18
Home Instead Senior Care	-		-	-		-
United States Postal Service	-		-	76	8	1.14
Center for Multicultural Human	-		-	76	9	1.14
Knowlogy	-		-	61	10	0.91
Total	<u>2,428</u>		<u>30.29 %</u>	<u>2,038</u>		<u>30.49 %</u>

**Source:** Finance and Economic Development Office

Total employment estimate of 8,017 for June 2017 and 6,684 for June 2008 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)

<b>Function/Program</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
General government	46.65	46.90	45.74	39.74	37.90	35.55	35.92	37.88	38.87	38.25
Judicial administration	14.23	13.73	13.61	13.61	13.76	12.76	13.26	13.26	17.01	17.01
Public safety	54.60	54.60	51.60	51.10	51.20	51.20	52.20	55.20	53.60	53.35
Public works	29.60	30.10	29.95	27.65	28.94	28.60	28.00	35.75	34.08	32.58
Health and Welfare	4.80	4.80	4.80	4.80	5.00	5.00	5.90	7.85	8.85	8.85
Parks, recreation, and cultural	31.65	31.25	30.05	29.95	29.95	30.05	31.55	33.35	36.35	36.35
Community development	17.00	16.00	15.90	15.81	15.81	13.81	13.81	13.81	13.81	13.75
Economic development	3.00	3.00	3.00	2.00	2.00	2.00	2.00	3.00	3.00	3.00
Water	-	-	-	-	57.60	57.85	56.98	53.65	52.27	52.32
Sewer	4.58	4.92	4.50	4.25	4.30	4.30	4.10	4.10	4.15	4.10
Storm water	7.82	7.98	8.65	9.20	-	-	-	-	-	-
<b>Total</b>	<b>213.93</b>	<b>213.28</b>	<b>207.80</b>	<b>198.11</b>	<b>246.46</b>	<b>241.12</b>	<b>243.72</b>	<b>257.85</b>	<b>261.99</b>	<b>259.56</b>

**Source:** City Adopted Budget

CITY OF FALLS CHURCH, VIRGINIA

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years  
(unaudited)

Function/Program	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>General Government</b>										
Communications										
Number of Media Releases	189	236	207	N/A	N/A	167	118	95	90	94
Number of Periodical Publications	-	-	-	N/A	N/A	2	N/A	N/A	10	10
eFOCUS Newsletter Subscribers	1,151	1,142	940	N/A	N/A	1,388	N/A	N/A	1,267	1,454
Number of Social Media Followers	12,842	5,347	3,716	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Judicial Administration</b>										
Court Services										
Aurora House Recidivism	N/A	N/A	10%	0%	0%	0%	8%	0%	29%	16%
Aura House Program Completion	100%	93%	100%	90%	98%	83%	92%	73%	78%	83%
Court Services Juvenile Recidivism	N/A	N/A	6%	5%	9%	10%	16%	16%	22%	9%
Court Services Adult Recidivism	N/A	N/A	0%	4%	6%	6%	23%	23%	33%	15%
<b>Public safety</b>										
Police										
Part I Crimes (1)	286	353	310	303	309	270	268	329	441	384
Calls for Service	34,371	31,387	23,574	26,210	27,411	26,189	26,485	25,862	28,319	26,467
Accidents	169	197	204	182	180	188	224	235	231	231
Traffic Enforcement	2,346	3,311	3,313	4,749	5,314	5,704	8,614	8,113	8,950	7,042
DWI Arrests	54	56	97	108	106	127	95	91	70	63
Inspections										
Plan Review	1,028	990	923	821	N/A	666	N/A	671	442	577
Stop Work Orders	23	24	11	10	N/A	10	N/A	8	8	16
Fire Marshal										
Fire Inspections Performed	287	289	281	186	198	182	152	N/A	N/A	N/A
Fire Code Violations Cited	812	997	1,009	359	514	646	308	N/A	N/A	N/A
Fire Code Permits Issued	281	267	282	147	123	119	101	N/A	N/A	N/A
Fires Reported and Investigated	3	9	8	5	7	2	3	N/A	N/A	N/A
Estimated Fire/Explosion Loss	\$ 325,000	\$ 120,000	\$ 1,538,000	\$ 1,763,500	\$ 259,500	\$ 13,000	\$ 2,200	N/A	N/A	N/A
<b>Public works</b>										
Refuse collected (tons)	2,020	2,073	1,977	2,149	2,073	2,015	2,150	2,178	2,415	2,704
Recycling collected (tons)	3,018	3,091	2,926	2,806	3,364	3,241	3,315	3,077	3,690	4,544
Street Resurfacing (miles)	4.84	5.31	3.50	2.75	2	-	1	2	2	2
<b>Health and Welfare</b>										
Housing and Human Services										
Information/Referral Contacts	2,901	3,009	2,396	2,399	2,136	2,459	3,149	2,971	2,882	2,555
<b>Education</b>										
Student Membership	2,670	2,509	2,456	2,421	2,272	2,178	2,079	2,017	1,967	1,940
<b>Parks, Recreational and Cultural</b>										
Parks & Recreation										
Special Events	124	195	174	172	174	171	181	160	164	132
Class participants	3,118	3,146	3,134	3,981	4,065	3,072	2,663	2,654	2,307	2,140
Room Reservations	4,854	6,028	7,035	6,376	6,237	6,455	6,569	5,982	6,205	6,548
Tennis Reservations (2)	831	854	440	1,021	642	922	1,422	1,760	1,723	1,570
Youth Sports Participants	3,104	3,036	3,226	2,677	2,509	2,423	1,987	2,542	2,431	2,207
Adult Sports Teams	97	96	120	118	114	111	114	99	100	102
Teen Dance Participants	800	400	500	625	750	827	777	979	1,260	1,875
Teen Center Attendance	700	700	900	1,300	1,500	1,722	3,500	3,675	4,000	4,250
Summer Camps Offered	237	263	192	220	274	224	244	223	201	196
Summer Camp Participants	5,482	5,689	5,810	5,103	5,432	5,000	5,002	4,163	4,258	4,211
Senior Center lunch meals served	-	198 (3)	792	660	521	519	928	1,255	1,588	1,824

TABLE 15  
(Continued)

CITY OF FALLS CHURCH, VIRGINIA

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

(unaudited)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Library:</b>										
Size of collection (all formats)	148,955	148,636	144,100	132,031	147,659	146,422	142,728	143,365	159,631	154,175
Total circulation of all materials	501,827	465,687	469,102	461,394	446,563	442,480	426,272	452,498	429,286	365,861
Total visits to library (door count)	308,393	310,251	325,512	316,430	297,468	307,466	283,773	232,379	219,831	203,743
Number of registered borrowers	27,540	27,413	29,025	28,362	25,914	24,056	28,395	25,263	23,357	25,155
Number of website visits/yr	380,319	566,877	187,993	N/A	226,961	137,342	154,284	182,373	166,258	135,579
Number of programs/yr	970	738	785	654	554	518	603	298	345	297
Attendance at programs	36,598	27,087	28,119	18,924	17,370	15,761	20,345	11,710	14,235	12,773
<b>Community development:</b>										
<b>Planning</b>										
Development Inquiries	N/A	29,802	23,732	N/A	N/A	20,353	8,927	8,927	9,905	6,400
Plans Reviewed	N/A	N/A	N/A	N/A	N/A	2	26	26	34	52
Code/Policy Review	N/A	72	35							
<b>Zoning</b>										
Development Inquiries	N/A	492	366	N/A	N/A	N/A	2,100	2,100	2,570	2,000
Permits/Plans Reviewed	N/A	N/A	N/A	N/A	N/A	708	600	600	660	1,700
<b>Urban Forestry</b>										
Development Inquiries	43	N/A	1,400	2,400						
Permits/Plans Reviewed	75	N/A	192	443						
Trees Planted/removed/pruned	1,217	1,372	1,372	1,067	708	N/A	N/A	N/A	825	859
<b>Water</b>										
New connection applications	N/A	N/A	N/A	N/A	74	218	265	23	53	60
Water main breaks	N/A	N/A	N/A	N/A	165	93	148	118	141	112

**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)

<b>Function/Program</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>General Government</b>										
City Hall	1	1	1	1	1	1	1	1	1	1
<b>Judicial Administration (1)</b>										
Court Services										
Aurora House (Facility)	1	1	1	1	1	1	1	1	1	1
Aurora House Passenger Van	2	2	2	2	2	1	1	1	1	1
Court Services Passenger Van	-	1	1	1	1	1	1	1	1	1
<b>Public safety (2)</b>										
Fire Stations (3)	1	1	1	1	1	1	1	1	1	1
<b>Public works</b>										
Streets-Miles/Lane Miles	84	73	73	72	32	32	32	32	32	32
Traffic signals	28	28	28	28	29	29	29	29	29	34
Streetlights	226	191	191	198	142	142	142	142	142	136
Refuse Trucks	-	-	-	-	-	-	5	5	5	5
<b>Education</b>										
School Buildings	5	5	5	4	4	4	4	4	4	4
<b>Parks, Recreational and Cultural</b>										
Recreation & Parks:										
Community 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	14	13	13	13	13	13	13	13	13	13
Tennis courts	10	10	10	10	10	10	10	10	10	10
Basketball courts	4	5	5	5	5	5	5	5	5	5
Vehicles	5	7	7	7	7	7	6	6	6	6
Library:										
Library (Facility)	1	1	1	1	1	1	1	1	1	1
Community development:										
Urban Forestry										
Vehicles	4	4	4	3	3	3	3	3	3	3
<b>Water</b>										
Water Mains (Miles)	-	-	-	-	502	500	497	497	497	497
Tanks	-	-	-	-	10	10	10	10	10	10
Pumps	-	-	-	-	29	29	29	29	29	29
Fire Hydrants	-	-	-	-	3,286	3,253	3,220	3,201	3,201	3,188
<b>Sewer</b>										
Sanitary Sewer Mains (Miles)	47	43	43	47	44	44	44	44	43	43
Sanitary Sewer Manholes	1,280	1,013	1,012	1,155	1,190	1,186	1,186	1,175	1,001	1,001
<b>Stormwater</b>										
Storm Sewer Mains (Miles)	31	27	27	31	N/A	N/A	N/A	N/A	N/A	N/A
Storm Sewer Structures	1,860	1,400	1,400	1,754	N/A	N/A	N/A	N/A	N/A	N/A

**Notes**

NA-Not Available

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

(2) The police station is located in City Hall

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

# COMPLIANCE SECTION

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**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, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated January 10, 2018.

**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 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. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as Item 2017-001 that we consider 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 Response to Finding

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

## Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
January 10, 2018

**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, 2017. 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 Federal statutes, regulations, and the terms and conditions of its federal awards 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, 2017.

## 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  
January 10, 2018

**CITY OF FALLS CHURCH, VIRGINIA**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2017**

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, 2017**

**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 programs of the City are:

<b>Name of Program</b>	<b><u>CFDA #</u></b>
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, 2017**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2017-001: 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, journal entries 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 City's Deputy Director of Finance performed the responsibilities of the Finance Director while the position was vacant and as a result, certain journal entries were both entered and approved by the Deputy Director of Finance. The City has now hired a Finance Director and the segregation of duties between the entry and review and posting of journal entries have been resumed.

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

None.

**D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA**

None.

**CITY OF FALLS CHURCH, VIRGINIA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2017**

**A. 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.

*Management's Response:*

The City's Deputy Director of Finance performed the responsibilities of the Finance Director while the position was vacant and as a result, certain journal entries were both entered and approved by the Deputy Director of Finance. The City has now hired a Finance Director and the segregation of duties between the entry and review and posting of journal entries have been resumed.

**CITY OF FALLS CHURCH, VIRGINIA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2017**

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal CFDA Number	Pass-through ID Number	Federal Expenditures	Total Expenditures by Cluster
<b>U.S. Department of Agriculture</b>				
Pass-through payments:				
Consumer Services				
National School Lunch Program	10.555	2016IN109941/ 2017IN109941	93,153	
School Breakfast Program	10.553	2016IN109941/ 2017IN109941	12,578	
Subtotal for Cluster			<u>12,578</u>	\$ 105,731
Total U.S. Department of Agriculture			<u>105,731</u>	<u>105,731</u>
<b>US Department of Treasury</b>				
Direct payments:				
Treasury Executive Office for Asset Forfeiture	21.000	N/A	24,345	24,345
			<u>24,345</u>	<u>24,345</u>
<b>U.S. Department of Homeland Security</b>				
Direct payments:				
United States Secret Service				
High Intensity Drug Trafficking Area	97.000	N/A	6,000	6,000
Total U.S. Department of Homeland Security			<u>6,000</u>	<u>6,000</u>
<b>U.S. Department of Housing and Urban Development</b>				
Pass-through payments:				
County of Arlington, Virginia:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	74,943	74,943
Home Investments Partnership Program	14.239	N/A	22,799	22,799
Total U.S. Department of Housing and Urban Development			<u>97,742</u>	<u>97,742</u>
<b>U.S. Department of Justice</b>				
Direct payments:				
Seized assets	16.000	N/A	103,915	103,915
Total U.S. Department of Justice			<u>103,915</u>	<u>103,915</u>
<b>U.S. Department of Transportation</b>				
Pass-through payments:				
Commonwealth Virginia Department of Transportation				
Highway Planning and Construction	20.205	100689/103632/ 102555/107952	124,591	124,591
State and Community Highway Safety	20.600	N/A	12,447	12,447
Northern Virginia Transportation Commission				
Federal Transit Capital Investment Grants	20.500	72510-18/72507-08/ 72508-19/72510-57	37,632	37,632
Total U.S. Department of Transportation			<u>174,670</u>	<u>174,670</u>
<b>U.S. Department of Education</b>				
Pass-through payments:				
Commonwealth of Virginia Department of Education:				
Special Education - Grants to States	84.027	H027A140107	407,558	
Special Education - Preschool Grants	84.173	H173A140112	9,673	
Subtotal for Cluster			<u>417,231</u>	417,231
Title I - Grants to Local Educational Agencies	84.010	S010A140046/ S010A150046	42,355	42,355
English Language Acquisition Grants	84.365	S365A130046/ S365A140046	28,687	28,687
Improving Teacher Quality State Grants	84.367	S367A130044/ S367A140044/ S367A150044	23,091	23,091
Vocational Education - Basic Grants to States	84.048	V048A140046/ V048A150046	15,343	15,343
Total U.S. Department of Education			<u>526,707</u>	<u>526,707</u>
Total Expenditures of Federal Awards			<u>\$ 1,039,110</u>	<u>\$ 1,039,110</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, 2017**

**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 \$24,420 from the National School Lunch Program.

**III. De Minimus Indirect Cost Rate**

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