CITY OF FALLS CHURCH, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

Prepared by:

City of Falls Church, Virginia
Finance Department

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CITY OF FALLS CHURCH, VIRGINIA
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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
Ross Litkenhous
David F. Snyder
Phil Duncan
Letty Hardi

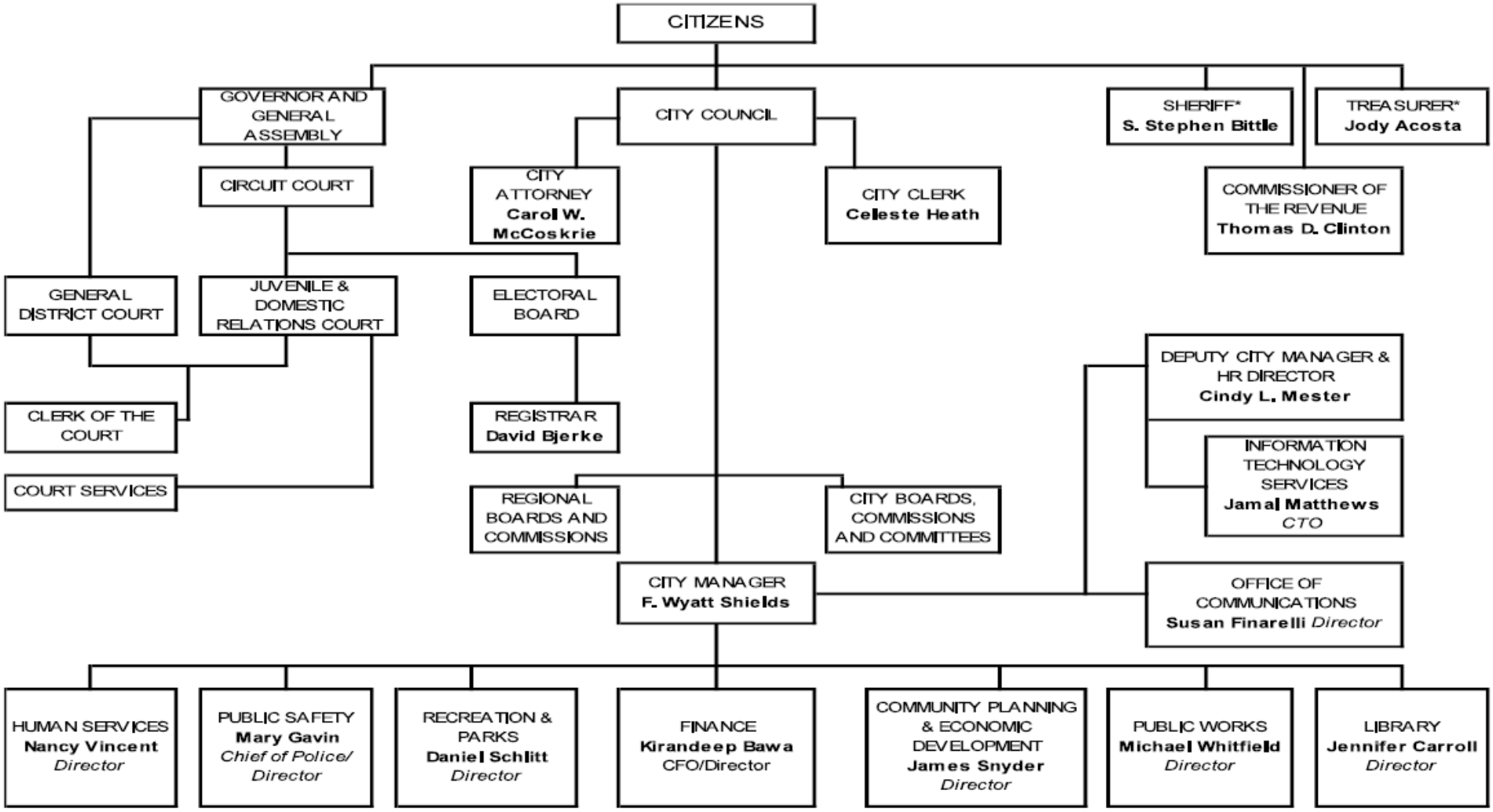
OFFICIALS

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, 2018



November 30, 2018

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, 2018, 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, 2018, 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, 2018 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 built 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. With the opening of the new Target store in March of 2018 at the Lincoln at Tinner Hill building, it is anticipated that the few remaining vacant

spaces in that building will soon lease up, due to the strength of a newly opened anchor tenant for the building. Orange Theory (fitness concept), Pivot Physical Therapy and an ice cream business will soon open in that building as well.

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.

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 possible long-term health facility development opportunity. Since that purchase, private and Inova health and wellness related offices have undertaken substantial renovations in those buildings, a trend that is likely to continue. Likewise, 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. They have also advised that medical office space demand exceeds supply in their buildings, thus they are evaluating other medical office space acquisition/renovation possibilities. In addition, 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.

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 typically at higher rent. CoStar reports the vacancy rate for retail space in the City in late 2017 was 2.3 percent, even lower than last November's 3.5% rate. Average retail rent in the City is 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. Both of these grocery users have contributed to a rise in sales and meals tax receipts in the City in recent years. In 2018, the City anticipates the opening of another grocery addition, a new Aldi grocery store in the late fall in the Tower Square shopping center on Hillwood Avenue. In late 2017, a smaller specialty grocer, Troika Gastronom, relocated into much larger space in the same Tower Square shopping center. Food and beverage businesses have also been the source of great demand for commercial space in Falls Church. Most recently during 2018 and 2017 we saw the openings of Northside Social, Dominion Wine and Beer, Audacious Aleworks, Liberty BBQ, Falls Church Distillers, 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.

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 2018 and 2017, CycleBar and Orange Theory most recently joined those ranks.

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, providing a strong anchor for the center. Due to the unique nature of the center and its popularity, there is rarely a vacancy in this center.

Development Climate and New Mixed-Use Projects in the City

2018 was a very successful and productive year for large land use approvals in the City. First, the Insight (the developer's name) or "Broad and Washington" project, located on 2.6 acres at the corner of Broad Street (Route 7) and Washington Street (Route 29) was approved by City Council in April. This project will include 295 market rate apartments, 26,000 SF of retail space (14,000 of which is restaurant space), a 67,000 SF Class A office building and a 5,000 SF black box theatre (Creative Cauldron, an exciting City theatre will relocate there). When construction on this project is complete, it is anticipated to generate between $800,000 to $1.2 million in net annual fiscal impact revenues for the City. The second project, known as Founders Row, was approved in August of 2018. It is the largest mixed use project in the City to date on a 4.3 acre site comprised of a consolidation of numerous parcels of land, owned by numerous property owners, a challenging feat! This project will include 322 market rate apartments, 72 age restricted apartments, 62,522 SF of restaurant and retail space, 5,317 SF of office, and an 800 seat dine-in movie theatre. This exciting, large project is expected to generate $1.76 million - $2 million in net annual fiscal revenues for the City. Construction on this larger project will commence in early 2019, with project completion in the anticipated in the fall/winter of 2020, while the Insight project is expected to be potentially start construction later in 2019. Both projects include a significant number of below parking spaces.

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 apparently also gaining market strength, as the first units of this type will be included in the Founders Row project. Development interest for City locations for senior assisted living care facilities also remains extremely high. The City's retail vacancy rate remains very low; our office vacancy rate hovers between 8-10%, well below vacancy rates in nearby jurisdictions.

George Mason High School Campus/10 acre redevelopment project

On November 19th, 2018, the City of Falls Church took the initial steps to enter into a public-private development partnership with EYA, PN Hoffman and Regency Centers to develop 10.3 acres of City-owned land that is adjacent to the City's George Mason High School, Route 7 and Interstate 66, with the approval of an interim agreement. This projected $500 million project, possibly including building heights up to 15 stories, is anticipated to begin construction after the completion of the new George Mason High School in late 2021. Further negotiation on the exact financial terms, features and uses in the project are expected to conclude in approximately May of 2019, prior to issuance of bonds to finance construction of the new/replacement George Mason High School (GMHS) project. The project is tentatively expected to include approximately the following elements: retail (126,400 SF), office space (390,000 SF), residences (150-200 units of senior housing, 245 condos, and 288 units of multi-family apartments, 40 affordable housing units within this mix), a

high quality hotel and civic spaces (20,000 SF for a possible music venue and/or other civic uses). The interim agreement specifies a 99 year ground lease, with five payments in Phase 1 and one payment in Phase 2, with total base land payments of $44.5 million. Net annual fiscal revenues for both Phase of the project, as currently envisioned, are preliminarily anticipated to be in the neighborhood of $6 million per year, although that number is subject to change as more details of the agreement continue to be negotiated.

Employment, Education and Household Income Trends

In September 2018, the Virginia Employment Commission reported that the City of Falls Church has only a 2.0 percent unemployment rate, compared to the state-wide Virginia rate of 2.7 percent and a nationwide rate of 3.6 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	Kiran Bawa
City Manager	Director of Finance

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FINANCIAL SECTION

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BROWNEDWARDS
certified public accountants

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, 2018, 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.

Your Success is Our Focus
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of June 30, 2018, 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 23 to the financial statements, in 2018, the City adopted new accounting guidance, *GASB Statement No. 75, 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 November 30, 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
November 30, 2018

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CITY OF FALLS CHURCH, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2018.

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 $89.1 million at June 30, 2018. Of this balance, $123.3 million is the Primary Government's and negative $34.2 million is the component units'. The negative net position for the component unit is due to the recognition of net pension and other post-employment benefits (OPEB) liability as a result of the School Board's participation in the Virginia Retirement System pension plan and other post-employment benefits.
- For FY2018, taxes and other revenues of the City's governmental activities amounted to $91.7 million and expenses and transfers amounted to $83.8 million, which resulted in an increase in net position for the City's governmental activities of $7.9 million.
- Revenues of the City's business-type activities were $6.1 million, and expenses and transfers were $4.3 million, which resulted in an increase in net position for the City's business-type activities of approximately $1.8 million.

In FY2018, the City adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The overall effect of this new standard is to reflect the Town's long-term other postretirement benefit ("OPEB") obligations directly in the financial statements. Under previous accounting guidance, these amounts were recorded incrementally over time, but were not recognized in their entirety. Instead, the total liability which has now been recorded was only disclosed. The new standard not only changes certain measurement methodologies, but also requires that the City record a net OPEB liability directly on the statement of net position and disclose new information. Beginning net position has been restated as discussed in Note 24, and this has had a significant impact on the City's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information for governmental and business-type activities included in this discussion and analysis has not been restated.

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:

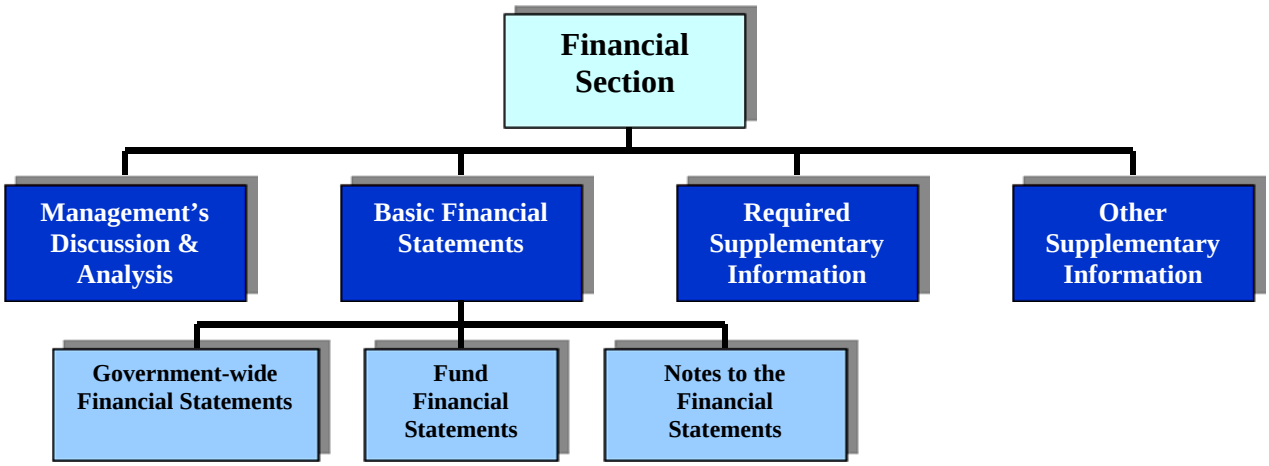
- In total, the City's governmental funds reported revenues and other financing sources of in excess of expenditures and other financing uses of $4.1 million.
- The City's General Fund reported a total fund balance of $31.2 million at June 30, 2018, an increase of $1.8 million from June 30, 2017. The City experienced better than projected revenues in FY2018 and underspent expenditures due to vacancies which contributed to this increase in fund balance. These unspent funds have been encumbered for maintenance and capital needs.
- In the General Fund, the unassigned fund balance as of June 30, 2018 of $16.2 million was 19% of expenditures. Committed fund balance as of June 30, 2018 was $11.3 million. Of this, $9.8 million is for future capital projects. Assigned fund balance as of June 30, 2018 was $2.6 million. Nonspendable and restricted fund balance as of June 30, 2018 was $1.1 million.
- The City's Capital Projects Fund reported an increase in fund balance of $3.0 million, resulting in a balance of $25.8 million at June 30, 2018. This increase is due mainly to the issuance of debt which are not yet expended.
- The City's Special Transportation Fund reported a decrease in fund balance of $754 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 $1.3 million in FY2018 in part due to higher than expected revenues as a result of the completion of a new mixed use project.
- The Storm Water Fund generated an increase in net position of $466 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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 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 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 (OPEB), 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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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, 2018 and 2017.

Summary of Net Position
As of June 30, 2018 amd 2017
($ In Thousands)

	2018		2017	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Assets:				
Current and other assets	$ 93,972	$ 17,018	$ 79,157	$ 14,958
Capital assets, net	100,198	25,637	79,219	26,114
Total assets	194,170	42,655	158,376	41,072
Deferred Outflows of Resources*	3,876	280	9,307	520
Liabilities:				
Other liabilities	15,292	499	11,798	584
Long-term liabilities	75,891	14,191	55,617	14,538
Total liabilities	91,183	14,690	67,415	15,122
Deferred Inflows of Resources*	11,553	223	6,470	164
Net Position:				
Invested in capital assets, net of related debt	48,270	12,464	41,538	12,247
Restricted*†	8,563	348	14,398	264
Unrestricted*†	38,477	15,210	37,861	13,796
Total net position	$ 95,310	$ 28,022	$ 93,797	$ 26,307

*FY2017 amounts do not reflect prior period restatements as noted on Note 24.

†Net Position related to pension assets and deferred inflows and outflows have been reclassified for 2017 as Restricted.

The increase in current and other assets for governmental activities of $14.8 million is due primarily to the issuance of debt towards the end of the year for capital projects expenditures in the coming months. Net pension assets also increased in FY2018 by $9.8 million largely due to investment income being greater than service cost and interest cost during the measurement period of July 1, 2016 to June 30, 2017.

Net capital assets for governmental activities increased by $21.0 million, primarily due to improvements which are being undertaken for the City Hall and the Mt. Daniel Elementary School. Investments in capital assets totaled $25.4 million in FY2018; depreciation offset was $3.8 million.

Current and other assets for business-type activities increased by $2.0 million during FY2018 as revenues exceeded expenditures in both the Sewer Fund and Stormwater Fund, resulting in higher cash and cash equivalents.

Net capital assets for business-type activities decreased by $0.5 million as depreciation exceed new capital investments in FY2018. The construction at the Alexandria Renew sewer treatment plant is mostly completed.

The decrease in deferred outflows of $5.4 million for the governmental activities and $0.2 million for the business-type activities is due to actual investment earnings for the City's pensions and OPEB being higher than projected during the measurement period. Conversely, deferred inflows for both activities have also increased as a result of this.

The increase in other liabilities for governmental activities of $3.5 million is mostly due to the construction activity that is ongoing for the City Hall and the Mt. Daniel Elementary School.

Long-term liabilities for governmental activities increased by $20.3 million due to the issuance of $21.7 million in debt in FY2018. We also recorded in FY2018 a Net OPEB liability in the amount of $2.4 million in compliance with GASB Statement No. 75.

For the business-type activities, there was a decrease of $0.3 million in long-term liabilities, due mostly to the payment of regular annual principal on debt of $1.0 million. The City also issued debt in FY2018 in the amount of $0.6 million for its business-type activities.

During FY2018, the net position invested in capital assets, net of related debt, increased for the City's governmental activities by $6.7 million mainly due to the capital activities noted previously as well as the repayment of debt. It also increased for the business-type activities by $0.2 million primarily due to repayment of debt.

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STATEMENT OF ACTIVITIES

The following table summarizes the changes in net position for the primary government for the years ended June 30, 2018 and 2017:

Summary of Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017
($ In Thousands)

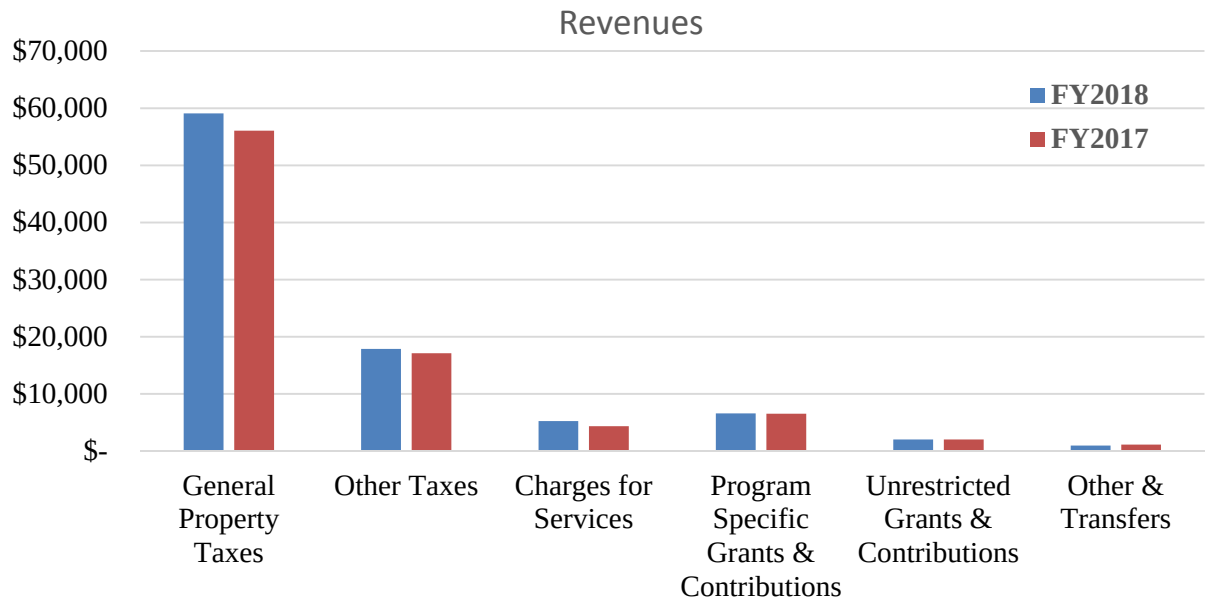
	2018		2017	
	Governmental Activities	**Business-Type Activities**	**Governmental Activities**	**Business-Type Activities**
Revenues:				
Program revenues:				
Charges for services	$ 5,237	$ 5,965	$ 4,349	$ 7,306
Operating grants & contributions	2,319	-	3,047	-
Capital grants & contributions	4,256	19	3,465	-
General revenues:				
General property taxes	59,084	-	56,072	-
Business license taxes, based on gross receipts	4,182	-	4,110	-
Local sales & use taxes	4,704	-	4,604	-
Consumer's utility taxes	2,266	-	2,149	-
Motor vehicle decals	345	-	347	-
Recordation	524	-	475	-
Occupancy, tobacco, & other taxes	5,842	-	5,420	-
Unrestricted grants & contributions	2,021	-	2,021	-
Revenue from use of money and property	726	96	445	35
Other	218	13	86	24
Special item - gain/(loss) on sale of capital assets	-	-	595	-
Total revenues	91,724	6,093	87,185	7,365
Expenses*:				
General government administration	6,830	-	7,094	-
Judicial administration	2,057	-	2,314	-
Public safety	11,442	-	11,376	-
Public works	6,841	3,961	7,084	4,120
Health and welfare	2,679	-	2,262	-
Education and payments to schools	42,837	-	41,479	-
Parks, recreation, and cultural	5,372	-	5,339	-
Community development	3,757	-	2,677	-
Economic development	268	-	454	-
Interest expense	1,718	329	1,581	343
Total expenses	83,801	4,290	81,660	4,463
Excess/(deficiency) before transfers	7,923	1,803	5,525	2,902
Change in net assets	7,923	1,803	5,525	2,902
Net position, beginning of year*	87,387	26,219	88,272	23,404
Net position, end of year	$ 95,310	$ 28,022	$ 93,797	$ 26,306

*The FY2017 amounts do not reflect prior period restatements as noted on Note 24.

Governmental Activities

Revenues and transfers for the City's governmental activities were $91.7 million for FY2018 and $87.2 million for FY2017. Sources of revenue for FY2018 and 2017 are comprised of the following items:

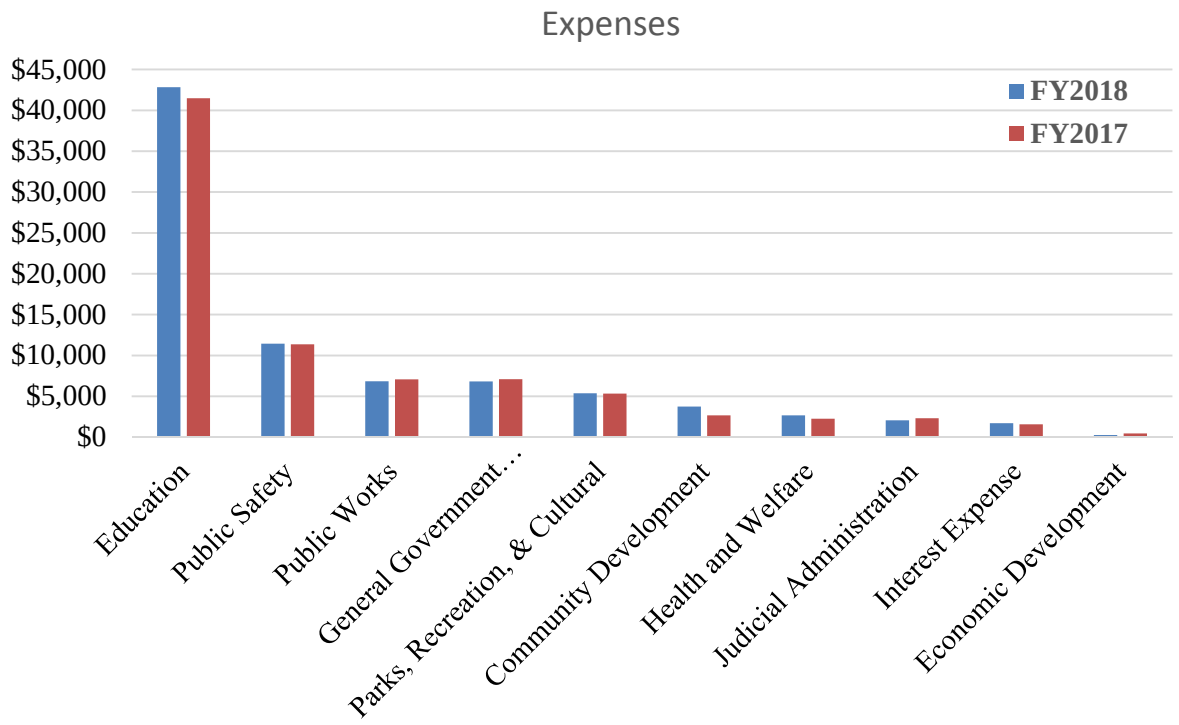
REVENUES
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017
($ IN THOUSANDS)



Taxes constitute the largest source of City revenues, amounting to $76.9 million for FY2018 and $73.2 million for FY2017. Real property taxes ($53.0 million in FY2018 and $50.5 million in FY2017) represent approximately 69% of tax revenues in both fiscal years. The City increased real estate taxes by 1.5 cents per $100 of assessed value. In addition, there was a 3.6% increase in assessed values of real estate property. Personal property taxes, meals taxes, and real estate recordation taxes also contributed to the increase in tax revenues.

EXPENSES

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017
($ IN THOUSANDS)



The cost of all governmental activities in FY2018 was $83.8 million, and in FY2017 was $81.7 million. The increase of approximately 2.6% in FY2018 over FY2017 was largely due to increased spending for education ($42.8 million in FY2018 and $41.5 million in FY2017) primarily as a result of salary increases for employees and a projected enrollment increase of 3.4%. Increasing contribution to the Washington Metropolitan Area Transit Authority (WMATA) for transit services and a one-time grant for welfare services also contributed to the rise of the expenses. Education was the City's largest program in both fiscal years 2018 and 2017. Public safety expenses represent the second largest expense in both of the fiscal years, totaling $11.4 million in both FY2018 and FY2017. Public works represented the third largest expense for the City at $6.8 million for FY2018 and $7.1 million for FY2017.

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

Net Cost of City's Governmental Activities
For the Fiscal Years Ended June 30, 2018 and 2017
($ In Thousands)

	2018		2017*	
Functions/Programs	**Total Cost**	**Net Cost**	**Total Cost**	**Net Cost**
Education and payments to schools	$ 42,837	$ 42,837	$ 41,479	$ 39,667
Public safety	11,442	9,486	11,376	9,870
Public works	6,841	1,229	7,084	3,747
General government administration	6,830	6,573	7,094	6,835
Parks, recreation, and cultural	5,372	3,018	5,339	3,051
Health and welfare	2,679	2,589	2,262	1,858
Community development	3,757	3,384	2,677	2,530
Other	4,043	2,873	4,349	3,241
Total	$ 83,801	$ 71,989	$ 81,660	$ 70,799

*FY2017 amounts do not reflect prior period restatements as noted on Note 24.

Some of the cost of governmental activities was paid by those who directly benefited from the programs ($5.2 million in FY2018 and $4.3 million in FY2017) and other governments and organizations that subsidized certain programs with grants and contributions ($6.6 million in FY2018 and $6.5 million in FY2017). The remaining net cost services of the $72.0 million in FY2018 and $70.8 million in FY2017 was subsidized by the taxpayers.

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 $1.3 million for FY2018 and an increase of $2.6 million for FY2017. In FY2018, total revenues of the Sewer Fund were $4.5 million as compared to total costs of $3.1 million. In FY2017, total revenues of the Sewer Fund were $5.8 million and total costs and transfers were $3.1 million. The decrease in revenues in FY2018 was mainly due to a reduction in the amount of availability fees collected from new customers (none in FY2018 and $1.4 million in FY2017). These fees are assessed to new customers who are connecting to the City's sewer system for the first time and 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. In FY2017, the City collected these fees from a mixed-use development and some new single homes. There were no big development projects in the City during FY2018.

The Storm Water Fund showed stable results of operations in FY2018 as compared to FY2017. There was an increase in net position of $0.5 million in FY2018 and $0.3 million in FY2017. Total revenues in FY2018 and in FY2017 were $1.6 million and $1.7 million, respectively. Expenses and transfers were $1.2 million in FY2018 and $1.3 million in FY2017. The fee for the storm water was $18.00 per 200 square feet of impervious surface for these two years.

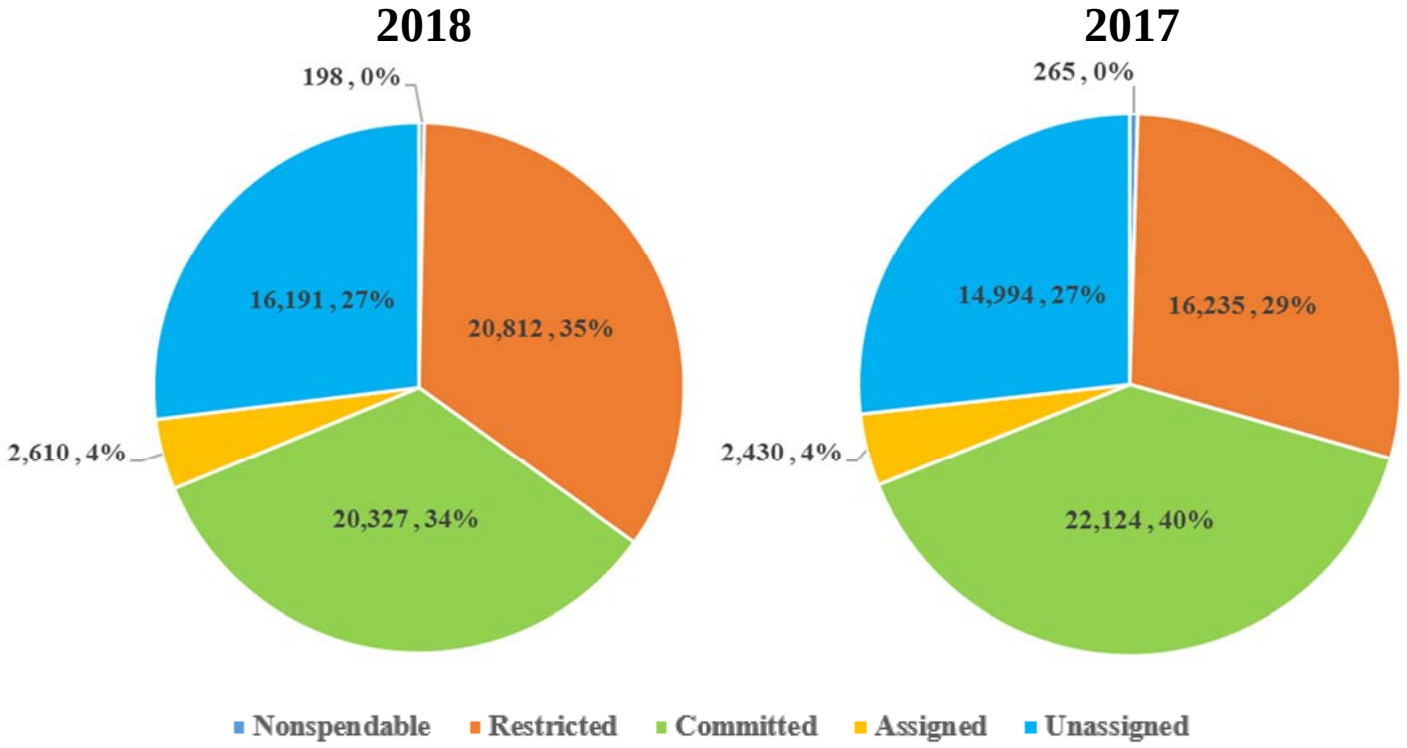
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

The City reports fund balance in accordance with accounting principles generally accepted in the United States of America (GAAP), which categorizes fund balance into five classification based upon constraints placed on the use of resources. Note 25 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, 2018 and 2017.

GOVERNMENTAL FUNDS – FUND BALANCES
AS OF JUNE 30, 2018 AND 2017 ($ IN THOUSANDS)



Overall, the fund balance for all governmental funds increased by approximately $4.1 million in FY2018 ($91.8 million in revenues and $23.0 million in other financing sources less total expenditures and other financing uses of $110.6 million) and increased by $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). The increase was mostly a result of issuance of new debt in FY2018 for capital projects that have not yet been spent.

Revenues increased by $4.8 million in FY2018 mainly due to an increase in assessed values of real property of 3.6% (60% of this increase in assessed values is attributable to new construction) as well as an increase of 1.5 cents for every $100 of real property assessed value. Personal property revenues also increased by $0.5 million due to an increase in assessed values as a result of a new grocery store and other business opening in the City. The City also experienced a $0.6 million increase in other local taxes, with $0.3 million of the increase attributed to sales and meals tax revenues.

Other financing sources increased in FY2018 due to the issuance of new debt in the amount of $21.7 million to finance capital expenditures. In FY2017, the City only issued $1.0 million in new debt to finance capital expenditures for its governmental funds. The issuance of debt largely depends on the projected cash outflow for capital projects.

The increase of $23.5 million in expenditures was primarily due to construction activity in the capital project fund, mainly for the renovation of the City Hall and the expansion and improvements of the Mt. Daniel Elementary School.

Governmental fund balance is categorized into the following categories:

- Unassigned Fund Balance – 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 – Committed fund balance makes up about 34% of the City's fund balance and represents amounts committed by the City Council for future capital expenditures ($9.8 million in FY2018 and $9.7 million in FY2017), for costs associated with future development inspections ($0.9 million in FY2018 and in FY2017), and for current capital expenditures being paid with local funds committed by the City Council in the Capital Projects Fund and Special Transportation Fund. Some of these projects were under construction in FY2018 resulting in a decrease of $1.8 million or 8% over FY2017.
- Restricted Fund Balance – Restricted fund balance which makes up 35% of the City's fund balance are bond proceeds and grants which have not yet been spent for their specified purpose. A majority of this amount is from bond proceeds issued to finance capital projects. The increase of $4.6 million or 28% in FY2018 over FY2017 is attributable to the issuance of new debt of $21.7 million which are not yet fully spent, with a corresponding offset for expenditures using prior year bond proceeds.
- Assigned Fund Balance – 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 – Non-spendable fund balance comprises approximately 0.3% 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, 2018 of $16.2 million represents 19% of General Fund expenditures.

The following shows the fund balances of these funds by fund as of June 30, 2018 and 2017:

Fund Balances - Governmental Funds
As of June 30, 2018 and 2017
($ In Thousands)

	General Fund		Capital Projects Fund		Special Transportation Fund		Other Governmental Funds		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Non-spendable	$ 197	$ 265	$ -	$ -	$ -	$ -	$ -	$ -	$ 197	$ 265
Restricted	924	1,168	19,736	14,387	152	680	-	-	20,812	16,235
Committed	11,312	10,567	6,086	8,479	2,561	2,787	369	291	20,328	22,124
Assigned	2,610	2,430	-	-	-	-	-	-	2,610	2,430
Unassigned	16,191	14,994	-	-	-	-	-	-	16,191	14,994
Total	$ 31,234	$ 29,424	$ 25,822	$ 22,866	$ 2,713	$ 3,467	$ 369	$ 291	$ 60,138	$ 56,048

The following shows the changes in the individual fund balances for fiscal years 2018 and 2017:

Changes in Fund Balances - Governmental Funds
For the Fiscal Years Ended June 30, 2018 and 2017
($ In Thousands)

	General Fund		Capital Projects Fund		Special Transportation Fund		Other Governmental Funds		Total*	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues and other financing sources	$ 89,124	$ 85,278	$ 23,783	$ 4,744	$ 4,652	$ 2,601	$ 227	$ 185	$ 114,733	$ 88,367
Expenditures and other financing uses	87,314	85,311	20,828	2,365	5,406	3,513	149	184	110,644	86,932
Changes in Fund Balances	1,810	(33)	2,955	2,379	(754)	(912)	78	1	4,089	1,435
Fund balance at beginning of year	29,423	29,456	22,867	20,488	3,467	4,379	291	290	56,048	54,613
Fund balance at end of year	$ 31,234	$ 29,423	$ 25,822	$ 22,867	$ 2,713	$ 3,467	$ 369	$ 291	$ 60,138	$ 56,048

*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 $2.2 million or 2.6%. $0.5 million of the increase represents use of assigned and committed fund balances for capital programs. $0.7 million of the increase is from encumbrances from FY2017 that were carried forward into FY2018. 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 $1.5 million or 1.3%. The change is mostly due to additional state grants received during the year. Final amended budget expenditures and other financing uses were higher than original budget by $2.7 million. The change is due to the planned expenditure of additional state grants and encumbrances that were carried forward from FY2017. In addition, Council adopted to use $450 thousand of capital reserves for planning expenditures related to the West Falls Church project.

Actual revenues and other financing sources were slightly higher than final budget amounts by $0.8 million while actual expenditures and other financing uses were $1.6 million lower than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2018 include the following:

- Personal property taxes were more robust than projections are new vehicles and business property were added to the assessed values as new residents and businesses moved in with the completion of two mixed-use projects. Similarly, meals tax and sales tax also performed better than projected. Interest revenue is also higher than projected as investments returned a higher yield than expected.

- Actual departmental expenditures were less than budgeted amounts by $1.6 million. The Department of Public Works was below budget by $0.9 million as certain maintenance contracts such as for the repaving of roads were not completed by the end of the fiscal year. Most of this balance has been encumbered and will be carried forward to FY2019. The Department of Executive Management was below budget by $0.3 million due to position vacancies. The Department of Development Services came in under budget due to the non-expenditure of a grant received for the bike share program that was not implemented in FY2018 as was planned. The Sheriff's Office also came in under budget as a result of position vacancies as well as low demand for and utilization of jail contracts. In total, for the General Fund, approximately $1.3 million in unliquidated encumbrances are being carried forward into FY2019 for expenditure.

CAPITAL ASSETS AND LONG-TERM DEBT

The City's investment in capital assets as of June 30, 2018 and 2017, amounted to approximately $100.2 million and $105.3 million, respectively, (net of accumulated depreciation and amortization) as summarized in the following table:

Capital Assets
As of June 30, 2018 and 2017
($ In Thousands)

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 9,553	$ -	$ 9,553	$ 9,561	$ -	$ 9,561
Construction in progress	29,923	193	30,116	6,278	199	6,477
Buildings and system	76,261	8,391	84,652	76,665	7,994	84,659
Machinery and equipment	17,347	914	18,261	17,230	872	18,102
Improvements other than buildings	6,328	1,955	8,283	6,622	1,876	8,498
Purchased capacity	-	20,888	20,888	-	20,811	20,811
Infrastructure	8,750	6,895	15,645	8,470	6,670	15,140
Intangibles	1,448	10	1,458	1,540	10	1,550
Library collections	2,313	-	2,313	2,160	-	2,160
Accumulated depreciation	(51,725)	(13,609)	(65,334)	(49,307)	(12,318)	(61,625)
Total Capital Assets, Net	$ 100,198	$ 25,637	$ 125,835	$ 79,219	$ 26,114	$ 105,333

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

- The renovation and expansion of the Mt. Daniel Elementary School is underway and is expected to be completed in FY2019. This project was placed on hold pending a redesign of the project to comply with permitting requirements.
- The City is undergoing a renovation and expansion of the City Hall. This is expected to be completed in FY2019.
- The intersection at Roosevelt Boulevard and Roosevelt Street is being improved and sidewalks are also being added along Roosevelt Street.
- 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 tear-down and rebuilding of the George Mason High School and the renovation and expansion of the Mary Riley Styles Public Library.

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 received an upgrade from Moody's during FY2018 from its former rating of Aa1 and now the City maintains credit ratings of Aaa 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 $403.4 million in 2018 and $389.1 million in 2017. The City's total long-term debt that is applicable to this limit was $83.0 million as of June 30, 2018 and $65.6 million as of June 30, 2017, and is well within the limits set by the Constitution of the Commonwealth of Virginia.

The City Council has adopted a policy that sets a limit for outstanding General Fund supported debt at 5% of total taxable assessed value of real property. In addition, annual debt service payments must be less than 12% of annual General Fund

expenditures. As of June 30, 2018 and 2017, total debt outstanding was 1.7% and 1.3%, respectively, of taxable assessed value of real property. General Fund debt service payments were 7.8% and 7.7% of General Fund expenditures in FY2018 and FY2017, 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, 2018, the City's 5-year payout ratio was 42% and 10-year payout ratio was 67%. As of June 30, 2017, the City's 5-year payout ratio was 47% and 10-year payout ratio was 76%.

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, 2018 and 2017:

Outstanding Long-Term Debts
As of June 30, 2018 and 2017
($ In Thousands)

	2018			2017		
	Govern-mental Activities	Business-Type Activities	Total	Govern-mental Activities	Business-Type Activities	Total
General obligation bonds issued for:						
Schools	$ 41,408	$ -	$ 41,408	$ 37,165	$ -	$ 37,165
Community center	728	-	728	891	-	891
Fire station	1,985	-	1,985	2,125	-	2,125
City hall	14,855	-	14,855	4,412	-	4,412
Library	1,044		1,044	-	-	-
Parks & Open space	2,065	-	2,065	1,182	-	1,182
Transportation	2,285	-	2,285	2,328	-	2,328
Other	3,674	-	3,674	3,021	-	3,021
Sewer system	-	11,912	11,912	-	12,459	12,459
Stormwater system	-	1,812	1,812	-	1,715	1,715
Capital leases and other	5,497	389	5,886	4,493	364	4,857
Total	$ 73,541	$ 14,113	$ 87,654	$ 55,617	$ 14,538	$ 70,155

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following economic factors are reflected in the General Fund adopted budget for the FY2019:

- The City's adopted budget for FY2019 includes a 3.4% increase in the assessed values of taxable real property. 26% 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, 2018 increased slightly to $805,100 from $749,850 as of January 1, 2017 and continues to outperform the Washington Metro area and US markets.
- Other revenues are expected to remain largely unchanged in FY2019 as compared to FY2018 actuals.

The City increased its real estate tax rate by 2.5 cents from $1.33 to $1.355 for every $100 of assessed value. The tax rate increase is for new debt service as a result of debt issued at the end of FY2018 largely for the City Hall and the George Mason High School projects. Debt service will increase by 31.3% or $2.0 million. An additional $1.2 million is also being placed in capital reserves in FY2019 to help pay for future debt service as the City expects to incur additional debt primarily for the George Mason High School project.

Programmatic expenditures in the General Fund remain relatively stable as compared to the FY2018 budget with the exception of the City's locally-funded contribution to the Washington Metropolitan Area Transportation Authority (WMATA) which is projected to increase by $387 thousand, an increase of 41% over its contribution in FY2018. 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 2.8% or $1.2 million.

In FY2019, contribution to the Basic Pension Plan is reduced significantly from 8.93% in FY2018 to 4.36% of covered payroll. Contribution to the Police Pension Plan will also decrease from 23.84% to 17.7% of covered payroll. Contribution to the Virginia Retirement System (VRS), which covers the City's Constitutional Officers remains the same at 1.47%. Contribution by the School Board to the VRS will also remain unchanged at 16.88% 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.

Over the last few years, capital needs have dominated the budgetary decisions as the City embarked on the construction of the new George Mason High School estimated to cost $117.3 million and other capital projects including the expansion of the Mary Riley Styles Public Library, the renovation of the City Hall, and the expansion of Mt. Daniel Elementary School. To defray the fiscal impact of the capital plan, the City worked towards developing an area of 10.3 acres adjacent to the George Mason High School referred to as West Falls Church. On November 19, the City Council approved an interim agreement for a public-private partnership with EYA, PN Hoffman, and Regency Centers to develop that area. Terms of the interim agreement may be found on Note 27.

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. 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.

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,

Kiran Bawa
Director of Finance

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT WIDE FINANCIAL STATEMENTS

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EXHIBIT 1

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2018

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Totals	School Board	Economic Development Authority
ASSETS					
Cash and investments (Note 4)	$ 42,987,661	$ 14,308,953	$ 57,296,614	$ 3,968,243	$ 2,056,106
Receivables, net (Note 5)	7,757,608	878,978	8,636,586	196,830	15,049
Due from agency funds	56,526	-	56,526	-	-
Due from fiduciary funds	2,081,894	-	2,081,894	176,130	-
Due from primary government	-	-	-	5,398,638	-
Due from other governments (Note 6)	3,875,764	283,490	4,159,254	353,427	-
Prepaids	60,913	-	60,913	16,583	-
Inventories	137,720	18,536	156,256	-	-
Restricted cash and cash equivalents (Note 4)	26,053,512	1,018,571	27,072,083	-	-
Net OPEB asset (Note 20)	-	-	-	1,271,836	-
Net pension asset (Note 16)	10,960,100	509,726	11,469,826	1,873,107	-
Capital assets: (Note 8)					
Nondepreciable	39,475,616	192,998	39,668,614	1,461,282	-
Depreciable, net	60,722,541	25,443,688	86,166,229	2,407,387	-
Total assets	194,169,855	42,654,940	236,824,795	17,123,463	2,071,155
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions (Note 16)	2,997,164	111,846	3,109,010	8,034,336	-
Deferred outflows related to OPEB (Note 20)	632,301	27,817	660,118	677,027	-
Deferred amount on refunding	246,591	140,560	387,151	-	-
Total deferred outflows of resources	3,876,056	280,223	4,156,279	8,711,363	-
LIABILITIES					
Accounts payable and other liabilities	7,810,876	362,133	8,173,009	6,260,965	257,590
Accrued interest	702,853	137,092	839,945	-	-
Customer deposits	1,329,958	-	1,329,958	-	-
Due to component unit	5,398,638	-	5,398,638	-	-
Due to other governments (Note 6)	49,609	-	49,609	-	-
Noncurrent liabilties:					
Net pension liability (Note 16)	-	-	-	39,492,000	-
Net OPEB liability (Note 20)	2,350,081	78,278	2,428,359	6,175,000	-
Due within one year (Note 10)	7,697,285	1,172,627	8,869,912	1,436,450	-
Due in more than one year (Note 10)	65,843,652	12,940,473	78,784,125	2,588,159	-
Total liabilities	91,182,952	14,690,603	105,873,555	55,952,574	257,590
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions (Note 16)	4,122,257	202,109	4,324,366	5,371,294	-
Deferred inflows related to OPEB (Note 20)	477,788	20,487	498,275	530,118	-
Unearned revenue (Note 9)	6,952,728	-	6,952,728	-	
Total deferred inflows of resources	11,552,773	222,596	11,775,369	5,901,412	-
NET POSITION					
Net investment in capital assets	48,269,980	12,463,534	60,733,514	3,579,005	-
Restricted for:					
Pension and OPEB	7,639,439	348,515	7,987,954	-	-
Grants	923,689	-	923,689	-	-
Unrestricted	38,477,078	15,209,915	53,686,993	(39,598,165)	1,813,565
Total net position	$ 95,310,186	$ 28,021,964	$ 123,332,150	$ (36,019,160)	$ 1,813,565

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

EXHIBIT 2

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position				
					Primary Government			Component Units	
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Totals**	**School Board**	**Economic Development Authority**
Primary Government:									
Governmental activities:									
General government	$ 6,830,072	$ 45,004	$ 211,766	$ -	$ (6,573,302)		$ (6,573,302)		
Judicial administration	2,056,960	890,898	159,829	-	(1,006,233)		(1,006,233)		
Public safety	11,441,556	1,339,397	455,522	160,667	(9,485,970)		(9,485,970)		
Public works	6,841,110	620,535	1,125,664	3,865,935	(1,228,976)		(1,228,976)		
Health and welfare	2,678,982	15,310	74,621	-	(2,589,051)		(2,589,051)		
Parks, recreation, and cultural	5,372,211	2,076,168	172,300	105,698	(3,018,045)		(3,018,045)		
Community development	3,757,139	249,260	325	124,017	(3,383,537)		(3,383,537)		
Economic development	267,549	-	-	-	(267,549)		(267,549)		
Education	42,836,993	-	-	-	(42,836,993)		(42,836,993)		
Interest	1,718,404	-	119,085	-	(1,599,319)		(1,599,319)		
Total governmental activities	83,800,976	5,236,572	2,319,112	4,256,317	(71,988,975)		(71,988,975)		
Business-type activities:									
Sewer	3,140,822	4,389,685	-	-		1,248,863	1,248,863		
Storm water	1,149,089	1,575,640	-	18,750		445,301	445,301		
Total business-type activities	4,289,911	5,965,325	-	18,750		1,694,164	1,694,164		
Total primary government	$ 88,090,887	$ 11,201,897	$ 2,319,112	$ 4,275,067	(71,988,975)	1,694,164	(70,294,811)		
Discretely Presented Component Units:									
School Board	$ 50,392,898	$ 2,885,494	$ 7,163,932	$ -				$ (40,343,472)	$ -
Economic Development Authority	116,020	-	-	-				-	(116,020)
Total component units	$ 50,508,918	$ 2,885,494	$ 7,163,932	$ -				(40,343,472)	(116,020)
		General revenues:							
		General property taxes			59,084,223	-	59,084,223	-	-
		Other local taxes:							
		Business licenses			4,181,701	-	4,181,701	-	-
		Local sales and use			4,703,523	-	4,703,523	-	-
		Consumer utility			2,266,303	-	2,266,303	-	-
		Motor vehicle decals			344,563	-	344,563	-	-
		Real estate recordation taxes			523,816	-	523,816	-	-
		Occupancy, tobacco, and other			5,842,109	-	5,842,109	-	-
		Payments from City			-	-	-	41,148,000	-
		Intergovernmental, non-categorical aid			2,020,878	-	2,020,878	-	-
		Revenue from use of money and property, unrestricted			726,327	96,278	822,605	367,630	19,758
		Gain on sale of capital assets			-	-	-	1,365	-
		Miscellaneous			218,328	12,916	231,244	172,723	17,831
		Total general revenues and transfers			79,911,771	109,194	80,020,965	41,689,718	37,589
		Change in net position			7,922,796	1,803,358	9,726,154	1,346,246	(78,431)
		NET POSITION AT JULY 1, AS RESTATED (Note 23)			87,387,390	26,218,606	113,605,996	(37,365,406)	1,891,996
		NET POSITION AT JUNE 30			$ 95,310,186	$ 28,021,964	$ 123,332,150	$ (36,019,160)	$ 1,813,565

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

FUND FINANCIAL STATEMENTS

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EXHIBIT 3

CITY OF FALLS CHURCH, VIRIGNIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General	Capital Projects	Special Transportation	Other Governmental	Total Governmental
ASSETS					
Cash and investments	$ 35,695,843	$ 5,640,298	$ 1,282,835	$ 368,685	$ 42,987,661
Receivables, net	7,474,607	-	-	283,001	7,757,608
Due from other funds	2,131,915	-	-	6,505	2,138,420
Due from other governments	2,047,427	81,447	1,599,696	-	3,728,570
Prepaids	59,793	1,120	-	-	60,913
Inventories	137,720	-	-	-	137,720
Restricted cash and cash equivalents	1,084,538	24,301,663	667,311	-	26,053,512
Total assets	$ 48,631,843	$ 30,024,528	$ 3,549,842	$ 658,191	$ 82,864,404
LIABILITIES					
Accounts payable and other liabilities	$ 2,849,840	$ 4,127,973	$ 826,558	$ 6,505	$ 7,810,876
Customer deposits	1,329,958	-	-	-	1,329,958
Due to component units	5,398,638	-	-	-	5,398,638
Due to other governments	49,609	-	-	-	49,609
Total liabilities	9,628,045	4,127,973	826,558	6,505	14,589,081
DEFFERED INFLOWS OF RESOURCES					
Unavailable/unearned revenue	7,769,881	74,722	10,000	283,001	8,137,604
Total deferred inflows of resources	7,769,881	74,722	10,000	283,001	8,137,604
FUND BALANCES					
Fund balances (Note 25):					
Nonspendable	197,513	-	-	-	197,513
Restricted	923,689	19,736,272	152,401	-	20,812,362
Committed	11,311,699	6,085,561	2,560,883	368,685	20,326,828
Assigned	2,609,806	-	-	-	2,609,806
Unassigned	16,191,210	-	-	-	16,191,210
Total fund balances	31,233,917	25,821,833	2,713,284	368,685	60,137,719
Total liabilities, deferred inflows of resources and fund balances	$ 48,631,843	$ 30,024,528	$ 3,549,842	$ 658,191	$ 82,864,404

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

EXHIBIT 4

CITY OF FALLS CHURCH, VIRIGNIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2018

Total Fund Balance		$ 60,137,719
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the funds.		
Nondepreciable	$ 39,475,616	
Depreciable, net	60,722,541	
		100,198,157
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.		147,194
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds		1,184,876
Financial statement elements related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows related to pensions	$ 2,997,164	
Deferred outflows related to OPEB	632,301	
Deferred inflows related to pensions	(4,122,257)	
Deferred inflows related to OPEB	(477,788)	
Net pension asset - all plans	10,960,100	
Net OPEB liability - all plans	(2,350,081)	
		7,639,439
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds payable, including unamortized deferred amounts	$ (68,043,927)	
Premium and discounts, net of accumulated amortization	(3,274,841)	
Deferred amount on refunding, net of accumulated amortization	246,591	
Capital leases	(28,636)	
Compensated absences	(2,193,533)	
		(73,294,346)
Interest on long-term liabilities is not accrued in governmental funds, but is recognized as an expenditure when due.		(702,853)
Total Net Position - Governmental Activities		$ 95,310,186

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

EXHIBIT 5

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	General	Capital Projects	Special Transportation	Other Governmental	Total Governmental
REVENUES					
General property taxes	$ 59,073,580	$ -	$ -	$ -	$ 59,073,580
Other local taxes	16,920,210	-	913,704	-	17,833,914
Permits, privilege fees, and regulatory licenses	1,264,495	-	-	-	1,264,495
Fines and forfeitures	514,936	-	-	-	514,936
Use of money and property	722,095	-	1,244	3,068	726,407
Charges for services	3,357,278	-	-	-	3,357,278
Miscellaneous	76,623	-	-	-	76,623
Gifts and contributions	80,013	105,698	-	-	185,711
Voluntary concessions	-	25,450	-	-	25,450
Recovered costs	319,362	-	-	-	319,362
Intergovernmental					
Commonwealth	4,692,348	102,463	1,768,323	-	6,563,134
Federal	384,949	594,410	858,278	-	1,837,637
Total revenues	87,405,889	828,021	3,541,549	3,068	91,778,527
EXPENDITURES					
Current:					
General government	6,759,338	-	-	148,915	6,908,253
Judicial administration	2,093,560	-	-	-	2,093,560
Public safety	11,409,320	-	-	-	11,409,320
Public works	5,884,953	-	-	-	5,884,953
Health and welfare	2,672,200	-	-	-	2,672,200
Parks, recreation, and culturual	4,991,289	-	-	-	4,991,289
Community development	3,442,634	-	-	-	3,442,634
Economic development	265,242	-	-	-	265,242
Education	41,181,003	-	-	-	41,181,003
Capital outlay	-	20,827,711	4,291,364	-	25,119,075
Debt service:					
Principal retirement	4,808,130	-	-	-	4,808,130
Interest and fiscal charges	1,868,052	-	-	-	1,868,052
Total expenditures	85,375,721	20,827,711	4,291,364	148,915	110,643,711
Excess (deficiency) of revenues over expenditures	2,030,168	(19,999,690)	(749,815)	(145,847)	(18,865,184)
OTHER FINANCING SOURCES (USES)					
Proceeds from debt issuance	467,751	22,251,104	100,000	-	22,818,855
Proceeds from sale of capital assets	136,001	-	-	-	136,001
Transfers in	1,114,567	704,000	1,010,567	223,386	3,052,520
Transfers out	(1,937,953)	-	(1,114,567)	-	(3,052,520)
Total other financing sources (uses)	(219,634)	22,955,104	(4,000)	223,386	22,954,856
Net change in fund balance	1,810,534	2,955,414	(753,815)	77,539	4,089,672
FUND BALANCES AT JULY 1	29,423,383	22,866,419	3,467,099	291,146	56,048,047
FUND BALANCES AT JUNE 30	$ 31,233,917	$ 25,821,833	$ 2,713,284	$ 368,685	$ 60,137,719

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

EXHIBIT 6

CITY OF FALLS CHURCH, VIRIGNIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Net Change in Fund Balance - Governmental Funds		$ 4,089,672
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 25,159,823	
Depreciation expense	(3,765,112)	
		21,394,711
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.		(415,737)
Revenues in the funds that do not provide current financial resources are not reported as revenues in the Statement of Activities.		
Debt proceeds	(22,818,855)	
Change in deferred inflow of resources for Arlington County services	(1,459)	
		(22,820,314)
Governmental funds report employer pension and OPEB contributions as expenditures. However, in the statement of activities the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.		
Employer pension contributions	1,522,138	
Employer OPEB contributions	2,350,081	
Pension expense	(991,756)	
OPEB expense	(2,061,622)	
		818,841
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.		4,808,130
Some expenses reported in the Statement of Activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences		(101,950)
Governmental funds report the effect of bond issuance costs, premiums and discounts when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of those differences is as follows:		
Amortization of discounts and premiums	188,737	
Amortization of gain/loss from refundings	(90,131)	
Change in accrued interest payable	50,837	
		149,443
Change in Net Position - Governmental Activities		$ 7,922,796

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

EXHIBIT 7

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
General property taxes	$ 58,584,900	$ 58,584,900	$ 59,073,580	$ 488,680
Other local taxes	16,353,750	16,353,750	16,920,210	566,460
Permits, privilege fees, and regulatory licenses	1,492,346	1,492,346	1,264,495	(227,851)
Fines and forfeitures	652,100	652,100	514,936	(137,164)
Use of money and property	290,000	290,000	722,095	432,095
Charges for services	3,218,296	3,218,296	3,357,278	138,982
Miscellaneous	59,000	29,000	76,623	47,623
Gifts and contributions	13,430	62,080	80,013	17,933
Recovered costs	292,600	322,600	319,362	(3,238)
Intergovernmental				
Commonwealth	4,139,552	5,259,205	4,692,348	(566,857)
Federal	354,671	368,275	384,949	16,674
Total revenues	85,450,645	86,632,552	87,405,889	773,337
EXPENDITURES				
Current:				
General government	6,939,701	7,020,364	6,759,338	261,026
Judicial administration	2,177,636	2,268,903	2,093,560	175,343
Public safety	11,291,225	11,416,762	11,409,320	7,442
Public works	5,615,425	6,740,997	5,884,953	856,044
Health and welfare	2,333,561	2,715,898	2,672,200	43,698
Parks, recreation, and culturual	4,964,199	5,006,417	4,991,289	15,128
Community development	3,446,040	3,631,690	3,442,634	189,056
Economic development	405,957	340,937	265,242	75,695
Education	41,181,003	41,181,003	41,181,003	-
Debt service:				
Principal retirement	4,790,694	4,790,694	4,808,130	(17,436)
Interest and fiscal charges	1,654,818	1,864,818	1,868,052	(3,234)
Total expenditures	84,800,259	86,978,483	85,375,721	1,602,762
Excess (deficiency) of revenues over expenditures	650,386	(345,931)	2,030,168	2,376,099
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	269,000	479,000	467,751	(11,249)
Proceeds from sale of capital assets	-	114,000	136,001	22,001
Transfers in	1,114,567	1,120,567	1,114,567	(6,000)
Transfers out	(1,433,953)	(1,937,953)	(1,937,953)	-
Total other financing sources (uses)	(50,386)	(224,386)	(219,634)	4,752
Net change in fund balance	$ 600,000	$ (570,317)	$ 1,810,534	$ 2,380,851

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

EXHIBIT 8

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Business-Type Activities – Enterprise Funds		
	Sewer	**Storm Water**	**Totals**
ASSETS			
Current assets:			
Cash and investments	$ 12,104,884	$ 2,204,069	$ 14,308,953
Receivables, net	868,483	10,495	878,978
Due from other governments	264,740	18,750	283,490
Inventories	12,469	6,067	18,536
Restricted cash and cash equivalents	801,679	216,892	1,018,571
Total current assets	14,052,255	2,456,273	16,508,528
Noncurrent assets:			
Net pension asset	196,362	313,364	509,726
Capital assets, net	20,315,787	5,320,899	25,636,686
Total noncurrent assets	20,512,149	5,634,263	26,146,412
Total assets	34,564,404	8,090,536	42,654,940
DEFFERED OUTFLOWS OF RESOURCES			
Deferred amount on refunding, net	140,560	-	140,560
Deferred outflows related to pensions	48,836	63,010	111,846
Deferred outflows related to OPEB	13,813	14,004	27,817
Total deferred outflows of resources	203,209	77,014	280,223
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	289,271	72,862	362,133
Accrued interest	109,759	27,333	137,092
Compensated absences, current	26,569	38,300	64,869
Debt, current	1,010,280	97,478	1,107,758
Total current liabilities	1,435,879	235,973	1,671,852
Noncurrent liabilities:			
Net OPEB liability	33,731	44,547	78,278
Compensated absences	13,166	2,399	15,565
Debt	11,107,604	1,817,304	12,924,908
Total noncurrent liabilities	11,154,501	1,864,250	13,018,751
Total liabilities	12,590,380	2,100,223	14,690,603
DEFFERED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	77,861	124,248	202,109
Deferred inflows related to OPEB	8,828	11,659	20,487
Total deferred inflows of resources	86,689	135,907	222,596
NET POSITION			
Net investment in capital assets	9,030,708	3,432,826	12,463,534
Restricted for pension and OPEB	53,160	122,120	175,280
Unrestricted	13,006,676	2,376,474	15,383,150
Total net position	$ 22,090,544	$ 5,931,420	$ 28,021,964

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

EXHIBIT 9

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2018

	Business-Type Activities – Enterprise Funds		
	Sewer	**Storm Water**	**Totals**
OPERATING REVENUES			
Charges for fees and services	$ 4,304,885	$ 1,575,640	$ 5,880,525
Intergovernmental	-	18,750	18,750
Total operating revenues	4,304,885	1,594,390	5,899,275
OPERATING EXPENSES			
Collection and disposal	1,492,010	411,629	1,903,639
Administration	363,020	402,470	765,490
Depreciation and amortization	1,010,770	280,650	1,291,420
Total operating expenses	2,865,800	1,094,749	3,960,549
Operating income	1,439,085	499,641	1,938,726
NONOPERATING REVENUES (EXPENSES)			
Availability fees	84,800	-	84,800
Miscellaneous	12,916	-	12,916
Interest and investment revenue	76,018	20,260	96,278
Interest expense	(275,022)	(54,340)	(329,362)
Net nonoperating revenues (expenses)	(101,288)	(34,080)	(135,368)
Change in net position	1,337,797	465,561	1,803,358
NET POSITION AT JULY 1, AS RESTATED (Note 23)	20,752,747	5,465,859	26,218,606
NET POSITION AT JUNE 30	$ 22,090,544	$ 5,931,420	$ 28,021,964

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

EXHIBIT 10

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2018

	Business-type Activities – Enterprise Funds		
	Sewer	Storm water	Totals
OPERATING ACTIVITIES			
Receipts from customers	$ 4,496,056	$ 1,582,285	$ 6,078,341
Interfund reimbursements	(146,074)	(134,901)	(280,975)
Payments to suppliers	(1,191,700)	(200,531)	(1,392,231)
Payments to employees	(526,807)	(587,811)	(1,114,618)
Net cash provided by operating activities	2,631,475	659,042	3,290,517
NONCAPITAL FINANCING ACTIVITIES			
Interfund borrowing	-	281	281
Net cash provided by noncapital financing activities	-	281	281
CAPITAL AND RELATED FINANCING ACTIVITIES			
Availability fees	84,800	-	84,800
Purchases of capital assets	(532,480)	(379,707)	(912,187)
Proceeds from long-term debt	446,007	202,742	648,749
Principal paid on capital debt	(951,968)	(92,478)	(1,044,446)
Interest paid on capital debt	(310,362)	(59,651)	(370,013)
Net cash used in capital and related financing activities	(1,264,003)	(329,094)	(1,593,097)
INVESTING ACTIVITIES			
Interest and investment revenue	76,018	20,260	96,278
Net increase in cash and cash equivalents	1,443,490	350,489	1,793,979
CASH AND CASH EQUIVALENTS JULY 1	11,463,073	2,070,472	13,533,545
CASH AND CASH EQUIVALENTS JUNE 30	$ 12,906,563	$ 2,420,961	$ 15,327,524
RECONCILIATION TO EXHIBIT 8			
Cash and investments	$ 12,104,884	$ 2,204,069	$ 14,308,953
Restricted cash and cash equivalents	801,679	216,892	1,018,571
Total	$ 12,906,563	$ 2,420,961	$ 15,327,524
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	$ 1,439,085	$ 499,641	$ 1,938,726
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,010,770	280,650	1,291,420
Pension expense net of employer contributions	(67,118)	(90,698)	(157,816)
OPEB expense net of employer contributions	(35,439)	(7,907)	(43,346)
Change in assets and liabilities:			
(Increase) decrease in:			
Receivables, net	191,171	(12,105)	179,066
Deferred OPEB charges	27,000	1,000	28,000
Increase (decrease) in:			
Accounts payable and other liabilities	66,990	(17,929)	49,061
Compensated absences	(984)	6,390	5,406
Net cash provided by operating activities	$ 2,631,475	$ 659,042	$ 3,290,517
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Capital asset purchases included in accounts payable	$ 64,988	$ 1,226	$ 66,214

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

EXHIBIT 11

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2018

	Post-Employment Trust Funds			
	Basic Pension Plan	**Police Pension Plan**	**Local OPEB Plan**	**Agency Funds**
ASSETS				
Cash and cash equivalents	$ 7,347,389	$ 2,117,553	$ 85,446	$ 5,340,966
Investments	103,187,377	32,602,769	14,543,268	-
Contributions receivable	57,841	-	-	-
Interest and dividends receivable	-	13,127	-	-
Receivables, net	-	-	-	851,195
Total assets	110,592,607	34,733,449	14,628,714	6,192,161
LIABILITIES				
Accounts payable	95,010	27,965	8,282	-
Due to general fund	660,289	203,333	1,394,403	56,526
Amounts held for others	-	-	-	6,135,635
Total liabilities	755,299	231,298	1,402,685	6,192,161
NET POSITION				
Held in trust for:				
Pension benefits	109,837,308	34,502,151	-	-
Other post-employment benefits	-	-	13,226,029	-
Total net position restricted for post-employment benefits	$ 109,837,308	$ 34,502,151	$ 13,226,029	$ -

EXHIBIT 12

CITY OF FALLS CHURCH, VIRGINIA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2018

	Basic Pension Plan	Police Pension Plan	Local OPEB Plan
ADDITIONS			
Employer contributions	$ 1,257,789	$ 625,820	$ 809,145
Employee contributions	759,047	198,118	-
Investment earnings:			
Interest	20,438	34,407	1,252
Dividends	1,229,738	402,900	279,392
Net increase in fair value of investments	12,434,754	3,792,853	972,394
Total investment earnings	13,684,930	4,230,160	1,253,038
Less investment expenses	(483,342)	(137,839)	(9,800)
Net investment earnings	13,201,588	4,092,321	1,243,238
Total additions	15,218,424	4,916,259	2,052,383
DEDUCTIONS			
Benefits	5,040,218	1,116,820	716,549
Administration	29,375	16,968	2,908
Total deductions	5,069,593	1,133,788	719,457
Change in net position	10,148,831	3,782,471	1,332,926
NET POSITION AT JULY 1	99,688,477	30,719,680	11,893,103
NET POSITION AT JUNE 30	$ 109,837,308	$ 34,502,151	$ 13,226,029

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

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

Government-Wide and Fund Financial Statements

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

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

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

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

Non Major Special Revenue Funds: The City has 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.

(Continued)

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.

(Continued)

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.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Inventories and Prepaids

Inventories are valued at the lower of cost (using the first in, first out method) or market and are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids.

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 2018 was $1.33, 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 2018 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 acquisition value at the date of donation.

(Continued)

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.

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 the following items that qualify for reporting as deferred inflows or outflows:

- Deferred loss on refunding. A deferred loss on refunding is a deferred outflow 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.
- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred outflow or inflow as appropriate.

(Continued)

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)

- Changes of assumptions. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportion. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- The difference between each employer's actual contributions for pension. This difference will be recognized over the average expected remaining service life of all active and inactive members of the plan.
- Unavailable revenue occurs only under the modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Unearned revenue 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.

Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to VRS administered pension and OPEB plans, information about the fiduciary net position of the City's Plans and the additions to/deductions from the City's Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The City administers their own pension and other post-employment benefit plans. Information about the fiduciary net position and the additions to/deductions from the plan's net fiduciary position have been determined by the City's actuary. 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.

(Continued)

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.

Termination Benefits (Continued)

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 $1.7 million as of June 30. This liability is liquidated by the School Operating Fund.

Long-term Obligations

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fund Balances

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

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

Restricted Amounts

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

Minimum Fund Balance Policy

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

(Continued)

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 approximately $1.3 million 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 2018, the City paid the CSB approximately $830 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 2018, the City paid approximately $237 thousand for these services.

The City uses Fairfax's landfills for waste disposal and charges are based on tipping fees. During 2018, the City paid approximately $118 thousand for these services.

Note 2. Intergovernmental Agreements (Continued)

The City has an agreement with Fairfax to share in the cost of its sewage treatment facilities. During 2018, the City paid approximately $757 thousand for sewage treatment costs. In 2008, another upgrade was commenced at the Alexandria Sanitation Treatment Plant. The City paid approximately $76 thousand in 2018 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.

During 2018, the City entered into an agreement with Fairfax to replace the natural turf at Larry Graves Park with synthetic turf for $999 thousand. The City paid an initial amount of $130 thousand and the rest will be billed upon permitting and construction mobilization. Unspent funds will be returned to the City. Thereafter, the City will pay a portion of maintenance costs. This allows the City to use the field. Term is the useful life of the synthetic turf.

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 2018, the City paid Arlington approximately $2.5 million for fire and rescue services, $360 thousand for jail services, $367 thousand for E-911 and radio bandwidth services, and $704 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 2018 amounted to approximately $589 thousand.

The City has an agreement with Arlington to share in the cost of its sewage treatment facilities. During 2018, the City paid Arlington approximately $365 thousand for operating costs.

Fairfax Water

Fairfax Water performs sewer billing and collection services. During 2018, Fairfax Water billed $4.09 million in sewer fees and remitted $4.06 million to the City. The City paid Fairfax Water $89 thousand for these services.

City of Fairfax

During 2018, the City entered into an agreement to replace the City of Fairfax's Fire Arms Range. The City will pay the City of Fairfax $1.2 million in capital funds (payable in 2 annual installments with first one beginning August 2017) and thereafter pay a portion of the maintenance cost in exchange for the use of the facilities. The agreement is effective until terminated or amended. During 2018, the City paid first installment of $600 thousand.

(Continued)

Note 2. Intergovernmental Agreements (Continued)

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 2018, the City paid NVCJA approximately $47 thousand for its share of operating and debt service costs.

Joint Ventures

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 2018, the City received approximately $915 thousand of these taxes.

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 2018, the City's required contributions amounted to approximately $3.3 million. The City received $1.1 million from the Virginia Department of Rail and Public Transportation to pay for this obligation. The remaining $2.2 million came from tax revenue and other sources. Complete financial statements of WMATA may be obtained at 600 5th Street, NW, Washington, DC 20001.

(Continued)

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.

(Continued)

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, 41% of the portfolio was invested in SNAP and 59% 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.

Note 4. Deposits and Investments (Continued)

Investments (Continued)

Interest Rate Risk:

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

Custodial Credit Risk:

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

The City's investments consisted of the following:

Investment Type	Fair Value	S & P Credit Rating
Primary Government:		
SNAP	$ 27,072,381	AAAm
VML	39,127,213	AAf
Primary government investments	66,199,594	
Component Unit – School Board:		
LGIP	3,949,382	AAAm
Component Unit – EDA:		
LGIP	2,056,106	AAAm
Component unit investments	6,005,488	
Total investments	$ 72,205,082	

Note 4. Deposits and Investments (Continued)

Investments (Continued)

Cash and investments consist of the following:

		Component Units	
	Primary Government	School Board	Economic Development Authority
Deposits and investments:			
Demand deposits	$ 18,169,104	$ 18,861	$ -
LGIP	-	3,949,382	2,056,106
SNAP	27,072,381	-	-
VML	39,127,213	-	-
	$ 84,368,698	3,968,243	$ 2,056,106

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

Statement of net position:			
Cash and investments	$ 57,296,615	$ 3,968,243	$ 2,056,106
Restricted cash and cash equivalents	27,072,083	-	-
	$ 84,368,698	$ 3,968,243	$ 2,056,106

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

Post-Employment Trust Funds

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

Investment Type	Fair Value
Money market funds	$ 9,550,388
Domestic equities	82,249,914
Domestic fixed income	21,505,280
International equities	38,789,223
Infrastructure	7,788,997
Total cash, cash equivalents, and investments	$ 159,883,802

Note 4. Deposits and Investments (Continued)

Post-Employment Trust Funds (Continued)

Pension Funds

Investment Policy:

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

Concentration of Credit Risk:

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

	Minimum	Maximum	Actual
Domestic equities	48%	62%	54%
International equities	15%	23%	26%
Domestic fixed income	12%	20%	14%
Infrastructure	3%	7%	6%

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.

(Continued)

Note 4. Deposits and Investments (Continued)

Post-Employment Trust Funds (Continued)

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

Concentration of Credit Risk:

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

	Minimum	Maximum	Actual
Domestic equities	49%	63%	60%
Domestic fixed income	18%	26%	20%
International equities	15%	23%	20%

Market Risk:

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

Note 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, 2018:

	Level 1	Level 2	Level 3	Total
Common stocks/equity securities:				
Health Care	$ 6,027,599	$ -	$ -	$ 6,027,599
Financials	7,287,267	-	-	7,287,267
Industrial Goods	4,426,487	-	-	4,426,487
Basic Materials	6,620,217	-	-	6,620,217
Information Technology	9,163,740	-	-	9,163,740
Utilities	319,500	-	-	319,500
Consumer Goods	7,191,386	-	-	7,191,386
Real Estate	458,328	-	-	458,328
International (MFS)	17,309,688	8,870,611	-	26,180,299
Insurance Services	-	-	1,191,896	1,191,896
Mutual funds	53,265,303	-	-	53,265,303
Real Estate	-	10,823,665	-	10,823,665
	$ 112,069,515	$ 19,694,276	$ 1,191,896	$ 132,955,687

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:

Investment	Fair Value	Redemption Frequency	Redemption Notice Period
Northern Trust Collective Investments	$ 17,377,727	Quarterly	30-60 days

Note 5. Receivables

Receivables are as follows:

	Governmental Activities	Business-type Activities	Total
Receivables:			
Accounts-Billed	$ 1,354,608	$ 413,581	$ 1,768,189
Accounts-Unbilled	-	571,397	571,397
Other	932,904	-	932,904
Property taxes:			
Delinquent	1,082,113	-	1,082,113
Not yet due	5,779,210	-	5,779,210
Total receivables	9,148,835	984,978	10,133,813
Allowances for uncollectibles:			
Accounts receivable	(1,124,227)	(106,000)	(1,230,227)
Property taxes:			
Delinquent	(215,000)	-	(215,000)
Not yet due	(52,200)	-	(52,200)
Total allowances for uncollectibles	(1,391,227)	(106,000)	(1,497,227)
Total net receivables	$ 7,757,608	$ 878,978	$ 8,636,586

Note 6. Due from/to Other Governments

Amounts due from other governments are as follows:

	Governmental Activities	Business-type Activities	Component Unit – School Board
Commonwealth of Virginia			
State sales tax	$ -	$ -	$ 340,187
Local sales tax	408,544	-	-
Communication tax	638,855	-	-
Transportation funds	827,222	-	-
Grants for capital projects	780,344	18,750	-
Total	2,654,965	18,750	340,187
Federal			
Grants for capital projects	616,870	-	-
Other federal funds	32,516	-	13,240
Total	649,386	-	13,240
Other governments			
Fairfax County	-	264,740	-
Arlington County:			
EMS	208,935	-	-
Judicial and public safety	350,844	-	-
Other	11,634	-	-
Total	571,413	264,740	-
Total due from other governments	$ 3,875,764	$ 283,490	$ 353,427

Amounts due to other governments of $49,609 in governmental activities consist of amounts owed to Arlington, the Department of Motor Vehicles and Northern Virginia Transportation Authority.

Note 7. Interfund Activity 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 $5,398,638 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:

	Interfund Receivables/ Due From	Interfund Payables/ Due To
Major Fund:		
General	$ 2,138,420	$ 5,405,142
Non-Major Fund:		
FCCTV	6,505	-
Major Component Units:		
School Board	5,574,768	-
Fiduciary Funds:		
Pension Benefits	-	863,622
OPEB Benefits	-	1,218,273
School OPEB Benefits	-	176,130
Agency	-	56,526
	$ 7,719,693	$ 7,719,693

Transfers consisted of the following:

	Transfers In	Transfers Out
General fund	$ 1,114,567	$ 1,937,953
Capital projects	704,000	-
Special transportation	1,010,567	1,114,567
FCCTV	223,386	-
	$ 3,052,520	$ 3,052,520

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

Note 8. Capital Assets

Capital asset activity was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital asset, non-depreciable:				
Land	$ 9,561,488	$ -	$ (8,719)	$ 9,552,769
Construction in progress	6,278,089	23,744,732	(99,974)	29,922,847
Total capital assets, non-depreciable	15,839,577	23,744,732	(108,693)	39,475,616
Capital assets, being depreciated:				
Buildings and systems	76,665,037	97,059	(500,654)	76,261,442
Machinery and equipment	17,229,569	763,360	(645,597)	17,347,332
Improvements other than buildings	6,622,523	30,904	(325,281)	6,328,146
Infrastructure	8,469,717	280,110	-	8,749,827
Intangibles	1,540,112	13,740	(105,079)	1,448,024
Library collections	2,159,748	329,688	(176,932)	2,312,504
Total capital assets, depreciable	112,686,706	1,514,861	(1,753,543)	112,448,024
Less accumulated depreciation for:				
Buildings and systems	(28,407,142)	(1,794,863)	324,536	(29,877,469)
Machinery and equipment	(10,749,435)	(1,194,880)	624,492	(11,319,823)
Improvements other than buildings	(3,574,797)	(312,152)	115,785	(3,771,164)
Infrastructure	(3,584,588)	(184,678)	-	(3,769,266)
Intangibles	(1,506,932)	(9,467)	104,983	(1,411,416)
Library collections	(1,484,205)	(269,072)	176,932	(1,576,345)
Total accumulated depreciation	(49,307,099)	(3,765,112)	1,346,728	(51,725,483)
Total capital assets, depreciable, net	63,379,607	(2,250,251)	(406,815)	60,722,541
Capital assets, net	$ 79,219,184	$ 21,494,481	$ (515,508)	$ 100,198,157

(Continued)

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Sewer fund:				
Capital assets, non-depreciable:				
Construction in progress	$ -	$ 83,334	$ -	$ 83,334
Total capital assets, non-depreciable	-	83,334	-	83,334
Capital assets, depreciable:				
Building and systems	7,907,694	397,503	-	8,305,197
Machinery and equipment	394,031	-	-	394,031
Purchased capacity	20,811,209	76,098	-	20,887,307
Other intangibles	9,900	-	-	9,900
Total capital assets, depreciable	29,122,834	473,601	-	29,596,435
Less accumulated depreciation for:				
Building and systems	(2,527,776)	(141,859)	-	(2,669,635)
Machinery and equipment	(79,920)	(25,415)	-	(105,335)
Purchased capacity	(5,735,616)	(843,496)	-	(6,579,112)
Other intangibles	(9,900)	-	-	(9,900)
Total accumulated depreciation	(8,353,212)	(1,010,770)	-	(9,363,982)
Total capital assets depreciable, net	20,769,622	(537,169)	-	20,232,453
Capital assets, net	$ 20,769,622	$ (453,835)	$ -	$ 20,315,787

(Continued)

Note 8. Capital Assets (Continued)

Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Storm Water fund:				
Capital asset, non-depreciable:				
Construction in progress	$ 198,774	$ 174,402	$ (263,512)	$ 109,664
Total capital assets, non-depreciable	198,774	174,402	(263,512)	109,664
Capital assets, depreciable:				
Building and systems	86,499	-	-	86,499
Machinery and equipment	478,277	42,194	-	520,471
Improvements other than buildings	1,875,656	79,096	-	1,954,752
Infrastructure	6,670,108	224,576	-	6,894,684
Total capital assets, depreciable	9,110,540	345,866	-	9,456,406
Less accumulated depreciation for:				
Building and systems	(2,662)	(4,564)	-	(7,226)
Machinery and equipment	(114,882)	(37,969)	-	(152,851)
Improvements other than buildings	(201,542)	(97,256)	-	(298,798)
Infrastructure	(3,645,435)	(140,861)	-	(3,786,296)
Total accumulated depreciation	(3,964,521)	(280,650)	-	(4,245,171)
Total capital assets depreciable, net	5,146,019	65,216	-	5,211,235
Capital assets, net	5,344,793	239,618	(263,512)	5,320,899
Business-type capital assets, net	$ 26,114,415	$ (214,217)	$ (263,512)	$ 25,636,686

(Continued)

Note 8. Capital Assets (Continued)

Component Unit – School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset, non-depreciable:				
Land	$ 1,273,354	$ -	$ -	$ 1,273,354
Construction in progress	-	187,928	-	187,928
Total capital assets, non-depreciable	1,273,354	187,928	-	1,461,282
Capital assets, depreciable:				
Buildings and systems	1,192,682	-	-	1,192,682
Machinery and equipment	4,024,502	246,683	-	4,271,185
Improvements other than buildings	367,722	-	-	367,722
Library collections	473,137	36,491	(60,462)	449,166
Intangibles	7,996	5,112	-	13,108
Leasehold improvements	21,080	-	-	21,080
Total capital assets, depreciable	6,087,119	288,286	(60,462)	6,314,943
Less accumulated depreciation for:				
Buildings and systems	(455,424)	(31,994)	-	(487,418)
Machinery and equipment	(2,575,383)	(332,464)	-	(2,907,847)
Improvements other than buildings	(83,886)	(18,562)	-	(102,448)
Library collections	(408,112)	(34,022)	60,462	(381,672)
Intangibles	(7,996)	(852)	-	(8,848)
Leasehold improvements	(17,215)	(2,108)	-	(19,323)
Total accumulated depreciation	(3,548,016)	(420,002)	60,462	(3,907,556)
Total capital assets, depreciable, net	2,539,103	(131,716)	-	2,407,387
Capital assets, net	$ 3,812,457	$ (56,212)	$ -	$ 3,868,669

(Continued)

Note 8. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Primary Government - Governmental activities:	
General government	$ 209,393
Judicial administration	66,784
Public safety	618,917
Public works	591,313
Health and welfare	639
Education	1,655,990
Parks, recreation, and cultural	581,921
Community development	40,155
Total governmental activities	$ 3,765,112
Primary Government – Business-type activities:	
Sewer	$ 1,010,770
Storm Water	280,650
Total business-type activities	$ 1,291,420
Component Unit – School Board:	
Education	$ 420,002

Note 9. Unavailable/Unearned Revenue

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

	Governmental Activities	Governmental Funds
Unavailable		
Delinquent property taxes	$ -	$ 684,788
Other	-	500,088
Unearned		
Property taxes not yet due	5,727,010	5,727,010
Prepaid real estate and property taxes	1,117,380	1,117,380
Other	108,338	108,338
Total unavailable/unearned revenue	$ 6,952,728	$ 8,137,604

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. These loans are included in other unearned revenue listed above.

Note 10. Long-Term Liabilities

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

Primary Government

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
General obligation bonds	$ 51,124,622	$21,710,000	$ 4,790,695	$ 68,043,927	$ 6,184,694
Bond premiums and discounts, net	2,354,723	1,108,855	188,737	3,274,841	-
Capital leases	46,072	-	17,436	28,636	20,828
Compensated absences	2,091,583	1,862,319	1,760,369	2,193,533	1,491,763
Total long-term liabilities	$ 55,617,000	$24,681,174	$ 6,757,237	$ 73,540,937	$ 7,697,285
Business-type Activities:					
Sewer fund:					
General obligation bonds	$ 12,458,856	$ 405,000	$ 951,968	$ 11,911,884	$ 1,010,280
Bond premiums and discounts, net	193,243	25,558	12,804	206,000	-
Compensated absences	40,719	35,413	36,398	39,735	26,569
	$ 12,692,818	$ 465,971	$ 1,001,170	$ 12,157,619	$ 1,036,849
Storm water fund:					
General obligation bonds	$ 1,714,590	$ 190,000	$ 92,478	$ 1,812,117	$ 97,478
Bond premiums and discounts, net	95,796	12,741	5,872	102,665	-
Compensated absences	34,309	48,047	41,657	40,699	38,300
	$ 1,844,695	$ 250,788	$ 140,007	$ 1,955,481	$ 135,778
Total long-term liabilities	$ 14,537,513	$ 25,397,933	$ 1,141,177	$ 14,113,100	$ 1,172,627

Note 10. Long-Term Liabilities (Continued)

Component Unit-School Board:	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Termination benefits	$ 2,153,000	$ 18,000	$ 499,000	$ 1,672,000	$ 500,637
Compensated absences	1,125,071	8,967	-	1,134,038	504,906
Other long-term obligations	-	1,316,775	331,656	985,119	326,740
Capital leases	296,522	215,652	278,722	233,452	104,167
Total long-term liabilities	$ 3,574,593	$ 1,559,394	$ 1,109,378	$ 4,024,609	$ 1,436,450

Annual debt service requirements to maturity are as follows:

	Governmental Activities		Business-type Activities	
	General Obligation Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2019	$ 6,184,694	$ 1,970,371	$ 1,107,758	$ 327,109
2020	5,817,694	2,139,885	1,130,212	309,189
2021	5,874,694	1,949,496	1,153,811	278,704
2022	5,706,694	1,759,264	1,170,560	247,787
2023	4,713,360	1,573,847	1,192,462	218,483
2024-2028	17,264,295	5,734,047	4,710,008	712,522
2029-2033	12,733,189	3,030,927	2,633,499	244,168
2034-2038	6,974,307	1,028,894	625,691	29,422
2039-2043	1,275,000	394,294	-	-
2044-2048	1,500,000	161,000	-	-
	$ 68,043,927	$ 19,742,025	$ 13,724,001	$ 2,367,384

(Continued)

Note 10. Long-Term Liabilities (Continued)

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

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
General obligation	4.00%	03/08/2007	08/01/2021	$ 6,260,000	$ 2,695,000	$ -
General obligation	2.00-4.00%	03/06/2012	08/01/2024	$ 15,300,000	11,090,000	-
General obligation	2.00-3.00%	12/22/2011	01/15/2032	$ 8,570,000	3,690,000	-
General obligation	2.00-5.00%	12/18/2013	07/01/2033	$ 17,620,000	12,030,000	1,380,000
General obligation	2.00-5.00%	12/23/2014	07/15/2030	$ 11,740,000	8,840,000	1,130,000
General obligation	1.48%	08/31/2015	07/15/2020	$ 1,180,000	705,000	-
General obligation	2.31%	08/31/2015	07/15/2035	$ 5,360,000	3,103,927	1,666,073
General obligation 2016A	1.24%	11/16/2016	7/15/2021	$ 607,000	490,000	-
General obligation 2016B	1.41%	11/16/2016	7/15/2026	$ 4,071,000	138,000	3,473,000
General obligation 2016C	1.79%	11/16/2016	7/15/2031	$ 2,511,000	237,000	2,230,000
General obligation	2.02-3.35%	06/06/2018	01/15/2048	$ 22,305,000	21,710,000	595,000
VRA bond	2.13-5.13%	10/01/2011	10/01/2031	$ 3,125,000	-	540,000
VRA line of credit	3.35%	05/13/2009	09/01/2029	$ 4,100,000	-	2,709,928
VPSA bond	4.10-5.10%	05/11/2006	07/15/2026	$ 1,935,000	855,000	-
VPSA bond	4.25%	12/15/2011	12/01/2030	$ 3,000,000	2,460,000	-
					$ 68,043,927	$ 13,724,001

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, 2018 was $1,535,000.

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 $220,323 and accumulated depreciation of $189,244, resulting in a net book value of $31,079. The present value of minimum lease payments is $28,636.

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 $1,264,158 and accumulated depreciation of $813,779, resulting in a net book value of $450,379. The present value of minimum lease payments is $233,450.

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:

Project	Amount Spent-to-Date	Remaining Commitment
Governmental Activities:		
Mt. Daniel Elementary School renovation and expansion	$ 13,803,183	$ 6,407,035
Van Buren Bridge Reconstruction	1,524,329	264,394
Roosevelt St. & Roosevelt Blvd. Pedestrian Improvements	734,055	316,031
Roosevelt Blvd. Pedestrian Improvements	1,160,880	451,199
City Hall Reconstruction	12,036,881	8,518,459
	29,259,328	15,957,118
Sewer Fund:		
Dorchester/Great Falls Sanitary Sewer Pipe Expansion	$ 70,544	$ 834,447
Sanitary Sewer Pipe Relining	397,502	526,931
	468,046	1,361,378

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 $358 thousand to the School Board. The future minimum lease payments for the City and School Board leases are shown below:

	City	Component Unit School Board
2019	$ 4,900	$ 371,963
2020	1,633	-
Total	$ 6,533	$ 371,963

Note 12. Basic and Police Pension Plans

The City administers two pension plans. Fiduciary information for these plans as of June 30, 2018 is provided in Note 17. The net pension liability is based on a measurement date of June 30, 2017 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.

Note 12. Basic and Police Pension Plans (Continued)

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, 2017 were as follows:

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

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 2018 and 2017, the total contributions rate was 8.29% and 7.54% 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 22.11% and 23.01% for 2018 and 2017, 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, 2018 and 2017 amounted to $1,257,788 and $1,160,820, 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 8.29% and 7.68% of covered payroll for the years 2018 and 2017, respectively.

Total employer contributions to the Police Pension Plan for the years ended June 30, 2018 and 2017 amounted to $673,820 and $600,676, 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 22.11% and 23.01% of covered payroll for the years 2018 and 2017, respectively.

(Continued)

Note 12. Basic and Police Pension Plans (Continued)

Investments

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.

As of the June 30, 2017 actuarial valuation, the return on the actuarial value of assets was 7.00% for both the Basic and Police Plans, respectively.

Actuarial Assumptions

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

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

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.

(Continued)

Note 12. Basic and Police Pension Plans (Continued)

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

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability/ (Asset) (a) – (b)**
Balances at June 30, 2016	$ 88,526,868	$ 89,242,069	$ (715,201)
Changes for the year:			
Service cost	1,597,442	-	1,597,442
Interest	6,139,726	-	6,139,726
Differences between expected and actual experience	(1,068,167)	-	(1,068,167)
Changes in assumptions	(1,009,938)	-	(1,009,938)
Contributions – employer	-	1,160,820	(1,160,820)
Contributions – employee	-	755,822	(755,822)
Net investment income	-	13,427,809	(13,427,809)
Benefit payments	(4,827,875)	(4,827,875)	-
Administrative expenses	-	(70,173)	70,173
Net changes	831,188	10,446,403	(9,615,215)
Balances at June 30, 2017	$ 89,358,056	$ 99,688,472	$ (10,330,416)

(Continued)

Note 12. Basic and Police Pension Plans (Continued)

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

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability/ (Asset) (a) – (b)**
Balances at June 30, 2016	$ 26,583,851	$ 26,876,165	$ (292,314)
Changes for the year:			
Service cost	647,878	-	647,878
Interest	1,869,430	-	1,869,430
Differences between expected and actual experience	(140,892)	-	(140,892)
Change in assumptions	(287,168)	-	(287,168)
Contributions – employer	-	600,676	(600,676)
Contributions – employee	-	296,901	(296,901)
Net investment income	-	4,019,100	(4,019,100)
Benefit payments	(1,051,184)	(1,051,184)	-
Administrative expenses	-	(21,978)	21,978
Net changes	1,038,064	3,843,515	(2,805,451)
Balances at June 30, 2017	$ 27,621,915	$ 30,719,680	$ (3,097,765)

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

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

For the year ended June 30, 2018, pension expense (income) was $(118,761) and $348,521 for the Basic and Police Plans, respectively. At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to the Plans arose from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Basic Plan:		
Differences between expected and actual experience	$ -	$ 910,569
Change in assumptions	1,051,847	673,292
Net difference between projected and actual earnings on pension plan investments	-	2,498,482
Change in proportion during measurement period	49,160	49,160
Contribution difference	6,783	6,783
Employer contributions subsequent to the measurement date	1,257,788	-
	$ 2,365,578	$ 4,138,286

Note 12. Basic and Police Pension Plans (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Police Plan:		
Differences between expected and actual experience	$ 51,565	$ 167,972
Change in assumptions	629,723	229,734
Net difference between projected and actual earnings on pension plan investments	-	743,529
Employer contributions subsequent to the measurement date	673,820	-
	$ 1,355,108	$ 1,141,235

Employer contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2019. 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 to Pension Expense	
	Basic	Police
2019	$ (851,441)	$ (18,573)
2020	(419,830)	114,924
2021	(302,536)	(41,924)
2022	(1,456,689)	(514,374)
Thereafter	-	-

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

	City	Schools
Retirees and beneficiaries	178	44
Terminated vested members	63	16
Active members	193	48
Total	434	108

Contributions

Total contributions to the basic pension plan for the year ended June 30, 2018 amounted to $883,450 for the City and $258,101 for the Schools. Contributions made by the City and Schools represent 8.05% and 8.92% of covered payroll for the year, respectively.

Changes in Net Pension Liability/(Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability/ (Asset) (a) – (b)**
Basic Plan - City			
Balances at June 30, 2016	$ 64,517,659	$ 65,038,454	$ (520,795)
Changes for the year:			
Service cost	1,163,225	-	1,163,225
Interest	4,470,826	-	4,470,826
Differences between expected and actual experience	(777,818)	-	(777,818)
Changes to assumptions	(735,417)	-	(735,417)
Contributions – employer	-	852,847	(852,847)
Contributions – employee	-	550,374	(550,374)
Net investment income	-	9,805,995	(9,805,995)
Benefit payments, including refunds of employee contributions	(3,515,561)	(3,515,561)	-
Administrative expenses	-	(51,099)	51,099
Net changes	605,255	7,642,556	(7,037,301)
Balances at June 30, 2017	$ 65,122,914	$ 72,681,010	$ (7,558,096)

(Continued)

Note 13. Allocation of Basic Pension Plan (Continued)

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

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) – (b)**
Basic Plan - Schools			
Balances at June 30, 2016	$ 16,244,900	$ 16,372,754	$ (127,854)
Changes for the year:			
Service cost	285,568	-	285,568
Interest	1,097,574	-	1,097,574
Differences between expected and actual experience	(190,952)	-	(190,952)
Changes in assumptions	(180,543)	-	(180,543)
Contributions – employer	-	206,553	(206,553)
Contributions – employee	-	135,115	(135,115)
Net investment income	-	2,427,777	(2,427,777)
Benefit payments, including refunds of employee contributions	(863,060)	(863,060)	-
Administrative expenses	-	(12,545)	12,545
Net changes	148,587	1,893,840	(1,745,253)
Balances at June 30, 2017	$ 16,393,487	$ 18,266,594	$ (1,873,107)

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, 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%
Basic Plan - City			
Net pension liability (asset)	$ 291,846	$ (7,558,096)	$ (14,101,759)
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.6%	111.6%	124.0%
Basic Plan - Schools			
Net pension liability (asset)	$ 72,327	$ (1,873,107)	$ (3,494,809)
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.6%	111.6%	124.0%

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

For the year ended June 30, 2018, the City and Schools recognized pension expense (income) of $(485,113) and $408,541, respectively. At June 30, 2018, the City and Schools reported deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

	Deferred Outflows of Resources		**Deferred Inflows of Resources**	
	City	Schools	City	Schools
Differences between expected and actual experience	$ -	$ -	$ 666,204	$ 165,104
Change in assumptions	769,569	190,720	492,604	122,081
Change in proportion	5,527	19,515	37,245	10,248
Contribution difference	6,533	-	677	4,837
Investment differences	-	-	1,827,977	453,024
Employer contributions subsequent to the measurement date	883,450	258,101	-	-
	$ 1,665,079	$ 468,336	$ 3,024,707	$ 755,294

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, 2019. 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
2019	$ (643,055)	$ (143,522)
2020	(312,912)	(82,555)
2021	(221,346)	(54,856)
2022	(1,065,765)	(264,126)
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 multi-employer agent plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

Plan Description (Continued)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are 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 and have not taken a refund.

- **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. 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)

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%.
- **Normal Retirement Age –** Age 65
- **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.
- **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.
- **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.

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.
- **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. 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.
- **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.
- **Normal Retirement Age –** Normal Social Security retirement age.

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

Plan Description (Continued)

Plan 2 (Continued)

- **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.
- **Earliest Reduced Retirement Eligibility –** Age 60 with at least five years (60 months) of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
  - **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.

(Continued)

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 credible 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 credible 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.

(Continued)

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

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

Plan Description (Continued)

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.
  - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Inactive members or their beneficiaries currently receiving benefits	13
Inactive members:	
Vested inactive members	4
Non-vested inactive members	6
Inactive members active elsewhere in VRS	4
Total inactive members	14
Active members	19
Total covered employees	46

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, 2018 was 1.45% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016.

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 $19,111 and $20,809 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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, 2016, 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, 2017.

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

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 – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

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: (See Next Page)

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

Long-Term Expected Rate of Return (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.30 %

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

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, 2019, 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, 2019 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.

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

Changes in Net Pension Liability/(Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension (Asset) (a) – (b)**
Balances at June 30, 2016	$ 4,507,222	$ 4,931,565	$ (424,343)
Changes for the year:			
Service cost	113,858	-	113,858
Interest	307,203	-	307,203
Change of assumptions	(99,592)	-	(99,592)
Differences between expected and actual experience	(33,717)	-	(33,717)
Contributions – employer	-	20,809	(20,809)
Contributions – employee	-	65,328	(65,328)
Net investment income	-	595,283	(595,283)
Benefit payments, including refunds of employee contributions	(237,225)	(237,225)	-
Administrative expenses	-	(3,521)	3,521
Other changes	-	(525)	525
Net changes	50,527	440,149	(389,622)
Balances at June 30, 2017	$ 4,557,749	$ 5,371,714	$ (813,965)

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, 2017 using the discount rate of 7.00%, as well as what the political subdivision's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	**Current Discount Rate (7.00%)**	**1.00% Increase (8.00%)**
Political subdivision's net pension liability (asset)	$ (313,787)	$ (813,965)	$ (1,238,494)

(Continued)

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, 2018, the political subdivision recognized pension expense of $31,239. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 69,712	$ 20,390
Changes in assumptions	-	60,228
Net difference between projected and actual earnings on pension plan investments	-	77,806
Employer contributions subsequent to the measurement date	19,111	-
Total	$ 88,823	$ 158,424

The $19,111 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2019	$ (32,386)
2020	(5,300)
2021	73
2022	(51,099)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(Continued)

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 multiple employer, cost sharing 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. Each school division's contractually required contribution rate for the year ended June 30, 2018 was 16.32% 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 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. Contributions to the pension plan from the school division were $4,094,000 and $3,654,087 for the years ended June 30, 2018 and June 30, 2017, respectively.

(Continued)

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, 2018, the school division reported a liability of $39,492,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was 0.32112% as compared to 0.32455% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of $4,142,000. 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, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,796,000
Change of assumptions	576,000	-
Net difference between projected and actual earnings on pension plan investments	-	1,435,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	2,896,000	385,000
Employer contributions subsequent to the measurement date	4,094,000	-
Total	$ 7,566,000	$ 4,616,000

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 $4,094,000 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2019	$ (323,000)
2020	904,000
2021	(147,000)
2022	(1,384,000)
2023	(194,000)

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, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	$ 45,417,520
Plan Fiduciary Net Position	33,119,545
Employers' Net Pension Liability (Asset)	$ 12,297,975
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.92%

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

General Information about the Teacher Cost Sharing Plan (Continued)

Net Pension Liability

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	$ 58,974,000	$ 39,492,000	$ 23,376,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf,, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2018, approximately $305,000 was payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

Note 16. Summary of Pension Elements

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

	Governmental Activities	Business-Type Activities	Total Primary Government	School Board
Net pension asset				
Basic Pension Plan	$ 7,048,370	$ 509,726	$ 7,558,096	$ 1,873,107
Police Pension Plan	3,097,765	-	3,097,765	-
VRS – Constitutional Officers	813,965	-	813,965	-
Total net pension asset	$ 10,960,100	$ 509,726	$ 11,469,826	$ 1,873,107
Deferred outflows of resources				
Change in assumptions –				
Basic Pension Plan	$ 717,668	$ 51,901	$ 769,569	$ 190,720
Police Pension Plan	629,723	-	629,723	-
VRS – Teacher Cost Sharing Pool	-	-	-	576,000
Differences between expected and actual experience –				
Police Pension Plan	51,565	-	51,565	-
VRS – Constitutional Officers	69,712	-	69,712	-
Contribution difference – Basic Pension Plan	6,358	175	6,533	-
Change in proportion –				
Basic Pension Plan	-	5,527	5,527	19,515
VRS – Teacher Cost Sharing Pool	-	-	-	2,896,000
Pension contributions subsequent to measurement date-				
Basic Pension Plan	829,207	54,243	883,450	258,101
Police Pension Plan	673,820	-	673,820	-
VRS – Constitutional Officers	19,111	-	19,111	-
VRS – Teacher Cost Sharing Pool	-	-	-	4,094,000
Total deferred outflows of resources	$ 2,997,164	$ 111,846	$ 3,109,010	$ 8,034,336
Net pension liability				
VRS – Teacher Cost Sharing Pool	$ -	$ -	$ -	$ 39,492,000
Deferred inflows of resources				
Differences between expected and actual experience –				
Basic Pension Plan	$ 621,275	$ 44,929	$ 666,204	$ 165,104
Police Pension Plan	167,972	-	167,972	-
VRS – Constitutional Officers	20,390	-	20,390	-
VRS – Teacher Cost Sharing Pool	-	-	-	2,796,000
Change in assumptions –				
Basic Pension Plan	459,382	33,222	492,604	122,081
Police Pension Plan	229,734	-	229,734	-
VRS – Constitutional Officers	60,228	-	60,228	-
Net difference between projected and actual earnings on plan investments -				
Basic Pension Plan	1,704,696	123,281	1,827,977	453,024
Police Pension Plan	743,529	-	743,529	-
VRS – Constitutional Officers	77,806	-	77,806	-
VRS – Teacher Cost Sharing Pool	-	-	-	1,435,000
Contribution difference – Basic Pension Plan	-	677	677	4,837
Change in proportion –				
Basic Pension Plan	37,245		37,245	10,248
VRS – Teacher Cost Sharing Pool	-	-	-	385,000
Total deferred inflows of resources	$ 4,122,257	$ 202,109	$ 4,324,366	$ 5,371,294

(Continued)

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, 2018 are based on a pension plan measurement date of June 30, 2017. 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, 2017 measurement date. Therefore, all amounts summarized in Note 16 – Summary of Pension Elements, are based on a measurement date of June 30, 2017.

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, 2018, 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, 2018.

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, 2018, the date of the most recent valuation, were as follows:

	Basic	Police
Retirees and beneficiaries	252	31
Terminated vested members	85	10
Active members	261	34
Total	598	75

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

Contributions

For 2018, the total contribution rate was 8.29% of annual covered payroll for the Basic Pension Plan, with employees contributing 5.0% and the City contributing 8.29%. The total contribution rate was 22.11% for the Police Pension Plan, with employees contributing 7.0% and the City contributing 22.11%. Other contribution information for 2018 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:

Investment	Market Value	Percent of Net Position
MFS Growth (US Bank)	$23,037,041	20.97%
MFS International Growth Fund (US Bank)	$9,179,400	8.36%
TIF International Equity Series	$8,575,774	7.81%
Northern Trust Collective Intermediate Government Credit Bond Index Fund – Lending	$6,754,209	6.15%
Northern Trust Collective Aggregate Bond Index Fund – Lending Tier H	$6,748,557	6.14%
Principal MidCap (I)	$6,266,534	5.70%
Lazard Global (US Bank)	$6,144,733	5.59%

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

Investment	Market Value	Percent of Net Position
MFS Growth (US Bank)	$7,416,961	21.49%
TIF International Equity Series	$2,769,673	8.03%
MFS International Growth Fund (US Bank)	$2,725,878	7.90%
Northern Trust Collective Aggregate Bond Index Fund – Lending Tier H	$2,019,453	5.85%
Principal MidCap (I)	$2,001,501	5.80%
Northern Trust Collective Intermediate Government Credit Bond Index Fund – Lending	$1,855,509	5.38%

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 13.79 percent for the basic plan and 13.71 percent for the police plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 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, 2018, were as follows:

	Basic	Police
Total pension liability	$ 92,558,253	$ 28,540,996
Plan fiduciary net position	109,837,308	34,502,151
Plan's net pension asset	$ (17,279,055)	$ (5,961,155)
Plan fiduciary net position as a percentage of the total pension liability	118.7%	120.9%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following relevant actuarial information:

	Basic	Police
Actuarial valuation date	June 30, 2016	June 30, 2016
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 and Police Plans use the RP-2014 (adjusted back to 2006 with scale MP-2014) Generationally Projected with Scale MP-2015.

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

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

Note 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, 2018, calculated using the discount rate of 7.00%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Basic Plan			
Net pension liability (asset)	$ (6,334,289)	$ (17,279,055)	$ (26,421,480)
Plan fiduciary net position as a percentage of the total pension liability	106.1%	118.7%	131.7%
Police Plan			
Net pension liability (asset)	$ (2,312,914)	$ (5,961,156)	$ (8,988,802)
Plan fiduciary net position as a percentage of the total pension liability	107.2%	120.9%	135.2%

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the City also participates in various cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp.

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Plan Descriptions (Continued)

Teacher Employee Health Insurance Credit Program

All full time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit (HIC) Program. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

Specific information about the Teacher HIC is available at
https://www.varetire.org/retirees/insurance/healthinscredit/index.asp

The GLI and Teacher HIC are administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Both of these plans are considered multiple employer, cost sharing plans.

Line of Duty Act Program

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the VRS are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the VRS is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in 2012. The employer contributions are determined by the VRS actuary using anticipated program costs and the number of covered individuals associated with all participating employers. The LODA is considered a multiple employer, cost sharing plan.

Specific information about the LODA is available at https://www.valoda.org/.

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2018 Contribution- City	$7,000
June 30, 2017 Contribution- City	$6,292
June 30, 2018 Contribution- Schools	$135,000
June 30, 2017 Contribution- Schools	$119,509

Teacher Health Insurance Credit Program

Governed by:	*Code of Virginia* 51.1-1401(E) and may be impacted as a result of funding provided to school divisions by the Virginia General Assembly.
Total rate:	1.23% of covered employee compensation.
June 30, 2018 Contribution	$317,000
June 30, 2017 Contribution	$262,303

Line of Duty Act Program

Governed by:	*Code of Virginia* 9-1-400.1 and may be impacted as a result of funding provided to governmental agencies by the Virginia General Assembly.
Total rate:	$567.37 per covered full-time-equivalent employee. Based on pay-as-you-go funding rate.
June 30, 2018 Contribution	$34,000
June 30, 2017 Contribution	$26,980

(Continued)

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liabilities were measured as of June 30, 2017 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities, except for LODA, were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. LODA proportion was determined based on pay-as-you-go employer contributions instead of actuarially determined contributions.

Group Life Insurance Program- City

June 30, 2018 proportionate share of liability	$112,000
June 30, 2017 proportion	0.00740 %
June 30, 2016 proportion	0.00729 %
June 30, 2018 expense	$3,000

Group Life Insurance Program- Schools

June 30, 2018 proportionate share of liability	$2,086,000
June 30, 2017 proportion	0.13863 %
June 30, 2016 proportion	0.13855 %
June 30, 2018 expense	$24,000

Teacher Health Insurance Credit Program

June 30, 2018 proportionate share of liability	$4,089,000
June 30, 2017 proportion	0.32236 %
June 30, 2016 proportion	0.32453 %
June 30, 2018 expense	$329,000

Line of Duty Act Program

June 30, 2018 proportionate share of liability	$764,000
June 30, 2017 proportion	0.29065 %
June 30, 2016 proportion	0.27652 %
June 30, 2018 expense	$71,000

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program- City

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,000
Change in assumptions	-	6,000
Net difference between projected and actual earnings on OPEB plan investments	-	4,000
Employer contributions subsequent to the measurement date	7,000	-
Total	$ 7,000	$ 12,000

Group Life Insurance Program- Schools

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 46,000
Change in assumptions	-	107,000
Net difference between projected and actual earnings on OPEB plan investments	-	79,000
Employer contributions subsequent to the measurement date	135,000	-
Total	$ 135,000	$ 232,000

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

Teacher Health Insurance Credit Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 42,000
Net difference between projected and actual earnings on OPEB plan investments	-	7,000
Changes in proportion and contribution differences	-	24,000
Employer contributions subsequent to the measurement date	317,000	-
Total	$ 317,000	$ 73,000

Line of Duty Act Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 79,000
Net difference between projected and actual earnings on OPEB plan investments	-	1,000
Changes in proportion and contribution differences	35,000	-
Employer contributions subsequent to the measurement date	34,000	-
Total	$ 69,000	$ 80,000

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

The deferred outflows of resources related to OPEB resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program- City

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (3,000)
2020	(3,000)
2021	(3,000)
2022	(3,000)
2023	-
Thereafter	-

Group Life Insurance Program- Schools

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (48,000)
2020	(48,000)
2021	(48,000)
2022	(48,000)
2023	(28,000)
Thereafter	(12,000)

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

Teacher Health Insurance Credit Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (12,000)
2020	(12,000)
2021	(12,000)
2022	(12,000)
2023	(9,000)
Thereafter	(16,000)

Line of Duty Act Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (5,647)
2020	(5,647)
2021	(5,647)
2022	(5,650)
2023	(5,467)
Thereafter	(16,942)

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2016, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

Inflation	2.5%
Salary increases, including inflation:	
• Locality- general employees	3.5 – 5.35%
• Locality – hazardous duty employees	
• Teachers	3.5 – 4.75%
	3.5 – 5.95%
Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation*	GLI & HIC: 7.0%; LODA 3.56%

* 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 percent above. However, since the difference was minimal, and a more conservative 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 the percent noted above to simplify preparation of OPEB liabilities.

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 14.

Changes to LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

Changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes, available at https://www.vml.org/wpcontent/uploads/2017/06/SummaryChangesHB1345_LODA02.12.16.pdf and https://www.varetire.org/pdf/publications/legislative-summary-2017.pdf , will be factored into future actuarial valuations for the LODA Program.

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program	Teacher Employee HIC OPEB Plan	Line of Duty Act Program
Total OPEB Liability	$ 2,942,426	$ 1,364,702	$ 266,252
Plan fiduciary net position	1,437,586	96,091	3,461
Employers' net OPEB liability (asset)	$ 1,504,840	$ 1,268,611	$ 262,791
Plan fiduciary net position as a percentage of total OPEB liability	48.86%	7.04%	1.30%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Long-Term Expected Rate of Return

Group Life Insurance and Health Insurance Credit Programs

The long-term expected rate of return on VRS 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 OPEB investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
		Inflation	2.50 %
		*Expected arithmetic nominal return	7.30 %

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Long-Term Expected Rate of Return (Continued)

Line of Duty Act Program

The long-term expected rate of return on the LODA Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS pooled investments 7.00% assumption noted above. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. The Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 3017.

Discount Rate

The discount rate used to measure the GLI and HIC OPEB liabilities was 7.00%. The discount rate used to measure the LODA OPEB liability was 3.56% The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance 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, 2019, the rate contributed by the employer for the OPEB liabilties will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' 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 OPEB liability.

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

The following presents the net OPEB liabilities of the City , as well as what the City's net OPEB liabilities would be if it were calculated using a discount rate that is one percentage point lower (6.00% HIC; GLI/2.56% LODA) or one percentage point higher (8.00% HIC; GLI/4.56% LODA) than the current discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability- City	$ 144,000	$ 112,000	$ 85,000
GLI Net OPEB liability- Schools	$ 2,698,000	$ 2,086,000	$ 1,590,000
Teacher HIC Net OPEB liability	$ 4,564,000	$ 4,089,000	$ 3,686,000
	(2.56 %)	(3.56 %)	(4.56 %)
LODA Net OPEB liability	$ 866,000	$ 764,000	$ 678,000

(Continued)

Note 18. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Sensitivity of the LODA Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

Because the Line of Duty Act Program (LODA) contains provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the LODA net OPEB liability of the City using health care trend rate of 7.75% decreasing to 5.00%, as well as what the City's LODA net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current healthcare cost trend rates:

	1.00% Decrease (6.75% decreasing to 4.00%)	Current Healthcare Cost Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
Net LODA OPEB liability	$ 648,000	$ 764,000	$ 907,000

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2018, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

- Group Life Insurance $32,000
- Teacher Employee Health Insurance Credit $30,000

Note 19. Other Post-employment Benefits- Local Plan

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. Two irrevocable trust funds were established in 2007 by action of City Council for purposes of 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.

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 July 1, 2016, the date of the latest actuarial valuation:

	City	Schools
Retirees with medical or life insurance	180	71
Active members	215	444
Total	395	515

Net OPEB Liability

The City's total net OPEB liability of $1,552,360 and the School's net OPEB asset of $1,271,836 were measured as of June 30, 2017 and were determined by an actuarial valuation performed as of July 1, 2016.

Note 19. Other Post-employment Benefits- Local Plan (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

	City and Schools
Actuarial valuation date	July 1, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay Closed
Remaining Amortization period	22 years
Asset valuation method	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	5.00% - 7.00%

Long-Term Expected Rate of Return

The most recent actuarial valuation of July 1, 2016 showed that the projected assets are expected to cover future benefit payments for current participants and as such, the single rate used as the discount rate is the long-term expected rate of return at 7.00%.

Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that City and School contributions will be made at rates equal to the actuarially determined contribution rates. 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 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 OPEB liability.

Note 19. Other Post-employment Benefits- Local Plan (Continued)

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	**Plan Fiduciary Net Position (b)**	**Net OPEB Liability (a) – (b)**
City Plan			
Balances at June 30, 2016	$ 8,375,422	$ 5,858,637	$ 2,516,785
Changes for the year:			
Service cost	182,271	-	182,271
Interest	573,368	-	573,368
Contributions – employer	-	805,464	(805,464)
Net investment income	-	926,085	(926,085)
Benefit payments	(557,510)	(557,510)	-
Administrative expenses	-	(11,484)	11,484
Net changes	198,129	1,162,555	(964,426)
Balances at June 30, 2017	$ 8,573,551	$ 7,021,192	$ 1,552,359

	Increase (Decrease)		
	Total OPEB Liability (a)	**Plan Fiduciary Net Position (b)**	**Net OPEB Liability (a) – (b)**
School Plan			
Balances at June 30, 2016	$ 3,341,441	$ 3,937,463	$ (596,022)
Changes for the year:			
Service cost	161,195	-	161,195
Interest	234,724	-	234,724
Contributions – employer	-	510,079	(510,079)
Net investment income	-	569,574	(569,574)
Benefit payments	(137,285)	(137,285)	-
Administrative expenses	-	(7,920)	7,920
Net changes	258,634	934,448	(675,814)
Balances at June 30, 2017	$ 3,600,075	$ 4,871,911	$ (1,271,836)

(Continued)

Note 19. Other Post-employment Benefits- Local Plan (Continued)

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

The following presents the net OPEB liability of the City and School, as well as what the net OPEB 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 discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Net OPEB liability- City	$ 2,476,793	$ 1,552,359	$ 776,146
Net OPEB liability- Schools	(756,387)	(1,271,836)	(1,692,286)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City and Schools, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.00% Decrease	Current Healthcare Cost Trend Rates	1.00% Increase
Net OPEB liability- City	$ 783,339	$ 1,552,359	$ 2,448,481
Net OPEB liability- Schools	(1,689,178)	(1,271,836)	(769,985)

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in Note 21.

Note 19. Other Post-employment Benefits- Local Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City and Schools recognized OPEB expense of $247,314 and $59,383, respectively. At June 30, 2018, the City and Schools reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	City	Schools	City	Schools
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ -	$ 406,275	$ 225,118
Employer contributions subsequent to the measurement date	584,118	225,027	-	-
	$ 584,118	$ 225,027	$ 406,275	$ 225,118

Employer contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the year ending June 30, 2019. 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	
	City	Schools
2019	$ (101,569)	$ (56,279)
2020	(101,569)	(56,279)
2021	(101,569)	(56,279)
2022	(101,568)	(56,281)
Thereafter	-	-

Note 20. Summary of Other Postemployment Benefits Elements

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

	Governmental Activities	Business-Type Activities	Total Primary Government	School Board
Net OPEB asset				
Local Plan	$ -	$ -	$ -	$ 1,271,836
Total net OPEB asset	$ -	$ -	$ -	$ 1,271,836
Deferred outflows of resources				
Change in proportion –				
VRS – LODA	$ 35,000	$ -	$ 35,000	$ -
OPEB contributions subsequent to measurement date-				
Local Plan	556,301	27,817	584,118	225,027
VRS – Group Life Insurance	7,000	-	7,000	135,000
VRS – LODA	34,000	-	34,000	-
VRS – Teacher Health Insurance Credit	-	-	-	317,000
Total deferred outflows of resources	$ 632,301	$ 27,817	$ 660,118	$ 677,027
Net OPEB liability				
Local Plan	$ 1,474,081	$ 78,278	$ 1,552,359	$ -
VRS – Group Life Insurance	112,000	-	112,000	2,086,000
VRS – LODA	764,000	-	764,000	-
VRS – Teacher Health Insurance Credit	-	-	-	4,089,000
Total net OPEB liability	$ 2,350,081	$ 78,278	$ 2,428,359	$ 6,175,000
Deferred inflows of resources				
Differences between expected and actual experience –				
VRS – Group Life Insurance	$ 2,000	$ -	$ 2,000	$ 46,000
Net difference between projected and actual earnings on plan investments -				
Local Plan	385,788	20,487	406,275	225,118
VRS – Group Life Insurance	4,000	-	4,000	79,000
VRS – LODA	1,000	-	1,000	-
VRS – Teacher Health Insurance Credit	-	-	-	7,000
Change in assumptions –				
VRS – Group Life Insurance	6,000	-	6,000	107,000
VRS – LODA	79,000	-	79,000	-
VRS – Teacher Health Insurance Credit	-	-	-	42,000
Change in proportion –				
VRS – Teacher Health Insurance Credit	-	-	-	24,000
Total deferred inflows of resources	$ 477,788	$ 20,487	$ 498,275	$ 530,118

(Continued)

Note 21. OPEB Plan – Fiduciary Information

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, 2018, the date of the most recent valuation, was as follows:

	City	Schools
Retirees and beneficiaries	278	79
Active members	188	463
Total	466	542

Contributions

For 2018, the total contribution rate was 4.13% and 0.74% of annual covered payroll for City and Schools, respectively. Other contribution information for 2018 is disclosed in Note 19.

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:

Investment	Market Value	Percent of Net Position
Large-cap Index Fund Adm (Vanguard)	$6,217,844	46.96%
Short-term Bond Index Adm (Vanguard)	$2,910,717	21.98%
Developing Markets Idx Admiral (Vanguard)	$2,245,833	16.96%
Small-cap Index Fund Adm (Vanguard)	$1,251,858	9.45%
Mid-Cap Index Fund Adm (Vanguard)	$1,213,361	9.16%

For the year ended June 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 9.37 percent for the City and Schools plans. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 21. OPEB Plan – Fiduciary Information (Continued)

Net OPEB Liability

The components of the net OPEB liability (asset) of the Plan at June 30, 2018, were as follows:

	City	Schools
Total OPEB liability	$ 8,453,707	$ 3,464,965
Plan fiduciary net position	7,795,531	5,430,498
Plan's net OPEB liability (asset)	$ 658,176	$ (1,965,533)
Plan fiduciary net position as a percentage of the total OPEB liability	92.2%	156.7%

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following relevant actuarial information:

	City and Schools
Actuarial valuation date	July 1, 2016
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Amortization method	Level Percentage of pay, closed
Amortization period	20 years
Actuarial assumptions:	
Discount rate	7.00%
Healthcare Cost Trend Rates:	
Pre-Medicare	5.00% - 9.00%
Medicare	5.00% - 6.75%

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.

Note 21. OPEB Plan – Fiduciary Information (Continued)

Sensitivity of the Net OPEB Liability (Asset)

The following presents the net OPEB liability (asset) as of June 30, 2018, 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:

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
City Plan			
Net OPEB liability (asset)	$ 1,660,977	$ 658,177	$ (175,929)
Plan fiduciary net position as a percentage of the total OPEB liability	82.4%	92.2%	102.3%
School Plan			
Net OPEB liability (asset)	$ (1,388,606)	$ (1,965,531)	$ (2,428,325)
Plan fiduciary net position as a percentage of the total OPEB liability	134.4%	156.7%	180.9%

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 or 1-percentage point higher than the current rates:

	1% Decrease	Healthcare Trend	1% Increase
City Plan			
Net OPEB liability (asset)	$ (100,545)	$ 658,177	$ 1,544,053
Plan fiduciary net position as a percentage of the total OPEB liability	101.3%	92.2%	83.5%
School Plan			
Net OPEB liability (asset)	$ (2,389,787)	$ (1,965,531)	$ (1,446,654)
Plan fiduciary net position as a percentage of the total OPEB liability	178.6%	156.7%	136.3%

Note 22. 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:l of the Code of Virginia, which says that the State shall have the right and duty to defend any suit seeking damages or compensation against the City's officials and employees on account of wrongful acts even if any of the allegations of the suits are groundless, false, or fraudulent and may make investigation and settlement of any claims or suit as deemed expedient. The limits of VA Risk2 coverage are $1,000,000 per claim.

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

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 23. 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)

Note 24. Prior Period Restatement

In the current year the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

In addition, a correction had to be made to the deferred inflows and outflows for contribution differences for the pension plans because one year of amortization was not previously captured.

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

	Governmental Activities	Sewer Fund	Storm Water Fund	School Board
Net position, June 30, 2017, as previously stated	$ 93,797,223	$ 20,806,120	$ 5,500,876	$ (31,116,161)
GASB 75 implementation	(6,185,027)	(64,185)	(50,109)	(6,383,899)
Pension allocation correction	(224,806)	10,812	15,092	134,654
Net position, June 30, 2017, as restated	$ 87,387,390	$ 20,752,747	$ 5,465,859	$ (37,365,406)

Note 25. Fund Balances

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

	General Fund	Other Governmental Funds
Nonspendable:		
Prepaids	$ 59,793	$ -
Inventories	137,720	-
Total nonspendable	197,513	-
Restricted for:		
Capital projects	678,487	19,736,272
Grants	245,201	-
Special transportation	-	152,401
Total restricted	923,689	19,888,673
Committed to:		
Capital projects	9,828,999	6,085,561
Future development costs	888,000	-
Affordable housing	-	368,685
Special transportation	594,700	2,560,883
Total committed	11,311,699	9,015,129
Assigned to:		
Subsequent years appropriations	86	-
Capital reserve	2,609,721	-
Total assigned	2,609,806	-
Unassigned	16,191,209	-
Total fund balance	$ 31,233,916	$ 28,903,803

Note 26. 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 FY2018, 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 (4) 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 FY2018, the City paid $250,000 of local tax revenues generated by the Retail Center and site with the Developer.

Note 27. Subsequent Events

On November 19, 2018, the City Council approved an interim agreement for a public-private partnership with EYA, PN Hoffman, and Regency Centers to develop an area of 10.3 acres adjacent to the George Mason High School, referred to as the West Falls Church Development. The proposed development is expected to feature retail, office space, residences, a hotel, civic spaces, and public spaces. The terms of the interim agreement include ground lease for 99 years, payments totaling $34.5 million during Phase 1 of the project, with the first payment of $6.5 million in May 2019 and $7.0 million annually from 2021 through 2024, one payment during Phase 2 of the project for the greater of $10 million or appraised value, and additional potential payments of up to $8.3 million depending on options related to the creation of a Community Development Authority and the location of the parking.

Note 28. New Accounting Standards

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

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

Note 28. New Accounting Standards (Continued)

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018.The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT 13

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILTY AND RELATED RATIOS - BASIC PENSION PLAN
For the Year Ended June 30, 2018

	Measurement Dates - Plan Year				
	June 30, 2018	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
Total Pension Liability					
Service Cost	$ 1,508,277	$ 1,597,442	$ 1,539,198	$ 1,605,981	$ 1,477,682
Interest (includes interest on service cost)	6,184,236	6,139,726	5,773,189	5,618,010	5,662,883
Differences between expected and actual experience	1,069,324	(1,068,167)	(595,377)	(523,443)	(1,621,231)
Changes of assumptions	(521,422)	(1,009,938)	3,155,541	-	4,182,659
Benefit payments, including refunds of member contributions	(5,040,218)	(4,827,875)	(4,561,229)	(4,272,618)	(5,883,600)
Net change in total pension liability	3,200,197	831,188	5,311,322	2,427,930	3,818,393
Total pension liability - beginning	89,358,056	88,526,868	83,215,546	80,787,616	76,969,223
Total pension liability - ending	$ 92,558,253	$ 89,358,056	$ 88,526,868	$ 83,215,546	$ 80,787,616
Plan fiduciary net position					
Contributions - employer	$ 1,257,789	$ 1,160,820	$ 1,972,956	$ 8,345,532	$ 4,021,770
Contributions - member	759,047	755,822	789,920	724,853	727,295
Net investment income	13,225,934	13,427,809	507,418	3,081,767	11,795,982
Benefit payments, including refunds of member contributions	(5,040,218)	(4,827,875)	(4,561,229)	(4,272,618)	(5,883,600)
Administrative expenses	(53,716)	(70,173)	(77,649)	(70,902)	(58,740)
Net change in plan fiduciary net position	10,148,836	10,446,403	(1,368,584)	7,808,632	10,602,707
Plan fiduciary net position - beginning	99,688,472	89,242,069	90,610,653	82,802,021	72,199,314
Plan fiduciary net position - ending	$ 109,837,308	$ 99,688,472	$ 89,242,069	$ 90,610,653	$ 82,802,021
Net pension liability (asset) - ending	$ (17,279,055)	$ (10,330,416)	$ (715,201)	$ (7,395,107)	$ (2,014,405)
Plan fiduciary net position as a percentage of total pension liability	118.67%	111.56%	100.81%	108.89%	102.49%
Covered employee payroll	$ 15,180,552	$ 15,111,938	$ 15,023,723	$ 15,023,723	$ 13,776,586
Net pension liability (asset) as a percentage of covered employee payroll	-113.82%	-68.36%	-4.76%	-49.22%	-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%.

EXHIBIT 14

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILTY AND RELATED RATIOS - POLICE PENSION PLAN
For the Year Ended June 30, 2018

	Measurement Dates - Plan Year				
	June 30, 2018	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
Total Pension Liability					
Service Cost	$ 644,642	$ 647,878	$ 550,412	$ 493,645	$ 451,780
Interest (includes interest on service cost)	1,939,570	1,869,430	1,727,698	1,648,907	1,596,234
Differences between expected and actual experience	(407,298)	(140,892)	85,941	(57,083)	(162,138)
Changes of assumptions	(141,013)	(287,168)	609,562	-	1,319,923
Benefit payments, including refunds of member contributions	(1,116,820)	(1,051,184)	(1,041,507)	(991,773)	(958,185)
Net change in total pension liability	919,081	1,038,064	1,932,106	1,093,696	2,247,614
Total pension liability - beginning	27,621,915	26,583,851	24,651,745	23,558,049	21,310,435
Total pension liability - ending	$ 28,540,996	$ 27,621,915	$ 26,583,851	$ 24,651,745	$ 23,558,049
Plan fiduciary net position					
Contributions - employer	$ 625,820	$ 600,676	$ 751,332	$ 3,593,989	$ 625,670
Contributions - member	198,118	296,901	250,909	177,685	166,846
Net investment income	4,092,322	4,019,100	202,768	871,317	3,316,856
Benefit payments, including refunds of member contributions	(1,116,820)	(1,051,184)	(1,041,507)	(991,773)	(958,185)
Administrative expenses	(16,969)	(21,978)	(27,185)	(22,126)	(19,151)
Net change in plan fiduciary net position	3,782,471	3,843,515	136,317	3,629,092	3,132,036
Plan fiduciary net position - beginning	30,719,680	26,876,165	26,739,848	23,110,756	19,978,720
Plan fiduciary net position - ending	$ 34,502,151	$ 30,719,680	$ 26,876,165	$ 26,739,848	$ 23,110,756
Net pension liability (asset) - ending	$ (5,961,155)	$ (3,097,765)	$ (292,314)	$ (2,088,103)	$ 447,293
Plan fiduciary net position as a percentage of total pension liability	120.89%	111.21%	101.10%	108.47%	98.10%
Covered employee payroll	$ 2,830,258	$ 2,713,990	$ 2,542,578	$ 2,542,578	$ 2,351,051
Net pension liability (asset) as a percentage of covered employee payroll	-210.62%	-114.14%	-11.50%	-82.13%	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%.

EXHIBIT 15

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILTY AND RELATED RATIOS - CONSTITUTIONAL OFFICERS PLAN
For the Year Ended June 30, 2018

	Measurement Dates - Plan Year			
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability				
Service Cost	$ 113,858	$ 115,519	$ 125,830	$ 115,154
Interest (includes interest on service cost)	307,203	273,085	255,657	239,734
Changes of assumptions	(99,592)	-	-	-
Differences between expected and actual experience	(33,717)	288,621	11,357	-
Benefit payments, including refunds of member contributions	(237,225)	(142,431)	(145,323)	(109,503)
Net change in total pension liability	50,527	534,794	247,521	245,385
Total pension liability - beginning	4,507,222	3,972,428	3,724,907	3,479,522
Total pension liability - ending	$ 4,557,749	$ 4,507,222	$ 3,972,428	$ 3,724,907
Plan fiduciary net position				
Contributions - employer	$ 20,809	$ 30,313	$ 32,780	$ 74,651
Contributions - member	65,328	66,058	59,345	59,778
Net investment income	595,283	85,110	216,702	645,679
Benefit payments, including refunds of member contributions	(237,225)	(142,431)	(145,323)	(109,503)
Administrative expenses	(3,521)	(3,080)	(3,022)	(3,389)
Other changes	(525)	-	-	-
Net change in plan fiduciary net position	440,149	35,970	160,482	667,216
Plan fiduciary net position - beginning	4,931,565	4,895,595	4,735,113	4,067,897
Plan fiduciary net position - ending	$ 5,371,714	$ 4,931,565	$ 4,895,595	$ 4,735,113
Net pension liability (asset) - ending	$ (813,965)	$ (424,343)	$ (923,167)	$ (1,010,206)
Plan fiduciary net position as a percentage of total pension liability	117.86%	109.41%	123.24%	127.12%
Covered employee payroll	$ 1,364,445	$ 1,344,074	$ 1,086,779	$ 1,196,317
Net pension liability (asset) as a percentage of covered employee payroll	-59.66%	-31.57%	-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.

EXHIBIT 16

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF PENSION CONTRIBUTIONS
For the Year Ended June 30, 2018 and Four Years Prior

Entity Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Basic Plan - Total Plan					
2018	$ 1,349,456	$ 1,257,788	$ 91,668	$ 15,180,552	8.29 %
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
Police Plan					
2018	$ 673,820	$ 673,820	$ -	$ 2,830,258	23.81 %
2017	624,490	600,676	23,814	2,713,990	22.13
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
Constitutional Officers					
2018	$ 19,111	$ 19,111	$ -	$ 1,319,818	1.45 %
2017	20,809	20,809	-	1,364,445	1.53
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

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

EXHIBIT 17

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF PENSION AND LOCAL OPEB INVESTMENT RETURNS
For the Year Ended June 30, 2018 and Four Years Prior

	Basic	Police	OPEB- City	OPEB- Schools
Annual money-weighted rate of return, net of investment expense				
June 30, 2014	16.50%	16.73%	N/A	N/A
June 30, 2015	3.69%	3.59%	N/A	N/A
June 30, 2016	0.71%	0.88%	N/A	N/A
June 30, 2017	15.16%	14.92%	13.97%	13.88%
June 30, 2018	13.79%	13.71%	9.37%	9.37%

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.

EXHIBIT 18

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY (ASSET)
June 30, 2018

Reporting Date, Year Ended June 30	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
Basic Plan - City					
2015	72.91 %	$ (1,431,672)	$ 10,420,367	(13.74) %	102.43 %
2016	71.97	(5,322,577)	10,939,965	(48.65)	108.89
2017	73.00	(520,795)	11,056,426	(4.71)	100.81
2018	73.16	(7,558,096)	10,979,441	(68.84)	111.60
Basic Plan - Schools					
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
2018	18.13	(1,873,107)	2,892,552	(64.76)	111.60
VRS Teacher Retirement Plan					
2015	0.29 %	$ 35,117,000	$ 21,122,520	166.25 %	70.88 %
2016	0.32	40,438,000	24,618,277	164.26	70.68
2017	0.32	45,483,000	25,447,924	178.73	68.28
2018	0.32	39,492,000	25,755,203	153.34	72.92

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

EXHIBIT 19

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2018

Reporting Date, Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Basic Plan - City					
2015	$ 1,874,821	$ 7,771,386	$ (5,896,565)	$ 10,427,953	74.52 %
2016	1,445,007	1,446,667	(1,660)	11,006,079	13.14
2017	835,101	852,360	(17,259)	10,876,712	7.84
2018	980,463	883,450	97,013	10,979,410	8.05
Basic Plan - Schools					
2015	$ 472,312	$ 384,313	$ 87,999	$ 2,723,691	14.11 %
2016	352,614	346,038	6,576	2,685,731	12.88
2017	218,122	206,553	11,569	2,840,908	7.27
2018	258,305	258,101	204	2,892,548	8.92
VRS Teacher Retirement Plan					
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	3,654,087	3,654,087	-	25,447,924	14.36
2018	4,094,000	4,094,000	-	25,755,203	15.90

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.

EXHIBIT 20

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILTY AND RELATED RATIOS- CITY LOCAL PLAN
For the Year Ended June 30, 2018

	Measurement Dates - Plan Year	
	June 30, 2018	June 30, 2017
Total OPEB Liability		
Service Cost	$ 187,579	$ 182,271
Interest (includes interest on service cost)	586,842	573,368
Differences between expected and actual experience	(392,413)	-
Changes of assumptions	72,449	-
Benefit payments, including refunds of member contributions	(574,301)	(557,510)
Net change in total OPEB liability	(119,844)	198,129
Total OPEB liability - beginning	8,573,551	8,375,422
Total OPEB liability - ending	$ 8,453,707	$ 8,573,551
Plan fiduciary net position		
Contributions - employer	$ 584,118	$ 805,464
Net investment income	766,243	926,085
Benefit payments, including refunds of member contributions	(574,301)	(557,510)
Administrative expenses	(1,721)	(11,485)
Net change in plan fiduciary net position	774,339	1,162,554
Plan fiduciary net position - beginning	7,021,191	5,858,637
Plan fiduciary net position - ending	$ 7,795,530	$ 7,021,191
Net OPEB liability - ending	$ 658,177	$ 1,552,360
Plan fiduciary net position as a percentage of total OPEB liability	92.21%	81.89%
Covered employee payroll	$ 14,139,703	$ 13,970,500
Net OPEB liability (asset) as a percentage of covered employee payroll	4.65%	11.11%

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.

EXHIBIT 21

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILTY AND RELATED RATIOS- SCHOOL LOCAL PLAN
For the Year Ended June 30, 2018

	Measurement Dates - Plan Year	
	June 30, 2018	June 30, 2017
Total OPEB Liability		
Service Cost	$ 199,960	$ 161,195
Interest (includes interest on service cost)	253,991	234,724
Differences between expected and actual experience	(510,811)	-
Changes of assumptions	63,998	-
Benefit payments, including refunds of member contributions	(142,248)	(137,285)
Net change in total OPEB liability	(135,110)	258,634
Total OPEB liability - beginning	3,600,075	3,341,441
Total OPEB liability - ending	$ 3,464,965	$ 3,600,075
Plan fiduciary net position		
Contributions - employer	$ 225,027	$ 510,079
Net investment income	476,993	569,574
Benefit payments, including refunds of member contributions	(142,248)	(137,285)
Administrative expenses	(1,187)	(7,920)
Net change in plan fiduciary net position	558,585	934,448
Plan fiduciary net position - beginning	4,871,911	3,937,463
Plan fiduciary net position - ending	$ 5,430,496	$ 4,871,911
Net OPEB liability - ending	$ (1,965,531)	$ (1,271,836)
Plan fiduciary net position as a percentage of total OPEB liability	156.73%	135.33%
Covered employee payroll	$ 30,279,015	$ 29,036,463
Net OPEB liability (asset) as a percentage of covered employee payroll	-6.49%	-4.38%

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.

EXHIBIT 22

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS- LOCAL PLANS
For the Year Ended June 30, 2018 and One Year Prior

Entity Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
OPEB Plan- City					
2018	$ 400,842	$ 584,118	$ (183,276)	$ 14,139,703	4.13
2017	754,906	805,464	(50,558)	13,970,500	5.77 %
OPEB Plan- Schools					
2018	$ 123,595	$ 225,027	$ (101,432)	$ 30,279,015	0.74
2017	486,812	510,079	(23,267)	29,036,463	1.76 %

Schedule is intended to show information for 10 years. Since 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.

EXHIBIT 23

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY- COST SHARING PLANS
June 30, 2018

Entity Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Health Insurance Credit - Teachers					
2018	0.32%	$ 4,089,000	$ 25,755,203	15.88%	7.04%
Virginia Retirement System - Group Life Insurance - General Employees					
2018	0.01%	112,000	1,320,064	8.48%	48.86%
Virginia Retirement System - Group Life Insurance - Schools					
2018	0.14%	2,086,000	25,756,084	8.10%	48.86%
Virginia Retirement System - Line of Duty Act					
2018	0.29%	764,000	3,667,341	20.83%	1.30%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only one year of data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year.

EXHIBIT 24

CITY OF FALLS CHURCH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS- COST SHARING PLANS
June 30, 2018

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Health Insurance Credit - Teachers					
2018	317,000	317,000	-	25,755,203	1.23%
Virginia Retirement System - Group Life Insurance - General Employees					
2018	7,000	7,000	-	1,320,064	0.53%
Virginia Retirement System - Group Life Insurance - Schools					
2018	135,000	135,000	-	25,756,084	0.52%
Virginia Retirement System - Line of Duty Act					
2018	34,000	34,000	-	3,667,341	0.93%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only one year of data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

EXHIBIT 25

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, 2018

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
General property taxes	$ 58,584,900	$ 58,584,900	$ 59,073,580	$ 488,680
Other local taxes	16,353,750	16,353,750	16,920,210	566,460
Permits, privilege fees, and regulatory licenses	1,492,346	1,492,346	1,264,495	(227,851)
Fines and forfeitures	652,100	652,100	514,936	(137,164)
Use of money and property	290,000	290,000	722,095	432,095
Charges for services	3,218,296	3,218,296	3,357,278	138,982
Miscellaneous	59,000	29,000	76,623	47,623
Gifts and contributions	(16,570)	62,080	80,013	17,933
Recovered costs	322,600	322,600	319,362	(3,238)
Intergovernmental				
Commonwealth	4,139,552	5,259,205	4,692,348	(566,857)
Federal	354,671	368,275	384,949	16,674
Total revenues	85,450,645	86,632,552	87,405,889	773,337
EXPENDITURES				
Current:				
Clerk of Court	41,543	41,543	33,925	7,618
Commission of Revenue	787,914	787,914	763,563	24,351
Development services	2,305,032	2,490,032	2,284,311	205,721
Executive management	3,467,259	3,486,000	3,252,049	233,951
Finance	1,501,656	1,501,656	1,484,780	16,876
Human services	3,768,170	4,078,170	4,054,564	23,606
Legislative	1,104,630	1,102,183	1,048,274	53,909
Library services	2,090,714	2,118,714	2,099,269	19,445
Public safety	9,438,948	9,714,485	9,743,852	(29,367)
Public works	6,064,911	7,190,483	6,302,828	887,655
Recreation and parks	3,200,044	3,214,262	3,205,453	8,809
Registrar	303,319	303,319	301,538	1,781
Sheriff	1,466,671	1,480,275	1,359,057	121,218
Treasurer	580,280	580,280	556,785	23,495
Non-departmental	48,679,168	48,889,167	48,885,473	3,694
Total expenditures	84,800,259	86,978,483	85,375,721	1,602,762
Excess (deficiency) of revenues over expenditures	650,386	(345,931)	2,030,168	2,376,099
OTHER FINANCING SOURCES (USES)				
Premiums from issuance of bonds	269,000	479,000	467,751	(11,249)
Proceeds from sale of capital assets	-	114,000	136,001	22,001
Transfers in	1,114,567	1,120,567	1,114,567	(6,000)
Transfers out	(1,433,953)	(1,937,953)	(1,937,953)	-
Total other financing sources (uses)	(50,386)	(224,386)	(219,634)	4,752
Net change in fund balance	$ 600,000	$ (570,317)	$ 1,810,534	$ 2,380,851

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

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

Pension

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, 2018 are not material.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Note 3. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:
- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

(Continued)

Note 3. Changes of Assumptions (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

Teacher cost-sharing pool

- Update mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

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OTHER SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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.

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SCHEDULE 1

CITY OF FALLS CHURCH, VIRGINIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

	Affordable Housing	FCCTV	Totals
ASSETS			
Cash and investments	$ 294,134	$ 74,552	$ 368,686
Receivables, net	283,001	-	283,001
Due from other funds	-	6,505	6,505
Total assets	577,135	81,057	658,192
LIABILITIES			
Accounts payable and other liabilities	-	6,505	6,505
Unearned revenue	283,001	-	283,001
Total liabilities	283,001	6,505	289,506
FUND BALANCE			
Committed	294,134	74,552	368,686
Total liabilities and fund balance	$ 577,135	$ 81,057	$ 658,192

SCHEDULE 2

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	Affordable Housing	FCCTV	Total Governmental
REVENUES			
Other local taxes	$ -	$ -	$ -
Use of money and property	2,988	81	3,069
Total revenues	2,988	81	3,069
EXPENDITURES			
Current:			
General government	-	148,915	148,915
Total expenditures	-	148,915	148,915
Excess (deficiency) of revenues over expenditures	2,988	(148,834)	(145,846)
OTHER FINANCING SOURCES			
Transfers in	-	223,386	223,386
Total other financing sources	-	223,386	223,386
Net change in fund balance	2,988	74,552	77,540
FUND BALANCES AT JULY 1	291,146	-	291,146
FUND BALANCES AT JUNE 30	$ 294,134	$ 74,552	$ 368,686

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

FIDUCIARY FUNDS

Other Post-Employment Benefits Fund

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

School Board Other Post-Employment Benefits Fund

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

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SCHEDULE 3

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT TRUST FUNDS
June 30, 2018

	City	School Board	Totals
ASSETS			
Cash and cash equivalents	$ 53,241	$ 32,205	$ 85,446
Investments:			
Domestic equity securities	5,395,747	3,361,715	8,757,462
Domestic fixed income securities	1,808,750	1,126,907	2,935,657
International equity securities	1,756,066	1,094,083	2,850,149
Equity - Infrastructure	-	-	-
Total investments	8,960,563	5,582,705	14,543,268
Total assets	9,013,804	5,614,910	14,628,714
LIABILITIES			
Accounts payable	-	8,282	8,282
Due to general fund	1,218,273	176,130	1,394,403
Total liabilities	1,218,273	184,412	1,402,685
NET POSITION			
Held in trust for:			
Other post-employment benefits	7,795,531	5,430,498	13,226,029
Total net position restricted for pension post-employment benefits	$ 7,795,531	$ 5,430,498	$ 13,226,029

SCHEDULE 4

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT TRUST FUNDS
Year Ended June 30, 2018

	City	School Board	Total
ADDITIONS			
Employer contributions	$ 584,118	$ 225,027	$ 809,145
Investment earnings:			
Interest	780	472	1,252
Dividends	172,142	107,250	279,392
Net decrease in fair value of investments	599,122	373,272	972,394
Total investment earnings	772,044	480,994	1,253,038
Less investment expenses	(5,800)	(4,000)	(9,800)
Net investment earnings	766,244	476,994	1,243,238
Total additions	1,350,362	702,021	2,052,383
DEDUCTIONS			
Benefits	574,301	142,248	716,549
Administration	1,721	1,187	2,908
Total deductions	576,022	143,435	719,457
Change in net position	774,340	558,586	1,332,926
NET POSITION AT JULY 1	7,021,191	4,871,912	11,893,103
NET POSITION AT JUNE 30	$ 7,795,531	$ 5,430,498	$ 13,226,029

AGENCY FUNDS

Fairfax County Water Authority Fund

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

Northern Virginia Criminal Justice Training Academy Fund

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

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SCHEDULE 5

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2018

	Fairfax County Water Authority	Northern Virginia Criminal Justice Academy	Total
ASSETS			
Cash and cash equivalents	$ -	$ 5,340,966	$ 5,340,966
Other receivables	851,195	-	851,195
Total assets	$ 851,195	$ 5,340,966	$ 6,192,161
LIABILITIES			
Amounts held for others	$ 818,417	$ 5,317,218	$ 6,135,635
Due to general fund	32,778	23,748	56,526
Total liabilities	$ 851,195	$ 5,340,966	$ 6,192,161

SCHEDULE 6

CITY OF FALLS CHURCH, VIRGINIA

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2018

	Balances July 1, 2017	Additions	Deductions	Balances June 30, 2018
Fairfax County Water Authority				
ASSETS				
Other receivables	$ 853,618	$ -	$ 2,423	$ 851,195
Total assets	$ 853,618	$ -	$ 2,423	$ 851,195
LIABILITIES				
Amounts held for others	$ 821,250	$ -	$ 2,833	$ 818,417
Due to general fund	32,368	2,423	2,013	32,778
Total liabilities	$ 853,618	$ 2,423	$ 4,846	$ 851,195
Northern Virginia Criminal Justice Academy				
ASSETS				
Cash and cash equivalents	$ 4,740,152	$ 712,940	$ 112,126	$ 5,340,966
Total assets	$ 4,740,152	$ 712,940	$ 112,126	$ 5,340,966
LIABILITIES				
Amounts held for others	$ 4,719,940	$ 4,805,050	$ 4,207,772	$ 5,317,218
Due to general fund	20,212	4,920,712	4,917,176	23,748
Total liabilities	$ 4,740,152	$ 9,725,762	$ 9,124,948	$ 5,340,966
Totals				
ASSETS				
Cash and cash equivalents	$ 4,740,152	$ 712,940	$ 112,126	$ 5,340,966
Other receivables	853,618	-	2,423	851,195
Total assets	$ 5,593,770	$ 712,940	$ 114,549	$ 6,192,161
LIABILITIES				
Amounts held for others	$ 5,541,190	$ 4,805,050	$ 4,210,605	$ 6,135,635
Due to general fund	52,580	4,923,135	4,919,189	56,526
Total liabilities	$ 5,593,770	$ 9,728,185	$ 9,129,794	$ 6,192,161

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

Major Governmental Funds

School Operating Fund

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

School Community Service Fund

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

Nonmajor Governmental Funds

School Food Service Fund

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

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SCHEDULE 7

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	Major		Non-major	
	School Operating	School Community Service	School Food Service	Total Governmental Funds
ASSETS				
Cash and investments	$ 2,156,319	$ 1,434,224	$ 377,700	$ 3,968,243
Accounts receivable	177,084	19,469	277	196,830
Due from fiduciary funds	176,130	-	-	176,130
Due from primary government	5,306,163	92,475	-	5,398,638
Due from other governments	340,187	-	13,240	353,427
Prepaids	16,583	-	-	16,583
Total assets	$ 8,172,466	$ 1,546,168	$ 391,217	$ 10,109,851
LIABILITIES				
Accounts payable and other liabilities	$ 6,021,089	$ 133,784	$ 52,259	$ 6,207,132
Total liabilities	6,021,089	133,784	52,259	6,207,132
FUND BALANCES				
Nonspendable:				
Prepaids	16,583	-	-	16,583
Assigned:				
Education	2,134,794	1,412,384	338,958	3,886,136
Total fund balances	2,151,377	1,412,384	338,958	3,902,719
Total liabilities and fund balances	$ 8,172,466	$ 1,546,168	$ 391,217	$ 10,109,851

SCHEDULE 8

CITY OF FALLS CHURCH, VIRIGNIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total Fund Balance - Governmental Funds		$ 3,902,719
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	$ 1,461,282	
Depreciable, net	2,407,387	
		3,868,669
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.		(53,833)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows related to pensions	8,034,336	
Deferred outflows related to OPEB	677,027	
Deferred inflows related to pensions	(5,371,294)	
Deferred inflows related to OPEB	(530,118)	
Net pension asset - all plans	1,873,107	
Net pension liability - all plans	(39,492,000)	
Net OPEB asset - all plans	1,271,836	
Net OPEB liability - all plans	(6,175,000)	
		(39,712,106)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Termination benefits	(1,672,000)	
Compensated absences	(1,134,038)	
Other lease payable	(985,119)	
Capital lease payable	(233,452)	
		(4,024,609)
Total Net Position - Governmental Activities		$ (36,019,160)

SCHEDULE 9

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, 2018

	Major		Non-major	
	School Operating	School Community Service	School Food Service	Total Governmental Funds
REVENUES				
Revenue from use of money and property	$ 54,276	$ 86,365	$ 4,077	$ 144,718
Charges for services	537,395	1,566,264	685,045	2,788,704
Fines	81,775	-	-	81,775
Miscellaneous	396,145	175,380	-	571,525
Intergovernmental:				
Federal	490,621	-	70,721	561,342
Commonwealth	6,443,444	-	7,157	6,450,601
Payments from City	41,040,500	107,500	-	41,148,000
Total revenues	49,044,156	1,935,509	767,000	51,746,665
EXPENDITURES				
Current:				
Education	47,000,669	1,712,630	837,798	49,551,097
Capital outlay	815,908	128,665	25,579	970,152
Debt service:				
Principal retirement	610,378	-	-	610,378
Interest and fiscal charges	19,603	-	-	19,603
Total expenditures	48,446,558	1,841,295	863,377	51,151,230
Excess (deficiency) of revenues over expenditures	597,598	94,214	(96,377)	595,435
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	215,652	-	-	215,652
Transfers in	70,000	-	35,000	105,000
Transfers out	(35,000)	(70,000)	-	(105,000)
Total other financing sources (uses)	250,652	(70,000)	35,000	215,652
Net change in fund balance	848,250	24,214	(61,377)	811,087
FUND BALANCE AT JULY 1	1,303,127	1,388,170	400,335	3,091,632
FUND BALANCE AT JUNE 30	$ 2,151,377	$ 1,412,384	$ 338,958	$ 3,902,719

SCHEDULE 10

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, 2018

Net Change in Fund Balance - Governmental Funds		$ 811,087
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 476,214	
Depreciation expense	(420,002)	
		56,212
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Statement of Activities.		
Capital lease proceeds		(215,652)
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.		40,045
Governmental funds report employer pension and OPEB contributions as expenditures. However, in the statement of activities the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.		
Employer pension contributions	4,352,101	
Employer OPEB contributions	677,027	
Pension expense	(3,724,827)	
OPEB expense	(415,383)	
		888,918
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in termination benefits	481,000	
Change in compensated absences	(8,967)	
Acquisition of non-capitalized equipment by lease	(1,316,775)	
		(844,742)
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.		610,378
Change in Net Position - Governmental Activities		$ 1,346,246

SCHEDULE 11

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, 2018

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	$ 41,000	$ 41,000	$ 54,276	$ 13,276
Charges for services	449,700	449,700	537,395	87,695
Fines	154,800	154,800	81,775	(73,025)
Miscellaneous	593,300	593,300	396,145	(197,155)
Intergovernmental:				
Federal	553,600	553,600	490,621	(62,979)
Commonwealth	6,893,600	6,893,600	6,443,444	(450,156)
Primary government	41,040,500	41,040,500	41,040,500	-
Total revenues	49,726,500	49,726,500	49,044,156	(682,344)
EXPENDITURES				
Current:				
Education	48,896,950	48,917,689	47,000,669	1,917,020
Capital outlay	469,850	524,211	815,908	(291,697)
Debt service:				
Principal retirement	542,900	542,900	610,378	(67,478)
Interest and fiscal charges	-	-	19,603	(19,603)
Reserves	626,000	626,000	-	626,000
Total expenditures	50,535,700	50,610,800	48,446,558	2,164,242
Excess (deficiency) of revenues over expenditures	(809,200)	(884,300)	597,598	1,481,898
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	200,000	200,000	215,652	15,652
Transfers in	70,000	70,000	70,000	-
Transfers out	(35,000)	(35,000)	(35,000)	-
Total other financing sources (uses)	235,000	235,000	250,652	15,652
Net change in fund balances	$ (574,200)	$ (649,300)	$ 848,250	$ 1,497,550

SCHEDULE 12

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, 2018

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	$ 82,500	$ 82,500	$ 86,365	$ 3,865
Charges for services	1,790,920	1,790,920	1,566,264	(224,656)
Miscellaneous	176,980	176,980	175,380	(1,600)
Intergovernmental:				
Payments from City	107,500	107,500	107,500	-
Total revenues	2,157,900	2,157,900	1,935,509	(222,391)
EXPENDITURES				
Current:				
Education	2,096,900	2,096,900	1,712,630	384,270
Capital outlay	169,000	628,771	128,665	500,106
Total expenditures	2,265,900	2,725,671	1,841,295	884,376
Excess (deficiency) of revenues over expenditures	(108,000)	(567,771)	94,214	661,985
OTHER FINANCING USES				
Transfers out	(70,000)	(70,000)	(70,000)	-
Total other financing uses	(70,000)	(70,000)	(70,000)	-
Net change in fund balances	$ (178,000)	$ (637,771)	$ 24,214	$ 661,985

SCHEDULE 13

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2018

	Jessie Thackery Preschool	Thomas Jefferson Elementary	Mt. Daniel Elementary	Mary Ellen Henderson Middle School	George Mason High School	Total
ASSETS						
Cash and cash equivalents	$ 717	$ 56,447	$ 59,137	$ 31,783	$ 346,745	$ 494,828
Total assets	$ 717	$ 56,447	$ 59,137	$ 31,783	$ 346,745	$ 494,828
LIABILITIES						
Amounts held for others	$ 717	$ 56,447	$ 59,137	$ 31,783	$ 346,745	$ 494,828
Total liabilities	$ 717	$ 56,447	$ 59,137	$ 31,783	$ 346,745	$ 494,828

SCHEDULE 14

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, 2018

	Balances July 1, 2017	Additions	Deductions	Balances June 30, 2018
JESSIE THACKERY PRESCHOOL				
Assets				
Cash and cash equivalents	$ -	$ 974	$ 257	$ 717
Total assets	$ -	$ 974	$ 257	$ 717
Liabilities				
Amounts held for others	$ -	$ 974	$ 257	$ 717
Total liabilities	$ -	$ 974	$ 257	$ 717
THOMAS JEFFERSON ELEMENTARY				
Assets				
Cash and cash equivalents	$ 42,244	$ 78,701	$ 64,498	$ 56,447
Total assets	$ 42,244	$ 78,701	$ 64,498	$ 56,447
Liabilities				
Amounts held for others	$ 42,244	$ 78,701	$ 64,498	$ 56,447
Total liabilities	$ 42,244	$ 78,701	$ 64,498	$ 56,447
MT. DANIEL ELEMENTARY				
Assets				
Cash and cash equivalents	$ 57,368	$ 26,529	$ 24,760	$ 59,137
Total assets	$ 57,368	$ 26,529	$ 24,760	$ 59,137
Liabilities				
Amounts held for others	$ 57,368	$ 26,529	$ 24,760	$ 59,137
Total liabilities	$ 57,368	$ 26,529	$ 24,760	$ 59,137
MARY ELLEN HENDERSON MIDDLE SCHOOL				
Assets				
Cash and cash equivalents	$ 41,891	$ 99,293	$ 109,401	$ 31,783
Total assets	$ 41,891	$ 99,293	$ 109,401	$ 31,783
Liabilities				
Amounts held for others	$ 41,891	$ 99,293	$ 109,401	$ 31,783
Total liabilities	$ 41,891	$ 99,293	$ 109,401	$ 31,783
GEORGE MASON HIGH SCHOOL				
Assets				
Cash and cash equivalents	$ 400,948	$ 445,558	$ 499,761	$ 346,745
Total assets	$ 400,948	$ 445,558	$ 499,761	$ 346,745
Liabilities				
Amounts held for others	$ 400,948	$ 445,558	$ 499,761	$ 346,745
Total liabilities	$ 400,948	$ 445,558	$ 499,761	$ 346,745
TOTAL				
Assets				
Cash and cash equivalents	$ 542,451	$ 651,054	$ 698,677	$ 494,828
Total assets	$ 542,451	$ 651,054	$ 698,677	$ 494,828
Liabilities				
Amounts held for others	$ 542,451	$ 651,054	$ 698,677	$ 494,828
Total liabilities	$ 542,451	$ 651,054	$ 698,677	$ 494,828

DISCRETELY PRESENTED COMPONENT UNIT – ECONOMIC DEVELOPMENT AUTHORITY

Economic Development Authority Fund

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

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SCHEDULE 15

CITY OF FALLS CHURCH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2018

ASSETS		
Cash and investments	$	2,056,106
Accounts receivable		15,049
Total assets	$	2,071,155
LIABILITIES		
Accounts payable and other liabilities	$	257,590
Total liabilities		257,590
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue		15,049
Total deferred inflows of resources		15,049
FUND BALANCE		
Assigned		1,798,516
Total fund balance		1,798,516
Total liabilities, deferred inflows of resources and fund balance	$	2,071,155

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

Total fund balance	$	1,798,516
Revenue received after the availability period are not available to pay for current-period expenditures and therefore are deferred in the funds		15,049
Net position of governmental activities	$	1,813,565

SCHEDULE 16

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, 2018

REVENUES		
Use of money and property	$	19,758
Miscellaneous		2,782
Total revenue		22,540
EXPENDITURES		
Current:		
Economic development		116,020
Total expenditures		116,020
Excess of expenditures over revenues		(93,480)
Net change in fund balance		(93,480)
FUND BALANCE AT JULY 1		1,891,996
FUND BALANCE AT JUNE 30	$	1,798,516

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

Net change in fund balance		(93,480)
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds		15,049
Change in net position of governmental activities	$	(78,431)

STATISTICAL SECTION

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STATISTICAL SECTION

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

Contents **Pages**

Financial Trends – Tables 1 – 4

These tables contain financial trend information to help the reader understand how the government's financial performance and well-being have changed over time. 143-147

Revenue Capacity – Tables 5 – 8

These tables contain information to help the reader assess the government's most significant local revenue source, real estate and personal property taxes. 148-151

Debt Capacity – Tables 9 – 11

These schedules contain trend information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future. 152-154

Demographic and Economic Information – Tables 12 – 13

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place 155-156

Operating Information – Tables 14 – 16

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and activities it performs 157-160

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

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TABLE 1

CITY OF FALLS CHURCH, VIRGINIA

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

	2018**	2017	2016	2015*	2014	2013	2012	2011	2010	2009
Governmental activities										
Net investment in capital assets	$ 48,269,980	$ 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
Restricted	8,563,128	1,167,594	425,551	758,208	12,342,829	390,112	110,929	152,686	70,153	-
Unrestricted	38,477,078	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
Total governmental activities net position	$ 95,310,186	$ 93,797,223	$ 88,272,144	$ 83,974,539	$ 81,662,241	$ 52,305,898	$ 46,977,661	$ 39,180,393	$ 32,856,271	$ 36,815,173
Business-type activities										
Net investment in capital assets	$ 12,463,534	$ 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
Restricted	348,515	-	-	-	-	-	-	-	-	-
Unrestricted	15,209,915	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
Total business-type activities net position	$ 28,021,964	$ 26,306,321	$ 23,265,555	$ 19,359,985	$ 17,302,551	$ 110,446,232	$ 101,617,225	$ 96,229,218	$ 88,787,237	$ 81,829,989
Primary government										
Net investment in capital assets	$ 60,733,514	$ 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
Restricted	8,911,643	1,167,594	425,551	758,208	12,342,829	390,112	110,929	152,686	70,153	-
Unrestricted	53,686,993	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
Total primary government net position	$ 123,332,150	$ 120,103,544	$ 111,537,699	$ 103,334,524	$ 98,964,792	$ 162,752,130	$ 148,594,886	$ 135,409,611	$ 121,643,508	$ 118,645,162

Notes:
The City restated net position as of June 30, 3009, 2010, 2013, 2014, 2015, 2017, and 2018. The restatements are not included in the prior data.
*GASB Statement No. 68 was adopted in fiscal year 2015.
**GASB Statement No. 75 was adopted in fiscal year 2018.

TABLE 2

CITY OF FALLS CHURCH, VIRGINIA

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

	2018**	2017	2016	2015*	2014	2013	2012	2011	2010	2009
Expenses										
Governmental activities										
General government	$ 6,830,072	$ 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
Judicial administration	2,056,960	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
Public safety	11,441,556	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
Public works	6,841,110	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
Health and welfare	2,678,982	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
Education and payments to schools	42,836,993	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
Parks, recreation, and cultural	5,372,211	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
Community development	3,757,139	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
Economic development	267,549	453,829	457,658	396,685	353,517	314,171	323,036	322,405	351,233	395,505
Interest	1,718,404	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
Total governmental activities	$ 83,800,976	$ 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
Business-type activities										
Water	$ -	$ -	$ -	$ -	$ 13,885,901	$ 20,930,432	$ 19,271,724	$ 17,690,104	$ 17,240,177	$ 17,509,332
Sewer	3,140,822	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
Storm water	1,149,089	1,315,994	1,310,670	1,240,370	1,185,304	-	-	-	-	-
Total business-type activities expense	4,289,911	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
Total primary government expenses	$ 88,090,887	$ 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
Program revenues										
Governmental activities										
Charges for services										
Parks and recreation	$ 2,076,168	$ 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
Judicial administration	890,898	697,794	986,955	997,514	1,067,969	990,687	1,106,413	1,189,447	1,111,368	1,039,920
Public safety	1,339,397	979,683	1,320,831	1,656,508	2,021,982	1,158,033	1,054,488	640,353	637,012	510,075
Other activities	930,109	641,851	577,572	896,479	936,543	1,050,301	957,930	790,385	492,204	410,406
Operating grants and contributions	2,319,112	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
Capital grants and contributions	4,256,317	3,464,841	4,286,565	1,591,495	1,276,720	569,648	807,771	560,269	592,880	1,156
Total governmental activities program revenues	$ 11,812,001	$ 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
Business-type activities										
Charges for services										
Water	$ -	$ -	$ -	$ -	$ 14,017,794	$ 24,363,306	$ 22,770,417	$ 21,710,937	$ 19,846,413	$ 21,366,915
Sewer	4,389,685	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
Storm water	1,575,640	1,595,168	1,571,696	1,540,980	764,451	-	-	-	-	-
Capital grants and contributions	18,750	-	103,500	865,968	328,214	4,255,493	1,496,722	2,717,914	284,330	236,655
Total business-type activities program revenues	$ 5,984,075	$ 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
Total primary government program revenues	$ 17,796,076	$ 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
Net (expense) revenue										
Governmental activities	$(71,988,975)	$(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)
Business-type activities	1,694,164	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
Total primary government net expense	$(70,294,811)	$(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)

(Continued)

TABLE 2
(Continued)

CITY OF FALLS CHURCH, VIRGINIA

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

	2018**	2017	2016	2015*	2014	2013	2012	2011	2010	2009
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
General property taxes	$ 53,258,669	$ 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
Personal property	5,825,554	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
Business licenses, based on gross receipts	4,181,701	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
Local sales and use	4,703,523	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
Consumer's utility	2,266,303	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
Motor vehicle decals	344,563	347,080	336,404	333,921	311,704	313,245	319,335	238,177	226,723	226,978
Real estate recordation taxes	523,816	475,481	391,911	487,332	483,192	602,651	475,057	371,514	369,453	446,906
Occupancy, tobacco, and other	5,842,109	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
Intergovernmental, non-categorical aid	2,020,878	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
Use of money and property	726,327	444,740	482,608	276,177	142,860	141,673	105,827	75,495	85,531	83,428
Miscellaneous	218,328	85,651	189,863	96,229	99,286	279,265	229,637	110,572	72,104	55,159
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
Total governmental activities	$ 79,911,771	$ 76,324,343	$ 72,783,413	$ 68,982,901	$ 91,907,535	$ 63,104,179	$ 59,934,493	$ 59,074,354	$ 51,049,330	$ 53,691,363
Business-type activities:										
Use of money and property	$ 96,278	$ 35,492	$ 93,405	$ 8,240	$ 136,819	$ 319,150	$ 281,920	$ 213,217	$ 63,385	$ 356,324
Miscellaneous	12,916	24,287	192	-	(32,638)	59,428	74,474	125,305	(28,339)	204,136
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)
Total business-type activities	$ 109,194	$ 59,779	$ 29,080	$ (81,250)	$(93,704,436)	$ 228,578	$ 206,394	$ 248,918	$ 3,263,279	$ (1,843,581)
Total primary government	$ 80,020,965	$ 76,384,122	$ 72,812,493	$ 68,901,651	$ (1,796,901)	$ 63,332,757	$ 60,140,887	$ 59,323,272	$ 54,312,609	$ 51,847,782
Changes in Net Position										
Governmental activities	$ 7,922,796	$ 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)
Business-type activities	1,803,358	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
Total primary government	$ 9,726,154	$ 8,428,282	$ 8,025,113	$ 4,253,291	$(63,180,527)	$ 14,011,603	$ 13,190,327	$ 14,015,983	$ 2,755,648	$ (396,745)

Notes:
The City restated net position as of June 30, 3009, 2010, 2013, 2014, 2015, 2017, and 2018. The restatements are not included in the prior data.
*GASB Statement No. 68 was adopted in fiscal year 2015.
**GASB Statement No. 75 was adopted in fiscal year 2018.

TABLE 3

CITY OF FALLS CHURCH, VIRGINIA

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

	2018	2017	2016	2015	2014	2013	2012	2011
Post-GASB 54 implementation:								
General Fund								
Nonspendable	$ 197,513	$ 265,013	$ 201,779	$ 192,141	$ 199,581	$ 268,619	$ 280,819	$ 251,358
Restricted	923,689	1,167,594	425,551	758,208	560,413	159,715	110,929	247,364
Committed	11,311,699	10,566,999	11,909,590	13,840,859	3,761,859	1,418,300	-	-
Assigned	2,609,806	2,430,164	1,582,296	2,251,649	24,788,434	595,253	760,861	380,682
Unassigned	16,191,209	14,993,614	15,336,497	14,301,563	13,508,494	14,821,921	13,716,496	7,041,658
Total general fund	$ 31,233,916	$ 29,423,384	$ 29,455,713	$ 31,344,420	$ 42,818,781	$ 17,263,808	$ 14,869,105	$ 7,921,062
All Other Governmental Funds								
Nonspendable	$ -	$ -	$ -	$ 289,267	$ -	$ -	$ -	$ -
Restricted	19,888,673	15,067,259	17,529,237	17,029,510	12,639,104	1,990,159	7,519,397	134,686
Committed	9,015,129	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	$ 28,903,802	$ 26,624,664	$ 25,157,169	$ 22,713,611	$ 15,362,651	$ 3,364,625	$ 8,375,741	$ 1,536,088

Pre-GASB 54 implementation:	2010	2009
General Fund		
Reserved	$ 1,124,698	$ 1,265,850
Unreserved	2,674,638	2,894,988
Total general fund	$ 3,799,336	$ 4,160,838
All Other Governmental Funds		
Reserved	$ 395,238	$ 1,423,401
Unreserved:		
Designated:		
Capital projects fund	656,967	4,513,944
Special revenue fund	539,152	537,799
Total all other governmental funds	$ 1,591,357	$ 6,475,144

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

TABLE 4

CITY OF FALLS CHURCH, VIRGINIA

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues										
General property taxes	$ 59,073,580	$ 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
Other local taxes	17,833,994	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
Permits, fees, and licenses	1,264,495	1,036,162	1,211,625	1,543,975	1,677,603	916,677	634,184	404,899	511,285	322,639
Fines and forfeitures	514,936	490,773	623,251	662,700	777,485	672,757	763,353	727,990	610,267	481,319
Charges for services	3,357,278	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
Use of money and property	726,327	444,740	482,609	275,503	142,860	141,673	105,827	75,495	85,531	83,428
Miscellaneous	76,623	74,667	92,794	145,705	107,966	265,161	204,908	117,019	150,691	65,129
Gifts and contributions	185,711	157,354	83,824	732,555	148,492	313,575	218,930	77,687	42,328	1,243,431
Voluntary concessions	25,450	1,604,960	2,012,950	-	-	-	-	-	-	-
Recovered costs	319,362	376,684	370,918	492,274	477,639	509,488	540,765	461,219	1,869,125	1,429,477
Intergovernmental:										
Commonwealth	6,563,134	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
Federal	1,837,637	814,822	922,939	677,457	1,140,608	776,311	896,997	798,217	719,247	304,030
Payment from schools	-	235,100	-	-	-	-	-	-	-	-
Total revenues	$ 91,778,527	$ 86,752,353	$ 84,599,862	$ 78,648,696	$ 77,495,593	$ 72,269,586	$ 67,862,248	$ 64,881,344	$ 61,639,426	$ 59,546,397
Expenditures										
General government	$ 6,908,253	$ 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
Judicial administration	2,093,560	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
Public safety	11,409,320	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
Public works	5,884,953	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
Health and welfare	2,672,200	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
Parks, recreation, and cultural	4,991,289	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
Community development	3,442,634	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
Education	41,181,003	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
Economic development	265,242	437,004	460,337	420,937	351,837	308,788	321,839	316,857	346,937	398,893
Capital outlay	25,119,075	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
Debt service:										
Principal retirement	4,808,130	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
Interest and fiscal charges	1,868,052	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
Total expenditures	$110,643,711	$ 86,932,377	$ 88,870,643	$ 84,593,483	$ 80,055,317	$ 75,036,000	$ 61,815,979	$ 61,688,734	$ 65,204,109	$ 68,207,500
Excess of revenues over (under) expenditures	$ (18,865,184)	$ (180,024)	$ (4,270,781)	$ (5,944,787)	$ (2,559,724)	$ (2,766,414)	$ 6,046,269	$ 3,192,610	$ (3,564,683)	$ (8,661,103)
Other Financing Sources (Uses)										
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	-	-	-	-	-
Proceeds from capital leases	-	-	69,065	-	2,887,859	-	-	-	-	-
Proceeds from sale of assets	136,001	605,189	88,715	8,386	-	-	-	784,243	521,995	-
Issuance of debt	22,818,855	-	-	-	-	-	24,120,000	-	-	-
Transfers in	3,052,520	4,440,560	2,089,514	2,630,650	23,449,213	2,183,076	150,000	150,000	-	2,404,041
Transfers out	(3,052,520)	(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)	-	-	-	-	-	-
Total other financing sources (uses)	$ 22,954,856	$ 1,615,189	$ 4,825,632	$ 1,820,712	$ 40,112,723	$ 150,000	$ 7,741,427	$ 873,847	$ (1,680,606)	$ 2,404,041
Net change in fund balances	$ 4,089,672	$ 1,435,165	$ 554,851	$ (4,124,075)	$ 37,552,999	$ (2,616,414)	$ 13,787,696	$ 4,066,457	$ (5,245,289)	$ (6,257,062)
Debt service as a percentage of noncapital expenditures:	7.81%	7.65%	7.31%	6.77%	6.21%	6.38%	6.72%	8.39%	8.15%	8.29%

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				
2018	$ 2,827,359,400	$ 1,206,357,000	$ 115,141,028	$ 39,441,092	$ 4,188,298,520	$ 1.47	$ 4,188,298,520	100.00%
2017	2,755,918,500	1,135,720,643	113,256,298	34,077,053	4,038,972,494	1.45	4,038,972,494	100.00
2016	2,717,628,800	1,037,442,703	117,414,292	32,407,907	3,904,893,702	1.45	3,904,893,702	100.00
2015	2,601,492,400	960,458,253	110,351,553	31,546,003	3,703,848,209	1.44	3,703,848,209	100.00
2014	2,518,781,400	941,171,964	108,271,948	34,045,965	3,602,271,277	1.44	3,602,271,277	100.00
2013	2,399,553,800	900,448,054	104,900,347	32,764,812	3,437,667,013	1.43	3,437,667,013	100.00
2012	2,318,995,150	869,503,840	99,424,184	29,155,268	3,317,078,442	1.41	3,317,078,442	100.00
2011	2,242,533,650	851,357,009	95,126,548	28,060,359	3,217,077,566	1.39	3,217,077,566	100.00
2010	2,161,499,050	920,696,585	90,559,076	29,022,854	3,201,777,565	1.29	3,201,777,565	100.00
2009	2,198,184,250	1,031,120,450	89,133,212	29,936,779	3,348,374,691	1.18	3,348,374,691	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.
*Includes apartment buildings

CITY OF FALLS CHURCH, VIRGINIA

DIRECT PROPERTY TAX RATES
Last Ten Fiscal Years
(unaudited)

Year	Real Property (1st half of the Fiscal Year)	Real Property (2nd Half of the Fiscal Year)	Personal Property	Total Direct Rate (1)
2018	$ 1.330	$ 1.330	$ 5.00	$ 1.47
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

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)

	2018			2009		
Taxpayer	**Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value**	**Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value**
SHF II Pearson Square, LLC	$ 89,528,100	1	2.22 %	$ -		- %
TMW Pearson Square, LLC	-		-	86,922,100	1	2.66
Falls Church Country Club (Apartments)	80,711,900	2	2.00	72,423,000	3	2.21
Falls Church DVMT Partners LLC	76,671,200	3	1.90	-		-
Lincoln FChurch VA LLC	75,014,700	4	1.86	-		-
Eden Center, Inc.	52,653,000	5	1.31	57,384,300	4	1.75
Morguard Falls Church LLC	46,854,900	6	1.16	-		-
BJ'S GL I, LLC & II, LLC	31,701,800	7	0.79	-		-
Washreit Roosevelt Towers LLC	28,899,300	8	0.72	-		-
Koons Falls Ch Properties, Inc.	27,342,100	9	0.68	-		-
The Kensington of Falls Ch LLC	25,804,700	10	0.64	-		-
Spectrum Condominiums	-		-	78,849,600	2	2.41
Koons, James	-		-	26,987,000	5	0.82
Federal Realty Investment Trust	-		-	23,389,200	6	0.71
West Falls Parcel, Inc.	-		-	23,053,200	7	0.70
Kaiser Foundation Health Plan, Inc.	-		-	22,048,500	8	0.67
Kahn B Franklin et al	-		-	21,878,200	9	0.67
Aimco Merrill House, LLC	-		-	21,571,100	10	0.66
Totals	$ 535,181,700		13.27 %	$ 434,506,200		13.26 %

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. FY2018 revenues are based on the assessments as of January 1, 2017.

TABLE 8

CITY OF FALLS CHURCH, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Calendar Years
(unaudited)

Year Ended June 30	Taxes Levied for the Year	Collected within the Year of the Levy		Collections in Subsequent Years*	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2018	$ 55,327,390	$ 54,834,081	99.11 %	$ -	$ 54,834,081	99.11 %
2017	56,036,877	55,298,718	98.68	593,296	55,892,014	99.74
2016	53,445,365	52,681,973	98.57	661,604	53,343,577	99.81
2015	50,737,788	49,637,858	97.83	996,646	50,634,504	99.80
2014	49,400,707	48,431,361	98.04	883,071	49,314,432	99.83
2013	46,554,891	45,686,242	98.13	786,823	46,473,065	99.82
2012	44,293,509	43,620,632	98.48	600,468	44,221,100	99.84
2011	42,206,497	41,495,508	98.32	644,718	42,140,226	99.84
2010	39,478,140	38,778,261	98.23	647,455	39,425,716	99.87
2009	37,850,131	37,062,585	97.92	738,483	37,801,068	99.87

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

TABLE 9

CITY OF FALLS CHURCH, VIRGINIA

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(unaudited)

	Governmental Activities			Business-type Activities					
Fiscal Year	General Obligation Bonds	Notes Payable	Capital Leases	General Obligation Bonds	Note Payable*	Revenue Bonds	Total Primary Government	Percentage of Personal Income (1)	Debt Per Capita
2018	$ 68,043,928	$ 985,119	$ 262,087	$ 13,724,001	$ -	$ -	$83,015,135	N/A %	$ 5,818
2017	51,124,621	-	342,592	14,173,447	-	-	65,640,660	0.07	4,600
2016	54,657,852	368,587	269,952	10,515,183	2,441,103	1,905,979	70,158,656	0.08	4,968
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	0.08	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	0.08	5,538

(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, 2014, 2015, 2017, and 2018. The restatements are not included in the prior data.

TABLE 10

CITY OF FALLS CHURCH, VIRGINIA

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

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
2018	$ 81,767,929	$ -	$ 81,767,929	1.95 %	$ 5,730
2017	65,298,068	-	65,298,068	1.62	4,576
2016	65,173,035	-	65,173,035	1.67	4,615
2015	63,132,085	-	63,132,085	1.70	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	1.73	4,501
2009	53,395,295	-	53,395,295	1.59	4,430

TABLE 11

CITY OF FALLS CHURCH VIRGINIA

LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(unaudited)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Debt limit	$ 403,371,640	$ 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
Total net debt applicable to limit	83,015,135	65,640,660	68,428,875	66,807,713	58,054,108	63,963,154	68,522,877	65,179,765	64,403,924	63,753,245
Legal debt margin	$ 320,356,505	$ 323,523,254	$ 307,078,275	$ 285,075,757	$ 299,162,147	$ 270,811,264	$ 256,601,990	$ 247,485,911	$ 264,118,033	$ 269,355,535
Total net debt applicable to the limit as a percentage of debt limit	20.58%	16.87%	18.22%	18.99%	16.25%	19.11%	21.08%	20.85%	19.60%	19.14%

Legal Debt Margin Calculation for Fiscal Year 2018

Assessed value	$ 4,033,716,400
Debt limit (10% of assessed value)	$ 403,371,640
Less debt applicable to limit:	
General obligation bonds	81,767,929
Capital leases	262,087
Notes payable	985,119
Legal debt margin	$ 320,356,505

CITY OF FALLS CHURCH, VIRGINIA

DEMOGRAPHIC STATISTICS
Last Ten Calendar Years
(unaudited)

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Personal Income (3)	Median Age (4)	School Enrollment(5)	Unemployment Rate (6)
2018	14,269	$ N/A	$ N/A	N/A	2,678	2.40 %
2017	14,269	93,041,631	78,376	N/A	2,670	2.90
2016	14,123	90,108,788	76,213	38.9	2,509	3.00
2015	14,183	89,352,902	75,756	37.7	2,456	3.30
2014	13,522	85,852,636	73,000	36.7	2,421	4.00
2013	13,315	81,624,743	69,637	37	2,272	4.40
2012	12,960	83,596,714	72,200	36.9	2,178	4.40
2011	12,567	79,761,191	69,910	38.8	2,079	4.60
2010	12,332	73,895,674	65,873	40.4	2,017	5.00
2009	12,054	69,973,260	63,650	41	1,967	7.10

Sources:
(1) Source: For 2009 and 2011-2017 Weldon Cooper Center for Public Service; numbers are estimates as of July 1. Year 2010 is based on U.S. Census estimate. 2018 uses the same data as 2017.
(2)Source: US Department of Commerce, Bureau of Economic Analysis for Fairfax, Fairfax City & Falls Church. 2018 data not yet available.
(3) Source: U.S. Census Bureau American Community Survey 5-Year Estimates
(4) Source: City of Falls Church Public School Board, Seat Enrollment.
(5) Source: Virginia Employment Commission Local Area Unemployment Statistics as of June of each year.
NA - Not available.

CITY OF FALLS CHURCH, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago
(unaudited)

	2018			2009		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment (2)**	**Employees**	**Rank**	**Percentage of Total City Employment**
Falls Church City Schools	619	1	7.53 %	386	1	5.67 %
Kaiser Permanante	380	2	4.62	260	3	3.82
Falls Church City Government	315	3	3.83	284	2	4.17
Koon's Ford	182	4	2.21	175	5	2.57
Tax Analysts	178	5	2.16	184	4	2.70
VL Home Health Care, Inc	160	6	1.95			-
Harris Teeter	130	7	1.58			-
BJ's Wholesale Club	125	8	1.52			-
Don Beyer Volvo	112	9	1.36	92	9	1.35
BG Healthcare Services	100	10	1.22	150	6	2.20
Care Options			-	100	8	1.47
Giant Food Store			-	145	7	2.13
Home Instead Senior Care			-	82	10	1.21
Total	2,301		27.98 %	1,858		27.29 %

Source: Finance and Economic Development Office
Total employment estimate of 8,223 for June 2018 and 6,803 for June 2009 from Virginia Employment Commission.

TABLE 14

CITY OF FALLS CHURCH, VIRGINIA

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

Function/Program	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General government	48.65	48.65	46.90	45.74	39.74	37.90	35.55	35.92	37.88	38.87
Judicial administration	15.23	14.23	13.73	13.61	13.61	13.76	12.76	13.26	13.26	17.01
Public safety	51.50	54.50	54.60	51.60	51.10	51.20	51.20	52.20	55.20	53.60
Public works	32.15	29.60	30.10	29.95	27.65	28.94	28.60	28.00	35.75	34.08
Health and Welfare	4.90	4.80	4.80	4.80	4.80	5.00	5.00	5.90	7.85	8.85
Parks, recreation, and cultural	31.25	31.45	31.25	30.05	29.95	29.95	30.05	31.55	33.35	36.35
Community development	18.00	18.00	16.00	15.90	15.81	15.81	13.81	13.81	13.81	13.81
Economic development	3.00	3.00	3.00	3.00	2.00	2.00	2.00	2.00	3.00	3.00
Water	-	-	-	-	-	57.60	57.85	56.98	53.65	52.27
Sewer	4.40	4.58	4.92	4.50	4.25	4.30	4.30	4.10	4.10	4.15
Storm water	6.30	7.82	7.98	8.65	9.20	-	-	-	-	-
Total	215.38	216.63	213.28	207.80	198.11	246.46	241.12	243.72	257.85	261.99

Source: City Adopted Budget

TABLE 15

CITY OF FALLS CHURCH, VIRGINIA

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

Function/Program	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Government										
Communications										
Number of Media Releases	117	189	236	207	N/A	N/A	167	118	95	90
Number of Periodical Publications	-	-	-	-	N/A	N/A	2	N/A	N/A	10
eFOCUS Newsletter Subscribers	1,263	1,151	1,142	940	N/A	N/A	1,388	N/A	N/A	1,267
Number of Social Media Followers	13,776	12,842	5,347	3,716	N/A	N/A	N/A	N/A	N/A	N/A
Judicial Administration										
Court Services										
Aurora House Recidivism	7%	8%	10%	10%	0%	0%	0%	8%	0%	29%
Aura House Program Completion	N/A	100%	93%	100%	90%	98%	83%	92%	73%	78%
Court Services Juvenile Recidivism	N/A	N/A	N/A	6%	5%	9%	10%	16%	16%	22%
Court Services Adult Recidivism	N/A	N/A	N/A	0%	4%	6%	6%	23%	23%	33%
Public safety										
Police										
Part I Crimes (1)	293	286	353	310	303	309	270	268	329	441
Calls for Service	42,921	34,371	31,387	23,574	26,210	27,411	26,189	26,485	25,862	28,319
Accidents	157	169	197	204	182	180	188	224	235	231
Traffic Enforcement	2007	2,346	3,311	3,313	4,749	5,314	5,704	8,614	8,113	8,950
DWI Arrests	34	54	56	97	108	106	127	95	91	70
Inspections										
Plan Review	1,147	1,028	990	923	821	N/A	666	N/A	671	442
Stop Work Orders	22	23	24	11	10	N/A	10	N/A	8	8
Fire Marshal										
Fire Inspections Performed	294	287	289	281	186	198	182	152	N/A	N/A
Fire Code Violations Cited	777	812	997	1,009	359	514	646	308	N/A	N/A
Fire Code Permits Issued	283	281	267	282	147	123	119	101	N/A	N/A
Fires Reported and Investigated	5	3	9	8	5	7	2	3	N/A	N/A
Estimated Fire/Explosion Loss	$ 865,000	$ 325,000	$ 120,000	$ 1,538,000	$ 1,763,500	$ 259,500	$ 13,000	$ 2,200	N/A	N/A
Public works										
Refuse collected (tons)	N/A	2,020	2,073	1,977	2,149	2,073	2,015	2,150	2,178	2,415
Recycling collected (tons)	N/A	3,018	3,091	2,926	2,806	3,364	3,241	3,315	3,077	3,690
Street Resurfacing (miles)	N/A	4.84	5.31	3.50	2.75	2	-	1	2	2
Health and Welfare										
Housing and Human Services										
Information/Referral Contacts	2,709	2,901	3,009	2,396	2,399	2,136	2,459	3,149	2,971	2,882
Education										
Student Membership	2,678	2,670	2,509	2,456	2,421	2,272	2,178	2,079	2,017	1,967

CITY OF FALLS CHURCH, VIRGINIA

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Parks, Recreational and Cultural										
Parks & Recreation										
Special Events	130	124	195	174	172	174	171	181	160	164
Class participants	3,079	3,118	3,146	3,134	3,981	4,065	3,072	2,663	2,654	2,307
Room Reservations	6,351	4,854	6,028	7,035	6,376	6,237	6,455	6,569	5,982	6,205
Tennis Reservations (2)	1,970	831	854	440	1,021	642	922	1,422	1,760	1,723
Youth Sports Participants	3,044	3,104	3,036	3,226	2,677	2,509	2,423	1,987	2,542	2,431
Adult Sports Teams	98	97	96	120	118	114	111	114	99	100
Teen Dance Participants	650	800	400	500	625	750	827	777	979	1,260
Teen Center Attendance	500	700	700	900	1,300	1,500	1,722	3,500	3,675	4,000
Summer Camps Offered	264	237	263	192	220	274	224	244	223	201
Summer Camp Participants	5,523	5,482	5,689	5,810	5,103	5,432	5,000	5,002	4,163	4,258
Senior Center lunch meals served	-	-	198 (3)	792	660	521	519	928	1,255	1,588
Library:										
Size of collection (all formats)	153,181	148,955	148,636	144,100	132,031	147,659	146,422	142,728	143,365	159,631
Total circulation of all materials	476,669	501,827	465,687	469,102	461,394	446,563	442,480	426,272	452,498	429,286
Total visits to library (door count)	313,429	308,393	310,251	325,512	316,430	297,468	307,466	283,773	232,379	219,831
Number of registered borrowers	30,152	27,540	27,413	29,025	28,362	25,914	24,056	28,395	25,263	23,357
Number of website visits/yr	433,909	380,319	566,877	187,993	N/A	226,961	137,342	154,284	182,373	166,258
Number of programs/yr	802	970	738	785	654	554	518	603	298	345
Attendance at programs	36,267	36,598	27,087	28,119	18,924	17,370	15,761	20,345	11,710	14,235
Community development:										
Planning										
Development Inquiries	N/A	N/A	29,802	23,732	N/A	N/A	20,353	8,927	8,927	9,905
Plans Reviewed	N/A	N/A	N/A	N/A	N/A	N/A	2	26	26	34
Code/Policy Review	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	72
Zoning										
Development Inquiries	508	490	492	366	N/A	N/A	N/A	2,100	2,100	2,570
Permits/Plans Reviewed	582	593	N/A	N/A	N/A	N/A	708	600	600	660
Urban Forestry										
Development Inquiries	153	43	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,400
Permits/Plans Reviewed	49	75	N/A	N/A	N/A	N/A	N/A	N/A	N/A	192
Trees Planted/removed/pruned	1,079	1,217	1,372	1,372	1,067	708	N/A	N/A	N/A	825
Water										
New connection applications	N/A	N/A	N/A	N/A	N/A	74	218	265	23	53
Water main breaks	N/A	N/A	N/A	N/A	N/A	165	93	148	118	141

Sources:
Reported by individual departments
Notes:
N/A- Not available
(1) Part I crimes are defined as murder, rape, robbery, aggravated assult, burglary, grand larceny, auto theft, arson.
(2) Four courts were under renovation and out of service during the year.
(3) The Senior Center Meals program was canceled as of August 31, 2015.
(4) Beginning in FY2003, special events includes the Senior Center and Cherry Hill Farmhouse.
Library - Librarian
Building permits - City Planner

CITY OF FALLS CHURCH, VIRGINIA

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

Function/Program	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Government										
City Hall	1	1	1	1	1	1	1	1	1	1
Gage House	1	1	1	1	1	1	1	1	1	1
Judicial Administration (1)										
Court Services										
Aurora House (Facility)	1	1	1	1	1	1	1	1	1	1
Aurora House Passenger Van	2	2	2	2	2	2	1	1	1	1
Court Services Passenger Van	-	-	1	1	1	1	1	1	1	1
Public safety (2)										
Fire Stations (3)	1	1	1	1	1	1	1	1	1	1
Public works										
Streets-Miles/Lane Miles	84	84	73	73	72	32	32	32	32	32
Traffic signals	28	28	28	28	28	29	29	29	29	29
Streetlights	226	226	191	191	198	142	142	142	142	142
Refuse Trucks	-	-	-	-	-	-	-	5	5	5
Education										
School Buildings	5	5	5	5	4	4	4	4	4	4
Parks, Recreational and Cultural										
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	14	13	13	13	13	13	13	13	13
Tennis courts	10	10	10	10	10	10	10	10	10	10
Basketball courts	4	4	5	5	5	5	5	5	5	5
Vehicles	5	5	7	7	7	7	7	6	6	6
Library:										
Library (Facility)	1	1	1	1	1	1	1	1	1	1
Community development:										
Urban Forestry										
Vehicles	4	4	4	4	3	3	3	3	3	3
Water										
Water Mains (Miles)	-	-	-	-	-	502	500	497	497	497
Tanks	-	-	-	-	-	10	10	10	10	10
Pumps	-	-	-	-	-	29	29	29	29	29
Fire Hydrants	-	-	-	-	-	3,286	3,253	3,220	3,201	3,201
Sewer										
Sanitary Sewer Mains (Miles)	47	47	43	43	47	44	44	44	44	43
Sanitary Sewer Manholes	1,280	1,280	1,013	1,012	1,155	1,190	1,186	1,186	1,175	1,001
Stormwater										
Storm Sewer Mains (Miles)	31	31	27	27	31	N/A	N/A	N/A	N/A	N/A
Storm Sewer Structures	1,864	1,860	1,400	1,400	1,754	N/A	N/A	N/A	N/A	N/A

Notes
NA-Not Available
(1) The City Hall Serves as the City Court House
(2) The police station is located in City Hall
(3) Fire Services are provided by Arlington County under contract

COMPLIANCE SECTION

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BROWNEDWARDS
certified public accountants

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 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. However, material weaknesses may exist that have not been identified.**

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as Item 2018-001.**

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
November 30, 2018

BROWNEDWARDS
certified public accountants

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 the City's major federal program for the year ended June 30, 2018. 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 federal statutes, regulations, the terms, and conditions of its federal awards applicable to its 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, 2018.

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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' 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. However, material weaknesses may exist that have not been identified.**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 30, 2018

CITY OF FALLS CHURCH, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS
June 30, 2018

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, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings related to the major program**.
7. The major program of the City is:

Name of Program	CFDA #
Highway Planning and Construction	20.205

8. The **threshold for** distinguishing Type A and B programs was **$750,000**.
9. The City was determined to be a **low-risk auditee**.

(Continued)

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

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

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

2018-001: Weldon Cooper Report

Condition:

The debt service amount was reported incorrectly on the Weldon Cooper report submitted to VDOT. Sections 33.2-319 and 33.2-366 of the Code of Virginia require an annual categorical report accounting for all expenditures of highway maintenance funds and an annual audit of this report.

Recommendation:

We recommended ensuring all amounts are correctly entered on the report.

Management's Response:

Management is in agreement and will ensure there are no more through review of the report prior to submission.

CITY OF FALLS CHURCH, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

A. 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.

Current status:

The condition at the City has been cleared in the current year. The Schools have implemented a new review process in which two members of management are examining the Cash Disbursements Journal before payments are issued to mitigate the risk associated with the Accounts Payable Specialist's ability to edit the vendor master file. All other School comments are still applicable and reported as a control deficiency.

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal CFDA Number	Pass-through ID Number	Federal Expenditures	Total Expenditures by Cluster
U.S. Department of Agriculture				
Pass-through payments:				
Consumer Services				
National School Lunch Program	10.555	2016IN109941/ 2017IN109941	$ 54,388	
School Breakfast Program	10.553	2016IN109941/ 2017IN109941	10,502	
Subtotal for Cluster				$ 64,890
Total U.S. Department of Agriculture			64,890	64,890
U.S. Department of Homeland Security				
Direct payments:				
United States Secret Service				
High Intensity Drug Trafficking Area	95.001	N/A	16,480	16,480
Pass-through payments:				
Virginia Department of Emergency Management				
Disaster Recovery	97.042	N/A	3,750	3,750
Total U.S. Department of Homeland Security			20,230	20,230
U.S. Department of Housing and Urban Development				
Pass-through payments:				
County of Arlington, Virginia:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	42,105	42,105
Home Investments Partnership Program	14.239	N/A	23,724	23,724
Total U.S. Department of Housing and Urban Development			65,829	65,829
U.S. Department of Justice				
Direct payments:				
Seized assets	16.000	N/A	160,667	160,667
Total U.S. Department of Justice			160,667	160,667
U.S. Department of Transportation				
Pass-through payments:				
Commonwealth Virginia Department of Transportation				
Highway Planning and Construction	20.205	100689/103632/ 102555/107952	1,469,359	1,469,359
State and Community Highway Safety	20.600	N/A	10,597	10,597
Northern Virginia Transportation Commission				
Federal Transit Capital Investment Grants	20.500	72510-18/72507-08/ 72508-19/72510-57	6,991	6,991
Total U.S. Department of Transportation			1,486,947	1,486,947
U.S. Department of Education				
Pass-through payments:				
Commonwealth of Virginia Department of Education:				
Special Education - Grants to States	84.027	H027A140107	439,474	
Special Education - Preschool Grants	84.173	H173A140112	10,185	
Subtotal for Cluster				449,659
English Language Acquisition Grants	84.365	S365A130046/ S365A140046	14,451	14,451
Improving Teacher Quality State Grants	84.367	S367A130044/ S367A140044/ S367A150044	5,443	5,443
Vocational Education - Basic Grants to States	84.048	V048A140046/ V048A150046	15,748	15,748
Total U.S. Department of Education			485,301	485,301
Total Expenditures of Federal Awards			$ 2,283,864	$ 2,283,864

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, 2018

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 $54,388 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.

IV. Outstanding Loan Balances

At June 30, 2018, the City had no outstanding loan balances requiring continuing disclosure.