

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005



CITY OF **FALLS**
CHURCH

**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2005**



Prepared by the Department of Finance
John Tuohy, CPA, CFO/Director of Finance
Melissa Ann C. Ryman, CPA, Deputy Director of Finance



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**CITY OF FALLS CHURCH, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2005**

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CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
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INTRODUCTORY SECTION





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CITY OF FALLS CHURCH

November 11, 2005

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, 2005, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended. All necessary disclosures have been included to enable the reader to gain the maximum understanding of the City's financial affairs.

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

Our CAFR is divided into three sections: introductory, financial and statistical. 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 issued separately.

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

GOVERNMENTAL STRUCTURE

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

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

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

ECONOMIC CONDITION AND OUTLOOK

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

Local Economy

Due to its exceptional location, low office vacancy rates, and favorable lease rates, the City of Falls Church continues to thrive economically. Falls Church is located in the middle of the high growth Washington DC metropolitan area that continues to lead the Nation in job growth due primarily to increases in Federal spending, particularly in the areas of Defense and Homeland Security. In fact, during the past five years, the Washington region was the fastest-growing metropolitan area. The commercial office market in Northern Virginia continues to rebound, with an office vacancy rate of 11% and an average lease rate of \$30 per square foot. The City of Falls Church has the lowest vacancy rate in the region at only 3% with an average lease rate of \$25 per square foot. In addition, four mixed-use development projects have been approved in Falls Church in the last several years, totaling more than \$280 million in new investment. These projects will include more than 122,000 square feet of new class-A office space.

The residential housing market is robust and shows no signs of softening. The median sales price for single-family homes has increased 15.9% from 2004. Condominium values have also continued to increase significantly; the median sales price is up 59.7% from 2004, which reflects several high value resales in the new Broadway mixed use project. These numbers are consistent with City and regional market trends as the entire Washington DC metropolitan area has been unable to meet the demand for housing. There are new mixed-use housing developments under construction and in the planning process in the City. Once these new buildings are completed, the housing numbers are expected to continue to rise in the future.

Economic Development

Economic development activities in the City are administered with the assistance of the Falls Church Economic Development Authority (EDA). The EDA members are appointed by the City Council to assist in developing and implementing general economic development policy and objectives.

The goals of the City's economic development program are to enhance economic opportunities, spur the redevelopment of older and functionally obsolete commercial areas, nurture growth in existing businesses, recruit new businesses, and promote regional cooperation. Once realized, the revitalization of the commercial areas and increase in local revenues will improve the quality of life for both residents and businesses.

Professional service firms such as physicians, attorneys, accountants, and real estate agents predominate the local economy, but the City is also home to innovative technology-oriented companies, internet-related service firms, defense contractors, governmental consultants, professional associations and local and national retailers. This diverse local economy allows the City to absorb economic shifts in a specific sector without destroying the local economy. This diversity and close proximity to both Washington DC and the Dulles High-Tech Corridor serve as a magnet for small service and high-tech businesses that desire a convenient and strategic business location.

* * * * *

Certificate of Achievement for Excellence in Financial Reporting

For the second time in the City's history, the Government Finance Officers' Association of the United States and Canada (GFOA) awarded the City a Certificate of Achievement for Excellence in Financial Reporting for the City's Comprehensive Annual Financial Report for the year ended June 30, 2004. To earn a Certificate of Achievement, a CAFR must be efficiently organized, employ standardized terminology and formatting conventions, minimize ambiguities and potentials for misleading inference, enhance understanding of current generally accepted accounting theory, and demonstrate a constructive spirit of full disclosure.

The Certificate is valid for one year only. The City believes that our current report continues to conform to the Certificate of Achievement Program requirements and standards.

Acknowledgements

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

We would like to give special recognition to Melissa Ryman, the City's Deputy Director of Finance, and Krisanee Vitoonkittikul, Senior Accountant, who orchestrated the City's preparation of this CAFR for submission to the Government Finance Officer's Association for participation in the Certificate of Achievement for Excellence in Financial Reporting program.

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,



Daniel E. McKeever
City Manager



John H. Tuohy, CPA
Chief Financial Officer

CITY OF FALLS CHURCH, VIRGINIA
DIRECTORY OF OFFICIALS

At June 30, 2005

CITY OF FALLS CHURCH, VIRGINIA
CITY COUNCIL

Daniel E. Gardner, Mayor

Martha R. Meserve, Vice Mayor

Robin S. Gardner

Marlind R. Hockenberry

Samuel A. Mabry

David C. Chavern

David E. Snyder

CITY OFFICIALS

Daniel E. McKeever, City Manager

John H. Tuohy, CPA, Chief Financial Officer

Roy B. Thorpe, Jr., City Attorney

Kathleen C. Buschow, City Clerk

H. Robert Morrison, City Treasurer

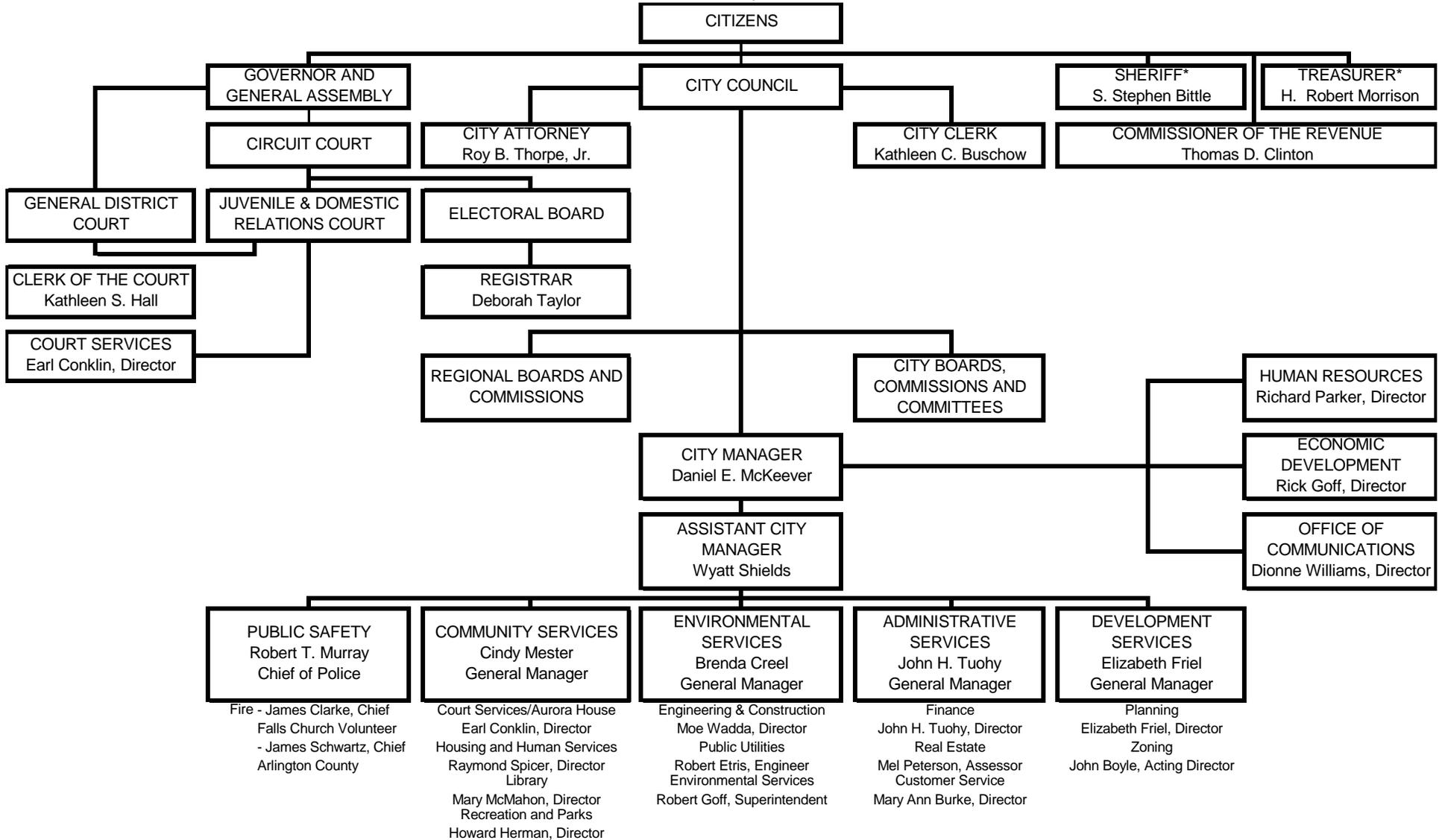
Thomas D. Clinton, Commissioner of Revenue

S. Stephen Bittle, Sheriff

Lois Berlin Ed.D., Superintendent of Schools

CITY OF FALLS CHURCH, VIRGINIA ORGANIZATIONAL CHART

As of June 30, 2005



*Constitutional Officers will participate in coordination with Public Safety and Administrative Teams



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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Falls Church,
Virginia

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to Government units and public employee retirement Systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director



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CITY OF FALLS CHURCH, VIRGINIA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL SECTION





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CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

INDEPENDENT AUDITORS'
REPORT





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Independent Auditors' Report

To The Honorable Mayor and Members of the City Council
City of Falls Church, Virginia

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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and other required supplementary information found on pages 79-80 of this report are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

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 in the financial section, and statistical section, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
November 11, 2005

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

MANAGEMENT'S DISCUSSION
AND ANALYSIS





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**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

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, 2005.

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 assets (assets less liabilities) on a government-wide basis were \$111.4 million at June 30, 2005. Of this balance, \$106.1 million is the Primary Government's and \$5.3 million is the component units'.
- For fiscal year 2005, taxes, other revenues and transfers from the City's business-type activities to the City's governmental activities amounted to \$53.5 million and expenses amounted to \$49.2 million, which resulted in an increase in net assets for the City's governmental activities of \$4.3 million. Revenues of the City's business-type activities were \$22.5 million, expenses were \$16.9 million, and transfers to general fund were \$4.8 million, which resulted in a decrease in net assets for the City's business-type activities of approximately \$0.8 million.

Highlights for Fund Financial Statements

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

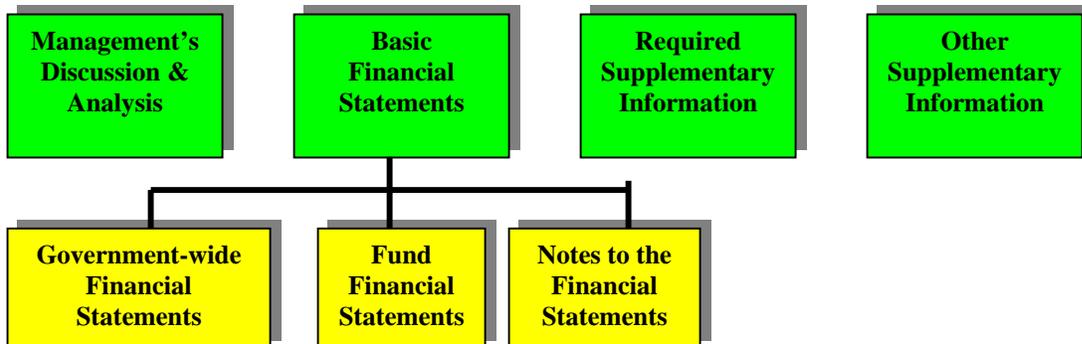
- The City's governmental funds reported expenditures and other financing uses in excess of revenues and other financing sources of \$14.3 million for the fiscal year.
- The City's General Fund reported a fund balance of \$14.2 million at June 30, 2005, an increase of \$1.0 million from June 30, 2004.
- The City's Capital Projects Fund reported a decrease in fund balance of \$15.3 million.
- The City's Water fund reported a decrease in net assets of approximately \$28 thousand and the City's Sewer fund reported an increase of \$835 thousand in 2005.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

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.

Components of the Financial Section



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, capital assets, 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 Assets* – presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets 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:

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

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

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

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

Fund Financial Statements

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

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the year-end balances that are available for spending. The governmental funds financial statements provide a detailed short-term or "current financial resources" view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term or "economic resources" focus of the government-wide financial statements, additional information is provided with the fund financial statements to explain the relationship (or differences). The General Fund is the main operating fund of the City and consequently, the largest of the governmental funds. The only other governmental fund of the City is the capital projects fund, which is also considered a major governmental 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 Water and Sewer 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 the Water and Sewer 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 pension trust funds and agency funds. The pension trust funds are used to account for the assets held in trust by the City for the employees and beneficiaries of its defined benefit pensions plans – the Basic Pension Plan and the Police Pension Plan. The agency funds are used to account for monies received and disbursed on behalf of the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the third year that the City has presented its financial statements under the new reporting model required by GASB Statement No. 34. A comparative analysis of government-wide financial information is included in this report.

Statement of Net Assets

The following table presents a summary of the net assets of the primary government as of June 30, 2005 and 2004:

Summary of Net Assets As of June 30, 2005 and 2004 (\$ In Thousands)				
	2005		2004	
	Governmental Activities	Business- Type Activities	Governmental Activities	Business- Type Activities
Assets:				
Current and other assets	\$ 55,007	\$ 25,855	\$ 65,134	26,535
Capital assets, net	60,061	49,170	41,803	47,421
Total assets	<u>115,068</u>	<u>75,025</u>	<u>106,937</u>	<u>73,956</u>
Liabilities:				
Other liabilities	29,634	3,049	28,688	2,967
Long-term liabilities	50,953	372	48,101	192
Total liabilities	<u>80,587</u>	<u>3,421</u>	<u>76,789</u>	<u>3,159</u>
Net Assets:				
Invested in capital assets, net of related debt	19,354	49,170	16,988	47,421
Unrestricted	15,127	22,434	13,160	23,376
Total net assets	<u>\$ 34,481</u>	<u>\$ 71,604</u>	<u>\$ 30,148</u>	<u>\$ 70,797</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Current assets for governmental activities decreased by \$10.1 million during FY2005. This is primarily the result of the use of bond proceeds from FY2004 for the construction of the new middle school.

Long-term liabilities for governmental activities also increased as a result of a bond issuance of \$1 million for the acquisition of open space. In addition to the bonds issued for open space, the City refunded approximately \$4.7 million in general obligation bonds. The refunding did not significantly reduce the bond liability, but it did result in a reduction in the interest rate the City is paying.

The investment in capital assets, net of related debt, increased for City's governmental activities and business-type activities by \$2.4 million and \$1.7 million, respectively, during FY2005. The increase in the governmental activities' investment in capital assets is primarily due to the repayment of principal on debt incurred prior to FY2005 and partly due to the value of construction in progress at the new middle school. Unrestricted net assets increased for governmental activities mainly due to the transfer for return on equity from the Water Fund.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

Current assets and unrestricted net assets for business-type activities decreased significantly primarily due to the transfer of \$4.8 million to the General Fund and investment in capital assets of \$1.7 million. This investment of \$1.7 million primarily consists of building of a new pump station and replacing water mains.

Statement of Activities

The following table summarizes the changes in net assets for the primary government for the years ended June 30, 2005 and 2004:

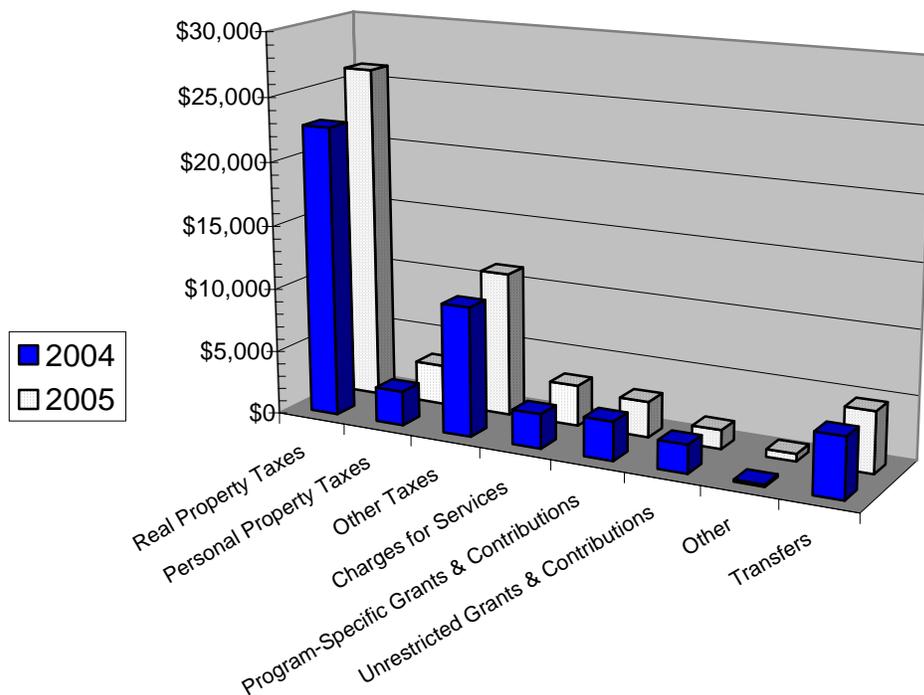
Summary of Changes in Net Assets For the Fiscal Year Ended June 30, 2005 and 2004 (\$ In Thousands)				
	2005		2004	
	Governmental Activities	Business- Type Activities	Governmental Activities	Business- Type Activities
Revenues:				
Program revenues:				
Charges for services	\$ 3,208	\$ 19,882	\$ 2,705	\$ 15,327
Operating grants & contributions	2,807	-	3,045	115
Capital grants & contributions	-	1,907	-	131
General revenues:				
Real estate taxes	26,248	-	22,736	-
Personal property taxes	3,138	-	2,701	-
Business license taxes, based on gross receipts	2,913	-	2,297	-
Local sales & use taxes	3,828	-	3,493	-
Consumer's utility taxes	1,646	-	1,656	-
Motor vehicle decals	223	-	201	-
Recordation	232	-	203	-
Occupancy, tobacco, & other taxes	2,454	-	2,306	-
Unrestricted grants & contributions	1,495	-	2,211	-
Revenue from use of money and property	547	650	123	377
Other	45	38	54	30
Total revenues	<u>48,784</u>	<u>22,477</u>	<u>43,731</u>	<u>15,980</u>
Expenses:				
General government administration	3,936	-	3,884	-
Judicial administration	1,156	-	1,065	-
Public safety	7,017	-	6,638	-
Public works	4,128	16,906	4,150	17,029
Health and welfare	2,740	-	2,784	-
Education and payments to schools	23,401	-	21,178	-
Parks, recreation, and cultural	3,159	-	2,990	-
Community development	1,163	-	841	-
Economic development	294	-	290	-
Interest expense	2,221	-	1,589	-
Total expenses	<u>49,215</u>	<u>16,906</u>	<u>45,409</u>	<u>17,029</u>
Excess/(deficiency) before transfers	(431)	5,571	(1,678)	(1,049)
Transfers	4,764	(4,764)	4,713	(4,713)
Change in net assets	4,333	807	3,035	(5,762)
Net assets, beginning of year	30,148	70,797	27,113	76,559
Net assets, end of year	<u>\$ 34,481</u>	<u>\$ 71,604</u>	<u>\$ 30,148</u>	<u>\$ 70,797</u>

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

Governmental Activities

Revenues and transfers for the City's governmental activities were \$53.5 million for fiscal year 2005 and \$48.4 million for fiscal year 2004. Sources of revenue for fiscal year 2005 and 2004 are comprised of the following items:

**Governmental Activities – Revenues by Source
For the Fiscal Years Ended June 30, 2005 and 2004
(\$ In Thousands)**

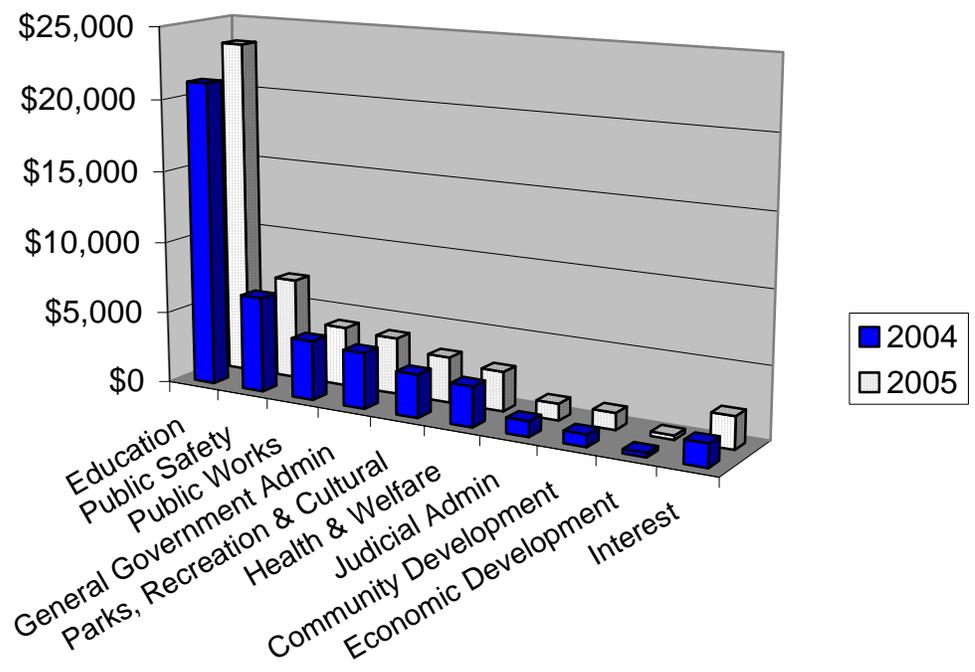


Taxes constitute the largest source of City revenues, amounting to \$40.7 million for fiscal year 2005 and \$35.6 million for fiscal year 2004. Real property taxes (\$26.2 million in fiscal year 2005 and \$22.7 million in fiscal year 2004) represent over 64 percent in fiscal year 2005 and over 63 percent in fiscal year 2004. Tax revenues for fiscal year 2005 increased by \$5.1 million largely due to an average increase of 17.6 percent in real property assessments.

The cost of all governmental activities in fiscal year 2005 was \$49.2 million, and in fiscal year 2004 was \$45.4 million. Education was the City's largest program and highest priority in both fiscal years 2005 and 2004; education expenses totaled \$23.4 million in fiscal year 2005 and \$21.2 million in fiscal year 2004. Public safety expenses represent the second largest expense in both fiscal years, totaling \$7 million in fiscal year 2005 and \$6.6 million in fiscal year 2004. Public works expenses totaled \$4.1 million for both fiscal years 2005 and 2004, representing the third largest expense for the City in both fiscal years.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

**Governmental Activities – Expenses by Function
For the Fiscal Years Ended June 30, 2005 and 2004
(\$ In Thousands)**



The following table presents the cost of each of the City’s six largest programs – education, public safety, public works, general government administration, health and welfare, and parks, recreation and cultural - 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, 2005 and 2004 (\$ In Thousands)				
Functions/Programs	2005		2004	
	Total Cost	Net Cost	Total Cost	Net Cost
Education and payments to schools	\$ 23,401	\$ 23,401	\$ 21,178	\$ 21,178
Public safety	7,017	5,122	6,638	5,138
Public works	4,128	3,226	4,150	3,127
General government administration	3,936	3,600	3,884	3,595
Parks, recreation, and cultural	3,159	2,239	2,990	2,098
Health and welfare	2,740	2,009	2,784	1,935
Other	4,834	3,602	3,785	2,589
Total	\$ 49,215	\$ 43,199	\$ 45,409	\$ 39,660

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$3.2 million in 2005 and \$2.7 million in 2004) and other governments and organizations that subsidized certain programs with grants and contributions (\$2.8 million in 2005 and \$3 million in 2004). Of the \$43.2 million net cost of services in 2005, the amount that our taxpayers paid for these activities through City taxes was \$40.7 million. The remaining \$2.5 million net cost was funded primarily by transfers from the Water and Sewer funds of \$4.7 million. In fiscal year 2004, of the \$39.7 million of net cost of services, the amount that our taxpayers paid through City taxes was \$35.6 million, and the remaining net cost of \$4.1 million was funded primarily by transfers from Water and Sewer funds of \$4.7 million.

Business-type Activities

The Water Fund reported a decrease in net assets of \$28 thousand for fiscal year 2005 and \$5.2 million for fiscal year 2004. In fiscal year 2005, total revenues and capital contributions of the Water Fund were \$19.6 million and total costs and transfers were \$19.6 million. In fiscal year 2004, total revenues and capital contributions were \$13.9 million and total costs and transfers were \$19.1 million. The Water Fund recovers its costs primarily through user charges.

The Sewer Fund reported an increase in net assets of \$0.8 million for fiscal year 2005 and a decrease of \$0.6 million for fiscal year 2004. Total revenues of the Sewer Fund were \$2.9 million as compared to total costs and transfers of \$2.1 million. In fiscal year 2004, total revenues of the Sewer Fund were \$2 million and total costs and transfers were \$2.6 million. The decrease of 26% in expenses between fiscal year 2005 and fiscal year 2004 is primarily due to a decrease in charges for system improvements passed on by Arlington County and Fairfax County as part of their billings for processing. The Sewer Fund recovers its costs primarily through user charges.

Highlights of the City's business-type activities for fiscal year 2005 are as follows:

- The Water Fund continues to make improvements to the water distribution system by adding new water mains and pump stations, and replacing older ones. The City invested \$0.9 million in replacing and building new water mains and pump stations.
- Developers also added to the distribution system in the amount of \$1.8 million.

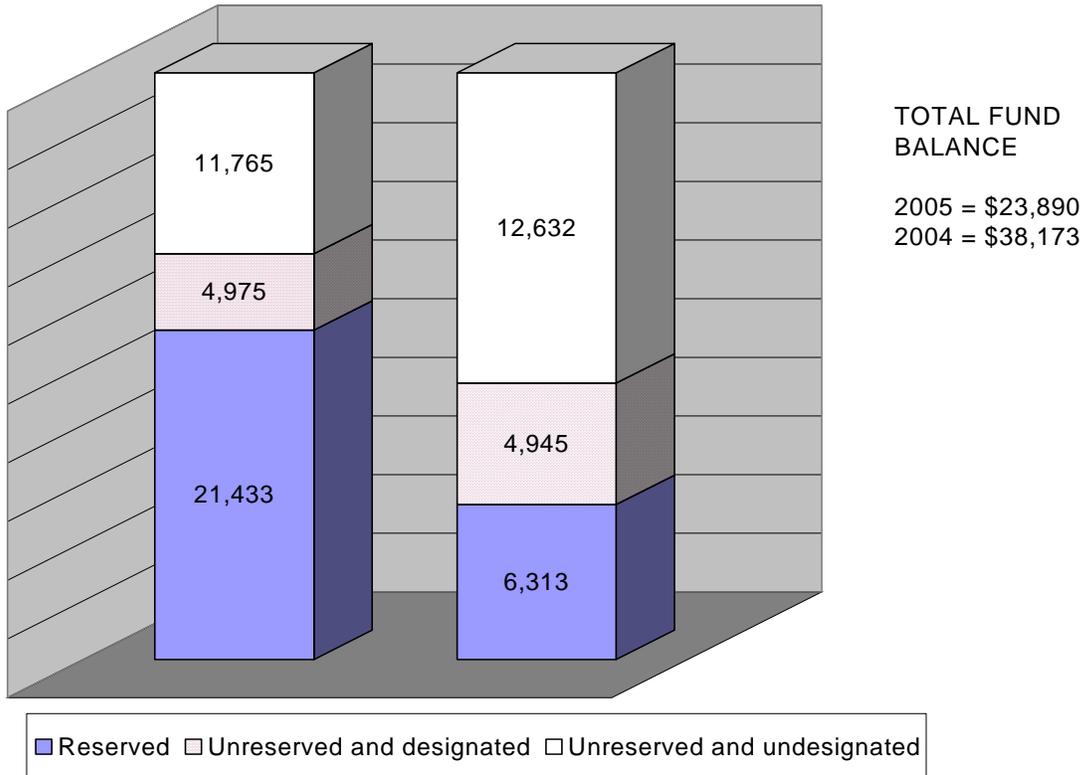
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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, unreserved 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 chart on the following page represents the components of City's governmental fund balances as of June 30, 2005 and 2004.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

**Governmental Funds – Fund Balances
As of June 30, 2005 and 2004
(\$ in Thousands)**



Overall, the fund balance for all governmental funds decreased by approximately \$14.3 million for the fiscal year ended June 30, 2005 and increased by \$21 million for the fiscal year ended June 30, 2004. The total revenues and other financing sources were \$61.4 million in 2005 and total expenditures and other financing uses were \$75.7 million. In 2004, total revenues and other financing sources were \$84 million and total expenditures and other financing uses were \$63 million. 2004 revenues and other financing sources were much higher than 2005 due to the issuance of a \$25 million bond for the construction of the new middle school and renovation of an elementary school. In 2005, expenditures and other financing uses increased by \$12.7 million largely due to the ongoing construction of the new middle school.

The reserved amounts include fund balances that are not available for new spending because they have already been committed for items such as existing purchase orders and construction contracts. The decrease in reserved fund balances of approximately \$15.1 million is primarily due to the significant completion of the new middle school construction and the elementary school renovation.

The unreserved fund balance represents resources that are available for appropriation. Of this, the City Council designates certain amounts to be used for specific purpose. As of June 30, 2005 and 2004, \$4.5 million and \$4.9 million, respectively, were designated for future construction. In FY2005, the City also designated funds for affordable dwelling units. At the end of FY2005, the funds designated for affordable dwelling units were \$414 thousand.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

The City has two governmental funds: (1) the General Fund and (2) the Capital Projects Fund.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was \$12.6 million (23.8 percent of the General Fund's total expenditures). The revenues and other financing sources of \$49.9 million less expenditures of \$53.1 million and other financing uses (net) of \$4.2 million resulted in a net increase in fund balance of \$1 million. As of the end of the prior fiscal year, the unreserved fund balance was \$11.8 million (24.1 percent of the General Fund's total expenditures). In fiscal year 2004, revenues of \$45.4 million and other financing sources of \$0.2 million were less than expenditures of \$48.8 million, resulting in a net decrease in fund balance of \$3.6 million. This decrease in fund balance is primarily due to the transfer of fund balance in the amount of \$5.6 million to the Capital Projects Fund to finance a portion of the new middle school.

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). As of June 30, 2005 and 2004, the fund balance was \$9.7 million and \$24.9 million, respectively. Of these amounts, \$5.2 million and \$20.0 million were reserved for encumbrances as of June 30, 2005 and 2004, respectively. All of the remaining funds of \$4.5 million and \$4.9 million as of June 30, 2005 and 2004, respectively, were designated for future construction.

The main reason in the reduction of the fund balance in the Capital Projects Fund in fiscal year 2005 was the ongoing and nearly completed construction and renovation of two schools. Of the \$30.6 million budgeted for the construction and renovation, approximately \$17.6 million were spent in fiscal year 2005.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget appropriations, which include expenditures and transfers out, exceeded the original budget by \$2.3 million or 4.2 percent. This increase is due primarily to carryover of commitments for projects that were not started or completed during the fiscal year ended June 30, 2005.

The final amended budget revenues and transfers in were more than the original budget by \$126,000 or 0.2 percent.

Actual revenues and other financing sources exceeded final budget amounts by \$7.6 million, and actual expenditures and other financing uses were \$3.5 million more than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2005, include the following:

- The City issued additional bonds in the amount of \$4.8 million to refund 1995 bonds in the amount of \$4.7 million.
- Actual tax revenues exceed budgeted amounts by \$2.4 million mostly due to increases in real and personal property taxes and business license taxes.
- Actual departmental expenditures were less than budgeted amounts for public works by \$1.2 million and for community development by \$0.9 million mostly due to projects that were not completed or started in FY2005.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

CAPITAL ASSETS AND LONG-TERM DEBT

The City's investment in capital assets as of June 30, 2005 and 2004, amounted to approximately \$109.1 million and \$89.2 million, respectively, (net of accumulated depreciation and amortization) as summarized below:

Capital Assets As of June 30, 2005 and 2004 (\$ In Thousands)						
	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 5,263	\$ 2,595	\$ 7,858	\$ 4,049	\$ 2,595	\$ 6,644
Construction in progress	24,333	868	25,201	6,646	2,069	8,715
Buildings and system	32,382	78,288	110,670	32,178	74,046	106,224
Improvements other than buildings	2,354	-	2,354	2,262	-	2,262
Machinery and equipment	7,849	1,183	9,032	7,329	1,006	8,335
Software	1,402	31	1,433	1,311	-	1,311
Infrastructure	8,451	-	8,451	8,506	-	8,506
Library collections	1,927	-	1,927	1,876	-	1,876
Accumulated depreciation	(23,900)	(33,795)	(57,695)	(22,354)	(32,295)	(54,649)
Total Capital Assets, Net	\$ 60,061	\$ 49,170	\$ 109,231	\$ 41,803	\$ 47,421	\$ 89,224

During fiscal year 2005, the City's net increase in capital assets (including additions, decreases, depreciation and amortization) was \$20 million (\$18.3 million net increase for governmental activities and \$1.7 million net increase for business-type activities) or 22.4 percent. During fiscal year 2004, the City's net increase in capital assets (including additions, decreases, depreciation and amortization) was \$8.5 million (\$5.5 million decrease for governmental activities and \$3 million increase for business-type activities) or 11 percent.

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

- Construction of new middle school for a total of \$17.2 million.
- Expansions and additions in the water distribution system for a total of \$2.7 million. The major components of these additions were discussed in the discussion of the City's business-type activities.

Additional information pertaining to the city's capital assets can be found in the notes to the financial statements.

Long-term debt

The City maintains the following ratings related to tax-exempt securities; Aa2 from Moody's Investor Services, AA from Standard and Poor's Corporation and AA+ from Fitch Ratings.

The City's legal limit for outstanding debt is 10 percent of total assessed real property within the City, which is \$2.68 billion in 2005 and \$2.32 billion in 2004. The City's total long-term obligations of \$51 million as of June 30, 2005 and \$51 million as of June 30, 2004, are well within the limits set by the Constitution of the Commonwealth of Virginia.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

The City Council has adopted a policy that sets a limit for outstanding debt at percent of total assessed value of real property. In addition, annual debt service payments must be less than 12 percent of annual General Fund expenditures. As of June 30, 2005, total debt outstanding was 1.9 percent of assessed value of real property and debt service payments were 7.7 percent of General Fund expenditures. As of June 30, 2004, total debt outstanding was 2.2 percent of assessed value of real property and debt service payments were 6.9 percent of General Fund expenditures.

The following is a summary of the City's outstanding debt as of June 30, 2005 and 2004:

Outstanding Long-Term Debts						
As of June 30, 2005 and 2004						
(\$ In Thousands)						
	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
General obligation bonds issued for:						
Schools	\$ 36,916	\$ -	\$ 36,916	\$ 38,105	\$ -	\$ 38,105
Community center	2,166	-	2,166	2,247	-	2,247
Fire station	3,050	-	3,050	3,164	-	3,164
City hall	4,016	-	4,016	4,435	-	4,435
Open space	1,023	-	1,023	-	-	-
Note payable issued for:						
Open space	853	-	853	-	-	-
Capital leases and other	2,929	372	3,301	3,058	406	3,464
Total	\$ 50,953	\$ 372	\$ 51,325	\$ 51,009	\$ 406	\$ 51,415

Additional information relative to the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following economic factors are reflected in the General Fund budget for the fiscal year 2006:

- The percentage change in real property taxes for fiscal year 2005 was 16.9 percent as compared to 12.9 percent change in fiscal year 2004. This was primarily due to increases in real estate assessments and the construction of a residential condominium building.
- Through June 2005, the median sales price of new and existing single family housing units experienced double-digit growth over fiscal year 2004 sales prices.

Per the fiscal year 2006 Adopted Budget, revenues are \$62.1 million, a 12.0 percent increase over the fiscal year 2005 level (excluding anticipated amounts from issuance of bonds). Increase in real property tax revenues account for 90.9 percent of the total General Fund revenue increase in fiscal year 2006. Revenue from real property taxes will make up 49.9 percent of total revenues, as compared to 45.0 percent in fiscal year 2005. Other taxes account for 16.5 percent of the increase in the General Fund revenue; revenue from the Commonwealth accounts for 7.0 percent. Fines and forfeitures are anticipated to decline by 58.1 percent due to the elimination of the City's authority to issue tickets by deploying red light monitoring cameras.

Debt service payments will increase approximately \$1.2 million, an increase of 32.1 percent, in FY2006 over FY2005 due to full annual debt service for the FY2004 and FY2005 series bonds starting in FY2006.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005**

Pressures on the City budget due to the uncertainties of State aid and the additional resources required to maintain a safe community will continue to be a challenge. In addition, growth in the numbers of school age children and the opening of the Mary Ellen Henderson Middle School require an increase in transfers to the School budget of approximately 10.2 percent.

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,



John H. Tuohy, CPA
General Manager, Chief Financial Officer



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CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

BASIC FINANCIAL
STATEMENTS





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CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF NET ASSETS
As of June 30, 2005

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	School Board	Economic Development Authority	Total Component Units
ASSETS						
Cash and cash equivalents	\$ 21,062,860	\$ 14,611,206	\$ 35,674,066	\$ 2,529,647	\$ 178,407	\$ 2,708,054
Investments	-	9,659,710	9,659,710	-	-	-
Receivables, net	18,695,986	3,446,464	22,142,450	80,672	2,600	83,272
Internal balances	2,184,809	(2,184,809)	-	-	-	-
Due from primary government	-	-	-	2,708,818	-	2,708,818
Due from other governmental units	3,993,661	-	3,993,661	438,872	-	438,872
Prepays	217,700	-	217,700	-	-	-
Inventories	135,794	322,255	458,049	-	-	-
Temporarily restricted cash and cash equivalents	8,716,031	-	8,716,031	-	-	-
Capital assets:						
Non-depreciable	29,596,444	3,463,240	33,059,684	1,414,969	517,255	1,932,224
Depreciable, net of accumulated depreciation	30,464,792	45,707,184	76,171,976	2,084,329	-	2,084,329
Total capital assets, net	60,061,236	49,170,424	109,231,660	3,499,298	517,255	4,016,553
Total Assets	115,068,077	75,025,250	190,093,327	9,257,307	698,262	9,955,569
LIABILITIES						
Accounts payable and other current liabilities	5,034,100	3,049,284	8,083,384	3,663,475	-	3,663,475
Accrued interest payable	778,295	-	778,295	-	-	-
Due to fiduciary funds	1,620,866	-	1,620,866	-	-	-
Due to component unit	2,708,818	-	2,708,818	-	-	-
Unearned revenue	18,431,902	-	18,431,902	-	-	-
Customer deposits	1,059,560	-	1,059,560	-	-	-
Noncurrent liabilities:						
Portion due or payable within one year	4,724,812	321,101	5,045,913	392,973	-	392,973
Due in more than one year	46,228,531	50,586	46,279,117	567,089	-	567,089
Total Liabilities	80,586,884	3,420,971	84,007,855	4,623,537	-	4,623,537
NET ASSETS						
Invested in capital assets, net of related debt	19,354,251	49,170,424	68,524,675	3,288,254	517,255	3,805,509
Unrestricted	15,126,942	22,433,855	37,560,797	1,345,516	181,007	1,526,523
Total Net Assets	\$ 34,481,193	\$ 71,604,279	\$ 106,085,472	\$ 4,633,770	\$ 698,262	\$ 5,332,032

**CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets						
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		Total Component Units	
					Governmental Activities	Business-Type Activities	Total	School Board	Economic Development Authority		
Primary Government:											
Governmental activities:											
General government administration	\$ 3,935,683	\$ 55,449	\$ 280,434	\$ -	\$ (3,599,800)	\$ -	\$ (3,599,800)	\$ -	\$ -	\$ -	
Judicial administration	1,156,203	672,226	341,665	-	(142,312)	-	(142,312)	-	-	-	
Public safety	7,017,277	1,414,384	480,511	-	(5,122,382)	-	(5,122,382)	-	-	-	
Public works	4,127,607	129,570	772,207	-	(3,225,830)	-	(3,225,830)	-	-	-	
Health and welfare	2,740,167	-	731,153	-	(2,009,014)	-	(2,009,014)	-	-	-	
Education and payments to Schools	23,400,685	-	-	-	(23,400,685)	-	(23,400,685)	-	-	-	
Parks, recreation, and cultural	3,158,648	718,591	200,944	-	(2,239,113)	-	(2,239,113)	-	-	-	
Community development	1,163,151	218,101	-	-	(945,050)	-	(945,050)	-	-	-	
Economic development	294,554	-	-	-	(294,554)	-	(294,554)	-	-	-	
Interest expense	2,220,727	-	-	-	(2,220,727)	-	(2,220,727)	-	-	-	
Total governmental activities	49,214,702	3,208,321	2,806,914	-	(43,199,467)	-	(43,199,467)	-	-	-	
Business-type activities:											
Water	14,878,376	17,150,392	-	1,818,635	-	4,090,651	4,090,651	-	-	-	
Sewer	2,028,151	2,731,556	-	88,842	-	792,247	792,247	-	-	-	
Total business-type activities	16,906,527	19,881,948	-	1,907,477	-	4,882,898	4,882,898	-	-	-	
Total Primary Government	\$ 66,121,229	\$ 23,090,269	\$ 2,806,914	\$ 1,907,477	\$ (43,199,467)	\$ 4,882,898	\$ (38,316,569)	\$ -	\$ -	\$ -	
Component Units:											
Education	28,819,758	1,586,360	4,514,402	263,654	-	-	-	(22,455,342)	-	(22,455,342)	
Economic development	712	-	-	-	-	-	-	-	(712)	(712)	
Total Component Units	\$ 28,820,470	\$ 1,586,360	\$ 4,514,402	\$ 263,654	\$ -	\$ -	\$ -	\$ (22,455,342)	\$ (712)	\$ (22,456,054)	
General Revenues:											
Taxes:											
Real property					\$ 26,248,419	\$ -	\$ 26,248,419	\$ -	\$ -	\$ -	
Personal property					3,137,750	-	3,137,750	-	-	-	
Business licenses, based on gross receipts					2,913,022	-	2,913,022	-	-	-	
Local sales & use					3,828,328	-	3,828,328	-	-	-	
Consumer's utility					1,645,515	-	1,645,515	-	-	-	
Motor vehicle decals					223,394	-	223,394	-	-	-	
Real estate recordation taxes					232,243	-	232,243	-	-	-	
Occupancy, tobacco, and other					2,454,441	-	2,454,441	-	-	-	
Grants and contributions not restricted to specific programs					1,495,015	-	1,495,015	-	-	-	
Revenue from use of money and property					546,512	650,041	1,196,553	114,487	27,571	142,058	
Payment from primary government					-	-	-	22,887,427	-	22,887,427	
Other					43,674	38,202	81,876	105,492	2,600	108,092	
Transfers:											
Payments in lieu of taxes					138,382	(138,382)	-	-	-	-	
Return on equity					4,625,874	(4,625,874)	-	-	-	-	
Total General Revenues and Transfers					47,532,569	(4,076,013)	43,456,556	23,107,406	30,171	23,137,577	
Change in net assets					4,333,102	806,885	5,139,987	652,064	29,459	681,523	
Net Assets - Beginning of Year					30,148,091	70,797,394	100,945,485	3,981,706	668,803	4,650,509	
Net Assets - End of Year					\$ 34,481,193	\$ 71,604,279	\$ 106,085,472	\$ 4,633,770	\$ 698,262	\$ 5,332,032	

The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2005**

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 18,351,667	\$ 3,733,193	\$ 22,084,860
Investments	-	-	-
Receivables, net	18,695,986	-	18,695,986
Due from other governmental units	3,993,661	-	3,993,661
Due from other funds	787,164	-	787,164
Prepaid items	217,700	-	217,700
Inventories	135,794	-	135,794
Restricted:			
Cash and cash equivalents	-	7,694,031	7,694,031
Due from general fund	-	1,022,000	1,022,000
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 42,181,972</u>	<u>\$ 12,449,224</u>	<u>\$ 54,631,196</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 3,461,426	\$ 1,572,674	\$ 5,034,100
Deferred revenue	20,693,577	-	20,693,577
Customer deposits	1,059,560	-	1,059,560
Due to other funds	-	1,194,206	1,194,206
Due to component units	2,759,833	-	2,759,833
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>27,974,396</u>	<u>2,766,880</u>	<u>30,741,276</u>
Fund Balances:			
Reserved for:			
Encumbrances	807,907	5,151,445	5,959,352
Inventory	135,794	-	135,794
Prepaid items	217,700	-	217,700
Unreserved, reported in:			
General Fund:			
Designated for affordable dwelling units	414,219	-	414,219
Undesignated	12,631,956	-	12,631,956
Capital Projects Fund:			
Designated for construction	-	4,530,899	4,530,899
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>14,207,576</u>	<u>9,682,344</u>	<u>23,889,920</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 42,181,972</u>	<u>\$ 12,449,224</u>	<u>\$ 54,631,196</u>

CITY OF FALLS CHURCH, VIRGINIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
As of June 30, 2005

Fund balances - total governmental funds	\$	23,889,920
<p>Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds</p>		
Governmental capital assets	83,961,115	
Less accumulated depreciation	(23,899,879)	60,061,236
<p>Some of the City's receivables will not be collected soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds:</p>		
Delinquent property taxes (net of allowances)		2,261,675
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds</p>		
General obligation bonds payable	(47,171,034)	
Premium on bond sale and refundings (net of accumulated amortization)	(949,540)	
Note payable	(852,500)	
Compensated absences	(1,529,327)	
Capital leases payable	(450,942)	(50,953,343)
<p>Interest on long-term liabilities is not accrued in the governmental funds, but is recognized as an expenditure when due.</p>		
		(778,295)
Net Assets of Governmental Activities	\$	34,481,193

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 28,777,104	\$ -	\$ 28,777,104
Other local taxes	11,284,301	-	11,284,301
Permit, privilege fees, and regulatory licenses	479,042	-	479,042
Fines and forfeitures	1,302,463	-	1,302,463
Revenue from use of money and property	546,512	-	546,512
Charges for services	1,292,015	-	1,292,015
Miscellaneous	148,820	-	148,820
Recovered costs	2,236,692	-	2,236,692
Intergovernmental:			
Commonwealth	3,018,725	-	3,018,725
Federal	851,358	-	851,358
	<u>49,937,032</u>	<u>-</u>	<u>49,937,032</u>
Total Revenues			
	<u>49,937,032</u>	<u>-</u>	<u>49,937,032</u>
EXPENDITURES			
Current:			
General government administration	5,251,876	-	5,251,876
Judicial administration	1,094,018	-	1,094,018
Public safety	6,996,497	-	6,996,497
Public works	4,147,696	-	4,147,696
Health and welfare	2,719,107	-	2,719,107
Education and payments to Schools	23,129,472	(198,871)	22,930,601
Parks, recreation, and cultural	2,962,822	-	2,962,822
Community development	1,424,396	-	1,424,396
Economic development	292,876	-	292,876
Capital outlay	995,697	18,096,178	19,091,875
Debt service:			
Principal retirement	2,135,828	-	2,135,828
Interest and other fiscal charges	1,955,871	1,000	1,956,871
	<u>53,106,156</u>	<u>17,898,307</u>	<u>71,004,463</u>
Total Expenditures			
	<u>53,106,156</u>	<u>17,898,307</u>	<u>71,004,463</u>
Deficiency of revenues under expenditures	<u>(3,169,124)</u>	<u>(17,898,307)</u>	<u>(21,067,431)</u>
Other financing sources/(uses):			
Transfer from Enterprise Funds	4,764,256	-	4,764,256
Transfers in/(out)	(1,604,123)	1,604,123	-
Proceeds from issuance of bonds	-	1,023,000	1,023,000
Proceeds from refunding bonds	4,808,034	-	4,808,034
Proceeds from issuance of notes	852,500	-	852,500
Proceeds from capital leases	39,250	-	39,250
Payment to refund bonds	(4,660,000)	-	(4,660,000)
Premium paid on refunding of bonds	(42,425)	-	(42,425)
	<u>4,157,492</u>	<u>2,627,123</u>	<u>6,784,615</u>
Total Other Financing Sources/(Uses)			
	<u>4,157,492</u>	<u>2,627,123</u>	<u>6,784,615</u>
Net Change in Fund Balances	988,368	(15,271,184)	(14,282,816)
Fund Balances at beginning of year	13,219,208	24,953,528	38,172,736
Fund Balances at end of year	<u>\$ 14,207,576</u>	<u>\$ 9,682,344</u>	<u>\$ 23,889,920</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FALLS CHURCH, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$	(14,282,816)
Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Expenditures for capital assets	19,838,097	
Less current year depreciation and amortization	(1,858,830)	
Loss on disposal of assets	<u>(61,323)</u>	17,917,944
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Increase in deferred revenue related to taxes	609,065	
Donations of capital assets	<u>340,248</u>	949,313
The issuance of long-term debt (e.g., bonds and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, issuing debt increases long-term liabilities and the repayment of debt reduces long-term liabilities in the Statement of Net Assets, but these transactions do not affect the Statement of Activities.		
Proceeds from issuance of bonds	(5,831,034)	
Proceeds from issuance of notes	(852,500)	
Proceeds from capital leases	(39,250)	
Premium on bond refunding, net of current period amortization	85,797	
Principal payments on bonds	1,950,000	
Payment to refund bonds	4,660,000	
Principal payments on capital leases	<u>185,827</u>	158,840
Certain 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 compensated absence liability	(102,951)	
Change in accrued interest liability	<u>(307,228)</u>	(410,179)
Change in Net Assets of Governmental Activities	\$	<u><u>4,333,102</u></u>

CITY OF FALLS CHURCH, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --
BUDGET AND ACTUAL
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
General property taxes	\$ 27,533,302	\$ 27,533,302	\$ 28,777,104	\$ 1,243,802
Other local taxes	10,138,600	10,138,600	11,284,301	1,145,701
Permit, privilege fees, and regulatory licenses	367,305	367,305	479,042	111,737
Fines and forfeitures	946,500	946,500	1,302,463	355,963
Revenue from use of money and property	195,000	195,000	546,512	351,512
Charges for services	1,231,572	1,231,572	1,292,015	60,443
Miscellaneous	380,200	388,200	148,820	(239,380)
Recovered costs	2,193,453	2,193,453	2,236,692	43,239
Intergovernmental:				
Commonwealth	4,144,902	4,144,902	3,018,725	(1,126,177)
Federal	776,565	894,565	851,358	(43,207)
Total Revenues	<u>47,907,399</u>	<u>48,033,399</u>	<u>49,937,032</u>	<u>1,903,633</u>
EXPENDITURES				
Current:				
General government administration	5,117,721	5,238,134	5,251,876	(13,742)
Judicial administration	1,099,538	1,107,679	1,094,018	13,661
Public safety	6,500,779	7,018,897	6,996,497	22,400
Public works	5,777,504	5,392,928	4,147,696	1,245,232
Health and welfare	3,106,956	3,106,956	2,719,107	387,849
Education and payments to Schools	22,686,578	22,717,578	23,129,472	(411,894)
Parks, recreation, and cultural	2,972,195	3,003,179	2,962,822	40,357
Community development	2,056,739	2,351,157	1,424,396	926,761
Economic development	360,617	372,615	292,876	79,739
Capital outlay	200,000	226,618	995,697	(769,079)
Debt service:				
Principal retirement	1,950,000	1,950,000	2,135,828	(185,828)
Interest and other fiscal charges	1,866,428	1,866,428	1,955,871	(89,443)
Total Expenditures	<u>53,695,055</u>	<u>54,352,169</u>	<u>53,106,156</u>	<u>1,246,013</u>
Deficiency of revenues under expenditures	<u>(5,787,656)</u>	<u>(6,318,770)</u>	<u>(3,169,124)</u>	<u>3,149,646</u>
Other financing sources/(uses):				
Transfers from Enterprise Funds	4,764,256	4,764,256	4,764,256	-
Transfers out	-	(1,604,123)	(1,604,123)	-
Proceeds from refunding bonds	-	-	4,808,034	4,808,034
Proceeds from issuance of notes	-	-	852,500	852,500
Proceeds from capital leases	-	-	39,250	39,250
Payment to refund bonds	-	-	(4,660,000)	(4,660,000)
Premium paid on refunding of bonds	-	-	(42,425)	(42,425)
Total Other Financing Sources/(Uses)	<u>4,764,256</u>	<u>3,160,133</u>	<u>4,157,492</u>	<u>997,359</u>
Net Change in Fund Balances	<u>(1,023,400)</u>	<u>(3,158,637)</u>	<u>988,368</u>	<u>4,147,005</u>
Fund Balances at beginning of year	<u>1,023,400</u>	<u>13,219,208</u>	<u>13,219,208</u>	<u>-</u>
Fund Balances at end of year	<u>\$ -</u>	<u>\$ 10,060,571</u>	<u>\$ 14,207,576</u>	<u>\$ 4,147,005</u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2005

	Business-Type Activities -- Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 10,582,902	\$ 4,028,304	\$ 14,611,206
Investments	9,659,710	-	9,659,710
Receivables, net	2,999,582	446,882	3,446,464
Inventories	317,505	4,750	322,255
Total current assets	<u>23,559,699</u>	<u>4,479,936</u>	<u>28,039,635</u>
Noncurrent Assets:			
Capital assets:			
Non-depreciable	3,458,120	5,120	3,463,240
Depreciable, net	43,148,950	2,558,234	45,707,184
Total capital assets, net	<u>46,607,070</u>	<u>2,563,354</u>	<u>49,170,424</u>
Total noncurrent assets	<u>46,607,070</u>	<u>2,563,354</u>	<u>49,170,424</u>
Total Assets	<u>\$ 70,166,769</u>	<u>\$ 7,043,290</u>	<u>\$ 77,210,059</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 2,825,991	\$ 223,293	\$ 3,049,284
Accrued compensated absences	310,038	11,063	321,101
Due to other funds	1,911,797	273,012	2,184,809
Total current liabilities	<u>5,047,826</u>	<u>507,368</u>	<u>5,555,194</u>
Noncurrent liabilities:			
Construction loan	-	7,000	7,000
Compensated absences, net of current amount	43,586	-	43,586
Total Liabilities	<u>5,091,412</u>	<u>514,368</u>	<u>5,605,780</u>
Net Assets:			
Invested in capital assets	46,607,070	2,563,354	49,170,424
Unrestricted	18,468,287	3,965,568	22,433,855
Total Net Assets	<u>65,075,357</u>	<u>6,528,922</u>	<u>71,604,279</u>
Total Liabilities and Net Assets	<u>\$ 70,166,769</u>	<u>\$ 7,043,290</u>	<u>\$ 77,210,059</u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	Business-Type Activities -- Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 14,351,191	\$ 2,427,613	\$ 16,778,804
Rentals	165,105	-	165,105
Miscellaneous	37,711	491	38,202
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	14,554,007	2,428,104	16,982,111
	<hr/>	<hr/>	<hr/>
Operating Expenses:			
Source of supply	6,121,533	-	6,121,533
Distribution system	2,376,565	-	2,376,565
Collection and disposal	-	1,636,204	1,636,204
Water connections	240,535	-	240,535
Administration	4,580,571	356,982	4,937,553
Depreciation	1,532,944	27,965	1,560,909
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	14,852,148	2,021,151	16,873,299
	<hr/>	<hr/>	<hr/>
Operating Income/(Loss)	(298,141)	406,953	108,812
	<hr/>	<hr/>	<hr/>
Nonoperating Revenues/(Expenses):			
Availability fees	2,799,201	303,943	3,103,144
Investment earnings	405,527	79,409	484,936
Loss on disposition of capital assets	(26,228)	-	(26,228)
Debt issuance cost	-	(7,000)	(7,000)
	<hr/>	<hr/>	<hr/>
Total Nonoperating Revenue	3,178,500	376,352	3,554,852
	<hr/>	<hr/>	<hr/>
Loss Before Contributions and Transfers	2,880,359	783,305	3,663,664
	<hr/>	<hr/>	<hr/>
Capital contributions	1,818,635	88,842	1,907,477
Transfers to General Fund:			
Payments in lieu of taxes	(101,254)	(37,128)	(138,382)
Return on equity	(4,625,874)	-	(4,625,874)
	<hr/>	<hr/>	<hr/>
Change in Net Assets	(28,134)	835,019	806,885
Total net assets at beginning of year	65,103,491	5,693,903	70,797,394
	<hr/>	<hr/>	<hr/>
Total net assets at end of year	\$ 65,075,357	\$ 6,528,922	\$ 71,604,279
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	Business-type Activities -- Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 14,623,874	\$ 2,578,944	\$ 17,202,818
Payments to suppliers	(5,980,630)	(1,475,336)	(7,455,966)
Payments to employees	(3,257,622)	(189,486)	(3,447,108)
Payments for interfund services used	(1,832,386)	(270,405)	(2,102,791)
Net Cash From Operating Activities	<u>3,553,236</u>	<u>643,717</u>	<u>4,196,953</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Payments in lieu of taxes	(101,254)	(37,128)	(138,382)
Return on equity transfer to General Fund	(4,625,874)	-	(4,625,874)
Net Cash Used In Noncapital and Related Financing Activities	<u>(4,727,128)</u>	<u>(37,128)</u>	<u>(4,764,256)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Issuance of construction loan	-	7,000	7,000
Debt issuance cost	-	(7,000)	(7,000)
Receipts from customers for availability fees	2,799,201	303,943	3,103,144
Acquisition and construction of capital assets	(1,269,289)	(159,552)	(1,428,841)
Net Cash Provided by Capital and Related Financing Activities	<u>1,529,912</u>	<u>144,391</u>	<u>1,674,303</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(7,730,559)	-	(7,730,559)
Sale of investments	3,734,487	-	3,734,487
Interest and dividends received	394,219	79,409	473,628
Net Cash Provided by (Used in) Investing Activities	<u>(3,601,853)</u>	<u>79,409</u>	<u>(3,522,444)</u>
Net Decrease in Cash and Cash Equivalents	<u>(3,245,833)</u>	<u>830,389</u>	<u>(2,415,444)</u>
Cash and Cash Equivalents, Beginning of Year	<u>13,828,735</u>	<u>3,197,915</u>	<u>17,026,650</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,582,902</u>	<u>\$ 4,028,304</u>	<u>\$ 14,611,206</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:			
Operating loss	\$ (298,141)	\$ 406,953	\$ 108,812
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation expense	1,532,944	27,965	1,560,909
Bad debt expense	325	2,607	2,932
Changes in operating assets and liabilities:			
(Increase)/decrease in:			
Accounts receivable	(200,686)	135,258	(65,428)
Inventory	(24,647)	(2,616)	(27,263)
Increase/(decrease) in:			
Accounts payable and accrued liabilities	506,500	(209,949)	296,551
Accrued compensated absences	(37,910)	(3,604)	(41,514)
Due to/from other funds	2,074,851	287,103	2,361,954
Total adjustments	<u>3,851,377</u>	<u>236,764</u>	<u>4,088,141</u>
Net Cash From Operating Activities	<u>\$ 3,553,236</u>	<u>\$ 643,717</u>	<u>\$ 4,196,953</u>
Supplemental Schedule of Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	<u>\$ 1,818,635</u>	<u>\$ 88,842</u>	<u>\$ 1,907,477</u>
Decrease in fair value of investments	<u>\$ 100,359</u>	<u>\$ -</u>	<u>\$ 100,359</u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
As of June 30, 2005

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 748,355	\$ 1,654,686
Investments:		
Domestic equity securities	33,842,597	-
Domestic fixed income securities	16,372,351	-
International equity securities	12,690,559	-
Real estate	3,163,122	-
Other	276,302	-
Total investments	66,344,931	-
Contributions receivable:		
Employer	1,758	-
Employee	104,951	-
Total contributions	106,709	-
Interest and dividend receivable	19,753	-
Other receivables	-	970,511
Due from general fund	-	1,671,605
	67,219,748	4,296,802
Total Assets		
LIABILITIES		
Accounts payable	5,500	-
Due to general fund	50,738	-
Due to other governments	-	4,296,802
	56,238	4,296,802
Total Liabilities		
NET ASSETS		
Held in trust for pension benefits	\$ 67,163,510	\$ -

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
For the Year Ended June 30, 2005

ADDITIONS

Employer contributions	\$ 104,591
Employee contributions	7,202
Investment earnings:	
Interest	182,748
Dividends	688,447
Net increase in the fair value of investments	5,424,481
Total investment earnings	<u>6,295,676</u>
Less investment expense	<u>(267,178)</u>
Net investment earnings	<u>6,028,498</u>
 Total Additions	 <u>6,140,291</u>

DEDUCTIONS

Benefits	2,262,523
Administration	<u>21,355</u>
 Total Deductions	 <u>2,283,878</u>
 Change in Net Assets	 3,856,413
Net Assets at Beginning of Year	<u>63,307,097</u>
 Net Assets at End of Year	 <u>\$ 67,163,510</u>

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Falls Church, Virginia (the City), is a municipal corporation incorporated as an independent city in 1948 under laws of the Commonwealth of Virginia, and is not part of any county. 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 either provided directly by the City or through contracts with the Counties of Arlington and Fairfax, Virginia. The City has its own water system that also serves a part of Fairfax County and a sewer system that only serves the City. Through one of its component units, the City of Falls Church School Board, the City provides elementary and secondary education to city residents.

A. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements (see Note II.B below for discussion) to emphasize that they are legally separate from the City and not a part of the primary government.

Blended component units. Blended component units, although legally separate entities, are in substance part of the government's operations. Characteristics of blended component units are having substantially the same members of its governing body as the primary government, and/or created to provide services directly to or for the primary government. The City has no blended component units.

Discretely presented 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.

The following organizations are reported as discretely presented component units. None of these component units 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 the City's Council approves the School Board's budget and provides a substantial portion of the School Board's funds for operations.

The Falls Church Economic Development Authority (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 issues.

B. Basis of Presentation

Government-wide Financial Statements. The government-wide financial statements (i.e., the statement of net assets (Exhibit I) and the statement of activities (Exhibit II)) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities,

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenues not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements. The accounts of the reporting entity are organized on the basis of funds, each of which is considered to be a separate accounting entity. 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, if any, are aggregated and reported in one column as nonmajor funds.

The following are the major funds of the City:

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. Another major governmental fund is the Capital Projects Fund. This 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). This fund is reported as a major fund in FY 2004 due to the increased activities resulting from the issuance of bonds for the construction of a new middle school and renovations to an existing elementary school.

Proprietary Funds. The Water Fund and the Sewer Fund are the two enterprise funds of the City. These funds are used to account for the financing, construction, and operations of the City's water and sewer systems.

The City also reports the following fiduciary funds:

Pension 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.

Agency Funds. These funds are used to account for assets held by the City in a trustee capacity or as an agent 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.

C. Measurement Focus and Basis of Accounting

The City prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental entities.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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1. Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary and fiduciary fund financial statements for the pension trust funds are reported using the economic resources measurement focus and the accrual basis of accounting; 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. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Amounts reported as program revenues in the government-wide financial statements include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes. The City charges all costs except interest on long-term obligations and depreciation to the appropriate function at the time such costs are incurred. Depreciation has been allocated to each function. Interest on long-term obligations is shown as a separate line item in the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. The water fund also includes as operating revenue, the availability fees charged to new customers. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For the pension 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.

The City follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of applying subsequent private-sector guidance for their business-type activities and Proprietary Funds, subject to this same limitation. The City has elected not to apply this option.

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

2. Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement

CITY OF FALLS CHURCH, VIRGINIA
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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 when they are collectible within the current period or within 60 days thereafter. The primary revenues susceptible to accrual include property, business licenses, and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recognized only when payment is due. General capital asset acquisitions are reported as capital outlays in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City's cash and cash equivalents 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.

The City maintains cash and cash equivalents for all funds in a single pooled account, except for certain cash and investments required to be maintained in separate accounts in order to comply with provisions of grants and other agreements. The component units also invest in the pooled cash account. As of June 30, 2005, the pooled cash and cash equivalents have been allocated between the City and the respective component units based upon their respective ownership percentages. Interest earned, less an administrative charge, is generally allocated to the respective funds and component units based on each fund's or component unit's equity in the pooled account except when City Council authorizes the allocation of the fund's interest income into the General Fund.

City cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds and component units are transferred thereto through interfund receivable and payable accounts.

2. Investments

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are recorded at fair value. Investment purchases and sales are recorded as of the trade date. Investment income is allocated to each fund based on each fund's equity in the pooled account except when City Council authorizes the allocation of the fund's interest income into the General Fund.

3. Receivables and Payables

Activities within the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "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".

CITY OF FALLS CHURCH, VIRGINIA
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All trade and property taxes receivables, including those for the water and sewer funds, are shown net of an allowance for estimated uncollectible amounts. Unbilled water and sewer service bills are estimated at fiscal year end net of an estimated provision for uncollectible accounts.

Accounts payable and accrued liabilities include amounts due to vendors and employees for goods and services received as of June 30, 2005.

4. Inventories and Prepaid Items

All inventories are valued at the lower of cost (using the first in, first out method) or market. Inventories of both governmental and proprietary funds 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 prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain proceeds of the City's bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "bond open space" account is used to report those proceeds of revenue bond issuances that are restricted for the purchase of open space land.

6. Capital Assets

Capital assets, which include land, buildings, improvements, machinery and equipment, library collections, and infrastructure assets (e.g., roads, sidewalks, water and sewer systems, and similar items), that individually cost \$5,000 or more, with useful lives greater than one year are reported in the proprietary funds and applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and actual costs are not known. Donated capital assets are recorded at estimated fair value at the date of donation. Capital assets are depreciated/amortized over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Capital Assets	Useful Lives
Infrastructure	20-50 years
Water system	20-40 years
Sewer system	20-40 years
Buildings	50 years
Improvements, other than buildings	20 years
Machinery and Equipment	5-20 years
Library collections	5 years
Software	3 years

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend their useful lives are not capitalized. Major outlays for capital assets and improvements are

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initially capitalized as construction in progress and are transferred to buildings and improvements when the assets are substantially complete and placed in service.

Leases that meet the criteria for capitalization are capitalized in the Statement of Net Assets for the governmental activities and the component units. Related amortization is included in depreciation expense in the Statement of Activities.

7. *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 all 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.

A liability for these amounts is calculated using the employee's pay rate as of June 30, 2005, and is reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Such amounts are included in accounts payable and accrued liabilities shown in the City's and the School Board's governmental fund financial statements.

The liabilities for compensated absences are liquidated by the General Fund and the Water and Sewer Funds for City employees and by the School Operating, Community Services, and Food Service Funds for School Board employees.

8. *Long-term Obligations*

In the government-wide and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while 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.

9. *Net Assets*

Net assets are comprised of three categories: (1) net assets invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The first category represents the portion of net assets that is associated with non-liquid, capital assets, less the associated outstanding debt. Restricted net assets reflect the assets whose use is restricted by outside parties or legal constraints. Net assets, which are neither restricted nor invested in capital assets, are reported as unrestricted net assets. The City has no restricted net assets as of June 30, 2005.

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The City issues general obligation bonds to finance the construction of school facilities for the School Board because the School Board does not have borrowing or taxing authority. The City reports the outstanding obligations as a liability in its financial statements since the debt is issued and backed by the full faith and credit of the City. Pursuant to legislation passed by the Commonwealth of Virginia and accounting guidance provided by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, the capital assets acquired by such bond proceeds are reported as capital assets of the City in its government-wide financial statements until such time as the outstanding indebtedness is retired. Upon retirement of outstanding bonds, the net book value of such capital assets will be transferred to and reported in the School Board's government-wide financial statements.

10. Designations of Governmental Fund Unreserved Fund Balances and Enterprise Fund Net Assets

Designations of fund balance represent management's plans that are subject to change.

At June 30, 2005, approximately \$414,000 of the General Fund unreserved fund balance has been designated by the City Council to be used to fund affordable dwelling unit initiatives.

Additionally, at June 30, 2005, management has designated up to approximately \$23.2 million of the Water Fund unrestricted net assets to provide for future increased capacity as needed. Such net assets are primarily comprised of accumulated availability fees received from Water Fund customers.

E. Recovered Costs

Reimbursements from another government are recorded as recovered costs. Likewise, reimbursements from the Water and Sewer funds for services provided by the General Fund are reported as recovered costs in the governmental fund financial statements, and have been eliminated in the preparation of the government-wide financial statements. The total amount eliminated is approximately \$2 million for fiscal year 2005.

F. Intergovernmental Agreements

During 2005, the City had agreements with several governmental units to provide certain governmental services to the City. They are detailed below:

1. County of Fairfax

The City, the County of Fairfax (the County), 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 the County as its fiscal agent. Payments to CSB are recorded as expenses in the government-wide financial statements and as expenditures in the General Fund financial statements. During 2005, the City paid CSB approximately \$581,000.

The City also makes payments to the County for the full cost of the local portion of public assistance payments and for the use of special County health facilities by the City's residents. During 2005, the City paid the County approximately \$679,000 for these services. Such payments are recorded as expenses in the government-wide financial statements and as expenditures in the General Fund.

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The City also has an agreement with the County to share in the cost of its sewage treatment facilities. During 2005, the City paid the County approximately \$1 million for sewage treatment costs. This cost is recorded as an expense in the Enterprise Funds.

2. *Fairfax County Water Authority*

The City has an agreement with the Fairfax County Water Authority (FCWA) to purchase water from FCWA. During 2005, the City paid the FCWA approximately \$1.4 million for water. This cost is recorded as an expense in the Enterprise Funds.

3. *County of Arlington*

The City contracts its fire and rescue, and judicial services, to Arlington County, Virginia. During 2005, the City paid Arlington County approximately \$1.3 million for fire and rescue services. The City paid Arlington County approximately \$363,000 for judicial services in 2005.

The City also receives payment from Arlington County for Arlington County's share of the cost of operating a girls' home facility. Payments received during 2005 amounted to approximately \$311,000 and are recorded as revenues in the General Fund financial statements as well as the City's government-wide financial statements.

4. *United States Department of Army Corp. of Engineers (Department of Army)*

The City has an agreement with the Department of Army to purchase water and to share water treatment facility capital costs. For the fiscal year ended June 30, 2005, the City paid approximately \$3.3 million to the Department of Army for water, which is recorded as an expense in the enterprise Funds. The City paid approximately \$253,000 towards the water treatment facility costs. These payments are remitted into a bank account in the City's name from which the Department of Army draws down. A corresponding liability is recorded in the enterprise Funds for the remaining balance. As of June 30, 2005, the remaining balance was approximately \$1.3 million.

5. *Northern Virginia Criminal Justice Training Academy (NVCJA)*

Along with other local jurisdictions, the City entered into an agreement to assist in financing the operations and debt service of NVCJA. NVCJA 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 in NVCJA. The City paid NVCJA approximately \$25,000 for its share of the operating and debt service costs for the fiscal year ended June 30, 2005. These are recorded as expenses in the General Fund.

G. Joint Ventures

1. *Northern Virginia Transportation Commission (NVTC)*

The NVTC is a joint venture among the cities of Alexandria, Fairfax, and Falls Church and the counties of Arlington, Fairfax, and Loudoun. It was established to improve the transportation systems composed of transit facilities, public highways, and other modes of transportation. The Commonwealth of Virginia has authorized a 2% fuel tax to be used for transportation systems through NVTC. While each jurisdiction effectively controls NVTC's use of motor fuel tax proceeds from that jurisdiction, they do not have an explicit measurable equity interest in NVTC. Information regarding NVTC is provided in

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NVTC's separate, published financial statements, which are available to the general public from its offices at 4350 North Fairfax Drive, Suite 720, Arlington, VA 20243.

2. *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. The City 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 the fiscal year ended June 30, 2005, the City's required contributions amounted to approximately \$1.5 million, all of which were paid through the City's participation in the NVTC. The City anticipates its annual required contribution in fiscal year 2006 to be consistent with fiscal year 2005. Complete financial statements of WMATA may be obtained from WMATA, 600 5th Street, NW, Washington, DC 20001.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

- a. On a date fixed by the Council, the City Manager submits to the Council budgets for the general operation of the City government for the fiscal year commencing July 1.
- b. Public hearings are conducted to obtain citizen comments.
- c. The budget is legally enacted through passage of an appropriation ordinance. 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.
- d. The appropriation ordinance places legal restrictions on expenditures at the fund level. Only the Council can revise the appropriation for each fund. The City Manager is authorized to transfer unencumbered balances within departments.
- e. The action of the Council on the school budget relates to the total budget only and the School Board has the authority to expend at its discretion the sum appropriated for its use, provided that if it receives an appropriation greater or less than its original request, it must revise its estimates of expenditures and adjust appropriations accordingly. The School Board has the power to order transfers from one item of appropriation to another during the course of the fiscal year.

CITY OF FALLS CHURCH, VIRGINIA
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- f. Unencumbered appropriations lapse on June 30 for all City units except for those of the Capital Projects Fund, which are carried into the following year on a continuing appropriation basis.
- g. Original and final budgeted amounts are shown; amendments were not significant in relation to the original budget except for the amendments related to school construction and open space acquisition. Budget amendments may be approved by the City Council subsequent to adoption of the original budget throughout the year.

III. DETAILED NOTES ON ALL FUNDS

A. Cash, Cash Equivalents and Investments

1. Deposits

As of June 30, 2005, all of the reporting entity's deposits were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). The Act provides for the pooling of collateral pledged with the Treasurer of Virginia to secure public deposits as a class. No specific collateral can be identified as security for one public depositor and public depositors are prohibited from holding collateral in their name as security for deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loan associations. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral were inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Therefore, funds deposited in accordance with the requirements of the Act are considered to be fully insured.

The following is a summary of the reporting entity's public deposits and petty cash as of June 30, 2005:

	Carrying Value	Bank Balance
Deposits:		
Primary government	\$ 79,921	\$ 929,141
Component units	55,300	59,502
Total deposits	135,221	988,643
Petty Cash:		
Primary government	3,355	-
Component units	4,300	-
Total petty cash	7,655	-
Total Deposits and Petty Cash	\$ 142,876	\$ 988,643

The differences between carrying values and bank balances generally result from outstanding checks and deposits in transit as of June 30, 2005.

CITY OF FALLS CHURCH, VIRGINIA
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2. Investments

Primary Government:

Investment Policy. In accordance with the Code of Virginia and other applicable law, including regulations, the City's investment policy (Policy) permits investments in U.S. Government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, the State Treasurer's State Non-Arbitrage Program (SNAP, a pooled investment fund) and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

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 Investor's Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes 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 Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor 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, 2005, 31% of the portfolio was invested in the Virginia LGIP, 21% was invested with SNAP and 28% was invested in overnight repurchase agreements collateralized with U.S. Treasury or agency obligations. Virginia LGIP and SNAP are 2A-7 like investment pools with "AAA" rating. Collateral for the repurchase agreements is U.S. Treasury obligations and thus are not rated. The remaining 19% of the portfolio was invested in obligations of the U.S. Government or agencies.

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 City's 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 35% of the portfolio.

Interest Rate Risk: As a means of limiting exposure to fair value losses arising from rising interest rates, the City's Policy limits the investment of operating funds to investments with a stated maturity of no more than 1 year from the date of purchase, with no more than 10% with maturities of more than six months from date of purchase. Reserve funds for the Water and Sewer Enterprise Funds may be invested in securities with longer maturities. Proceeds from the sale of bonds must be invested in Virginia SNAP.

CITY OF FALLS CHURCH, VIRGINIA
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As of June 30, 2005, the carrying values and maturity of the City's investments were as follows:

Investment Type	Fair Value	Maturing in	Maturing in	Maturing in
		Less Than One Year	One-Three Years	Over Three Years
Money market funds - Virginia LGIP	\$ 16,817,094	\$ 16,817,094	\$ -	\$ -
Money market funds - Virginia SNAP	11,573,419	11,573,419	-	-
Money market funds - BB&T	570,549	570,549	-	-
Overnight repurchase agreements	15,345,760	15,345,760	-	-
Federal agency bonds and notes	4,212,115	499,065	2,230,705	1,482,345
US Treasury notes	5,447,595	1,484,335	1,968,340	1,994,920
	53,966,532	46,290,222	4,199,045	3,477,265
Held by trustees - pension funds:				
Money market funds	1,024,658			
Domestic equities	33,842,597			
Domestic fixed income	16,372,351			
International equities	12,690,559			
Real estate	3,163,122			
	67,093,287			
Total Investments	\$ 121,059,819	\$ 46,290,222	\$ 4,199,045	\$ 3,477,265

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, 2005, all of the City's investments are held in a bank's trust department in the City's name. All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

Pension Fund

Investment Policy: In accordance with the Code of Virginia and other applicable law, including City Council resolutions, the Pension Fund's investment policy (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 disclosed as "held by trustee" in the table above.

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.

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.

CITY OF FALLS CHURCH, VIRGINIA
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B. Receivables

Receivables and allowances for uncollectible receivables of the primary government as of June 30, 2005, consist of the following:

	General Fund	Water Fund	Sewer Fund	Total	Fiduciary Funds	Total Primary Government
Receivables:						
Accounts	\$ 736,538	\$ 1,218,209	\$ 382,849	\$ 2,337,596		\$ 2,337,596
Accrued interest	-	70,217	-	70,217	19,753	89,970
Property taxes:						
Delinquent	1,762,009	-	-	1,762,009	-	1,762,009
Not yet due	16,575,939	-	-	16,575,939	-	16,575,939
Total receivables	19,074,486	1,288,426	382,849	20,745,761	19,753	20,765,514
Allowances for uncollectibles:						
Accounts	4,500	155,000	30,000	189,500	-	189,500
Property taxes:						
Delinquent	325,000	-	-	325,000	-	325,000
Not yet due	49,000	-	-	49,000	-	49,000
Total allowances for uncollectibles	378,500	155,000	30,000	563,500	-	563,500
Total Net Receivables	\$ 18,695,986	\$ 1,133,426	\$ 352,849	\$ 20,182,261	\$ 19,753	\$ 20,202,014

Delinquent property taxes receivable from taxpayers in the General Fund as of June 30, 2005, consist of the following:

Year of Levy	Personal		Total
	Real Estate	Property	
2005	\$ 494,088	\$ -	\$ 494,088
2004	375,282	112,622	487,904
2003	153,374	85,136	238,510
2002	73,944	106,908	180,852
Prior Years	169,819	190,836	360,655
Total delinquent taxes	1,266,507	495,502	1,762,009
Allowances for uncollectibles			(325,000)
Net delinquent tax receivables			\$ 1,437,009

The City's real estate tax is levied at a rate enacted by City Council on the assessed value of property located in the City as determined by the City's real estate assessor as of January 1 of each year. Properties are assessed at 100% of fair market value of all land and improvements. Real property taxes are levied when the budget is adopted and collected in two installments due on June 5 and December 5. A lien attaches to the property at the time the real estate taxes are levied at January 1. For purposes of reporting, Code Section 58.1-3922 states that taxes are not reported as delinquent until after the last installment is due. Based on collection history of real property taxes, the City has not provided for an allowance for uncollectibles.

Personal property taxes on vehicle and business property are levied as of January 1 of each year, based on their estimated fair market value, and are due on October 5. The allowance of \$325,000 is based on prior collections.

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The City reports real estate and personal property taxes (net of allowances) assessed for calendar year 2005 as receivables because the City has an enforceable legal claim to these resources at June 30, 2005; however, some of these resources, which amount to approximately \$13,465,000 for real property and approximately \$3,461,000 for personal property, will not be available to the City until fiscal year 2006 and are therefore recognized as deferred revenue. A detailed breakdown of the components of deferred revenue at June 30, 2005 can be found at note III E.

Receivables of component units as of June 30, 2005, consist of the following:

	School Board	Economic Development Authority
Receivables:		
Accounts	\$ 80,672	\$ 2,600
Total receivables	80,672	2,600
Allowances for uncollectibles	-	-
Total net receivables	\$ 80,672	\$ 2,600

Based on prior years collection history, no allowance is deemed necessary for the receivables of the component units.

C. Interfund Balances and Transfers

The City's cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds are transferred thereto through interfund receivable and payable accounts. Interfund receivables and payables typically result when funds overdraw their share of the pooled cash. All amounts are expected to be paid within one year. The following comprise the interfund balances as of June 30, 2005:

	Interfund Receivables	Interfund Payables
Primary Government:		
General Fund	\$ 2,407,754	\$ 1,620,590
Capital Improvements Fund	-	172,206
Enterprise Funds:		
Water	-	1,911,798
Sewer	-	273,012
Fiduciary Funds:		
Pension Trust Funds	-	50,738
Agency Funds	1,657,545	36,955
Total primary government	\$ 4,065,299	\$ 4,065,299

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

The primary purpose of interfund transfers is to provide funding for operations and capital projects. Interfund transfers for the year ended June 30, 2005, are as follows:

	Transfers In	Transfers Out
Primary Government:		
General Fund	\$ 4,764,256	\$ 1,604,123
Capital Improvements Fund	1,604,123	-
Enterprise Funds:		
Water	-	4,727,128
Sewer	-	37,128
Total primary government	\$ 6,368,379	\$ 6,368,379

D. Capital Assets

Capital assets activity for the primary government for the year ended June 30, 2005, is as follows:

	Balances			Balances
	June 30, 2004	Increases	Decreases	June 30, 2005
Primary Government:				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,048,900	\$ 1,214,297	\$ -	\$ 5,263,197
Construction in progress	6,645,615	17,758,135	70,503	24,333,247
Total capital assets not being depreciated	10,694,515	18,972,432	70,503	29,596,444
Capital assets being depreciated:				
Buildings and systems	32,177,611	204,529	-	32,382,140
Improvements other than buildings	2,262,103	91,800	-	2,353,903
Machinery and equipment	7,329,466	689,296	169,462	7,849,300
Software	1,311,609	90,279	-	1,401,888
Infrastructure	8,505,585	8,177	63,219	8,450,543
Library collections	1,876,469	192,334	141,911	1,926,892
Total capital assets being depreciated	53,462,843	1,276,415	374,592	54,364,666
Less accumulated depreciation for:				
Buildings and systems	9,608,298	637,662	-	10,245,960
Improvements other than buildings	1,027,202	112,660	-	1,139,862
Machinery and equipment	4,499,656	605,592	169,462	4,935,786
Software	1,084,186	107,603	-	1,191,789
Infrastructure	4,785,795	181,537	1,896	4,965,436
Library collections	1,349,176	213,776	141,911	1,421,041
Total accumulated depreciation	22,354,313	1,858,830	313,269	23,899,874
Total capital assets, being depreciated, net	31,108,530	(582,415)	61,323	30,464,792
Total capital assets, net - Governmental activities	\$ 41,803,045	\$ 18,390,017	\$ 131,826	\$ 60,061,236

CITY OF FALLS CHURCH, VIRGINIA
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	Balances		Balances	
	June 30, 2004	Increases	Decreases	June 30, 2005
Primary Government (continued):				
Business-type activities:				
<u>Water</u>				
Capital assets not being depreciated:				
Land	\$ 2,594,882	\$ -	\$ -	\$ 2,594,882
Construction in progress	2,063,910	377,428	1,578,100	863,238
Total capital assets not being depreciated	4,658,792	377,428	1,578,100	3,458,120
Capital assets being depreciated:				
Buildings and systems	70,324,873	4,099,600	87,427	74,337,046
Machinery and equipment	905,614	157,697	-	1,063,311
Software	-	31,301	-	31,301
Total capital assets being depreciated	71,230,487	4,288,598	87,427	75,431,658
Less accumulated depreciation for:				
Buildings and systems	30,139,327	1,470,160	61,199	31,548,288
Machinery and equipment	671,635	61,916	-	733,551
Software	-	869	-	869
Total accumulated depreciation	30,810,962	1,532,945	61,199	32,282,708
Total capital assets, being depreciated, net	40,419,525	2,755,653	26,228	43,148,950
Total capital assets, net - Water	45,078,317	3,133,081	1,604,328	46,607,070
<u>Sewer</u>				
Capital assets not being depreciated:				
Construction in progress	5,120	-	-	5,120
Total capital assets not being depreciated	5,120	-	-	5,120
Capital assets being depreciated:				
Buildings and systems	3,721,177	230,047	-	3,951,224
Machinery and equipment	100,700	18,348	-	119,048
Total capital assets being depreciated	3,821,877	248,395	-	4,070,272
Less accumulated depreciation for:				
Buildings and systems	1,427,428	14,996	-	1,442,424
Machinery and equipment	56,645	12,969	-	69,614
Total accumulated depreciation	1,484,073	27,965	-	1,512,038
Total capital assets, being depreciated, net	2,337,804	220,430	-	2,558,234
Total capital assets, net - Sewer	2,342,924	220,430	0	2,563,354
Total capital assets, net - Business-type activities	47,421,241	3,353,511	1,604,328	49,170,424
Total capital assets, net - Primary Government	89,224,286	21,743,528	1,736,154	109,231,660

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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Capital assets activity for component units for the year ended June 30, 2005, is as follows:

	Balances			Balances
	June 30, 2004	Increases	Decreases	June 30, 2005
Component Units				
School Board:				
Capital assets not being depreciated:				
Land	\$ 743,354	\$ 511,129	\$ -	\$ 1,254,483
Construction in Progress	-	160,486	-	160,486
Total capital assets not being depreciated	743,354	671,615	-	1,414,969
Capital assets being depreciated:				
Buildings and system	1,451,146	80,862	-	1,532,008
Machinery and equipment	1,293,630	106,420	-	1,400,050
Library collections	436,438	44,729	52,903	428,264
Total capital assets being depreciated	3,181,214	232,011	52,903	3,360,322
Less accumulated depreciation for:				
Buildings and system	101,724	29,509	-	131,233
Machinery and equipment	649,008	128,848	-	777,856
Library collections	399,588	20,219	52,903	366,904
Total accumulated depreciation	1,150,320	178,576	52,903	1,275,993
Total capital assets, net - School Board	2,774,248	725,050	-	3,499,298
Nonmajor Component Units:				
Capital assets not being depreciated:				
Land	517,255	-	-	517,255
Total capital assets not being depreciated	517,255	-	-	517,255
Total capital assets - Nonmajor Component Units	517,255	-	-	517,255
Total capital assets, net - Component Units	\$ 3,291,503	\$ 725,050	\$ -	\$ 4,016,553

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Depreciation expense for the year ended June 30, 2005, charged to the functions of the primary government and component units is as follows:

	Primary Government	Component Units	Total
<u>Primary Government:</u>			
Governmental activities:			
General government administration	\$ 106,888	\$ -	\$ 106,888
Judicial administration	43,157	-	43,157
Public safety	398,256	-	398,256
Public works	478,447	-	478,447
Health and welfare	3,608	-	3,608
Education	470,085	-	470,085
Parks, recreation, and cultural	353,510	-	353,510
Community development	3,203	-	3,203
Economic development	1,676	-	1,676
Total depreciation expense - Governmental activities	1,858,830	-	1,858,830
Business-type activities:			
Water administration	1,532,944	-	1,532,944
Sewer administration	27,965	-	27,965
Total depreciation expense - Business-type activities	1,560,909	-	1,560,909
Total depreciation expense - Primary Government	3,419,739	-	3,419,739
<u>Component Units:</u>			
School Board			
Education	-	178,576	178,576
Total depreciation expense - Component Units	\$ -	\$ 178,576	\$ 178,576
Total depreciation expense - Entity-Wide	\$ 3,419,739	\$ 178,576	\$ 3,598,315

E. Deferred Revenue

Governmental activities and funds defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. As of June 30, 2005, the following comprise the deferred revenue reported in the governmental activities and funds:

	Governmental Activities	Governmental Funds
Unavailable:		
Delinquent property taxes	\$ -	\$ 2,119,690
Property taxes not yet due	18,421,847	18,563,832
Unearned	10,055	10,055
Total deferred revenue	\$ 18,431,902	\$ 20,693,577

CITY OF FALLS CHURCH, VIRGINIA
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F. Long-term Obligations

The following is a summary of changes in the government-wide long-term obligations of the reporting entity for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
<u>Primary Government</u>					
Governmental activities:					
General obligation bonds payable	\$ 47,950,000	\$ 5,831,034	\$ 6,610,000	\$ 47,171,034	\$ 2,945,616
Premium on bond issuance	1,035,337	-	85,797	949,540	-
Note payable	-	852,500	-	852,500	200,000
Compensated absences	1,426,376	1,900,496	1,797,545	1,529,327	1,379,675
Obligations under capital leases	597,519	39,250	185,827	450,942	199,521
Total long-term debt - Governmental activities	51,009,232	8,623,280	8,679,169	50,953,343	4,724,812
Business-type activities:					
<u>Water</u>					
Compensated absences	391,534	447,430	485,340	353,624	310,038
<u>Sewer</u>					
Compensated absences	14,668	28,338	31,943	11,063	11,063
Construction loan	-	7,000	-	7,000	-
Total long-term debt - Sewer Fund	14,668	35,338	31,943	18,063	11,063
Total long-term debt - Business-type activities	406,202	482,768	517,283	371,687	321,101
Total long-term debt - Primary Government	51,415,434	9,106,048	9,196,452	51,325,030	5,045,913
<u>Component Units</u>					
School Board:					
Compensated absences	709,686	451,532	412,200	749,018	320,124
Obligations under capital leases	183,842	106,420	79,218	211,044	72,849
Total long-term debt - School Board	893,528	557,952	491,418	960,062	392,973
Total long-term debt - Component Units	893,528	557,952	491,418	960,062	392,973
Total long-term debt	\$ 52,308,962	\$ 9,664,000	\$ 9,687,870	\$ 52,285,092	\$ 5,438,886

1. General Obligation Bonds

General obligation bonds have been issued to provide funding for long-term capital improvements. In addition, they have been issued to refund outstanding general obligation bonds when market conditions enabled the City to achieve significant reductions in its debt service payments. Such bonds are direct obligations of the City, and the full faith and credit of the City are pledged as security. The City is required to submit to public referendum for authority to issue general obligation bonds. At June 30, 2005, all authorized general obligation bonds have been issued. The following are the general obligation bonds that were outstanding as of June 30, 2005:

CITY OF FALLS CHURCH, VIRGINIA
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\$9,000,000 General Improvement bonds issued June 1, 2000; variable amounts maturing annually with interest payable semi-annually; final payment due on December 15, 2020; interest at various rates	\$ 7,925,000
\$2,155,000 School Construction bonds, consolidated refunding bonds issued December 1993 by the Virginia Public School Authority (VPSA) to replace the 1968 bond issues; interest at various rates; variable amounts maturing through December 2008	410,000
\$2,445,000 School Construction bonds issued May 2, 1996 by VPSA; interest at various rates; variable amounts maturing through January 15, 2017	1,390,000
\$32,340,000 School Construction & refunding bonds issued March 18, 2004; interest at various rates; variable amounts maturing through April 1, 2024	31,615,000
\$1,023,000 General Obligation bonds issued January 21, 2005; interest at 3.32%; principal amounts maturing annually in equal installments through April 1, 2011.	1,023,000
\$4,808,034 Refunding bonds issued January 21, 2005 to replace 1995 General Obligation bonds; interest at 2.90%; variable amounts maturing through April 1, 2011.	4,808,034
Total General Obligation Bonds Payable	<u>\$ 47,171,034</u>

Annual debt service requirements to maturity for the long-term obligations serviced by the General Fund as of June 30, 2005 are summarized as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$ 2,945,616	\$ 1,876,870	\$ 4,822,486
2007	3,016,202	1,776,173	4,792,375
2008	3,090,236	1,673,415	4,763,651
2009	3,147,601	1,570,821	4,718,422
2010	3,178,879	1,468,330	4,647,209
2011-2015	13,117,500	5,503,103	18,620,603
2016-2020	9,920,000	2,952,106	12,872,106
2021-2025	8,755,000	871,641	9,626,641
Total	<u>\$ 47,171,034</u>	<u>\$ 17,692,459</u>	<u>\$ 64,863,493</u>

On January 21, 2005 the City issued \$4,808,034 of general obligation bonds to refund \$4,690,000 of outstanding 1995 Series general obligation bonds in connection with the general obligation bonds issued for city property and school improvement. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$42,425. This difference, reported in the accompanying Government-wide Statement of Net Assets as a deduction from noncurrent liabilities, is being charged to operations through the fiscal year 2011 using straight-

CITY OF FALLS CHURCH, VIRGINIA
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line amortization. The refunding resulted in a net increase in cash of approximately \$133,000 and an economic gain of approximately \$120,000.

As of June 30, 2005, the City's legal debt limit is approximately \$268,298,000 and its debt margin is approximately \$221,127,000.

2. Note Payable

In May 2005, the City issued a non-interest-bearing note payable to the Falls Church Volunteer Fire Department to purchase land. The future payments on this note is as follows:

Fiscal Year Ending June 30	
2006	\$ 200,000
2007	217,500
2008	217,500
2009	217,500
Total	<u>\$ 852,500</u>

3. Obligations Under Capital Leases

The City and School Board lease equipment, vehicles and buses under various capital leases expiring at various dates through 2009. All leases are non-cancelable except that they are contingent upon City Council appropriating funds for each year's payment.

The assets acquired through capital leases are as follows:

	Primary Government	
	Governmental Activities	Component Unit School Board
Asset:		
Machinery and equipment	\$ 929,448	\$ 440,934
Less: accumulated depreciation	(445,886)	(121,760)
Total	<u>\$ 483,562</u>	<u>\$ 319,174</u>

The future minimum lease payments and net present value of these minimum lease payments as of June 30, 2005 are as follows:

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Fiscal Year Ending June 30	Primary Government	
	Governmental Activities	Component Unit School Board
2006	\$ 218,996	\$ 87,091
2007	161,043	70,685
2008	73,226	56,703
2009	21,163	26,966
2010	8,997	1,086
Total minimum lease payments	483,425	242,531
Less: amount representing interest	(32,483)	(31,487)
Present value of minimum lease payments	\$ 450,942	\$ 211,044

G. Long-term Commitments

1. 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 \$342,407 to the City and \$197,169 to the School Board for the fiscal year ended June 30, 2005. The future minimum lease payments for these leases are shown in the following page.

Fiscal Year Ended June 30	Primary Government	
	Governmental Activities	Component Unit School Board
2006	\$ 122,371	\$ 198,820
2007	62,931	49,326
2008	1,006	1,140
Total	\$ 186,308	\$ 249,286

2. Long-term Construction and Improvement Contracts

The City has the following active construction and improvement commitments as of June 30, 2005:

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Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Broad Street Streetscape	\$ 273,427	\$ 42,305
Kent Street Drainage	29,560	6,720
Hillwood Avenue improvements	402,036	-
Mary Ellen Henderson Middle School construction	23,031,528	4,843,402
Mt. Daniel Elementary School renovation	326,354	135,815
George Mason High School Science Labs	65,355	6,001
George Mason High School Planning	22,324	101,934
Parking lot improvements	5,718	8,318
Athletic Field Lights	82,398	-
Total governmental activities	24,238,700	5,144,495
Business-type activities:		
<u>Water</u>		
Scotts Run	1,811	-
Arlington Boulevard	234,569	-
Potterton Drive - Hillsborough	26,997	-
Chesterbrook - Chesterfield	17,861	-
George Mason Pump Station	53,750	224,111
McLean Pump Station	43,887	43,887
Seven Corners	37,209	37,209
Arlington Special Pump Station	32,707	69,916
Tysons Corner Tank	71,615	212,861
<u>Sewer</u>		
Sewer Relining Project	-	213,057
Total business-type activities	520,406	801,041
Total	\$ 24,759,106	\$ 5,945,536

3. Other Post-employment Benefits

The City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Currently, approximately 125 retirees (including former City and School Board employees) are receiving these benefits. Under City Council resolution number 82-20, the City pays one-half of the health insurance premiums for these employees. These costs are financed on a pay-as-you-go basis. For fiscal year 2005, the cost of these benefits was approximately \$164,000 to the City and \$107,000 to the School Board.

H. Return on Equity Transfer

During the fiscal year ended June 30, 2005, the Water Fund transferred \$4,625,874 to the General Fund based on a calculation of 7.5% of total fund equity in the Water Fund at June 30, 2002. This is a transfer of excess operating funds, which, per City Council, can then be reappropriated for General Fund expenditures.

**CITY OF FALLS CHURCH, VIRGINIA
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IV. RETIREMENT PLANS

Full time, salaried employees of the City and School Board participate in one of three retirement plans, the Virginia Retirement System (VRS), the City's Basic Pension Plan, and the City's Police Pension Plan.

A. Virginia Retirement System

1. Plan Description

The City and the School Board contribute to the VRS, a cost-sharing multiple-employer public employee (for School Board employees) and an agent multiple-employer public employee (for constitutional offices) defined pension plans administered by the Commonwealth of Virginia for its political subdivisions. All full time salaried employees of constitutional offices within the City (i.e., employees of the office of the Commissioner of Revenue, the office of the Treasurer and the Sheriff's office), as well as qualifying (working at least 80% of full time) teachers and other professionals from the School Board participate in the VRS.

Benefits vest after five years of creditable service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters). Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 % of their average final salary (AFS) for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State Legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

2. Summary of Significant Accounting Policies

The accounts of the defined benefit pension plans and the other employee benefit plans, are accounted for and presented using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and investment income is recognized as earned by the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Investments are reported at fair value as determined by the System's master custodian, Mellon Trust, from its Global Pricing System. This system assigns a price source, based on asset type and the vendor

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pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored daily by the master custodian.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers, or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. Commingled funds, partnerships, and real estate assets are priced by the master custodian from statements received from the funds, partnerships, or investment managers.

3. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The School Board has assumed this 5% member contribution for its employees. Beginning in May 2003, the City also assumed this contribution for eligible City employees. Prior to this, City employees paid the contribution. In addition, the City and the School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and the School Board's contribution rate for the fiscal year ended 2005 were 5.0% and 6.58% of annual covered payroll, respectively.

4. Annual Pension Costs

The City's annual pension cost and contributions made during fiscal year 2005 was \$33,574. The School Board's annual pension cost and contributions made during fiscal year 2005 was \$1,701,189. These include the contributions made by the City and the School Board on behalf of their respective employees.

The following table shows the required annual pension costs and the percentage contributed for the City and School Board employees for the last three years:

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City			
2005	\$ 33,574	100%	\$ -
2004	34,203	100%	-
2003	4,465	100%	-
School Board			
2005	1,701,189	100%	-
2003	1,319,711	100%	-
2002	1,220,949	100%	-

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

1. 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.

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

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.

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

The Plans issue publicly available financial reports that include the applicable financial statements and required supplementary information. A copy of that report may be obtained at the City office.

The City’s membership in the Basic and Police Pension Plans as of June 30, 2005 were as follows:

	Basic	Police
Retirees and beneficiaries	145	22
Terminated vested members	31	1
Active members	303	31
Total	479	54

2. Summary of Significant Accounting Policies

The financial statements of the Basic and Police Pension Plans are prepared using the accrual basis of accounting. Plan contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at

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the last reported sales price on June 30, 2005. Securities without an established market are reported at estimated fair value.

3. Funding Policy

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 fiscal year 2005, the contributions rate was 1.15% of annual covered payroll for the Basic Pension Plan and 0% for the Police Pension Plan. Effective July 1, 2002, the City Council amended both plans so that employees are no longer required to contribute. 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.

4. Annual Pension Cost

The following table shows the City's annual pension cost and contributions for the last three fiscal years:

Fiscal Year Ended June 30	Basic			Police		
	Annual Pension Cost	Contribution	Net Pension Obligation	Annual Pension Cost	Contribution	Net Pension Obligation
2005	\$ 104,591	\$ -	\$ 104,591	\$ -	\$ -	\$ -
2004	-	-	-	-	-	-
2003	-	-	-	-	-	-

The following are the relevant actuarial information for the Basic and Police Pension Plans:

	Basic	Police
Contribution rate:		
City	1.15%	0%
Plan members	0%	0%
Annual pension cost	—	—
Contributions made	—	—
Actuarial valuation date	July 1, 2004	July 1, 2004
Actuarial cost method	Aggregate entry age actuarial cost method	Aggregate entry age actuarial cost method
Amortization method	Level dollar (closed)	Level dollar (closed)
Asset valuation method	Smoothed market value	Smoothed market value
Actuarial assumptions:		
Investment rate of return	8%	8%
Projected salary increases	5%	5%
Cost of living adjustments	3%	3%

**CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005**

V. RISK MANAGEMENT

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 Pool (VML).

The City is a member of the Virginia Municipal League Self Insurance Association, also under VML, for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing services.

Each Association member jointly and severally agrees to assume, pay and discharge any liability. The City pays Virginia Municipal League Self Insurance Association contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association 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 City continues to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

The School Board also carries commercial insurance through Utica Mutual for property, casualty, general liability, automobile coverage. Errors and omissions coverage are provided through the VaRISK 2 pool. Workers' compensation insurance is provided through Wausau insurance. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

The total insurance premiums paid by the City and the Schools for the fiscal year ended June 30, 2005 were approximately \$451,185 and \$246,965, respectively.

VI. CONTINGENCIES

The City and School Board receive grant funds, principally from the U.S. government. Expenditures of these funds are subject to audit by the grantor, and the City and School Board are contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of management of the City and School Board, no material refunds will be required as a result of expenditures that may be disallowed by the grantors.

VII. FUTURE ACCOUNTING CHANGES

As of June 30, 2005 the Governmental Accounting Standards Board (GASB) had issued the following statements that will be applicable to future financial statements:

- Statement No. 42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The Statement is effective for the fiscal year ending June 30, 2006.
- Statement No. 43 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare*

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

Plans Administered by Defined Benefit Pension Plans. The statement is effective for the fiscal year ending June 30, 2008.

- Statement No. 44 - *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1.* This Statement amends the portions of the National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information to assess the economic condition of a government. The Statement is effective for the fiscal year ending June 30, 2006.
- Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The Statement is effective for the fiscal year ending June 30, 2009.
- Statement No. 46 - *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34.* GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. In the process of applying this provision, some governments have had difficulty interpreting the requirement that those restrictions be “legally enforceable.” The confusion over this phrase has resulted in a diversity of practice that has diminished comparability. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The statement is effective for the fiscal year ending June 30, 2006.
- Statement No. 47 - *Accounting for Termination Benefits.* The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. The statement is effective for the fiscal year ending June 30, 2006.



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CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

REQUIRED SUPPLEMENTARY
INFORMATION





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CITY OF FALLS CHURCH, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS (In Thousands)

1. Basic Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
7/1/2004	\$ 51,462	\$ 39,292	\$ (12,170)	131.0%	\$ 11,650	(104.5%)
7/1/2003	50,955	32,264	(18,691)	157.9%	10,280	(181.8%)
7/1/2002	50,564	31,005	(19,559)	163.1%	10,718	(182.5%)
7/1/2001	49,107	29,478	(19,629)	166.6%	9,723	(201.9%)
7/1/1999	41,372	36,329	(5,043)	113.9%	8,801	(57.3%)
7/1/1997	34,348	33,316	(1,032)	103.1%	6,896	(15.0%)

2. Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
7/1/2004	\$ 14,579	\$ 10,941	\$ (3,638)	133.3%	\$ 1,684	(216.0%)
7/1/2003	14,391	10,368	(4,023)	138.8%	1,644	(244.7%)
7/1/2002	14,237	9,154	(5,083)	155.5%	1,568	(324.2%)
7/1/2001	13,791	8,818	(4,973)	156.4%	1,526	(325.9%)
7/1/1999	11,656	9,182	(2,474)	126.9%	1,224	(202.1%)
7/1/1997	9,801	9,361	(440)	104.7%	1,238	(35.5%)

Note 1: The actuarial assumptions and methods used for the valuation date of July 1, 2004 are disclosed in the Notes to the Financial Statements.

Note 2: The Basic Pension Plan actuarial valuation as of July 1, 2004 reflects an increase in the actuarial accrued liability of approximately \$7 million. This was primarily the result of certain errors in salary information used in producing the actuarial valuations as of July 1, 2003 and July 1, 2002. This resulted in an annual required contribution of approximately \$105,000 in FY2005.

**CITY OF FALLS CHURCH, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

1. Basic Pension Plan

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2005	\$ 104,951	100% (a)
2004	-	100%
2003	-	100%
2002	-	100%
2001	-	100%
2000	-	100%
1999	-	100%

2. Police Pension Plan

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2005	\$ -	100%
2004	-	100%
2003	-	100%
2002	-	100%
2001	-	100%
2000	-	100%
1999	-	100%

* Note: The actuarial assumptions and methods used for the valuation date of July 1, 2004 (plan year ended June 30, 2005) are disclosed in the Notes to the Financial Statements.

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

OTHER SUPPLEMENTARY
INFORMATION





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**CITY OF FALLS CHURCH, VIRGINIA
COMBINING STATEMENT OF AGENCY NET ASSETS
As of June 30, 2005**

	Fairfax County Water Authority Fund	Northern Virginia Criminal Justice Academy Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 1,654,686	\$ 1,654,686
Other receivables	970,511	-	970,511
Due from general fund	<u>1,657,545</u>	<u>14,060</u>	<u>1,671,605</u>
Total Assets	<u>\$ 2,628,056</u>	<u>\$ 1,668,746</u>	<u>\$ 4,296,802</u>
LIABILITIES			
Due to other governments	<u>\$ 2,628,056</u>	<u>\$ 1,668,746</u>	<u>\$ 4,296,802</u>
Total Liabilities	<u>\$ 2,628,056</u>	<u>\$ 1,668,746</u>	<u>\$ 4,296,802</u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2005

	Balances July 1, 2004	Additions	Deductions	Balances June 30, 2005
Fairfax County Water Authority Fund				
ASSETS				
Other receivables	\$ 477,408	\$10,509,679	\$ 10,016,576	\$ 970,511
Due from general fund	692,001	10,133,807	9,168,263	1,657,545
Total Assets	\$ 1,169,409	\$20,643,486	\$ 19,184,839	\$ 2,628,056
LIABILITIES				
Due to other governments	\$ 1,169,409	\$20,643,486	\$ 19,184,839	\$ 2,628,056
Total Liabilities	\$ 1,169,409	\$20,643,486	\$ 19,184,839	\$ 2,628,056
 Northern Virginia Criminal Justice Academy Fund				
ASSETS				
Cash and cash equivalents	\$ 1,909,458	\$ 979,389	\$ 1,234,161	\$ 1,654,686
Due from general fund	(20)	4,256,216	4,242,136	14,060
Total Assets	\$ 1,909,438	\$ 5,235,605	\$ 5,476,297	\$ 1,668,746
LIABILITIES				
Due to other governments	\$ 1,909,438	\$ 5,235,605	\$ 5,476,297	\$ 1,668,746
Total Liabilities	\$ 1,909,438	\$ 5,235,605	\$ 5,476,297	\$ 1,668,746
 Total				
ASSETS				
Cash and cash equivalents	\$ 1,909,458	\$ 979,389	\$ 1,234,161	\$ 1,654,686
Other receivables	477,408	10,509,679	10,016,576	970,511
Due from general fund	691,981	14,390,023	13,410,399	1,671,605
Total Assets	\$ 3,078,847	\$25,879,091	\$ 24,661,136	\$ 4,296,802
LIABILITIES				
Due to other governments	\$ 3,078,847	\$25,879,091	\$ 24,661,136	\$ 4,296,802
Total Liabilities	\$ 3,078,847	\$25,879,091	\$ 24,661,136	\$ 4,296,802

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2005**

	<u>Nonmajor Governmental Funds</u>				<u>Total Governmental Funds</u>
	<u>Operating Fund</u>	<u>School Community Service Fund</u>	<u>School Improvement Fund</u>	<u>School Food Service Fund</u>	
ASSETS					
Cash and cash equivalents	\$ 1,875,070	\$ 397,294	\$ -	\$ 257,283	\$ 2,529,647
Accounts receivable	28,243	36,650	-	15,779	80,672
Due from primary government	2,672,408	36,410	-	-	2,708,818
Due from other governmental units	428,051	-	-	10,821	438,872
	<u>428,051</u>	<u>-</u>	<u>-</u>	<u>10,821</u>	<u>438,872</u>
Total Assets	<u>\$ 5,003,772</u>	<u>\$ 470,354</u>	<u>\$ -</u>	<u>\$ 283,883</u>	<u>\$ 5,758,009</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 3,554,932	\$ 59,254	\$ -	\$ 49,289	3,663,475
Total Liabilities	<u>3,554,932</u>	<u>59,254</u>	<u>-</u>	<u>49,289</u>	<u>3,663,475</u>
Fund Balances:					
Encumbrances	9,229	-	-	-	9,229
Unreserved:					
Undesignated	<u>1,439,611</u>	<u>411,100</u>	<u>-</u>	<u>234,594</u>	<u>2,085,305</u>
Total Fund Balances (Deficit)	<u>1,448,840</u>	<u>411,100</u>	<u>-</u>	<u>234,594</u>	<u>2,094,534</u>
Total Liabilities and Fund Balances	<u>\$ 5,003,772</u>	<u>\$ 470,354</u>	<u>\$ -</u>	<u>\$ 283,883</u>	<u>\$ 5,758,009</u>

**CITY OF FALLS CHURCH, VIRGINIA
 CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 As of June 30, 2005**

Fund balances - total governmental funds	\$	2,094,534
<p>Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because :</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital assets		4,775,291
Less accumulated depreciation		(1,275,993)
		3,499,298
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Compensated absences		(749,018)
Governmental leases payable		(211,044)
		(960,062)
Net Assets of Governmental Activities	\$	4,633,770

CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	Nonmajor Governmental Funds				Total Governmental Funds
	Operating Fund	School Community Service Fund	School Improvement Fund	School Food Service Fund	
REVENUES					
Revenue from use of money and property	\$ 39,439	\$ 68,304	\$ -	\$ 6,744	\$ 114,487
Charges for services	272,758	825,452	-	488,151	1,586,361
Miscellaneous	61,235	44,222	-	-	105,457
Intergovernmental:					
Federal	695,401	-	-	87,765	783,166
Commonwealth	3,987,771	-	-	7,119	3,994,890
Primary government	22,764,027	436,262	395,961	1,213	23,597,463
Total Revenues	27,820,631	1,374,240	395,961	590,992	30,181,824
EXPENDITURES					
Current:					
Education	26,292,756	1,234,643	-	521,577	28,048,976
Capital outlay	1,245,941	22,058	-	165,310	1,433,309
Debt service:					
Principal	87,190	-	-	-	87,190
Interest	15,221	-	-	-	15,221
Total Expenditures	27,641,108	1,256,701	-	686,887	29,584,696
Excess/(deficiency) of revenues over/(under) expenditures	179,523	117,539	395,961	(95,895)	597,128
Other financing sources/(uses):					
Transfers in/(out)	(672,435)	(38,565)	-	1,000	(710,000)
Proceeds from capital leases	106,420	-	-	-	106,420
Total Other Financing Sources/(Uses)	(566,015)	(38,565)	-	1,000	(603,580)
Net Change in Fund Balances	(386,492)	78,974	395,961	(94,895)	(6,452)
Fund Balances (Deficit) at Beginning of Year	1,835,332	332,126	(395,961)	329,489	2,100,986
Fund Balances at End of Year	<u>\$ 1,448,840</u>	<u>\$ 411,100</u>	<u>\$ -</u>	<u>\$ 234,594</u>	<u>\$ 2,094,534</u>

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005**

Net change in fund balances - total governmental funds	\$	(6,452)
<p>Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because :</p> <p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.</p>		
Expenditures for capital assets	903,626	
Less current year depreciation	<u>(178,576)</u>	725,050
<p>The issuance of long-term debt (e.g., capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, issuing debt increases long-term liabilities and the repayment of debt reduces long-term liabilities in the Statement of Net Assets, but these transactions do not affect the Statement of Activities.</p>		
Proceeds from capital leases		(106,420)
Capital lease payments		79,218
<p>Certain expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Change in compensated absence liability		<u>(39,332)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>652,064</u></u>

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
OPERATING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --
BUDGET AND ACTUAL
For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Revenue from use of money and property	\$ 15,500	\$ 15,500	\$ 39,439	\$ 23,939
Charges for services	334,100	212,140	272,758	60,618
Miscellaneous	213,000	213,000	61,235	(151,765)
Intergovernmental:				
Commonwealth	3,704,213	3,985,495	3,987,771	2,276
Federal	603,643	603,643	695,401	91,758
Primary government	22,874,401	23,342,243	22,764,027	(578,216)
Total Revenues	27,744,857	28,372,021	27,820,631	(551,390)
EXPENDITURES				
Current:				
Education	27,164,153	26,978,178	26,292,756	685,422
Capital outlay	502,269	631,846	1,245,941	(614,095)
Debt service:				
Principal	114,000	90,465	87,190	3,275
Interest	-	-	15,221	(15,221)
Total Expenditures	27,780,422	27,700,489	27,641,108	59,381
Excess/(deficiency) of revenues over/(under) expenditures	(35,565)	671,532	179,523	(492,009)
Other financing sources/(uses):				
Transfers in/(out)	35,565	(674,435)	(672,435)	2,000
Proceeds from capital leases	-	-	106,420	106,420
Total Other Financing Sources/(Uses)	35,565	(674,435)	(566,015)	108,420
Net Change in Fund Balances	-	(2,903)	(386,492)	(383,589)
Fund Balances at Beginning of Year	-	1,835,332	1,835,332	-
Fund Balances at End of Year	\$ -	\$ 1,832,429	\$ 1,448,840	\$ (383,589)

**CITY OF FALLS CHURCH, VIRGINIA
 CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
 SCHOOL COMMUNITY SERVICE FUND
 SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Revenue from use of money and property	\$ 55,590	\$ 55,590	\$ 68,304	\$ 12,714
Charges for services	1,071,218	1,071,218	825,452	(245,766)
Miscellaneous	36,600	36,600	44,222	7,622
Intergovernmental:				
Primary government	435,135	435,135	436,262	1,127
Total Revenues	<u>1,598,543</u>	<u>1,598,543</u>	<u>1,374,240</u>	<u>(224,303)</u>
EXPENDITURES				
Current:				
Education	1,509,078	1,529,949	1,234,643	295,306
Capital Outlay	52,900	36,825	22,058	14,767
Total Expenditures	<u>1,561,978</u>	<u>1,566,774</u>	<u>1,256,701</u>	<u>310,073</u>
Excess of revenues over expenditures	<u>36,565</u>	<u>31,769</u>	<u>117,539</u>	<u>85,770</u>
Other financing sources/(uses):				
Transfers in/(out)	<u>(36,565)</u>	<u>(38,565)</u>	<u>(38,565)</u>	<u>-</u>
Total Other Financing Sources/(Uses)	<u>(36,565)</u>	<u>(38,565)</u>	<u>(38,565)</u>	<u>-</u>
Net Change in Fund Balances	-	(6,796)	78,974	85,770
Fund Balances at Beginning of Year	<u>-</u>	<u>332,126</u>	<u>332,126</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ -</u>	<u>\$ 325,330</u>	<u>\$ 411,100</u>	<u>\$ 85,770</u>

**CITY OF FALLS CHURCH, VIRGINIA
 CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
 STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 As of June 30, 2005**

	<u>Thomas Jefferson Elementary</u>	<u>Mt. Daniel Elementary</u>	<u>George Mason Middle and High School</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	<u>\$ 28,955</u>	<u>\$ 23,681</u>	<u>\$ 257,172</u>	<u>\$ 309,808</u>
Total Assets	<u><u>\$ 28,955</u></u>	<u><u>\$ 23,681</u></u>	<u><u>\$ 257,172</u></u>	<u><u>\$ 309,808</u></u>
LIABILITIES				
Amounts held for others	<u>\$ 28,955</u>	<u>\$ 23,681</u>	<u>\$ 257,172</u>	<u>\$ 309,808</u>
Total Liabilities	<u><u>\$ 28,955</u></u>	<u><u>\$ 23,681</u></u>	<u><u>\$ 257,172</u></u>	<u><u>\$ 309,808</u></u>

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2005**

	Balances July 1, 2004	Additions	Deductions	Balances June 30, 2005
THOMAS JEFFERSON ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 28,904	\$ 45,045	\$ 44,994	\$ 28,955
Total Assets	\$ 28,904	\$ 45,045	\$ 44,994	\$ 28,955
Liabilities				
Amounts held for others	\$ 28,904	\$ 45,045	\$ 44,994	\$ 28,955
Total Liabilities	\$ 28,904	\$ 45,045	\$ 44,994	\$ 28,955
 MT. DANIEL ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 15,466	\$ 33,102	\$ 24,887	\$ 23,681
Total Assets	\$ 15,466	\$ 33,102	\$ 24,887	\$ 23,681
Liabilities				
Amounts held for others	\$ 15,466	\$ 33,102	\$ 24,887	\$ 23,681
Total Liabilities	\$ 15,466	\$ 33,102	\$ 24,887	\$ 23,681
 GEORGE MASON MIDDLE AND HIGH SCHOOL				
Assets				
Cash and cash equivalents	\$ 292,860	\$ 519,028	\$ 554,716	\$ 257,172
Total Assets	\$ 292,860	\$ 519,028	\$ 554,716	\$ 257,172
Liabilities				
Amounts held for others	\$ 292,860	\$ 519,028	\$ 554,716	\$ 257,172
Total Liabilities	\$ 292,860	\$ 519,028	\$ 554,716	\$ 257,172
 TOTAL				
Assets				
Cash and cash equivalents	\$ 337,230	\$ 597,175	\$ 624,597	\$ 309,808
Total Assets	\$ 337,230	\$ 597,175	\$ 624,597	\$ 309,808
Liabilities				
Amounts held for others	\$ 337,230	\$ 597,175	\$ 624,597	\$ 309,808
Total Liabilities	\$ 337,230	\$ 597,175	\$ 624,597	\$ 309,808

**CITY OF FALLS CHURCH, VIRGINIA
BALANCE SHEET
NON-MAJOR COMPONENT UNITS
As of June 30, 2005**

	<u>Economic Development Authority</u>
ASSETS	
Cash and cash equivalents	\$ 178,407
Account receivable	<u>2,600</u>
Total Assets	<u><u>\$ 181,007</u></u>
LIABILITIES AND FUND BALANCES	
Fund Balances:	
Encumbrances	\$ 46,000
Unreserved and undesignated	<u>135,007</u>
Total Fund Balances	<u>181,007</u>
Total Liabilities and Fund Balances	<u><u>\$ 181,007</u></u>
Amounts reported for non-major component units in the statement of net assets (Exhibit I) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Capital assets	<u>517,255</u>
Net Assets of Non-Major Component Units	<u><u>698,262</u></u>

**CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR COMPONENT UNITS
For the Year Ended June 30, 2005**

	Economic Development Authority
REVENUES	
Revenue from use of money and property	\$ 27,571
Miscellaneous	2,600
	30,171
EXPENDITURES	
Current:	
Economic development	712
	712
Excess/(deficiency) of revenues over expenditures	29,459
Net Change in Fund Balances	29,459
Fund Balances at Beginning of Year	151,548
Fund Balances at End of Year	\$ 181,007
Net change in fund balances - total governmental funds	\$ 29,459
Change in Net Assets of Governmental Activities	\$ 29,459

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

STATISTICAL SECTION
(Unaudited)





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TABLE 1

CITY OF FALLS CHURCH, VIRGINIA
Governmental Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Fees, and Licenses	Fines and Forfeitures	Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Intergovernmental	Total
1996	\$ 15,603,897	\$ 7,261,985	\$ 134,493	\$ 265,201	\$ 719,742	\$ 1,641,859	\$ 335,418	\$ 54,253	\$ 4,834,675	\$ 30,851,523
1997	16,235,395	7,660,838	155,785	298,226	589,833	1,864,666	486,115	53,406	5,383,567	32,727,831
1998	16,361,623	7,967,733	195,762	319,712	629,517	1,846,513	4,272,542	62,397	5,327,453	36,983,252
1999	16,779,979	8,955,482	195,237	279,158	867,637	1,911,070	2,496,315	214,301	5,944,556	37,643,735
2000	17,299,289	9,127,990	207,222	267,043	1,054,550	2,084,670	2,639,248	44,456	7,374,611	40,099,079
2001	17,894,364	9,838,262	268,479	303,416	1,367,823	2,014,924	540,559	99,573	7,863,015	40,190,415
2002	21,530,436	9,638,805	311,447	487,510	585,542	2,356,516	1,171,759	46,014	9,172,198	45,300,227
2003	22,502,555	9,568,442	415,000	763,707	323,425	2,857,383	574,804	1,976,842	9,179,090	48,161,248
2004	24,985,137	10,130,055	361,371	996,688	203,327	2,874,628	200,039	2,184,999	9,450,944	51,387,188
2005	28,777,104	11,284,301	479,042	1,302,463	660,999	2,878,376	254,277	2,236,692	8,648,139	56,521,393

Includes all General and Capital Project funds, and Component Unit School Board.

CITY OF FALLS CHURCH, VIRGINIA
Governmental Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General government administration	Judicial administration	Public safety	Public works	Health and welfare	Education	Parks, recreation and cultural	Community development	Economic Development	Debt service	Total
1996	\$ 2,396,501	\$ 798,377	\$ 4,334,818	\$ 3,221,785	\$ 1,894,837	\$ 13,803,107	\$ 2,056,996	\$ 1,456,949	\$ -	\$ 2,540,049	\$ 32,503,419
1997	2,303,640	1,185,183	4,557,623	3,239,422	1,828,804	14,912,925	2,053,664	1,495,578	-	2,533,462	34,110,301
1998	2,546,780	1,002,479	4,543,158	3,869,002	1,823,457	15,491,386	2,140,724	1,865,022	-	2,689,072	35,971,080
1999	2,703,924	1,001,759	5,767,264	3,728,623	1,775,667	16,237,617	2,251,352	1,480,836	-	2,659,797	37,606,839
2000	2,930,417	900,424	4,735,878	3,615,302	1,778,124	18,437,732	2,290,312	2,064,271	-	2,685,736	39,438,196
2001	4,197,703	873,315	5,179,796	3,088,647	2,754,537	20,723,846	2,559,833	970,075	-	3,023,654	43,371,406
2002	3,709,201	967,955	5,862,306	2,783,998	3,130,689	23,201,898	2,622,749	1,008,178	-	3,228,317	46,515,291
2003	4,786,596	962,887	6,371,972	4,456,901	2,664,254	24,150,001	2,633,689	1,138,518	428,264	3,306,069	50,899,151
2004	5,277,424	1,069,174	6,537,600	4,884,709	2,760,756	32,362,450	2,863,472	1,196,845	284,175	11,721,316	68,957,921
2005	6,125,925	1,094,018	7,035,747	4,147,696	2,719,109	29,525,459	3,045,220	1,424,396	292,876	8,897,535	64,307,981

Includes all General and Capital Project funds, and Component Unit School Board.

TABLE 3

CITY OF FALLS CHURCH, VIRGINIA
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total tax levy	Current tax collections	Percent of levy collected	Delinquent tax collections	Total tax collections	Percent of total tax collections to tax levy	Outstanding delinquent taxes	Percent of delinquent taxes to tax levy
1996	\$ 15,295,102	\$ 15,080,864	98.60%	\$ 398,189	\$ 15,479,053	101.20%	\$ 604,450	3.95%
1997	16,212,191	16,007,357	98.74%	136,810	16,144,167	99.58%	557,308	3.44%
1998	16,240,120	16,119,759	99.26%	129,338	16,249,097	100.06%	506,188	3.12%
1999	16,826,726	16,550,925	98.36%	88,445	16,639,370	98.89%	675,853	4.02%
2000	17,910,201	17,682,220	98.73%	140,804	17,823,024	99.51%	813,404	4.54%
2001	20,636,808	19,214,572	93.11%	84,068	19,298,639	93.52%	699,391	3.39%
2002	23,661,325	22,851,877	96.58%	120,666	22,972,543	97.09%	666,646	2.82%
2003	25,507,581	24,722,528	96.92%	70,960	24,793,488	97.20%	834,234	3.27%
2004	27,149,260	25,624,938	94.39%	772,959	26,397,897	97.23%	1,299,731	4.79%
2005	30,404,821	29,346,152	96.52%	984,092	30,330,245	99.75%	1,267,921	4.17%

Collections do not include penalties and interest but do include Commonwealth of Virginia PPTRA reimbursement.

Accelerated collection of real estate taxes began in fiscal 1993.

**CITY OF FALLS CHURCH, VIRGINIA
Assessed Value of Taxable Property
Last Ten Calendar Years**

<u>Calendar Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Machinery and Tools</u>	<u>Public Service Corporations</u>		<u>Total</u>
				<u>Real Estate</u>	<u>Personal Property</u>	
1996	\$ 1,086,323,987	\$ 75,812,791	\$ 424,272	\$ 17,849,132	\$ 5,120	\$ 1,180,415,302
1997	1,110,325,350	82,294,224	443,463	17,695,018	11,230	1,210,769,285
1998	1,114,984,300	83,708,424	30,348	19,754,568	21,594	1,218,499,234
1999	1,134,148,650	87,758,184	14,313	21,524,498	15,803	1,243,461,448
2000	1,223,996,750	103,552,075	38,546	31,377,248	17,383	1,358,982,002
2001	1,404,758,900	111,659,710	-	29,152,583	81,843	1,545,653,036
2002	1,662,659,040	110,856,311	-	26,276,579	171,835	1,799,963,765
2003	1,820,716,800	123,493,957	-	26,413,009	177,980	1,970,801,746
2004	2,320,218,116	126,681,362	-	30,051,000	128,000	2,477,078,478
2005	2,682,976,500	111,765,877	-	27,569,800	11,504	2,822,323,681

Valuations are at estimated 100% market value.

CITY OF FALLS CHURCH, VIRGINIA
Property Tax Rates
Last Ten Calendar Years

Calendar Year	Real Estate	Personal Property	Machinery and Tools
1996	1.07/1.11	4.71	4.71
1997	1.11	4.71	4.71
1998	1.11	4.71	4.71
1999	1.11	4.71	4.71
2000	1.10	4.71	4.71
2001	1.13	4.71	4.71
2002	1.13	4.71	4.71
2003	1.13	4.71	4.71
2004	1.08	4.71	4.71
2005	1.03	4.71	4.71

Rates are per \$100 of valuation

CITY OF FALLS CHURCH, VIRGINIA
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (2)	Gross Bonded Debt (3)	Less: Debt Service Monies Available	Net Bonded Debt	General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
1996	9,600	\$ 1,180,415,302	\$ 26,575,000	\$ 40,996	\$ 26,534,004	2.25%	\$ 2,764
1997	9,600	1,201,921,776	25,402,499	17,915	25,384,584	2.11%	2,644
1998	9,600	1,218,499,234	24,069,999	49,492	24,020,507	1.97%	2,502
1999	9,600	1,243,461,448	22,642,499	119,061	22,523,438	1.81%	2,346
2000	9,600	1,358,982,002	30,214,999	18,038	30,196,961	2.22%	3,146
2001	9,600	1,545,618,036	28,825,000	127,280	28,697,720	1.86%	2,989
2002	10,400	1,799,963,765	27,180,000	-	27,180,000	1.51%	2,613
2003	10,600	1,820,716,800	25,495,000	-	25,495,000	1.40%	2,405
2004	10,600	2,320,218,116	47,950,000	-	47,950,000	2.07%	4,524
2005	10,600	2,710,546,300	47,171,034	-	47,171,034	1.74%	4,450

(1) Bureau of the Census

(2) From Schedule 10

(3) Includes all long-term general obligation bonded debt, Bond Anticipation Notes, and Literary Loans
Excludes revenue bonds, capital leases, and compensated absences

TABLE 7

CITY OF FALLS CHURCH, VIRGINIA
Ratio of Annual Debt Service Expenditures for General Bonded
Debt (1) to Total General Governmental Expenditures
Last Ten Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (1)	Percent Ratio of Debt Service to General Governmental Expenditures
1996	\$ 1,142,500	\$ 1,397,549	\$ 2,540,049	\$ 32,503,419	7.81%
1997	1,250,364	1,328,098	2,578,462	34,110,301	7.56%
1998	1,392,203	1,296,869	2,689,072	35,971,080	7.48%
1999	1,439,146	1,220,651	2,659,797	37,606,839	7.07%
2000	1,466,199	1,219,537	2,685,736	39,049,431	6.88%
2001	1,430,865	1,592,789	3,023,654	43,371,406	6.97%
2002	1,645,000	1,583,317	3,228,317	46,515,291	6.94%
2003	1,685,000	1,399,804	3,084,804	50,899,151	6.06%
2004	10,142,496	1,578,820	11,721,316	68,957,921	17.00%
2005	6,883,018	2,014,517	8,897,535	64,307,981	13.84%

(1) Includes all General Fund and Component Unit – School Board.

TABLE 8

**CITY OF FALLS CHURCH, VIRGINIA
 Computation of Legal Debt Margin
 At June 30, 2005**

Total assessed value of real estate, including public service corporations for calendar year 2005	\$ 2,710,546,300
Legal debt limit percentage	<u>10.00%</u>
Legal debt limit	271,054,630
Amount of debt applicable to limit	<u>47,171,034</u>
Legal debt margin	<u><u>\$ 223,883,596</u></u>

CITY OF FALLS CHURCH, VIRGINIA
Governmental Fund Balances (1)
Last Ten Years

Fiscal Year	Reserved for:			Unreserved and Designated			Unreserved and Undesignated	Total
	Encumbrances	Inventory	Prepays	Economic Development	Affordable Dwelling Units Fund	Construction		
1996	\$ 1,993,027	\$ 96,476	\$ -	\$ -	\$ -	\$ 3,603,888	\$ 6,882,381	\$ 12,575,772
1997	1,273,377	126,021	-	-	-	3,417,261	6,741,213	11,557,872
1998	1,196,131	111,312	-	1,146,639	-	3,262,673	9,078,051	14,794,806
1999	927,714	113,027	-	2,240,012	-	913,643	9,364,554	13,558,950
2000	2,290,448	107,210	-	2,380,251	-	4,027,570	10,531,589	19,337,068
2001	675,262	87,807	-	1,323,296	-	1,336,082	11,994,460	15,416,907
2002	1,067,662	128,688	-	763,689	-	940,900	14,854,849	17,755,788
2003	756,577	129,907	65,480	335,425	-	150,342	17,602,385	19,040,116
2004	21,246,925	129,323	66,158	56,455	-	4,918,860	13,856,001	40,273,722
2005	5,968,581	135,794	217,700	-	414,219	4,530,899	14,717,261	25,984,454

(1) Includes all General and Capital Project funds, and Component Unit School Board.

**CITY OF FALLS CHURCH, VIRGINIA
Construction, Property Value, and Bank Deposits
Last Ten Calendar Years**

Calendar Year	Construction (1)				Property Value			Bank Deposits
	Commercial		Residential Construction		Commercial	Residential	Total	
	Number of Units	Value	Number of Units	Value				
1996	150	\$ 8,828,079	476	\$ 5,349,731	\$ 263,759,464	\$ 822,564,523	\$ 1,086,323,987	\$ 2,278,801
1997	106	9,066,796	379	9,799,244	278,913,728	831,411,622	1,110,325,350	3,725,263
1998	129	7,820,984	431	8,273,068	282,666,409	829,317,891	1,111,984,300	5,297,638
1999	64	1,224,919	184	4,595,236	292,156,669	841,991,891	1,134,148,560	4,830,142
2000	102	2,967,795	186	3,392,751	323,379,941	900,616,809	1,223,996,750	1,015,618
2001	76	12,530,270	187	2,586,633	355,114,202	1,049,609,698	1,404,723,900	707,420
2002	217	14,258,902	251	8,913,817	390,143,523	1,272,872,347	1,663,015,870	1,335,935
2003	186	2,955,032	263	11,431,439	436,972,032	1,383,744,768	1,820,716,800	2,068,602
2004	42	25,012,080	171	12,322,297	569,289,000	1,750,929,116	2,320,218,116	1,720,379
2005	4	9,141,750	13	3,589,889	595,249,800	2,087,726,700	2,682,976,500	988,643

(1) From the City of Falls Church Department of Environmental Services.

CITY OF FALLS CHURCH, VIRGINIA
Demographic Statistics
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income (1)</u>	<u>School Enrollment (2)</u>	<u>Unemployment Rate (3)</u>
1996	9,600	\$ 38,482	1,464	4.1
1997	9,600	40,330	1,480	3.6
1998	9,600	43,193	1,451	2.2
1999	9,600	47,306	1,541	1.3
2000	9,600	50,035	1,675	1.1
2001	10,400	51,921	1,721	2.6
2002	10,600	52,401	1,749	2.9
2003	10,600	53,984	1,817	2.5
2004	10,600	n/a	1,846	2.9
2005	10,600	n/a	1,848	3.4

1 - Source: U.S. Department of Commerce, Bureau of Economic Analysis. Per Capita Rate for Fairfax, Fairfax City and Falls Church

2 - Source: City of Falls Church Public School Board

3 - Source: Virginia Employment Commission

CITY OF FALLS CHURCH, VIRGINIA
Ten Largest Taxpayers
As of January 1, 2005

<u>No.</u>	<u>Owner</u>	<u>Nature of Business</u>	<u>Assessment</u>	<u>Tax</u>	<u>% of Levy</u>
1	Falls Church Country Club	Apartment	\$ 57,141,000	\$ 588,552	2.1081%
3	Eden Center, Inc	Shopping Center	45,152,800	465,074	1.6658%
4	James E. Koons	Auto Sales	25,276,400	260,347	0.9325%
5	B Franklin Kahn, et al	Apartment Complex	22,225,800	228,926	0.8200%
6	Kaiser Foundation Health Plan, Inc.	Medical Office	19,805,100	203,993	0.7307%
7	Federal Realty Investment Trust	Shopping Center	18,219,100	187,657	0.6722%
8	West Falls Parcel, Inc.	Shopping Center	17,690,000	182,207	0.6526%
9	Noland Co. Inc.	Plumbing Supply	14,735,800	151,779	0.5436%
10	George Mason Square, LLC	Office Building	14,116,800	145,403	0.5208%