CITY OF FALLS CHURCH, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

CITY OF FALLS CHURCH

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2006

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

This page left intentionally blank

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2006

TABLE OF CONTENTS

		Page
INTRODUCTORY SECTION		
	Letter of Transmittal	3
	Directory of Officials	6
	Organizational Chart	7
	Certificate of Achievement for Excellence in Financial Reporting	9
FINANCIAL SECTION		
	Independent Auditors' Report	15
	Management's Discussion and Analysis	19
	Basic Financial Statements	
Exhibit	Government-wide Financial Statements	
I	Statement of Net Assets	35
II	Statement of Activities	36
	Fund Financial Statements	
III	Balance Sheet – Governmental Funds	37
IV	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	38
V	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	39
VI	Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	40
VII	Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	41
VIII	Statement of Net Assets – Proprietary Funds	42
IX	Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	43
X	Statement of Cash Flows – Proprietary Funds	44
XI	Statement of Fiduciary Net Assets	45
XII	Statement of Changes in Fiduciary Net Assets – Pension Trust Funds	46
	Notes to the Financial Statements	
	Summary of Significant Accounting Policies	47
	Stewardship, Compliance, and Accountability	55
	Detailed Notes on All Funds	56
	Retirement Plans	71
	Risk Management	75
	Contingencies	75
	Future Accounting Changes	75
	Subsequent Events	76
	Required Supplementary Information Other Than Management's Discussion and Analysis	
XIII	Schedule of Funding Progress	79
XIV	Schedule of Employer Contributions	80

Other Supplementary Information

Schedule		
	Combining Statements	
1	Combining Schedule of Fiduciary Net Assets – Pension Trust Funds …….	83
2	Combining Schedule of Changes in Fiduciary Net Assets – Pension Trust Funds ……..	84
1	Combining Schedule of Agency Net Assets……..……..	85
2	Schedule of Changes in Assets and Liabilities – Agency Funds……..	86
	Component Units	
	City of Falls Church Public School Board	
3	Balance Sheet – Governmental Funds……	87
4	Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Assets……	88
5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds…….	89
6	Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities…….....……	90
7	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Operating Fund…….	91
8	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – School Community Service Fund….……	92
9	Statement of Fiduciary Net Assets…….	93
10	Statement of Changes in Assets and Liabilities – Agency Funds……..	94
	Non-Major Component Unit	
11	Balance Sheet…….	95
12	Statement of Revenues, Expenditures, and Changes in Fund Balance……..	96

STATISTICAL SECTION

Table		
1	Net Assets by Component …….……...	97
2	Changes in Net Assets ……..	98
3	Fund Balances of Governmental Funds…….	100
4	Information About Changes in Fund Balances …….……	101
5	Assessed Value and Estimated Actual Value of Taxable Property ……..	102
6	Information About Revenue Rates ……..…….	103
6	Principal Real Property Taxpayers ...…….……...	104
7	Property Tax Levies and Collections ……	105
8	Ratio of Outstanding Debt by Type……...	106
9	Ration of General Bonded Debt Outstanding …….……..	107
10	Legal Debt Margin Information ……	108
11	Demographic and Economic Statistics ……..	109
12	Principal Employers ……..	110
13	Full-time Equivalent City Government Employees by Function …….	111
14	Operating Indicators by Function …….	112
15	Capital Asset Statistics by Function …….	113

CITY OF FALLS CHURCH, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

INTRODUCTORY SECTION

This page left intentionally blank

November 17, 2006

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, 2006, 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.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in the report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principals (GAAP). As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Cherry, Bekaert & Holland, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2006 are free of material misstatement. The independent auditor's report is presented as the first component of the financial section of this report.

Our CAFR is divided into 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. Four mixed-use development projects have been approved and are under construction in Falls Church, 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 has softened considerably during the past year and shows no sign of rebounding in the next year. After median sales prices for single-family homes having increased 15.9% from 2004 to 2005 the current projection is for increases in the range of 1%. Condominium values have also leveled off after experiencing a median sales price increase of 59.7% from 2004 to 2005. These numbers are consistent with City and regional market trends as the entire Washington DC metropolitan. There are new mixed-use housing developments under construction and in the planning process in the City which will support increases in the overall tax base even though values for existing real estate will remain largely unchanged in the near term.

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 third 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, 2005. 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 Cabacar 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,

F. Wyatt Shields	John H. Tuohy, CPA
City Manager	Chief Financial Officer

CITY OF FALLS CHURCH, VIRGINIA

DIRECTORY OF OFFICIALS

At June 30, 2006

CITY OF FALLS CHURCH, VIRGINIA
CITY COUNCIL

Daniel E. Gardner, Mayor

Martha R. Meserve, Vice Mayor

Robin S. Gardner

Marlind "Lindy" R. Hockenberry

Samuel A. Mabry

David C. Chavern

David E. Snyder

CITY OFFICIALS

Daniel E. McKeever, City Manager

F. Wyatt Shields, Assistant City Manager

John H. Tuohy, CPA, Chief Financial Officer

Roy B. Thorpe, Jr., City Attorney

Kathleen C. Buschow, City Clerk

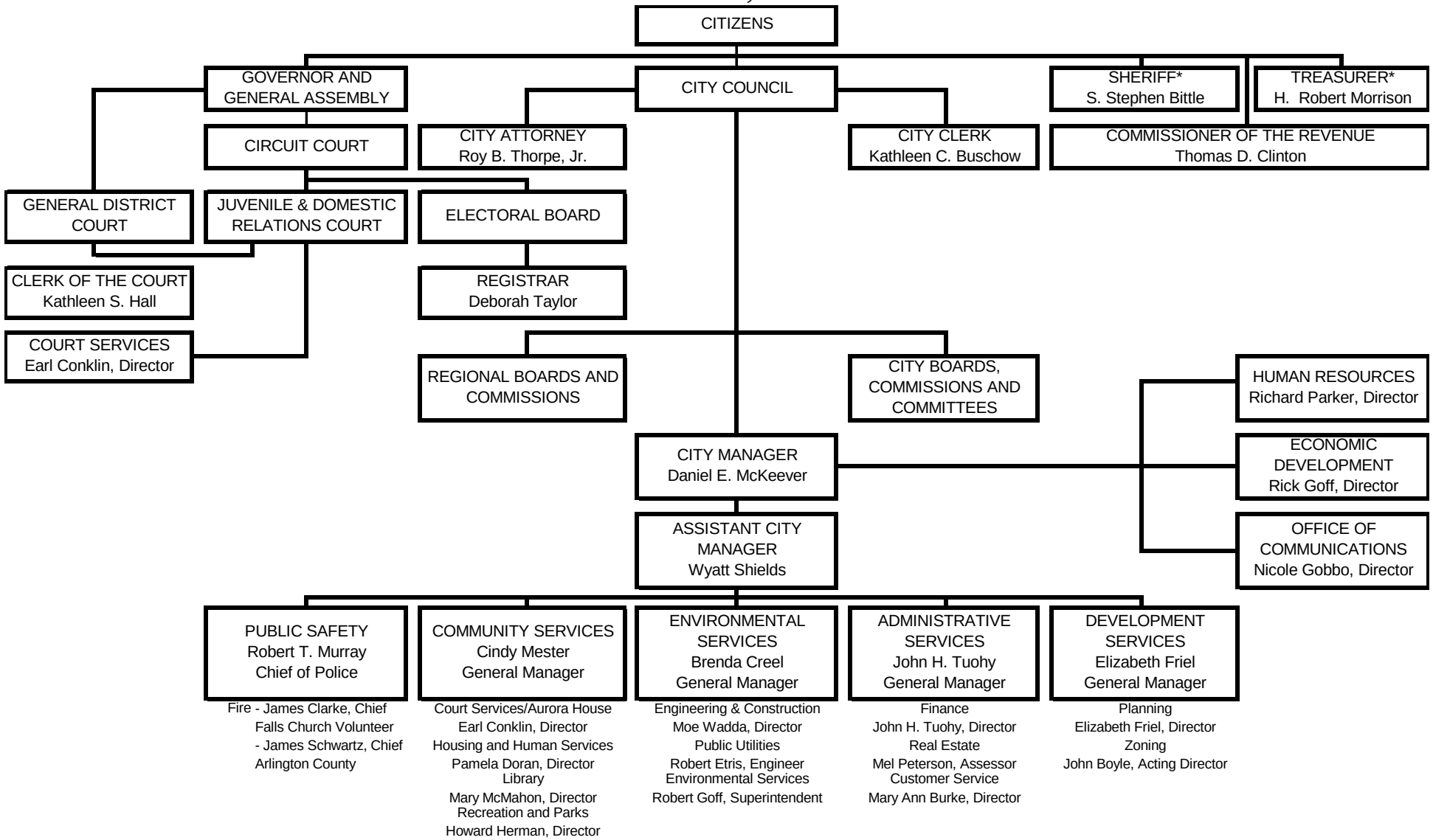
H. Robert Morrison, City Treasurer

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, 2006



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

This page left intentionally blank

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, 2005

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.

President

Executive Director

This page left intentionally blank

CITY OF FALLS CHURCH, VIRGINIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL SECTION

This page left intentionally blank

CITY OF FALLS CHURCH, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

INDEPENDENT AUDITORS' REPORT

This page left intentionally blank

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page left intentionally blank

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, 2006.

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 $114.8 million at June 30, 2006. Of this balance, $110.2 million is the Primary Government's and $4.9 million is the component units'.
- For fiscal year 2006, taxes, other revenues and transfers from the City's business-type activities to the City's governmental activities amounted to $58 million and expenses amounted to $54.6 million, which resulted in an increase in net assets for the City's governmental activities of $3.4 million. Revenues of the City's business-type activities were $23.8 million, expenses were $18.4 million, and transfers to general fund were $4.8 million, which resulted in an increase in net assets for the City's business-type activities of approximately $0.6 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 $3.6 million for the fiscal year.

- The City's General Fund reported a fund balance of $16.6 million at June 30, 2006, an increase of $2.4 million from June 30, 2005.

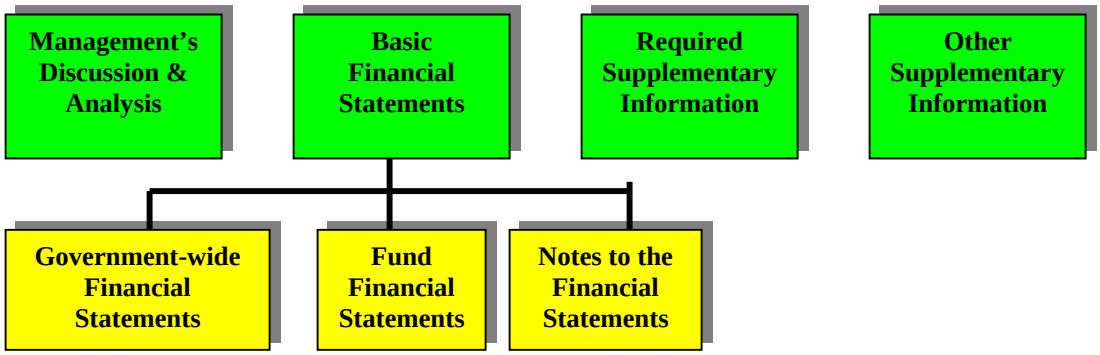
- The City's Capital Projects Fund reported a decrease in fund balance of $6 million.

- The City's Water fund reported an increase in net assets of approximately $79 thousand and the City's Sewer fund reported an increase of $608 thousand in 2006 largely due to an increase in rates.

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:

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.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the fourth year that the City has presented its financial statements under the 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, 2006 and 2005:

Summary of Net Assets
As of June 30, 2006 and 2005
($ In Thousands)

	2006		2005	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Assets:				
Current and other assets	$ 47,311	$ 25,851	$ 55,007	$ 25,855
Capital assets, net	67,026	50,541	60,061	49,170
Total assets	114,337	76,392	115,068	75,025
Liabilities:				
Other liabilities	26,693	3,791	29,634	3,049
Long-term liabilities	49,724	309	50,953	372
Total liabilities	76,417	4,100	80,587	3,421
Net Assets:				
Invested in capital assets, net of related debt	21,440	50,534	19,354	49,170
Unrestricted	16,480	21,758	15,127	22,434
Total net assets	$ 37,920	$ 72,292	$ 34,481	$ 71,604

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 $7.7 million during FY2006. 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 decreased as a result bond repayments exceeding issuance.

The investment in capital assets, net of related debt, increased for the City's governmental activities and business-type activities by $2.5 million and $1.4 million, respectively, during FY2006. The increase in the governmental activities' investment in capital assets is primarily due to the repayment of principal on debt incurred prior to FY2006 and partly due to the completion of the new middle school and the increase in the value of construction in progress at the elementary school. Unrestricted net assets increased for governmental activities mainly due to the transfer for return on equity from the Water Fund.

Current assets and unrestricted net assets for business-type activities decreased primarily due to the transfer of $4.8 million to the General Fund and investment in capital assets of $1.3 million. This investment of $1.3 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, 2006 and 2005:

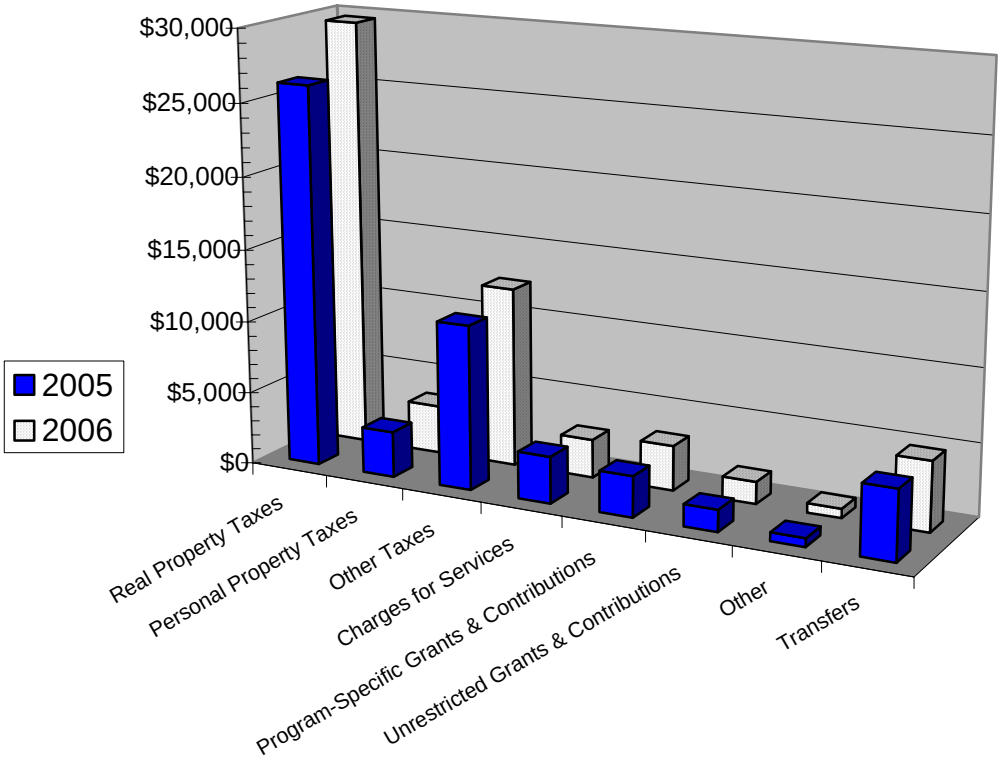
Summary of Changes in Net Assets
For the Fiscal Year Ended June 30, 2006 and 2005
($ In Thousands)

	2006		2005	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Revenues:				
Program revenues:				
Charges for services	$ 2,647	$ 21,516	$ 3,208	$ 19,882
Operating grants & contributions	3,099	-	2,807	-
Capital grants & contributions	-	1,533	-	1,907
General revenues:				
Real estate taxes	29,625	-	26,248	-
Personal property taxes	3,328	-	3,138	-
Business license taxes, based on gross receipts	2,937	-	2,913	-
Local sales & use taxes	4,264	-	3,828	-
Consumer's utility taxes	1,596	-	1,646	-
Motor vehicle decals	202	-	223	-
Recordation	214	-	232	-
Occupancy, tobacco, & other taxes	3,151	-	2,454	-
Unrestricted grants & contributions	1,536	-	1,495	-
Revenue from use of money and property	570	760	547	650
Other	71	30	45	38
Total revenues	53,240	23,839	48,784	22,477
Expenses:				
General government administration	4,129	-	3,936	-
Judicial administration	1,246	-	1,156	-
Public safety	6,996	-	7,017	-
Public works	6,332	18,378	4,128	16,906
Health and welfare	3,018	-	2,740	-
Education and payments to schools	26,380	-	23,401	-
Parks, recreation, and cultural	3,307	-	3,159	-
Community development	1,133	-	1,163	-
Economic development	374	-	294	-
Interest expense	1,661	-	2,221	-
Total expenses	54,576	18,378	49,215	16,906
Excess/(deficiency) before transfers	(1,336)	5,461	(431)	5,571
Transfers	4,775	(4,775)	4,764	(4,764)
Change in net assets	3,439	686	4,333	807
Net assets, beginning of year	34,481	71,604	30,148	70,797
Net assets, end of year	$ 37,920	$ 72,290	$ 34,481	$ 71,604

Governmental Activities

Revenues and transfers for the City's governmental activities were $58.02 million for fiscal year 2006 and $53.5 million for fiscal year 2005. Sources of revenue for fiscal year 2006 and 2005 are comprised of the following items:

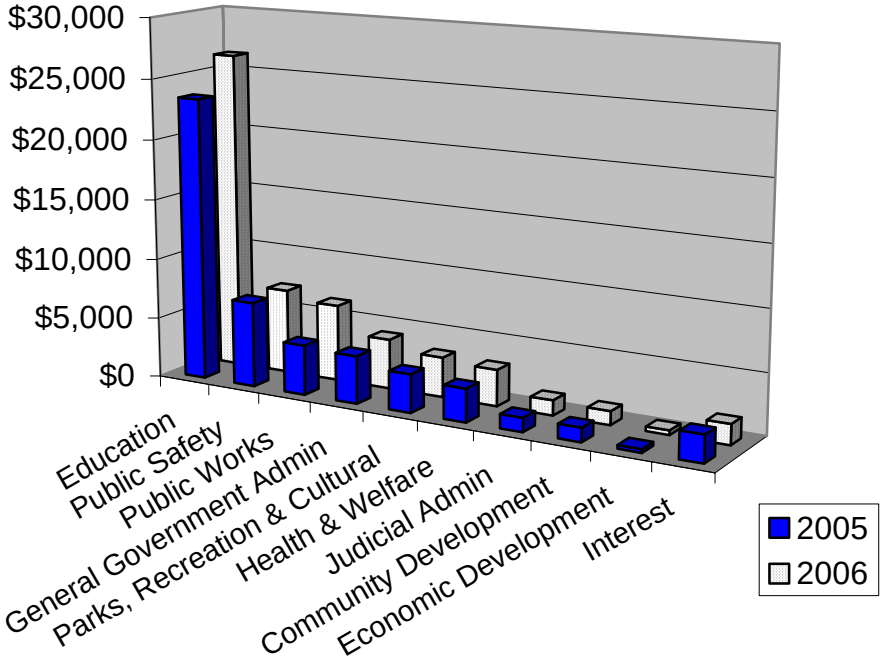
Governmental Activities – Revenues by Source
For the Fiscal Years Ended June 30, 2006 and 2005
($ In Thousands)



Taxes constitute the largest source of City revenues, amounting to $45.3 million for fiscal year 2006 and $40.7 million for fiscal year 2005. Real property taxes ($29.6 million in fiscal year 2006 and $26.2 million in fiscal year 2005) represent over 65 percent in fiscal year 2006 and over 64 percent in fiscal year 2005. Tax revenues for fiscal year 2006 increased by $4.6 million largely due to an average increase of 14.76 percent in real property assessments.

The cost of all governmental activities in fiscal year 2006 was $54.6 million, and in fiscal year 2005 was $49.2 million. Education was the City's largest program and highest priority in both fiscal years 2006 and 2005; education expenses totaled $26.4 million in fiscal year 2006 and $23.4 million in fiscal year 2005. Public safety expenses represent the second largest expense in both fiscal years, totaling $7.0 million in fiscal years 2006 and 2005. Public works expenses totaled $6.3 million for fiscal year 2006 and $4.1 million for 2005, representing the third largest expense for the City in both fiscal years.

Governmental Activities – Expenses by Function
For the Fiscal Years Ended June 30, 2006 and 2005
($ 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).

	2006		2005	
Functions/Programs	**Total Cost**	**Net Cost**	**Total Cost**	**Net Cost**
Education and payments to schools	$ 26,380	$ 26,380	$ 23,401	$ 23,401
Public safety	6,995	5,555	7,017	5,122
Public works	6,332	5,402	4,128	3,226
General government administration	4,129	3,860	3,936	3,600
Parks, recreation, and cultural	3,307	2,300	3,159	2,239
Health and welfare	3,018	2,140	2,740	2,009
Other	4,415	3,192	4,834	3,602
Total	$ 54,576	$ 48,829	$ 49,215	$ 43,199

Some of the cost of governmental activities was paid by those who directly benefited from the programs ($2.6 million in 20065 and $3.2 million in 2005) and other governments and organizations that subsidized certain programs with grants and contributions ($3.1 million in 2006 and $2.8 million in 2005). Of the $48.8 million net

cost of services in 2006, the amount that our taxpayers paid for these activities through City taxes was $45.3 million. The remaining $3.5 million net cost was funded primarily by transfers from the Water and Sewer funds of $4.8 million. In fiscal year 2005, of the $43.2 million of net cost of services, the amount that our taxpayers paid through City taxes was $40.7 million, and the remaining net cost of $2.5 million was funded primarily by transfers from Water and Sewer funds of $4.7 million.

Business-type Activities

The Water Fund reported an increase in net assets of $79 thousand for fiscal year 2006 and a decrease of $28 thousand for fiscal year 2005. In fiscal year 2006, total revenues and capital contributions of the Water Fund were $21.1 million and total costs and transfers were $21 million. In fiscal year 2005, total revenues and capital contributions were $19.6 million and total costs and transfers were $19.6 million. The Water Fund recovers its costs primarily through user charges.

The Sewer Fund reported an increase in net assets of $608 thousand for fiscal year 2006 and an increase of $0.8 million for fiscal year 2005. Total revenues of the Sewer Fund were $2.7 million as compared to total costs and transfers of $2.1 million. In fiscal year 2005, total revenues of the Sewer Fund were $2.9 million and total costs and transfers were $2.1 million. The Sewer Fund recovers its costs primarily through user charges.

Highlights of the City's business-type activities for fiscal year 2006 are as follows:

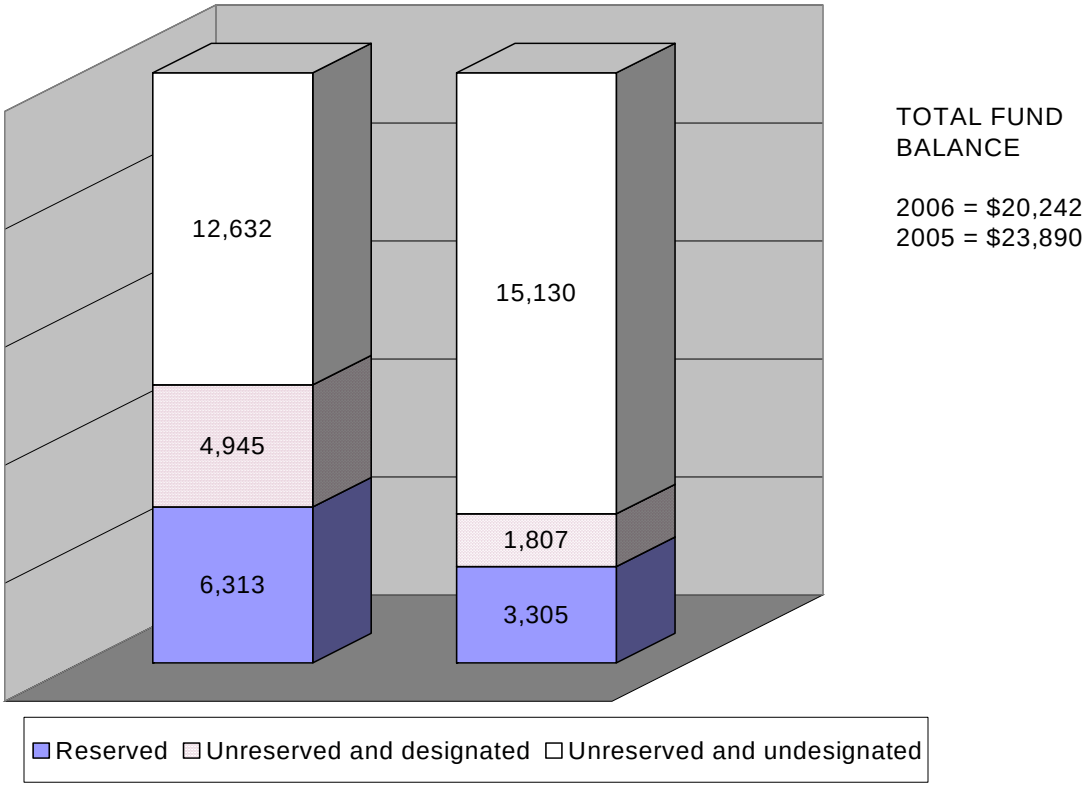
- The Water Fund continues to make improvements to the water distribution system by adding new water mains and pump stations, and replacing older ones. The City invested $1.3 million in replacing and building new water mains and pump stations.
- Developers also added to the distribution system in the amount of $1.5 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, 2006 and 2005.

Governmental Funds – Fund Balances
As of June 30, 2006 and 2005
($ in Thousands)



Overall, the fund balance for all governmental funds decreased by approximately $3.6 million for the fiscal year ended June 30, 2006 and decreased by approximately $14.3 million for the fiscal year ended June 30, 2005. In 2006, total revenues and other financing sources were $66.9 million and total expenditures and other financing uses were $70.5 million. 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 2006, expenditures and other financing uses decreased by $5.2 million largely due to the completion 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 $3.0 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, 2006 and 2005, $1.3 million and $4.5 million, respectively, were designated for future construction. In FY2006, the City also designated funds for affordable dwelling units. At the end of FY2005, the funds designated for affordable dwelling units were $432 thousand.

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 $15.5 million (27.1 percent of the General Fund's total expenditures). The revenues and other financing sources of $63.3 million less expenditures of $57.4 million and other financing uses (net) of $3.5 million resulted in a net increase in fund balance of $2.4 million. As of the end of the prior fiscal year, the unreserved fund balance was $12.6 million (23.8 percent of the General Fund's total expenditures). In fiscal year 2005, revenues 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.

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, 2006 and 2005, the fund balance was $3.7 million and $9.7 million, respectively. Of these amounts, $2.3 million and $5.2 million were reserved for encumbrances as of June 30, 2006 and 2005, respectively. All of the remaining funds of $1.4 million and $4.5 million as of June 30, 2006 and 2005, respectively, were designated for future construction.

The main reason in the reduction of the fund balance in the Capital Projects Fund in fiscal year 2006 was the completed construction of the new Mary Ellen Henderson Middle School. Of the $30.6 million budgeted for the construction and renovation, approximately $4.2 million was spent in fiscal year 2006.

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 $2.6 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, 2006.

The final amended budget revenues and transfers in were more than the original budget by $586 thousand or 1.0 percent.

Actual revenues and other financing sources exceeded final budget amounts by $3.2 million, and actual expenditures and other financing uses were $3.3 million less than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2006, include the following:

- The City issued additional bonds in the amount of $1.9 million for renovation of the Mt. Daniel Elementary School.
- Actual tax revenues exceed budgeted amounts by $203 thousand mostly due to increases in business license taxes.
- Actual departmental expenditures were less than budgeted amounts for public works by $828 thousand and for community development by $1.5 million mostly due to projects that were not completed or started in FY2006.

CAPITAL ASSETS AND LONG-TERM DEBT

The City's investment in capital assets as of June 30, 2006 and 2005, amounted to approximately $117.6 million and $109.1 million, respectively, (net of accumulated depreciation and amortization) as summarized below:

Capital Assets
As of June 30, 2006 and 2005
($ In Thousands)

	2006			2005		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 6,324	$ 2,595	$ 8,919	$ 5,263	$ 2,595	$ 7,858
Construction in progress	2,684	2,158	4,842	24,333	868	25,201
Buildings and system	59,945	79,996	139,941	32,382	78,288	110,670
Improvements other than buildings	2,859	-	2,859	2,354	-	2,354
Machinery and equipment	9,062	1,259	10,321	7,849	1,183	9,032
Software	1,419	31	1,450	1,402	31	1,433
Infrastructure	8,867	-	8,867	8,451	-	8,451
Library collections	2,009	-	2,009	1,927	-	1,927
Accumulated depreciation	(26,143)	(35,498)	(61,641)	(23,900)	(33,795)	(57,695)
Total Capital Assets, Net	$ 67,026	$ 50,541	$ 117,567	$ 60,061	$ 49,170	$ 109,231

During fiscal year 2006, the City's net increase in capital assets (including additions, decreases, depreciation and amortization) was $8.3 million ($7.0 million net increase for governmental activities and $1.3 million net increase for business-type activities) or 7.6 percent. 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.

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

- Completion of new middle school for a total of $27.0 million.
- Expansions and additions in the water distribution system for a total of $1.3 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 $3.40 billion in 2006 and $2.68 billion in 2005. The City's total long-term obligations of $49.7 million as of June 30, 2006 and $51 million as of June 30, 2005, are well within the limits set by the Constitution of the Commonwealth of Virginia.

The City Council has adopted a policy that sets a limit for outstanding 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, 2006, total debt outstanding was 1.5 percent of assessed value of real property and debt service payments were 8.6 percent of 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.

The following is a summary of the City's outstanding debt as of June 30, 2006 and 2005:

Outstanding Long-Term Debts
As of June 30, 2006 and 2005
($ In Thousands)

	2006			2005		
	Govern-mental Activities	Business-Type Activities	Total	Govern-mental Activities	Business-Type Activities	Total
General obligation bonds issued for:						
Schools	$ 36,795	$ -	$ 36,795	$ 36,916	$ -	$ 36,916
Community center	2,056	-	2,056	2,166	-	2,166
Fire station	2,970	-	2,970	3,050	-	3,050
City hall	3,418	-	3,418	4,016	-	4,016
Open space	921	-	921	1,023	-	1,023
Note payable issued for:						
Open space	653	-	653	853	-	853
Capital leases and other	2,911	309	3,220	2,929	372	3,301
Total	$ 49,724	$ 309	$ 50,033	$ 50,953	$ 372	$ 51,325

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 2007:

- The percentage change in real property taxes for fiscal year 2007 is projected to be 15.8 percent as compared to 16.9 percent change in fiscal year 2006. This was primarily due to increases in real estate assessments and additional new construction in the City.

- Through June 2006, the median sales price of new and existing single family housing units experienced double-digit growth over fiscal year 2005 sales prices. That pace of increase is not expected to continue.

Per the fiscal year 2007 Adopted Budget, revenues are $66.7 million, an 11.9 percent increase over the fiscal year 2006 level (excluding anticipated amounts from issuance of bonds and use of fund balance). An increase in real property tax revenues accounts for 80.1 percent of the total General Fund revenue increase in fiscal year 2007. Revenue from real property taxes will make up 59.0 percent of total revenues, as compared to 56.5 percent in fiscal year 2006. Other taxes account for 14.0 percent of the increase in the General Fund revenue. Revenue from the Commonwealth is expected to decline 14 percent due to certain non-recurring grants in fiscal year 2006 and an anticipated decline in receipts under the Personal Property Relief Act (PPTRA).

Debt service payments will increase approximately $202,885, an increase of 4.4 percent, in FY2007 over FY2006 due to full annual debt service for the FY2006 series bonds starting in FY2007.

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.

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

This page left intentionally blank

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

BASIC FINANCIAL STATEMENTS

This page left intentionally blank

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF NET ASSETS
As of June 30, 2006

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	School Board	Economic Development Authority	Total Component Units
ASSETS						
Cash and cash equivalents	$ 18,129,881	$ 9,308,530	$ 27,438,411	$ 5,212,823	$ 132,237	$ 5,345,060
Investments	-	7,518,038	7,518,038	-	-	-
Receivables, net	21,596,097	10,185,802	31,781,899	35,432	-	35,432
Internal balances	1,562,021	(1,562,021)	-	-	-	-
Due from component unit	271,860	-	271,860			
Due from other governmental units	2,978,544	-	2,978,544	400,424	-	400,424
Prepaids	102,846	-	102,846	3,396	-	3,396
Inventories	148,667	400,131	548,798	-	-	-
Temporarily restricted cash and cash equivalents	2,521,186	-	2,521,186	-	-	-
Capital assets:						
Non-depreciable	9,008,066	4,752,549	13,760,615	1,273,354	517,255	1,790,609
Depreciable, net of accumulated depreciation	58,017,918	45,788,627	103,806,545	2,323,221	-	2,323,221
Total capital assets, net	67,025,984	50,541,176	117,567,160	3,596,575	517,255	4,113,830
Total Assets	114,337,086	76,391,656	190,728,742	9,248,650	649,492	9,898,142
LIABILITIES						
Accounts payable and other current liabilities	2,367,394	3,790,639	6,158,033	3,413,410	-	3,413,410
Accrued interest payable	573,854	-	573,854	-	-	-
Due to fiduciary funds	1,406,668	-	1,406,668	-	-	-
Due to primary government	-	-	-	271,860	-	271,860
Unearned revenue	21,235,160	-	21,235,160	-	-	-
Customer deposits	1,109,781	-	1,109,781	-	-	-
Noncurrent liabilities:						
Portion due or payable within one year	4,516,533	263,600	4,780,133	487,213	-	487,213
Due in more than one year	45,207,677	45,581	45,253,258	854,567	-	854,567
Total Liabilities	76,417,067	4,099,820	80,516,887	5,027,050	-	5,027,050
NET ASSETS						
Invested in capital assets, net of related debt	18,918,420	50,534,282	69,452,702	3,053,494	517,255	3,570,749
Unrestricted	19,001,599	21,757,554	40,759,153	1,168,106	132,237	1,300,343
Total Net Assets	$ 37,920,019	$ 72,291,836	$ 110,211,855	$ 4,221,600	$ 649,492	$ 4,871,092

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

EXHIBIT II

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units: School Board	Component Units: Economic Development Authority	Component Units: Total Component Units
Primary Government:										
Governmental activities:										
General government administration	$ 4,129,020	$ 57,341	$ 211,645	$ -	$ (3,860,034)	$ -	$ (3,860,034)	$ -	$ -	$ -
Judicial administration	1,245,977	704,344	348,105	-	(193,528)	-	(193,528)	-	-	-
Public safety	6,995,489	773,476	666,455	-	(5,555,558)	-	(5,555,558)	-	-	-
Public works	6,332,313	134,732	795,202	-	(5,402,379)	-	(5,402,379)	-	-	-
Health and welfare	3,018,356	15	877,779	-	(2,140,562)	-	(2,140,562)	-	-	-
Education and payments to Schools	26,379,915	-	-	-	(26,379,915)	-	(26,379,915)	-	-	-
Parks, recreation, and cultural	3,306,719	806,936	200,258	-	(2,299,525)	-	(2,299,525)	-	-	-
Community development	1,132,733	170,556	-	-	(962,177)	-	(962,177)	-	-	-
Economic development	373,963	-	-	-	(373,963)	-	(373,963)	-	-	-
Interest expense	1,661,368	-	-	-	(1,661,368)	-	(1,661,368)	-	-	-
Total governmental activities	54,575,853	2,647,400	3,099,444	-	(48,829,009)	-	(48,829,009)	-	-	-
Business-type activities:										
Water	16,289,183	18,936,968	-	1,532,935	-	4,180,720	4,180,720	-	-	-
Sewer	2,088,637	2,581,621	-	-	-	492,984	492,984	-	-	-
Total business-type activities	18,377,820	21,518,589	-	1,532,935	-	4,673,704	4,673,704	-	-	-
Total Primary Government	$ 72,953,673	$ 24,165,989	$ 3,099,444	$ 1,532,935	$ (48,829,009)	$ 4,673,704	$ (44,155,305)	$ -	$ -	$ -
Component Units:										
Education	32,173,118	1,481,428	4,759,796	265,521	-	-	-	(25,666,373)	-	(25,666,373)
Economic development	76,644	-	-	-	-	-	-	-	(76,644)	(76,644)
Total Component Units	$ 32,249,762	$ 1,481,428	$ 4,759,796	$ 265,521	$ -	$ -	$ -	$ (25,666,373)	$ (76,644)	$ (25,743,017)
General Revenues:										
Taxes:										
Real property					$ 29,624,514	$ -	$ 29,624,514	$ -	$ -	$ -
Personal property					3,327,582	-	3,327,582	-	-	-
Business licenses, based on gross receipts					2,936,648	-	2,936,648	-	-	-
Local sales & use					4,263,902	-	4,263,902	-	-	-
Consumer's utility					1,595,837	-	1,595,837	-	-	-
Motor vehicle decals					202,229	-	202,229	-	-	-
Real estate recordation taxes					213,868	-	213,868	-	-	-
Occupacy, tobacco, and other					3,150,953	-	3,150,953	-	-	-
Grants and contributions not restricted to specific programs					1,535,838	-	1,535,838	-	-	-
Revenue from use of money and property					569,561	759,782	1,329,343	174,378	30,474	204,852
Payment from primary government					-	-	-	24,999,512	-	24,999,512
Other					71,029	29,945	100,974	80,313	(2,600)	77,713
Transfers:										
Payments in lieu of taxes					150,000	(150,000)	-	-	-	-
Return on equity					4,625,874	(4,625,874)	-	-	-	-
Total General Revenues and Transfers					52,267,835	(3,986,147)	48,281,688	25,254,203	27,874	25,282,077
Change in net assets					3,438,826	687,557	4,126,383	(412,170)	(48,770)	(460,940)
Net Assets - Beginning of Year					34,481,193	71,604,279	106,085,472	4,633,770	698,262	5,332,032
Net Assets - End of Year					$ 37,920,019	$ 72,291,836	$ 110,211,855	$ 4,221,600	$ 649,492	$ 4,871,092

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

EXHIBIT III

CITY OF FALLS CHURCH, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2006

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 17,944,376	$ 185,507	$ 18,129,883
Receivables, net	21,766,097	-	21,766,097
Due from other governmental units	2,808,544	-	2,808,544
Due from component units	271,860	-	271,860
Prepaid items	102,846	-	102,846
Inventories	148,667	-	148,667
Restricted:			
Cash and cash equivalents	-	2,521,186	2,521,186
Due from general fund	-	1,462,357	1,462,357
Total Assets	$ 43,042,390	$ 4,169,050	$ 47,211,440
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 1,854,824	$ 512,572	$ 2,367,396
Deferred revenue	22,185,460	-	22,185,460
Customer deposits	1,109,779	-	1,109,779
Due to other funds	1,307,004	-	1,307,004
Total Liabilities	26,457,067	512,572	26,969,639
Fund Balances:			
Reserved for:			
Encumbrances	772,680	2,281,152	3,053,832
Inventory	148,667	-	148,667
Prepaid items	102,846	-	102,846
Unreserved, reported in:			
General Fund:			
Designated for affordable dwelling units	431,941	-	431,941
Undesignated	15,129,189	-	15,129,189
Capital Projects Fund:			
Designated for construction	-	1,375,326	1,375,326
Total Fund Balances	16,585,323	3,656,478	20,241,801
Total Liabilities and Fund Balances	$ 43,042,390	$ 4,169,050	$ 47,211,440

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

EXHIBIT IV

CITY OF FALLS CHURCH, VIRGINIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
As of June 30, 2006

Fund balances - total governmental funds		$ 20,241,801
Amounts reported for governmental activities 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		
Governmental capital assets	93,168,811	
Less accumulated depreciation	(26,142,827)	67,025,984
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:		
Delinquent property taxes (net of allowances)		950,298
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds		
General obligation bonds payable	(46,160,418)	
Premium on bond sale and refundings (net of accumulated amortization)	(979,771)	
Note payable	(652,500)	
Compensated absences	(1,616,646)	
Capital leases payable	(314,875)	(49,724,210)
Interest on long-term liabilities is not accrued in the governmental funds, but is recognized as an expenditure when due.		(573,854)
Net Assets of Governmental Activities		$ 37,920,019

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

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General	Capital Projects	Total Governmental Funds
REVENUES			
General property taxes	$ 33,248,625	$ -	$ 33,248,625
Other local taxes	12,350,831	-	12,350,831
Permit, privilege fees, and regulatory licenses	442,556	-	442,556
Fines and forfeitures	649,377	-	649,377
Revenue from use of money and property	569,561	-	569,561
Charges for services	1,423,258	-	1,423,258
Miscellaneous	62,800	-	62,800
Recovered costs	2,012,726	-	2,012,726
Intergovernmental:			
Commonwealth	4,633,990	-	4,633,990
Federal	1,001,162	-	1,001,162
Total Revenues	56,394,886	-	56,394,886
EXPENDITURES			
Current:			
General government administration	5,722,648	-	5,722,648
Judicial administration	1,205,050	-	1,205,050
Public safety	6,704,083	-	6,704,083
Public works	5,410,065	-	5,410,065
Health and welfare	3,021,934	-	3,021,934
Education and payments to Schools	25,076,471	-	25,076,471
Parks, recreation, and cultural	3,123,316	-	3,123,316
Community development	1,430,897	-	1,430,897
Economic development	369,331	-	369,331
Capital outlay	60,250	9,552,132	9,612,382
Debt service:			
Principal retirement	3,350,886	-	3,350,886
Interest and other fiscal charges	1,905,769	-	1,905,769
Total Expenditures	57,380,700	9,552,132	66,932,832
Deficiency of revenues under expenditures	(985,814)	(9,552,132)	(10,537,946)
Other financing sources/(uses):			
Transfer from Enterprise Funds	4,775,874	-	4,775,874
Transfers in/(out)	(3,526,266)	3,526,266	-
Proceeds from issuance of bonds	1,935,000	-	1,935,000
Proceeds from refunding bonds	35,811	-	35,811
Proceeds from capital leases	72,950	-	72,950
Premium on bond sale	70,192		70,192
Total Other Financing Sources/(Uses)	3,363,561	3,526,266	6,889,827
Net Change in Fund Balances	2,377,747	(6,025,866)	(3,648,119)
Fund Balances at beginning of year	14,207,576	9,682,344	23,889,920
Fund Balances at end of year	$ 16,585,323	$ 3,656,478	$ 20,241,801

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, 2006

Net change in fund balances - total governmental funds		$ (3,648,119)
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	9,373,735	
Less current year depreciation and amortization	(2,361,738)	
Loss on disposal of assets	(3,544)	7,008,453
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Decrease in deferred revenue related to taxes		(1,311,374)
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	(1,935,000)	
Proceeds from capital leases	(72,950)	
Premium on bond refunding, net of current period amortization	(70,192)	
Principal payments on bonds	3,145,616	
Principal payments on capital leases	205,270	1,272,744
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	(87,319)	
Change in accrued interest liability	204,441	117,122
Change in Net Assets of Governmental Activities		$ 3,438,826

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

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, 2006

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES				
General property taxes	$ 33,671,170	$ 34,257,170	$ 33,248,625	$ (1,008,545)
Other local taxes	11,139,163	11,139,163	12,350,831	1,211,668
Permit, privilege fees, and regulatory licenses	367,305	367,305	442,556	75,251
Fines and forfeitures	396,500	396,500	649,377	252,877
Revenue from use of money and property	232,500	232,500	569,561	337,061
Charges for services	1,296,139	1,296,139	1,423,258	127,119
Miscellaneous	62,200	62,200	62,800	600
Recovered costs	2,233,960	2,233,960	2,012,726	(221,234)
Intergovernmental:				
Commonwealth	4,232,104	4,232,104	4,633,990	401,886
Federal	1,109,565	1,109,565	1,001,162	(108,403)
Total Revenues	54,740,606	55,326,606	56,394,886	1,068,280
EXPENDITURES				
Current:				
General government administration	5,875,132	5,975,623	5,722,648	252,975
Judicial administration	1,198,863	1,301,320	1,205,050	96,270
Public safety	6,904,669	7,043,869	6,704,083	339,786
Public works	5,717,616	6,238,836	5,410,065	828,771
Health and welfare	3,251,924	3,285,629	3,021,934	263,695
Education and and payments to Schools	25,093,902	25,093,902	25,076,471	17,431
Parks, recreation, and cultural	3,258,663	3,200,337	3,123,316	77,021
Community development	2,796,407	2,976,846	1,430,897	1,545,949
Economic development	385,642	410,212	369,331	40,881
Capital outlay	-	-	60,250	(60,250)
Debt service:				
Principal retirement	3,352,047	3,352,047	3,350,886	1,161
Interest and other fiscal charges	1,882,640	1,882,640	1,905,769	(23,129)
Total Expenditures	59,717,505	60,761,261	57,380,700	3,380,561
Deficiency of revenues under expenditures	(4,976,899)	(5,434,655)	(985,814)	4,448,841
Other financing sources/(uses):				
Transfers from Enterprise Funds	4,764,256	4,764,256	4,775,874	11,618
Transfers out	(1,936,000)	(3,486,684)	(3,526,266)	(39,582)
#REF!			1,935,000	1,935,000
Proceeds from refunding bonds	-	-	35,811	35,811
Proceeds from capital leases	-	-	72,950	72,950
Premium on bond sale	-	-	70,192	70,192
Total Other Financing Sources/(Uses)	2,828,256	1,277,572	3,363,561	2,085,989
Net Change in Fund Balances	(2,148,643)	(4,157,083)	2,377,747	6,534,830
Fund Balances at beginning of year	2,476,583	14,207,576	14,207,576	-
Fund Balances at end of year	$ 327,940	$ 10,050,493	$ 16,585,323	$ 6,534,830

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

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2006

	Business-Type Activities -- Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 5,708,172	$ 3,600,358	$ 9,308,530
Investments	7,518,038	-	7,518,038
Due from other funds	-	135,086	135,086
Billed and other receivables, net	2,807,674	370,276	3,177,950
Unbilled receivables	6,247,541	760,311	7,007,852
Inventories	396,663	3,468	400,131
Total current assets	22,678,088	4,869,499	27,547,587
Noncurrent Assets:			
Capital assets:			
Non-depreciable	4,747,429	5,120	4,752,549
Depreciable, net	43,181,964	2,606,663	45,788,627
Total capital assets, net	47,929,393	2,611,783	50,541,176
Total noncurrent assets	47,929,393	2,611,783	50,541,176
Total Assets	$ 70,607,481	$ 7,481,282	$ 78,088,763
LIABILITIES AND NET ASSETS			
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	$ 3,461,793	$ 328,846	$ 3,790,639
Accrued compensated absences	255,177	8,423	263,600
Due to other funds	1,697,107	-	1,697,107
Total current liabilities	5,414,077	337,269	5,751,346
Noncurrent liabilities:			
Construction loan	-	6,894	6,894
Compensated absences, net of current amount	38,687	-	38,687
Total Liabilities	5,452,764	344,163	5,796,927
Net Assets:			
Invested in capital assets	47,929,393	2,604,889	50,534,282
Unrestricted	17,225,324	4,532,230	21,757,554
Total Net Assets	65,154,717	7,137,119	72,291,836
Total Liabilities and Net Assets	$ 70,607,481	$ 7,481,282	$ 78,088,763

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

EXHIBIT IX

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Business-Type Activities -- Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for services	$ 18,121,098	$ 2,488,563	$ 20,609,661
Rentals	175,602	-	175,602
Miscellaneous	29,795	150	29,945
Total Operating Revenues	18,326,495	2,488,713	20,815,208
Operating Expenses:			
Source of supply	7,568,529	-	7,568,529
Distribution system	1,196,765	-	1,196,765
Collection and disposal	-	1,717,350	1,717,350
Water connections	498,337	-	498,337
Administration	5,394,863	286,614	5,681,477
Depreciation	1,626,768	84,669	1,711,437
Total Operating Expenses	16,285,262	2,088,633	18,373,895
Operating Income	2,041,233	400,080	2,441,313
Nonoperating Revenues/(Expenses):			
Availability fees	815,870	93,058	908,928
Investment earnings	429,117	155,063	584,180
Loss on disposition of capital assets	(3,921)	-	(3,921)
Interest expense	-	(4)	(4)
Total Nonoperating Revenue	1,241,066	248,117	1,489,183
Income Before Contributions and Transfers	3,282,299	648,197	3,930,496
Capital contributions	1,532,935	-	1,532,935
Transfers to General Fund:			
Payments in lieu of taxes	(110,000)	(40,000)	(150,000)
Return on equity	(4,625,874)	-	(4,625,874)
Change in Net Assets	79,360	608,197	687,557
Total net assets at beginning of year	65,075,357	6,528,922	71,604,279
Total net assets at end of year	$ 65,154,717	$ 7,137,119	$ 72,291,836

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

EXHIBIT X

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Business-type Activities -- Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 12,269,381	$ 2,414,561	$ 14,683,942
Payments to suppliers	(9,285,657)	(1,934,089)	(11,219,746)
Payments to employees	(3,552,516)	(193,642)	(3,746,158)
Payments for interfund services used	(1,676,556)	(203,962)	(1,880,518)
Net Cash Used In Operating Activities	(2,245,348)	82,868	(2,162,480)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Payments in lieu of taxes	(110,000)	(40,000)	(150,000)
Return on equity transfer to General Fund	(4,625,874)	-	(4,625,874)
Net Cash Used In Noncapital and Related Financing Activities	(4,735,874)	(40,000)	(4,775,874)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Receipts from customers for availability fees	815,870	93,058	908,928
Acquisition and construction of capital assets	(1,277,027)	(100,073)	(1,377,100)
Payments of principal on acquisition and construction loans	-	(106)	(106)
Payments of interest on acquisition and construction loans	-	(4)	(4)
Net Cash Provided by Capital and Related Financing Activities	(461,157)	(7,125)	(468,282)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(2,000,000)	-	(2,000,000)
Sale of investments	3,983,400	-	3,983,400
Interest and dividends received	584,249	155,066	739,315
Net Cash Provided by (Used in) Investing Activities	2,567,649	155,066	2,722,715
Net Decrease in Cash and Cash Equivalents	(4,874,730)	190,809	(4,683,921)
Cash and Cash Equivalents, Beginning of Year	10,582,902	4,028,304	14,611,206
Cash and Cash Equivalents, End of Year	$ 5,708,172	$ 4,219,113	$ 9,927,285
Reconciliation of Operating Income to Net Cash Used in Operating Activities:			
Operating income	$ 2,041,233	$ 400,080	$ 2,441,313
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation expense	1,626,768	84,669	1,711,437
Bad debt expense	61,000	9,000	70,000
Changes in operating assets and liabilities:			
(Increase)/decrease in:			
Accounts receivable	(6,113,491)	(73,949)	(6,187,440)
Inventory	(79,160)	1,282	(77,878)
Increase/(decrease) in:			
Accounts payable and accrued liabilities	492,752	72,526	565,278
Accrued compensated absences	(59,760)	(2,641)	(62,401)
Due to/from other funds	(214,690)	(408,098)	(622,788)
Total adjustments	(4,286,581)	(317,211)	(4,603,792)
Net Cash From Operating Activities	$ (2,245,348)	$ 82,869	$ (2,162,479)
Supplemental Schedule of Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	$ 1,532,935	$ -	$ 1,532,935
Decrease in fair value of investments	$ 158,273	$ -	$ 158,273

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

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
As of June 30, 2006

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ 2,056,105	$ 1,443,455
Investments:		
Domestic equity securities	32,853,586	-
Domestic fixed income securities	16,176,070	-
International equity securities	15,433,909	-
Real estate	3,682,723	-
Other	249,034	-
Total investments	68,395,322	-
Contributions receivable:		
Employer	124,677	-
Employee	2,185	-
Total contributions receivable	126,862	-
Interest and dividend receivable	25,036	-
Other receivables	-	1,425,025
Due from general fund	-	1,557,202
Total Assets	70,603,325	4,425,682
LIABILITIES		
Accounts payable	7,807	(12)
Due to general fund	147,093	27,928
Due to other governments	-	4,397,766
Total Liabilities	154,900	4,425,682
NET ASSETS		
Held in trust for pension benefits	$ 70,448,425	$ -

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

EXHIBIT XII

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
For the Year Ended June 30, 2006

ADDITIONS

Employer contributions	$	187,175
Employee contributions		427
Investment earnings:		
Interest		210,131
Dividends		843,488
Net increase in the fair value of investments		4,738,516
Total investment earnings		5,792,135
Less investment expense		(285,911)
Net investment earnings		5,506,224
Total Additions		5,693,826

DEDUCTIONS

Benefits		2,363,763
Administration		45,148
Total Deductions		2,408,911
Change in Net Assets		3,284,915
Net Assets at Beginning of Year		67,163,510
Net Assets at End of Year	$	70,448,425

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

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 nets 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,

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.

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 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, 2006, 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".

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.

Accounts payable and accrued liabilities include amounts due to vendors and employees for goods and services received as of June 30, 2006.

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 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, 2006, 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, 2006.
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, 2006, approximately $432,000 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, 2006, management has designated up to approximately $23.5 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 $1.8 million for fiscal year 2006.

F. Intergovernmental Agreements

During 2006, 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 2006, the City paid CSB approximately $606,000.

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 2006, the City paid the County approximately $618,000 for these services. Such payments are recorded as expenses in the government-wide financial statements and as expenditures in the General Fund.

The City also uses the County's landfills. For these services, the City paid the County approximately $152,000 in 2006. These payments are recorded as expenses in the government-wide financial statements and as expenditures in the General Fund.

The City also has an agreement with the County to share in the cost of its sewage treatment facilities. During 2006, the City paid the County approximately $1.1 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 2006, 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 2006, the City paid Arlington County approximately $1.5 million for fire and rescue services. The City paid Arlington County approximately $361,000 for judicial services in 2006.

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 2006 amounted to approximately $373,000 and are recorded as revenues in the General Fund financial statements as well as the City's government-wide financial statements.

The City also entered into an agreement with Arlington County to share in the cost of its sewage treatment facilities. During 2006, the City paid Arlington County approximately $489,000.

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, 2006, the City paid approximately $3.5 million to the Department of Army for water, which is recorded as an expense in the enterprise Funds. The City paid approximately $1.4 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, 2006, the remaining balance was approximately $2.6 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 $43,000 for its share of the operating and debt service costs for the fiscal year ended June 30, 2006. 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 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, 2006, the City's required contributions amounted to approximately $1.9 million, all of which were paid through the City's participation in the NVTC. The City anticipates its annual required contribution in fiscal year 2007 to be consistent with fiscal year 2006. 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. For the year ended June 30, 2006 the Water fund estimated unbilled receivables in the amount of $6.2 million for the period December 2005 through June 30, 2006. 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.

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, 2006, 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, 2006.

	Carrying Value	Bank Balance
Deposits:		
Primary government	$ 14,962,137	$ 16,543,202
Component units	43,635	63,801
Total deposits	15,005,772	16,607,003
Petty Cash:		
Primary government	3,734	-
Component units	4,300	-
Total petty cash	8,034	-
Total Deposits and Petty Cash	$ 15,013,806	$ 16,607,003

The differences between carrying values and bank balances generally result from outstanding checks and deposits in transit as of June 30, 2006.

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). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State treasury Board. The fair value of the City's position in the pools is the same as the value of the pool shares.

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, 2006, 31% of the portfolio was invested in the Virginia LGIP, 11% was invested with SNAP and 11% 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 47% 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.

As of June 30, 2006, the carrying values and maturity of the City's investments were as follows:

Investment Type	Fair Value	Maturing in Less Than One Year	Maturing in One-Three Years	Maturing in Over Three Years
Money market funds - Virignia LGIP	$ 6,997,261	$ -	$ -	$ -
Money market funds - Virignia SNAP	2,543,467	-	-	-
Money market funds - BB&T	2,877,998	-	-	-
Overnight repurchase agreements	2,575,000	-	-	-
Federal agency bonds and notes	3,643,443	983,125	2,660,318	-
US Treasury notes	3,874,595	981,545	2,893,050	-
	22,511,764	1,964,670	5,553,368	-
Held by trustees - pension funds:				
Money market funds	2,056,105			
Domestic equities	32,853,586			
Domestic fixed income	16,176,070			
International equities	15,433,908			
Real estate	3,682,724			
Other	249,034			
	70,451,427			
Total Investments	$ 92,963,191	$ 1,964,670	$ 5,553,368	$ -

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, 2006, 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. The investment policy, as adopted June 2004, limits investment in domestic equities to a maximum of 63% of the portfolio, domestic fixed income to a maximum of 35%, International equities to a maximum of 10% and real estate to a maximum of 8%.

Market Risk: Investments of the pension fund are held for the long term and may be subject to short-term fluctuations in fair value due to market conditions and changes in interest rates. Foreign currency risk, a subset of market risk, is controlled for by limiting exposure to international equities to no more than 10% of the pension assets.

B. Receivables

Receivables and allowances for uncollectible receivables of the primary government as of June 30, 2006, consist of the following:

	General Fund	Water Fund	Sewer Fund	Total	Fiduciary Funds	Total Primary Government
Receivables:						
Accounts:						
Billed	$ 650,844	$ 2,950,315	$ 409,276	$ 4,010,435	$ -	$ 4,010,435
Unbilled	-	6,247,541	760,311	7,007,852	-	7,007,852
Other	281,334	-	-	281,334	-	281,334
Accrued interest	-	73,359	-	73,359	25,036	98,395
Property taxes:						
Delinquent	1,663,271	-	-	1,663,271	-	1,663,271
Not yet due	19,434,248	-	-	19,434,248	-	19,434,248
Total receivables	22,029,697	9,271,215	1,169,587	32,470,499	25,036	32,495,535
Allowances for uncollectibles:						
Accounts	5,600	216,000	39,000	260,600	-	260,600
Property taxes:						
Delinquent	209,000	-	-	209,000	-	209,000
Not yet due	49,000	-	-	49,000	-	49,000
Total allowances for uncollectibles	263,600	216,000	39,000	518,600	-	518,600
Total Net Receivables	$ 21,766,097	$ 9,055,215	$ 1,130,587	$ 31,951,899	$ 25,036	$ 31,976,935

Delinquent property taxes receivable from taxpayers in the General Fund as of June 30, 2006, consist of the following:

Year of Levy	Real Estate	Personal Property	Total
2006	$ 958,904	$ -	$ 958,904
2005	146,503	63,061	209,564
2004	83,354	41,527	124,881
2003	48,451	42,059	90,510
Prior Years	173,033	106,379	279,412
Total delinquent taxes	1,410,245	253,026	1,663,271
Allowances for uncollectibles			(209,000)
Net delinquent tax receivables			$ 1,454,271

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 installations 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 $258,000 is based on prior collections.

The City reports real estate and personal property taxes (net of allowances) assessed for calendar year 2006 as receivables because the City has an enforceable legal claim to these resources at June 30, 2006; however, some of these resources, which amount to approximately $16.9 million for real property and approximately $3.2 million for personal property, will not be available to the City until fiscal year 2007 and are therefore recognized as deferred revenue. A detailed breakdown of the components of deferred revenue at June 30, 2006 can be found at note III E.

Receivables of component units as of June 30, 2006, consist of the following:

	School Board	Economic Development Authority
Receivables:		
Accounts	$ 35,436	$ -
Total receivables	35,436	-
Allowances for uncollectibles	-	-
Total net receivables	$ 35,436	$ -

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 table shows what comprises the interfund balances as of June 30, 2006:

	Interfund Receivables	Interfund Payables
Primary Government:		
General Fund	$ -	$ 1,307,004
Capital Improvements Fund	1,462,357	-
Enterprise Funds:		
Water	-	1,697,107
Sewer	135,086	-
Fiduciary Funds:		
Pension Trust Funds	-	147,093
Agency Funds	1,557,202	3,441
Total primary government	$ 3,154,645	$ 3,154,645

The primary purpose of interfund transfers is to provide funding for operations and capital projects. Interfund transfers for the year ended June 30, 2006, are as follows:

	Transfers In	Transfers Out
Primary Government:		
General Fund	$ 4,775,874	$ 3,526,266
Capital Improvements Fund	3,526,266	-
Enterprise Funds:		
Water	-	4,735,874
Sewer	-	40,000
Total primary government	$ 8,302,140	$ 8,302,140

D. Capital Assets

Capital assets activity for the primary government for the year ended June 30, 2006, is as follows:

	Balances June 30, 2005	Increases	Decreases	Balances June 30, 2006
Primary Government:				
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 5,263,197	$ 1,060,488	$ -	$ 6,323,685
Construction in progress	24,333,247	2,084,600	23,733,466	2,684,381
Total capital assets not being depreciated	29,596,444	3,145,088	23,733,466	9,008,066
Capital assets being depreciated:				
Buildings and systems	32,382,145	27,562,538	-	59,944,683
Improvements other than buildings	2,353,903	513,746	8,561	2,859,088
Machinery and equipment	7,849,300	1,220,621	7,810	9,062,111
Software	1,401,888	17,126	-	1,419,014
Infrastructure	8,450,543	416,133	-	8,866,676
Library collections	1,926,892	231,949	149,669	2,009,172
Total capital assets being depreciated	54,364,671	29,962,113	166,040	84,160,744
Less accumulated depreciation for:				
Buildings and systems	10,245,960	1,163,408	-	11,409,368
Improvements other than buildings	1,139,862	130,108	5,957	1,264,013
Machinery and equipment	4,935,791	663,764	3,125	5,596,430
Software	1,191,789	59,359	-	1,251,148
Infrastructure	4,965,436	172,093	-	5,137,529
Library collections	1,421,041	212,966	149,669	1,484,338
Total accumulated depreciation	23,899,879	2,401,698	158,751	26,142,826
Total capital assets, being depreciated, net	30,464,792	27,560,415	7,289	58,017,918
Total capital assets, net - Governmental activities	$ 60,061,236	$ 30,705,503	$ 23,740,755	$ 67,025,984

	Balances June 30, 2005	Increases	Decreases	Balances June 30, 2006
Primary Government (continued):				
Business-type activities:				
Water				
Capital assets not being depreciated:				
Land	$ 2,594,882	$ -	$ -	$ 2,594,882
Construction in progress	863,238	1,289,309	-	2,152,547
Total capital assets not being depreciated	3,458,120	1,289,309	-	4,747,429
Capital assets being depreciated:				
Buildings and systems	74,337,046	1,597,201	13,069	75,921,178
Machinery and equipment	1,063,311	66,502	-	1,129,813
Software	31,301	-	-	31,301
Total capital assets being depreciated	75,431,658	1,663,703	13,069	77,082,292
Less accumulated depreciation for:				
Buildings and systems	31,548,288	1,550,467	9,149	33,089,606
Machinery and equipment	733,551	65,868	-	799,419
Software	869	10,434	-	11,303
Total accumulated depreciation	32,282,708	1,626,769	9,149	33,900,328
Total capital assets, being depreciated, net	43,148,950	36,934	3,920	43,181,964
Total capital assets, net - Water	46,607,070	1,326,243	3,920	47,929,393
Sewer				
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	3,951,224	123,364	-	4,074,588
Machinery and equipment	119,048	9,735	-	128,783
Total capital assets being depreciated	4,070,272	133,099	-	4,203,371
Less accumulated depreciation for:				
Buildings and systems	1,442,424	68,862	-	1,511,286
Machinery and equipment	69,614	15,808	-	85,422
Total accumulated depreciation	1,512,038	84,670	-	1,596,708
Total capital assets, being depreciated, net	2,558,234	48,429	-	2,606,663
Total capital assets, net - Sewer	2,563,354	48,429	-	2,611,783
Total capital assets, net - Business-type activities	49,170,424	1,374,672	3,920	50,541,176
Total capital assets, net - Primary Government	109,231,660	32,080,175	23,744,675	117,567,160

Capital assets activity for component units for the year ended June 30, 2006, is as follows:

	Balances June 30, 2005	Increases	Decreases	Balances June 30, 2006
Component Units				
School Board:				
Capital assets not being depreciated:				
Land	$ 1,254,483	$ 18,871	$ -	$ 1,273,354
Construction in Progess	160,486	-	160,486	-
Total capital assets not being depreciated	1,414,969	18,871	160,486	1,273,354
Capital assets being depreciated:				
Buildings and system	1,532,008	-	329,011	1,202,997
Machinery and equipment	1,400,050	502,348	86,391	1,816,007
Library collections	428,264	248,376	76,094	600,546
Software	-	7,996	-	7,996
Total capital assets being depreciated	3,360,322	758,720	491,496	3,627,546
Less accumulated depreciation for:				
Buildings and system	131,233	40,479	42,771	128,941
Machinery and equipment	777,856	158,399	86,391	849,864
Library collections	366,904	33,822	76,094	324,632
Software	-	888	-	888
Total accumulated depreciation	1,275,993	233,588	205,256	1,304,325
Total capital assets, net - School Board	3,499,298	544,003	446,726	3,596,575
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

Depreciation expense for the year ended June 30, 2006, charged to the functions of the primary government and component units is as follows:

	Primary Government	Component Units	Total
Primary Government:			
Governmental activities:			
General government administration	$ 121,024	$ -	$ 121,024
Judicial administration	41,232	-	41,232
Public safety	368,438	-	368,438
Public works	469,734	-	469,734
Health and welfare	3,817	-	3,817
Education	1,035,261	-	1,035,261
Parks, recreation, and cultural	358,213	-	358,213
Community development	2,638	-	2,638
Economic development	1,341	-	1,341
Total depreciation expense - Governmental activities	2,401,698	-	2,401,698
Business-type acitivities:			
Water administration	1,626,768	-	1,626,768
Sewer administration	84,670	-	84,670
Total depreciation expense - Business-type activities	1,711,438	-	1,711,438
Total depreciation expense - Primary Government	4,113,136	-	4,113,136
Component Units:			
School Board			
Education	-	233,588	233,588
Total depreciation expense - Component Units	$ -	$ 233,588	$ 233,588
Total depreciation expense - Entity-Wide	$ 4,113,136	$ 233,588	$ 4,346,724

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, 2006, the following comprise the deferred revenue reported in the governmental activities and funds:

	Governmental Activities	Governmental Funds
Unavailable:		
Delinquent property taxes	$ -	$ 810,573
Property taxes not yet due	19,214,282	19,354,282
Total deferred revenue	$ 19,214,282	$ 20,164,855

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, 2006:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Primary Government					
Governmental activities:					
General obligation bonds payable	$ 47,171,034	$ 1,935,000	$ 2,945,616	$ 46,160,418	$ 3,016,202
Premium on bond issuance	949,540	70,192	39,960	979,772	-
Note payable	852,500	-	200,000	652,500	217,500
Compensated absences	1,529,327	1,426,473	1,339,154	1,616,646	1,120,104
Obligations under capital leases	450,942	72,950	209,017	314,875	175,986
Total long-term debt - Governmental activities	50,953,343	3,504,615	4,733,747	49,724,211	4,529,792
Business-type activities:					
Water					
Compensated absences	353,624	275,108	334,868	293,864	255,177
Sewer					
Compensated absences	11,063	15,859	18,499	8,423	8,423
Construction loan	7,000	-	106	6,894	-
Total long-term debt - Sewer Fund	18,063	15,859	18,605	15,317	8,423
Total long-term debt - Business-type activities	371,687	290,967	353,473	309,181	263,600
Total long-term debt - Primary Government	51,325,030	3,795,582	5,087,220	50,033,392	4,793,392
Component Units					
School Board:					
Compensated absences	749,018	474,294	424,611	798,701	343,556
Obligations under capital leases	211,044	444,634	112,597	543,081	143,657
Total long-term debt - School Board	960,062	918,928	537,208	1,341,782	487,213
Total long-term debt - Component Units	960,062	918,928	537,208	1,341,782	487,213
Total long-term debt	$ 52,285,092	$ 4,714,510	$ 5,624,428	$ 51,375,174	$ 5,280,605

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, 2006, all authorized general obligation bonds have been issued. The following are the general obligation bonds that were outstanding as of June 30, 2006:

$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	$ 7,615,000
$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	275,000
$2,445,000 School Construction bonds issued May 2, 1996 by VPSA; interest at various rates; variable amounts maturing through January 15, 2017	1,270,000
$32,340,000 School Construction & refunding bonds issued March 18, 2004; interest at various rates; variable amounts maturing through April 1, 2024	30,075,000
$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.	920,700
$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.	4,069,718
$1,935,000 School Construction bonds, issued May 11, 2006 by VPSA; interest at various rates; variable amounts maturing through July 15, 2026	1,935,000
Total General Obligation Bonds Payable	$ 46,160,418

Annual debt service requirements to maturity for the long-term obligations serviced by the General Fund as of June 30, 2006 are summarized as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	$ 3,016,202	$ 1,846,091	$ 4,862,293
2008	3,190,236	1,766,056	4,956,292
2009	3,247,601	1,658,362	4,905,963
2010	3,278,879	1,551,272	4,830,151
2011	3,388,300	1,438,998	4,827,298
2012-2016	12,204,200	5,216,305	17,420,505
2017-2022	10,720,000	2,705,918	13,425,918
2023-2026	7,020,000	631,922	7,651,922
2027-2031	95,000	2,422	97,422
Total	$ 46,160,418	$ 16,817,346	$ 62,977,764

On May 11, 2006 the City issued $1,935,000 of general obligation bonds to the Virginia Public School Authority (VPSA) for construction and renovation to the Mount Daniel Elementary School.

As of June 30, 2006, the City's legal debt limit is approximately $339,609,980 and its debt margin is approximately $293,449,562.

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	
2007	$ 217,500
2008	217,500
2009	217,500
Total	$ 652,500

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	$ 994,586	$ 885,568
Less: accumulated depreciation	(451,294)	(212,233)
Total	$ 543,292	$ 673,335

The future minimum lease payments and net present value of these minimum lease payments as of June 30, 2006 are as follows:

Fiscal Year Ending June 30	Primary Government Governmental Activities	Component Unit School Board
2007	$ 175,986	$ 168,697
2008	89,915	154,715
2009	38,434	124,977
2010	26,269	99,098
2011	8,377	54,124
Total minimum lease payments	338,981	601,611
Less: amount representing interest	(24,106)	(58,530)
Present value of minimum lease payments	$ 314,875	$ 543,081

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 approximately $122,000 to the City and approximately $198,000 to the School Board for the fiscal year ended June 30, 2006. 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
2007	$ 62,931	$ 208,881
2008	1,006	197,447
2009	-	203,370
Total	$ 63,937	$ 609,698

2. Long-term Construction and Improvement Contracts

The City has the following active construction and improvement commitments as of June 30, 2006:

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Broad Street Streetscape	$ 312,799	$ 118,633
Kent Street Drainage	34,975	21,805
Stormwater system cleaning	-	250,000
Mt. Daniel Elementary School renovation	2,351,668	984,407
Rectangular Athletic Field Turf	19,914	811,708
Total governmental activities	2,719,356	2,186,553
Business-type activities:		
Water		
Scotts Run	2,989	2,647,800
Chesterbrook - Chesterfield	718,376	224,367
McLean Pump Station	58,170	29,604
Seven Corners	67,804	6,615
Arlington Boulevard	234,569	-
Potterton Drive - Hillsborough	26,997	-
Arlington Special Pump Station	-	32,707
Tysons Corner Tank	212,318	76,305
SCADA System Improvements	86,416	1,447,787
Water Safety and Security	215,204	460,081
George Mason Pumping Station	66,250	-
Sewer		
Sewer Relining Project	-	258,485
Total business-type activities	1,689,093	5,183,751
Total	$ 4,408,449	$ 7,370,304

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 2006, the cost of these benefits was approximately $296,000 to the City and approximately $125,000 to the School Board.

H. Return on Equity Transfer

During the fiscal year ended June 30, 2006, 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.

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

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 2006 were 5.0% and 12.17% of annual covered payroll, respectively.

4. Annual Pension Costs

The City's annual pension cost and contributions made during fiscal year 2006 was $38,600. The School Board's annual pension cost and contributions made during fiscal year 2006 was $2,012,796. 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			
2006	$ 38,600	100%	$ -
2005	33,574	100%	-
2004	34,203	100%	-
School Board			
2006	2,012,796	100%	-
2005	1,701,189	100%	-
2004	1,319,711	100%	-

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 July 1, 2005 were as follows:

	Basic	Police
Retirees and beneficiaries	141	22
Terminated vested members	46	1
Active members	308	32
Total	495	55

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 the last reported sales price on June 30, 2006. 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 2006, 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:

	Basic			Police		
Fiscal Year Ended June 30	Annual Pension Cost	Contribution	Net Pension Obligation	Annual Pension Cost	Contribution	Net Pension Obligation
2006	$ 187,175	$ 187,175	$ -	$ -	$ -	$ -
2005	104,591	-	104,591	-	-	-
2004	-	-	-	-	-	-

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	187,175	—
Contributions made	187,175	—
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%

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, 2006 were approximately $530,000 and $240,000 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.

The City is contingently liable with respect to lawsuits and other claims, which arise in the ordinary course of its operation. Although the outcome of these matters is not presently determinable, in the opinion of management of the City and the City's attorney, the resolution of these matters will not have a material, adverse effect on the City's financial condition.

VII. FUTURE ACCOUNTING CHANGES

As of June 30, 2006 the Governmental Accounting Standards Board (GASB) had issued the following statements that will be applicable to future financial statements:

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

- 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. 47 - *Accounting for Termination Benefits*. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.

- Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments—generally, a single lump sum. The financial reporting question addressed by this Statement is whether that transaction should be regarded as a sale or as a collateralized borrowing resulting in a liability. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

VIII. SUBSEQUENT EVENTS

On November 1, 2006 the City issued General Obligation bonds in the amount of $5,500,000 to fund various capital expenditures related to the City's water system. The bond's final maturity is March 21, 2021.

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

REQUIRED SUPPLEMENTARY INFORMATION

This page left intentionally blank

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)
7/1/2005	$ 52,031	$ 43,979	$ (8,052)	118.3%	$ 12,365	(65.1%)
7/1/2004	51,462	41,972	(9,490)	122.6%	11,650	(81.5%)
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)
7/1/2005	$ 14,721	$ 11,511	$ (3,210)	127.9%	$ 1,957	(164.0%)
7/1/2004	14,579	10,776	(3,803)	135.3%	1,684	(225.8%)
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, 2005 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
2006	$ 187,175	100% (a)
2005	104,951	0%
2004	-	100%
2003	-	100%
2002	-	100%
2001	-	100%
2000	-	100%

2. Police Pension Plan

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2006	$ -	100%
2005	-	100%
2004	-	100%
2003	-	100%
2002	-	100%
2001	-	100%
2000	-	100%

* Note: The actuarial assumptions and methods used for the valuation date of July 1, 2005 (plan year ended June 30, 2006) 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, 2006

OTHER SUPPLEMENTARY INFORMATION

This page left intentionally blank

CITY OF FALLS CHURCH, VIRGINIA
COMBINING SCHEDULE OF FIDUCIARY NET ASSETS - PENSION TRUST FUNDS
As of June 30, 2006

	Basic Plan	Police Plan	Total
ASSETS			
Cash and cash equivalents	$ 1,620,290	$ 435,815	$ 2,056,105
Investments:			
Domestic equity securities	25,477,769	7,375,817	32,853,586
Domestic fixed income securities	12,775,011	3,401,059	16,176,070
International equity securities	12,062,508	3,371,401	15,433,909
Real estate	2,915,770	766,953	3,682,723
Other	49,941	199,093	249,034
Total investments	53,280,999	15,114,323	19,365,666
Contributions receivable:			
Employer	124,677	-	124,677
Employee	2,185	-	2,185
Total contributions receivable	126,862	-	126,862
Interest and dividend receivable	20,238	4,798	25,036
Total Assets	55,048,389	15,554,936	21,700,531
LIABILITIES			
Accounts payable	6,020	1,787	7,807
Due to general fund	118,295	28,798	147,093
Total Liabilities	124,315	30,585	154,900
NET ASSETS			
Held in trust for pension benefits	$ 54,924,074	$ 15,524,351	$ 70,448,425

See accompanying Independent Auditors' report.

CITY OF FALLS CHURCH, VIRGINIA
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS - PENSION TRUST FUNDS
As of June 30, 2006

	Basic Plan	Police Plan	Total
ADDITIONS			
Employer contributions	$ 187,175	$ -	$ 187,175
Employee contributions	427	-	427
Investment earnings:			
Interest	127,842	82,289	210,131
Dividends	653,232	190,256	843,488
Net increase in the fair value of investments	3,767,096	971,420	4,738,516
Total investment earnings	4,548,170	1,243,965	5,792,135
Less investment expense	(223,256)	(62,655)	(285,911)
Net investment earnings	4,324,914	1,181,310	5,506,224
			-
Total Additions	4,512,516	1,181,310	5,693,826
DEDUCTIONS			
Benefits	1,942,677	421,086	2,363,763
Administration	37,581	7,567	45,148
Total Deductions	1,980,258	428,653	2,408,911
Change in Net Assets	2,532,258	752,657	3,284,915
Net Assets at Beginning of Year	52,391,816	14,771,694	67,163,510
Net Assets at End of Year	$ 54,924,074	$ 15,524,351	$ 70,448,425

CITY OF FALLS CHURCH, VIRGINIA
COMBINING STATEMENT OF AGENCY NET ASSETS
As of June 30, 2006

	Fairfax County Water Authority Fund	Northern Virginia Criminal Justice Academy Fund	Total
ASSETS			
Cash and cash equivalents	$ -	$ 1,443,455	$ 1,443,455
Other receivables	1,425,024	-	1,425,024
Due from general fund	1,557,203	5,033	1,562,236
Total Assets	$ 2,982,227	$ 1,448,488	$ 4,430,715
LIABILITIES			
Due to other governments	$ 2,982,227	$ 1,448,488	$ 4,430,715
Total Liabilities	$ 2,982,227	$ 1,448,488	$ 4,430,715

See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2006

	Balances July 1, 2005	Additions	Deductions	Balances June 30, 2006
Fairfax County Water Authority Fund				
ASSETS				
Other receivables	$ 970,511	$ 8,067,861	$ 7,613,348	$ 1,425,024
Due from general fund	1,657,545	6,424,607	6,524,949	1,557,203
Total Assets	$ 2,628,056	$14,492,468	$ 14,138,297	$ 2,982,227
LIABILITIES				
Due to other governments	$ 2,628,056	$14,492,468	$ 14,138,297	$ 2,982,227
Total Liabilities	$ 2,628,056	$14,492,468	$ 14,138,297	$ 2,982,227
Northern Virginia Criminal Justice Academy Fund				
ASSETS				
Cash and cash equivalents	$ 1,654,686	$ 936,484	$ 1,147,715	$ 1,443,455
Due from general fund	14,060	3,826,741	3,835,768	5,033
Total Assets	$ 1,668,746	$ 4,763,225	$ 4,983,483	$ 1,448,488
LIABILITIES				
Due to other governments	$ 1,668,746	$ 4,763,225	$ 4,983,483	$ 1,448,488
Total Liabilities	$ 1,668,746	$ 4,763,225	$ 4,983,483	$ 1,448,488
Total				
ASSETS				
Cash and cash equivalents	$ 1,654,686	$ 936,484	$ 1,147,715	$ 1,443,455
Other receivables	970,511	8,067,861	7,613,348	1,425,024
Due from general fund	1,671,605	10,251,348	10,360,717	1,562,236
Total Assets	$ 4,296,802	$19,255,693	$ 19,121,780	$ 4,430,715
LIABILITIES				
Due to other governments	$ 4,296,802	$19,255,693	$ 19,121,780	$ 4,430,715
Total Liabilities	$ 4,296,802	$19,255,693	$ 19,121,780	$ 4,430,715

 See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2006

	Operating Fund	School Community Service Fund	Nonmajor Governmental fund School Food Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 4,579,138	$ 359,695	$ 273,990	$ 5,212,823
Accounts receivable	822	17,285	17,325	35,432
Due from primary government	-	-	-	-
Due from other governmental units	396,609	-	3,815	400,424
Prepaid expense	3,398	-	-	3,398
Total Assets	$ 4,979,967	$ 376,980	$ 295,130	$ 5,652,077
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 3,298,632	$ 64,056	$ 50,722	3,413,410
Due to primary government	267,442	603	3,815	271,860
Total Liabilities	3,566,074	64,659	54,537	3,685,270
				-
Fund Balances:				
Encumbrances	2,996	-	-	2,996
Unreserved:				
Undesignated	1,410,897	312,321	240,593	1,963,811
Total Fund Balances (Deficit)	1,413,893	312,321	240,593	1,966,807
Total Liabilities and Fund Balances	$ 4,979,967	$ 376,980	$ 295,130	$ 5,652,077

See accompanying Independent Auditors' Report.

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, 2006

Fund balances - total governmental funds		$ 1,966,807
Amounts reported for governmental activities 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.		
Governmental capital assets	4,900,900	
Less accumulated depreciation	(1,304,325)	3,596,575
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences	(798,701)	
Governmental leases payable	(543,081)	(1,341,782)
Net Assets of Governmental Activities		$ 4,221,600

 See accompanying Independent Auditors' Report.

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, 2006

			Nonmajor Governmental fund	
	Operating Fund	School Community Service Fund	School Food Service Fund	Total Governmental Funds
REVENUES				
Revenue from use of money and property	$ 105,957	$ 59,067	$ 9,354	$ 174,378
Charges for services	204,587	734,724	542,117	1,481,428
Miscellaneous	23,662	56,651		80,313
Intergovernmental:				
Federal	724,763	-	89,337	814,100
Commonwealth	4,204,871	-	6,346	4,211,217
Primary government	24,508,206	491,306	-	24,999,512
Total Revenues	29,772,046	1,341,748	647,154	31,760,948
EXPENDITURES				
Current:				
Education	29,181,628	1,352,801	598,629	31,133,058
Capital outlay	1,021,177	47,976	16,526	1,085,679
Debt service:				
Principal	96,424	-	-	96,424
Interest	18,148	-	-	18,148
Total Expenditures	30,317,377	1,400,777	615,155	32,333,309
Excess/(deficiency) of revenues over/(under) expenditures	(545,331)	(59,029)	31,999	(572,361)
Other financing sources/(uses):				
Transfers in/(out)	65,750	(39,750)	(26,000)	-
Proceeds from capital leases	444,634	-	-	444,634
Total Other Financing Sources/(Uses)	510,384	(39,750)	(26,000)	444,634
Net Change in Fund Balances	(34,947)	(98,779)	5,999	(127,727)
Fund Balances (Deficit) at Beginning of Year	1,448,840	411,100	234,594	2,094,534
Fund Balances at End of Year	$ 1,413,893	$ 312,321	$ 240,593	$ 1,966,807

See accompanying Independent Auditors' Report.

SCHEDULE 8

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, 2006

Net change in fund balances - total governmental funds		$	(127,727)
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	617,105		
Less current year depreciation	(233,588)		
Loss on disposal of assets	(286,240)		97,277
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.			
Proceeds from capital leases			(444,634)
Capital lease payments			112,597
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			(49,683)
Change in Net Assets of Governmental Activities		$	(412,170)

 See accompanying Independent Auditors' Report.

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, 2006

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from use of money and property	$ 15,500	$ 15,500	$ 105,957	$ 90,457
Charges for services	151,300	151,300	204,587	53,287
Miscellaneous	363,000	363,000	23,662	(339,338)
Intergovernmental:				
Commonwealth	4,269,516	4,269,516	4,204,871	(64,645)
Federal	711,818	711,818	724,763	12,945
Primary government	25,090,092	25,237,206	24,508,206	(729,000)
Total Revenues	30,601,226	30,748,340	29,772,046	(976,294)
EXPENDITURES				
Current:				
Education	30,057,041	29,980,401	29,181,628	798,773
Capital outlay	480,885	723,444	1,021,177	(297,733)
Debt service:				
Principal	100,000	85,000	96,424	(11,424)
Interest	-	-	18,148	(18,148)
Total Expenditures	30,637,926	30,788,845	30,317,377	471,468
Excess/(deficiency) of revenues over/(under) expenditures	(36,700)	(40,505)	(545,331)	(504,826)
Other financing sources/(uses):				
Transfers in/(out)	36,700	37,700	65,750	28,050
Proceeds from capital leases	-	-	444,634	444,634
Total Other Financing Sources/(Uses)	36,700	37,700	510,384	472,684
Net Change in Fund Balances	-	(2,805)	(34,947)	(32,142)
Fund Balances at Beginning of Year	-	1,448,840	1,448,840	-
Fund Balances at End of Year	$ -	$ 1,446,035	$ 1,413,893	$ (32,142)

See accompanying Independent Auditors' Report.

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, 2006

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from use of money and property	$ 57,035	$ 57,035	$ 59,067	$ 2,032
Charges for services	1,099,139	1,099,139	734,724	(364,415)
Miscellaneous	38,060	38,060	56,651	18,591
Intergovernmental:				
Primary government	491,306	491,306	491,306	-
Total Revenues	1,685,540	1,685,540	1,341,748	(343,792)
EXPENDITURES				
Current:				
Education	1,594,390	1,590,906	1,352,801	238,105
Capital Outlay	51,400	54,884	47,976	6,908
Total Expenditures	1,645,790	1,645,790	1,400,777	245,013
Excess of revenues over expenditures	39,750	39,750	(59,029)	(98,779)
Other financing sources/(uses):				
Transfers in/(out)	(39,750)	(39,750)	(39,750)	-
Total Other Financing Sources/(Uses)	(39,750)	(39,750)	(39,750)	-
Net Change in Fund Balances	-	-	(98,779)	(98,779)
Fund Balances at Beginning of Year	-	411,100	411,100	-
Fund Balances at End of Year	$ -	$ 411,100	$ 312,321	$ (98,779)

 See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
As of June 30, 2006

	Thomas Jefferson Elementary	Mt. Daniel Elementary	Mary Ellen Henderson Middle School	George Mason High School	Total
ASSETS					
Cash and cash equivalents	$ 19,921	$ 13,782	$ 3,794	$ 207,308	$ 244,805
Total Assets	$ 19,921	$ 13,782	$ 3,794	$ 207,308	$ 244,805
LIABILITIES					
Amounts held for others	$ 19,921	$ 13,782	$ 3,794	$ 207,308	$ 244,805
Total Liabilities	$ 19,921	$ 13,782	$ 3,794	$ 207,308	$ 244,805

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, 2006

	Balances July 1, 2005	Additions	Deductions	Balances June 30, 2006
THOMAS JEFFERSON ELEMENTARY				
Assets				
Cash and cash equivalents	$ 28,955	$ 27,658	$ 36,692	$ 19,921
Total Assets	$ 28,955	$ 27,658	$ 36,692	$ 19,921
Liabilities				
Amounts held for others	$ 28,955	$ 27,658	$ 36,692	$ 19,921
Total Liabilities	$ 28,955	$ 27,658	$ 36,692	$ 19,921
MT. DANIEL ELEMENTARY				
Assets				
Cash and cash equivalents	$ 23,681	$ 30,987	$ 40,886	$ 13,782
Total Assets	$ 23,681	$ 30,987	$ 40,886	$ 13,782
Liabilities				
Amounts held for others	$ 23,681	$ 30,987	$ 40,886	$ 13,782
Total Liabilities	$ 23,681	$ 30,987	$ 40,886	$ 13,782
MARY ELLEN HENDERSON MIDDLE SCHOOL				
Assets				
Cash and cash equivalents	$ -	$ 18,720	$ 14,926	$ 3,794
Total Assets	$ -	$ 18,720	$ 14,926	$ 3,794
Liabilities				
Amounts held for others	$ -	$ 18,720	$ 14,926	$ 3,794
Total Liabilities	$ -	$ 18,720	$ 14,926	$ 3,794
GEORGE MASON HIGH SCHOOL				
Assets				
Cash and cash equivalents	$ 257,172	$ 409,271	$ 459,135	$ 207,308
Total Assets	$ 257,172	$ 409,271	$ 459,135	$ 207,308
Liabilities				
Amounts held for others	$ 257,172	$ 409,271	$ 459,135	$ 207,308
Total Liabilities	$ 257,172	$ 409,271	$ 459,135	$ 207,308
TOTAL				
Assets				
Cash and cash equivalents	$ 309,808	$ 486,636	$ 551,639	$ 244,805
Total Assets	$ 309,808	$ 486,636	$ 551,639	$ 244,805
Liabilities				
Amounts held for others	$ 309,808	$ 467,916	$ 536,713	$ 244,805
Total Liabilities	$ 309,808	$ 467,916	$ 536,713	$ 244,805

 See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
BALANCE SHEET
NON-MAJOR COMPONENT UNITS
As of June 30, 2006

	Economic Development Authority
ASSETS	
Cash and cash equivalents	$ 132,237
Total Assets	$ 132,237
LIABILITIES AND FUND BALANCES	
Fund Balances:	
Unreserved and undesignated	132,237
Total Fund Balances	132,237
Total Liabilities and Fund Balances	$ 132,237
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	517,255
Net Assets of Non-Major Component Units	649,492

See accompanying Independent Auditors' Report.

SCHEDULE 14

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR COMPONENT UNITS
For the Year Ended June 30, 2006

	Economic Development Authority
REVENUES	
Revenue from use of money and property	$ 30,474
Miscellaneous	(2,600)
Total Revenues	27,874
EXPENDITURES	
Current:	
Economic development	76,644
Total Expenditures	76,644
Excess/(deficiency) of revenues over expenditures	(48,770)
Net Change in Fund Balances	(48,770)
Fund Balances at Beginning of Year	181,007
Fund Balances at End of Year	$ 132,237
Net change in fund balances - total governmental funds	$ (48,770)
Change in Net Assets of Governmental Activities	$ (48,770)

 See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

STATISTICAL SECTION
(Unaudited)

This page left intentionally blank

TABLE 1

CITY OF FALLS CHURCH, VIRGINIA
Net Assets by Component
Last Four Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2003	**2004**	**2005**	**2006**
Governmental activities				
Invested in capital assets, net of related debt	$ 10,457,691	$ 16,988,211	$ 19,354,251	$ 18,918,420
Unrestricted	16,655,649	13,159,880	15,126,942	19,001,599
Total Governmental Activities Net Assets	27,113,340	30,148,091	34,481,193	37,920,019
Business-type activities				
Invested in capital assets, net of related debt	44,398,730	47,421,241	49,170,424	50,534,282
Unrestricted	32,160,088	23,376,153	22,433,855	21,757,554
Total Business-type Activities Net Assets	76,558,818	70,797,394	71,604,279	72,291,836
Primary government				
Invested in capital assets, net of related debt	54,856,421	64,409,452	68,524,675	69,452,702
Unrestricted	48,815,737	36,536,033	37,560,797	40,759,153
Total Business-type Activities Net Assets	103,672,158	100,945,485	106,085,472	110,211,855

TABLE 2

CITY OF FALLS CHURCH, VIRGINIA
Changes in Net Assets
Last Four Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2003	**2004**	**2005**	**2006**
Expenses				
Governmental Activities				
General government administration	$ 3,533,147	$ 3,883,989	$ 3,935,683	$ 4,129,020
Judicial administration	1,011,397	1,065,276	1,156,203	1,245,977
Public safety	6,794,693	6,638,269	7,017,277	6,995,489
Public works	4,747,665	4,150,055	4,127,607	6,332,313
Health and welfare	2,666,535	2,784,179	2,740,167	3,018,356
Education and payments to Schools	20,248,502	21,177,645	23,400,685	26,379,915
Parks, recreation, and cultural	2,759,046	2,989,439	3,158,648	3,306,719
Community development	823,760	841,264	1,163,151	1,132,733
Economic development	429,107	290,087	294,554	373,963
Interest expense	1,397,595	1,589,430	2,220,727	1,661,368
Total Governmental Activities Expenses	44,411,447	45,409,633	49,214,702	54,575,853
Business-Type Activities				
Water	15,253,871	14,442,756	14,878,376	16,289,183
Sewer	1,952,604	2,586,301	2,028,151	2,088,637
Total Business-Type Activities Expenses	17,206,475	17,029,057	16,906,527	18,377,820
Total Primary Government	$ 61,617,922	$ 62,438,690	$ 66,121,229	$ 72,953,673
Program Revenes				
Governmental Activities				
Charges for services:				
Public safety	$ 1,001,830	$ 1,007,262	$ 1,414,384	$ 773,476
Parks, recreation, and cultural	654,627	677,807	718,591	806,936
Judicial Administration	302,394	670,874	672,226	704,344
Other	315,589	348,563	403,120	362,644
Operating grants and contributions	2,705,665	3,045,368	2,806,914	3,099,444
Capital grants and contributions	749,450	-	-	-
Total Governmental Activities Program Revenues	5,729,555	5,749,874	6,015,235	5,746,844
Business-Type Activities				
Charges for services:				
Water	13,588,498	13,317,162	17,150,392	18,936,968
Sewer	1,724,179	2,009,726	2,731,556	2,581,621
Operating grants and contributions	-	115,000	-	-
Capital grants and contributions	537,310	130,691	1,907,477	1,532,935
Total Business-Type Activities Program Revenues	15,849,987	15,572,579	21,789,425	23,051,524
Total Primary Government Program Revenues	$ 21,579,542	$ 21,322,453	$ 27,804,660	$ 28,798,368
Net (Expense)/Revenue				
Governmental Activities	$ (38,681,892)	$ (39,659,759)	$ (43,199,467)	$ (48,829,009)
Business-Type Activities	(1,356,488)	(1,456,478)	4,882,898	4,673,704
Total primary government net (expense)/revenue	$ (40,038,380)	$ (41,116,237)	$ (38,316,569)	$ (44,155,305)

TABLE 2

CITY OF FALLS CHURCH, VIRGINIA
Changes in Net Assets (Continued)
Last Four Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2003	**2004**	**2005**	**2006**
General Revenues and Other Changes in Net Assets				
Governmental Activities				
Taxes:				
Real property	$ 20,298,536	$ 22,736,340	$ 26,248,419	$ 29,624,514
Personal property	2,501,478	2,700,860	3,137,750	3,327,582
Business licenses, based on gross receipts	2,343,068	2,296,618	2,913,022	2,936,648
Local sales & use	3,292,718	3,492,983	3,828,328	4,263,902
Consumer's utility	1,451,863	1,655,968	1,645,515	1,595,837
Motor vehicle decals	233,543	200,940	223,394	202,229
Real estate recordation taxes	137,924	203,335	232,243	213,868
Occupacy, tobacco, and other	2,242,346	2,305,965	2,454,441	3,150,953
Grants and contributions not restricted to specific programs	1,894,552	2,211,120	1,495,015	1,535,838
Revenue from use of money and property	252,369	122,565	546,512	569,561
Other	383,515	141,942	43,674	71,029
Transfers	4,713,374	4,625,874	4,764,256	4,775,874
Total Governmental Activities	39,745,286	42,694,510	47,532,569	52,267,835
Business-Type Activities				
Revenue from use of money and property	701,016	377,777	650,041	759,782
Other	34,571	30,651	38,202	29,945
Transfers	(4,713,374)	(4,713,374)	(4,764,256)	(4,775,874)
Total Business-Type Activities	(3,977,787)	(4,304,946)	(4,076,013)	(3,986,147)
Total Primary Government	$ 35,767,499	$ 38,389,564	$ 43,456,556	$ 48,281,688
Change in Net Assets				
Governmental Activities	$ 1,063,394	$ 3,034,751	$ 4,333,102	$ 3,438,826
Business-Type Activities	(5,334,275)	(5,761,424)	806,885	687,557
Total Primary Government	$ (4,270,881)	$ (2,726,673)	$ 5,139,987	$ 4,126,383

Table 3

CITY OF FALLS CHURCH, VIRGINIA
Fund Balances of Governmental Funds
Last Ten Years
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	$ 109,475	$ 103,118	$ 96,950	$ 97,272	$ 527,125	$ 1,041,572	$ 795,149	$ 1,397,945	$ 1,161,401	$ 1,024,193
Unreserved	6,701,938	8,900,857	11,602,432	12,913,771	12,166,840	14,667,845	16,057,559	11,821,263	13,046,175	15,561,130
Total General Fund	$ 6,811,413	$ 9,003,975	$ 11,699,382	$ 13,011,043	$ 12,693,965	$ 15,709,417	$ 16,852,708	$ 13,219,208	$ 14,207,576	$ 16,585,323
All Other Governmental Funds										
Reserved	1,039,895	871,776	650,566	912,075	108,664	7,500	151,496	20,034,668	5,151,445	2,281,152
Unreserved, reported in:										
Capital Projects Fund	6,701,938	3,262,673	913,643	4,027,570	1,336,082	940,900	150,342	4,918,860	4,530,899	1,375,326
Total All Other Governmental Funds	$ 7,741,833	$ 4,134,449	$ 1,564,209	$ 4,939,645	$ 1,444,746	$ 948,400	$ 301,838	$ 24,953,528	$ 9,682,344	$ 3,656,478

CITY OF FALLS CHURCH, VIRGINIA
Information About Changes in Fund Balances
Last Ten Years
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
General property taxes	$ 16,235,395	$ 16,361,623	$ 16,779,979	$ 17,299,289	$ 17,894,364	$ 21,530,436	$ 22,502,555	$ 24,985,137	$ 28,777,104	$ 33,248,625
Other local taxes	7,660,838	7,967,733	8,955,482	9,127,990	9,838,262	9,638,805	9,568,442	10,130,055	11,284,301	12,350,831
Permit, privilege fees, and regulatory licenses	155,785	195,762	195,237	207,222	268,479	311,447	415,000	361,371	479,042	442,556
Fines and forfeitures	298,226	319,712	279,158	267,043	303,416	487,510	763,707	996,688	1,302,463	649,377
Revenue from use of money and property	653,292	651,371	746,714	911,772	1,202,819	493,160	252,369	122,565	546,512	569,561
Charges for services	726,616	722,806	736,983	788,336	683,563	847,489	1,191,629	1,265,181	1,292,015	1,423,258
Miscellaneous	460,002	4,019,582	2,446,898	2,522,413	480,042	1,081,535	440,694	111,457	148,820	62,800
Recovered costs	40,722	62,397	214,301	44,456	99,573	46,014	1,976,842	2,184,999	2,236,692	2,012,726
Intergovernmental:										
Commonwealth	2,206,509	2,005,255	2,325,996	3,347,692	3,277,357	4,148,580	3,763,634	4,142,091	3,018,725	4,633,990
Federal	722,399	879,081	757,737	658,037	980,451	1,369,064	1,582,673	1,083,137	851,358	1,001,162
Total Revenues	29,159,784	33,185,322	33,438,485	35,174,250	35,028,326	39,954,040	42,457,545	45,382,681	49,937,032	56,394,886
Expenditures										
General government administration	2,303,640	2,546,780	2,703,924	2,930,417	4,197,703	3,709,201	4,786,596	5,193,514	5,251,876	5,722,648
Judicial administration	1,185,183	1,002,479	1,001,759	900,424	873,315	967,955	962,887	1,025,090	1,094,018	1,205,050
Public safety	4,557,623	4,543,158	5,767,264	4,735,878	5,179,796	5,862,306	6,371,972	6,240,752	6,996,497	6,704,083
Public works	3,239,422	3,869,002	3,728,623	3,615,302	3,088,647	2,783,998	4,456,901	4,768,075	4,147,696	5,410,065
Health and welfare	1,828,804	1,823,457	1,775,667	1,778,124	2,754,537	3,130,689	2,664,254	2,760,756	2,719,107	3,021,934
Education and payments to Schools	13,210,237	13,893,530	14,607,478	15,997,671	18,297,381	18,413,377	19,771,459	20,702,332	22,930,601	25,076,471
Parks, recreation, and cultural	2,053,664	2,140,724	2,251,352	2,290,312	2,559,833	2,622,749	2,633,689	2,849,028	2,962,822	3,123,316
Community development	1,495,578	1,782,856	1,480,836	1,675,506	970,075	1,008,178	1,138,518	1,196,845	1,424,396	1,430,897
Economic development	-	-	-	-	-	-	428,264	277,471	292,876	369,331
Capital outlay	962,357	518,781	2,480,034	4,654,600	2,969,803	736,759	527,228	6,394,602	19,091,875	9,612,382
Debt Service										
Principal	421,824	444,543	467,365	468,816	487,685	1,645,000	1,812,957	1,907,025	2,135,828	3,350,886
Interest and other charges	397,083	372,275	345,049	393,740	645,585	1,583,317	1,419,397	1,456,499	1,956,871	1,905,769
Total Expenditures	31,655,415	32,937,585	36,609,351	39,440,790	42,024,360	42,463,529	46,974,122	54,771,989	71,004,463	66,932,832
Excess of Revenues Over (Under) Expenditures	(2,495,631)	247,737	(3,170,866)	(4,266,540)	(6,996,034)	(2,509,489)	(4,516,577)	(9,389,308)	(21,067,431)	(10,537,946)
Other Financing Sources (Uses)										
Transfers in	1,590,312	1,622,118	3,296,033	3,029,637	4,576,191	4,878,754	4,713,374	4,713,374	4,764,256	4,775,874
Transfers out	-	-	-	-	-	-	-	-	-	-
Proceeds from borrowing	-	-	-	5,924,000	-	-	-	25,000,000	1,875,500	1,935,000
Proceeds from refunding bonds	-	-	-	-	-	-	-	7,340,000	4,808,034	35,811
Payment to refund bonds	-	-	-	-	-	-	-	(8,258,750)	(4,660,000)	-
Premium on bond sale	-	-	-	-	-	-	-	1,170,146	-	70,192
Premium paid to refund bonds	-	-	-	-	-	-	-	-	(42,425)	
Proceeds from capital leases	-	-	-	-	-	149,841	299,932	442,728	39,250	72,950
Total Other Financing Sources (Uses)	1,590,312	1,622,118	3,296,033	8,953,637	4,576,191	5,028,595	5,013,306	30,407,498	6,784,615	6,889,827
Net Change in Fund Balance	$ (905,319)	$ 1,869,855	$ 125,167	$ 4,687,097	$ (2,419,843)	$ 2,519,106	$ 496,729	$ 21,018,190	$ (14,282,816)	$ (3,648,119)
Debt Service as a Percentage of Non-Capital Expenditures	2.60%	2.49%	2.23%	2.19%	2.91%	7.87%	6.97%	7.11%	8.00%	9.13%

Table 5

CITY OF FALLS CHURCH, VIRGINIA
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Real Property (1)		Personal Property (1)		Total Taxable Assessed Value	Total Direct Tax Rate (2)	Estimated Actual Taxable Value (3)	Assessed Value as a Percentage of Actual Value
	Residential	Commercial	Motor Vehicles	Other				
1997	$ 826,998,072	$ 289,108,671	$ 76,242,183	n/a	$ 1,192,348,926	$ 1.34	$ 1,192,348,926	100%
1998	830,364,756	299,514,862	82,748,917	11,412,184	1,224,040,719	1.36	$ 1,224,040,719	100%
1999	835,654,891	308,051,072	83,760,366	13,181,281	1,240,647,610	1.36	$ 1,240,647,610	100%
2000	871,304,350	334,219,178	87,788,300	17,566,513	1,310,878,341	1.35	$ 1,310,878,341	100%
2001	975,113,253	369,511,987	103,608,004	26,637,414	1,474,870,658	1.37	$ 1,474,870,658	100%
2002	1,161,241,023	400,343,444	111,741,553	25,220,770	1,698,546,790	1.37	$ 1,698,546,790	100%
2003	1,328,308,558	439,902,572	111,028,146	43,633,100	1,922,872,376	1.34	$ 1,922,872,376	100%
2004	1,567,336,942	531,362,520	137,432,046	29,484,619	2,265,616,127	1.31	$ 2,265,616,127	100%
2005	1,919,327,908	597,294,900	124,179,206	27,654,180	2,668,456,194	1.23	$ 2,668,456,194	100%
2006	2,237,877,000	695,254,574	127,641,968	28,887,704	3,089,661,246	1.15	$ 3,089,661,246	100%

Notes:
(1) Amounts are reported net of exempt property.
(2) Total Direct Tax Rate is calculated using the weighted average method. Rates are per $100 of valuation.
(3) Virginia code requires assessment at full market value.

CITY OF FALLS CHURCH, VIRGINIA
Information About Revenue Rates
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Real Property	Real Property	Personal Property	Total Direct Tax Rate (1)
1997	$ 1.11	$ 1.11	$ 4.71	$ 1.34
1998	1.11	1.11	4.71	1.36
1999	1.11	1.11	4.71	1.36
2000	1.11	1.10	4.71	1.35
2001	1.10	1.13	4.71	1.37
2002	1.13	1.13	4.71	1.37
2003	1.13	1.13	4.71	1.34
2004	1.13	1.08	4.71	1.31
2005	1.08	1.03	4.71	1.23
2006	1.03	1.01	4.71	1.31

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

CITY OF FALLS CHURCH, VIRGINIA
Principal Real Propety Taxpayers (1)
June 30, 2006

	2006			1997		
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percentage of Total Taxable Assessed Value**	**Taxable Assessed Value**	**Rank**	**Percentage of Total Taxable Assessed Value**
Falls Church Country Club	$ 61,851,900	1	1.94%	$ 41,300,000	1	3.72%
Capital Commercial Properties (Eden Center)	48,798,000	2	1.53%	18,646,000	2	1.68%
Byron Condominium	40,100,400	3	1.26%			
Koons, James	29,548,400	4	0.93%	14,032,400	4	1.26%
B Franklin Kahn, et al	24,102,100	5	0.76%	12,000,000	5	1.08%
Pearson Square Condominium	23,335,400	6	0.73%			
Kaiser Foundation Health Plan, Inc	22,902,500	7	0.72%	13,363,900	3	1.20%
Federal Realty Investment Trust	22,189,200	8	0.70%	8,245,000	6	0.74%
Aimco Merrill House, LLC			0.00%	7,950,000	7	0.72%
West Falls Parcel, LLC	21,280,800	9	0.67%			
Noland Co. Inc.	20,005,600	10	0.63%	7,616,000	8	0.69%
Ritzenberg				6,400,000	9	0.58%
Zager, Daniel				6,250,000	10	0.56%
Totals	$ 314,114,300		9.87%	$ 135,803,300		12.23%

Source: Fall Church Office of Real Estate Assessment

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

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections To Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	NA	NA	NA	NA	n/a	n/a
1998	$ 16,175,188	NA	NA	NA	$ 16,160,776	99.91%
1999	16,722,331	NA	NA	NA	16,707,577	99.91%
2000	17,104,740	NA	NA	NA	17,089,183	99.91%
2001	18,488,137	NA	NA	NA	18,468,540	99.89%
2002	20,481,810	NA	NA	NA	20,405,234	99.63%
2003	22,896,875	NA	NA	NA	22,802,045	99.59%
2004	25,357,485	$ 23,705,292	93%	1,546,433	25,251,725	99.58%
2005	28,662,583	27,539,424	96%	970,257	28,509,681	99.47%
2006	32,367,187	31,271,297	97%	-	31,271,297	96.61%

Notes: Property tax levies and collections include real estate taxes and personal property taxes, and excludes Commonwealth of Virginia PPTRA reimbursement.
NA - Not available.

Table 9

CITY OF FALLS CHURCH, VIRGINIA
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years

	Governmental Activities			Business-Type Activities				
Fiscal Year	General Obligation Bonds	Capital Leases	Note Payable	Capital Leases	Construction Loan	Total Primary Government	Percentage of Personal Income (1)	Per Capita
1997	$ 25,402,499	$ -	$ -	$ -	$ -	$ 25,402,499	0.07%	$ 2,646
1998	24,069,999	-	-	-	-	24,069,999	0.06%	2,481
1999	22,642,499	-	-	-	-	22,642,499	0.05%	2,242
2000	30,214,999	-	-	-	-	30,214,999	0.06%	2,912
2001	28,825,000	-	-	-	-	28,825,000	0.05%	2,644
2002	27,180,000	-	-	-	-	27,180,000	0.05%	2,471
2003	25,495,000	321,817	-	-	-	25,816,817	0.05%	2,347
2004	47,950,000	597,519	-	-	-	48,547,519	0.08%	4,580
2005	47,171,034	450,942	852,500	-	7,000	48,481,476	NA	4,489
2006	46,160,418	317,326	652,500	-	6,894	47,137,138	NA	4,365

(1) Personal income is for Fairfax, Fairfax City & Falls Church.
NA - Not available.

Table 10

CITY OF FALLS CHURCH, VIRGINIA
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
1997	$ 25,402,499	$ 17,915	$ 25,384,584	2.13%	$ 2,644
1998	24,069,999	49,492	24,020,507	1.96%	2,476
1999	22,642,499	119,061	22,523,438	1.82%	2,230
2000	30,214,999	18,038	30,196,961	2.30%	2,910
2001	28,825,000	127,280	28,697,720	1.95%	2,633
2002	27,180,000	-	27,180,000	1.60%	2,471
2003	25,495,000	-	25,495,000	1.33%	2,318
2004	47,950,000	-	47,950,000	2.12%	4,524
2005	47,171,034	-	47,171,034	1.77%	4,368
2006	46,160,418	-	46,160,418	1.49%	4,274

Table 11

CITY OF FALLS CHURCH, VIRGINIA
Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	$ 111,032,535	$ 111,498,430	$ 113,414,865	$ 122,399,675	$ 140,472,390	$ 179,996,377	$ 182,071,680	$ 232,021,812	$ 271,054,630	$ 339,609,980
Total net debt applicable to limit	25,384,584	24,020,507	22,523,438	30,196,961	28,697,720	27,180,000	25,495,000	47,950,000	47,171,034	46,160,418
Legal debt margin	$ 85,647,951	$ 87,477,923	$ 90,891,427	$ 92,202,714	$ 111,774,670	$ 152,816,377	$ 156,576,680	$ 184,071,812	$ 223,883,596	$ 293,449,562
Total net debt applicable to the limit as a percentage of debt limit	23%	22%	20%	25%	20%	15%	14%	21%	17%	14%

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	$ 3,183,286,700
Add back exempt real property	212,813,100
Total assessed value	3,396,099,800
Debt limit (10% of total assessed value)	339,609,980
Debt applicable to limit:	
General obligation bonds	46,160,418
Total net debt applicable to limit	46,160,418
Legal debt margin	$ 293,449,562

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

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Personal Income (3)	Median Age (4)	Education Level in Years of Formal Schooling	School Enrollment (5)	Unemployment Rate (6)
1997	9,600	38,514,536	$ 40,330	NA	NA	1,480	3.6
1998	9,700	41,820,223	43,193	NA	NA	1,451	2.2
1999	10,100	46,704,869	47,306	NA	NA	1,541	1.3
2000	10,377	50,393,190	50,035	NA	NA	1,675	1.1
2001	10,900	52,889,102	51,931	NA	NA	1,721	2.6
2002	11,000	53,790,886	53,494	NA	NA	1,749	2.9
2003	11,000	55,775,794	54,167	NA	NA	1,817	2.5
2004	10,600	60,307,894	58,266	NA	NA	1,846	2.9
2005	10,800	NA	NA	40.1	NA	1,848	3.4
2006	10,800	NA	NA	NA	NA	1,845	3.0

(1) Source: Weldon Cooper Center for Public Service; numbers are estimates as of July 1; July 1, 2005 and 2006 is a provisional estimate; year 200(is based on U.S. Census estimate as of April 1, 2000.
(2) Source: Bureau of Economic Analysis for Fairfax, Fairfax City & Falls Church in tousands of dollars
(3) Source: US Department of Commerce, Bureau of Economic Analysis. Per Capita Rate for Fairfax, Fairfax City and Falls Church.
(4) Source: Weldon Cooper Center for Public Service; numbers are estimates as of July 1.
(5) Source: City of Falls Church Public School Board
(6) Source: Virginia Employment Commission
NA - Not available.

CITY OF FALLS CHURCH, VIRGINIA
Principal Employers
Current and Nine Years Ago

	2006			1997		
Employer	Employees (1)	Rank	Percentage of Total City Employment (2)	Employees	Rank	Percentage of Total City Employment
Falls Church City Schools	375	1	3.95%	NA	NA	NA
Kaiser Permanante	375	2	3.95%	NA	NA	NA
Falls Church City Government	265	3	2.79%	NA	NA	NA
Koon's Ford & Dodge	196	4	2.06%	NA	NA	NA
Tax Analysts	150	5	1.58%	NA	NA	NA
Don Beyer Volvo	104	6	1.09%	NA	NA	NA
United States Parcel Service	97	7	1.02%	NA	NA	NA
Knowlogy	85	8	0.89%	NA	NA	NA
Giant Food Store	67	9	0.71%	NA	NA	NA
Center for Multicultural Human Services	58	10	0.61%	NA	NA	NA
Total	1,772		18.65%	NA		NA

1. Source: City of Falls Church Office of Economic Development
2. Total employement estimate of 9,500 from Falls Church Planning Division

CITY OF FALLS CHURCH, VIRGINIA
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	Full-Time Equivalent Employees as of June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government administration	NA	NA	NA	NA	NA	34.75	34.75	34.75	34.75	37.75
Judicial administration	NA	NA	NA	NA	NA	12.60	13.10	13.10	12.60	11.60
Public safety	NA	NA	NA	NA	NA	56.00	57.00	57.40	57.00	58.40
Public works	NA	NA	NA	NA	NA	28.16	27.41	28.41	28.41	28.96
Health and welfare	NA	NA	NA	NA	NA	10.12	8.84	9.09	9.09	8.00
Parks, recreation, and cultural	NA	NA	NA	NA	NA	44.51	43.97	43.97	42.09	44.69
Community development	NA	NA	NA	NA	NA	9.75	9.75	9.75	12.75	12.75
Economic development	NA	NA	NA	NA	NA	3.00	3.00	3.00	3.00	3.00
Water	NA	NA	NA	NA	NA	51.61	51.44	53.34	52.04	52.04
Sewer	NA	NA	NA	NA	NA	3.70	3.70	3.75	4.05	4.10
	NA	NA	NA	NA	NA	254.20	252.96	256.56	255.78	261.29

Notes:
Source: Adopted Budget for City of Falls Church.
NA - Not available.

CITY OF FALLS CHURCH, VIRGINIA
Operating Indicators by Function
Last Ten Fiscal Years

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government administration										
Communications										
Number of Media Releases	NA	NA	53	22	72	72	77	78	122	94
Number of Periodical Publications	NA	NA	NA	NA	NA	NA	5	4	6	9
eFOCUS Newsletter Subscribers	NA	NA	NA	NA	NA	NA	NA	NA	NA	1,628
Judicial Administration										
Court Services										
Aurora House Recidivism (%)	NA	NA	NA	NA	NA	NA	0%	0%	14%	10%
Aurora House Program Completion (%)	NA	NA	NA	NA	NA	NA	82%	88%	90%	62%
Court Services Juvenile Recidivism (%)	NA	NA	NA	NA	NA	NA	9%	4%	8%	14%
Court Services Adult Recidivism (%)	NA	NA	NA	NA	NA	NA	0%	15%	7%	22%
Public safety										
Police										
Part I Crimes (1)	558	493	480	456	463	452	405	428	370	NA
Calls for Service	24,496	23,820	22,239	22,797	22,319	19,798	18,223	22,317	25,347	NA
Accidents	316	293	328	309	296	298	295	282	278	NA
Traffic Enforcement 6611	6,611	6,175	4,705	5,554	5,251	5,156	4,966	5,739	4,102	NA
DWI Arrests	53	52	51	84	72	45	40	40	64	NA
Inspections										
Plan Review	NA	NA	NA	NA	NA	NA	NA	371	490	NA
Stop Work Orders	NA	NA	NA	NA	NA	NA	NA	19	21	NA
Public works										
Refuse collected (Tons)	NA	NA	NA	NA	2,488	2,536	2,883	2,981	2,799	2,845
Recycling Collected (Tons)	NA	NA	NA	NA	2,963	2,921	2,994	3,257	3,261	2,728
Street resurfacing (Miles)	NA	NA	NA	NA		1	2	1	2	2
Health and welfare										
Housing & Human Services										
Information/Referral Contacts	2,516	2,575	2,397	1,525	1,618	2,766	3,137	2,287	2,375	1,786
Senior Center lunch meals served	3,504	3,090	3,003	2,303	2,661	2,725	2,504	2,789	3,028	2,360
Education										
Student membership	1,480	1,451	1,541	1,675	1,721	1,749	1,817	1,846	1,848	1,845
Parks, recreation, and cultural										
Parks& Recreation										
Special Events (2)	11	11	11	11	11	11	51	135	127	133
Class participants	NA	NA	NA	NA	NA	NA	NA	2,625	2,750	2,920
Room Reservations	NA	NA	NA	NA	NA	NA	6,920	6,280	6,027	6,132
Tennis Reservations	NA	NA	NA	NA	NA	NA	785	890	1,150	1,226
Youth Sports Participants	1,491	1,436	1,370	1,416	1,463	1,410	1,746	1,706	1,839	1,932
Adult Sports Teams	NA	NA	NA	NA	NA	NA	69	76	61	108
Teen Dance Participants	NA	NA	NA	NA	50	1,257	1,698	1,701	1,699	1,799
Teen Center Attendance	NA	NA	NA	NA	NA	1,400	1,820	2,000	4,428	4,851
Summer Camps Offered	NA	NA	NA	NA	84	140	168	168	196	224
Summer Camp Participants	NA	NA	NA	NA	NA	NA	NA	3,289	3,562	3,769
Library										
Size of collection (all formats)	NA	109,667	109,232	122,165	110,599	107,849	119,601	123,127	127,236	130,472
Total circulation of all materials	309,675	310,257	294,314	292,328	317,647	331,663	331,371	318,775	335,912	341,626
Total visits to library (door count)	NA	20,654	159,419	286,119	212,975	243,743	245,766	222,999	212,322	192,222
Number of registered borrowers	NA	20,654	20,321	22,896	23,111	22,101	21,375	21,503	22,428	23,003
Number of website visits/yr (3)	NA	NA	NA	15,562	53,821	96,036	104,854	126,771	154,570	164,839
Number of programs/yr	NA	234	221	217	247	318	286	295	351	357
Attendance at programs	NA	5,421	7,007	7,246	7,322	8,950	9,419	10,691	10,976	11,998
Community development										
Planning										
Development Inquiries	NA	NA	NA	NA	NA	NA	NA	NA	NA	6,000
Plans Reviewed	NA	NA	NA	NA	NA	NA	NA	NA	NA	20
Code/ Policy Review	NA	NA	NA	NA	NA	NA	NA	NA	NA	25
Zoning										
Development Inquiries	NA	NA	NA	NA	NA	NA	NA	NA	NA	1,500
Plans Reviewed	NA	NA	NA	NA	NA	NA	NA	NA	NA	2,000
Urban Forestry										
Development Inquiries	NA	NA	NA	NA	NA	NA	NA	NA	NA	1,300
Plans Reviewed	NA	NA	NA	NA	NA	NA	NA	NA	NA	56
Trees Planted/removed/pruned	NA	NA	NA	NA	NA	NA	NA	NA	NA	369
Water & Sewer										
New connection applications	NA	NA	NA	NA	NA	346	123	216	90	374
Water main breaks	NA	NA	NA	NA	123	95	151	102	102	100

Notes:
NA = Not available
(1) Part I crimes are defined as murder, rape, robbery, aggravated assault, burglary, grand larceny, auto theft, arson.
(2) Beginning in FY2003, special events includes the Senior Center and Cherry Hill Farmhouse.
(3) Website visits includes 5 months in FY2000.

CITY OF FALLS CHURCH, VIRGINIA
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government administration										
City Hall	1	1	1	1	1	1	1	1	1	1
Judicial administration (1)										
Court Services										
Aurora House (Facility)	1	1	1	1	1	1	1	1	1	1
Aurora House Passenger Van	NA	1	1	1	1	1	1	1	1	1
Court Services Passenger Van	NA	NA	NA	NA	NA	NA	NA	NA	NA	1
Public safety (2)										
Fire Stations (3)	1	1	1	1	1	1	1	1	1	1
Public works										
Streets -Miles/Lane Miles	NA	NA	NA	NA	NA	32	32	32	32	32
Traffic signals	NA	NA	NA	NA	NA	30	30	30	30	30
Streetlights	NA	NA	NA	NA	NA	124	124	124	124	136
Refuse Trucks	NA	NA	NA	NA	NA	4	4	4	4	4
Education										
School Buildings	3	3	3	3	3	3	3	3	3	4
Parks, recreation, and cultural										
Recreation & Parks										
Community Center	1	1	1	1	1	1	1	1	1	1
Gage House/Senior Center	1	1	1	1	1	1	1	1	1	1
Cherry Hill Farmhouse & Barn	1	1	1	1	1	1	1	1	1	1
Neighborhood Parks	11	11	11	11	11	11	11	11	11	12
Tennis courts	10	10	10	10	10	10	10	10	10	10
Basketball courts	5	5	5	5	5	5	5	5	5	5
Vehicles	1	2	2	3	3	3	3	3	3	5
Library										
Library (Facility)	1	1	1	1	1	1	1	1	1	1
Community development										
Urban Forestry										
Vehicles	-	-	-	-	-	-	-	2	2	2
Water & Sewer										
Water Mains (Miles)	NA	NA	NA	NA	NA	485	486	489	489	491
Fire Hydrants	NA	NA	NA	NA	NA	3,003	3,020	3,017	3,097	3,132
Sanitary Sewer Mains (Miles)	NA	NA	NA	NA	NA	NA	43	NA	43	NA
Sanitary Sewer Manholes	NA	NA	NA	NA	NA	NA	988	NA	998	NA

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

This page left intentionally blank