

CITY OF FALLS CHURCH, VIRGINIA

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2007



CITY OF **FALLS**  
**CHURCH**

# **CITY OF FALLS CHURCH, VIRGINIA**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



**PREPARED BY THE DIVISION OF FINANCE  
JOHN TUOHY, CPA, CFO/DIRECTOR OF FINANCE  
MELISSA ANN C. RYMAN, CPA, DEPUTY DIRECTOR OF FINANCE**

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**CITY OF FALLS CHURCH, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2007**

# INTRODUCTORY SECTION



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# CITY OF FALLS CHURCH

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November 30, 2007

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, 2007, 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, 2007, 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 Principles (GAAP). As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by 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, 2007 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**

The City of Falls Church enjoys an exceptional location in a region with the fourth largest economy in the nation, the lowest unemployment rate in the U.S., and a job base that is expected to add 36,000 new jobs in 2008 in Northern Virginia alone. Regional population growth is expected to average 80,000 per year from 2007-2011 according to the Center for Regional Analysis at George Mason University.

The City has long-maintained a very low vacancy rate of existing commercial space, with competitively priced rental rates for retail and office tenants. New commercial space now leasing or coming on line in six built or approved mixed-use development projects is priced higher than existing space, which has recently shown evidence of trending upward in price as well. As older, longer-term leases have expired, some tenants are choosing not to renew their leases. Other businesses are quickly backfilling this space at higher rents.

Mixed-use development built or approved in the City will bring 106,000 square feet of new retail space, for an increased overall inventory of 14.5 percent. These projects will produce about 147,000

square feet of new office space (an increase of 12.3 percent). Housing delivered by new development includes 720 units of condos, apartments and townhouses. This represents a 14.6 percent increase in overall City housing stock. The six compact, higher density development projects have utilized 14 acres, or seven percent, of commercially zoned land in the City. The value of private investment in these projects is estimated at about \$457 million.

Small to medium size companies are absorbing the new office space in the City, which is also the trend regionally. Falls Church is well positioned geographically for professional services office tenants to locate for ready access to their Washington, D.C. or regional clients. While federal procurement spending continued to slow down in 2007 from unprecedented post 9-11 levels, the market for investment in commercial real estate remained strong in the region and in the City.

The residential condo market continued to see prices fall further than other housing types in 2007, a reflection of supply exceeding demand and heavy investor involvement that had overheated the market. Condos are the last segment of the housing market expected to stabilize. However, some favorable long term condo market factors for the region and the City are:

- Condos are the only smaller size housing being built for sale in the region.
- The population of empty nesters is increasing and they are a growing segment of condo buyers.
- Condos are relatively affordable for younger buyers.
- Condos built closest to Metro stations will have the highest demand.

The market for apartments remains strong in the region. Rental rates have increased an average of six percent per year recently, a trend expected to continue for several more years according to the Center for Regional Analysis.

## **Economic Development**

Economic development activities include programs to retain, expand and attract businesses to the City. Staff and the City's Economic Development Authority work to encourage new investment that results in the redevelopment of older and functionally obsolete commercial areas with market-supported and sustainable projects that balance and enhance the City's tax base. It is a goal of equal importance to encourage new development that improves the community's overall quality of life.

In 2006-07, the City used Industrial Revenue Bond financing to encourage construction of the largest office building in Falls Church in 20 years, now occupied by two locally-based firms. Technology companies are encouraged to locate and grow in the City and more than 60 have utilized the Technology Zone business tax benefit program since its inception. Staff conducts a systematic business retention program and a retail recruitment effort based on the research of an industry consultant. The City works closely with the Greater Falls Church Chamber of Commerce and the Commonwealth of Virginia with programs and events to recognize and assist local businesses.

## **Long-term planning**

The Council's vision statement adopted November 27, 2006 provides the framework for the City's long-term planning. The vision provides for the continuity necessary to execute both short and long-term policy and resource decisions. The annual budget serves as the City's annual operations plan. The Capital Improvement Program (CIP) is adopted annually for the current and subsequent four years to provide longer term planning and implementation of the capital elements of the Council's vision.

The budget adopted by the City Council for fiscal year 2008 sought to preserve the City's strong record of fiscal prudence while maintaining a high quality of life for the City's residents. In spite of a moderation in the

increase of real estate assessments, the City's most significant source of revenue, the budget continues a commitment to a broad range of services at approximately the same levels as the previous year without an increase in the real estate tax rate.

### **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, 2006. 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  
City Manager



John H. Tuohy, CPA  
Chief Financial Officer

**CITY OF FALLS CHURCH, VIRGINIA**  
**DIRECTORY OF OFFICIALS**  
**AT JUNE 30, 2007**

**CITY COUNCIL**

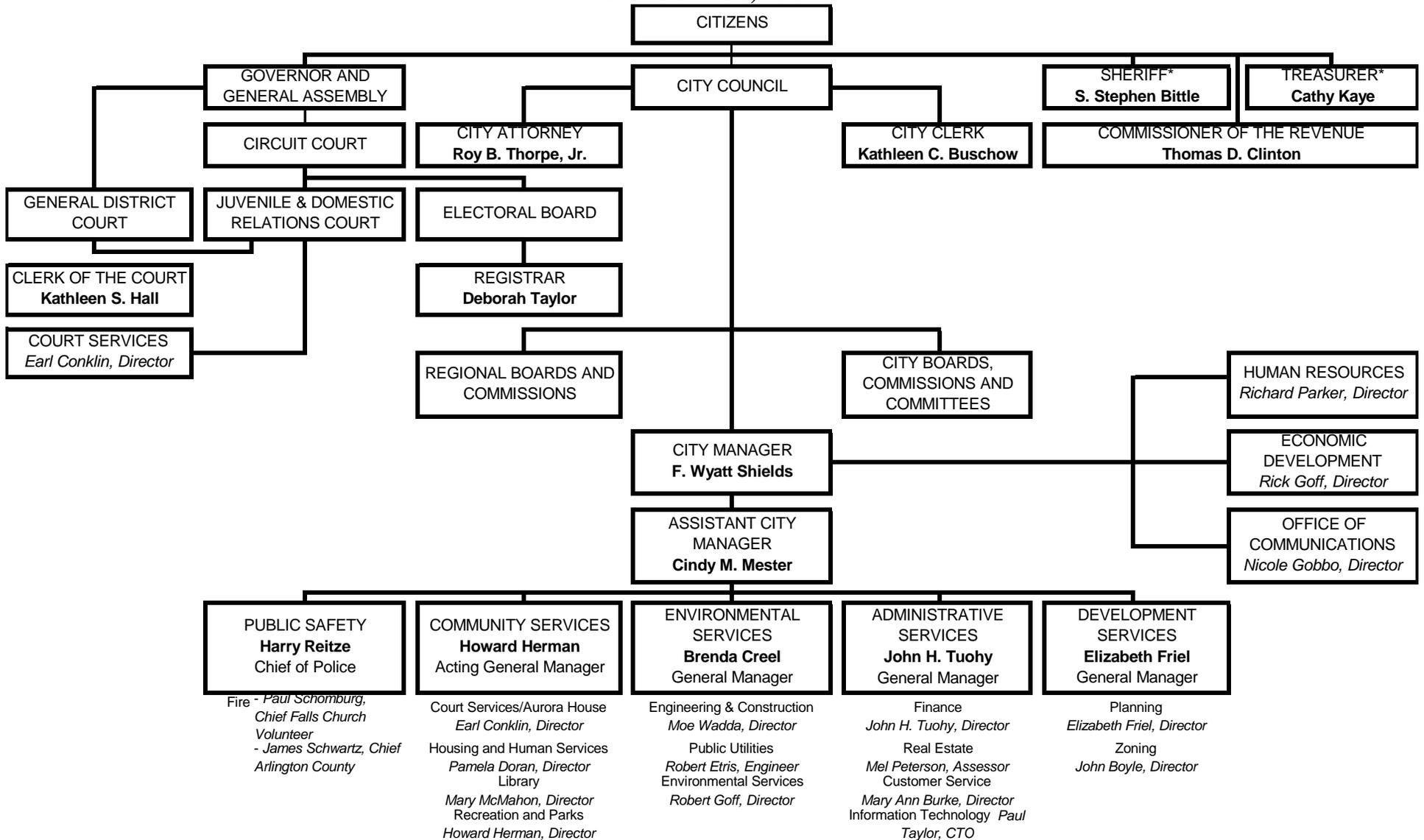
Robin S. Gardner, *Mayor*  
Marlind “Lindy” R. Hockenberry, *Vice Mayor*  
David C. Chavern  
Harold Lippman  
Daniel Maller  
David E. Snyder  
Daniel Sze

**CITY OFFICIALS**

F. Wyatt Shields, *City Manager*  
Cindy Mester, *Assistant City Manager*  
John H. Tuohy, CPA, *Chief Financial Officer*  
Roy B. Thorpe, Jr., *City Attorney*  
Kathleen C. Buschow, *City Clerk*  
Catherine Kaye, *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, 2007



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

# 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, 2006

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

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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2007**

# **FINANCIAL SECTION**



City of Falls Church City Hall

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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2007**

**FINANCIAL SECTION  
INDEPENDENT AUDITORS' REPORT**



**Cherry Hill Farmhouse**

With its adjoining barn and park, the Cherry Hill Farmhouse is a historic family farm now being managed by the City's Recreation and Parks Division.



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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Falls Church, Virginia (the City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information in the financial section, and statistical section, as listed in the accompanying table of contents, are presented for purpose of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

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

Richmond, Virginia  
November 30, 2007

**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2007**

**FINANCIAL SECTION  
MANAGEMENT'S DISCUSSION AND  
ANALYSIS**



Concerts at Cherry Hill Park

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# **CITY OF FALLS CHURCH, VIRGINIA**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007.

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 \$122.9 million at June 30, 2007. Of this balance, \$117.7 million is the Primary Government's and \$5.2 million is the component units'.
- For fiscal year 2007, taxes, other revenues, and transfers of the City's governmental activities amounted to \$61.4 million and expenses amounted to \$59.1 million, which resulted in an increase in net assets for the City's governmental activities of \$2.3 million. Revenues of the City's business-type activities were \$28.2 million, expenses were \$20.1 million, and transfers to general fund were \$3.0 million, which resulted in an increase in net assets for the City's business-type activities of approximately \$5.1 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.

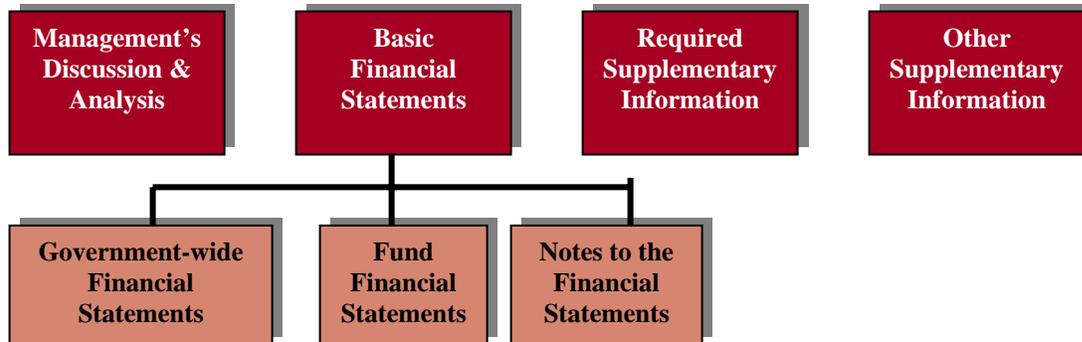
- The City's governmental funds reported expenditures and other financing uses in excess of revenues and other financing sources of \$2.5 million for the fiscal year.
- The City's General Fund reported a fund balance of \$14.7 million at June 30, 2007, a decrease of \$1.9 million from June 30, 2006. The FY2007 budget had programmed a use of fund balance for capital investments in the amount of \$4.1 million.
- The City's Capital Projects Fund reported a decrease in fund balance of \$0.6 million, leaving a balance of \$3.1 million at June 30, 2007.
- The City's Water fund reported an increase in net assets of approximately \$4.6 million and the City's Sewer fund reported an increase of \$1.0 million in 2007 largely due to significantly higher than average water sales as a result of an extended drought. Sewer charges are a function of water charges, therefore they increase or decrease directly as a result of water sales.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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.

# **CITY OF FALLS CHURCH, VIRGINIA MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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, 2007 and 2006:

<b>Summary of Net Assets</b>				
<b>As of June 30, 2007 and 2006</b>				
<b>(\$ In Thousands)</b>				
	<b>2007</b>		<b>2006</b>	
	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>
<b>Assets:</b>				
Current and other assets	\$ 48,542	\$ 37,115	\$ 47,311	\$ 25,851
Capital assets, net	68,039	53,383	67,026	50,541
Total assets	<u>116,581</u>	<u>90,498</u>	<u>114,337</u>	<u>76,392</u>
<b>Liabilities:</b>				
Other liabilities	29,890	7,576	26,693	3,791
Long-term liabilities	46,453	5,503	49,724	309
Total liabilities	<u>76,343</u>	<u>13,079</u>	<u>76,417</u>	<u>4,100</u>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	23,379	50,472	21,440	50,534
Unrestricted	16,859	26,947	16,480	21,758
Total net assets	<u>\$ 40,238</u>	<u>\$ 77,419</u>	<u>\$ 37,920</u>	<u>\$ 72,292</u>

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

Current and other assets for governmental activities increased by \$1.2 million during FY2007 primarily due to increase in tax receivables as a result of increase in tax assessments. Current and other assets for business-type activities increased by \$11.3 million during FY2007 due to the issuance of general obligation bonds in the amount of \$5.5 million, significant receipts of availability fees for \$3.1 million, and strong water sales due to the area's drought conditions.

Long-term liabilities for governmental activities decreased by \$3.3 million mainly as a result of bond repayments exceeding issuance, while long-term liabilities for business-type activities increased by \$5.2 million largely as a result of a general obligation bond issued for \$5.5 million for the Water Fund.

During FY2007, the net assets invested in capital assets, net of related debt, increased for the City's governmental activities by \$1.9 million and decreased slightly for the business-type activities by \$62 thousand. The increase in the governmental activities' investment in capital assets is primarily due to the repayment of principal on debt incurred prior to FY2007 and partly due to the completion of the renovation of Mt. Daniel Elementary School. The decrease in the business-type activities' net assets invested in capital assets is primarily due to depreciation during FY2007.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Unrestricted net assets increased slightly by \$0.4 million for governmental activities mainly due to the higher than budgeted transfer from the Water Fund for management fees. The management fees are based on the water fund's operating revenues which were stronger than anticipated. For the business-type activities, unrestricted net assets increased by \$5.2 million due to both strong water sales and investment earnings.

**Statement of Activities**

The following table summarizes the changes in net assets for the primary government for the years ended June 30, 2007 and 2006:

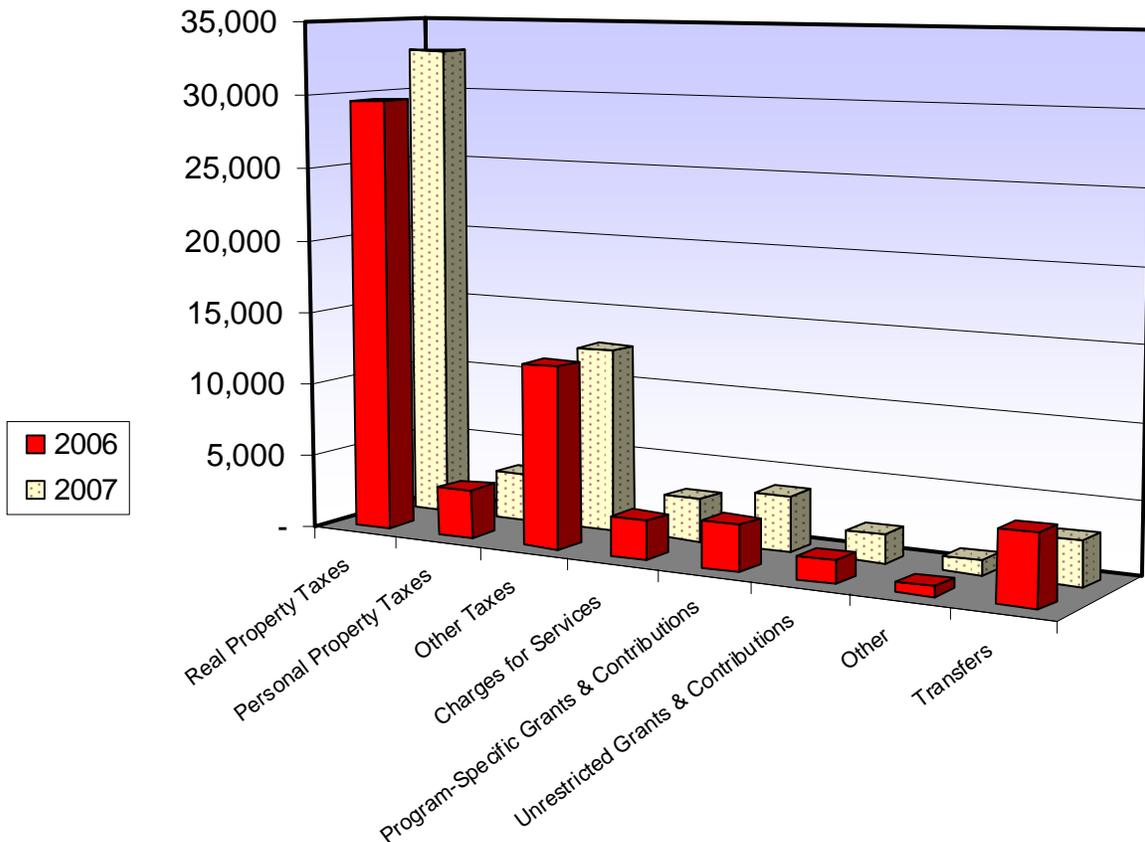
<b>Summary of Changes in Net Assets</b>				
<b>For the Fiscal Year Ended June 30, 2007 and 2006</b>				
<b>(\$ In Thousands)</b>				
	<b>2007</b>		<b>2006</b>	
	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>
<b>Revenues:</b>				
Program revenues:				
Charges for services	\$ 2,901	\$ 25,925	\$ 2,647	\$ 21,516
Operating grants & contributions	3,661	-	3,099	-
Capital grants & contributions	138	840	-	1,533
General revenues:				
Real estate taxes	32,844	-	29,625	-
Personal property taxes	3,304	-	3,328	-
Business license taxes, based on gross receipts	3,053	-	2,937	-
Local sales & use taxes	4,223	-	4,264	-
Consumer's utility taxes	2,018	-	1,596	-
Motor vehicle decals	217	-	202	-
Recordation	302	-	214	-
Occupancy, tobacco, & other taxes	2,754	-	3,151	-
Unrestricted grants & contributions	1,983	-	1,536	-
Revenue from use of money and property	856	1,362	570	760
Other	150	34	71	30
Total revenues	<u>58,404</u>	<u>28,161</u>	<u>53,240</u>	<u>23,839</u>
<b>Expenses:</b>				
General government administration	4,787	-	4,129	-
Judicial administration	1,291	-	1,246	-
Public safety	7,982	-	6,996	-
Public works	5,288	19,842	6,332	18,376
Health and welfare	3,317	-	3,018	-
Education and payments to schools	29,072	-	26,380	-
Parks, recreation, and cultural	3,598	-	3,307	-
Community development	1,701	-	1,133	-
Economic development	359	-	374	-
Interest expense	1,746	137	1,661	-
Total expenses	<u>59,141</u>	<u>19,979</u>	<u>54,576</u>	<u>18,376</u>
Excess/(deficiency) before transfers	(737)	8,182	(1,336)	5,463
Transfers	3,055	(3,055)	4,775	(4,775)
Change in net assets	2,318	5,127	3,439	688
Net assets, beginning of year	37,920	72,292	34,481	71,604
Net assets, end of year	<u>\$ 40,238</u>	<u>\$ 77,419</u>	<u>\$ 37,920</u>	<u>\$ 72,292</u>

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Governmental Activities**

Revenues and transfers for the City's governmental activities were \$61.4 million for fiscal year 2007 and \$58.02 million for fiscal year 2006. Sources of revenue for fiscal year 2007 and 2006 are comprised of the following items:

**Governmental Activities – Revenues by Source  
For the Fiscal Years Ended June 30, 2007 and 2006  
(\$ In Thousands)**



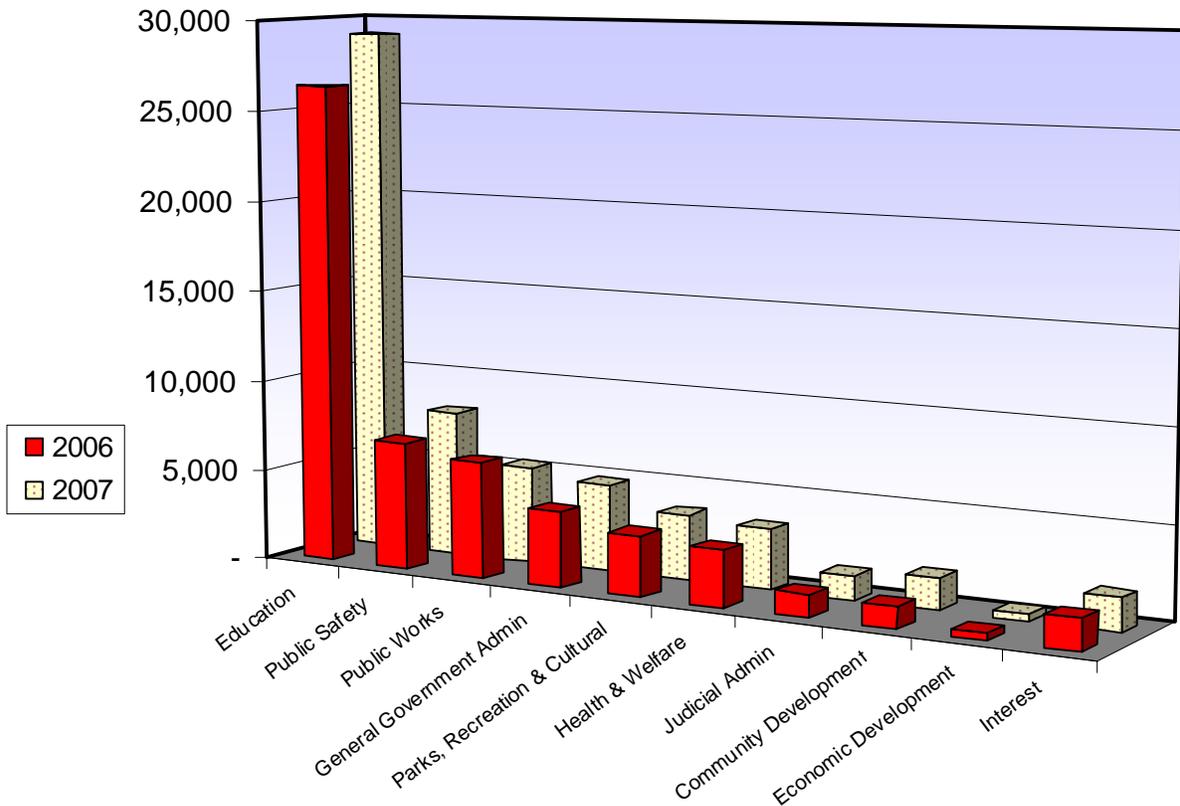
Taxes constitute the largest source of City revenues, amounting to \$48.7 million for fiscal year 2007 and \$45.3 million for fiscal year 2006. Real property taxes (\$32.8 million in fiscal year 2007 and \$29.6 million in fiscal year 2006) represent over 67 percent in fiscal year 2007 and over 65 percent in fiscal year 2006 of tax revenues. Tax revenues for fiscal year 2007 increased by \$3.2 million largely due to an average increase of 14.66 percent in real property assessments.

The cost of all governmental activities in fiscal year 2007 was \$59.1 million, and in fiscal year 2006 was \$54.6 million. Education was the City's largest program and highest priority in both fiscal years 2007 and 2006; education expenses totaled \$29.1 million in fiscal year 2007 and \$26.4 million in fiscal year 2006. Public safety expenses represent the second largest expense in both fiscal years, totaling \$8.0 million in fiscal year 2007 and \$7.0 million in fiscal year 2006.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

million in fiscal year 2006. Public works expenses totaled \$5.3 million for fiscal year 2007 and \$6.3 million for 2006, representing the third largest expense for the City in both fiscal years.

**Governmental Activities – Expenses by Function  
For the Fiscal Years Ended June 30, 2007 and 2006  
(\$ 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).

<b>Net Cost of City's Governmental Activities For the Fiscal Years Ended June 30, 2007 and 2006 (\$ In Thousands)</b>					
<b>Functions/Programs</b>	<b>2007</b>		<b>2006</b>		
	<b>Total Cost</b>	<b>Net Cost</b>	<b>Total Cost</b>	<b>Net Cost</b>	
Education and payments to schools	\$ 29,072	\$ 29,072	\$ 26,380	\$ 26,380	
Public safety	7,982	6,509	6,996	5,556	
Public works	5,289	4,113	6,332	5,402	
General government administration	4,787	4,314	4,129	3,860	
Parks, recreation, and cultural	3,598	2,533	3,307	2,300	
Health and welfare	3,317	2,437	3,018	2,140	
Other	5,098	3,464	4,414	3,191	
<b>Total</b>	<b>\$ 59,143</b>	<b>\$ 52,442</b>	<b>\$ 54,576</b>	<b>\$ 48,829</b>	

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$2.9 million in 2007 and \$2.6 million in 2006) and other governments and organizations that subsidized certain programs with grants and contributions (\$3.8 million in 2007 and \$3.1 million in 2006). Of the \$52.4 million net cost of services in 2007, the amount that our taxpayers paid for these activities through City taxes was \$48.7 million. The remaining \$3.7 million net cost was funded primarily by transfers from the Water and Sewer funds of \$3.1 million. In fiscal year 2006, of the \$48.8 million of net cost of services, the amount that our taxpayers paid through City taxes was \$45.3 million, and the remaining net cost of \$3.5 million was funded primarily by transfers from Water and Sewer funds of \$4.8 million.

The net cost for education and payment to schools is the same as its total cost for the City. Other costs for education as well as program-specific revenues are reported in the component unit School Board.

**Business-type Activities**

The Water Fund reported an increase in net assets of \$4.1 million for fiscal year 2007 and an increase of \$79 thousand for fiscal year 2006. In fiscal year 2007, total revenues and capital contributions of the Water Fund were \$24.3 million and total costs and transfers were \$20.2 million. In fiscal year 2006, total revenues and capital contributions were \$21.1 million and total costs and transfers were \$21.0 million. The Water Fund recovers its costs primarily through user charges. The increase in net assets and revenues and capital contributions were primarily due to strong water sales in the last half of the year due to local drought conditions, an increase in investment revenues and \$3.1 million in availability fees received during the year.

The Sewer Fund reported an increase in net assets of \$1.0 million for fiscal year 2007 and an increase of \$608 thousand for fiscal year 2006. In fiscal year 2007, total revenues of the Sewer Fund were \$3.8 million as compared to total costs and transfers of \$2.8 million. In fiscal year 2006, 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. The increase in revenues was largely due to strong water sales in the last half of the year which translated into sewer charges and an increase in investment revenues.

Highlights of the City's business-type activities for fiscal year 2007 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 \$3.5 million in replacing and building new water mains and pump stations. In particular, the City spent \$2.5 million in upgrading the Scotts Run pump station.
- Developers also added to the distribution system in the amount of \$0.8 million.
- The City also spent towards a study of the sewer mains to determine what repairs or replacements need to be made. During FY2007, the City spent \$221 thousand towards this study.

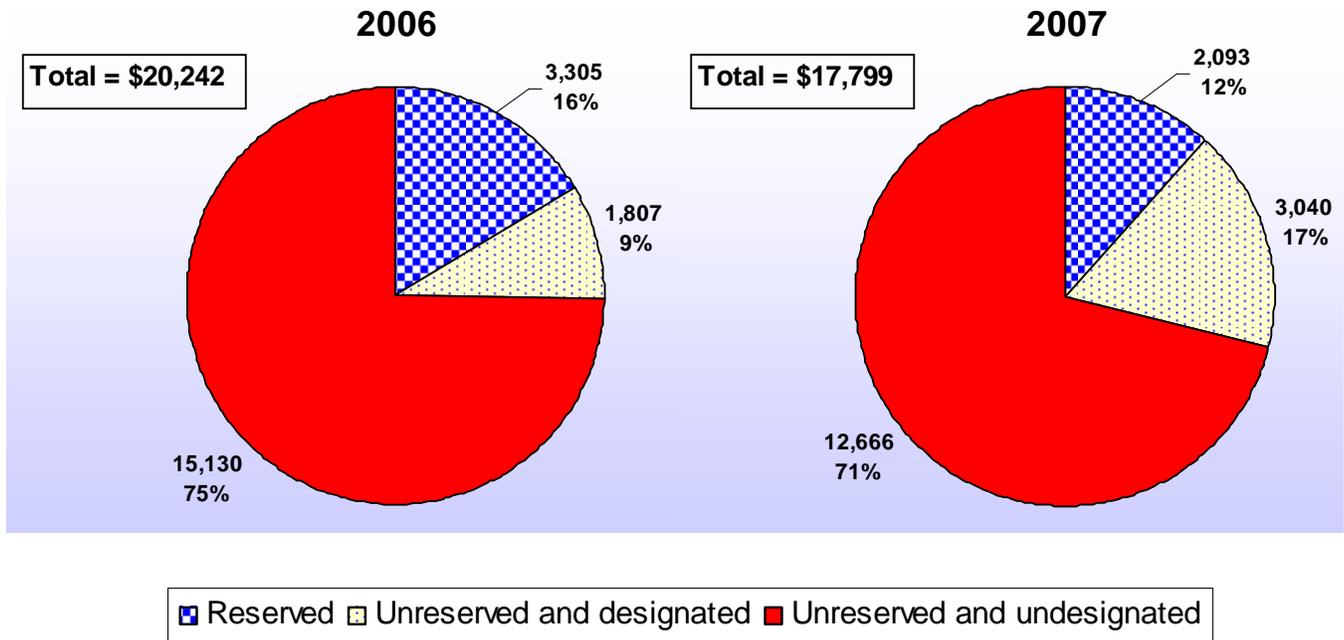
**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The following chart represents the components of City's governmental fund balances as of June 30, 2007 and 2006.

**Governmental Funds – Fund Balances  
As of June 30, 2007 and 2006  
(\$ in Thousands)**



Overall, the fund balance for all governmental funds decreased by approximately \$2.4 million for the fiscal year ended June 30, 2007 and decreased by approximately \$3.6 million for the fiscal year ended June 30, 2006. In 2007, total revenues and other financing sources were \$68.4 million and total expenditures and other financing uses were \$70.8 million. The total revenues and other financing sources were \$63.3 million in 2006 and total expenditures and other financing uses were \$66.9 million. The increase in revenues and other financing sources of \$5.1 million is in part due to a refunding bond issue of \$6.3 million as well as an increase in property tax revenues of \$2.4 million. The increase in expenditures and other financing sources of \$3.9 million is also mainly due to the payment to refund bonds of \$6.2 million.

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 \$1.2 million is primarily due to the liquidation of encumbered amounts as a result of the completion of the renovation on Mt. Daniel Elementary School.

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, 2007 and 2006, \$2.5 million and \$1.3 million, respectively, were designated for future construction and other long-term improvement projects. In addition, \$504 thousand and \$432 thousand as of June 30, 2007 and 2006, respectively, were designated for affordable dwelling units.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Funds).

The following shows the fund balances of these funds as of June 30, 2007 and 2006:

<b>Fund Balances - Governmental Funds</b>						
<b>As of June 30, 2007 and 2006</b>						
<b>(\$ In Thousands)</b>						
	<b>General Fund</b>		<b>Capital Projects Fund</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Reserved	\$ 1,532	\$ 1,024	\$ 561	\$ 2,281	\$ 2,093	\$ 3,305
Designated for construction	-	-	2,536	1,375	2,536	1,375
Designated for affordable dwelling	504	432	-	-	504	432
Unreserved & undesignated	12,666	15,129	-	-	12,666	15,129
<b>Total</b>	<b>\$ 14,702</b>	<b>\$ 16,585</b>	<b>\$ 3,097</b>	<b>\$ 3,656</b>	<b>\$ 17,799</b>	<b>\$ 20,241</b>

The following shows the changes in the individual fund balances for fiscal years 2007 and 2006:

<b>Changes in Fund Balances - Governmental Funds</b>						
<b>For the Fiscal Years Ended June 30, 2007 and 2006</b>						
<b>(\$ In Thousands)</b>						
	<b>General Fund</b>		<b>Capital Projects Fund</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenues and other financing sources	\$ 68,405	\$ 63,284	\$ 3,568	\$ 3,526	\$ 71,973	\$ 66,810
Expenditures and other financing uses	70,288	60,907	4,127	9,552	74,415	70,459
Changes in Fund Balances	(1,883)	2,377	(559)	(6,026)	(2,442)	(3,649)
Fund balance at beginning of year	16,585	14,208	3,656	9,682	20,241	23,890
<b>Fund balance at end of year</b>	<b>\$ 14,702</b>	<b>\$ 16,585</b>	<b>\$ 3,097</b>	<b>\$ 3,656</b>	<b>\$ 17,799</b>	<b>\$ 20,241</b>

In 2007, the City issued new bonds of \$6.3 million to refund old bonds. This is the main reason for the \$5.1 million increase in revenues and other financing sources. The increase of \$9.3 million in expenditures and other financing uses in the General Fund is in large part due to the related payment to an escrow fund for the refunding of the old bonds that was made in the amount of \$6.1 million. The remaining increase of \$3.2 million is mostly due to the increase in payments to the schools.

The decrease of \$5.4 million in the expenditures and other financing uses of the Capital Projects Fund is in large part due to the completion of the construction of the Mary Ellen Henderson Middle School in FY2006.

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.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The final amended budget appropriations, which include expenditures and transfers out, exceeded the original budget by \$435 thousand or less than 1 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 \$335 thousand or less than 1 percent.

Actual revenues and other financing sources exceeded final budget amounts by \$5.8 million, and actual expenditures and other financing uses were \$4.4 million more than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2007, include the following:

- The City issued bonds in the amount of \$6.3 million to refund old bonds in the amount of \$6.1 million.
- Actual tax revenues were less than budgeted amounts by \$2.4 million mostly due to lower than expected increases in assessments for calendar year 2007. Real property is assessed on a calendar year basis, but revenues are recognized on a fiscal year basis.
- Actual departmental expenditures were less than budgeted amounts for public works by \$1.5 million and for community development by \$1.0 million mostly due to projects that were not completed or started in FY2007.

**CAPITAL ASSETS AND LONG-TERM DEBT**

The City's investment in capital assets as of June 30, 2007 and 2006, amounted to approximately \$121.4 million and \$117.6 million, respectively, (net of accumulated depreciation and amortization) as summarized in the following table:

<b>Capital Assets</b>						
<b>As of June 30, 2007 and 2006</b>						
<b>(\$ In Thousands)</b>						
	<b>2007</b>			<b>2006</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Land	\$ 6,956	\$ 2,595	\$ 9,551	\$ 6,324	\$ 2,595	\$ 8,919
Construction in progress	62	1,126	1,188	2,684	2,158	4,842
Buildings and system Improvements other than buildings	62,615	85,311	147,926	59,945	79,996	139,941
Machinery and equipment	4,725	52	4,777	2,859	-	2,859
Software	9,660	1,493	11,153	9,062	1,259	10,321
Infrastructure	1,448	31	1,479	1,419	31	1,450
Library collections	9,243	-	9,243	8,867	-	8,867
Accumulated depreciation	2,024	-	2,024	2,009	-	2,009
	(28,695)	(37,225)	(65,920)	(26,143)	(35,498)	(61,641)
<b>Total Capital Assets, Net</b>	<b>\$ 68,038</b>	<b>\$ 53,383</b>	<b>\$ 121,421</b>	<b>\$ 67,026</b>	<b>\$ 50,541</b>	<b>\$ 117,567</b>

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

During fiscal year 2007, the City's net increase in capital assets (including additions, decreases, depreciation and amortization) was \$3.8 million (\$1.0 million net increase for governmental activities and \$2.8 million net increase for business-type activities) or 3.3 percent. 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.

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

- Renovation of Mt. Daniel Elementary School for a total of \$3.3 million.
- Completion of the laying of synthetic field turf at the George Mason High School Athletic Field for a total of \$1.1 million.
- Expansions and additions in the water distribution system for a total of \$3.5 million. The major components of these additions were discussed in the discussion of the City's business-type activities.

See Note II.D in the notes to the financial statements for additional information pertaining to the city's capital assets.

**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 \$3.6 billion in 2007 and \$3.4 billion in 2006. The City's total long-term general obligation bonds of \$48.7 million as of June 30, 2007 and \$46.1 million as of June 30, 2006, 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 5 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, 2007, total debt outstanding was 1.5 percent of assessed value of real property and debt service payments were 7.7 percent of 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.

The following table shows a summary of the City's outstanding debt as of June 30, 2007 and 2006:

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<b>Outstanding Long-Term Debts</b>						
<b>As of June 30, 2007 and 2006</b>						
<b>(\$ In Thousands)</b>						
	<b>2007</b>			<b>2006</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
General obligation bonds issued for:						
Schools	\$ 34,911	\$ -	\$ 34,911	\$ 36,795	\$ -	\$ 36,795
Community center	2,102	-	2,102	2,056	-	2,056
Fire station	3,036	-	3,036	2,970	-	2,970
City hall	2,777	-	2,777	3,418	-	3,418
Open space	818	-	818	921	-	921
Water system improvements	-	5,050	5,050			
Note payable issued for:						
Open space	435	-	435	653	-	653
Capital leases and other	2,374	388	2,762	2,911	309	3,220
<b>Total</b>	<b>\$ 46,453</b>	<b>\$ 5,438</b>	<b>\$ 51,891</b>	<b>\$ 49,724</b>	<b>\$ 309</b>	<b>\$ 50,033</b>

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

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

The following economic factors are reflected in the General Fund budget for the fiscal year 2008:

- The percentage change in real property taxes for fiscal year 2008 is projected to be 3.5 percent as compared to 16.9 percent change in fiscal year 2007. This was primarily due to a significant slowing in the increases in real estate assessments. There will be additional new construction in the City to partially offset the softening in the market for existing properties.
- Through June 2007, the median sales price of new and existing single family housing units experienced an overall decline over fiscal year 2006 sales prices. The softening of the market is expected to continue for some time.

Per the fiscal year 2008 Adopted Budget, revenues are \$66.1 million, a 3.7 percent increase over the fiscal year 2007 level (excluding anticipated amounts from issuance of bonds and use of fund balance). An increase in real property tax revenues accounts for 28 percent of the total General Fund revenue increase in fiscal year 2008. Revenue from real property taxes will make up 55.8 percent of total revenues, as compared to 56.8 percent in fiscal year 2007. Other taxes account for 65 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 2007 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 FY2008 over FY2007 due to full annual debt service for the FY2007 series bonds starting in FY2008.

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.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Falls Church, Division of Finance, 300 Park Avenue, Falls Church, VA 22046.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'John H. Tuohy', with a long horizontal stroke extending to the right.

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

**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2007**

**FINANCIAL SECTION  
BASIC FINANCIAL STATEMENTS**



**The Mary Riley Stiles Public Library**

The library opened its doors at its present location in 1958. It houses a collection of over 100,000 titles including books, compact discs, audio and video cassettes, and a local history collection.

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**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**As of June 30, 2007**

	<b>Primary Government</b>			<b>Component Units</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>School Board</b>	<b>Economic Development</b>	<b>Total Component Units</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 18,286,599	\$ 22,543,184	\$ 40,829,783	\$2,103,777	\$ 176,958	\$ 2,280,735
Investments	-	5,660,085	5,660,085	-	-	-
Receivables, net	22,550,531	7,215,378	29,765,909	65,564	-	65,564
Internal balances	4,096,638	(4,096,638)	-	-	-	-
Due from primary government	-	-	-	4,030,070	630	4,030,700
Due from other governmental units	2,978,330	-	2,978,330	297,078	-	297,078
Prepays	64,743	-	64,743	34,312	-	34,312
Inventories	159,294	395,533	554,827	-	-	-
Temporarily restricted cash and cash equivalents	406,699	1,300,608	1,707,307	-	-	-
Capital assets:						
Non-depreciable	7,017,695	3,720,660	10,738,355	1,273,354	517,255	1,790,609
Depreciable, net of accumulated depreciation	61,021,077	49,662,294	110,683,371	2,164,998	-	2,164,998
Total capital assets, net	<u>68,038,772</u>	<u>53,382,954</u>	<u>121,421,726</u>	<u>3,438,352</u>	<u>517,255</u>	<u>3,955,607</u>
Total Assets	<u>116,581,606</u>	<u>86,401,104</u>	<u>202,982,710</u>	<u>9,969,153</u>	<u>694,843</u>	<u>10,663,996</u>
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	1,479,289	3,478,987	4,958,276	4,148,372	-	4,148,372
Accrued interest payable	643,651	65,516	709,167	-	-	-
Due to component units	4,030,701	-	4,030,701	-	-	-
Due to fiduciary funds	495,210	-	495,210	-	-	-
Unearned revenue	22,093,956	-	22,093,956	-	-	-
Customer deposits	1,147,530	-	1,147,530	-	-	-
Noncurrent liabilities:						
Portion due or payable within one year	4,784,460	746,834	5,531,294	546,046	-	546,046
Due in more than one year	41,668,628	4,690,487	46,359,115	718,064	-	718,064
Total Liabilities	<u>76,343,425</u>	<u>8,981,824</u>	<u>85,325,249</u>	<u>5,412,482</u>	<u>-</u>	<u>5,412,482</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	23,379,076	50,471,649	73,850,725	3,038,930	517,255	3,556,185
Unrestricted	16,859,105	26,947,631	43,806,736	1,517,741	177,588	1,695,329
Total Net Assets	<u>\$ 40,238,181</u>	<u>\$ 77,419,280</u>	<u>\$117,657,461</u>	<u>\$4,556,671</u>	<u>\$ 694,843</u>	<u>\$ 5,251,514</u>

CITY OF FALLS CHURCH, VIRGINIA  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets									
	Expenses	Program Revenue			Primary Government			Component Units		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	School Board	Economic Development Authority	Total Component Units
<b>Primary Government:</b>										
<u>Governmental activities:</u>										
General government	\$ 4,786,763	\$ 93,031	\$ 356,896	\$ 22,558	\$ (4,314,278)		\$ (4,314,278)			
Judicial administration	1,291,039	702,289	220,354	-	(368,396)		(368,396)			
Public safety	7,982,071	970,613	502,532	-	(6,508,926)		(6,508,926)			
Public works	5,288,565	253,744	808,508	112,930	(4,113,383)		(4,113,383)			
Health and welfare	3,316,750	215	879,989	-	(2,436,546)		(2,436,546)			
Education and payment to schools	29,072,459	-	-	-	(29,072,459)		(29,072,459)			
Parks, recreation, and cultural	3,598,289	851,479	211,297	3,000	(2,532,513)		(2,532,513)			
Community development	1,700,846	29,386	233,770	-	(1,437,690)		(1,437,690)			
Economic development	359,538	-	-	-	(359,538)		(359,538)			
Interest expense	1,746,086	-	447,792	-	(1,298,294)		(1,298,294)			
Total governmental activities	<u>59,142,406</u>	<u>2,900,757</u>	<u>3,661,138</u>	<u>138,488</u>	<u>(52,442,023)</u>		<u>(52,442,023)</u>			
<u>Business-type activities:</u>										
Water	17,195,584	22,321,609	-	823,638		\$ 5,949,663	5,949,663			
Sewer	2,781,966	3,602,944	-	16,355		837,333	837,333			
Total business-type activities	<u>19,977,550</u>	<u>25,924,553</u>	<u>-</u>	<u>839,993</u>		<u>6,786,996</u>	<u>6,786,996</u>			
Total Primary Government	<u>\$ 79,119,956</u>	<u>\$ 28,825,310</u>	<u>\$ 3,661,138</u>	<u>\$ 978,481</u>	<u>\$ (52,442,023)</u>	<u>\$ 6,786,996</u>	<u>\$ (45,655,027)</u>			
<b>Component Units:</b>										
Education	\$ 34,632,477	\$ 1,755,583	\$ 5,453,233	\$ -			\$ (27,423,661)	\$ -	\$ (27,423,661)	
Economic development	11,987	25,420	-	-			-	13,433	13,433	
Total Component Units	<u>\$ 34,644,464</u>	<u>\$ 1,781,003</u>	<u>\$ 5,453,233</u>	<u>\$ -</u>			<u>\$ (27,423,661)</u>	<u>\$ 13,433</u>	<u>\$ (27,410,228)</u>	
<b>General Revenues:</b>										
<b>Taxes:</b>										
Real property					\$ 32,844,128	\$ -	\$ 32,844,128	\$ -	\$ -	\$ -
Personal property					3,303,768	-	3,303,768	-	-	-
Business licenses, based on gross receipts					3,053,349	-	3,053,349	-	-	-
Local sales and use					4,222,823	-	4,222,823	-	-	-
Consumer's utility					2,018,214	-	2,018,214	-	-	-
Motor vehicle decals					216,892	-	216,892	-	-	-
Real estate recordation taxes					301,751	-	301,751	-	-	-
Occupancy, tobacco, and other					2,754,408	-	2,754,408	-	-	-
Grants and contributions not restricted to specific programs					1,983,445	-	1,983,445	-	-	-
Revenue from use of money and property					855,866	1,361,932	2,217,798	174,327	31,918	206,245
Payment from primary government					-	-	-	27,544,436	-	27,544,436
Other					150,420	33,637	184,057	37,329	-	37,329
<b>Transfers:</b>										
Payments in lieu of taxes					150,000	(150,000)	-	-	-	-
Management fee					2,905,121	(2,905,121)	-	-	-	-
Total General Revenues, Special Items, and Transfers					<u>54,760,185</u>	<u>(1,659,552)</u>	<u>53,100,633</u>	<u>27,758,732</u>	<u>31,918</u>	<u>27,790,650</u>
Change in net assets					2,318,162	5,127,444	7,445,606	335,071	45,351	380,422
Net Assets - Beginning of Year					37,920,019	72,291,836	110,211,855	4,221,600	649,492	4,871,092
Net Assets - Ending of Year					<u>\$ 40,238,181</u>	<u>\$ 77,419,280</u>	<u>\$ 117,657,461</u>	<u>\$ 4,556,671</u>	<u>\$ 694,843</u>	<u>\$ 5,251,514</u>

**CITY OF FALLS CHURCH, VIRGINIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2007**

	<u>General Fund</u>	<u>Capital Improvement Project</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 18,286,599	\$ -	\$ 18,286,599
Receivables, net	22,550,531	-	22,550,531
Receivable from other governmental units	2,978,330	-	2,978,330
Due from other funds	864,982	2,736,446	3,601,428
Prepaid expenses	64,743	-	64,743
Inventories	159,294	-	159,294
Restricted assets:			
Cash and cash equivalents	12,155	394,544	406,699
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 44,916,634</u>	<u>\$ 3,130,990</u>	<u>\$ 48,047,624</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 1,445,558	\$ 33,731	\$ 1,479,289
Deferred revenue	23,590,891	-	23,590,891
Customer deposits	1,147,530	-	1,147,530
Due to other funds	4,030,701	-	4,030,701
	<hr/>	<hr/>	<hr/>
Total liabilities	30,214,680	33,731	30,248,411
 Fund balances:			
Reserved for:			
Inventories	159,294	-	159,294
Encumbrances	1,307,589	561,421	1,869,010
Prepaid items	64,743	-	64,743
Unreserved, reported in non-major:			
General Fund:			
Designated for affordable dwelling units	504,325	-	504,325
Undesignated	12,666,003	-	12,666,003
Capital Projects Fund:			
Designated for construction	-	2,535,838	2,535,838
	<hr/>	<hr/>	<hr/>
Total fund balances	14,701,954	3,097,259	17,799,213
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 44,916,634</u>	<u>\$ 3,130,990</u>	<u>\$ 48,047,624</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**As of June 30, 2007**

Total fund balance, governmental funds		\$ 17,799,213
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.		
Governmental capital assets	96,733,289	
Less accumulated depreciation	(28,694,517)	68,038,772
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)		1,496,935
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	(43,644,216)	
Premium, discounts and issue costs of bond sale and refundings, net of accumulated amortization	(839,110)	
Deferred amount on refunding, net of accumulated amortization	410,778	
Note payable	(435,000)	
Compensated absences	(1,793,392)	
Capital leases payable	(152,148)	(46,453,088)
Interest on long-term liabilities is not accrued in the governmental funds, but is recognized as an expenditure when due.		
		(643,651)
Net Assets of Governmental Activities in the Statement of Net Asset		\$ 40,238,181

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2007**

	<u>General Fund</u>	<u>Capital Improvement Project</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property Taxes	\$ 35,601,262	\$ -	\$ 35,601,262
Other local taxes	12,554,667	-	12,554,667
Permit, privilege fees, and regulatory licenses	757,587	-	757,587
Fines and forfeitures	344,063	-	344,063
Revenue from use of money and property	855,866	-	855,866
Charges for services	1,655,668	-	1,655,668
Miscellaneous	588,414	3,000	591,414
Recovered costs	1,469,148	-	1,469,148
Intergovernmental:			
Commonwealth	4,025,954	-	4,025,954
Federal	1,105,665	-	1,105,665
	<hr/>	<hr/>	<hr/>
Total Revenues	58,958,294	3,000	58,961,294
<b>EXPENDITURES</b>			
Current:			
General government	5,674,088	-	5,674,088
Judicial Administration	1,230,303	-	1,230,303
Public safety	7,644,603	-	7,644,603
Public works	4,555,196	-	4,555,196
Health and welfare	3,143,233	-	3,143,233
Education and payments to Schools	27,636,683	-	27,636,683
Parks, recreation and culture	3,290,829	-	3,290,829
Community development	1,753,211	-	1,753,211
Economic development	353,294	-	353,294
Capital outlay	13,848	4,127,240	4,141,088
Debt service:			
Principal retirement	3,396,430	-	3,396,430
Interest and other fiscal charges	1,826,240	-	1,826,240
	<hr/>	<hr/>	<hr/>
Total Expenditures	60,517,958	4,127,240	64,645,198
Deficiency of revenues over expenditure	<hr/>	<hr/>	<hr/>
	(1,559,664)	(4,124,240)	(5,683,904)
<b>OTHER FINANCING SOURCES/(USES)</b>			
Transfer from Enterprise Funds	3,055,121	-	3,055,121
Transfers in/(out)	(3,565,023)	3,565,023	-
Proceeds from issuance of refunding bonds	6,347,686	-	6,347,686
Premiums from issuance of bonds	44,215	-	44,215
Original issue discount	(24,351)	-	(24,351)
Payment to refunded bond escrow	(6,181,352)	-	(6,181,352)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources/(Uses)	(323,704)	3,565,023	3,241,319
Net Change in Fund Balances	(1,883,368)	(559,217)	(2,442,585)
Fund Balances at beginning of year	<hr/>	<hr/>	<hr/>
	16,585,322	3,656,476	20,241,798
Fund Balances at end of year	<hr/>	<hr/>	<hr/>
	\$ 14,701,954	\$ 3,097,259	\$ 17,799,213

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, 2007**

Net change in fund balances - total governmental funds: \$ (2,442,585)

Amounts reported for Governmental Activities in the Statement of Activities (Exhibit III) are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Expenditures for capital assets	3,736,075	
Less current year depreciation and amortization	<u>(2,723,288)</u>	1,012,787

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

Decrease in deferred revenue related to taxes		546,635
-----------------------------------------------	--	---------

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. In addition, certain debt-issue related costs and proceeds provide and use current financial resources to governmental funds, however, only a portion of those are recognized as a component of interest expense every year

Proceeds from issuance of refunding bonds	(6,260,000)	
Premiums and discounts from issuance of bonds	(19,864)	
Current period amortization of premiums and discounts on issuance and refunding of bonds	42,745	
Bond issuance costs	119,586	
Current period amortization of bond issuance costs	(1,808)	
Current period amortization of deferred amount on refunding	(10,574)	
Principal payments on bonds	3,233,702	
Payment to refund bonds	6,181,352	
Principal payments on capital leases	<u>162,728</u>	3,447,867

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	(176,746)	
Change in accrued interest liability	<u>(69,796)</u>	(246,542)

Change in net assets of governmental activities \$ 2,318,162

**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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u>
<b>REVENUES</b>				<b>Positive (Negative)</b>
Property Taxes	\$ 39,357,498	\$ 39,357,498	\$ 35,601,262	\$ (3,756,236)
Other local taxes	12,132,520	12,132,520	12,554,667	422,147
Permit, privilege fees, and regulatory licenses	467,323	467,323	757,587	290,264
Fines and forfeitures	396,500	396,500	344,063	(52,437)
Revenue from use of money and property	435,488	435,488	855,866	420,378
Charges for services	1,307,940	1,307,940	1,655,668	347,728
Miscellaneous	62,208	87,207	588,414	501,207
Recovered costs	1,348,960	1,348,960	1,469,148	120,188
Intergovernmental:				
Commonwealth	3,968,387	3,978,724	4,025,954	47,230
Federal	1,579,627	1,879,627	1,105,665	(773,962)
<b>Total Revenues</b>	<u>61,056,451</u>	<u>61,391,787</u>	<u>58,958,294</u>	<u>(2,433,493)</u>
<b>EXPENDITURES</b>				
Current:				
General government	6,121,052	6,309,829	5,674,088	635,741
Judicial Administration	1,303,924	1,304,572	1,230,303	74,269
Public safety	7,966,581	8,069,410	7,644,603	424,807
Public works	5,673,870	6,026,211	4,555,196	1,471,015
Health and welfare	3,437,938	3,478,508	3,143,233	335,275
Education and payments to Schools	27,596,648	27,636,648	27,636,683	(35)
Parks, recreation and culture	3,392,938	3,516,082	3,290,829	225,253
Community development	2,401,392	2,771,290	1,753,211	1,018,079
Economic development	481,030	481,030	353,294	127,736
Capital outlay	-	13,848	13,848	-
Debt service:				
Principal retirement	3,394,745	3,394,745	3,396,430	(1,685)
Interest and other fiscal charges	1,842,828	1,842,828	1,826,240	16,588
<b>Total Expenditures</b>	<u>63,612,946</u>	<u>64,845,001</u>	<u>60,517,958</u>	<u>4,327,043</u>
Excess (deficiency) of revenues over expenditures	<u>(2,556,495)</u>	<u>(3,453,214)</u>	<u>(1,559,664)</u>	<u>1,893,550</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from Enterprise Funds	2,591,382	2,591,382	3,055,121	463,739
Transfers in/(out)	(2,967,000)	(3,565,023)	(3,565,023)	-
Proceeds from issuance of refunding bonds	-	-	6,347,686	6,347,686
Premiums from issuance of bonds	-	-	44,215	44,215
Original issue discount	-	-	(24,351)	(24,351)
Payment to refunded bond escrow	-	-	(6,181,352)	(6,181,352)
<b>Total other financing sources and uses</b>	<u>(375,618)</u>	<u>(973,641)</u>	<u>(323,704)</u>	<u>649,937</u>
<b>Net change in fund balances</b>	<u>(2,932,113)</u>	<u>(4,426,855)</u>	<u>(1,883,368)</u>	<u>2,543,487</u>
Fund balances - beginning	<u>16,585,322</u>	<u>16,585,322</u>	<u>16,585,322</u>	<u>-</u>
Fund balances - ending	<u>\$ 13,653,209</u>	<u>\$ 12,158,467</u>	<u>\$ 14,701,954</u>	<u>\$ 2,543,487</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**As of June 30, 2007**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>
<b>ASSETS</b>			
Current:			
Cash and cash equivalents	\$ 17,019,321	\$ 5,523,863	\$ 22,543,184
Investments, at Fair Value	5,660,085	-	5,660,085
Receivables, net:			
Billed and other	2,166,458	800,211	2,966,669
Unbilled, net	3,882,655	366,054	4,248,709
Inventories	391,830	3,703	395,533
Restricted cash and cash equivalents	1,300,608	-	1,300,608
	<u>30,420,957</u>	<u>6,693,831</u>	<u>37,114,788</u>
Total current assets			
Non-current assets:			
Capital assets:			
Non-depreciable	3,720,660	-	3,720,660
Depreciable, net	47,095,212	2,567,082	49,662,294
	<u>50,815,872</u>	<u>2,567,082</u>	<u>53,382,954</u>
Total non-current assets			
	<u>81,236,829</u>	<u>9,260,913</u>	<u>90,497,742</u>
Total Assets			
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	2,533,342	945,645	3,478,987
Due to other funds	3,982,352	114,286	4,096,638
Accrued interest payable	65,516	-	65,516
Bonds payable	450,000	-	450,000
Accrued compensated absences	284,686	12,148	296,834
Total current liabilities	<u>7,315,896</u>	<u>1,072,079</u>	<u>8,387,975</u>
Noncurrent liabilities:			
Construction loan	-	6,759	6,759
Bonds payable, net of current amount	4,600,000	-	4,600,000
Bond issue cost, net	(18,680)	-	(18,680)
Compensated absences, net of current amount	99,734	2,674	102,408
	<u>11,996,950</u>	<u>1,081,512</u>	<u>13,078,462</u>
Total Liabilities			
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	47,904,567	2,567,082	50,471,649
Unrestricted	21,335,312	5,612,319	26,947,631
	<u>\$ 69,239,879</u>	<u>\$ 8,179,401</u>	<u>\$ 77,419,280</u>
Total net assets			

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2007**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ 19,201,600	\$ 2,655,980	\$ 21,857,580
Rentals	150,429	-	150,429
Miscellaneous	33,637	-	33,637
	<u>19,385,666</u>	<u>2,655,980</u>	<u>22,041,646</u>
Total Operating Revenues			
Operating Expenses:			
Source of supply	7,238,912	-	7,238,912
Distribution system	1,912,595	-	1,912,595
Collection and disposal	-	2,393,151	2,393,151
Water connections	311,233	-	311,233
Administration	5,924,555	300,058	6,224,613
Depreciation	1,661,862	88,315	1,750,177
	<u>17,049,157</u>	<u>2,781,524</u>	<u>19,830,681</u>
Total Operating Expenses			
Operating income (loss)	<u>2,336,509</u>	<u>(125,544)</u>	<u>2,210,965</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Availability fees	3,120,009	946,964	4,066,973
Interest and investment revenue	966,554	244,949	1,211,503
Loss on disposition of capital assets	(9,557)	-	(9,557)
Interest expense	(136,870)	(442)	(137,312)
	<u>3,940,136</u>	<u>1,191,471</u>	<u>5,131,607</u>
Total Non-Operating Revenue			
Income Before Contributions and Transfers	6,276,645	1,065,927	7,342,572
Capital contributions	823,638	16,355	839,993
Transfers to General Fund:			
Payments in lieu of taxes	(110,000)	(40,000)	(150,000)
Management fee	(2,905,121)	-	(2,905,121)
	<u>4,085,162</u>	<u>1,042,282</u>	<u>5,127,444</u>
Change in net assets			
Total net assets at beginning of year	<u>65,154,717</u>	<u>7,137,119</u>	<u>72,291,836</u>
Total net assets at end of year	<u>\$ 69,239,879</u>	<u>\$ 8,179,401</u>	<u>\$ 77,419,280</u>

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

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2007**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 21,969,289	\$ 2,561,903	\$ 24,531,192
Payments to suppliers	(11,451,086)	(1,426,035)	(12,877,121)
Payments to employees	(3,783,019)	(199,517)	(3,982,536)
Payments for interfund services used	(1,166,304)	(137,025)	(1,303,329)
Net Cash Provided by Operating Activities	<u>5,568,880</u>	<u>799,326</u>	<u>6,368,206</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Issuance of noncapital loan	2,317,501	-	2,317,501
Debt issuance cost	(7,871)	-	(7,871)
Payments of principal on noncapital loan	(189,614)	(268)	(189,882)
Payments of interest on noncapital loan	(30,066)	(207)	(30,273)
Payments in lieu of taxes	(110,000)	(40,000)	(150,000)
Net Cash Provided by (Used in) NonCapital and Related Financing Activities	<u>1,979,950</u>	<u>(40,475)</u>	<u>1,939,475</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Receipts from customers for availability fees	3,120,009	946,964	4,066,973
Acquisition and construction of capital assets	(3,765,886)	(27,259)	(3,793,145)
Issuance of construction and acquisition loan	3,182,499	-	3,182,499
Debt issuance cost	(10,809)	-	(10,809)
Payments of principal on construction and acquisition loan	(260,386)	-	(260,386)
Payments of interest on construction and acquisition loan	(41,288)	-	(41,288)
Net Cash Provided by Capital and Related Financing Activities	<u>2,224,139</u>	<u>919,705</u>	<u>3,143,844</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investments	2,000,000	-	2,000,000
Interest and dividends received	838,788	244,949	1,083,737
Net Cash Provided by Investing Activities	<u>2,838,788</u>	<u>244,949</u>	<u>3,083,737</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	<u>12,611,757</u>	<u>1,923,505</u>	<u>14,535,262</u>
Cash and Cash Equivalents, Beginning of Year	<u>5,708,172</u>	<u>3,600,358</u>	<u>9,308,530</u>
Cash and Cash Equivalents, End of Year	<u>\$ 18,319,929</u>	<u>\$ 5,523,863</u>	<u>\$ 23,843,792</u>
<b>Reconciliation of Operating Income to Net Cash Used in Operating Activities:</b>			
Operating income (loss)	<u>\$ 2,336,509</u>	<u>\$ (125,544)</u>	<u>2,210,965</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation expense	1,661,862	88,315	1,750,177
Bad debt expense	517,000	60,000	577,000
Changes in operating assets and liabilities:			
(Increase)/decrease in:			
Accounts receivable	2,474,818	(95,679)	2,379,139
Inventory	4,835	(235)	4,600
Increase/(decrease) in:			
Accounts payable and accrued liabilities	(896,824)	616,698	(280,126)
Accrued compensated absences	90,556	6,399	96,955
Due to/from other funds	(619,876)	249,372	(370,504)
Total adjustments	<u>3,232,371</u>	<u>924,870</u>	<u>4,157,241</u>
Net Cash Provided by Operating Activities	<u>\$ 5,568,880</u>	<u>\$ 799,326</u>	<u>\$ 6,368,206</u>
<b>Supplemental Schedule of Noncash Investing, Capital and Financing Activities:</b>			
Contributions of capital assets	<u>\$ 823,638</u>	<u>\$ 16,355</u>	<u>\$ 839,993</u>
Gain or (loss) on disposal of capital assets	<u>\$ 9,557</u>	<u>\$ -</u>	<u>\$ 9,557</u>
Increase in fair value of investments	<u>\$ 142,048</u>	<u>\$ -</u>	<u>\$ 142,048</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**As of June 30, 2007**

	<b>Pension Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,826,430	\$ 1,645,509
Investments:		
Domestic equity securities	36,115,051	-
Domestic fixed income securities	17,098,091	-
International equity securities	18,551,595	-
Real estate	4,297,178	-
Other	272,782	-
Total investments	76,334,697	-
Contributions receivable:		
Employer	128,739	-
Employee	1,758	-
Total contributions receivable	130,497	-
Interest and dividend receivable	23,063	-
Other receivables	-	1,705,615
Due from general fund	-	837,274
	80,314,687	4,188,398
<b>LIABILITIES</b>		
Accounts payable	24,546	-
Due to general fund	220,570	121,494
Due to other governments	-	4,066,904
	245,116	\$ 4,188,398
<b>NET ASSETS</b>		
Held in trust for pension benefits	\$ 80,069,571	

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION TRUST FUNDS**  
**For the Year Ended June 30, 2007**

**ADDITIONS**

Employer contributions	\$	461,258
Investment earnings:		
Interest		231,754
Dividends		873,014
Net increase in the fair value of investments		10,894,998
Total investment earnings		11,999,766
Less investment expense		(269,024)
Net investment earnings		11,730,742
Total Additions		12,192,000

**DEDUCTIONS**

Benefits		462,200
Administration		34,200
Total Deductions		496,400
Change in Net Assets		11,695,600
Net Assets at Beginning of Year		70,448,425
Net Assets at End of Year	\$	82,144,025

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2007**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Falls Church, Virginia (the City), is a municipal corporation incorporated as an independent city in 1948 under laws of the Commonwealth of Virginia, and is not part of any county. The City operates under a Council-Manager form of government and provides municipal services such as general administration, police, fire, street maintenance, sanitation, health and social services, recreation, library, planning and community development. Those services are either provided directly by the City or through contracts with the Counties of Arlington and Fairfax, Virginia. The City has its own water system that also serves a part of Fairfax County and a sewer system that only serves the City. Through one of its component units, the City of Falls Church School Board, the City provides elementary and secondary education to city residents.

**A. Reporting Entity**

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

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

**Discretely presented component units.** Discretely presented component units are legally separate entities for which the elected officials of the primary government are financially accountable, the entity's governing body is not substantially the same as that of the primary government, and the entities do not provide services solely to or for the benefit of the primary government.

The following organizations are reported as discretely presented component units. None of these component units publish their own financial reports.

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

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

**B. Basis of Presentation**

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

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2007**

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).

**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.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2007**

**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, except that the fiduciary fund financial statements for the agency funds do not have a measurement focus. Under the economic resources measurement focus and the accrual basis of accounting, revenues are generally recognized when earned and expenses are recognized at the time a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied. 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

**CITY OF FALLS CHURCH, VIRGINIA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

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, 2007, 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.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2007**

**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, 2007.

**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:

<b>Capital Assets</b>	<b>Useful Lives</b>
Infrastructure	20-50 years
Water system	20-40 years
Sewer system	20-40 years
Buildings	50 years
Improvements, other than buildings	20 years

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2007**

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, 2007, 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.

**CITY OF FALLS CHURCH, VIRGINIA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007**

**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, 2007.

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, 2007, approximately \$504,000 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, 2007, management has designated up to approximately \$24.2 million of the Water Fund unrestricted net assets to provide for future increased capacity as needed. Such net assets are primarily comprised of accumulated availability fees received from Water Fund customers.

City Council also designated up to approximately \$2.1 million of the Sewer Fund unrestricted net assets for future increased capacity. These net assets consist of accumulated availability fees received from Sewer 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 \$1.16 million for fiscal year 2007.

**F. *Intergovernmental Agreements***

During 2007, the City had agreements with several governmental units to provide certain governmental services to the City. They are detailed below:

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2007**

**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 2007, the City paid CSB approximately \$621,000.

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 2007, the City paid the County approximately \$762,000 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 2007. 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 2007, 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 2007, the City paid the FCWA approximately \$1.1 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 2007, the City paid Arlington County approximately \$1.5 million for fire and rescue services. The City paid Arlington County approximately \$620,000 for judicial services in 2007.

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 2007 amounted to approximately \$421,000 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 2007, the City paid Arlington County approximately \$272,000.

**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, 2007, the City paid approximately \$4.1 million to the Department of Army for water, which is recorded as an expense in the enterprise Funds. The City paid approximately \$278,000 towards the water treatment facility costs. These payments are remitted into a bank account in the City's name from which the Department of Army

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2007**

draws down. A corresponding liability is recorded in the enterprise Funds for the remaining balance less accumulated interest earnings. As of June 30, 2007, the remaining balance was approximately \$1.9 million and the liability was approximately \$1.1 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, 2007. 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, 2007, the City's required contributions amounted to approximately \$2.4 million, all of which were paid through the City's participation in the NVTC. The City anticipates its annual required contribution in fiscal year 2008 to be consistent with fiscal year 2007. Complete financial statements of WMATA may be obtained from WMATA, 600 5<sup>th</sup> 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, 2007 the Water fund estimated unbilled receivables in the amount of \$3.9 million for the period March 2007 through June 30, 2007. Accordingly, actual results could differ from those estimates.

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**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. During the course of the fiscal year, the Council may revise the appropriation for each fund through an ordinance. The Council may also revise the appropriations for each department through a resolution. The City Manager is authorized to transfer unencumbered balances within departments only.
- 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.

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**III. DETAILED NOTES ON ALL FUNDS**

**A. Cash, Cash Equivalents and Investments**

**1. Deposits**

As of June 30, 2007, 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, 2007.

	Carrying Value	Bank Balance
Deposits:		
Primary government	\$ 4,642,489	\$ 5,935,857
Component units	51,409	51,608
Total deposits	4,693,898	5,987,465
Petty Cash:		
Primary government	3,988	-
Component units	4,300	-
Total petty cash	8,288	-
Total Deposits and Petty Cash	\$ 4,702,186	\$ 5,987,465

The differences between carrying values and bank balances generally result from outstanding checks and deposits in transit as of June 30, 2007.

**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

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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, 2007, 76% of the portfolio was invested in the Virginia LGIP, 4% was invested with SNAP and 4% 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 16% 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, 2007, the carrying values and maturity of the City's investments were as follows:

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Investment Type	Fair Value	Maturing in Less Than One Year	Maturing in One-Three Years	Maturing in Over Three Years
Money market funds - Virginia LGIP	\$ 32,513,127	\$ -	\$ -	\$ -
Money market funds - Virginia SNAP	1,707,307	-	-	-
Money market funds - BB&T	1,285,380	-	-	-
Overnight repurchase agreements	1,881,000	-	-	-
Federal agency bonds and notes	2,711,490	1,244,925	1,466,565	-
US Treasury notes	2,948,595	987,580	1,961,015	-
	43,046,899	2,232,505	3,427,580	-
Held by Trustees - pension funds:				
Money market funds	3,826,428			
Domestic equities	36,115,051			
Domestic fixed income	17,098,091			
International equities	18,551,595			
Real estate	4,297,178			
Other	272,783			
	80,161,126			
Total Investments	\$ 123,208,025	\$ 2,232,505	\$ 3,427,580	\$ -

**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, 2007, 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 following table shows concentration of credit risk as allowed by the investment policy, as adopted June 2004, and actual concentration as of June 30, 2007:

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	Minimum	Maximum	Actual as of June 30, 2007
Domestic equities	47%	63%	47%
Domestic fixed income	25%	35%	22%
International equities	7%	15%	24%
Real estate	3%	8%	6%

It is the responsibility of the Pension Board to rebalance the portfolio.

**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 15% of the pension assets.

**B. Receivables**

Receivables and allowances for uncollectible receivables of the primary government as of June 30, 2007, consist of the following:

	General Fund	Water Fund	Sewer Fund	Total	Fiduciary Funds	Total Primary Government
Receivables:						
Accounts:						
Billed	\$ 369,878	\$ 2,840,384	\$ 899,211	\$ 4,109,473	\$ -	\$ 4,109,473
Unbilled	46,573	3,882,655	366,054	4,295,282	-	4,295,282
Other	106,582	-	-	106,582	-	106,582
Accrued interest	-	59,074	-	59,074	153,560	212,634
Property taxes:						
Delinquent	2,190,019	-	-	2,190,019	-	2,190,019
Not yet due	20,204,079	-	-	20,204,079	-	20,204,079
Total receivables	22,917,131	6,782,113	1,265,265	30,964,509	153,560	31,118,069
Allowances for uncollectibles:						
Accounts	13,600	733,000	99,000	845,600	-	845,600
Property taxes:						
Delinquent	302,000	-	-	302,000	-	302,000
Not yet due	51,000	-	-	51,000	-	51,000
Total allowances for uncollectibles	366,600	733,000	99,000	1,198,600	-	1,198,600
Total Net Receivables	\$ 22,550,531	\$ 6,049,113	\$ 1,166,265	\$ 29,765,909	\$ 153,560	\$ 29,919,469

Delinquent property taxes receivable from taxpayers in the General Fund as of June 30, 2007, consist of the following:

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Year of Levy	Personal		Total
	Real Estate	Property	
2007	\$ 1,060,796	\$ -	\$ 1,060,796
2006	299,226	84,660	383,886
2005	117,974	37,192	155,166
2004	71,650	45,468	117,118
Prior Years	284,780	188,273	473,053
Total delinquent taxes	1,834,426	355,593	2,190,019
Allowances for uncollectibles	-	(302,000)	(302,000)
Net delinquent tax receivables	\$ 1,834,426	\$ 53,593	\$ 1,888,019

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 \$353,000 is based on prior collections.

The City reports real estate and personal property taxes (net of allowances) assessed for calendar year 2007 as receivables because the City has an enforceable legal claim to these resources at June 30, 2007; however, some of these resources, which amount to approximately \$18.1 million for real property and approximately \$3.4 million for personal property, will not be available to the City until fiscal year 2008 and are therefore recognized as deferred revenue. A detailed breakdown of the components of deferred revenue at June 30, 2007 can be found at note III E.

Receivables of component units as of June 30, 2007, consist of the following:

	School Board
Receivables:	
Accounts	\$ 65,564
Total receivables	65,564
Allowances for uncollectibles	-
Total net receivables	\$ 65,564

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

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**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, 2007:

	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
Primary Government:		
General Fund	\$ 864,982	\$ -
Capital Improvements Fund	2,736,446	-
Enterprise Funds:		
Water	-	3,982,352
Sewer	-	114,286
Fiduciary Funds:		
Pension Trust Funds	-	220,570
Agency Funds	837,274	121,494
Total primary government	<u>\$ 4,438,702</u>	<u>\$ 4,438,702</u>

The primary purpose of interfund transfers is to provide funding for capital projects. Transfers are also made from the water fund to the general fund for payments in lieu of taxes and for management fee. Transfers are made from the sewer fund to the general fund for payments in lieu of taxes. Interfund transfers for the year ended June 30, 2007, are as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>
Primary Government:		
General Fund	\$ 3,055,121	\$ 3,565,023
Capital Improvements Fund	3,565,023	-
Enterprise Funds:		
Water	-	3,015,121
Sewer	-	40,000
Total primary government	<u>\$ 6,620,144</u>	<u>\$ 6,620,144</u>

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**D. Capital Assets**

Capital assets activity for the primary government for the year ended June 30, 2007 , is as follows:

	Balances			Balances
	June 30, 2006	Increases	Decreases	
<b>Primary Government:</b>				
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 6,323,685	\$ 632,222	\$ -	\$ 6,955,907
Construction in progress	2,684,381	61,788	2,684,381	61,788
Total capital assets not being depreciated	9,008,066	694,010	2,684,381	7,017,695
Capital assets being depreciated:				
Buildings and systems	59,944,682	2,670,566	-	62,615,248
Improvements other than buildings	2,859,088	1,866,067	-	4,725,155
Machinery and equipment	9,062,112	598,234	-	9,660,346
Software	1,419,015	29,000	-	1,448,015
Infrastructure	8,866,676	376,274	-	9,242,950
Library collections	2,009,172	186,306	171,597	2,023,881
Total capital assets being depreciated	84,160,745	5,726,447	171,597	89,715,595
Less accumulated depreciation for:				
Buildings and systems	11,409,368	1,333,926	-	12,743,294
Improvements other than buildings	1,264,013	208,315	-	1,472,328
Machinery and equipment	5,596,430	740,891	-	6,337,321
Software	1,251,149	51,136	-	1,302,285
Infrastructure	5,137,529	180,815	-	5,318,344
Library collections	1,484,338	208,205	171,597	1,520,946
Total accumulated depreciation	26,142,827	2,723,288	171,597	28,694,518
Total capital assets being depreciated, net	58,017,918	3,003,159	-	61,021,077
<b>Total capital assets, net - Governmental activities</b>	<b>\$ 67,025,984</b>	<b>\$ 3,697,169</b>	<b>\$ 2,684,381</b>	<b>\$ 68,038,772</b>

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	Balances			Balances
	June 30, 2006	Increases	Decreases	June 30, 2007
<b>Primary Government (continued):</b>				
<b>Business-type activities:</b>				
<u>Water</u>				
Capital assets not being depreciated:				
Land	\$ 2,594,882	\$ -	\$ -	\$ 2,594,882
Construction in progress	2,152,548	238,140	1,264,910	1,125,778
Total capital assets not being depreciated	4,747,430	238,140	1,264,910	3,720,660
Capital assets being depreciated:				
Buildings and systems	75,921,178	5,298,787	31,857	81,188,109
Machinery and equipment	1,129,813	234,088	-	1,363,901
Improvements other than building	-	51,791	-	51,791
Software	31,301	-	-	31,301
Total capital assets being depreciated	77,082,292	5,584,666	31,857	82,635,102
Less accumulated depreciation for:				
Buildings and systems	33,089,606	1,572,651	22,300	34,639,957
Machinery and equipment	799,418	78,777	-	878,195
Improvements other than building	-	-	-	-
Software	11,303	10,434	-	21,737
Total accumulated depreciation	33,900,327	1,661,862	22,300	35,539,889
Total capital assets being depreciated, net	43,181,965	3,922,804	9,557	47,095,213
Total capital assets, net - Water	47,929,395	4,160,944	1,274,467	50,815,873
<u>Sewer</u>				
Capital assets not being depreciated:				
Construction in progress	5,120	-	5,120	-
Total capital assets not being depreciated	5,120	-	5,120	-
Capital assets being depreciated:				
Buildings and systems	4,074,587	48,734	-	4,123,321
Machinery and equipment	128,783	-	-	128,783
Total capital assets being depreciated	4,203,370	48,734	-	4,252,104
Less accumulated depreciation for:				
Buildings and systems	1,511,285	72,043	-	1,583,328
Machinery and equipment	85,422	16,272	-	101,694
Total accumulated depreciation	1,596,707	88,315	-	1,685,022
Total capital assets being depreciated, net	2,606,663	(39,581)	-	2,567,082
Total capital assets, net - Sewer	2,611,783	(39,581)	5,120	2,567,082
<b>Total capital assets, net - Business-type activities</b>	<b>50,541,178</b>	<b>4,121,363</b>	<b>1,279,587</b>	<b>53,382,955</b>
<b>Total capital assets, net - Primary Government</b>	<b>\$ 117,567,162</b>	<b>\$ 7,818,531</b>	<b>\$ 3,963,968</b>	<b>\$ 121,421,726</b>

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Capital assets activity for component units for the year ended June 30, 2007 , is as follows:

	Balances			Balances
	June 30, 2006	Increases	Decreases	
<b>Component Units</b>				
<b>School Board:</b>				
Capital assets not being depreciated:				
Land	\$ 1,273,354	\$ -	\$ -	\$ 1,273,354
Total capital assets not being depreciated	1,273,354	-	-	1,273,354
Capital assets being depreciated:				
Buildings and system	1,202,996	-	-	1,202,996
Machinery and equipment	1,816,007	169,021	45,580	1,939,448
Library collections	600,546	59,786	43,014	617,318
Software	7,996	-	-	7,996
Total capital assets being depreciated	3,627,545	228,807	88,594	3,767,758
Less accumulated depreciation for:				
Buildings and system	128,940	33,898	-	162,838
Machinery and equipment	849,865	236,191	45,580	1,040,476
Library collections	324,632	114,275	43,014	395,893
Software	888	2,665	-	3,553
Total accumulated depreciation	1,304,325	387,029	88,594	1,602,760
Total capital assets being depreciated, net	2,323,220	(158,222)	-	2,164,998
<b>Total capital assets, net - School Board</b>	<b>3,596,574</b>	<b>(158,222)</b>	<b>-</b>	<b>3,438,352</b>
<b>Nonmajor Component Unit:</b>				
Capital assets not being depreciated:				
Land	517,255	-	-	517,255
Total capital assets not being depreciated	517,255	-	-	517,255
<b>Total capital assets - Nonmajor Component Units</b>	<b>517,255</b>	<b>-</b>	<b>-</b>	<b>517,255</b>
<b>Total capital assets, net - Component Units</b>	<b>\$ 4,113,829</b>	<b>\$ (158,222)</b>	<b>\$ -</b>	<b>\$ 3,955,607</b>

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Depreciation expense for the year ended June 30, 2007, charged to the functions of the primary government and component units is as follows:

	Primary Government	Component Units	Total
<b>Primary Government:</b>			
<b>Governmental activities:</b>			
General government administration	\$ 168,947	\$ -	\$ 168,947
Judicial administration	37,360	-	37,360
Public safety	382,999	-	382,999
Public works	470,666	-	470,666
Health and welfare	3,817	-	3,817
Education	1,216,369	-	1,216,369
Parks, recreation, and cultural	433,229	-	433,229
Community development	8,560	-	8,560
Economic development	1,341	-	1,341
Total depreciation expense - Governmental activities	2,723,288	-	2,723,288
<b>Business-type activities:</b>			
Water administration	1,661,862	-	1,661,862
Sewer administration	88,315	-	88,315
Total depreciation expense - Business-type activities	1,750,177	-	1,750,177
<b>Total depreciation expense - Primary Government</b>	<b>4,473,465</b>	<b>-</b>	<b>4,473,465</b>
<b>Component Units:</b>			
<b>School Board</b>			
Education	-	387,029	387,029
<b>Total depreciation expense - Component Units</b>	<b>\$ -</b>	<b>\$ 387,029</b>	<b>\$ 387,029</b>
<b>Total depreciation expense - Entity-Wide</b>	<b>\$ 4,473,465</b>	<b>\$ 387,029</b>	<b>\$ 4,860,494</b>

**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, 2007, the following comprise the deferred revenue reported in the governmental activities and funds:

	Governmental Activities	Governmental Funds
Unavailable:		
Delinquent property taxes	\$ -	\$ 1,351,935
Property taxes not yet due	20,008,079	20,153,079
Personal Property Tax Reimbursement Act due from the Commonwealth of Virginia	2,020,877	2,020,877
Unearned	65,000	65,000
<b>Total deferred revenue</b>	<b>\$ 22,093,956</b>	<b>\$ 23,590,891</b>

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

The following is a summary of changes in the government-wide long-term obligations of the reporting entity for the year ended June 30, 2007:

	Balance			Balance	
	June 30, 2006	Additions	Reductions	June 30, 2007	Due Within One Year
<b>Primary Government</b>					
<b>Governmental activities:</b>					
General obligation bonds payable	\$ 46,160,418	\$ 6,260,000	\$ 8,776,202	\$ 43,644,216	\$ 3,245,236
Amortized premiums and discounts on bond issuance	979,772	(12,560)	42,748	924,464	-
Amortized deferred cost of issuance of bonds	-	(87,162)	(1,808)	(85,354)	-
Amortized deferred refunding amount	-	(421,352)	(10,573)	(410,779)	-
Note payable	652,500	-	217,500	435,000	217,500
Compensated absences	1,616,646	1,491,687	1,314,939	1,793,394	1,237,835
Obligations under capital leases	314,875	-	162,728	152,147	83,889
Total long-term debt - Governmental activities	49,724,211	7,230,613	10,501,736	46,453,088	4,784,460
<b>Business-type activities:</b>					
<u>Water</u>					
General obligation bonds payable	-	5,500,000	450,000	5,050,000	450,000
Amortized deferred cost of issuance of bonds	-	(18,680)	-	(18,680)	-
Compensated absences	293,864	373,756	283,200	384,420	284,686
Total long-term debt - Water Fund	293,864	5,855,076	733,200	5,415,740	734,686
<u>Sewer</u>					
Compensated absences	8,423	23,136	16,737	14,822	12,148
Construction loan	6,894	-	135	6,759	-
Total long-term debt - Sewer Fund	15,317	23,136	16,872	21,581	12,148
Total long-term debt - Business-type activities	309,181	5,878,212	750,072	5,437,321	746,834
<b>Total long-term debt - Primary Government</b>	<b>50,033,392</b>	<b>13,108,825</b>	<b>11,251,808</b>	<b>51,890,409</b>	<b>5,531,294</b>
<b>Component Units</b>					
<b>School Board:</b>					
Compensated absences	798,701	560,614	494,628	864,687	408,943
Obligations under capital leases	543,081	-	143,658	399,423	137,103
Total long-term debt - School Board	1,341,782	560,614	638,286	1,264,110	546,046
<b>Total long-term debt - Component Units</b>	<b>1,341,782</b>	<b>560,614</b>	<b>638,286</b>	<b>1,264,110</b>	<b>546,046</b>
<b>Total long-term debt</b>	<b>\$ 51,375,174</b>	<b>\$ 13,669,439</b>	<b>\$ 11,890,094</b>	<b>\$ 53,154,519</b>	<b>\$ 6,077,340</b>

**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

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obligation bonds. At June 30, 2007, all authorized general obligation bonds have been issued. The following are the general obligation bonds that were outstanding as of June 30, 2007:

Bond Description	Principal Balance
<b>Governmental activities:</b>	
\$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. This bond was partially advanced refunded in March 2007.	\$ 1,525,000
\$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	160,000
\$2,445,000 School Construction bonds issued May 2, 1996 by VPSA; interest at various rates; variable amounts maturing through January 15, 2017	1,150,000
\$32,340,000 School Construction & refunding bonds issued March 18, 2004; interest at various rates; variable amounts maturing through April 1, 2024	28,490,000
\$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.	818,400
\$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.	3,305,816
\$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
\$6,260,000 Refunding bonds issued March 8, 2007 to partially advance refund 2000 General Obligation bonds; interest at 4.00%; variable amounts maturing through August 1, 2021.	6,260,000
Total governmental activities	43,644,216
<b>Business-type activities:</b>	
\$5,500,000 General Obligation bonds issued November 1, 2006 for Water Fund construction costs; interest rate at 3.89%; variable amounts maturing through March 1, 2021.	5,050,000
Total General Obligation Bonds Payable	\$ 48,694,216

**CITY OF FALLS CHURCH, VIRGINIA**  
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Annual debt service requirements to maturity for the long-term obligations serviced by the General Fund as of June 30, 2007 are summarized as follows:

Fiscal Year Ending June 30	Governmental Activities			Business-Type Activities - Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 3,245,236	\$ 1,672,910	\$ 4,918,146	\$ 450,000	\$ 196,549	\$ 646,549
2009	3,302,601	1,588,752	4,891,353	450,000	179,034	629,034
2010	3,333,879	1,479,462	4,813,341	450,000	161,520	611,520
2011	3,448,300	1,364,888	4,813,188	450,000	144,006	594,006
2012	2,242,300	1,238,137	3,480,437	450,000	126,492	576,492
2013-2017	11,701,900	4,441,681	16,143,581	2,000,000	369,745	2,369,745
2018-2023	10,885,000	2,266,123	13,151,123	800,000	77,841	877,841
2024-2027	5,485,000	372,531	5,857,531	-	-	-
Total	\$ 43,644,216	\$ 14,424,484	\$ 58,068,700	\$ 5,050,000	\$ 1,255,187	\$ 6,305,187

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.

On March 8, 2007, the City issued \$6.26 million in General Obligation Bonds with an interest rate of 4.0% to advance refund \$5.76 million of outstanding 2000 Series bonds with an average interest rate of 5.475%. The net proceeds of \$6,181,352 (after payment of \$98,511 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2000 Series bonds. As a result, the 2000 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$421,352. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through fiscal year 2021 using the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over the next 13 years by \$206,122 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$271,545.

As of June 30, 2007, the City's legal debt limit is approximately \$356.5 million and its debt margin is approximately \$307.8 million.

**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 are as follows:

**CITY OF FALLS CHURCH, VIRGINIA**  
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Fiscal Year Ending June 30	Future Payments
2008	\$ 217,500
2009	217,500
Total	<u>\$ 435,000</u>

**3. Obligations Under Capital Leases**

The City and School Board lease equipment, vehicles and buses under various capital leases expiring at various dates through 2011. 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	Component Unit
	Governmental Activities	School Board
Asset:		
Machinery and equipment	\$ 994,588	\$ 885,568
Less: accumulated depreciation	(790,639)	(362,332)
Net	<u>\$ 203,949</u>	<u>\$ 523,236</u>

The future minimum lease payments and net present value of these minimum lease payments as of June 30, 2007 are as follows:

Fiscal Year Ending June 30	Primary Government	Component Unit
	Governmental Activities	School Board
2008	\$ 89,915	\$ 154,715
2009	38,434	124,977
2010	26,269	99,098
2011	8,377	54,124
Total minimum lease payments	<u>162,995</u>	<u>432,914</u>
Less: amount representing interest	(10,848)	(33,490)
Present value of minimum lease payments	<u>\$ 152,147</u>	<u>\$ 399,424</u>

**4. Construction Loan**

On June 23, 2005, the City issued a revolving loan payable to the Virginia Resources Authority in the amount of \$3,275,000 to fund a portion of upgrades to the Arlington County Water Pollution Control Plant. The loan is secured principally by a lien on the revenues of the City's sewer facilities. The loan will be for a period of 20 years with an interest rate of 3%. As of June 30, 2007, the

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balance on the loan is approximately \$7,000. In August 2007, the City drew down approximately \$960,000 on the loan.

**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 \$92,000 to the City and approximately \$209,000 to the School Board for the fiscal year ended June 30, 2007. The future minimum lease payments for these leases are shown in the following page.

Fiscal Year Ending June 30	Primary Government	Component Unit
	Governmental Activities	School Board
2008	8,830	197,447
2009	2,844	203,370
Total	\$ 11,674	\$ 400,817

**2. Long-term Construction and Improvement Contracts**

The City has the following active construction and improvement commitments as of June 30, 2007:

Project	Spent-to-Date	Remaining Commitment
<b>Governmental Activities:</b>		
Broad Street Streetscape	\$ 382,493	\$ 119,304
Lee & Broad St Signal	-	6,950
Pearson's Branch Streambank Stabilization	19,880	33,170
Community Center Generator	8,584	105,450
Total Governmental Activities	410,957	264,874
<b>Business-type Activities:</b>		
<u>Water</u>		
Chesterbrook Pump Station	9,311	-
McLean Pump Station	14,283	-
Seven Corners Pump Station	58,915	3,101
Arlington Special Pump Station	-	-
Scada Water Security Improvements	429,164	1,107,715
Total water	511,673	1,110,816
<u>Sewer</u>		
Arlington Wastewater Plant Upgrade	712,916	-
Falls Church Sewer Rehabilitation	485,141	37,911
Total sewer	1,198,057	37,911
Total Business-type Activities	1,709,730	1,148,727
Total	\$ 2,120,687	\$ 1,413,601

**CITY OF FALLS CHURCH, VIRGINIA  
NOTES TO THE FINANCIAL STATEMENTS  
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**3. Other Post-employment Benefits**

The City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Currently, approximately 122 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, 2007, the cost of these benefits was approximately \$264,000 to the City and approximately \$119,000 to the School Board.

**H. Management Fee**

During the fiscal year ended June 30, 2007, the Water Fund transferred \$2,905,121 to the General Fund for management fee based on a calculation of 10% of operating income and 100% of investment earnings. 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.

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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 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 2007 were 5.0% and 14.69% of annual covered payroll, respectively.

**4. *Annual Pension Costs***

The City's annual pension cost and contributions made during fiscal year, 2007 was \$45,142. The School Board's annual pension cost and contributions made during fiscal year, 2007 was \$2,579,106. 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:

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2007**

<b>Fiscal Year Ended June 30</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
<b>City</b>			
2007	\$ 45,142	100%	\$ -
2006	38,600	100%	-
2005	33,574	100%	-
<b>School Board</b>			
2007	2,579,106	100%	-
2006	2,012,796	100%	-
2005	1,701,189	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:

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	<b>Basic</b>	<b>Police</b>
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, 2007. 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 2007, the contributions rate was 3.11% 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:

<b>Fiscal Year Ended June 30</b>	<b>Basic</b>			<b>Police</b>		
	<b>Annual Pension Cost</b>	<b>Contribution</b>	<b>Net Pension Obligation</b>	<b>Annual Pension Cost</b>	<b>Contribution</b>	<b>Net Pension Obligation</b>
2007	\$ 445,087	\$ 445,087	\$ -	\$ 22,810	\$ 22,810	\$ -
2006	187,175	187,175	-	-	-	-
2005	104,591	104,591	-	-	-	-

**CITY OF FALLS CHURCH, VIRGINIA**  
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The following are the relevant actuarial information for the Basic and Police Pension Plans:

	<b>Basic</b>	<b>Police</b>
Contribution rate:		
City	3.11%	0%
Plan members	0%	0%
Annual pension cost	445,087	22,810
Contributions made	445,087	22,810
Actuarial valuation date	July 1, 2005	July 1, 2005
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar amount (open)	Level dollar amount (open)
Amortization period	10 years	10 years
Asset valuation method	5-year Smoothed method	5-year Smoothed method
Actuarial assumptions:		
Investment rate of return	8%	8%
Projected salary increases	5%	5%
Includes inflation at	3%	3%
Cost of living adjustments	1.5%	1.5%

**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, 2007 were approximately \$541,000 and \$240,000 respectively.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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, 2007 the Governmental Accounting Standards Board (GASB) had issued the following statements that will be applicable to the City's future financial statements:

- 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 City's financial statements for the fiscal year ending June 30, 2009.
- 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 the City's financial statements for the fiscal year ending June 30, 2008.
- Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement provides accounting and financial reporting standards for pollution remediation obligations including participation in activities such as site assessments and cleanups but excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. The standards provide five specified obligating events which, if any one were met, will require a government to estimate components of expected pollution remediation outlays and record it as either a liability or a capital item when goods and services are acquired. The requirements of this Statement are effective for the City's financial statements for the fiscal year ending June 30, 2009, with measurement of pollution remediation liabilities required at July 1, 2008 so that beginning net assets can be restated.
- Statement No. 50 - *Pension Disclosures - an Amendment of GASB Statements No. 25 and 27*. This Statement requires additional disclosures in the notes to the financial statements and required supplementary information (RSI) for defined contribution and defined benefit plans, including

**CITY OF FALLS CHURCH, VIRGINIA**  
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disclosures about actuarial methods and assumptions, funding status, funding progress, etc. This Statement is effective for the City's financial statements for fiscal year ending June 30, 2009.

- Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. Governments own various types of intangible assets including computer software, easements, water rights, etc. This Statement requires governments to capitalize such assets in its statement of net assets. This Statement also provides specific guidance for the recording of these assets, including, when they should be recognized as tangible assets, guidance on when internally-generated computer software should be capitalized, and determining their useful lives for amortization. This statement is effective for the City's financial statements for fiscal year ending June 30, 2010, with retroactive recognition of certain intangible assets purchased after June 30, 1980 required.

**VIII. SUBSEQUENT EVENTS**

On July 1, 2007, the City and the School Board established an irrevocable trust fund for other post-employment benefits. The City and the School Board contributed a total of \$2 million to this fund. The funds are currently invested in pension-like investments as provided for in the Virginia Code.

**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2007**

**FINANCIAL SECTION  
REQUIRED SUPPLEMENTARY  
INFORMATION**



WebGIS overhead view of the City Hall



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

**1. Basic Pension Plan**

Actuarial Valuation Date	For Fiscal Year Ending	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	6/30/2007	\$ 52,031	\$ 43,979	\$ (8,052)	118.3%	\$ 12,365	(65.1%)
7/1/2004	6/30/2006	51,462	41,972	(9,490)	122.6%	11,650	(81.5%)
7/1/2004	6/30/2005	51,462	41,972	(9,490)	122.6%	11,650	(81.5%)
7/1/2003	6/30/2004	50,955	32,264	(18,691)	157.9%	10,280	(181.8%)
7/1/2002	6/30/2003	50,564	31,005	(19,559)	163.1%	10,718	(182.5%)
7/1/2001	6/30/2002	49,107	29,478	(19,629)	166.6%	9,723	(201.9%)

**2. Police Pension Plan**

Actuarial Valuation Date	For Fiscal Year Ending	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	6/30/2007	\$ 14,721	\$ 11,511	\$ (3,210)	127.9%	\$ 1,957	(164.0%)
7/1/2004	6/30/2006	14,579	10,776	(3,803)	135.3%	1,684	(225.8%)
7/1/2004	6/30/2005	14,579	10,776	(3,803)	135.3%	1,684	(225.8%)
7/1/2003	6/30/2004	14,391	10,368	(4,023)	138.8%	1,644	(244.7%)
7/1/2002	6/30/2003	14,237	9,154	(5,083)	155.5%	1,568	(324.2%)
7/1/2001	6/30/2002	13,791	8,818	(4,973)	156.4%	1,526	(325.9%)

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.

Note 3: The July 1, 2004 valuation determined the contribution rate for the Fiscal Years ending June 30, 2005 and 2006 to facilitate contribution rate determination prior to the beginning of the applicable fiscal year.

**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
2007	\$ 445,087	100%
2006	187,175	100%
2005	104,951	100%
2004	-	100%
2003	-	100%
2002	-	100%

**2. Police Pension Plan**

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2007	\$ 22,810	100%
2006	-	100%
2005	-	100%
2004	-	100%
2003	-	100%
2002	-	100%

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.

**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2007**

**FINANCIAL SECTION  
OTHER SUPPLEMENTARY  
INFORMATION**



The **Mary Ellen Henderson Middle School** opened its doors in September 2005, replacing an older middle school. It serves a student population of 450 in grades 5-7.

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**CITY OF FALLS CHURCH, VIRGINIA**  
**COMBINING SCHEDULE OF FIDUCIARY NET ASSETS -**  
**PENSION TRUST FUNDS**  
**As of June 30, 2007**

	<u>Basic Plan</u>	<u>Police Plan</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,983,442	\$ 842,988	\$ 3,826,430
Investments:			
Domestic equity securities	27,953,318	8,161,733	36,115,051
Domestic fixed income securities	13,549,762	3,548,329	17,098,091
International equity securities	14,500,431	4,051,164	18,551,595
Real estate	3,402,291	894,887	4,297,178
Other	48,953	223,829	272,782
Total investments	<u>59,454,755</u>	<u>16,879,942</u>	<u>76,334,697</u>
Contributions receivable:			
Employer	128,739	-	128,739
Employee	1,758	-	1,758
Total contributions receivable	<u>130,497</u>	<u>-</u>	<u>130,497</u>
Interest and dividend receivable	<u>18,116</u>	<u>4,947</u>	<u>23,063</u>
 Total Assets	 <u>62,586,810</u>	 <u>17,727,877</u>	 <u>80,314,687</u>
<b>LIABILITIES</b>			
Accounts payable	18,302	6,244	24,546
Due to general fund	<u>173,257</u>	<u>47,313</u>	<u>220,570</u>
 Total Liabilities	 <u>191,559</u>	 <u>53,557</u>	 <u>245,116</u>
<b>NET ASSETS</b>			
Held in trust for pension benefits	<u>\$ 62,395,251</u>	<u>\$ 17,674,320</u>	<u>\$ 80,069,571</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS -**  
**PENSION TRUST FUNDS**  
**For the Year Ended June 30, 2007**

	<u>Basic Plan</u>	<u>Police Plan</u>	<u>Total</u>
<b>ADDITIONS</b>			
Employer contributions	\$ 438,448	\$ 22,810	\$ 461,258
Investment earnings:			
Interest	146,248	85,506	231,754
Dividends	681,674	191,340	873,014
Net increase in the fair value of investments	<u>8,512,467</u>	<u>2,382,531</u>	<u>10,894,998</u>
Total investment earnings	9,340,389	2,659,377	11,999,766
Less investment expense	<u>(201,580)</u>	<u>(67,444)</u>	<u>(269,024)</u>
Net investment earnings	<u>9,138,809</u>	<u>2,591,933</u>	<u>11,730,742</u>
 Total Additions	 <u>9,577,257</u>	 <u>2,614,743</u>	 <u>12,192,000</u>
<b>DEDUCTIONS</b>			
Benefits	2,074,454	462,200	2,536,654
Administration	<u>31,626</u>	<u>2,574</u>	<u>34,200</u>
 Total Deductions	 <u>2,106,080</u>	 <u>464,774</u>	 <u>2,570,854</u>
Change in Net Assets	7,471,177	2,149,969	9,621,146
Net Assets at Beginning of Year	<u>54,924,074</u>	<u>15,524,351</u>	<u>70,448,425</u>
 Net Assets at End of Year	 <u>\$ 62,395,251</u>	 <u>\$ 17,674,320</u>	 <u>\$ 80,069,571</u>

**CITY OF FALLS CHURCH, VIRGINIA  
COMBINING STATEMENT OF AGENCY NET ASSETS  
As of June 30, 2007**

	<b>Fairfax County Water Authority Fund</b>	<b>Northern Virginia Criminal Justice Academy Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	1,645,509	\$ 1,645,509
Other receivables	1,705,615	-	1,705,615
Due from general fund	837,274	-	837,274
	<u>\$ 2,542,889</u>	<u>\$ 1,645,509</u>	<u>\$ 4,188,398</u>
Total Assets	<u>\$ 2,542,889</u>	<u>\$ 1,645,509</u>	<u>\$ 4,188,398</u>
<b>LIABILITIES</b>			
Due to other governments	\$ 2,542,889	\$ 1,524,015	\$ 4,066,904
Due to general fund	-	121,494	\$ 121,494
	<u>\$ 2,542,889</u>	<u>\$ 1,645,509</u>	<u>\$ 4,188,398</u>
Total Liabilities	<u>\$ 2,542,889</u>	<u>\$ 1,645,509</u>	<u>\$ 4,188,398</u>

**CITY OF FALLS CHURCH, VIRGINIA  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
For the Year Ended June 30, 2007**

	<u>Balances June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2007</u>
<b>Fairfax County Water Authority Fund</b>				
<b>ASSETS</b>				
Other receivables	1,425,024	\$12,895,138	\$ 12,614,547	\$ 1,705,615
Due from general fund	<u>1,557,202</u>	<u>12,614,459</u>	<u>13,334,387</u>	<u>837,274</u>
Total Assets	<u>\$ 2,982,226</u>	<u>\$25,509,597</u>	<u>\$ 25,948,934</u>	<u>\$ 2,542,889</u>
<b>LIABILITIES</b>				
Due to other governments	<u>\$ 2,982,226</u>	<u>\$25,509,597</u>	<u>\$ 25,948,934</u>	<u>\$ 2,542,889</u>
Total Liabilities	<u>\$ 2,982,226</u>	<u>\$25,509,597</u>	<u>\$ 25,948,934</u>	<u>\$ 2,542,889</u>
 <b>Northern Virginia Criminal Justice Academy Fund</b>				
<b>ASSETS</b>				
Cash and cash equivalents	<u>\$ 1,443,455</u>	<u>\$ 1,468,159</u>	<u>\$ 1,266,105</u>	<u>\$ 1,645,509</u>
Total Assets	<u>\$ 1,443,455</u>	<u>\$ 1,468,159</u>	<u>\$ 1,266,105</u>	<u>\$ 1,645,509</u>
<b>LIABILITIES</b>				
Due to other governments	\$ 1,440,014	\$ 84,001	\$ -	\$ 1,524,015
Due to general fund	<u>3,441</u>	<u>4,285,073</u>	<u>4,167,020</u>	<u>121,494</u>
Total Liabilities	<u>\$ 1,443,455</u>	<u>\$ 4,369,074</u>	<u>\$ 4,167,020</u>	<u>\$ 1,645,509</u>
 <b>Total</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,443,455	\$ 1,468,159	\$ 1,266,105	\$ 1,645,509
Other receivables	1,425,024	12,895,138	12,614,547	1,705,615
Due from general fund	<u>1,557,202</u>	<u>12,614,459</u>	<u>13,334,387</u>	<u>837,274</u>
Total Assets	<u>\$ 4,425,681</u>	<u>\$26,977,756</u>	<u>\$ 27,215,039</u>	<u>\$ 4,188,398</u>
<b>LIABILITIES</b>				
Due to other governments	\$ 4,422,240	\$25,593,598	\$ 25,948,934	\$ 4,066,904
Due to general fund	<u>3,441</u>	<u>4,285,073</u>	<u>4,167,020</u>	<u>121,494</u>
Total Liabilities	<u>\$ 4,425,681</u>	<u>\$29,878,671</u>	<u>\$ 30,115,954</u>	<u>\$ 4,188,398</u>

**CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2007**

	<u>Operating Fund</u>	<u>School Community Service Fund</u>	<u>Nonmajor Governmental fund School Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,487,464	\$ 363,690	\$ 252,623	\$ 2,103,777
Accounts receivable	11,772	34,568	19,224	65,564
Due from primary government	3,853,652	176,418	-	4,030,070
Due from other governmental units	297,078	-	-	297,078
Prepaid expense	29,732	4,580	-	34,312
	<u>5,679,698</u>	<u>579,256</u>	<u>271,847</u>	<u>6,530,801</u>
Total Assets	<u>\$ 5,679,698</u>	<u>\$ 579,256</u>	<u>\$ 271,847</u>	<u>\$ 6,530,801</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 4,029,458	\$ 74,042	\$ 44,872	\$ 4,148,372
Total Liabilities	<u>4,029,458</u>	<u>74,042</u>	<u>44,872</u>	<u>4,148,372</u>
Fund Balances:				
Reserved for:				
Encumbrances	433	-	-	433
Prepaid items	29,732	4,580	-	34,312
Unreserved:				
Undesignated	<u>1,620,075</u>	<u>500,634</u>	<u>226,975</u>	<u>2,347,684</u>
Total Fund Balances (Deficit)	<u>1,650,240</u>	<u>505,214</u>	<u>226,975</u>	<u>2,382,429</u>
Total Liabilities and Fund Balances	<u>\$ 5,679,698</u>	<u>\$ 579,256</u>	<u>\$ 271,847</u>	<u>\$ 6,530,801</u>

**CITY OF FALLS CHURCH, VIRGINIA  
 CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 As of June 30, 2007**

Fund balances - total governmental funds	\$	2,382,429
<p>Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because :</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital assets		5,041,112
Less accumulated depreciation		(1,602,760)
		3,438,352
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Compensated absences		(864,688)
Governmental leases payable		(399,422)
		(1,264,110)
Net Assets of Governmental Activities	\$	4,556,671

**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, 2007**

	<u>Operating Fund</u>	<u>School Community Service Fund</u>	<u>Nonmajor Governmental fund School Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Revenue from use of money and property	\$ 83,271	\$ 79,512	\$ 11,544	\$ 174,327
Charges for services	213,047	958,070	572,292	1,743,409
Miscellaneous	19,792	63,954	-	83,746
Intergovernmental:				
Federal	564,202	-	98,045	662,247
Commonwealth	4,752,876	-	6,502	4,759,378
Primary government	27,088,429	456,007	-	27,544,436
<b>Total Revenues</b>	<u>32,721,617</u>	<u>1,557,543</u>	<u>688,383</u>	<u>34,967,543</u>
<b>EXPENDITURES</b>				
Current:				
Education	31,731,453	1,244,438	666,711	33,642,602
Capital outlay	694,120	37,212	9,290	740,622
Debt service:				
Principal	143,658	-	-	143,658
Interest	25,039	-	-	25,039
<b>Total Expenditures</b>	<u>32,594,270</u>	<u>1,281,650</u>	<u>676,001</u>	<u>34,551,921</u>
Excess/(deficiency) of revenues over/(under) expenditures	127,347	275,893	12,382	415,622
Other financing sources/(uses):				
Transfers in/(out)	109,000	(83,000)	(26,000)	-
<b>Total Other Financing Sources/(Uses)</b>	<u>109,000</u>	<u>(83,000)</u>	<u>(26,000)</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	236,347	192,893	(13,618)	415,622
Fund Balances at Beginning of Year	1,413,893	312,321	240,593	1,966,807
Fund Balances at End of Year	<u>\$ 1,650,240</u>	<u>\$ 505,214</u>	<u>\$ 226,975</u>	<u>\$ 2,382,429</u>

**CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007**

Net change in fund balances - total governmental funds	\$	415,622
<p>Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because :</p> <p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.</p>		
Expenditures for capital assets		228,808
Less current year depreciation		(387,029)
		(158,221)
<p>The issuance of long-term debt (e.g., capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, issuing debt increases long-term liabilities and the repayment of debt reduces long-term liabilities in the Statement of Net Assets, but these transactions do not affect the Statement of Activities.</p>		
Capital lease payments		143,657
<p>Certain expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Change in compensated absence liability		(65,987)
		(65,987)
Change in Net Assets of Governmental Activities	\$	335,071

**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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Revenue from use of money and property	\$ 16,000	\$ 16,000	\$ 83,271	\$ 67,271
Charges for services	220,000	220,000	213,047	(6,953)
Miscellaneous	321,000	321,000	19,792	(301,208)
Intergovernmental:				
Commonwealth	4,743,678	4,743,678	4,752,876	9,198
Federal	707,694	707,694	564,202	(143,492)
Primary government	27,438,394	27,488,394	27,088,429	(399,965)
<b>Total Revenues</b>	<u>33,446,766</u>	<u>33,496,766</u>	<u>32,721,617</u>	<u>(775,149)</u>
<b>EXPENDITURES</b>				
Current:				
Education	32,914,885	32,772,487	31,731,453	1,041,034
Capital outlay	539,381	762,338	694,120	68,218
Debt service:				
Principal	101,500	73,324	143,658	(70,334)
Interest	-	-	25,039	(25,039)
<b>Total Expenditures</b>	<u>33,555,766</u>	<u>33,608,149</u>	<u>32,594,270</u>	<u>1,013,879</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>(109,000)</u>	<u>(111,383)</u>	<u>127,347</u>	<u>238,730</u>
Other financing sources/(uses):				
Transfers in/(out)	<u>109,000</u>	<u>109,000</u>	<u>109,000</u>	<u>-</u>
<b>Total Other Financing Sources/(Uses)</b>	<u>109,000</u>	<u>109,000</u>	<u>109,000</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	<u>-</u>	<u>(2,383)</u>	<u>236,347</u>	<u>238,730</u>
Fund Balances at Beginning of Year	<u>1,413,893</u>	<u>1,413,893</u>	<u>1,413,893</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 1,413,893</u>	<u>\$ 1,411,510</u>	<u>\$ 1,650,240</u>	<u>\$ 238,730</u>

**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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Revenue from use of money and property	\$ 58,025	\$ 58,025	\$ 79,512	\$ 21,487
Charges for services	1,002,470	1,002,470	958,070	(44,400)
Miscellaneous	79,070	79,070	63,954	(15,116)
Intergovernmental:				
Primary government	456,007	456,007	456,007	-
<b>Total Revenues</b>	<u>1,595,572</u>	<u>1,595,572</u>	<u>1,557,543</u>	<u>(38,029)</u>
<b>EXPENDITURES</b>				
Current:				
Education	1,390,072	1,430,572	1,244,438	186,134
Capital Outlay	49,500	46,500	37,212	9,288
<b>Total Expenditures</b>	<u>1,439,572</u>	<u>1,477,072</u>	<u>1,281,650</u>	<u>195,422</u>
Excess of revenues over expenditures	<u>156,000</u>	<u>118,500</u>	<u>275,893</u>	<u>157,393</u>
Other financing sources/(uses):				
Transfers in/(out)	<u>(83,000)</u>	<u>(83,000)</u>	<u>(83,000)</u>	<u>-</u>
<b>Total Other Financing Sources/(Uses)</b>	<u>(83,000)</u>	<u>(83,000)</u>	<u>(83,000)</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	<u>73,000</u>	<u>35,500</u>	<u>192,893</u>	<u>157,393</u>
Fund Balances at Beginning of Year	<u>312,321</u>	<u>312,321</u>	<u>312,321</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 385,321</u>	<u>\$ 347,821</u>	<u>\$ 505,214</u>	<u>\$ 157,393</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**As of June 30, 2007**

	<u>Thomas Jefferson Elementary</u>	<u>Mt. Daniel Elementary</u>	<u>Mary Ellen Henderson Middle School</u>	<u>George Mason High School</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 19,855	\$ 18,781	\$ 25,037	\$ 196,566	\$ 260,239
Total Assets	<u>\$ 19,855</u>	<u>\$ 18,781</u>	<u>\$ 25,037</u>	<u>\$ 196,566</u>	<u>\$ 260,239</u>
<b>LIABILITIES</b>					
Amounts held for others	\$ 19,855	\$ 18,781	\$ 25,037	\$ 196,566	\$ 260,239
Total Liabilities	<u>\$ 19,855</u>	<u>\$ 18,781</u>	<u>\$ 25,037</u>	<u>\$ 196,566</u>	<u>\$ 260,239</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**For the Year Ended June 30, 2007**

	Balances July 1, 2006	Additions	Deductions	Balances June 30, 2007
<b>THOMAS JEFFERSON ELEMENTARY</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 20,259	\$ 37,088	\$ 37,492	\$ 19,855
Total Assets	<u>\$ 20,259</u>	<u>\$ 37,088</u>	<u>\$ 37,492</u>	<u>\$ 19,855</u>
<b>Liabilities</b>				
Amounts held for others	\$ 20,259	\$ 37,088	\$ 37,492	\$ 19,855
Total Liabilities	<u>\$ 20,259</u>	<u>\$ 37,088</u>	<u>\$ 37,492</u>	<u>\$ 19,855</u>
<b>MT. DANIEL ELEMENTARY</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 14,739	\$ 28,599	\$ 24,557	\$ 18,781
Total Assets	<u>\$ 14,739</u>	<u>\$ 28,599</u>	<u>\$ 24,557</u>	<u>\$ 18,781</u>
<b>Liabilities</b>				
Amounts held for others	\$ 14,739	\$ 28,599	\$ 24,557	\$ 18,781
Total Liabilities	<u>\$ 14,739</u>	<u>\$ 28,599</u>	<u>\$ 24,557</u>	<u>\$ 18,781</u>
<b>MARY ELLEN HENDERSON MIDDLE SCHOOL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 18,827	\$ 112,152	\$ 105,942	\$ 25,037
Total Assets	<u>\$ 18,827</u>	<u>\$ 112,152</u>	<u>\$ 105,942</u>	<u>\$ 25,037</u>
<b>Liabilities</b>				
Amounts held for others	\$ 18,827	\$ 112,152	\$ 105,942	\$ 25,037
Total Liabilities	<u>\$ 18,827</u>	<u>\$ 112,152</u>	<u>\$ 105,942</u>	<u>\$ 25,037</u>
<b>GEORGE MASON HIGH SCHOOL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 207,308	\$ 351,856	\$ 362,598	\$ 196,566
Total Assets	<u>\$ 207,308</u>	<u>\$ 351,856</u>	<u>\$ 362,598</u>	<u>\$ 196,566</u>
<b>Liabilities</b>				
Amounts held for others	\$ 207,308	\$ 351,856	\$ 362,598	\$ 196,566
Total Liabilities	<u>\$ 207,308</u>	<u>\$ 351,856</u>	<u>\$ 362,598</u>	<u>\$ 196,566</u>
<b>TOTAL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 261,133	\$ 529,695	\$ 530,589	\$ 260,239
Total Assets	<u>\$ 261,133</u>	<u>\$ 529,695</u>	<u>\$ 530,589</u>	<u>\$ 260,239</u>
<b>Liabilities</b>				
Amounts held for others	\$ 261,133	\$ 529,695	\$ 530,589	\$ 260,239
Total Liabilities	<u>\$ 261,133</u>	<u>\$ 529,695</u>	<u>\$ 530,589</u>	<u>\$ 260,239</u>

**CITY OF FALLS CHURCH, VIRGINIA  
BALANCE SHEET  
NON-MAJOR COMPONENT UNITS  
As of June 30, 2007**

	<u><b>Economic Development Authority</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 176,958
Due from primary government	<u>630</u>
Total Assets	<u><u>\$ 177,588</u></u>
<b>LIABILITIES AND FUND BALANCES</b>	
Fund Balances:	
Unreserved and undesignated	<u>177,588</u>
Total Fund Balances	<u>177,588</u>
Total Liabilities and Fund Balances	<u><u>\$ 177,588</u></u>
Amounts reported for non-major component units in the statement of net assets (Exhibit I) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Capital assets	<u>517,255</u>
Net Assets of Non-Major Component Units	<u><u>694,843</u></u>

**CITY OF FALLS CHURCH, VIRGINIA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR COMPONENT UNITS  
For the Year Ended June 30, 2007**

	<u>Economic Development Authority</u>
<b>REVENUES</b>	
Revenue from use of money and property	\$ 31,918
Miscellaneous	25,420
	<hr/>
Total Revenues	57,338
	<hr/>
<b>EXPENDITURES</b>	
Current:	
Economic development	11,987
	<hr/>
Total Expenditures	11,987
	<hr/>
Excess/(deficiency) of revenues over expenditures	45,351
	<hr/>
Net Change in Fund Balances	45,351
Fund Balances at Beginning of Year	181,007
	<hr/>
Fund Balances at End of Year	\$ 226,358
	<hr/> <hr/>
Net change in fund balances - total governmental funds	\$ 45,351
	<hr/>
Change in Net Assets of Governmental Activities	\$ 45,351
	<hr/> <hr/>

**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2007**

**STATISTICAL SECTION  
(Unaudited)**



George is the City of Falls Church, Virginia's clean diesel bus that provides local transit service to and from the Washington Metro Transit Authority Metrorail stations and throughout the City.



**CITY OF FALLS CHURCH, VIRGINIA**  
**STATISTICAL SECTION (Unaudited)**  
**Year Ended June 30, 2007**

This section of the City's Comprehensive Annual Financial Report (CAFR) presents additional information to provide readers with context to better understand the information contained in the foregoing financial statements, note disclosures, and required supplementary information.

**Financial Trends (Tables 1-4)**

These tables contain financial trend information of up to 10 years to help readers understand how the City's financial performance and status have changed over time.

**Revenue Capacity (Tables 5-8)**

These tables contain information that will assist readers assess the City's most significant source of local revenue, real estate and personal property taxes.

**Debt Capacity (Tables 9-11)**

These schedules provide 10 years of information to help readers assess the City's levels of outstanding debt and its ability to issue additional debt in the future.

**Demographic and Economic Information (Tables 12-13)**

These tables present available demographic and economic indicators to help readers understand the environment within which the City's financial activities operate.

**Operating Information (Tables 14-16)**

These schedules contain information to help readers understand how the information provided in the City's CAFR relates to the services it provides and the activities it performs.

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

	<u>2003</u>	<u>2004</u>	<u>Fiscal Year 2005</u>	<u>2006</u>	<u>2007</u>
<b>Governmental activities</b>					
Invested in capital assets, net of related debt	\$ 10,457,691	\$ 16,988,211	\$ 19,354,251	\$ 18,918,420	\$ 23,379,076
Unrestricted	<u>16,655,649</u>	<u>13,159,880</u>	<u>15,126,942</u>	<u>19,001,599</u>	<u>16,859,105</u>
<b>Total Governmental Activities Net Assets</b>	<u><u>27,113,340</u></u>	<u><u>30,148,091</u></u>	<u><u>34,481,193</u></u>	<u><u>37,920,019</u></u>	<u><u>40,238,181</u></u>
<b>Business-type activities</b>					
Invested in capital assets, net of related debt	44,398,730	47,421,241	49,170,424	50,534,282	50,471,649
Unrestricted	<u>32,160,088</u>	<u>23,376,153</u>	<u>22,433,855</u>	<u>21,757,554</u>	<u>26,947,631</u>
<b>Total Business-type Activities Net Assets</b>	<u><u>76,558,818</u></u>	<u><u>70,797,394</u></u>	<u><u>71,604,279</u></u>	<u><u>72,291,836</u></u>	<u><u>77,419,280</u></u>
<b>Primary government</b>					
Invested in capital assets, net of related debt	54,856,421	64,409,452	68,524,675	69,452,702	73,850,725
Unrestricted	<u>48,815,737</u>	<u>36,536,033</u>	<u>37,560,797</u>	<u>40,759,153</u>	<u>43,806,736</u>
<b>Total Primary Government Net Assets</b>	<u><u>\$ 103,672,158</u></u>	<u><u>\$ 100,945,485</u></u>	<u><u>\$ 106,085,472</u></u>	<u><u>\$ 110,211,855</u></u>	<u><u>\$ 117,657,461</u></u>

\*Note: The City of Falls Church implemented GASB 34 for fiscal years ended June 30, 2003 and later.

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

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Expenses</b>					
<b>Governmental Activities</b>					
General government administration	\$ 3,533,147	\$ 3,883,989	\$ 3,935,683	\$ 4,129,020	\$ 4,786,763
Judicial administration	1,011,397	1,065,276	1,156,203	1,245,977	1,291,039
Public safety	6,794,693	6,638,269	7,017,277	6,995,489	7,982,071
Public works	4,747,665	4,150,055	4,127,607	6,332,313	5,288,565
Health and welfare	2,666,535	2,784,179	2,740,167	3,018,356	3,316,750
Education and payments to Schools	20,248,502	21,177,645	23,400,685	26,379,915	29,072,459
Parks, recreation, and cultural	2,759,046	2,989,439	3,158,648	3,306,719	3,598,289
Community development	823,760	841,264	1,163,151	1,132,733	1,700,846
Economic development	429,107	290,087	294,554	373,963	359,538
Interest expense	1,397,595	1,589,430	2,220,727	1,661,368	1,746,086
Total Governmental Activities Expenses	<u>44,411,447</u>	<u>45,409,633</u>	<u>49,214,702</u>	<u>54,575,853</u>	<u>59,142,406</u>
<b>Business-Type Activities</b>					
Water	15,253,871	14,442,756	14,878,376	16,289,183	17,195,584
Sewer	1,952,604	2,586,301	2,028,151	2,088,637	2,781,966
Total Business-Type Activities Expenses	<u>17,206,475</u>	<u>17,029,057</u>	<u>16,906,527</u>	<u>18,377,820</u>	<u>19,977,550</u>
Total Primary Government	<u>\$ 61,617,922</u>	<u>\$ 62,438,690</u>	<u>\$ 66,121,229</u>	<u>\$ 72,953,673</u>	<u>\$ 79,119,956</u>
<b>Program Revenues</b>					
<b>Governmental Activities</b>					
Charges for services:					
Public safety	\$ 1,001,830	\$ 1,007,262	\$ 1,414,384	\$ 773,476	\$ 970,613
Parks, recreation, and cultural	654,627	677,807	718,591	806,936	851,479
Judicial Administration	302,394	670,874	672,226	704,344	702,289
Other	315,589	348,563	403,120	362,644	376,376
Operating grants and contributions	2,705,665	3,045,368	2,806,914	3,099,444	3,661,138
Capital grants and contributions	749,450	-	-	-	138,488
Total Governmental Activities Program Revenues	<u>5,729,555</u>	<u>5,749,874</u>	<u>6,015,235</u>	<u>5,746,844</u>	<u>6,700,383</u>
<b>Business-Type Activities</b>					
Charges for services:					
Water	13,588,498	13,317,162	17,150,392	18,936,968	22,321,609
Sewer	1,724,179	2,009,726	2,731,556	2,581,621	3,602,944
Operating grants and contributions	-	115,000	-	-	-
Capital grants and contributions	537,310	130,691	1,907,477	1,532,935	839,993
Total Business-Type Activities Program Revenues	<u>15,849,987</u>	<u>15,572,579</u>	<u>21,789,425</u>	<u>23,051,524</u>	<u>26,764,546</u>
Total Primary Government Program Revenue:	<u>\$ 21,579,542</u>	<u>\$ 21,322,453</u>	<u>\$ 27,804,660</u>	<u>\$ 28,798,368</u>	<u>\$ 33,464,929</u>
<b>Net (Expense)/Revenue</b>					
Governmental Activities	\$ (38,681,892)	\$ (39,659,759)	\$ (43,199,467)	\$ (48,829,009)	\$ (52,442,023)
Business-Type Activities	(1,356,488)	(1,456,478)	4,882,898	4,673,704	6,786,996
Total primary government net (expense)/revenue	<u>\$ (40,038,380)</u>	<u>\$ (41,116,237)</u>	<u>\$ (38,316,569)</u>	<u>\$ (44,155,305)</u>	<u>\$ (45,655,027)</u>

\*Note: The City of Falls Church implemented GASB 34 for fiscal years ended June 30, 2003 and later.

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

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental Activities					
Taxes:					
Real property	\$ 20,298,536	\$ 22,736,340	\$ 26,248,419	\$ 29,624,514	\$ 32,844,128
Personal property	2,501,478	2,700,860	3,137,750	3,327,582	3,303,768
Business licenses, based on gross receipts	2,343,068	2,296,618	2,913,022	2,936,648	3,053,349
Local sales & use	3,292,718	3,492,983	3,828,328	4,263,902	4,222,823
Consumer's utility	1,451,863	1,655,968	1,645,515	1,595,837	2,018,214
Motor vehicle decals	233,543	200,940	223,394	202,229	216,892
Real estate recordation taxes	137,924	203,335	232,243	213,868	301,751
Occupancy, tobacco, and other	2,242,346	2,305,965	2,454,441	3,150,953	2,754,408
Grants and contributions not restricted to specific programs	1,894,552	2,211,120	1,495,015	1,535,838	1,983,445
Revenue from use of money and property	252,369	122,565	546,512	569,561	855,866
Other	383,515	141,942	43,674	71,029	150,420
Transfers	4,713,374	4,625,874	4,764,256	4,775,874	3,055,121
Total Governmental Activities	<u>39,745,286</u>	<u>42,694,510</u>	<u>47,532,569</u>	<u>52,267,835</u>	<u>54,760,185</u>
Business-Type Activities					
Revenue from use of money and property	701,016	377,777	650,041	759,782	1,361,932
Other	34,571	30,651	38,202	29,945	33,637
Transfers	(4,713,374)	(4,713,374)	(4,764,256)	(4,775,874)	(3,055,121)
Total Business-Type Activities	<u>(3,977,787)</u>	<u>(4,304,946)</u>	<u>(4,076,013)</u>	<u>(3,986,147)</u>	<u>(1,659,552)</u>
Total Primary Government	<u>\$ 35,767,499</u>	<u>\$ 38,389,564</u>	<u>\$ 43,456,556</u>	<u>\$ 48,281,688</u>	<u>\$ 53,100,633</u>
<b>Change in Net Assets</b>					
Governmental Activities	\$ 1,063,394	\$ 3,034,751	\$ 4,333,102	\$ 3,438,826	\$ 2,318,162
Business-Type Activities	(5,334,275)	(5,761,424)	806,885	687,557	5,127,444
Total Primary Government	<u>\$ (4,270,881)</u>	<u>\$ (2,726,673)</u>	<u>\$ 5,139,987</u>	<u>\$ 4,126,383</u>	<u>\$ 7,445,606</u>

\*Note: The City of Falls Church implemented GASB 34 for fiscal years ended June 30, 2003 and later.

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	\$ 103,118	\$ 96,950	\$ 97,272	\$ 527,125	\$ 1,041,572	\$ 795,149	\$ 1,397,945	\$ 1,161,401	\$ 1,024,193	\$ 1,531,626
Unreserved	<u>8,900,857</u>	<u>11,602,432</u>	<u>12,913,771</u>	<u>12,166,840</u>	<u>14,667,845</u>	<u>16,057,559</u>	<u>11,821,263</u>	<u>13,046,175</u>	<u>15,561,130</u>	<u>13,170,328</u>
Total General Fund	<u>\$ 9,003,975</u>	<u>\$11,699,382</u>	<u>\$ 13,011,043</u>	<u>\$ 12,693,965</u>	<u>\$ 15,709,417</u>	<u>\$ 16,852,708</u>	<u>\$ 13,219,208</u>	<u>\$ 14,207,576</u>	<u>\$ 16,585,323</u>	<u>\$ 14,701,954</u>
All Other Governmental Funds										
Reserved	871,776	650,566	912,075	108,664	7,500	151,496	20,034,668	5,151,445	2,281,152	561,421
Unreserved, reported in:										
Capital Projects Fund	<u>3,262,673</u>	<u>913,643</u>	<u>4,027,570</u>	<u>1,336,082</u>	<u>940,900</u>	<u>150,342</u>	<u>4,918,860</u>	<u>4,530,899</u>	<u>1,375,326</u>	<u>2,535,838</u>
Total All Other Governmental Funds	<u>\$ 4,134,449</u>	<u>\$ 1,564,209</u>	<u>\$ 4,939,645</u>	<u>\$ 1,444,746</u>	<u>\$ 948,400</u>	<u>\$ 301,838</u>	<u>\$ 24,953,528</u>	<u>\$ 9,682,344</u>	<u>\$ 3,656,478</u>	<u>\$ 3,097,259</u>

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Revenues</b>										
General property taxes	\$ 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	\$ 35,601,262
Other local taxes	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	12,554,667
Permit, privilege fees, and regulatory licenses	195,762	195,237	207,222	268,479	311,447	415,000	361,371	479,042	442,556	757,587
Fines and forfeitures	319,712	279,158	267,043	303,416	487,510	763,707	996,688	1,302,463	649,377	344,063
Revenue from use of money and property	651,371	746,714	911,772	1,202,819	493,160	252,369	122,565	546,512	569,561	855,866
Charges for services	722,806	736,983	788,336	683,563	847,489	1,191,629	1,265,181	1,292,015	1,423,258	1,655,668
Miscellaneous	4,019,582	2,446,898	2,522,413	480,042	1,081,535	440,694	111,457	148,820	62,800	591,414
Recovered costs	62,397	214,301	44,456	99,573	46,014	1,976,842	2,184,999	2,236,692	2,012,726	1,469,148
Intergovernmental:										
Commonwealth	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	4,025,954
Federal	879,081	757,737	658,037	980,451	1,369,064	1,582,673	1,083,137	851,358	1,001,162	1,105,665
<b>Total Revenues</b>	<b>33,185,322</b>	<b>33,438,485</b>	<b>35,174,250</b>	<b>35,028,326</b>	<b>39,954,040</b>	<b>42,457,545</b>	<b>45,382,681</b>	<b>49,937,032</b>	<b>56,394,886</b>	<b>58,961,294</b>
<b>Expenditures</b>										
General government administration	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	5,674,088
Judicial administration	1,002,479	1,001,759	900,424	873,315	967,955	962,887	1,025,090	1,094,018	1,205,050	1,230,303
Public safety	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	7,644,603
Public works	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	4,555,196
Health and welfare	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	3,143,233
Education and payments to Schools	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	27,636,683
Parks, recreation, and cultural	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	3,290,829
Community development	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	1,753,211
Economic development	-	-	-	-	-	428,264	277,471	292,876	369,331	353,294
Capital outlay	518,781	2,480,034	4,654,600	2,969,803	736,759	527,228	6,394,602	19,091,875	9,612,382	4,141,088
Debt Service										
Principal	444,543	467,365	468,816	487,685	1,645,000	1,812,957	1,907,025	2,135,828	3,350,886	3,396,430
Interest and other charges	372,275	345,049	393,740	645,585	1,583,317	1,419,397	1,456,499	1,956,871	1,905,769	1,826,240
<b>Total Expenditures</b>	<b>32,937,585</b>	<b>36,609,351</b>	<b>39,440,790</b>	<b>42,024,360</b>	<b>42,463,529</b>	<b>46,974,122</b>	<b>54,771,989</b>	<b>71,004,463</b>	<b>66,932,832</b>	<b>64,645,198</b>
Excess of Revenues Over (Under) Expenditures	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)	(5,683,904)
<b>Other Financing Sources (Uses)</b>										
Transfers in	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	3,055,121
Proceeds from borrowing	-	-	5,924,000	-	-	-	25,000,000	1,875,500	1,935,000	-
Proceeds from issuance of refunding bonds	-	-	-	-	-	-	7,340,000	4,808,034	35,811	6,347,686
Payment to refund bonds	-	-	-	-	-	-	(8,258,750)	(4,660,000)	-	(6,181,352)
Premium on bond sale	-	-	-	-	-	-	1,170,146	-	70,192	44,215
Premium paid to refund bonds	-	-	-	-	-	-	-	(42,425)	-	-
Original issue discount	-	-	-	-	-	-	-	-	-	(24,351)
Proceeds from capital leases	-	-	-	-	149,841	299,932	442,728	39,250	72,950	-
<b>Total Other Financing Sources (Uses)</b>	<b>1,622,118</b>	<b>3,296,033</b>	<b>8,953,637</b>	<b>4,576,191</b>	<b>5,028,595</b>	<b>5,013,306</b>	<b>30,407,498</b>	<b>6,784,615</b>	<b>6,889,827</b>	<b>3,241,319</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,869,855</b>	<b>\$ 125,167</b>	<b>\$ 4,687,097</b>	<b>\$ (2,419,843)</b>	<b>\$ 2,519,106</b>	<b>\$ 496,729</b>	<b>\$ 21,018,190</b>	<b>\$ (14,282,816)</b>	<b>\$ (3,648,119)</b>	<b>\$ (2,442,585)</b>
Debt Service as a Percentage of Non-Capital Expenditures	2.49%	2.23%	2.19%	2.91%	7.87%	6.97%	7.11%	8.00%	9.13%	8.57%

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

<b>Fiscal Year Ended June 30,</b>	<b>Real Property (1)</b>		<b>Personal Property (1)</b>		<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate (2)</b>	<b>Estimated Actual Taxable Value (3)</b>	<b>Assessed Value as a Percentage of Actual Value</b>
	<b>Residential</b>	<b>Commercial</b>	<b>Motor Vehicles</b>	<b>Other</b>				
1998	\$ 830,364,756	\$ 299,514,862	\$ 71,336,733	\$ 11,412,184	\$ 1,212,628,535	\$ 1.36	\$ 1,212,628,535	100%
1999	835,654,891	308,051,072	70,579,085	13,181,281	1,227,466,329	1.36	1,227,466,329	100%
2000	871,304,350	334,219,178	70,221,787	17,566,513	1,293,311,828	1.35	1,293,311,828	100%
2001	975,113,253	369,511,987	76,970,590	26,637,414	1,448,233,244	1.37	1,448,233,244	100%
2002	1,161,241,023	400,343,444	86,520,783	25,220,770	1,673,326,020	1.37	1,673,326,020	100%
2003	1,328,308,558	439,902,572	67,395,046	43,633,100	1,879,239,276	1.34	1,879,239,276	100%
2004	1,567,336,942	531,362,520	107,947,427	29,484,619	2,236,131,508	1.31	2,236,131,508	100%
2005	1,919,327,908	597,294,900	96,525,026	27,654,180	2,640,802,014	1.23	2,640,802,014	100%
2006	2,237,877,000	695,254,574	98,754,264	28,887,704	3,060,773,542	1.17	3,060,773,542	100%
2007	2,416,612,400	843,540,824	92,006,545	32,870,681	3,385,030,450	1.15	3,385,030,450	100%

Source: Fall Church Office of Real Estate Assessment

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**

<b>Fiscal Year Ended June 30,</b>	<b>Real Property (1st half of the Fiscal Year)</b>	<b>Real Property (2nd Half of the Fiscal Year)</b>	<b>Personal Property</b>	<b>Total Direct Tax Rate (1)</b>
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	1.17
2007	1.01	1.01	4.71	1.15

## 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 Property Taxpayers  
Current Calendar Year and Nine Calendar Years Ago**

Taxpayer	2007			1998		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Pearson Square LLC	\$ 60,600,000	1	1.82%			
Falls Church Country Club	59,324,700	2	1.78%	38,200,000	1	3.44%
Eden Center, Inc.	53,616,900	3	1.61%	19,655,000	2	1.77%
Spectrum Condominium	37,500,000	4	1.12%			
James E. Koons	31,749,300	5	0.95%	14,032,400	3	1.26%
B Franklin Kahn, et al	25,828,400	6	0.77%	12,500,000	5	1.12%
Federal Realty Investment Trust	24,196,100	7	0.73%	9,330,000	6	0.84%
West Falls Parcel, LLC	23,687,100	8	0.71%			
Kaiser Foundation Health Plan, Inc.	22,048,500	9	0.66%	13,363,900	4	1.20%
Aimco Merrill House, LLC	21,284,100	10	0.64%	8,800,000	7	0.79%
Noland Co. Inc.				7,616,000	8	0.68%
Lee Square Apartments				6,350,000	9	0.57%
SSC Property Holdings, Inc				5,952,000	10	0.54%
Totals	<u>\$ 359,835,100</u>		<u>10.78%</u>	<u>\$ 135,799,300</u>		<u>12.23%</u>

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
1998	\$ 16,175,188	NA	NA	NA	\$ 16,161,252	99.91%
1999	16,722,331	NA	NA	NA	16,708,048	99.91%
2000	17,104,687	NA	NA	NA	17,089,666	99.91%
2001	18,488,130	NA	NA	NA	18,469,057	99.90%
2002	20,499,997	NA	NA	NA	20,418,699	99.60%
2003	22,971,533	NA	NA	NA	22,863,806	99.53%
2004	25,485,275	\$ 23,705,292	93%	1,597,395	25,302,687	99.28%
2005	28,687,896	27,539,424	96%	1,008,905	28,548,329	99.51%
2006	32,566,052	31,271,297	96%	1,048,388	32,319,685	99.24%
2007	35,767,514	34,449,695	96%	-	34,449,695	96.32%

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

NA - Not available. The City changed implemented a new tax system in FY2003 and the information required for the accurate presentation of these data is not available.

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

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income (1)	Per Capita
	General Obligation Bonds	Capital Leases	Note Payable	General Obligation Bonds	Capital Leases	Construction Loan			
1998	\$24,069,999	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,069,999	0.06%	\$ 2,431
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	4,431
2006	46,160,418	317,326	652,500	-	-	6,894	47,137,138	NA	4,252
2007	43,644,216	152,147	435,000	5,050,000	-	6,759	49,288,122	NA	4,446

(1) Personal income is for Fairfax, Fairfax City & Falls Church.

NA - Not available. There is no census data available for personal income.

**Table 10**

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

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Less: Amounts Available in Debt Service Funds</u>	<u>Total</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
1998	\$ 24,069,999	\$ 49,492	\$ 24,020,507	1.98%	\$ 2,426
1999	22,642,499	119,061	22,523,438	1.83%	2,230
2000	30,214,999	18,038	30,196,961	2.33%	2,910
2001	28,825,000	127,280	28,697,720	1.98%	2,633
2002	27,180,000	-	27,180,000	1.62%	2,471
2003	25,495,000	-	25,495,000	1.36%	2,318
2004	47,950,000	-	47,950,000	2.14%	4,524
2005	47,171,034	-	47,171,034	1.79%	4,311
2006	46,160,418	-	46,160,418	1.51%	4,164
2007	48,694,216	-	48,694,216	1.44%	4,393

The increase in General Obligation Bonds in FY2004 is due to the issuance of a \$25 million bond for the construction of a new middle school.

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt limit	\$ 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	\$ 356,527,840
Total net debt applicable to limit	<u>24,020,507</u>	<u>22,523,438</u>	<u>30,196,961</u>	<u>28,697,720</u>	<u>27,180,000</u>	<u>25,495,000</u>	<u>47,950,000</u>	<u>47,171,034</u>	<u>46,160,418</u>	<u>48,694,216</u>
Legal debt margin	<u>\$ 87,477,923</u>	<u>\$ 90,891,427</u>	<u>\$ 92,202,714</u>	<u>\$ 111,774,670</u>	<u>\$ 152,816,377</u>	<u>\$ 156,576,680</u>	<u>\$ 184,071,812</u>	<u>\$ 223,883,596</u>	<u>\$ 293,449,562</u>	<u>\$ 307,833,624</u>
Total net debt applicable to the limit as a percentage of debt limit	22%	20%	25%	20%	15%	14%	21%	17%	14%	14%

**Legal Debt Margin Calculation for Fiscal Year 2007**

Assessed value	\$ 3,337,019,800
Add back exempt real property	<u>228,258,600</u>
Total assessed value	<u>3,565,278,400</u>
Debt limit (10% of total assessed value)	356,527,840
Debt applicable to limit:	
General obligation bonds	<u>48,694,216</u>
Total net debt applicable to limit	<u>48,694,216</u>
Legal debt margin	<u>\$ 307,833,624</u>

**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)	School Enrollment (5)	Unemployment Rate (6)
1998	9,900	\$ 41,820,223	\$ 43,193	NA	1,451	2.2
1999	10,100	46,704,869	47,306	NA	1,541	1.3
2000	10,377	50,393,190	50,035	NA	1,675	1.1
2001	10,900	52,889,102	51,931	NA	1,721	2.6
2002	11,000	53,790,886	53,494	NA	1,749	2.9
2003	11,000	55,775,794	54,167	NA	1,817	2.5
2004	10,600	60,307,894	58,266	NA	1,846	2.9
2005	10,942	NA	NA	40.1	1,848	3.4
2006	11,085	NA	NA	NA	1,845	3.0
2007	11,085	NA	NA	NA	1,870	3.0

(1) Source: Weldon Cooper Center for Public Service; numbers are estimates as of July 1; July 1, 2006 is a provisional estimate; year 2000 is based on U.S. Census estimate as of April 1, 2000. Note that 2007 uses the 2006 provisional estimate.

(2) Source: US Department of Commerce, Bureau of Economic Analysis for Fairfax, Fairfax City & Falls Church in thousands 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.

There is no data available for Education Level in Years of Formal Schooling.

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

Employer	2007			2006		
	Employees (1)	Rank	Percentage of Total City Employment (2)	Employees	Rank	Percentage of Total City Employment
Kaiser Permanente	491	1	5.17%	375	2	3.95%
Falls Church City Schools	485	2	5.11%	375	1	3.95%
Falls Church City Government	273	3	2.87%	261	3	2.75%
Tax Analysts	200	4	2.11%	150	5	1.58%
Koon's Ford & Dodge	139	5	1.46%	196	4	2.06%
Giant Food Store	130	6	1.37%	67	9	0.71%
Don Beyer Volvo	88	7	0.93%	104	6	1.09%
United States Parcel Service	88	8	0.93%	97	7	1.02%
Center for Multicultural Human Services	84	9	0.88%	58	10	0.61%
Knowlogy	75	10	0.79%	85	8	0.89%
Total	<u>2,053</u>		<u>21.61%</u>	<u>1,768</u>		<u>18.61%</u>

1. Source: City of Falls Church Office of Economic Development
2. Total employment estimate of 9,500 from Falls Church Planning Division
3. There is no employment data available from 1998.

**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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government administration	NA	NA	NA	NA	34.75	34.75	34.75	34.75	37.75	37.75
Judicial administration	NA	NA	NA	NA	12.60	13.10	13.10	12.60	11.60	18.50
Public safety	NA	NA	NA	NA	56.00	57.00	57.40	57.00	58.40	50.00
Public works	NA	NA	NA	NA	28.16	27.41	28.41	28.41	28.96	33.56
Health and welfare	NA	NA	NA	NA	10.12	8.84	9.09	9.09	8.00	9.00
Parks, recreation, and cultural	NA	NA	NA	NA	44.51	43.97	43.97	42.09	44.69	50.19
Community development	NA	NA	NA	NA	9.75	9.75	9.75	12.75	12.75	12.75
Economic development	NA	NA	NA	NA	3.00	3.00	3.00	3.00	3.00	3.00
Water	NA	NA	NA	NA	51.61	51.44	53.34	52.04	52.04	54.35
Sewer	NA	NA	NA	NA	3.70	3.70	3.75	4.05	4.10	4.15
	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>254.20</u>	<u>252.96</u>	<u>256.56</u>	<u>255.78</u>	<u>261.29</u>	<u>273.25</u>

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>General government administration</b>										
<u>Communications</u>										
Number of Media Releases	NA	53	22	72	72	77	78	122	94	109
Number of Periodical Publications	NA	NA	NA	NA	NA	5	4	6	9	10
eFOCUS Newsletter Subscribers	NA	1,628	1,580							
<b>Judicial Administration</b>										
<u>Court Services</u>										
Aurora House Recidivism (%)	NA	NA	NA	NA	NA	0%	0%	14%	10%	25%
Aurora House Program Completion (%)	NA	NA	NA	NA	NA	82%	88%	90%	62%	50%
Court Services Juvenile Recidivism (%)	NA	NA	NA	NA	NA	9%	4%	8%	14%	13%
Court Services Adult Recidivism (%)	NA	NA	NA	NA	NA	0%	15%	7%	22%	80%
<b>Public safety</b>										
<u>Police</u>										
Part I Crimes (1)	493	480	456	463	452	405	428	370	370	NA
Calls for Service	23,820	22,239	22,797	22,319	19,798	18,223	22,317	25,347	25,171	NA
Accidents	293	328	309	296	298	295	282	278	257	NA
Traffic Enforcement 6611	6,175	4,705	5,554	5,251	5,156	4,966	5,739	4,102	3,664	NA
DWI Arrests	52	51	84	72	45	40	40	64	52	NA
<u>Inspections</u>										
Plan Review	NA	NA	NA	NA	NA	NA	371	490	490	NA
Stop Work Orders	NA	NA	NA	NA	NA	NA	19	21	21	NA
<b>Public works</b>										
Refuse collected (Tons)	NA	NA	NA	2,488	2,536	2,883	2,981	2,799	2,845	2,711
Recycling Collected (Tons)	NA	NA	NA	2,963	2,921	2,994	3,257	3,261	2,728	3,618
Street resurfacing (Miles)	NA	NA	NA		1	2	1	2	2	2
<b>Health and welfare</b>										
<u>Housing &amp; Human Services</u>										
Information/Referral Contacts	2,575	2,397	1,525	1,618	2,766	3,137	2,287	2,375	1,786	2,674
Senior Center lunch meals served	3,090	3,003	2,303	2,661	2,725	2,504	2,789	3,028	2,360	1,760
<b>Education</b>										
Student membership	1,451	1,541	1,675	1,721	1,749	1,817	1,846	1,848	1,845	1,873
<b>Parks, recreation, and cultural</b>										
<u>Parks &amp; Recreation</u>										
Special Events (2)	11	11	11	11	11	51	135	127	133	130
Class participants	NA	NA	NA	NA	NA	NA	2,625	2,750	2,920	2,765
Room Reservations	NA	NA	NA	NA	NA	6,920	6,280	6,027	6,132	6,150
Tennis Reservations	NA	NA	NA	NA	NA	785	890	1,150	1,226	1,460
Youth Sports Participants	1,436	1,370	1,416	1,463	1,410	1,746	1,706	1,839	1,932	2,358
Adult Sports Teams	NA	NA	NA	NA	NA	69	76	61	108	117
Teen Dance Participants	NA	NA	NA	50	1,257	1,698	1,701	1,699	1,799	2,152
Teen Center Attendance	NA	NA	NA	NA	1,400	1,820	2,000	4,428	4,851	4,976
Summer Camps Offered	NA	NA	NA	84	140	168	168	196	224	186
Summer Camp Participants	NA	NA	NA	NA	NA	NA	3,289	3,562	3,769	4,073
<u>Library</u>										
Size of collection (all formats)	109,667	109,232	122,165	110,599	107,849	119,601	123,127	127,236	130,472	150,709
Total circulation of all materials	310,257	294,314	292,328	317,647	331,663	331,371	318,775	335,912	341,626	346,637
Total visits to library (door count)	20,654	159,419	286,119	212,975	243,743	245,766	222,999	212,322	192,222	202,002
Number of registered borrowers	20,654	20,321	22,896	23,111	22,101	21,375	21,503	22,428	23,003	25,470
Number of website visits/yr (3)	NA	NA	15,562	53,821	96,036	104,854	126,771	154,570	164,839	141,932
Number of programs/yr	234	221	217	247	318	286	295	351	357	312
Attendance at programs	5,421	7,007	7,246	7,322	8,950	9,419	10,691	10,976	11,998	11,321
<b>Community development</b>										
<u>Planning</u>										
Development Inquiries	NA	6,000	6,200							
Plans Reviewed	NA	20	49							
Code/ Policy Review	NA	25	18							
<u>Zoning</u>										
Development Inquiries	NA	1,500	2,200							
Plans Reviewed	NA	2,000	2,100							
<u>Urban Forestry</u>										
Development Inquiries	NA	1,300	1,200							
Plans Reviewed	NA	56	75							
Trees Planted/removed/pruned	NA	369	897							
<b>Water</b>										
New connection applications	NA	NA	NA	NA	346	123	216	90	374	90
Water main breaks	NA	NA	NA	123	95	151	102	102	100	172

Source: reported by individual departments

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	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>General government administration</b>										
City Hall	1	1	1	1	1	1	1	1	1	1
<b>Judicial administration (1)</b>										
<u>Court Services</u>										
Aurora House (Facility)	1	1	1	1	1	1	1	1	1	1
Aurora House Passenger Van	1	1	1	1	1	1	1	1	1	1
Court Services Passenger Van	NA	NA	NA	NA	NA	NA	NA	NA	1	1
<b>Public safety (2)</b>										
Fire Stations (3)	1	1	1	1	1	1	1	1	1	1
<b>Public works</b>										
Streets -Miles/Lane Miles	NA	NA	NA	NA	32	32	32	32	32	32
Traffic signals	NA	NA	NA	NA	30	30	30	30	30	34
Streetlights	NA	NA	NA	NA	124	124	124	124	136	136
Refuse Trucks	NA	NA	NA	NA	4	4	4	4	4	5
<b>Education</b>										
School Buildings	3	3	3	3	3	3	3	3	4	4
<b>Parks, recreation, and cultural</b>										
<u>Recreation &amp; Parks</u>										
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	12	13
Tennis courts	10	10	10	10	10	10	10	10	10	10
Basketball courts	5	5	5	5	5	5	5	5	5	5
Vehicles	2	2	3	3	3	3	3	3	5	6
<u>Library</u>										
Library (Facility)	1	1	1	1	1	1	1	1	1	1
<b>Community development</b>										
<u>Urban Forestry</u>										
Vehicles	-	-	-	-	-	-	2	2	2	3
<b>Water</b>										
Water Mains (Miles)	NA	NA	NA	NA	485	486	489	489	491	496
Fire Hydrants	NA	NA	NA	NA	3,003	3,020	3,017	3,097	3,132	3,169
<b>Sewer</b>										
Sanitary Sewer Mains (Miles)	NA	NA	NA	NA	NA	43	NA	43	NA	43
Sanitary Sewer Manholes	NA	NA	NA	NA	NA	988	NA	998	NA	1,001

## 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

**City of Falls Church, Virginia**  
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**[www.fallschurchva.gov](http://www.fallschurchva.gov)**

