

**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
Fiscal Year Ended June 30, 2010**



CITY OF FALLS CHURCH, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2010



**PREPARED BY THE DIVISION OF FINANCE
RICHARD A. LACONDRE, MPA, CFO/DIRECTOR OF FINANCE
MELISSA ANN C. RYMAN, CPA, DEPUTY DIRECTOR OF FINANCE**

Policy of Nondiscrimination on the Basis of Disability

The City of Falls Church does not discriminate on the basis of disability in its employment practices or in its admission to, access to, or operation of its services, programs, or activities. Cindy Mester, 300 Park Avenue, Virginia, 22046, has been designated to coordinate compliance with the ADA non-discrimination requirement.

**CITY OF FALLS CHURCH, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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**CITY OF FALLS CHURCH, VIRGINIA
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INTRODUCTORY SECTION





CITY OF FALLS CHURCH

March 1, 2011

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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended. All necessary disclosures have been included to enable the reader to gain the maximum understanding of the City's financial affairs.

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

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

The City's financial statements have been audited by Brown, Edwards and Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2010 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.

The Local Marketplace

The City of Falls Church benefits from an unprecedented wave of new development and investment that occurred along several of its primary commercial corridors starting with the Broadway project in 2002. The Byron, the Spectrum, the Read Building, and Pearson Square followed the Broadway and its successful formula of higher-density, mixed-use development. Collectively these projects have produced annually \$4.9 million in gross revenue and \$2.1 million in net revenue for the city. However, timing of delivery and prevailing market conditions have impacted each of these projects in significantly different ways.

The Broadway, the Byron and the Read Building are or soon will be nearly fully occupied with residential and commercial uses. Pearson Square and the Tax Analysts Building on South Maple Avenue were approved as one project, although sold by the developer as separate assets. The Tax Analysts Building contains 85,000 square feet of office and retail space that is 95 percent occupied. It is the largest office building constructed in the city in 20 years.

Pearson Square adapted to changing conditions in the regional market by converting 230 residential units from condos to condo rentals. Property owner Transwestern has leased over 96 percent of the units since entering the market in early 2008. Falls Church Arts and Creative Cauldron are tenants that share arts flex space in Pearson Square. Together they have generated a popular hub of activity in the building. The ground-level commercial space in Pearson Square, however, remains mostly vacant. The owner received approval by the city to fill the empty space with a combination of retail, retail/service and some professional office users, which was intended to provide greater flexibility for marketing and leasing.

The Spectrum was delivered to a very challenging market in early 2008 with 189 residential condo units, 32,000 square feet of condo office, and 32,000 square feet of retail space. The regional market for residential condos is now showing signs of recovery with pent-up demand beginning to absorb existing condo supply, particularly at close-in regional locations and where owners are willing to offer concessions to buyers. Spectrum condo unit prices have been lowered to adjust to the market. A block of units was set aside for lease in a rent-to-own program. More than 50 percent of the condos are now occupied.

The Spectrum owner has succeeded in attracting Mad Fox Brewery, For Eyes, and a professional service use in ground-level retail space. Mad Fox signed a 15-year lease for 8,600 square feet of the most prominent commercial space in the building. The business opened in July 2010 and has proven to be a great success and regional draw. Another bright spot is Spectrum office space, three quarters of which is now sold.

At year-end 2010 the vacancy rate for office space in the City of Falls Church was 10.7 percent, according to the CoStar Group. Most of the available office space is located in older buildings, some of which are targeted for renovation or are impacted by site redevelopment plans. The city's vacancy rate compares with a 15.6 percent vacancy rate in Tyson's Corner, 17.4 percent in Merrifield, 13.3 percent in Annandale, and 8.0% in McLean, four of the closest office submarkets to Falls Church.

Occupancy rates in older properties are still holding strong for retail tenants. As space occasionally becomes available it has been quickly filled, generally at higher rent. Restaurants have been the source of the greatest demand for space in the city. In the past year Pizzeria Orso (a gourmet restaurant) and Chipotle have opened in Falls Church. Famous Dave's Barbeque and Pisano's are expected to open in 2011 and generate high-volume business.

Pipeline Projects Emerging from the Recession and Credit Crisis

In late 2008, the Hekemian Company received approval for its site plan for a mixed-use project in the 400 block of North Washington Street. The "Northgate" is located within close proximity to the East Falls Church Metro Station and the developer will use that advantage to market its 105 residential units, office and retail space. Hekemian has now submitted its final site plan for city approval and has obtained financing to allow the project to move forward in 2011.

Atlantic Realty recently announced its intention to submit a site plan for the City Center project, which received land entitlements from the city in 2008. City Center is the largest mixed-use project ever approved in Falls Church with residential, office, hotel, retail, grocery and entertainment components that would total one million square feet of new development.

A 110-room Hilton Garden Inn hotel proposed for the 700 block of W. Broad Street received site plan approval in 2008. While the original hotel franchisee backed out of the project, a new owner/operator has stepped forward and is aggressively pursuing an amended plan that includes a small office building on adjacent land, along with the hotel.

In the 800 block of W. Broad Street the Young Group delivered to market in spring 2009 a 44,000-square-foot office and retail building, which is now 100 percent leased or sold, including space leased to the Falls Church U.S. Postal Service customer center.

The Akridge Company received approval for "The Gateway" project in January 2011. This mixed-use development project will be located in the 500 block of N. Washington Street, the city's entrance to Arlington County. The development will include 71,000 square feet of new Class A office, 14,000 square feet of retail, and 200 residential units. Like the proposed Northgate next door, the Gateway is designed to be Metro Transit oriented.

The Eden Center

One of the most remarkable commercial success stories in Falls Church and, indeed, the metropolitan Washington region, is the Eden Center on Wilson Boulevard. The center is Northern Virginia's premier Asian shopping destination, with over 130 businesses. Its Vietnamese restaurants, eclectic array of shops, vendors and cultural events regularly draw chartered buses from surrounding states and Canada. The closure several years ago of a National Wholesale Liquidator's store at the center provides an opportunity for the owner to add more ethnic businesses and expand the power of Eden Center's draw.

BJ's Comes to Town

BJ's Wholesale Club opened its 87,000 square foot Falls Church store in fall 2010. It signed a 20-year lease on an eight-acre light industrial site on Wilson Boulevard. This deal was facilitated by an agreement with the city to share with developer JBG Rosenfeld Retail a portion of taxes generated by the new store over a 12-year period. It was the second largest retail lease signed in the entire Washington, DC region in 2009. Sales tax revenue for the city is expected to increase ten percent per year if BJ's achieves sales volume per square foot comparable to its other regional stores.

Certificate of Achievement for Excellence in Financial Reporting

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, 2009. This marks seven years in a row the City has been awarded this certificate. 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.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its FY2010 budget document dated April 26, 2010. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communication device.

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. 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.

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



Richard A. LaCondre, MPA
Chief Financial Officer

CITY OF FALLS CHURCH, VIRGINIA
DIRECTORY OF OFFICIALS
AT JUNE 30, 2010

CITY COUNCIL

Nader Baroukh, *Mayor*
David E. Snyder, *Vice Mayor*
Johannah Barry
Robin S. Gardner
Ira Kaylin
Ronald Peppe
Lawrence Webb

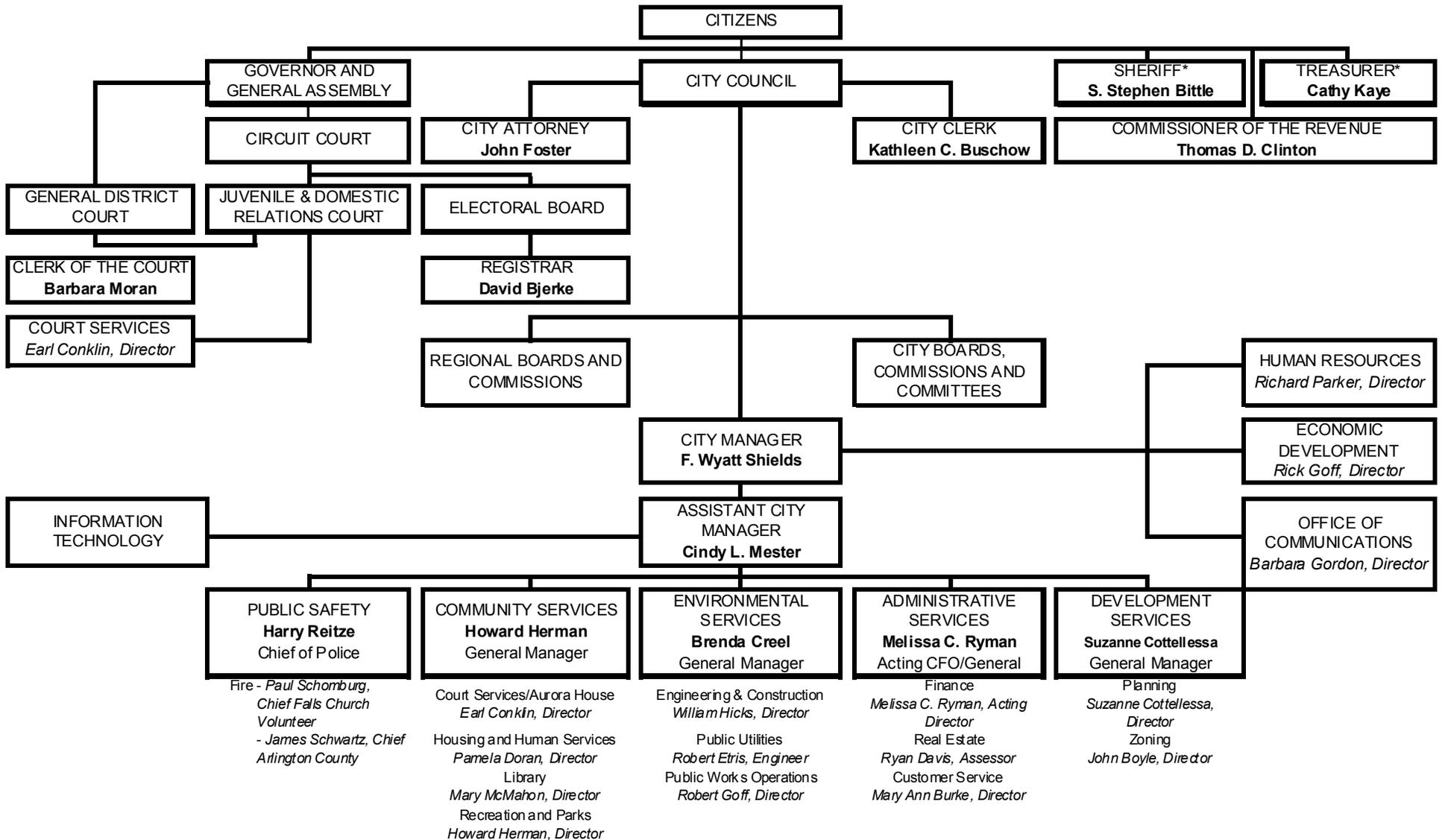
CITY OFFICIALS

F. Wyatt Shields, *City Manager*
Cindy L. Mester, *Assistant City Manager*
Melissa Cabacar-Ryman, *Acting Chief Financial Officer*
John Foster, *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, 2010



*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, 2009

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.



A stylized handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Egan".

Executive Director

**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR JUNE 30, 2010**

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, 2010**

**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.



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2010, 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 *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in 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 February 28, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information on pages 16 through 29 and 82 through 83 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
February 28, 2011

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**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR JUNE 30, 2010**

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



Saturday Farmers' Market at City Hall

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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, 2010.

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

In 2009, the City was a defendant in a lawsuit from Fairfax County. In 2010, the City did not prevail in the lawsuit and this resulted in the invalidation of the management fee assessed by the General Fund to the Water Fund for FY2009 and beyond. In FY2010, in accordance with a court decree, the City returned the FY2009 management fee to the Water Fund for \$2.4 million. The City mitigated the impact on its General Fund of this transaction and the loss of the FY2010 planned management fee primarily by suspending activities in the Capital Projects Fund and transferring unspent funds to the General Fund. None of the funds transferred back to the General Fund were proceeds from bond issuance.

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 \$123.8 million at June 30, 2010. Of this balance, \$121.6 million is the Primary Government's and \$2.2 million is the component units'.
- For fiscal year 2010, taxes and other revenues of the City's governmental activities amounted to \$59.9 million and expenses and transfers amounted to \$63.8 million, which resulted in a decrease in net assets for the City's governmental activities of \$3.9 million.
- Revenues of the City's business-type activities were \$26.2 million, expenses were \$21.5 million, and transfers from general fund were 2.2 million, which resulted in an increase in net assets for the City's business-type activities of approximately \$6.9 million.

HIGHLIGHTS FOR FUND FINANCIAL STATEMENTS

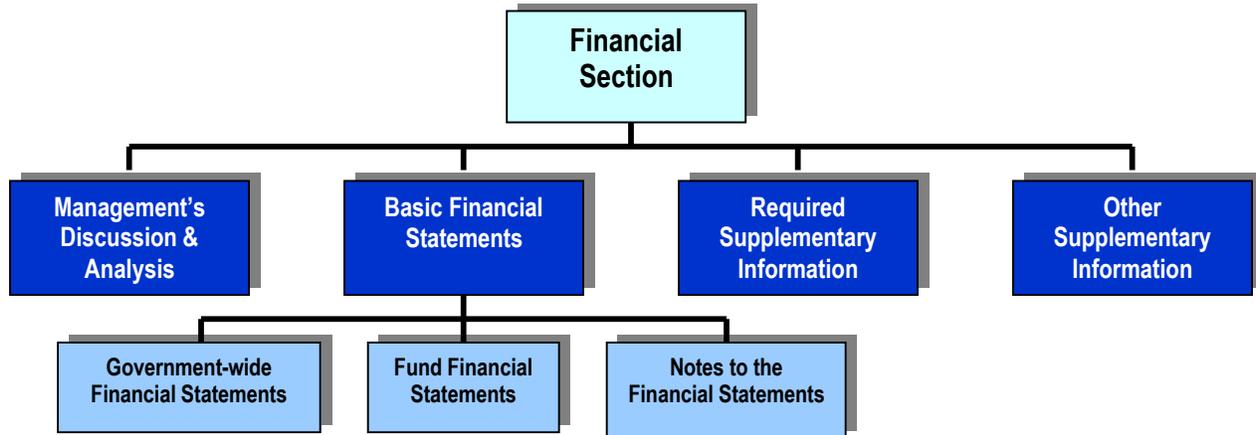
The fund financial statements provide more detailed information about the City's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting for the City's governmental funds. The City's proprietary funds, the Water and Sewer funds, are also 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 \$5.2 million for the fiscal year.
- The City's General Fund reported a fund balance of \$3.8 million at June 30, 2010, a decrease of \$362 thousand from June 30, 2009. The FY2010 budget had programmed a use of fund balance primarily for capital investments in the amount of \$113 thousand.
- The City's Capital Projects Fund reported a decrease in fund balance of \$4.9 million largely due to a one-time transfer of funds back to the General Fund, resulting in a balance of \$1.1 million at June 30, 2010.
- The City's Water fund reported an increase in net assets of approximately \$6.4 million and the City's Sewer fund reported an increase of \$538 thousand in 2010. In FY2010, the City's Water Fund received \$2.4 million from the General Fund for the return of the FY2009 management fee. The Water Fund also did not make its FY2010 budgeted transfer to the General Fund. In FY2010, the Sewer fund continued to contribute to Arlington County and Fairfax County towards the upgrade of their sewer treatment plants to bring them in compliance with current EPA standards. In FY2010, those contributions amounted to \$1.8 million and \$366 thousand to Arlington County and Fairfax County, respectively.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The first government-wide statement – the *Statement of Net Assets* – presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the City is improving or deteriorating. Additionally, non-financial factors, such as a change in the City's property tax base or the condition of the City facilities, should be considered to assess the overall health of the City.

The second statement – the *Statement of Activities* – presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when the cash is received or paid. This statement also highlights the extent to which City programs are able to cover their costs with user fees, contributions, and grants as opposed to being financed with general revenues of the City.

The government-wide financial statements are divided into three categories, as follows:

Governmental Activities – Most of the City's basic services are reported here, including education; public safety; public works; judicial administration; health and welfare services; community development; economic development; parks, recreation, and

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 other two governmental funds of the City are the capital projects fund and the affordable dwelling units fund. The capital projects fund 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 post-retirement trust funds and agency funds. The post-retirement trust funds are used to account for the assets held in trust by the City for the employees and beneficiaries of its defined benefit pension plans – the Basic Pension Plan and the Police Pension Plan – as well as other post-employment benefits, primarily health insurance and life insurance for City and School Board employees. The agency funds are used to account for monies received and disbursed on behalf of the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

A comparative analysis of government-wide financial information is included in this report. Certain restatements have been made to the City's financial statements as of June 30, 2009. Those restatements are discussed further in Note I.I.

STATEMENT OF NET ASSETS

The following table presents a summary of the net assets of the primary government as of June 30, 2010 and 2009:

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Summary of Net Assets				
As of June 30, 2010 and 2009				
(\$ In Thousands)				
	2010		2009 (As Restated*)	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Assets:				
Current and other assets	\$ 37,086	\$ 34,997	\$ 41,243	\$ 30,591
Capital assets, net	64,823	90,958	66,989	86,561
Total assets	<u>101,909</u>	<u>125,955</u>	<u>108,232</u>	<u>117,152</u>
Liabilities:				
Other liabilities	30,956	4,996	29,518	7,491
Long-term liabilities	38,097	32,171	41,899	27,831
Total liabilities	<u>69,053</u>	<u>37,167</u>	<u>71,417</u>	<u>35,322</u>
Net Assets:				
Invested in capital assets, net of related debt	28,759	60,679	27,502	60,392
Restricted for other projects	70	-	-	-
Unrestricted	4,027	28,109	9,313	21,438
Total net assets	<u>\$ 32,856</u>	<u>\$ 88,788</u>	<u>\$ 36,815</u>	<u>\$ 81,830</u>
*Certain assets, liabilities and net assets of the City's Governmental Activities and Business-Type Activities have been restated as of June 30, 2009. See Note I.I for more information.				

Current and other assets for governmental activities decreased by \$4.2 million primarily due to investments in capital assets of \$1.3 million and transfer to the Water Fund for the return of the FY2009 management fee of \$2.4 million. Net capital assets for governmental activities decreased by \$2.2 million during FY2010 mainly due to depreciation exceeding new investments made as well as the sale of land. Current and other assets for business-type activities increased by \$3.1 million during FY2010 mainly due to the return of the FY2009 management fee of \$2.4 million from the General Fund. Net capital assets increased by \$4.4 million mainly due to investments in plant upgrades at the Arlington County and Alexandria Sanitation Authority sewer plants, as well as various improvements to water mains.

Other liabilities for business-type activities decreased by \$3.8 million largely due to the lack of transfer from the Water Fund to the General Fund for management fees for FY2010. Long-term liabilities for governmental activities decreased by \$3.8 million mainly as a result of bond principal payments, while long-term liabilities for business-type activities increased by \$4.4 million as a result of the issuance of bonds for the Water Fund of \$5.4 million and a draw-down on a new line of credit for the Sewer Fund for \$2 million, partially offset by repayment of existing debt.

During FY2010, the net assets invested in capital assets, net of related debt, increased for the City's governmental activities by \$1.3 million and increased slightly for the business-type activities by \$300 thousand. The increase in the governmental activities' investment in capital assets is primarily due to investments in public works and transportation and bond principal payments.

Unrestricted net assets decreased by \$5.3 million for governmental activities mainly due to revenues received being significantly lower than expected, especially real estate taxes and sales taxes, as well as the return of the FY2009 management fee of \$2.4 million to the Water Fund. For the business-type activities, unrestricted net assets increased by \$6.7 million largely due to the return of the FY2009 management fee of \$2.4 million and the reimbursement of an insurance claim of \$3.1 million.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

STATEMENT OF ACTIVITIES

The following table summarizes the changes in net assets for the primary government for the years ended June 30, 2010 and 2009:

Summary of Changes in Net Assets				
For the Fiscal Years Ended June 30, 2010 and 2009				
(\$ In Thousands)				
	2010		2009 (As Restated)	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business- Type Activities
Revenues:				
Program revenues:				
Charges for services	\$ 3,806	\$ 22,486	\$ 3,358	\$ 24,124
Operating grants & contributions	2,250	-	3,545	-
Capital grants & contributions	593	284	1	236
General revenues:				
Real estate taxes	36,000	-	34,829	-
Personal property taxes	3,382	-	3,540	-
Business license taxes, based on gross receipts	2,699	-	2,819	-
Local sales & use taxes	3,035	-	2,042	-
Consumer's utility taxes	2,063	-	2,084	-
Motor vehicle decals	227	-	227	-
Recordation	369	-	447	-
Occupancy, tobacco, & other taxes	3,298	-	3,140	-
Unrestricted grants & contributions	2,021	-	2,021	-
Revenue from use of money and property	86	250	83	541
Other	72	28	55	15
Insurance recovery of legal costs, net	-	1,026	-	-
Total revenues	59,901	24,074	58,191	24,916
Expenses:				
General government administration	4,964	-	5,117	-
Judicial administration	1,518	-	1,523	-
Public safety	9,364	-	8,809	-
Public works	5,013	18,814	5,639	18,455
Health and welfare	2,201	-	2,365	-
Education and payments to schools	30,769	-	31,372	-
Parks, recreation, and cultural	4,487	-	4,745	-
Community development	1,435	-	2,380	-
Economic development	351	-	396	-
Interest expense	1,556	505	1,662	1,045
Total expenses	61,658	19,319	64,008	19,500
Excess/(deficiency) before transfers	(1,757)	4,755	(5,817)	5,416
Transfers	(2,203)	2,203	2,404	(2,404)
Change in net assets	(3,960)	6,958	(3,413)	3,012
Net assets, beginning of year	36,815	81,830	40,228	78,818
Net assets, end of year	\$ 32,855	\$ 88,788	\$ 36,815	\$ 81,830

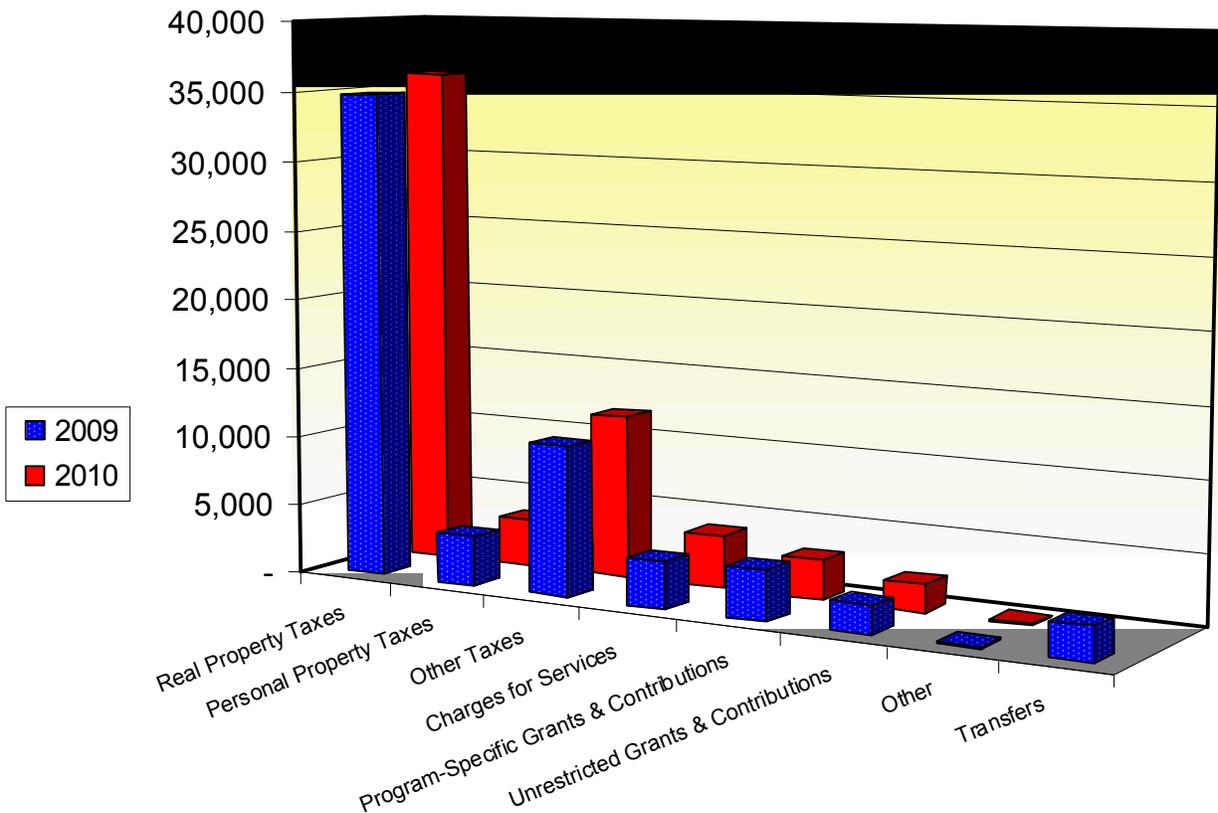
*The expenditures and net assets of the Governmental Activities and Business-Type Activities have been restated as of June 30, 2009. See Note I.I for more information.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Governmental Activities

Revenues and transfers for the City's governmental activities were \$59.9 million for fiscal year 2010 and \$60.6 million for fiscal year 2009. Sources of revenue for fiscal year 2010 and 2009 are comprised of the following items:

**GOVERNMENTAL ACTIVITIES – REVENUES BY SOURCE
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009
(\$ IN THOUSANDS)**

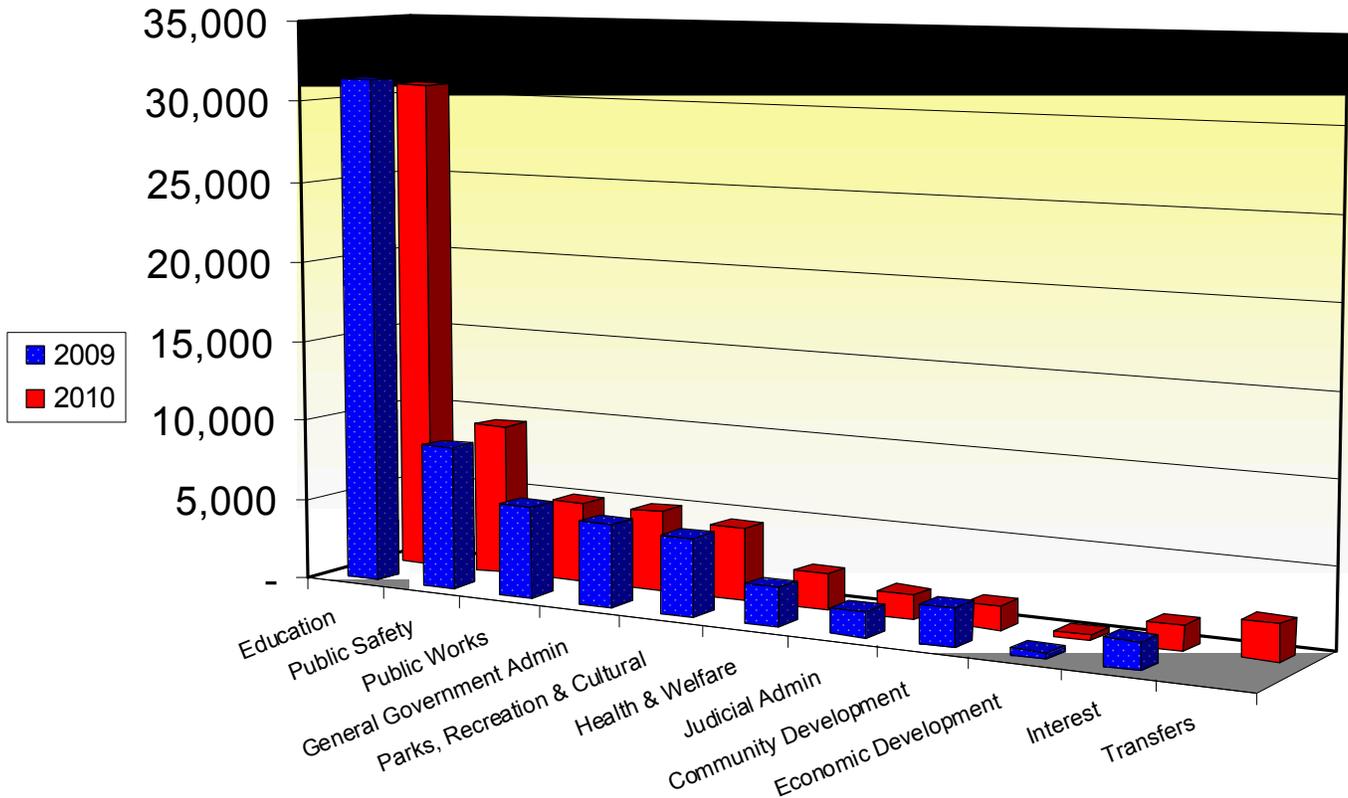


Taxes constitute the largest source of City revenues, amounting to \$51.1 million for fiscal year 2010 and \$49.1 million for fiscal year 2009. Real property taxes (\$36 million in fiscal year 2010 and \$34.9 million in fiscal year 2009) represent over 70% of tax revenues in both fiscal years.

The cost of all governmental activities in fiscal year 2010 was \$61.7 million, and in fiscal year 2009 was \$64.0 million. Education was the City's largest program and highest priority in both fiscal years 2010 and 2009; education expenses totaled \$30.8 million in fiscal year 2010 and \$31.4 million in fiscal year 2009. Public safety expenses represent the second largest expense in both fiscal years, totaling \$9.4 million in fiscal year 2010 and \$8.8 million in fiscal year 2009. Public safety expenses increased in FY2010 due to an increase in detention center costs as a result of increase in prisoner population. Public works expenses totaled \$5 million for fiscal year 2010 and \$5.6 million for 2009, representing the third largest expense for the City in both fiscal years.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**GOVERNMENTAL ACTIVITIES – EXPENSES BY FUNCTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009
(\$ IN THOUSANDS)**



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

Net Cost of City's Governmental Activities				
For the Fiscal Years Ended June 30, 2010 and 2009				
(\$ In Thousands)				
Functions/Programs	2010		2009 (As restated)	
	Total Cost	Net Cost	Total Cost	Net Cost
Education and payments to schools	\$ 30,769	\$ 30,686	\$ 31,372	\$ 31,854
Public safety	9,364	7,820	8,809	8,280
Public works	5,013	3,719	5,639	4,823
General government administration	4,964	4,596	5,117	4,979
Parks, recreation, and cultural	4,487	2,732	4,745	3,309
Health and welfare	2,201	2,088	2,365	2,090
Other	4,860	3,369	5,961	1,770
Total	\$ 61,658	\$ 55,010	\$ 64,008	\$ 57,105

*Certain expenditures of the City's governmental activities have been restated for FY2009. See Note I.I for more information.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$3.8 million in 2010 and \$3.4 million in 2009) and other governments and organizations that subsidized certain programs with grants and contributions (\$2.8 million in 2010 and \$3.5 million in 2009). Of the \$55 million net cost of services in 2010, the amount that our taxpayers paid for these activities through City taxes was \$51.1 million. In fiscal year 2009, of the \$57.1 million of net cost of services, the amount that our taxpayers paid through City taxes was \$49.1 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 recovers its costs primarily through user charges. The Water Fund reported an increase in net assets of \$6.4 million for fiscal year 2010 and an increase of \$2.1 million for fiscal year 2009. In fiscal year 2010, total revenues, capital contributions and transfers of the Water Fund were \$25.8 million and total costs were \$19.4 million. Included in the revenues, capital contributions and transfers are two non-recurring items: (1) \$3.1 million reimbursement from the City's insurance provider for legal costs incurred by the City for the lawsuit filed by Fairfax County, and (2) \$2.4 million return of the FY2009 management fee from the General Fund. In fiscal year 2009, total revenues and capital contributions were \$22 million and total costs and transfers were \$19.9 million. There was a decrease of \$1.2 million in availability fees from fiscal year 2009 to fiscal year 2010. A large development in the City's service area occurred in FY2009.

The Sewer Fund reported an increase in net assets of \$538 thousand for fiscal year 2010 and an increase of \$877 thousand for fiscal year 2009. In fiscal year 2010, total revenues of the Sewer Fund were \$2.7 million as compared to total costs and transfers of \$2.1 million. In fiscal year 2009, total revenues of the Sewer Fund were \$2.9 million and total costs and transfers were \$2 million. The Sewer Fund recovers its costs primarily through user charges. The decrease in revenues were primarily due to higher availability fees received during FY2009 because of a single large development in the Sewer Fund's service area.

Highlights of the City's business-type activities for fiscal year 2010 are as follows:

- The Water Fund continues to make improvements to the water supply and distribution system by adding new water mains and pump stations, and replacing older ones, and renovating water tanks. The City invested \$4.2 million in replacing and building new water mains and pump stations.
- Developers added to the distribution system in the amount of \$0.2 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

The following chart represents the components of City's governmental fund balances as of June 30, 2010 and 2009.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 Affordable Dwelling Units Fund accounts for the City's planned investments in affordable housing. The ending General Fund unreserved, undesignated fund balance at June 30, 2010 was 4.4% of revenues and is below the Council adopted target of 8% - 12% of revenues. Shortfall in revenues, as well as the return of the FY2009 management fee to the Water Fund, was mitigated by the suspension of activities in the Capital Projects Fund and the transfer of \$4.7 million to the General Fund. In FY2011, the City adopted a budget that dedicated 2 cents of its tax and proceeds from a sale of a property (total of \$1.3 million) to the restoration of its fund balance. This measure is projected to increase the City's fund balance to 6.1% of revenue by the end of FY2011. The City is committed to restoring its fund balance to 12% by FY2014.

The following shows the fund balances of these funds as of June 30, 2010 and 2009:

Fund Balances - Governmental Funds									
As of June 30, 2010 and 2009									
(\$ In Thousands)									
	General Fund		Capital Projects Fund		Affordable Dwelling Unit Fund		Total		
	2010	2009	2010	2009	2010	2009	2010	2009	
Reserved	1,125	\$ 1,266	\$ 395	\$ 1,423	\$ -	\$ -	\$ 1,520	\$ 2,689	
Designated for construction	-	-	657	4,514	-	-	657	4,514	
Designated for affordable dwelling	-	-	-	-	539	538	539	538	
Unreserved & undesignated	2,675	2,895	-	-	-	-	2,675	2,895	
Total	\$ 3,799	\$ 4,161	\$ 1,052	\$ 5,937	\$ 539	\$ 538	\$ 5,390	\$ 10,636	

The following shows the changes in the individual fund balances for fiscal years 2010 and 2009:

Changes in Fund Balances - Governmental Funds									
For the Fiscal Years Ended June 30, 2010 and 2009									
(\$ In Thousands)									
	General Fund		Capital Projects Fund		Affordable Dwelling Unit Fund		Total*		
	2010	2009	2010	2009	2010	2009	2010	2009	
Revenues and other financing sources	\$ 66,101	\$ 61,777	\$ 617	\$ 2,304	\$ 1	\$ 157	\$ 62,161	\$ 61,950	
Expenditures and other financing uses	66,463	68,942	5,503	1,553	-	-	67,406	68,207	
Changes in Fund Balances	(362)	(7,165)	(4,885)	751	1	157	(5,246)	(6,257)	
Fund balance at beginning of year	4,161	11,326	5,937	5,186	538	381	10,636	16,893	
Fund balance at end of year	\$ 3,799	\$ 4,161	\$ 1,052	\$ 5,937	\$ 539	\$ 538	\$ 5,390	\$ 10,636	

*Transfers between funds have been eliminated in the Total columns.

The City's enterprise funds provide the same type of information found in the government-wide financial statements, as the basis of accounting is the same. Factors concerning finances of the 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, 2010**

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget appropriations, which include expenditures and transfers out, exceeded the original budget by \$1.4 million or 1.9%. \$1.1 million consisted of carryover of commitments for projects that were not started or completed during FY2009.

The final amended budget revenues and transfers in were more than the original budget by \$244 thousand or 0.3%. The change is mostly due to the appropriation of grants received.

Actual revenues and other financing sources were less than final budget amounts by \$7 million or 9.6%, and actual expenditures and other financing uses were \$8 million or 10.8% less than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2010, include the following:

- Actual total tax revenues were less than budgeted amounts by \$2.4 million. The differences are mainly in two areas – real estate taxes and sales taxes. Real estate tax estimates included in the FY2009 budget was projected \$1.3 million higher. Sales taxes were lower by \$840 thousand primarily due to a correction by the Virginia Department of Taxation of situs of a number of establishments formerly erroneously attributed to the City and the effect of general economic conditions on sales taxes and business taxes.
- Actual departmental expenditures were less than budgeted amounts by \$4.1 million. Public Works was below budget by \$1.3 due to projects and grants not being completed and expended. Public safety is under budget by \$700 thousand largely due to the planned red light camera program not commencing during the fiscal year. Other departments were below budget due to a mid-year expenditure and hiring freeze in anticipation of lower than budgeted revenues. Approximately \$704 thousand in uncompleted projects is being carried forward as encumbrance into FY2011.
- In the fall of 2009 City Council approved \$600,000 in expenditure reductions to compensate for lower than budgeted tax receipts projected for the year. The budget was not amended; the reductions were transferred to a non-departmental reserve.
- The budget reflected the intent to issue bonds in the amount of \$6 million and pay related expenditures for a parking facility at the proposed City Center. The bonds were not issued due to the delay in the proposed development.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

In addition to a defined benefit pension plan, the City offers post-retirement health and life insurance benefits to employees who qualify. Prior to FY2008, the costs of these benefits were recognized on a pay-as-you-go basis.

The Governmental Accounting Standards Board (GASB) issued accounting guidance for post employment benefits other than pensions in June 2004. These statements, No. 43 (*Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*) and No. 45 (*Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*) would have been required to be implemented by the City during FY2009. However, the City chose to early implement during FY2008. In addition, the City elected to establish a trust fund for OPEB and to contribute \$2 million to the fund, resulting in an over funding of the required contribution. This over funding was done with the intent of realizing the returns normally associated with pension-like investments and thus reducing the City's overall unfunded liability. Combined with a redesign on the benefit plan instituted during the year, this over funding is expected to significantly reduce future OPEB costs. See footnote V for additional information.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

CAPITAL ASSETS AND LONG-TERM DEBT

The City's investment in capital assets as of June 30, 2010 and 2009, amounted to approximately \$155.8 million and \$153 million, respectively, (net of accumulated depreciation and amortization) as summarized in the following table:

Capital Assets						
As of June 30, 2010 and 2009						
(\$ In Thousands)						
	2010			2009 (As Restated)		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 8,388	\$ 2,595	\$ 10,983	\$ 8,794	\$ 2,595	\$ 11,389
Construction in progress	468	21,135	21,603	564	20,462	21,026
Buildings and system	63,250	94,174	157,424	63,367	89,186	152,553
Improvements other than buildings	4,817	74	4,891	4,817	74	4,891
Machinery and equipment	10,952	3,511	14,463	10,265	1,680	11,945
Purchased capacity	-	20,057	20,057	-	13,023	13,023
Intangibles	1,458	47	1,505	1,417	47	1,464
Infrastructure	9,274	-	9,274	9,243	-	9,243
Library collections	2,044	-	2,044	2,061	-	2,061
Accumulated depreciation	(35,828)	(50,635)	(86,463)	(33,539)	(41,010)	(74,549)
Total Capital Assets, Net	\$ 64,823	\$ 90,958	\$ 155,781	\$ 66,989	\$ 86,057	\$ 153,046

*Capital assets of the City's Governmental Activities and Business-Type Activities have been restated as of June 30, 2009. See Note I.I for more information.

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

- Improvements and expansions to the water supply and distribution system for a total of \$4.2 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 AAA from Fitch Ratings.

The City's legal limit for outstanding debt is 10% of total assessed real property within the City, which is \$3.3 billion in 2010 and \$3.5 billion in 2009. The City's total long-term general obligation bonds of \$58.3 million as of June 30, 2010 and \$56.4 million as of June 30, 2009, 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 General Fund supported debt at 5% of total assessed value of real property. In addition, annual debt service payments must be less than 12% of annual General Fund expenditures. As of June 30, 2010 and 2009, total debt outstanding was 1.2% and 1.3%, respectively, of assessed value of real property. General Fund debt service payments were 7.9% of General Fund expenditures in FY2010 and in FY2009. Both ratios are below the City's debt limit policy of 12% of General Fund expenditures.

In July 2009 the City issued \$5.4 million in general obligation debt through the Virginia Resources Authority for projects related to the water system. It is the intent that these bonds be repaid from revenues of the system.

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The following table shows a summary of the City's outstanding debt as of June 30, 2010 and 2009:

Outstanding Long-Term Debts As of June 30, 2010 and 2009 (\$ In Thousands)						
	2010			2009 (As Restated)		
	Govern- mental Activities	Business-Type Activities	Total	Govern- mental Activities	Business-Type Activities	Total
General obligation bonds issued for:						
Schools	\$ 28,227	\$ -	\$ 28,227	\$ 30,462	\$ -	\$ 30,462
Community center	1,758	-	1,758	1,878	-	1,878
Fire station	2,539	-	2,539	2,712	-	2,712
City hall	727	-	727	1,430	-	1,430
Open space	512	-	512	614	-	614
Other	1,919	-	1,919	2,213	-	2,213
Water system improvements	-	16,775	16,775	-	12,125	12,125
Sewer system improvements	-	5,905	5,905	-	4,964	4,964
Note payable issued for:						
Open space	-	-	-	-	-	-
Water system improvements	-	5,242	5,242	-	6,499	6,499
Sewer system improvements	-	3,650	3,650	-	3,826	3,826
Capital leases and other	2,415	599	3,014	2,590	417	3,007
Total	\$ 38,097	\$ 32,171	\$ 70,268	\$ 41,899	\$ 27,831	\$ 69,730
*Long-term liabilities of the City's Governmental Activities and Business-Type Activities have been restated as of June 30, 2009. See Note I.I for more information.						

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 adopted budget for the fiscal year 2011:

- The percentage change in real property taxes for fiscal year 2011 was projected to be an increase of 1% as compared to a one% decrease in fiscal year 2009. This was primarily due to a significant reduction in real estate assessments offset by an increase in the tax rate. There will be little additional new construction in the City to offset the continued erosion in the market of existing properties, especially commercial properties.

Per the fiscal year 2011 adopted budget, revenues are \$64 million, a 4% decrease over the fiscal year 2010 level of \$66.8 million (excluding anticipated amounts from issuance of bonds and use of fund balance). A primary reason for the decrease is that the City no longer receives management fee from the Water Fund, which in the past, had been budgeted at about \$2.3 million. Revenue from real property taxes will make up 59.5 percent of total revenues, as compared to 56.7percent in fiscal year 2010. Other taxes account for 24.1% of General Fund revenue in 2011, slightly higher than 23.5% in 2010 . Except for payments from the Virginia Department of Transportation for road maintenance and from the Department of Taxation for the Personal Property Tax Relief Act, revenue from the Commonwealth is expected to decline 20% due to budget reductions on the part of the State

Although the City's pension fund experienced smaller losses in asset values than the national average, these losses are significant. As a result, the City's obligation to fund the pension trust fund is projected to increase over the next several years. In FY2011, basic plan

**CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

and police plan required contribution is 11.94 and 15.62% of covered payroll as compared to 7.06% and 5.46% in FY2010. For FY2011, both plans were amended to require employee contribution of 1.6% and 2.2% for the basic plan and police plan. Absent any major plan changes, the basic plan will increase from 11.94% of covered payroll in FY2011 to about 25% by FY2016 and the Police plan will increase from 15.62% to approximately 41% of covered payroll. Contributions to the Virginia Retirement System, which covers Constitutional Officers and the majority of School Division employees, are subject to action by the General Assembly. These contributions are expected to increase over the next several years, however the exact amounts are not known at this time.

Pressures on the City budget due to the uncertainties of the economy and the necessary expenditures required to maintain a safe community will continue to be a challenge.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Respectfully submitted,



Richard A. LaCondre, MPA
General Manager, Chief Financial Officer

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**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR JUNE 30, 2010**

**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.

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF NET ASSETS
As of June 30, 2010

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	School Board	Economic Development	Total Component Units
ASSETS						
Cash and cash equivalents	\$ 11,614,644	\$ 24,752,665	\$ 36,367,309	\$ 2,697,596	\$ 141,000	\$ 2,838,596
Receivables, net	24,171,337	6,220,582	30,391,919	75,411	-	75,411
Internal balances	(1,313,835)	1,313,835	-	-	-	-
Due from fiduciary funds	-	-	-	28,847	-	28,847
Due from primary government	-	-	-	3,676,715	-	3,676,715
Due from other governmental units	1,417,037	-	1,417,037	709,909	-	709,909
Prepays	30,976	-	30,976	190,930	-	190,930
Inventories	198,162	369,659	567,821	-	-	-
Temporarily restricted cash and cash equivalents	121,806	1,753,323	1,875,129	-	-	-
Deferred OPEB charges	770,000	383,000	1,153,000	797,000	-	797,000
Deferred bond issuance cost, net	75,631	204,085	279,716	-	-	-
Capital assets:						
Non-depreciable	8,856,327	23,729,552	32,585,879	1,273,354	517,255	1,790,609
Depreciable, net of accumulated depreciation	55,967,115	67,228,370	123,195,485	2,095,093	-	2,095,093
Total capital assets, net	<u>64,823,442</u>	<u>90,957,922</u>	<u>155,781,364</u>	<u>3,368,447</u>	<u>517,255</u>	<u>3,885,702</u>
Total Assets	<u>101,909,200</u>	<u>125,955,071</u>	<u>227,864,271</u>	<u>11,544,855</u>	<u>658,255</u>	<u>12,203,110</u>
LIABILITIES						
Accounts payable and accrued expenses	2,141,084	4,731,673	6,872,757	4,081,895	-	4,081,895
Accrued interest payable	605,336	264,111	869,447	-	-	-
Due to primary government	-	-	-	-	19,333	19,333
Due to component units	3,657,382	-	3,657,382	-	-	-
Due to fiduciary funds	1,001,294	-	1,001,294	-	-	-
Unearned revenue	22,409,319	-	22,409,319	60	-	60
Customer deposits	1,141,528	-	1,141,528	-	-	-
Noncurrent liabilities:						
Portion due or payable within one year	5,199,959	2,213,365	7,413,324	835,903	-	835,903
Due in more than one year	32,897,028	29,958,685	62,855,713	5,104,506	-	5,104,506
Total Liabilities	<u>69,052,930</u>	<u>37,167,834</u>	<u>106,220,764</u>	<u>10,022,364</u>	<u>19,333</u>	<u>10,041,697</u>
NET ASSETS						
Invested in capital assets, net of related debt	28,758,627	60,677,853	89,436,480	3,143,228	517,255	3,660,483
Restricted for:						
Other projects	70,153	-	70,153	-	-	-
Unrestricted	4,027,491	28,109,383	32,136,874	(1,620,737)	121,667	(1,499,070)
Total Net Assets	<u>\$ 32,856,271</u>	<u>\$ 88,787,236</u>	<u>\$ 121,643,507</u>	<u>\$ 1,522,491</u>	<u>\$ 638,922</u>	<u>\$ 2,161,413</u>

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

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		
					Governmental Activities	Business-Type Activities	Total	School Board	Economic Development Authority	Total Component Units
Primary Government:										
<u>Governmental activities:</u>										
General government	\$ 4,964,439	\$ 148,094	\$ 220,169	\$ -	\$ (4,596,176)		\$ (4,596,176)			
Judicial administration	1,517,515	1,111,368	336,332	-	(69,815)		(69,815)			
Public safety	9,363,766	637,012	448,134	458,583	(7,820,037)		(7,820,037)			
Public works	5,013,021	302,728	940,114	50,989	(3,719,190)		(3,719,190)			
Health and welfare	2,201,229	6,925	106,163	-	(2,088,141)		(2,088,141)			
Education and payment to schools	30,768,947	-	-	83,308	(30,685,639)		(30,685,639)			
Parks, recreation, and cultural	4,486,619	1,565,668	188,969	-	(2,731,982)		(2,731,982)			
Community development	1,435,053	34,457	10,000	-	(1,390,596)		(1,390,596)			
Economic development	351,233	-	-	-	(351,233)		(351,233)			
Interest expense	1,555,466	-	-	-	(1,555,466)		(1,555,466)			
Total governmental activities	<u>61,657,288</u>	<u>3,806,252</u>	<u>2,249,881</u>	<u>592,880</u>	<u>(55,008,275)</u>		<u>(55,008,275)</u>			
<u>Business-type activities:</u>										
Water	17,240,177	19,846,413	-	284,330		\$ 2,890,566	2,890,566			
Sewer	2,078,222	2,638,970	-	-		560,748	560,748			
Total business-type activities	<u>19,318,399</u>	<u>22,485,383</u>	<u>-</u>	<u>284,330</u>		<u>3,451,314</u>	<u>3,451,314</u>			
Total Primary Government	<u>\$ 80,975,687</u>	<u>\$ 26,291,635</u>	<u>\$ 2,249,881</u>	<u>\$ 877,210</u>	<u>(55,008,275)</u>	<u>3,451,314</u>	<u>(51,556,961)</u>			
Component Units:										
Education	\$ 36,216,282	\$ 1,778,374	\$ 5,811,545	\$ -			\$ (28,626,363)	\$ -	\$ (28,626,363)	
Economic development	54,362	-	-	-			-	(54,362)	(54,362)	
Total Component Units	<u>\$ 36,270,644</u>	<u>\$ 1,778,374</u>	<u>\$ 5,811,545</u>	<u>\$ -</u>			<u>(28,626,363)</u>	<u>(54,362)</u>	<u>(28,680,725)</u>	
General Revenues:										
Taxes:										
Real property					36,000,253	-	36,000,253	-	-	-
Personal property					3,381,964	-	3,381,964	-	-	-
Business licenses, based on gross receipts					2,698,584	-	2,698,584	-	-	-
Local sales and use					3,035,145	-	3,035,145	-	-	-
Consumer's utility					2,063,222	-	2,063,222	-	-	-
Motor vehicle decals					226,723	-	226,723	-	-	-
Real estate recordation taxes					369,453	-	369,453	-	-	-
Occupancy, tobacco, and other					3,298,074	-	3,298,074	-	-	-
Grants and contributions not restricted to specific programs					2,020,878	-	2,020,878	-	-	-
Revenue from use of money and property					85,531	249,030	334,561	87,829	493	88,322
Payment from primary government					-	-	-	29,324,825	-	29,324,825
Other					72,104	28,339	100,443	(348)	22,050	21,702
Insurance recovery legal costs, net					-	1,025,632	1,025,632	-	-	-
Transfers:										
Payments in lieu of taxes					150,000	(150,000)	-	-	-	-
Return of FY2009 Management Fee					(2,352,601)	-	-	-	-	-
Total General Revenues, Special Items, and Transfers					<u>51,049,330</u>	<u>3,505,602</u>	<u>54,554,932</u>	<u>29,412,306</u>	<u>22,543</u>	<u>29,434,849</u>
Change in net assets					(3,958,945)	6,956,916	2,997,971	785,943	(31,819)	754,124
Net Assets - Beginning of Year, As Restated (see Note 1.1)					<u>36,815,216</u>	<u>81,830,320</u>	<u>118,645,536</u>	<u>736,548</u>	<u>670,741</u>	<u>1,407,289</u>
Net Assets - Ending of Year					<u>\$ 32,856,271</u>	<u>\$ 88,787,236</u>	<u>\$ 121,643,507</u>	<u>\$ 1,522,491</u>	<u>\$ 638,922</u>	<u>\$ 2,161,413</u>

**CITY OF FALLS CHURCH, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2010**

	<u>General Fund</u>	<u>Capital Improvement Project</u>	<u>Other Governmental Funds (Affordable Dwelling Unit)</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 9,857,675	\$ 1,278,622	\$ 478,347	\$ 11,614,644
Receivables, net	24,110,532	-	60,805	24,171,337
Receivable from other governmental units	1,417,036	-	-	1,417,036
Prepaid items	30,976	-	-	30,976
Inventories	198,162	-	-	198,162
Restricted assets:				
Cash and cash equivalents	121,806	-	-	121,806
Total Assets	<u>\$ 35,736,187</u>	<u>\$ 1,278,622</u>	<u>\$ 539,152</u>	<u>\$ 37,553,961</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,455,662	\$ 226,417	\$ -	\$ 1,682,079
Due to other funds	2,315,129	-	-	2,315,129
Deferred revenue	23,367,150	-	-	23,367,150
Customer deposits	1,141,528	-	-	1,141,528
Due to component units	3,657,382	-	-	3,657,382
Total liabilities	<u>31,936,851</u>	<u>226,417</u>	<u>-</u>	<u>32,163,268</u>
Fund Balances				
Reserved for:				
Inventories	198,162	-	-	198,162
Encumbrances	703,601	395,238	-	1,098,839
Prepaid items	30,976	-	-	30,976
Land Purchase	121,806	-	-	121,806
Grants	70,153	-	-	70,153
Unreserved, reported in:				
General Fund:				
Undesignated	2,674,638	-	-	2,674,638
Capital Projects Fund:				
Designated for construction	-	656,967	-	656,967
Affordable Dwelling Unit Fund:				
Designated for affordable dwelling units	-	-	539,152	539,152
Total fund balances	<u>3,799,336</u>	<u>1,052,205</u>	<u>539,152</u>	<u>5,390,693</u>
Total Liabilities and Fund Balances	<u>\$ 35,736,187</u>	<u>\$ 1,278,622</u>	<u>\$ 539,152</u>	<u>\$ 37,553,961</u>

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

**CITY OF FALLS CHURCH, VIRGINIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
As of June 30, 2010**

Total fund balance, governmental funds		\$ 5,390,693
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	100,650,744	
Less accumulated depreciation	<u>(35,827,302)</u>	64,823,442
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)		876,833
Utility taxes		81,000
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	(35,681,948)	
Premium, discounts and refundings, net of accumulated amortization	(797,961)	
Deferred amount on refunding, net of accumulated amortization	302,626	
Compensated absences	(1,910,366)	
Capital leases payable	(9,338)	
Due to other governments not payable in the current period	<u>(459,005)</u>	(38,555,992)
Interest on long-term liabilities is not accrued in the governmental funds, but is recognized as an expenditure when due.		(605,336)
Deferred OPEB charges reported in governmental activities use current financial resources and therefore are reported as expenditures in the governmental fund financial statements but are reported as an asset in the governmental activities of the Statement of Net Assets.		770,000
Certain costs associated with the sale of bonds use current financial resources and therefore are reported as expenditures in the governmental fund financial statements but are reported as deferred charges in the governmental activities of the Statement of Net Assets and is amortized over the life of the bond.		75,631
Net Assets of Governmental Activities in the Statement of Net Assets		<u><u>\$ 32,856,271</u></u>

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

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	<u>General Fund</u>	<u>Capital Improvement Project</u>	<u>Other Governmental Funds (Affordable Dwelling Unit)</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 39,476,351	\$ -	\$ -	\$ 39,476,351
Other local taxes	11,610,183	-	-	11,610,183
Permit, privilege fees, and regulatory licenses	511,285	-	-	511,285
Fines and forfeitures	610,267	-	-	610,267
Revenue from use of money and property	84,178	-	1,353	85,531
Charges for services	2,528,088	-	-	2,528,088
Miscellaneous	150,691	-	-	150,691
Gifts and contributions	42,328	-	-	42,328
Recovered costs	1,869,125	-	-	1,869,125
Intergovernmental:				
Commonwealth	4,036,330	-	-	4,036,330
Federal	623,751	95,496	-	719,247
	<u>61,542,577</u>	<u>95,496</u>	<u>1,353</u>	<u>61,639,426</u>
Total Revenues				
	<u>61,542,577</u>	<u>95,496</u>	<u>1,353</u>	<u>61,639,426</u>
EXPENDITURES				
Current:				
General government	5,866,102	-	-	5,866,102
Judicial administration	1,457,627	-	-	1,457,627
Public safety	8,896,616	-	-	8,896,616
Public works	5,256,273	-	-	5,256,273
Health and welfare	2,229,111	-	-	2,229,111
Education and payments to Schools	29,347,120	-	-	29,347,120
Parks, recreation and culture	4,133,292	-	-	4,133,292
Community development	1,419,982	-	-	1,419,982
Economic development	346,937	-	-	346,937
Capital outlay	78,015	943,899	-	1,021,914
Debt service:				
Principal retirement	3,651,127	-	-	3,651,127
Interest and other fiscal charges	1,578,008	-	-	1,578,008
	<u>64,260,210</u>	<u>943,899</u>	<u>-</u>	<u>65,204,109</u>
Total Expenditures				
	<u>64,260,210</u>	<u>943,899</u>	<u>-</u>	<u>65,204,109</u>
Excess (deficiency) of revenues over expenditures	<u>(2,717,633)</u>	<u>(848,403)</u>	<u>1,353</u>	<u>(3,564,683)</u>
OTHER FINANCING SOURCES/(USES)				
Transfer to Enterprise Funds	(2,202,601)	-	-	(2,202,601)
Transfers in/(out)	4,558,732	(4,558,732)	-	-
Proceeds from sale of assets	-	521,995	-	521,995
	<u>2,356,131</u>	<u>(4,036,737)</u>	<u>-</u>	<u>(1,680,606)</u>
Total Other Financing Sources/(Uses)				
	<u>2,356,131</u>	<u>(4,036,737)</u>	<u>-</u>	<u>(1,680,606)</u>
Net Change in Fund Balances	(361,502)	(4,885,140)	1,353	(5,245,289)
Fund Balances at beginning of year	4,160,838	5,937,345	537,799	10,635,982
Fund Balances at end of year	<u>\$ 3,799,336</u>	<u>\$ 1,052,205</u>	<u>\$ 539,152</u>	<u>\$ 5,390,693</u>

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

CITY OF FALLS CHURCH, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
As of June 30, 2010

Net change in fund balances - total governmental funds		\$ (5,245,289)
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	1,247,558	
Less current year depreciation and amortization	<u>(2,838,903)</u>	(1,591,345)
Governmental funds report outlays for the contribution to the other post-employment benefit trust fund. It also reports outlays for implicit subsidies of other post-employment benefit provided to retirees. Governmental activities recognize an expense that is equal to the annual required contribution (ARC) and the amortization of prior underpayments/overpayments in the governmental activities of the Statement of Changes in Net Assets.		
		93,000
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.		
		(602,581)
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		(13,134)
Governmental funds do not record revenues for in-kind contributions of capital items whereas those revenues are recognized and recorded in the Statement of Activities for governmental activities.		
		38,750
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 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:		
Current period amortization on premiums and discounts on issuance and refunding of bonds	42,167	
Current period amortization of bond issuance costs	(8,643)	
Current period amortization of deferred amount on refunding	(37,994)	
Principal payments on bonds and notes payable	3,627,533	
Principal payments on capital leases	<u>23,594</u>	3,646,657
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	146,995	
Change in accrued interest liability	27,008	
Change in amounts due to other governments not payable in the current period	(459,006)	<u>(285,003)</u>
Change in Net Assets of Governmental Activities in the Statement of Activities		<u>\$ (3,958,945)</u>

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 40,725,939	\$ 40,725,939	\$ 39,476,351	\$ (1,249,588)
Other local taxes	12,808,598	12,808,598	11,610,183	(1,198,415)
Permit, privilege fees, and regulatory licenses	344,483	344,483	511,285	166,802
Fines and forfeitures	1,210,500	1,210,500	610,267	(600,233)
Revenue from use of money and property	269,200	269,200	84,178	(185,022)
Charges for services	2,511,354	2,511,354	2,528,088	16,734
Miscellaneous	5,650	5,650	150,691	145,041
Gifts and contributions	126,392	246,354	42,328	(204,026)
Recovered costs	1,830,188	1,830,188	1,869,125	38,937
Intergovernmental:				
Commonwealth	3,974,814	4,001,848	4,036,330	34,482
Federal	579,287	676,487	623,751	(52,736)
	<u>64,386,405</u>	<u>64,630,601</u>	<u>61,542,577</u>	<u>(3,088,024)</u>
Total Revenues				
EXPENDITURES				
Current:				
General government	5,933,620	5,898,674	5,866,102	32,572
Judicial administration	1,551,633	1,576,809	1,457,627	119,182
Public safety	9,395,469	9,600,360	8,896,616	703,744
Public works	6,107,775	6,619,644	5,256,273	1,363,371
Health and welfare	2,580,781	2,597,051	2,229,111	367,940
Education and payments to Schools	29,637,120	29,637,120	29,347,120	290,000
Parks, recreation and culture	4,366,637	4,370,295	4,133,292	237,003
Community development	1,725,292	1,740,599	1,419,982	320,617
Economic development	412,179	410,866	346,937	63,929
Reserve for contingency	15,000	615,210	-	615,210
Capital outlay	98,500	187,875	78,015	109,860
Debt service:				
Principal retirement	3,570,241	3,570,241	3,651,127	(80,886)
Interest and other fiscal charges	1,580,139	1,572,139	1,578,008	(5,869)
	<u>66,974,386</u>	<u>68,396,883</u>	<u>64,260,210</u>	<u>4,136,673</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	<u>(2,587,981)</u>	<u>(3,766,282)</u>	<u>(2,717,633)</u>	<u>1,048,649</u>
OTHER FINANCING SOURCES (USES)				
Transfer from/(to) Enterprise Funds	2,362,411	2,362,411	(2,202,601)	(4,565,012)
Transfers in/(out)	(6,113,000)	(6,113,000)	4,558,732	10,671,732
Proceeds from issuance of bonds	6,095,000	6,095,000	-	(6,095,000)
	<u>2,344,411</u>	<u>2,344,411</u>	<u>2,356,131</u>	<u>11,720</u>
Total other financing sources and uses				
Net change in fund balances	(243,570)	(1,421,871)	(361,502)	1,060,369
Fund balances - beginning	4,160,838	4,160,838	4,160,838	-
Fund balances - ending	<u>\$ 3,917,268</u>	<u>\$ 2,738,967</u>	<u>\$ 3,799,336</u>	<u>\$ 1,060,369</u>

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

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2010

	Business-Type Activities - Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current:			
Cash and cash equivalents	\$ 19,298,318	\$ 5,454,347	\$ 24,752,665
Due from other funds	1,423,876	-	1,423,876
Receivables, net:			
Billed and other	1,295,129	150,453	1,445,582
Unbilled	4,189,000	586,000	4,775,000
Inventories	365,688	3,971	369,659
Restricted cash and cash equivalents	1,753,323	-	1,753,323
	<u>28,325,334</u>	<u>6,194,771</u>	<u>34,520,105</u>
Total current assets			
Non-current assets:			
Deferred OPEB charges	352,000	31,000	383,000
Deferred bond issuance cost, net	194,481	9,604	204,085
Capital assets:			
Non-depreciable	14,563,403	9,166,149	23,729,552
Depreciable, net	60,762,975	6,465,395	67,228,370
	<u>75,872,859</u>	<u>15,672,148</u>	<u>91,545,007</u>
Total non-current assets			
	<u>104,198,193</u>	<u>21,866,919</u>	<u>126,065,112</u>
Total Assets			
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	2,816,116	1,915,557	4,731,673
Due to other funds	-	110,041	110,041
Accrued interest payable	189,441	74,670	264,111
Bonds payable	925,000	299,334	1,224,334
Notes payable	413,452	182,299	595,751
Accrued compensated absences	376,784	16,496	393,280
Total current liabilities	<u>4,720,793</u>	<u>2,598,397</u>	<u>7,319,190</u>
Noncurrent liabilities:			
Bonds payable, net of current amount	15,850,000	5,605,360	21,455,360
Notes payable, net of current amount	4,828,973	3,467,989	8,296,962
Discounts and premiums on bonds payable, net	161,309	-	161,309
Compensated absences, net of current amount	42,410	2,644	45,054
	<u>25,603,485</u>	<u>11,674,390</u>	<u>37,277,875</u>
Total Liabilities			
NET ASSETS			
Invested in capital assets, net of related debt	56,460,013	4,217,840	60,677,853
Unrestricted	22,134,694	5,974,689	28,109,383
	<u>78,594,707</u>	<u>10,192,529</u>	<u>88,787,236</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, 2010

	Business-Type Activities - Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ 19,473,513	\$ 2,474,798	\$ 21,948,311
Rentals	185,645	-	185,645
Miscellaneous	61,940	-	61,940
	<u>19,721,098</u>	<u>2,474,798</u>	<u>22,195,896</u>
Total Operating Revenues			
Operating Expenses:			
Source of supply	7,632,845	-	7,632,845
Distribution system	2,323,205	-	2,323,205
Collection and disposal	-	1,394,907	1,394,907
Water connections	484,728	-	484,728
Administration	3,887,751	230,917	4,118,668
Depreciation	2,559,211	299,375	2,858,586
	<u>16,887,740</u>	<u>1,925,199</u>	<u>18,812,939</u>
Total Operating Expenses			
Operating income	<u>2,833,358</u>	<u>549,599</u>	<u>3,382,957</u>
NON-OPERATING REVENUES (EXPENSES)			
Availability fees	372,900	164,172	537,072
Interest and investment revenue	46,875	16,510	63,385
Insurance recovery legal costs, net	1,025,632	-	1,025,632
Loss on disposition of capital assets	(33,601)	-	(33,601)
Interest expense	(352,437)	(153,023)	(505,460)
	<u>1,059,369</u>	<u>27,659</u>	<u>1,087,028</u>
Total Non-Operating Revenue			
Income Before Contributions and Transfers	3,892,727	577,258	4,469,985
Capital contributions	284,330	-	284,330
Transfers from/(to) General Fund:			
Payments in lieu of taxes	(110,000)	(40,000)	(150,000)
Return of FY2009 Management fee	2,352,601	-	2,352,601
	<u>6,419,658</u>	<u>537,258</u>	<u>6,956,916</u>
Change in net assets			
Total net assets at beginning of year, as restated (See Note I.I)	<u>72,175,049</u>	<u>9,655,271</u>	<u>81,830,320</u>
Total net assets at end of year	<u>\$ 78,594,707</u>	<u>\$ 10,192,529</u>	<u>\$ 88,787,236</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, 2010

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 19,504,059	\$ 2,475,114	\$ 21,979,173
Payments to suppliers	(7,741,802)	(1,433,525)	(9,175,327)
Payments to employees	(4,373,222)	(256,823)	(4,630,045)
Payments for interfund services used	(1,488,753)	(169,530)	(1,658,283)
Net Cash Provided by Operating Activities	<u>5,900,282</u>	<u>615,236</u>	<u>6,515,518</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Payments of principal on noncapital loan	(189,614)	-	(189,614)
Payments of interest on noncapital loan	(68,059)	-	(68,059)
Payments in lieu of taxes	(110,000)	(40,000)	(150,000)
Management fee transfer to General Fund	(2,254,041)	-	(2,254,041)
Insurance recovery of legal costs, net	1,025,632	-	1,025,632
Net Cash Used in NonCapital and Related Financing Activities	<u>(1,596,081)</u>	<u>(40,000)</u>	<u>(1,636,081)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Receipts from customers for availability fees	372,900	430,444	803,344
Capital grants received	75,078	-	75,078
Acquisition and construction of capital assets	(4,435,995)	(2,110,280)	(6,546,275)
Issuance of construction and acquisition loan	10,885,000	1,084,111	11,969,111
Premiums on issuance of debt	195,053	-	-
Debt issuance cost	(111,845)	(10,022)	(121,867)
Payments of principal on construction and acquisition loan	(7,302,403)	(318,335)	(7,620,738)
Payments of interest on construction and acquisition loan	(285,847)	(153,023)	(438,870)
Net Cash Used In Capital and Related Financing Activities	<u>(608,059)</u>	<u>(1,077,105)</u>	<u>(1,880,217)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments	2,800,000	-	2,800,000
Interest and dividends received	62,089	16,510	78,599
Net Cash Provided by Investing Activities	<u>2,862,089</u>	<u>16,510</u>	<u>2,878,599</u>
Net Increase/(decrease) in Cash and Cash Equivalents	<u>6,558,230</u>	<u>(485,359)</u>	<u>6,072,871</u>
Cash and Cash Equivalents, Beginning of Year	<u>14,493,411</u>	<u>5,939,706</u>	<u>20,433,117</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,051,641</u>	<u>\$ 5,454,347</u>	<u>\$ 26,505,988</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	<u>\$ 2,833,358</u>	<u>\$ 549,599</u>	<u>3,382,957</u>
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation expense	2,559,211	299,375	2,858,586
Bad debt expense	101,060	5,000	106,060
Changes in operating assets and liabilities:			
(Increase)/decrease in:			
Accounts receivable	(246,049)	(4,462)	(250,511)
Inventory	15,202	390	15,592
Deferred OPEB Charges	(53,000)	(5,000)	(58,000)
Increase/(decrease) in:			
Accounts payable and accrued liabilities	(892,753)	122,228	(770,525)
Accrued compensated absences	(5,295)	(1,512)	(6,807)
Due to other funds	1,588,548	(350,382)	1,238,166
Total adjustments	<u>3,066,924</u>	<u>65,637</u>	<u>3,132,561</u>
Net Cash Provided by Operating Activities	<u>\$ 5,900,282</u>	<u>\$ 615,236</u>	<u>\$ 6,515,518</u>
Supplemental Schedule of Noncash Investing, Capital and Financing Activities:			
Contributions of capital assets	<u>\$ 284,330</u>	<u>\$ -</u>	<u>\$ 284,330</u>
Gain or (loss) on disposal of capital assets	<u>\$ (33,601)</u>	<u>\$ -</u>	<u>\$ (33,601)</u>
Decrease in fair value of investments	<u>\$ (2,392)</u>	<u>\$ -</u>	<u>\$ (2,392)</u>

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

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
As of June 30, 2010

	<u>Post- Employment Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 3,697,782	\$ 1,967,917
Investments:		
Domestic equity securities	32,843,636	-
Domestic fixed income securities	17,858,203	-
International equity securities	11,968,480	-
Real estate	2,348,992	-
Other	105,132	-
Total investments	<u>65,124,443</u>	<u>-</u>
Contributions receivable:		
Interest and dividend receivable	23,881	-
Accounts receivable	-	1,386,129
Due from general fund	-	<u>1,373,153</u>
 Total Assets	 <u>68,846,106</u>	 <u>\$ 4,727,199</u>
LIABILITIES		
Accounts payable	939	\$ -
Due to general fund	400,706	-
Due to other governments	-	<u>4,727,199</u>
 Total Liabilities	 <u>401,645</u>	 <u>\$ 4,727,199</u>
NET ASSETS		
Held in trust for pension benefits	65,379,883	
Held in trust for other post-employment benefits	<u>3,064,578</u>	
 Total Net Assets	 <u>\$ 68,444,461</u>	

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

CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
POST-EMPLOYMENT TRUST FUNDS
For the Year Ended June 30, 2010

ADDITIONS

Employer contributions	\$ 2,426,571
Employee contributions	162,998
Investment earnings:	
Interest	220,687
Dividends	721,076
Net decrease in the fair value of investments	4,641,026
Total investment earnings	<u>5,582,789</u>
Less investment expense	<u>(301,826)</u>
Net investment earnings	<u>5,280,963</u>
 Total Additions	 <u>7,870,532</u>

DEDUCTIONS

Benefits	3,486,662
Administration	<u>131,537</u>
 Total Deductions	 <u>3,618,199</u>
 Change in Net Assets	 4,252,333
Net Assets at Beginning of Year	<u>64,192,128</u>
 Net Assets at End of Year	 <u>\$ 68,444,461</u>

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

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

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

B. Basis of Presentation

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

**CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010**

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:

Post-Employment Trust Funds. These funds are used to account for the activities of the City's two defined benefit pension plans, the Basic Pension Plan and the Police Pension Plan, which cover all regular and police employees of the City, respectively, as well as the City's and School Board's other post-retirement benefit trust funds, which provides for health and life insurance coverage for the City's and School Board's retirees.

Agency Funds. These funds are used to account for assets held by the City in a trustee capacity or as an agent for the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of operations.

C. Measurement Focus and Basis of Accounting

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

1. Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary and fiduciary fund financial statements for the pension trust funds are reported using the economic resources measurement focus and the accrual basis of accounting, 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

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

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. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition, including availability fees charged to new customers, are reported as nonoperating revenues and expenses.

For the 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.

For the other post-employment trust funds, employer contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable in accordance with the terms of the plan.

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

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

2. Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues from the use of money and from intergovernmental reimbursement grants are recorded as earned. Other revenues are considered to be available when they are collectible within the current period or within 60 days thereafter. The primary revenues susceptible to accrual include property, business licenses, and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recognized only when payment is due. General capital asset acquisitions are reported as capital outlays in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City's cash and cash equivalents include certificates of deposit, Local Government Investment Pool assets, overnight repurchase agreements, short-term U.S. Government obligations and other highly liquid investments which are readily convertible to known amounts of cash and mature within three months of the date acquired by the City.

**CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010**

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, 2010, the pooled cash and cash equivalents have been allocated between the City and the respective component units based upon their respective ownership percentages. Interest earned, less an administrative charge, is generally allocated to the respective funds and component units based on each fund's or component unit's equity in the pooled account except when City Council authorizes the allocation of the fund's interest income into the General Fund.

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

2. *Investments*

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

3. *Receivables and Payables*

Activities within the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of net assets as "internal balances".

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

For the year ended June 30, 2010 the Water fund and Sewer fund estimated unbilled receivables in the amount of \$4.2 million and \$586 thousand, respectively, for the period March 2010 through June 2010.

Accounts payable and accrued liabilities include amounts due to vendors and employees for goods and services received as of June 30, 2010.

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 their use is limited by applicable bond covenants. These assets are restricted for the purchase of land or infrastructure improvement and water system improvement.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

6. Capital Assets

Capital assets, which include land, buildings, improvements, machinery and equipment, library collections, infrastructure assets (e.g., roads, sidewalks, water and sewer systems, and similar items), and intangible assets (e.g., software, easements, etc.) 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.

The City entered into agreements with other jurisdictions or agencies for the purchase of water and treatment of its sewer. As part of these agreements, the City is allocated a share of operating and capital costs. The City's share of capital costs are recorded as purchased capacity in the City's enterprise funds and business-type activities.

Major outlays for capital assets and improvements, including related interest and other debt costs, are initially capitalized as construction in progress and are transferred to buildings, improvements, or purchased capacity when the assets are substantially complete and placed in service.

Leases that meet the criteria for capitalization are also capitalized and related amortization is included in depreciation expense.

Capital assets are depreciated/amortized over their estimated useful lives using the straight-line method. Capital assets that have an indefinite useful life is not depreciated nor amortized. The estimated useful lives are as follows:

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

The costs of normal maintenance and repairs that do not add to the value of the assets, materially extend their useful lives, nor increase the efficiency and effectiveness of the asset, are not capitalized.

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, 2010, 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.

**CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010**

8. Termination Benefits

The School Board makes payments to eligible employees upon retirement equal to 100% of the employees' average of three highest salaries earned by the employee. The payment is paid monthly in up to 60 equal installments. If the retiree dies during the benefit period, the payments cease. In 2003, the School Board adopted a "sunset" provision for this benefit which restricted eligibility to employees who were employed by the School Board in FY2003 and have a minimum age of 45 years and 5 years of satisfactory employment by July 1, 2002.

The liability for this benefit is estimated using the eligible employees' salary as of June 30, 2010, including social security and medicare taxes. This liability is liquidated by the School Operating Fund.

9. 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.

10. 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 had restricted net assets as of June 30, 2010 for grants received but not yet expended.

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.

11. Designations of General Fund Unreserved Fund Balances and Enterprise Fund Net Assets

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

As of June 30, 2010, City Council designated approximately \$24.9 million of the Water Fund unrestricted net assets to provide for future improvements as needed. Such net assets are primarily comprised of accumulated availability fees received from Water Fund customers.

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City Council also designated approximately \$2.6 million of the Sewer Fund unrestricted net assets for future improvements. 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 \$1.7 million for fiscal year 2010.

F. Intergovernmental Agreements

During 2010, the City had agreements with several governmental units to provide certain governmental services to the City. They are detailed below:

1. County of Fairfax

The City, the County of Fairfax (the County), and the City of Fairfax comprise the Fairfax-Falls Church Community Services Board (CSB), established under State mandate in 1969, to provide mental health, mental retardation and drug and alcohol abuse treatment services to residents of the three jurisdictions. The CSB uses the County as its fiscal agent. Payments to CSB are recorded as expenses in the government-wide financial statements and as expenditures in the General Fund financial statements. During 2010, the City paid CSB approximately \$594 thousand.

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 and recreation facilities by the City's residents. During 2010, the City paid the County approximately \$720 thousand 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 \$157 thousand in 2010. 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 2010, the City paid the County approximately \$556 thousand for sewage treatment costs. This cost is recorded as an expense in the Enterprise Funds. In addition, the City issued a note payable to the County for \$5,005,000 during FY2000 to pay for the City's share of the costs to upgrade the Alexandria Sanitation Treatment Plant. The City paid the County \$328 thousand in debt service towards this note during FY2010. Additional information on this debt can be found on Note III.F. In FY2008, another upgrade was commenced at the Alexandria Sanitation Treatment Plant. The amount owed to Fairfax for that upgrade as of June 30, 2010 was \$869 thousand. All amounts relating to the City's share of these capital costs are recorded as capital assets in the Sewer Fund financial statements.

The City has an agreement with the County to bill for sewer services on their behalf to the County's sewer customers. The City remitted \$13.2 million in sewer revenue receipts to the County during FY2009. For this service, the City received \$609 thousand in compensation from the County.

2. County of Arlington

The City contracts its fire and rescue, and jail and judicial services, to Arlington County, Virginia. During 2010, the City paid Arlington County approximately \$2 million for fire and rescue services. The City paid Arlington County approximately \$729 thousand for jail and judicial services in 2010.

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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 2010 amounted to approximately \$509 thousand 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 2010, the City paid Arlington County approximately \$2.15 million. \$372 thousand of this is for operating costs and \$1.8 million of this cost is for the City's share of major upgrades to the treatment facilities in order for the facilities to be in compliance with new standards issued by the United States Environmental Protection Agency. \$372 thousand is recorded as an expense and \$1.8 million is recorded as construction-in-progress in the Sewer Fund financial statements and will be transferred to purchased capacity once the plant is in service.

In FY2010, the City contracted the operation of its local transportation system to Arlington County. During FY2010, the City paid Arlington \$207 thousand, all of which were paid through the City's participation in NVTC (see Note I.G.1).

3. *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, 2010, the City paid approximately \$5.2 million to the Department of Army for water and \$824 thousand towards facility costs. These costs are recorded as an expense in the Water Fund's financial statements. The City also paid the Department of Army \$1.4 million for debt service on the City's share of the debt issued to the US Treasury and the District of Columbia. \$1.2 million represents principal payment and \$181 thousand is for interest. In addition, during FY2010, the City paid approximately \$294 thousand to the Department of Army for its share of the costs to build a water residue processing plant. This is recorded as construction-in-progress in the Water Fund's financial statements and will be transferred to purchased capacity once the plant is in operation.

The Department of Army bills the City monthly for the estimated cost of water each month. The City deposits all payments into an interest-bearing bank account in the City's name from which the Department of Army draws down the monthly estimates. A restricted asset is recorded in the Water Fund's financial statements for the balance of the account and a corresponding liability is recorded for the monthly estimated cost not yet drawn down by the Department of Army. As of June 30, 2010, the remaining balance was approximately \$1.3 million and the liability was approximately \$903 thousand. At the end of the Department of Army's fiscal year of September 30 of each year, the Department of Army reconciles actual amount incurred against payments. Any difference is then recorded as an expense or reduction of expense in the Water Fund's financial statements.

4. *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 \$51 thousand for its share of the operating and debt service costs for the fiscal year ended June 30, 2010. These are recorded as expenditures 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

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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, 2010, the City's required contributions amounted to approximately \$2.08 million, all of which was paid through the City's participation in the NVTC. The City anticipates its annual required contribution in fiscal year 2011 to be consistent with fiscal year 2010. Complete financial statements of WMATA may be obtained from WMATA, 600 5th Street, NW, Washington, DC 20001.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Estimates and assumptions have been used to calculate unbilled receivables, allowances for receivables, depreciation, liabilities for termination benefits, and actuarial values of pension and other post-employment benefits.

I. Prior Period Adjustment

The beginning net assets of the Governmental Activities, the Water and Sewer Funds and the School Board, have been restated as of June 30, 2009 as follows:

	Governmental Activities	Business-Type Activities		School Board Governmental Activities
		Water Fund	Sewer Fund	
Beginning total net asset, as originally stated	\$ 36,493,041	\$ 58,006,499	\$ 3,763,830	\$ 5,292,707
Adjustments:				
Record debts to the US Treasury and Washington, DC	-	(6,499,442)	-	-
Record debt to Fairfax County	-	-	(3,825,576)	-
Record capital assets, net of accumulated amortization	-	19,659,908	9,555,484	-
Record payments to Washington Aqueduct in excess of actual expenditures	-	784,778	-	-
Record termination benefits liability	-	-	-	(5,001,000)
Adjust deposit balances	-	101,482	(38,035)	-
Record overpayment of treatment costs	-	-	192,705	-
Record OPEB implicit subsidy	322,175	121,824	6,863	444,841
Total Adjustments	322,175	14,168,550	5,891,441	(4,556,159)
Beginning total net assets, as restated	\$ 36,815,216	\$ 72,175,049	\$ 9,655,271	\$ 736,548

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The beginning net assets of the Governmental Activities in the Statement of Activities, have been increased by \$322 thousands from \$36.5 million to \$36.8 million to recognize a net OPEB asset as a result of implicit subsidies provided to the retirees during FY2008 and FY2009. The implicit subsidy for the retirees arose as a result of them being included in the City's health plan at the same premium rates as those of the City's active employees. A similar restatement is also being made to the Governmental Activities, the Sewer Fund and the School Board, a component unit.

The City's beginning net assets for its Business-Type Activities in the government-wide Statement of Activities have been restated from \$61.8 to \$81.8 million to reflect the following changes as of June 30, 2009:

Water Fund - The beginning net assets of the Water Fund have been increased by \$14.2 million primarily to record purchased capacity from the Department of Army's Washington Aqueduct as well as debts incurred to the US Treasury and Washington, DC in prior years in connection with improvements made to the Washington Aqueduct. In 1941, the City entered into an agreement with the Washington Aqueduct to purchase water. As part of the agreement, the City pays for a proportionate share of the operating costs based on its water usage and for share of capital costs. In prior years, the Aqueduct has performed several upgrades to its system. The City's share of the costs of the upgrades as of June 30, 2009, net of accumulated depreciation, was \$19.7 million. Prior to this year, the City had expensed these costs as operating cost. The City is capitalizing these costs and is amortizing them over 20-40 years. Some of the upgrades were financed through debts to Washington DC and to the US Treasury. The City's agreement with the Aqueduct requires the City to pay for its share of the debt service. The City is also required to pay the remaining balance on the US Treasury debt if the water purchase agreement terminated prior to payment of all debt service. As of June 30, 2009, the principal amount due on the debts is \$6.5 million. The Water Fund's net assets are also being restated to properly record the difference between payments made to the Aqueduct and actual expenses incurred by the Aqueduct as advances to the Aqueduct. In prior years, all payments made to the Aqueduct were expended in the Water Fund's financial statements. The difference between payments and actual expenses was \$785 thousand through June 30, 2009. The Water Fund's net assets are also being restated to recognize an OPEB asset of \$122 thousand as a result of implicit subsidies provided to its retirees during FY2008 and FY2009.

Sewer Fund - The beginning net assets of the Sewer Fund have been increased by \$5.9 million primarily to record purchased capacity from Fairfax County and Arlington County and related debt incurred to Fairfax County. The City entered into an agreement to have its sewage treated with Fairfax County and Arlington County. As part of this agreement, the City agreed to pay for proportionate share of capital costs based on its reserved capacity. In prior years, the two Counties have completed or are currently undergoing major upgrades to their systems. The City's proportionate share of the costs of the upgrades, net of depreciation, was \$9.6 million as of June 30, 2009. The City is capitalizing these costs and is amortizing them over 20-25 years. The City has an agreement with Fairfax County to pay for the City's share of the upgrade over 25 years with an interest rate of 5%. This note had a balance of \$3.8 million as of June 30, 2009.

The beginning net assets of the School Board, a component unit, in the Statement of Activities have been reduced by \$5 million to report a liability for termination benefit as described in Note I.D.8. As of June 30, 2010, there were 72 employees eligible for the benefit; 27 are actively receiving benefits from the plan, 38 are not yet receiving benefits but are eligible, and 7 are not yet receiving benefits and are not yet eligible. The School Board's net assets are also being restated to recognize an OPEB asset of \$445 thousand as a result of implicit subsidies provided to its retirees during FY2008 and FY2009.

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:

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- 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 unless there have been no expenditures in the project for the last three fiscal years. Encumbrance accounting is employed in governmental funds and proprietary funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the expenses have not yet been incurred; rather, the commitments are automatically reappropriated and honored during the subsequent year.
- g. Original and final budgeted amounts are shown; amendments were not significant in relation to the original budget. Budget amendments may be approved by the City Council subsequent to adoption of the original budget throughout the year.

B. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2010, expenditures exceeded appropriations for debt service by \$81 thousand, which is considered to be a department (the legal level of budgetary control). The excess in debt service was due to the payment of principal and interest on a loan issued to acquire public safety equipment. The debt service for this loan was budgeted under Public Safety.

III. DETAILED NOTES ON ALL FUNDS

A. Cash, Cash Equivalents and Investments

1. Deposits

As of June 30, 2010, 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

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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, 2010.

	Carrying Value	Bank Balance
Deposits:		
Primary government	\$ 10,913,717	\$ 12,447,625
Component units	279,588	324,573
Total deposits	<u>11,193,305</u>	<u>12,772,198</u>
Petty Cash:		
Primary government	4,087	-
Component units	4,300	-
Total petty cash	<u>8,387</u>	<u>-</u>
Total Deposits and Petty Cash	<u><u>\$ 11,201,692</u></u>	<u><u>\$ 12,772,198</u></u>

The differences between carrying values and bank balances generally result from outstanding checks and deposits in transit as of June 30, 2010.

As of June 30, 2010, the City's primary government has temporarily restricted cash of \$1,875,129. These are balances of proceeds from bonds which were issued for improvements of infrastructure and water systems, as well as cash held by the City for the use of the Department of the Army (see Note I.F.3) .

2. Investments

Primary Government:

Investment Policy. In accordance with the Code of Virginia and other applicable law, including regulations, the City's investment policy (Policy) permits investments in U.S. Government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, the State Treasurer's State Non-Arbitrage Program (SNAP, a pooled investment fund) and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the City's position in the pools is the same as the value of the pool shares.

Credit Risk. As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

Although State Statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or

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money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk.

As of June 30, 2010, 93% of the portfolio was invested in the Virginia LGIP, 6.4% was invested in Virginia SNAP and 1% was invested in money market accounts. Virginia LGIP and Virginia SNAP are a 2A-7 like investment pools with "AAA" rating.

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, 2010, the carrying values and maturity of the City's investments were as follows:

Investment Type	Fair Value	Maturing in Less Than One Year
Primary Government:		
Money market funds - Virginia LGIP	\$ 25,449,388	\$ 25,449,388
Money market funds - Virginia SNAP	1,753,323	1,753,323
Money market funds	121,923	121,923
	<u>27,324,634</u>	<u>27,324,634</u>
Component Unit - School Board:		
Money market funds - Virginia LGIP	2,413,708	2,413,708
	<u>2,413,708</u>	<u>2,413,708</u>
Total Investments	\$ 29,738,342	\$ 29,738,342

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, 2010, 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.

The total deposits and investments of \$40,940,034 are shown in the Government-wide Statement of Net Assets as follows:

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Cash and Cash Equivalents	
Primary Government	\$ 36,367,309
Component Unit - School Board	2,697,596
Temporarily Restricted Cash and Cash Equivalents	
Primary Government	<u>1,875,129</u>
Total Cash and Cash Equivalents	<u>\$ 40,940,034</u>

Post-Employment Funds

As of June 30, 2010, the City's post-employment funds had the following investments:

Investment Type	Fair Value
Held by Trustees - Post-Employment Funds:	
Money market funds	3,697,782
Domestic equities	32,843,636
Domestic fixed income	17,858,203
International equities	11,968,480
Real estate securities	2,348,992
Other	<u>105,132</u>
Total Investments	<u>\$ 68,822,225</u>

Pension Funds

Investment Policy: In accordance with the Code of Virginia and other applicable law, including City Council resolutions, the Pension Fund's investment policy (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 trustees" 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. It is the responsibility of the Pension Board to rebalance the portfolio. The following table shows concentration of credit risk as allowed by the investment policy, as adopted June 2004 and revised in July 2008, and actual concentration as of June 30, 2010:

	Minimum	Maximum	Actual as of June 30, 2010
Domestic equities	48%	62%	50%
Domestic fixed income	12%	20%	27%
International equities	15%	23%	19%
Real estate	8%	12%	4%

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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 23% of the pension assets.

The performance of specific investment types in the portfolio will periodically result in actual balances above or below the limitations set by policy.

Other Post-Employment Benefits (OPEB) Fund

Investment Policy: In accordance with the Code of Virginia and other applicable law, including City Council resolutions, the OPEB Fund's investment policy (Policy) permits investments in domestic fixed income securities, domestic and international equities and real estate investment trusts. The authority and responsibility for the administration, management and operation of the city OPEB trust fund is vested in the Finance Board as described in the City Resolution TR7-14. Investments of the OPEB Fund are disclosed as "held by trustees" 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. It is the responsibility of the Finance Board to direct the funds manager to rebalance the portfolio. The following table shows concentration of credit risk as allowed by the investment policy, as adopted October 2007, and actual concentration as of June 30, 2010:

	Minimum	Maximum	Actual as of June 30, 2010
Domestic equities	37%	47%	35%
Domestic fixed income	28%	38%	43%
International equities	14%	24%	18%
Real estate	1%	11%	3%

Market Risk: Investments of the OPEB fund are held for the long term and may be subject to short-term fluctuations in fair value due to market conditions and changes in interest rates. Foreign currency risk, a subset of market risk, is controlled for by limiting exposure to international equities to no more than 24% of the fund assets.

The performance of specific investment types in the portfolio will periodically result in actual balances above or below the limitations set by policy.

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B. Receivables

Receivables and allowances for uncollectible receivables of the primary government as of June 30, 2010, consist of the following:

	General Fund	Water Fund	Sewer Fund	Total	Fiduciary Funds	Total Primary Government
Receivables:						
Accounts - Billed	\$ 837,820	\$ 2,105,629	\$ 217,453	\$ 3,160,902	\$ 1,386,129	\$ 4,547,031
Accounts - Unbilled	81,000	4,189,000	586,000	4,856,000	-	4,856,000
Other	313,647	-	-	313,647	-	313,647
Accrued interest/dividend	-	-	-	-	23,881	23,881
Property taxes:						
Delinquent	1,464,937	-	-	1,464,937	-	1,464,937
Not yet due	22,057,628	-	-	22,057,628	-	22,057,628
Due from other governments	1,417,036	-	-	1,417,036	-	1,417,036
Total receivables	26,172,068	6,294,629	803,453	33,270,150	1,410,010	34,680,160
Allowances for uncollectibles:						
Accounts	280,000	810,500	67,000	1,157,500	-	1,157,500
Property taxes:						
Delinquent	310,000	-	-	310,000	-	310,000
Not yet due	54,500	-	-	54,500	-	54,500
Total allowances for uncollectibles	644,500	810,500	67,000	1,522,000	-	1,522,000
Total Net Receivables	\$ 25,527,568	\$ 5,484,129	\$ 736,453	\$ 31,748,150	\$ 1,410,010	\$ 33,158,160

Delinquent property taxes receivable from taxpayers in the General Fund as of June 30, 2010, consist of the following:

Year of Levy	Personal		Total
	Real Estate	Property	
2010	\$ 446,997	\$ -	\$ 446,997
2009	272,361	116,497	388,858
2008	162,226	48,465	210,691
2007	97,154	38,608	135,762
2006	46,344	28,511	74,855
Prior years	68,210	139,564	206,522
Total delinquent taxes	1,093,292	371,645	1,464,937
Allowances for Uncollectibles	-	(310,000)	(310,000)
Net Delinquent Tax Receivables	\$ 1,093,292	\$ 61,645	\$ 1,154,937

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. A total allowance for uncollectible amounts of \$364 thousand has been estimated and recorded based on prior collections.

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The City reports real estate and personal property taxes (net of allowances) assessed for calendar year 2010 as receivables because the City has an enforceable legal claim to these resources at June 30, 2010; however, some of these resources, which amount to approximately \$18.82 million for real property and approximately \$3.35 million for personal property, will not be available to the City until fiscal year 2010 and are therefore recognized as deferred revenue. A detailed breakdown of the components of deferred revenue at June 30, 2010 can be found at Note III E.

The component unit School Board has an accounts receivable balance as of June 30, 2010 of \$75,411. Based on prior years' collection history, no allowance is deemed necessary for these receivables.

C. Interfund Transfers and Balances

Transfers are made from the general fund to the capital projects fund to provide funding for capital projects. Transfers from the water fund to the general fund are for payments in lieu of taxes. Transfers from the sewer fund to the general fund are for payments in lieu of taxes.

In prior years, the City's General Fund received a management fee from its Water Fund. In a lawsuit filed by the Fairfax County Water Authority (FCWA), a customer of the City's public water system, FCWA asserted that this practice was unconstitutional and asked that the City be enjoined from continuing the practice in the future. In January 2010, the Circuit Court of Fairfax County, Virginia, ruled against the City and enjoined the City from transferring any moneys from its Water Fund for purposes unrelated to the water system, including the management fee transfers for FY2009 and FY2010. The City sought to change the ruling with respect to FY2009. In January 2010, a consent decree was entered by the Circuit Court of Fairfax County to stay the return of that transfer plus 6% interest, pending appeal. The City appealed the Circuit's Court ruling with the Supreme Court of Virginia. In November 2010, the Supreme Court denied the City's appeal. At June 30, 2010, the City's General Fund recorded a liability to the Water Fund for the return of the FY2009 management fee and interest of \$2.35 million. This is recorded as a transfer to the Water Fund from the General Fund in the financial statements.

During FY2010, the City suspended activities in the Capital Projects Fund and funding for those activities were restored to the General Fund for \$4.67 million.

Interfund transfers for the year ended June 30, 2010, are as follows:

Transfer out:	Transfer In:		
	General Fund	Capital Projects Fund	Water Fund
General Fund	\$ -	\$ 113,000	\$ 2,352,601
Capital Projects Fund	4,671,732	-	-
Water Fund	110,000	-	-
Sewer Fund	40,000	-	-
	<u>\$ 4,821,732</u>	<u>\$ 113,000</u>	<u>\$ 2,352,601</u>

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, 2010:

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Receivable Fund	Amount	Payable Fund	Amount
General Fund	\$ 460,849	Post-Retirement Funds	\$ 371,859
		Sewer Fund	110,041
		Component Unit - Nonmajor	19,333
Water Fund	1,423,876	General Fund	1,383,492
Component Unit - School Board	3,705,562	General Fund	3,676,715
		Post-Retirement Funds	28,847
Agency Funds	1,373,153	General Fund	1,373,153
	<u>\$ 6,963,440</u>		<u>\$ 6,963,440</u>

D. Capital Assets

Capital assets activity for the primary government for the year ended June 30, 2010 , is as follows:

	Balances			Balances
	June 30, 2009	Increases	Decreases	June 30, 2010
Primary Government				
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,794,284	\$ 55,510	\$ 462,284	\$ 8,387,510
Construction in Progress	564,500	350,334	446,017	468,817
Total capital assets not being depreciated	<u>9,358,784</u>	<u>405,844</u>	<u>908,301</u>	<u>8,856,327</u>
Capital assets being depreciated:				
Buildings and system	63,366,728	14,976	131,975	63,249,729
Machinery and equipment	10,264,926	1,044,549	357,901	10,951,574
Improvements other than buildings	4,816,552	-	-	4,816,552
Infrastructure	9,242,950	31,463	-	9,274,413
Intangible	1,416,945	41,454	-	1,458,399
Library collections	2,060,688	194,035	210,973	2,043,750
Total capital assets being depreciated	<u>91,168,789</u>	<u>1,326,477</u>	<u>700,849</u>	<u>91,794,417</u>
Less accumulated depreciation for:				
Buildings and system	15,544,716	1,423,226	24,958	16,942,984
Machinery and equipment	7,366,719	752,732	314,711	7,804,740
Improvements other than buildings	2,001,724	260,830	-	2,262,554
Infrastructure	5,676,943	179,180	-	5,856,123
Intangible	1,369,548	26,266	-	1,395,814
Library collections	1,579,391	196,669	210,973	1,565,087
Total accumulated depreciation	<u>33,539,041</u>	<u>2,838,903</u>	<u>550,642</u>	<u>35,827,302</u>
Total capital assets being depreciated, net	<u>57,629,748</u>	<u>(1,512,426)</u>	<u>150,207</u>	<u>55,967,115</u>
Total capital assets, net - Governmental Activities	<u>\$ 66,988,532</u>	<u>\$ (1,106,582)</u>	<u>\$ 1,058,508</u>	<u>\$ 64,823,442</u>

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	Balances			Balances
	June 30, 2009	Increases	Decreases	June 30, 2010
	(As Restated)			
Primary Government (continued):				
Business-Type Activities:				
<u>Water</u>				
Capital assets not being depreciated:				
Land	\$ 2,594,882	\$ -	\$ -	\$ 2,594,882
Construction in Progress	14,110,139	1,877,828	4,019,446	11,968,521
Total capital assets not being depreciated	<u>16,705,021</u>	<u>1,877,828</u>	<u>4,019,446</u>	<u>14,563,403</u>
Capital assets being depreciated:				
Buildings and system	84,323,622	4,714,744	99,924	88,938,442
Machinery and equipment	1,519,282	1,843,540	13,022	3,349,800
Improvements other than buildings	73,876	-	-	73,876
Purchased capacity	14,863,499	188,435	-	15,051,934
Other intangible	36,801	-	-	36,801
Total capital assets being depreciated	<u>100,817,080</u>	<u>6,746,719</u>	<u>112,946</u>	<u>107,450,853</u>
Less accumulated depreciation for:				
Buildings and system	38,095,489	1,811,686	66,323	39,840,852
Machinery and equipment	1,025,685	264,897	13,022	1,277,560
Improvements other than buildings	11,982	7,500	-	19,482
Purchased capacity	5,043,555	475,128	-	5,518,683
Other intangible	31,301	-	-	31,301
Total accumulated depreciation	<u>44,208,012</u>	<u>2,559,211</u>	<u>79,345</u>	<u>46,687,878</u>
Total capital assets being depreciated, net	<u>56,609,068</u>	<u>4,187,508</u>	<u>33,601</u>	<u>60,762,975</u>
Total capital assets, net - Water	<u>73,314,089</u>	<u>6,065,336</u>	<u>4,053,047</u>	<u>75,326,378</u>
<u>Sewer</u>				
Capital assets not being depreciated:				
Construction in Progress	6,855,488	2,310,661	-	9,166,149
Total capital assets not being depreciated	<u>6,352,284</u>	<u>2,310,661</u>	<u>-</u>	<u>9,166,149</u>
Capital assets being depreciated:				
Buildings and system	4,862,485	373,346	-	5,235,831
Machinery and equipment	160,905	-	-	160,905
Purchased capacity	5,005,000	-	-	5,005,000
Other intangible	9,900	-	-	9,900
Total capital assets being depreciated	<u>10,038,290</u>	<u>373,346</u>	<u>-</u>	<u>10,411,636</u>
Less accumulated depreciation for:				
Buildings and system	1,720,197	86,400	-	1,806,597
Machinery and equipment	124,044	9,475	-	133,519
Purchased capacity	1,801,800	200,200	-	2,002,000
Other intangible	825	3,300	-	4,125
Total accumulated depreciation	<u>3,646,866</u>	<u>299,375</u>	<u>-</u>	<u>3,946,241</u>
Total capital assets being depreciated, net	<u>6,391,424</u>	<u>73,971</u>	<u>-</u>	<u>6,465,395</u>
Total capital assets, net - Sewer	<u>12,743,708</u>	<u>2,384,632</u>	<u>-</u>	<u>15,631,544</u>
Total capital assets, net - Business-Type Activities	<u>86,057,797</u>	<u>8,449,968</u>	<u>4,053,047</u>	<u>90,957,922</u>
Total capital assets, net - Primary Government	<u>\$ 153,046,329</u>	<u>\$ 7,846,590</u>	<u>\$ 5,111,555</u>	<u>\$ 155,781,364</u>

CITY OF FALLS CHURCH, VIRGINIA
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Capital assets activity for component units for the year ended June 30, 2010 , is as follows:

	Balances			Balances
	June 30, 2009	Increases	Decreases	June 30, 2010
School Board:				
Capital assets not being depreciated:				
Land	\$ 1,273,354	\$ -	\$ -	\$ 1,273,354
Total capital assets not being depreciated	<u>1,273,354</u>	<u>-</u>	<u>-</u>	<u>1,273,354</u>
Capital assets being depreciated:				
Buildings and system	1,259,596	51,459	-	1,311,055
Machinery and equipment	2,269,368	325,654	301,643	2,293,379
Improvements other than buildings	10,532	-	-	10,532
Library collections	649,066	64,565	43,956	669,675
Intangible	7,996	-	-	7,996
Leasehold improvements	21,080	-	-	21,080
Total capital assets being depreciated	<u>4,217,638</u>	<u>441,678</u>	<u>345,599</u>	<u>4,313,717</u>
Less accumulated depreciation for:				
Buildings and system	236,295	40,416	-	276,711
Machinery and equipment	1,435,030	220,193	256,462	1,398,761
Improvements other than buildings	878	702	-	1,580
Library collections	463,515	111,558	43,956	531,117
Intangible	7,996	-	-	7,996
Leasehold improvements	351	2,108	-	2,459
Total accumulated depreciation	<u>2,144,065</u>	<u>374,977</u>	<u>300,418</u>	<u>2,218,624</u>
Total capital assets being depreciated, net	<u>2,073,573</u>	<u>66,701</u>	<u>45,181</u>	<u>2,095,093</u>
Total capital assets, net - School Board	<u>\$ 3,346,927</u>	<u>\$ 66,701</u>	<u>\$ -</u>	<u>\$ 3,368,447</u>
Nonmajor Component Unit:				
Capital assets not being depreciated:				
Land	\$ 517,255	\$ -	\$ -	\$ 517,255
Total capital assets not being depreciated	<u>517,255</u>	<u>-</u>	<u>-</u>	<u>517,255</u>
Total capital assets - Nonmajor Component Units	<u>\$ 517,255</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 517,255</u>

CITY OF FALLS CHURCH, VIRGINIA
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Depreciation expense for the year ended June 30, 2010, charged to the functions of the primary government and component units is as follows:

	Governmental Activities
Primary Government:	
Governmental Activities:	
General government administration	\$ 194,061
Judicial administration	44,047
Public safety	346,571
Public works	441,163
Health and welfare	4,733
Education	1,306,789
Parks, recreation, and cultural	487,788
Community development	13,751
Total depreciation expense - Governmental Activities	<u>2,838,903</u>
Business-Type Activities	
Water	2,559,211
Sewer	299,375
Total depreciation expense - Business-Type Activities	<u>2,858,586</u>
Total depreciation expense - Primary Government	<u>\$ 5,697,489</u>
Component Units:	
School Board	<u>\$ 374,977</u>
Total depreciation expense - Component Units	<u>\$ 374,977</u>

E. Unearned and Deferred Revenue

Governmental 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. Governmental activities record receivables for taxes that are assessed as of January 1 but are not yet due. Revenues from such receivables are considered to be unearned. As of June 30, 2010, the following comprise the unearned and deferred revenue reported in the governmental activities and funds:

	Governmental Activities	Governmental Funds
Unavailable:		
Delinquent property taxes	\$ -	\$ 876,831
Property taxes not yet due	22,169,614	22,169,614
Other	-	81,000
Unearned	<u>239,705</u>	<u>239,705</u>
Total Deferred Revenue	<u>\$ 22,409,319</u>	<u>\$ 23,367,150</u>

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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, 2010:

	Balance June 30, 2009 (As Restated)	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Primary Government					
Governmental activities:					
General obligation bonds payable	\$ 39,309,481	\$ -	\$ 3,627,533	\$ 35,681,948	\$ 3,642,435
Amortized premiums and discounts on bond issuance	840,128	-	42,167	797,961	-
Amortized deferred refunding amount	(340,620)	-	(37,994)	(302,626)	-
Compensated absences	2,057,361	1,520,825	1,667,820	1,910,366	1,548,695
Obligations under capital leases	32,932	-	23,594	9,338	8,829
Total long-term debt - Governmental activities	41,899,282	1,520,825	5,323,120	38,096,987	5,199,959
Business-type activities:					
Water					
General obligation bonds payable	12,125,000	10,885,000	6,235,000	16,775,000	925,000
Notes payable	6,499,442	-	1,257,017	5,242,425	413,452
Amortized discounts and premiums on bonds payable, net	(27,963)	195,053	5,781	161,309	-
Compensated absences	424,489	389,395	394,690	419,194	376,784
Total long-term debt - Water Fund	19,020,968	11,469,448	7,892,488	22,597,928	1,715,236
Sewer					
General obligation bonds payable	1,960,814	1,084,111	-	3,044,925	151,963
Revenue bonds payable	3,002,816	-	143,047	2,859,769	147,371
Notes payable	3,825,576	-	175,288	3,650,288	182,299
Compensated absences	20,651	22,713	24,224	19,140	16,496
Total long-term debt - Sewer Fund	8,809,857	1,106,824	342,559	9,574,122	498,129
Total long-term debt - Business-type activities	27,830,825	12,576,272	8,235,047	32,172,050	2,213,365
Total long-term debt - Primary Government	69,730,107	14,097,097	13,558,167	70,269,037	7,413,324
Component Units					
School Board:					
Termination benefits	5,001,000	32,000	417,000	4,616,000	365,000
Compensated absences	1,022,794	525,481	494,267	1,054,008	413,465
Obligations under capital leases	191,471	215,568	136,638	270,401	57,438
Total long-term debt - School Board	6,215,265	773,049	1,047,905	5,940,409	835,903
Total long-term debt - Component Units	6,215,265	773,049	1,047,905	5,940,409	835,903
Total long-term debt	\$ 75,945,372	\$ 14,870,146	\$ 14,606,072	\$ 76,209,446	\$ 8,249,227

During FY2010, the city capitalized interest in the Water Fund of \$542 thousand and in the Sewer Fund of \$171 thousand.

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

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reductions in its debt service payments. Such bonds are direct obligations of the City, and the full faith and credit of the City are pledged as security. The City is required to submit to public referendum for authority to issue general obligation bonds. At June 30, 2010, all authorized general obligation bonds have been issued. The following are the general obligation bonds that were outstanding as of June 30, 2010:

Governmental Activities:

\$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.	\$ 415,000
\$2,445,000 School Construction bonds issued May 2, 1996 by VPSA; interest at various rates; variable amounts maturing through January 15, 2017.	790,000
\$32,340,000 School Construction & refunding bonds issued March 18, 2004; interest at various rates; variable amounts maturing through April 1, 2024.	23,450,000
\$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.	511,500
\$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.	866,000
\$1,935,000 School Construction bonds, issued May 11, 2006 by VPSA; interest at various rates; variable amounts maturing through July 15, 2026.	1,635,000
\$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.	6,095,000
\$2,000,000 General Obligation bonds issued March 28, 2008; interest at 3.66%; variable amounts maturing through February 1, 2023.	1,733,333
\$428,800 General Obligation bonds issued March 20, 2008 through the Virginia Resources Authority (VRA); interest at 2.26%; variable principal amounts maturing annually through March 15, 2013.	186,115
Total Governmental Activities	<u>35,681,948</u>

Business-type Activities:

Water

\$5,500,000 General Obligation bonds issued November 1, 2006 for Water Fund construction and improvement costs; interest rate at 3.89%; variable principal amounts maturing through March 1, 2021.	3,700,000
\$8,220,000 General Obligations bonds issued December 1, 2007 through the VRA; interest at various rates; variable principal amounts maturing annually through October 1, 2027.	7,690,000
\$5,385,000 General Obligation bonds issued November 19, 2009 through the VRA; interest at various rates; variable principal amounts maturing annually through October 1, 2029.	5,385,000
Total Water	<u>16,775,000</u>

Sewer

\$4,100,000 Line of Credit issued on May 13, 2009 to the VRA; interest rate at 3.35%; variable principal amounts maturing semiannually through September 1, 2029.	3,044,925
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Total Business-type Activities	<u>19,819,925</u>
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Total General Obligation Bonds Payable	<u>\$ 55,501,873</u>
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CITY OF FALLS CHURCH, VIRGINIA
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Annual debt service requirements to maturity for the general obligations serviced by the City as of June 30, 2010 are summarized in the following table:

Fiscal Year Ending	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 3,642,435	\$ 1,431,998	\$ 5,074,433	\$ 1,076,963	\$ 816,839	\$ 1,893,802
2012	2,437,663	1,298,905	3,736,568	1,097,097	797,658	1,894,755
2013	2,958,916	1,171,221	4,130,137	1,122,403	754,476	1,876,879
2014	3,015,633	1,030,127	4,045,760	1,147,890	711,156	1,859,046
2015	2,150,633	910,388	3,061,021	1,178,561	666,306	1,844,867
2016-2020	10,991,668	3,246,440	14,238,108	5,334,813	2,652,629	7,987,442
2021-2025	10,295,000	1,037,333	11,332,333	5,208,257	1,550,515	6,758,772
2026-2030	190,000	9,453	199,453	4,709,017	414,640	5,123,657
Total	\$ 35,681,948	\$ 10,135,865	\$ 45,817,813	\$ 20,875,001	\$ 8,364,219	\$ 29,239,220

The total debt service requirement for principal for business-type activities differs from the bond principal balances shown in the previous table because Virginia Resources Authority (VRA) requires the payment of principal for the Sewer fund line of credit using the amortization of the full line of credit amount of \$4,100,000, whereas the principal balance as of June 30, 2010 was \$3,044,925. The City entered issued this credit on May 13, 2009 to fund its share of the construction cost of the Arlington Sewage Treatment Plant. The bond's final maturity is September 1, 2029.

As of June 30, 2010, the City's legal debt limit is approximately \$329 million and its debt margin is approximately \$270 million.

2. Revenue Bonds

In 2005, the City issued a sewer system revenue bond for \$3,275,000 to finance its share of the costs of the Arlington County's upgrades to its sewer system. The City issued this loan to the Virginia Resources Authority pursuant to the Virginia Water facilities Revolving Fund. The interest rate on this loan is 3% with variable principal amounts maturing annually through July 1, 2025. The current balance on the loan is \$2,859,769.

Annual debt service requirements to maturity for this revenue bond as of June 30, 2010 are as follows:

Fiscal Year Ending	Business-Type Activities		
	Principal	Interest	Total
2011	\$ 147,371	\$ 84,696	\$ 232,067
2012	151,824	80,242	232,066
2013	156,413	75,653	232,066
2014	161,141	70,925	232,066
2015	166,011	66,055	232,066
2016-2020	908,425	251,905	1,160,330
2021-2025	1,054,265	106,066	1,160,331
2026-2030	114,319	1,715	116,034
Total	\$ 2,859,769	\$ 737,257	\$ 3,597,026

This bond has a rate covenant with VRA which states that the City will fix and collect rates, fees and other charges for the use of and for services furnished or to be furnished by the System so that in each fiscal year, the net revenues available for debt

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service will equal at least 115% of the amount required during the fiscal year to pay the principal and interest on all the indebtedness payable from revenues of the system. For FY2010, the City met this covenant.

3. Notes Payable

As part of the City's agreement to purchase water from the Washington Aqueduct, it is required to pay debt service to the US Treasury and to the District of Columbia for loans that these entities have extended to the Washington Aqueduct to construct or acquire capital assets during 1997 and 1998. The loan to the United States Treasury carries an interest rate which varies according to a 3-month municipal bond with the same credit rating as the City. The loan has variable maturity with the last principal due in 2023. The loan to the District of Columbia carries an interest rate of 3.25% and matures in 2041.

In 2000, the City entered into an agreement with Fairfax County to pay for a portion of the County's share of the cost to upgrade the Alexandria Sanitation Plant. The City executed a note to the Fairfax County to pay its share over 25 years with an interest rate of 4%.

Annual debt service requirements to maturity for these notes are as follows:

Fiscal Year Ending	Business-Type Activities		
	Principal	Interest	Total
2011	\$ 595,751	\$ 299,440	\$ 895,191
2012	486,695	259,719	746,414
2013	568,234	261,143	829,377
2014	667,708	257,438	925,146
2015	601,031	221,426	822,457
2016-2020	3,021,541	806,535	3,828,076
2021-2025	1,873,092	385,668	2,258,760
2026-2030	328,350	154,765	483,115
2031-2035	302,886	102,697	405,583
2036-2040	350,823	50,679	401,502
2041-2042	96,602	3,775	100,377
Total	\$ 8,892,713	\$ 2,803,285	\$ 11,695,998

4. Obligations Under Capital Leases

The City and School Board lease equipment, vehicles and buses under various capital leases expiring at various dates through 2014. 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	\$ 508,384	\$ 800,595
Less: accumulated depreciation	(500,175)	(442,550)
Net	\$ 8,209	\$ 358,045

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The future minimum lease payments and net present value of these minimum lease payments as of June 30, 2010 are as follows:

Fiscal Year Ending June 30	Primary Government	Component Unit
	Governmental Activities	School Board
2011	\$ 9,177	\$ 85,930
2012	525	81,178
2013	-	81,178
2014	-	75,787
2015	-	18,562
Total minimum lease payments	9,702	342,635
Less: amount representing interest	(364)	(72,234)
Present value of minimum lease payments	\$ 9,338	\$ 270,401

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 \$98 thousand to the City and approximately \$235 thousand to the School Board for the fiscal year ended June 30, 2010. The future minimum lease payments for these leases are shown below:

Fiscal Year Ending June 30	Primary Government	Component Unit
	Governmental Activities	School Board
2011	\$ 93,854	\$ 243,876
2012	82,903	253,265
2013	58,787	263,016
2014	61,050	273,142
2015	63,400	283,658
2016-2020	282,045	1,238,619
Total	\$ 642,039	\$ 2,555,576

In October 2008, the City entered into a lease agreement to rent office space for a term of 10 years for \$4,281 per month. The lease began in July 2009. Similarly, in October 2007, the School Board entered into a lease agreement to rent office space for 10 years for \$19,549 per month which began in June 2009. Both leases include an annual increase of 3.85%. The minimum lease payments for both leases are included in the schedule above.

2. Long-term Construction and Improvement Contracts

The City has the following active construction and improvement commitments as of June 30, 2010:

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Project	Amount Spent- to-Date	Remaining Commitment
Governmental Activities:		
Broad Street Streetscape	\$ 821,590	\$ 68,463
Kent Street Drainage	399,488	83,332
Pearson's Branch Streambank Stabilization	35,347	17,703
Total Governmental Activities	1,256,425	169,498
Business-Type Activities:		
Water:		
Arlington Blvd Water Main Replacement	-	257,530
Chesterbrook Pump Station	438,850	127,147
McLean Pump Station	60,736	37,236
Seven Corners Improvement	-	157,865
Tysons Corner Marriott Water Main	62,273	6,584
Washington Aqueduct Residuals Project	9,523,227	650,569
Pump Station Control Center	14,771	42,847
Water Fund	10,099,857	1,279,778
Sewer:		
Arlington Treatment Plant	7,988,730	-
Fairfax Treatment Plant - Phase II	869,425	-
Sewer Pipes Rehabilitation	324,549	75,451
Sewer Fund	9,182,704	75,451
Total Business-Type Activities	19,282,561	1,355,229
Total	\$ 20,538,986	\$ 1,524,727

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, an agent and cost-sharing, multiple-employer defined benefit governmental retirement plan. All salaried permanent employees of the City's constitutional offices and the professional employees of the School Board participate in the VRS. The VRS is administered by a Board of Trustees. 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 with five years of service for participating law enforcement officers and firefighters) or at age 50 with 30 years of service for participating employees (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service (1.85% for eligible law enforcement officers and firefighters). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Sheriffs and eligible 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 Virginian (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

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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 is available on their web site at <http://www.varetire.org/Pdf/Publications/2009annurept.pdf> or may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

2. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. The City and School Board have assumed this 5% member contribution for their respective employees. 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 contribution rate for the fiscal year ended June 30, 2010, which includes the member contribution rate, was 5% of covered payroll. The School Board's contribution rate, which includes the member contribution rate, was 14.85% of annual covered payroll for the first three quarters of the fiscal year and 5% for the last quarter. For the last quarter of the fiscal year, the State created legislation requiring only the payment of the 5% member contribution rate.

3. Annual Pension Costs

The City's and School Board's annual pension cost and contributions made during fiscal year, 2010 was approximately \$56 thousand and \$2.21 million, respectively, which were equal to the City's and School Board's required and actual contributions. These include the contributions made by the City and the School Board on behalf of their respective employees.

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

Fiscal Year Ended June 30	City			School Board		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 55,904	100%	\$ -	2,208,206	100%	-
2009	55,025	100%	-	2,777,820	100%	-
2008	52,520	100%	-	2,927,348	100%	-

The FY2010 required contribution was determined as part of the June 30, 2007 actuarial valuation. The most recent valuation date for the plan was as of June 30, 2010. The following table shows the methods and assumptions used for the valuations as of June 30, 2007 and 2010.

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	June 30, 2007	June 30, 2010
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Pay, Open	Level Percent of Pay, Open
Payroll growth rate	3.00%	3.00%
Remaining amortization period	20 Years	20 Years
Asset valuation method	Five-Year Smoothed Market Value	Five-Year Smoothed Market Value
Actuarial assumptions:		
Investment rate of return	7.50%	7.00%
Projected salary increases (Non-LEO members)	3.75%-5.60%	3.75%-5.60%
Projected salary increases (LEO members)	3.50%-4.75%	3.50%-4.75%
Cost of living adjustment	2.50%	2.50%

4. Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the City's plan was 110.27% funded. The actuarial accrued liability for benefits was \$3,300,658 and the actuarial value of assets was \$3,639,494, resulting in an unfunded actuarial accrued liability (UAAL) of negative \$338,836. The covered payroll was \$1,077,970, and the ratio of the UAAL to the covered payroll was negative 31.43%

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

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

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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, 2010, the date of the most recent valuation, were as follows:

	Basic	Police
Retirees and beneficiaries	172	27
Terminated vested members	53	5
Active members	306	30
Total	531	62

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, 2010. 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 2010, the contributions rate was 7.06% of annual covered payroll for the Basic Pension Plan and 5.46% for the Police Pension Plan. In 2001, the plan was amended to allow permanent employees who were formerly temporary employees who worked more than 20 hours per week to buy back that period for which they were not eligible due to their temporary status. The rate of contribution by these employees is 5% of current salary for each month they are buying back. Administrative costs are borne by the assets of the plans.

On July 28, 2008, the City Council approved an amendment to the plans to allow employees to purchase up to four years credit for service with other governmental employers; Federal, State or local. The contribution for the purchase of credit is to be actuarially determined in order to make such purchase financially neutral to the pension funds.

Effective July 1, 2010, the City Council amended both plans so that employees will be required to contribute 1.6% for the Basic Plan and 2.2% for the Police Plan.

4. Annual Pension Cost

Annual pension cost and contributions made during fiscal year 2010 was approximately \$1.1 million and \$126 thousand for Basic and Police Pension Plans, respectively, which were equal to the required and actual contributions.

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

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Fiscal Year Ended June 30	Basic			Police		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 1,096,837	100.00%	\$ -	\$ 126,477	100.00%	\$ -
2009	1,077,121	100.00%	-	20,622	100.00%	-
2008	707,446	100.00%	-	-	100.00%	-

The following are the relevant actuarial information for the Basic and Police Pension Plans as of July 1, 2008, the valuation date which the annual pension costs are based on:

	Basic	Police
Contribution rate:		
City	7.06%	5.46%
Plan members	0%	0%
Annual pension cost	1,077,121	20,622
Contributions made	1,077,121	20,622
Actuarial valuation date	July 1, 2008	July 1, 2008
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%

The following are the relevant actuarial information for the Basic and Police Pension Plans as of July 1, 2010, the date of the most recent valuation, are based on:

	Basic	Police
Actuarial valuation date	July 1, 2010	July 1, 2010
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	7.50%	7.50%
Projected salary increases	4.50%	4.50%
Includes inflation at	3%	3%
Cost of living adjustments	1.375%	1.375%

The Retirement Board recommended changes to the assumptions in 2010 in order to reflect plan experience more accurately in the actuarial calculations.

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5. Funded Status and Funding Progress

The funded status of the plans as of July 1, 2010, the date of the most recent valuation date is as follows:

Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Basic	\$ 61,080,226	\$ 67,471,940	\$ 6,391,714	90.53%	\$ 15,227,636	41.97%
Police	\$ 16,935,423	\$ 18,296,910	\$ 1,361,487	92.56%	\$ 2,192,654	62.09%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

V. OTHER POSTEMPLOYMENT BENEFITS

The City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits and who retire from the City under City Council resolution number 82-20. There is no provision for deferral of benefits for employees who separate from City employment without retiring. The School Board also provides post-retirement health insurance benefits for eligible retirees. In FY2008 the City chose to implement Governmental Accounting Standards Board Statements 43 (Financial Reporting for Postemployment Benefit Plans Other than Pension Plans) and 45 (Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions). An irrevocable trust fund was established July 1, 2007 by action of City Council for purposes of pooling, accumulating and accounting for assets necessary to fund the City's and the School Board's future obligations for other post employment benefits. The trust fund is administered by the OPEB Finance Board consisting of the City Treasurer, Chief Financial Officer, and a citizen appointee.

The plans do not issue separate financial statements.

A. Summary of Significant Accounting Policies

Financial statements are prepared on the accrual basis of accounting. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30, 2010. Securities without an established market are reported at estimated fair value.

B. Plan Descriptions and Contribution Information

The City and School Board OPEB plans are single-employer defined benefit post-employment healthcare plans that cover retired City and School Board employees. The City pays up to one-half of the health insurance premiums for General Government employees. The School Board pays up to forty percent of the health insurance premiums of School Board employees depending on years of service and/or date of hire. The City Council and the School Board have the authority to change these benefits for the City employees and School Board employees, respectively.

Membership in the plan consisted of the following at June 30, 2010, the date of the latest actuarial valuation:

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	City	School Board
Retirees and beneficiaries	90	51
Active members	235	383
Total	325	434

C. Funded Status and Funding Progress

Contribution requirements for City employees and the City are established by City Council. Contribution requirements for School Board employees and the School Board are established by the School Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually.

The City's and the School Board's OPEB cost (expense) is based on *the annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's and the School Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in their net OPEB asset.

	City	School Board
Annual Required Contribution (ARC)	\$ 917,000	\$ 751,000
Interest on prior year OPEB asset	(80,000)	(68,000)
Adjustment to the ARC	51,000	43,000
Net OPEB Cost	888,000	726,000
Contributions made	1,039,000	671,000
Increase (decrease) in net OPEB asset	151,000	(55,000)
Net OPEB asset, beginning of year (As Restated)	1,002,000	852,000
Net OPEB asset - end of year	\$ 1,153,000	\$ 797,000

The City's and School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the past three years were as follows:

Fiscal Year Ended	City			School Board		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
6/30/2010	\$ 888,000	117.53%	\$ (1,158,000)	\$ 726,000	92.37%	\$ (797,000)
6/30/2009	693,000	134.22%	(551,140)	393,000	184.26%	(407,161)
6/30/2008	714,000	207.14%	(574,000)	410,000	227.07%	(302,000)

The funded status of the plans as of June 30, 2010, the most recent actuarial valuation date, are as follows:

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	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
City	\$ 1,795,000	\$ 11,456,000	\$ 9,661,000	15.67%	\$ 11,095,713	87.07%
School Board	\$ 1,270,000	\$ 6,040,000	\$ 4,770,000	21.03%	\$ 14,400,004	33.12%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employments, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the City in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plans (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and School Board and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

	City	School Board
Actuarial valuation date	June 30, 2010	June 30, 2010
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll	Level percentage of payroll
Remaining Amortization period	26	26
Asset valuation method	5-year Smoothed method	5-year Smoothed method
Actuarial assumptions:		
Payroll growth rate	4.55%	4.50%
Investment rate of return	7.50%	7.50%
Consumer Price Index	2.75%	2.75%
Healthcare cost trend	Getzen Model	Getzen Model
2010-2011	8.20%	8.20%
2011-2012	7.30%	7.30%
Ultimate	4.90%	4.90%

VI. 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).

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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.

During FY2010, the City received \$3.2 million in recoveries from insurance for legal costs incurred in a lawsuit during FY2009 and FY2010. This amount is shown in the Statement of Revenues, Expenses and Changes in Net Assets for the Water Fund, net of legal costs incurred during FY2010 of \$2.2 million.

The School Board 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 Liberty Mutual. 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, 2010 were approximately \$627 thousand and \$223 thousand respectively.

VII. CONTINGENCIES AND SUBSEQUENT EVENTS

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.

In FY2009, the City was subject to a lawsuit filed by Fairfax County Water Authority (FCWA), asserting, among other things, the unconstitutionality under the Virginia Constitution of the City's rates, fees and charges for public water specifically due to a management fee transfer from the Water Fund to the General Fund, which is included in the calculation of rates, fees, and charges. Approximately 90% of the City's water customers live outside its jurisdiction in Fairfax County. FCWA asked the Circuit Court to declare the City's practice of transferring management fee from the Water Fund to its General Fund as unconstitutional and to enjoin the City from continuing that practice in the future. On January 6, 2010, the Circuit Court ruled against the City and enjoined the City from transferring any money from the Water Fund for purposes unrelated to the water system, including the management fee for FY2009 and FY2010. The City filed a Petition for Appeal with the Supreme Court of Virginia. On September 1, 2010, a three-judge panel denied to hear the appeal. The City filed a Petition for Rehearing on September 15, 2010 to request that the Court grant the City's Petition for Appeal which was denied on November 15, 2010. No damages were sought by FCWA. However, the City's General Fund is liable to its Water Fund for the FY2009 management of \$2,254,041 plus 6% interest from October 7, 2009. As of June 30, 2010, the liability from the General Fund to the Water Fund was \$2,352,601. This liability is shown in the City's fund financial statements and entity-wide Statement of Net Assets as Due To/From Other Funds.

As a result of the ruling, the City had received lawsuit from twelve customers for the return of the said unconstitutional tax with a value of \$777 thousand plus interest of 10%. In addition, the City had received several letters from customers claiming refunds due. At this time, it is not possible to estimate the value of these claims. The City's legal counsel has not yet determined the likelihood of the favorability or unfavorability of the outcome. No liability has been recorded in the City's financial statements for these claims.

In December 2010, Arlington County claimed new charges against the City for the use of the County's jail for FY2007 through FY2010. The new charges result from a correction by Arlington County of actual prisoner population. The new charges are approximately \$892 thousand. The City recently concluded discussions with Arlington County regarding these costs whereby the County has agreed to waive the charges for FY2007-FY2009. The FY2010 cost of \$124 thousand will be paid by the City in FY2012 in accordance with

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current practice. This amount has been included in the governmental activities of the Statement of Net Assets as a liability and in the Statement of Activities as expense.

The City, along with other jurisdictions in Virginia, is subject to litigation from a public service corporation alleging erroneous assessment of its assets. The City has joined with the other jurisdictions in Virginia in defense. The annual impact to the City is \$120 thousand. The City believes the likelihood of loss is remote.

The City is contingently liable with respect to other 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.

VIII. FUTURE ACCOUNTING CHANGES

As of June 30, 2010 the Governmental Accounting Standards Board (GASB) had issued the following statements that will be applicable to the City's future financial statements:

- Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. This Statement is effective for the City's financial statements for fiscal year ending June 30, 2011.
- Statement No. 59 – *Financial Instruments Omnibus*. National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, regarding certain financial guarantees.
 - Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.
 - Statement 31, is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.
 - Statement No. 40, *Deposit and Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool.
 - Statement 53 is amended to:
 - Clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance
 - Provide that financial guarantee contracts included in the scope of Statement 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit
 - Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement 53
 - Provide that one of the "leveraged yield" criteria of Statement 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield.

This Statement is effective for the City's financial statements for fiscal year ending June 30, 2011.

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**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR JUNE 30, 2010**

**FINANCIAL SECTION
REQUIRED SUPPLEMENTARY
INFORMATION**



WebGIS overhead view of the City Hall

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

A. SCHEDULE OF FUNDING PROGRESS**1. Virginia Retirement System (VRS) for City's Constitutional Officers**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
6/30/2010	\$ 3,639	\$ 3,301	\$ (338)	110.2%	\$ 1,078	(31.4%)
6/30/2009	3,646	2,915	(731)	125.1%	1,071	(68.3%)
6/30/2008	3,651	2,664	(987)	137.0%	1,017	(97.1%)

2. 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)
7/1/2010	6/30/2012	\$ 61,080	\$ 67,472	\$ 6,392	90.5%	\$ 15,228	42.0%
7/1/2009	6/30/2011	61,647	60,662	(985)	101.6%	15,594	(6.3%)
7/1/2008	6/30/2010	61,233	54,914	(6,319)	111.5%	14,767	(42.8%)

3. 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)
7/1/2010	6/30/2012	\$ 16,935	\$ 18,297	\$ 1,362	92.6%	\$ 2,193	62.1%
7/1/2009	6/30/2011	17,209	16,546	(663)	104.0%	2,316	(28.6%)
7/1/2008	6/30/2010	17,267	15,007	(2,260)	115.1%	2,277	(99.3%)

4. Other Post-Employment Benefits Plan - City

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
6/30/2010	\$ 1,795	\$ 11,456	\$ 9,661	15.7%	\$ 11,096	87.1%
6/30/2008	1,013	10,417	9,404	9.7%	11,248	83.6%
6/30/2006	-	7,548	7,548	0.0%	9,827	76.8%

5. Other Post-Employment Benefits Plan - School Board

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
6/30/2010	\$ 1,270	\$ 6,040	\$ 4,770	21.0%	\$ 14,400	33.1%
6/30/2008	610	6,632	6,022	9.2%	14,278	42.2%
6/30/2006	-	3,462	3,462	0.0%	12,959	26.7%

See accompanying Independent Auditors' Report.

**CITY OF FALLS CHURCH, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION**

B. SCHEDULE OF EMPLOYER CONTRIBUTIONS**1. Basic Pension Plan**

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2010	\$ 1,096,837	100%
2009	1,077,121	100%
2008	707,446	100%

2. Police Pension Plan

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2010	\$ 126,477	100%
2009	20,622	100%
2008	-	-

3. Other Post-Employment Benefits - City

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2010	\$ 917,000	114%
2009	716,000	130%
2008	714,000	207%

4. Other Post-Employment Benefits - School Board

Plan Year Ended June 30	Annual Required Contribution	% Contributed by Employer
2010	\$ 751,000	89%
2009	409,000	177%
2008	410,000	227%

C. NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

1. The actuarial assumptions and methods used for the valuation date of July 1, 2010 for the Basic and Police Pension Plans and Other Post-Employment Benefit Plans are disclosed in the Notes to the Financial Statements. The actuarial assumptions and methods used for the valuation date of June 30, 2009 for the VRS are also disclosed in the Notes to the Financial Statements. The actuarial assumptions and methods used for the valuation date of June 30, 2010 for the Other Post-Employment Benefit Plans for the City and School Board are disclosed in the Notes to the Financial Statements.

2. Readers may obtain a copy of the VRS comprehensive annual financial report that includes financial statements and required supplementary information by writing to the VRS at P.P. Box 2500, Richmond, VA 23218-2500. Readers may also obtain a copy of the Basic and Police Pension Plan financial reports that include financial statements and required supplementary information for the plans at the City office.

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**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR JUNE 30, 2010**

**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.



CITY OF FALLS CHURCH, VIRGINIA
COMBINING SCHEDULE OF FIDUCIARY NET ASSETS - POST-EMPLOYMENT TRUST FUNDS
As of June 30, 2010

	<u>Basic Plan</u>	<u>Police Plan</u>	<u>Other Post Employment Benefits</u>	<u>School Board Other Post- Employment Benefits</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 1,610,527	\$ 323,509	\$ 998,592	\$ 765,154	\$ 3,697,782
Investments:					
Domestic equity securities	24,994,062	7,029,664	505,582	314,328	32,843,636
Domestic fixed income securities	13,619,227	3,619,003	382,295	237,678	17,858,203
International equity securities	9,323,865	2,644,615	-	-	11,968,480
Real estate	1,859,759	489,233	-	-	2,348,992
Other	16,608	88,524	-	-	105,132
Total investments	<u>49,813,521</u>	<u>13,871,039</u>	<u>887,877</u>	<u>552,006</u>	<u>65,124,443</u>
Interest and dividend receivable	<u>17,401</u>	<u>4,926</u>	<u>958</u>	<u>596</u>	<u>23,881</u>
 Total Assets	 <u>51,441,449</u>	 <u>14,199,474</u>	 <u>1,887,427</u>	 <u>1,317,756</u>	 <u>68,846,106</u>
LIABILITIES					
Accounts payable	704	235	-	-	939
Due to general fund	<u>206,542</u>	<u>53,559</u>	<u>92,756</u>	<u>47,849</u>	<u>400,706</u>
 Total Liabilities	 <u>207,246</u>	 <u>53,794</u>	 <u>92,756</u>	 <u>47,849</u>	 <u>401,645</u>
NET ASSETS					
Held in trust for pension benefits	51,234,203	14,145,680	-	-	65,379,883
Held in trust for other post-employment benefits	<u>-</u>	<u>-</u>	<u>1,794,671</u>	<u>1,269,907</u>	<u>3,064,578</u>
 Total Net Assets	 <u>\$ 51,234,203</u>	 <u>\$ 14,145,680</u>	 <u>\$ 1,794,671</u>	 <u>\$ 1,269,907</u>	 <u>\$ 68,444,461</u>

See accompanying independent auditors' report.

CITY OF FALLS CHURCH, VIRGINIA
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS - POST-EMPLOYMENT TRUST FUNDS
For the Year Ended June 30, 2010

	<u>Basic Plan</u>	<u>Police Plan</u>	<u>Other Post Employment Benefits</u>	<u>School Board Other Post- Employment Benefits</u>	<u>Total</u>
ADDITIONS					
Employer contributions	\$ 1,166,474	\$ 124,864	\$ 716,633	\$ 418,600	\$ 2,426,571
Employee contributions	113,399	49,599	-	-	162,998
Investment earnings:					
Interest	142,752	76,140	971	824	220,687
Dividends	525,023	152,478	26,860	16,715	721,076
Net increase in the fair value of investments	3,554,404	935,274	93,326	58,022	4,641,026
Total investment earnings	4,222,179	1,163,892	121,157	75,561	5,582,789
Less investment expense	(236,756)	(67,924)	(4,771)	(3,027)	(312,478)
Net investment earnings	3,985,423	1,095,968	116,386	72,534	5,270,311
Total Additions	5,265,296	1,270,431	833,019	491,134	7,859,880
DEDUCTIONS					
Benefits	2,496,323	589,057	286,575	114,707	3,486,662
Administration	58,742	24,445	18,849	18,849	120,885
Total Deductions	2,555,065	613,502	305,424	133,556	3,607,547
Change in Net Assets	2,710,231	656,929	527,595	357,578	4,252,333
Net Assets at Beginning of Year	48,523,972	13,488,751	1,267,076	912,329	64,192,128
Net Assets at End of Year	\$ 51,234,203	\$ 14,145,680	\$ 1,794,671	\$ 1,269,907	68,444,461

See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
 COMBINING STATEMENT OF AGENCY NET ASSETS
 As of June 30, 2010

	<u>Fairfax County Water Authority Fund</u>	<u>Northern Virginia Criminal Justice Academy Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ -	1,967,917	\$ 1,967,917
Other receivables	1,386,129	-	1,386,129
Due from general fund	1,373,153	-	1,373,153
	<u>1,373,153</u>	<u>-</u>	<u>1,373,153</u>
Total Assets	<u>\$ 2,759,282</u>	<u>\$ 1,967,917</u>	<u>\$ 4,727,199</u>
LIABILITIES			
Due to other governments	\$ 2,759,282	\$ 1,967,917	\$ 4,727,199
Total Liabilities	<u>\$ 2,759,282</u>	<u>\$ 1,967,917</u>	<u>\$ 4,727,199</u>

**CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2010**

	<u>Balances July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2010</u>
Fairfax County Water Authority Fund				
ASSETS				
Accounts receivables	\$ 1,320,017	\$14,860,788	\$14,794,676	\$ 1,386,129
Due from general fund	<u>1,477,723</u>	<u>14,623,308</u>	<u>14,727,878</u>	<u>1,373,153</u>
Total Assets	<u>\$ 2,797,740</u>	<u>\$29,484,096</u>	<u>\$29,522,554</u>	<u>\$ 2,759,282</u>
LIABILITIES				
Due to other governments	<u>\$ 2,797,740</u>	<u>\$29,484,096</u>	<u>\$29,522,554</u>	<u>\$ 2,759,282</u>
Total Liabilities	<u>\$ 2,797,740</u>	<u>\$29,484,096</u>	<u>\$29,522,554</u>	<u>\$ 2,759,282</u>
Northern Virginia Criminal Justice Academy Fund				
ASSETS				
Cash and cash equivalents	<u>\$ 2,561,909</u>	<u>\$ 911,415</u>	<u>\$ 1,505,407</u>	<u>\$ 1,967,917</u>
Total Assets	<u>\$ 2,561,909</u>	<u>\$ 911,415</u>	<u>\$ 1,505,407</u>	<u>\$ 1,967,917</u>
LIABILITIES				
Due to other governments	\$ 1,876,784	\$ 8,800,156	\$ 8,709,023	\$ 1,967,917
Due to general fund	<u>685,125</u>	<u>9,620,438</u>	<u>10,305,563</u>	<u>-</u>
Total Liabilities	<u>\$ 2,561,909</u>	<u>\$18,420,594</u>	<u>\$19,014,586</u>	<u>\$ 1,967,917</u>
Total				
ASSETS				
Cash and cash equivalents	\$ 2,561,909	\$ 911,415	\$ 1,505,407	\$ 1,967,917
Other receivables	1,320,017	14,860,788	14,794,676	1,386,129
Due from general fund	<u>1,477,723</u>	<u>14,623,308</u>	<u>14,727,878</u>	<u>1,373,153</u>
Total Assets	<u>\$ 5,359,649</u>	<u>\$30,395,511</u>	<u>\$31,027,961</u>	<u>\$ 4,727,199</u>
LIABILITIES				
Due to other governments	\$ 4,674,524	\$38,284,252	\$38,231,577	\$ 4,727,199
Due to general fund	<u>685,125</u>	<u>9,620,438</u>	<u>10,305,563</u>	<u>-</u>
Total Liabilities	<u>\$ 5,359,649</u>	<u>\$47,904,690</u>	<u>\$48,537,140</u>	<u>\$ 4,727,199</u>

See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
 CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 As of June 30, 2010

	<u>Operating Fund</u>	<u>School Community Service Fund</u>	<u>Nonmajor Governmental School Food Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,976,230	\$ 559,258	\$ 162,108	\$ 2,697,596
Accounts receivable	40,472	34,938	-	75,410
Due from primary government	3,499,197	122,786	54,731	3,676,714
Due from fiduciary funds	28,847	-	-	28,847
Due from other governmental units	694,907	-	15,002	709,909
Prepaid expense	190,930	-	-	190,930
	<u>6,430,583</u>	<u>716,982</u>	<u>231,841</u>	<u>7,379,406</u>
Total Assets	<u>\$ 6,430,583</u>	<u>\$ 716,982</u>	<u>\$ 231,841</u>	<u>\$ 7,379,406</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 3,896,309	\$ 83,875	\$ 51,037	\$ 4,031,221
Total Liabilities	<u>3,896,309</u>	<u>83,875</u>	<u>51,037</u>	<u>4,031,221</u>
Fund Balances:				
Reserved for:				
Encumbrances	36,765	554	-	37,319
Prepaid items	190,930	-	-	190,930
Unreserved:				
Undesignated	<u>2,306,579</u>	<u>632,553</u>	<u>180,804</u>	<u>3,119,936</u>
Total Fund Balances	<u>2,534,274</u>	<u>633,107</u>	<u>180,804</u>	<u>3,348,185</u>
Total Liabilities and Fund Balances	<u>\$ 6,430,583</u>	<u>\$ 716,982</u>	<u>\$ 231,841</u>	<u>\$ 7,379,406</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, 2010

Fund balances - total governmental funds		\$	3,348,185
<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			5,587,071
Less accumulated depreciation			(2,218,624)
			3,368,447
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.</p>			
Deferred compensation payable			(4,616,000)
Compensated absences			(1,054,008)
Capital leases payable			(270,401)
			(5,940,409)
<p>Deferred OPEB charges reported in governmental activities use current financial resources and therefore are reported as expenditures in the governmental fund financial statements but are reported as an asset in the governmental activities of the Statement of Net Assets.</p>			
			797,000
<p>Governmental activities recognize rent expense equally over the term of the lease agreement whereas governmental funds report only the outlays for rent payments as expenditure. The difference is included in other accrued liabilities in the governmental activities of the Statement of Net Assets.</p>			
			(50,732)
			(50,732)
Net Assets of Governmental Activities		\$	1,522,491

See accompanying Independent Auditors' Report.

**CITY OF FALLS CHURCH, VIRGINIA
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010**

	<u>Operating Fund</u>	<u>School Community Service Fund</u>	<u>Nonmajor Governmental School Food Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Revenue from use of money and property	\$ 30,373	\$ 57,484	\$ -	\$ 87,857
Charges for services	289,000	883,857	589,918	1,762,775
Miscellaneous	19,737	44,226	-	63,963
Intergovernmental:				
Federal	1,007,595	-	110,967	1,118,562
Commonwealth	4,681,619	-	7,802	4,689,421
Primary government	28,836,275	488,550	-	29,324,825
Total Revenues	<u>34,864,599</u>	<u>1,474,117</u>	<u>708,687</u>	<u>37,047,403</u>
EXPENDITURES				
Current:				
Education	33,630,460	1,313,629	714,664	35,658,753
Capital outlay	768,656	52,513	29,741	850,910
Debt service:				
Principal	82,666	-	-	82,666
Interest	27,760	-	-	27,760
Total Expenditures	<u>34,509,542</u>	<u>1,366,142</u>	<u>744,405</u>	<u>36,620,089</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>355,057</u>	<u>107,975</u>	<u>(35,718)</u>	<u>427,314</u>
Other financing sources/(uses):				
Transfers in/(out)	66,500	(23,000)	(43,500)	-
Proceeds from capital leases	161,597	-	-	161,597
Total Other Financing Sources/(Uses)	<u>228,097</u>	<u>(23,000)</u>	<u>(43,500)</u>	<u>161,597</u>
Net Change in Fund Balances	<u>583,154</u>	<u>84,975</u>	<u>(79,218)</u>	<u>588,911</u>
Fund Balances at Beginning of Year	<u>1,951,120</u>	<u>548,132</u>	<u>260,022</u>	<u>2,759,274</u>
Fund Balances at End of Year	<u>\$ 2,534,274</u>	<u>\$ 633,107</u>	<u>\$ 180,804</u>	<u>\$ 3,348,185</u>

See accompanying Independent Auditors' Report.

**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, 2010**

Net change in fund balances - total governmental funds	\$	588,911
<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	441,678	
Less current year depreciation	(374,977)	66,701
<p>Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.</p>		
Gain on disposal of assets		(45,182)
<p>Governmental funds report outlays for the contribution to the other post-employment benefit trust fund. It also reports outlays for implicit subsidies of other post-employment benefit provided to retirees. Governmental activities recognize an expense that is equal to the annual required contribution (ARC) and the amortization of prior underpayments/overpayments in the governmental activities of the Statement of Changes in Net Assets.</p>		
		(55,000)
<p>Governmental activities recognize rent expense equally over the term of the lease agreement whereas governmental funds report only the outlays for rent payments as expenditure.</p>		
		(44,342)
<p>The issuance of long-term debt (e.g., capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, issuing debt increases long-term liabilities and the repayment of debt reduces long-term liabilities in the Statement of Net Assets, but these transactions do not affect the Statement of Activities.</p>		
Proceeds from capital leases		(161,597)
Principal payments on capital leases		82,666
<p>Governmental funds report outlays for termination benefit payments in the current period. Governmental activities record such payments as reduction of the termination benefits liability. Expenses for changes in the liability due to change in compensation are recorded in the Statement of Activities.</p>		
		385,000
<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		(31,214)
Change in Net Assets of Governmental Activities	\$	785,943

See accompanying Independent Auditors' Report.

CITY OF FALLS CHURCH, VIRGINIA
 CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
 OPERATING FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final		
REVENUES				
Revenue from use of money and property	\$ 80,000	\$ 80,000	\$ 30,373	\$ (49,627)
Charges for services	291,500	291,500	289,000	(2,500)
Miscellaneous	324,000	324,000	19,737	(304,263)
Intergovernmental:				
Commonwealth	5,256,700	5,256,700	4,681,619	(575,081)
Federal	624,600	624,600	1,007,595	382,995
Primary government	29,136,275	29,136,275	28,836,275	(300,000)
Total Revenues	<u>35,713,075</u>	<u>35,713,075</u>	<u>34,864,599</u>	<u>(848,476)</u>
EXPENDITURES				
Current:				
Education	36,367,496	36,284,139	33,630,460	2,653,679
Capital outlay	495,079	672,794	768,656	(95,862)
Debt service:				
Principal	16,000	15,700	82,666	(66,966)
Interest	-	-	27,760	(27,760)
Total Expenditures	<u>36,878,575</u>	<u>36,972,633</u>	<u>34,509,542</u>	<u>2,463,091</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>(1,165,500)</u>	<u>(1,259,558)</u>	<u>355,057</u>	<u>1,614,615</u>
Other financing sources/(uses):				
Transfers in/(out)	65,500	66,500	66,500	-
Proceeds from capital leases	-	-	161,597	161,597
Total Other Financing Sources/(Uses)	<u>65,500</u>	<u>66,500</u>	<u>228,097</u>	<u>161,597</u>
Net Change in Fund Balances	(1,100,000)	(1,193,058)	583,154	1,776,212
Fund Balances at Beginning of Year	<u>1,951,120</u>	<u>1,951,120</u>	<u>1,951,120</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 851,120</u>	<u>\$ 758,062</u>	<u>\$ 2,534,274</u>	<u>\$ 1,776,212</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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Revenue from use of money and property	\$ 97,900	\$ 97,900	\$ 57,484	\$ (40,416)
Charges for services	1,087,450	1,087,450	883,857	(203,593)
Miscellaneous	78,400	78,400	44,226	(34,174)
Intergovernmental:				
Primary government	<u>488,550</u>	<u>488,550</u>	<u>488,550</u>	<u>-</u>
Total Revenues	<u>1,752,300</u>	<u>1,752,300</u>	<u>1,474,117</u>	<u>(278,183)</u>
EXPENDITURES				
Current:				
Education	1,674,300	1,679,478	1,313,629	365,849
Capital Outlay	<u>130,500</u>	<u>141,034</u>	<u>52,513</u>	<u>88,521</u>
Total Expenditures	<u>1,804,800</u>	<u>1,820,512</u>	<u>1,366,142</u>	<u>454,370</u>
Excess of revenues over expenditures	<u>(52,500)</u>	<u>(68,212)</u>	<u>107,975</u>	<u>176,187</u>
Other financing sources/(uses):				
Transfers in/(out)	<u>(23,000)</u>	<u>(23,000)</u>	<u>(23,000)</u>	<u>-</u>
Total Other Financing Sources/(Uses)	<u>(23,000)</u>	<u>(23,000)</u>	<u>(23,000)</u>	<u>-</u>
Net Change in Fund Balances	(75,500)	(91,212)	84,975	176,187
Fund Balances at Beginning of Year	<u>548,132</u>	<u>548,132</u>	<u>548,132</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 472,632</u>	<u>\$ 456,920</u>	<u>\$ 633,107</u>	<u>\$ 176,187</u>

CITY OF FALLS CHURCH, VIRGINIA
 CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD
 STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 As of June 30, 2010

	<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>
ASSETS					
Cash and cash equivalents	\$ 16,352	\$ 30,625	\$ 33,799	\$ 249,391	\$ 330,167
Total Assets	<u>\$ 16,352</u>	<u>\$ 30,625</u>	<u>\$ 33,799</u>	<u>\$ 249,391</u>	<u>\$ 330,167</u>
LIABILITIES					
Amounts held for others	\$ 16,352	\$ 30,625	\$ 33,799	\$ 249,391	\$ 330,167
Total Liabilities	<u>\$ 16,352</u>	<u>\$ 30,625</u>	<u>\$ 33,799</u>	<u>\$ 249,391</u>	<u>\$ 330,167</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, 2010

	<u>Balances July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2010</u>
THOMAS JEFFERSON ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 17,116	\$ 26,871	\$ 27,635	\$ 16,352
Total Assets	<u>\$ 17,116</u>	<u>\$ 26,871</u>	<u>\$ 27,635</u>	<u>\$ 16,352</u>
Liabilities				
Amounts held for others	\$ 17,116	\$ 26,871	\$ 27,635	\$ 16,352
Total Liabilities	<u>\$ 17,116</u>	<u>\$ 26,871</u>	<u>\$ 27,635</u>	<u>\$ 16,352</u>
MT. DANIEL ELEMENTARY				
Assets				
Cash and cash equivalents	\$ 26,063	\$ 29,387	\$ 24,825	\$ 30,625
Total Assets	<u>\$ 26,063</u>	<u>\$ 29,387</u>	<u>\$ 24,825</u>	<u>\$ 30,625</u>
Liabilities				
Amounts held for others	\$ 26,063	\$ 29,387	\$ 24,825	\$ 30,625
Total Liabilities	<u>\$ 26,063</u>	<u>\$ 29,387</u>	<u>\$ 24,825</u>	<u>\$ 30,625</u>
MARY ELLEN HENDERSON MIDDLE SCHOOL				
Assets				
Cash and cash equivalents	\$ 30,296	\$ 73,839	\$ 70,336	\$ 33,799
Total Assets	<u>\$ 30,296</u>	<u>\$ 73,839</u>	<u>\$ 70,336</u>	<u>\$ 33,799</u>
Liabilities				
Amounts held for others	\$ 30,296	\$ 73,839	\$ 70,336	\$ 33,799
Total Liabilities	<u>\$ 30,296</u>	<u>\$ 73,839</u>	<u>\$ 70,336</u>	<u>\$ 33,799</u>
GEORGE MASON HIGH SCHOOL				
Assets				
Cash and cash equivalents	\$ 229,196	\$ 452,235	\$ 432,040	\$ 249,391
Total Assets	<u>\$ 229,196</u>	<u>\$ 452,235</u>	<u>\$ 432,040</u>	<u>\$ 249,391</u>
Liabilities				
Amounts held for others	\$ 229,196	\$ 452,235	\$ 432,040	\$ 249,391
Total Liabilities	<u>\$ 229,196</u>	<u>\$ 452,235</u>	<u>\$ 432,040</u>	<u>\$ 249,391</u>
TOTAL				
Assets				
Cash and cash equivalents	\$ 302,671	\$ 582,332	\$ 554,836	\$ 330,167
Total Assets	<u>\$ 302,671</u>	<u>\$ 582,332</u>	<u>\$ 554,836</u>	<u>\$ 330,167</u>
Liabilities				
Amounts held for others	\$ 302,671	\$ 582,332	\$ 554,836	\$ 330,167
Total Liabilities	<u>\$ 302,671</u>	<u>\$ 582,332</u>	<u>\$ 554,836</u>	<u>\$ 330,167</u>

See accompanying Independent Auditors' Report.

**CITY OF FALLS CHURCH, VIRGINIA
BALANCE SHEET
NON-MAJOR COMPONENT UNITS
As of June 30, 2010**

	<u>Economic Development Authority</u>
ASSETS	
Cash and cash equivalents	\$ 141,000
Total Assets	<u>\$ 141,000</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Due to primary government	\$ 19,333
Total Liabilities	<u>19,333</u>
Fund Balances:	
Unreserved and undesignated	121,667
Total Fund Balances	<u>121,667</u>
Total Liabilities and Fund Balances	<u>\$ 141,000</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>638,922</u>

See accompanying Independent Auditors' Report.

**CITY OF FALLS CHURCH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR COMPONENT UNITS
For the Year Ended June 30, 2010**

	<u>Economic Development Authority</u>
REVENUES	
Revenue from use of money and property	\$ 492
Miscellaneous	<u>22,050</u>
Total Revenues	<u>22,542</u>
EXPENDITURES	
Current:	
Economic development	<u>54,362</u>
Total Expenditures	<u>54,362</u>
Excess/(deficiency) of revenues over expenditures	<u>(31,820)</u>
Net Change in Fund Balances	(31,820)
Fund Balances at Beginning of Year	<u>153,487</u>
Fund Balances at End of Year	<u><u>\$ 121,667</u></u>
Net change in fund balances - total governmental funds	<u>\$ (31,820)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (31,820)</u></u>

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**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR JUNE 30, 2010**

**STATISTICAL SECTION
(UNAUDITED)**



Memorial Day parade is just one among several community events celebrated at the City. A dance team is shown participating in the parade.

**CITY OF FALLS CHURCH, VIRGINIA
STATISTICAL SECTION (Unaudited)
Year Ended June 30, 2010**

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 Eight Fiscal Years*
(Accrual Basis of Accounting)

TABLE 1

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009**	2010
Governmental activities								
Invested in capital assets, net of related debt	\$ 10,457,691	\$ 16,988,211	\$ 19,354,251	\$ 18,918,420	\$ 23,379,076	\$ 25,612,690	\$ 27,502,320	\$ 28,758,627
Restricted	-	-	-	-	-	-	-	70,153
Unrestricted	16,655,649	13,159,880	15,126,942	19,001,599	16,859,105	14,477,291	9,312,853	4,027,491
Total Governmental Activities Net Assets	<u>27,113,340</u>	<u>30,148,091</u>	<u>34,481,193</u>	<u>37,920,019</u>	<u>40,238,181</u>	<u>40,089,981</u>	<u>36,815,173</u>	<u>32,856,271</u>
Business-type activities								
Invested in capital assets, net of related debt	44,398,730	47,421,241	49,170,424	50,534,282	50,471,649	51,078,151	60,392,743	60,677,853
Unrestricted	32,160,088	23,376,153	22,433,855	21,757,554	26,947,631	11,185,756	21,437,246	28,109,384
Total Business-type Activities Net Assets	<u>76,558,818</u>	<u>70,797,394</u>	<u>71,604,279</u>	<u>72,291,836</u>	<u>77,419,280</u>	<u>62,263,907</u>	<u>81,829,989</u>	<u>88,787,237</u>
Primary government								
Invested in capital assets, net of related debt	54,856,421	64,409,452	68,524,675	69,452,702	73,850,725	76,690,841	87,895,063	89,436,480
Restricted	-	-	-	-	-	-	-	70,153
Unrestricted	48,815,737	36,536,033	37,560,797	40,759,153	43,806,736	25,663,047	30,750,099	32,136,875
Total Primary Government Net Assets	<u>\$ 103,672,158</u>	<u>\$ 100,945,485</u>	<u>\$ 106,085,472</u>	<u>\$ 110,211,855</u>	<u>\$ 117,657,461</u>	<u>\$ 102,353,888</u>	<u>\$ 118,645,162</u>	<u>\$ 121,643,508</u>

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

**Note: The City restated net assets as of June 30, 2009. The restatements are not included in the data prior to FY2009. For more information, see Note I.I of the Notes to the Financial Statements.

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

104

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009**	2010
Expenses								
Governmental Activities								
General government administration	\$ 3,533,147	\$ 3,883,989	\$ 3,935,683	\$ 4,129,020	\$ 4,786,763	\$ 5,482,600	\$ 5,117,721	\$ 4,964,439
Judicial administration	1,011,397	1,065,276	1,156,203	1,245,977	1,291,039	1,398,558	1,522,844	1,517,515
Public safety	6,794,693	6,638,269	7,017,277	6,995,489	7,982,071	8,195,664	8,809,226	9,363,766
Public works	4,747,665	4,150,055	4,127,607	6,332,313	5,288,565	6,489,819	5,639,536	5,013,021
Health and welfare	2,666,535	2,784,179	2,740,167	3,018,356	3,316,750	2,626,378	2,365,068	2,201,229
Education and payments to Schools	20,248,502	21,177,645	23,400,685	26,379,915	29,072,459	30,878,770	31,371,993	30,768,947
Parks, recreation, and cultural	2,759,046	2,989,439	3,158,648	3,306,719	3,598,289	3,862,621	4,745,375	4,486,619
Community development	823,760	841,264	1,163,151	1,132,733	1,700,846	2,231,172	2,379,992	1,435,053
Economic development	429,107	290,087	294,554	373,963	359,538	385,564	395,505	351,233
Interest expense	1,397,595	1,589,430	2,220,727	1,661,368	1,746,086	1,713,885	1,661,998	1,555,466
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>	<u>63,265,031</u>	<u>64,009,258</u>	<u>61,657,288</u>
Business-Type Activities								
Water	15,253,871	14,442,756	14,878,376	16,289,183	17,195,584	31,372,591	17,509,332	17,240,177
Sewer	1,952,604	2,586,301	2,028,151	2,088,637	2,781,966	5,381,002	1,989,719	2,078,222
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>	<u>36,753,593</u>	<u>19,499,051</u>	<u>19,318,399</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>	<u>\$ 100,018,624</u>	<u>\$ 83,508,309</u>	<u>\$ 80,975,687</u>
Program Revenues								
Governmental Activities								
Charges for services:								
Parks, recreation, and cultural	\$ 654,627	\$ 677,807	\$ 718,591	\$ 806,936	\$ 851,479	\$ 890,329	\$ 1,398,036	\$ 1,565,668
Judicial Administration	302,394	670,874	672,226	704,344	702,289	985,851	1,039,920	1,111,368
Public safety	1,001,830	1,007,262	1,414,384	773,476	970,613	606,394	510,075	637,012
Other	315,589	348,563	403,120	362,644	376,376	478,329	410,406	492,204
Operating grants and contributions	2,705,665	3,045,368	2,806,914	3,099,444	3,661,138	3,538,063	3,545,362	2,249,881
Capital grants and contributions	749,450	-	-	-	138,488	100,534	1,156	592,880
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>	<u>6,599,500</u>	<u>6,904,955</u>	<u>6,649,013</u>
Business-Type Activities								
Charges for services:								
Water	13,588,498	13,317,162	17,150,392	18,936,968	22,321,609	20,289,970	21,366,915	19,846,413
Sewer	1,724,179	2,009,726	2,731,556	2,581,621	3,602,944	2,504,749	2,755,257	2,638,970
Operating grants and contributions	-	115,000	-	-	22,485,383	-	-	-
Capital grants and contributions	537,310	130,691	1,907,477	1,532,935	839,993	479,911	236,655	284,330
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>49,249,929</u>	<u>23,274,630</u>	<u>24,358,827</u>	<u>22,769,713</u>
Total Primary Government Program Revenues	<u>\$ 21,579,542</u>	<u>\$ 21,322,453</u>	<u>\$ 27,804,660</u>	<u>\$ 28,798,368</u>	<u>\$ 55,950,312</u>	<u>\$ 29,874,130</u>	<u>\$ 31,263,782</u>	<u>\$ 29,418,726</u>
Net (Expense)/Revenue								
Governmental Activities	\$ (38,681,892)	\$ (39,659,759)	\$ (43,199,467)	\$ (48,829,009)	\$ (52,442,023)	\$ (56,665,531)	\$ (57,104,303)	\$ (55,008,275)
Business-Type Activities	(1,356,488)	(1,456,478)	4,882,898	4,673,704	29,272,379	(13,478,963)	4,859,776	3,451,314
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>\$ (23,169,644)</u>	<u>\$ (70,144,494)</u>	<u>\$ (52,244,527)</u>	<u>\$ (51,556,961)</u>

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

**Note: The City restated net assets as of June 30, 2009. The restatements are not included in the data prior to FY2009. For more information, see Note I.I of the Notes to the Financial Statements.

CITY OF FALLS CHURCH, VIRGINIA
Changes in Net Assets
Net Assets by Component
(Accrual Basis of Accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009**	2010
General Revenues and Other Changes in Net Assets								
Governmental Activities								
Taxes:								
Real property	\$ 20,298,536	\$ 22,736,340	\$ 26,248,419	\$ 29,624,514	\$ 32,844,128	\$ 33,878,025	\$ 34,828,753	\$ 36,000,253
Personal property	2,501,478	2,700,860	3,137,750	3,327,582	3,303,768	3,287,380	3,539,667	3,381,964
Business licenses, based on gross receipts	2,343,068	2,296,618	2,913,022	2,936,648	3,053,349	3,138,550	2,819,183	2,698,584
Local sales & use	3,292,718	3,492,983	3,828,328	4,263,902	4,222,823	3,962,354	2,042,219	3,035,145
Consumer's utility	1,451,863	1,655,968	1,645,515	1,595,837	2,018,214	2,143,666	2,084,240	2,063,222
Motor vehicle decals	233,543	200,940	223,394	202,229	216,892	208,790	226,978	226,723
Real estate recordation taxes	137,924	203,335	232,243	213,868	301,751	712,026	446,906	369,453
Occupancy, tobacco, and other	2,242,346	2,305,965	2,454,441	3,150,953	2,754,408	3,468,099	3,139,911	3,298,074
Grants and contributions not restricted to specific programs	1,894,552	2,211,120	1,495,015	1,535,838	1,983,445	2,038,599	2,020,878	2,020,878
Revenue from use of money and property	252,369	122,565	546,512	569,561	855,866	466,667	83,428	85,531
Other	383,515	141,942	43,674	71,029	150,420	137,001	55,159	72,104
Transfers	4,713,374	4,625,874	4,764,256	4,775,874	3,055,121	3,076,174	2,404,041	(2,202,601)
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>	<u>56,517,331</u>	<u>53,691,363</u>	<u>51,049,330</u>
Business-Type Activities								
Revenue from use of money and property	701,016	377,777	650,041	759,782	1,361,932	1,393,656	356,324	63,385
Other	34,571	30,651	38,202	29,945	33,637	6,108	204,136	(28,339)
Insurance recovery of legal costs, net	-	-	-	-	-	-	-	1,025,632
Transfers	(4,713,374)	(4,713,374)	(4,764,256)	(4,775,874)	(3,055,121)	(3,076,174)	(2,404,041)	2,202,601
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>	<u>(1,676,410)</u>	<u>(1,843,581)</u>	<u>3,263,279</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>	<u>\$ 54,840,921</u>	<u>\$ 51,847,782</u>	<u>\$ 54,312,609</u>
Change in Net Assets								
Governmental Activities	\$ 1,063,394	\$ 3,034,751	\$ 4,333,102	\$ 3,438,826	\$ 2,318,162	\$ (148,200)	\$ (3,412,940)	\$ (3,958,945)
Business-Type Activities	(5,334,275)	(5,761,424)	806,885	687,557	27,612,827	(15,155,373)	3,016,195	6,714,593
Total Primary Government	<u>\$ (4,270,881)</u>	<u>\$ (2,726,673)</u>	<u>\$ 5,139,987</u>	<u>\$ 4,126,383</u>	<u>\$ 29,930,989</u>	<u>\$ (15,303,573)</u>	<u>\$ (396,745)</u>	<u>\$ 2,755,648</u>

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

**Note: The City restated net assets as of June 30, 2009. The restatements are not included in the data prior to FY2009. For more information, see Note I.I of the Notes to the Financial Statements.

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 527,125	\$ 1,041,572	\$ 795,149	\$ 1,397,945	\$ 1,161,401	\$ 1,024,193	\$ 1,531,626	\$ 1,494,647	\$ 1,265,850	\$ 1,124,698
Unreserved	12,166,840	14,667,845	16,057,559	11,821,263	12,631,956	15,129,189	12,666,003	9,830,681	2,894,988	2,674,638
Total General Fund	<u>\$ 12,693,965</u>	<u>\$ 15,709,417</u>	<u>\$ 16,852,708</u>	<u>\$ 13,219,208</u>	<u>\$ 13,793,357</u>	<u>\$ 16,153,382</u>	<u>\$ 14,197,629</u>	<u>\$ 11,325,328</u>	<u>\$ 4,160,838</u>	<u>\$ 3,799,336</u>
All Other Governmental Funds										
Reserved	108,664	7,500	151,496	20,034,668	5,151,445	2,281,152	2,281,152	543,425	1,423,401	395,238
Unreserved, reported in:										
Capital Projects Fund	1,336,082	940,900	150,342	4,918,860	4,530,899	1,375,326	1,375,326	4,643,132	4,513,944	656,967
Affordable Dwelling Units Fund	-	-	-	-	414,219	431,941	504,325	381,159	537,799	539,152
Total All Other Governmental Funds	<u>\$ 1,444,746</u>	<u>\$ 948,400</u>	<u>\$ 301,838</u>	<u>\$ 24,953,528</u>	<u>\$ 10,096,563</u>	<u>\$ 4,088,419</u>	<u>\$ 4,160,803</u>	<u>\$ 5,567,716</u>	<u>\$ 6,475,144</u>	<u>\$ 1,591,357</u>

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
General property taxes	\$ 17,894,364	\$ 21,530,436	\$ 22,502,555	\$ 24,985,137	\$ 28,777,104	\$ 33,248,625	\$ 35,601,262	\$ 37,603,499	\$ 38,456,297	\$ 39,476,351
Other local taxes	9,838,262	9,638,805	9,568,442	10,130,055	11,284,301	12,350,831	12,554,667	13,621,231	10,759,416	11,610,183
Permit, privilege fees, and regulatory licenses	268,479	311,447	415,000	361,371	479,042	442,566	757,587	440,771	322,639	511,285
Fines and forfeitures	303,416	487,510	763,707	996,688	1,302,463	649,377	344,063	482,961	481,319	610,267
Revenue from use of money and property	1,202,819	493,160	252,369	122,565	546,512	569,561	855,866	466,667	83,428	85,531
Charges for services	683,563	847,489	1,191,629	1,265,181	1,292,015	1,423,258	1,655,668	1,869,435	2,387,814	2,528,088
Miscellaneous	480,042	1,081,535	440,694	111,457	148,820	62,800	591,414	108,705	65,129	150,691
Gifts and contributions	-	-	-	-	-	-	-	1,342,652	1,243,431	42,328
Recovered costs	99,573	46,014	1,976,842	2,184,999	2,236,692	2,012,726	1,469,148	1,341,695	1,429,477	1,869,125
Intergovernmental:										
Commonwealth	3,277,357	4,148,580	3,763,634	4,142,091	3,018,725	4,633,990	4,025,954	4,143,211	4,013,417	4,036,330
Federal	980,451	1,369,064	1,582,673	1,083,137	851,358	1,001,162	1,105,665	207,090	304,030	719,247
Total Revenues	35,028,326	39,954,040	42,457,545	45,382,681	49,937,032	56,394,886	58,961,294	61,627,917	59,546,397	61,639,426
Expenditures										
General government administration	4,197,703	3,709,201	4,786,596	5,193,514	5,251,876	5,722,648	5,674,088	6,058,525	5,874,181	5,866,102
Judicial administration	873,315	967,955	962,887	1,025,090	1,094,018	1,205,050	1,230,303	1,352,188	1,459,252	1,457,627
Public safety	5,179,796	5,862,306	6,371,972	6,240,752	6,996,497	6,704,083	7,644,603	8,185,464	8,513,351	8,896,616
Public works	3,088,647	2,783,998	4,456,901	4,768,075	4,147,696	5,410,065	4,555,196	5,834,441	5,478,550	5,256,273
Health and welfare	2,754,537	3,130,689	2,664,254	2,760,756	2,719,107	3,021,934	3,143,233	2,608,446	2,371,178	2,229,111
Education and payments to Schools	18,297,381	18,413,377	19,771,459	20,702,332	22,930,601	25,076,471	27,636,683	29,567,369	29,670,612	29,347,120
Parks, recreation, and cultural	2,559,833	2,622,749	2,633,689	2,849,028	2,962,822	3,123,316	3,290,829	3,659,333	4,359,681	4,133,292
Community development	970,075	1,008,178	1,138,518	1,196,845	1,424,396	1,430,897	1,753,211	2,175,626	2,227,411	1,419,982
Economic development	-	-	428,264	277,471	292,876	369,331	353,294	378,698	398,893	346,937
Capital outlay	2,969,803	736,759	527,228	6,394,602	19,091,875	9,612,382	4,141,088	2,590,974	2,398,084	1,021,914
Debt Service										
Principal	487,685	1,645,000	1,812,957	1,907,025	2,135,828	3,350,886	3,396,430	3,547,623	3,776,678	3,651,127
Interest and other charges	645,585	1,583,317	1,419,397	1,456,499	1,956,871	1,905,769	1,826,240	1,710,747	1,679,629	1,578,008
Total Expenditures	42,024,360	42,463,529	46,974,122	54,771,989	71,004,463	66,932,832	64,645,198	67,669,434	68,207,500	65,204,109
Excess of Revenues Over (Under) Expenditures	(6,996,034)	(2,509,489)	(4,516,577)	(9,389,308)	(21,067,431)	(10,537,946)	(5,683,904)	(6,041,517)	(8,661,103)	(3,564,683)
Other Financing Sources (Uses)										
Transfers in	4,576,191	4,878,754	4,713,374	4,713,374	4,764,256	4,775,874	3,055,121	3,076,174	(2,202,601)	(2,202,601)
Proceeds from borrowing	-	-	-	25,000,000	1,875,500	1,935,000	-	2,428,800	-	-
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	-	6,550	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-	521,995
Total Other Financing Sources (Uses)	4,576,191	5,028,595	5,013,306	30,407,498	6,784,615	6,889,827	3,241,319	5,511,524	(2,202,601)	(1,680,606)
Special Item										
Contributions to OPEB Trust Fund in excess of ARC	-	-	-	-	-	-	-	(376,176)	-	-
Net Change in Fund Balance	\$ (2,419,843)	\$ 2,519,106	\$ 496,729	\$ 21,018,190	\$ (14,282,816)	\$ (3,648,119)	\$ (2,442,585)	\$ (906,169)	\$ (10,863,704)	\$ (5,245,289)
Debt Service as a Percentage of Non-Capital Expenditures	2.91%	7.87%	6.97%	7.11%	8.00%	9.13%	8.57%	8.09%	8.24%	8.18%

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

Fiscal Year Ended June 30,	Real Property (1)		Personal Property (2)		Total Taxable Assessed Value	Total Direct Tax Rate (3)	Estimated Actual Taxable Value (4)	Assessed Value as a Percentage of Actual Value
	Residential	Commercial	Motor Vehicles	Other				
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%
2008	2,450,402,450	896,737,950	84,474,526	35,890,466	3,467,505,392	1.15	3,467,505,392	100%
2009	2,370,165,500	859,139,200	89,133,212	29,936,779	3,348,374,691	1.18	3,348,374,691	100%
2010	2,322,521,050	748,726,900	90,559,076	29,022,854	3,190,829,880	1.29	3,190,829,880	100%

Notes:

- (1) Source: Falls Church Office of Real Estate Assessment. Amounts are reported net of exempt property.
(2) Source: Falls Church Treasurer's Office. Amounts are reported net of exempt property.
(3) Total Direct Tax Rate is calculated using the weighted average method. Rates are per \$100 of valuation.
(4) Virginia code requires assessment at full market value.

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

<u>Fiscal Year Ended June 30,</u>	<u>Real Property (1st half of the Fiscal Year)</u>	<u>Real Property (2nd Half of the Fiscal Year)</u>	<u>Personal Property</u>	<u>Total Direct Tax Rate (1)</u>
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
2008	1.01	1.03	4.71	1.15
2009	1.03	1.07	4.71	1.18
2010	1.07	1.24	4.71	1.29

Notes:

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

TABLE 7

CITY OF FALLS CHURCH, VIRGINIA
Principal Real Property Taxpayers
Current Calendar Year and Nine Calendar Years Ago

Taxpayer	2010			2001		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
TMW Pearson Square LLC	\$76,884,200	1	2.53%			
Falls Church Country Club (Apartments)	66,182,700	2	2.18%	43,526,000	1	3.18%
Spectrum Condominium	61,042,800	3	2.01%			
Eden Center, Inc.	48,405,900	4	1.59%	28,690,500	2	2.09%
James E. Koons	24,724,800	5	0.81%	12,957,200	5	0.95%
West Falls Parcel, Inc	19,525,600	6	0.64%	12,692,000	6	0.93%
Kaiser Foundation Health Plan, Inc.	18,773,800	7	0.62%	15,875,000	3	1.16%
Federal Realty Investment Trust	18,595,100	8	0.61%	12,121,100	7	0.88%
HPTMI III Properties Trust	18,471,700	9	0.61%			
Aimco Merrill House, LLC	18,467,600	10	0.61%	12,000,000	8	0.88%
Kahn B Franklin Et Al				14,400,000	4	1.05%
Zager, Daniel				8,200,000	9	0.60%
Noland Co. Inc.				7,674,300	10	0.56%
Totals	<u>\$ 371,074,200</u>		<u>12.18%</u>	<u>\$ 168,136,100</u>		<u>12.27%</u>

Source: Fall Church Office of Real Estate Assessment. Values as of January 1.

TABLE 8

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
2001	\$ 18,488,130	NA	NA	NA	\$ 18,485,627	99.99%
2002	20,499,240	NA	NA	NA	20,477,955	99.90%
2003	22,970,901	NA	NA	NA	22,947,354	99.90%
2004	25,481,495	\$ 23,705,292	93.03%	\$ 1,719,110	25,424,402	99.78%
2005	28,698,752	27,539,424	95.96%	1,106,018	28,645,442	99.81%
2006	32,599,755	31,271,297	95.92%	1,261,852	32,533,149	99.80%
2007	35,866,830	34,449,695	96.05%	1,322,543	35,772,238	99.74%
2008	37,144,835	36,183,444	97.41%	790,895	36,974,339	99.54%
2009	37,843,080	37,062,585	97.94%	536,308	37,598,893	99.35%
2010	39,504,873	38,778,261	98.16%	-	38,778,261	98.16%

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 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	Note Payable*	Revenue Bonds			
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	0.07%	4,431
2006	46,160,418	317,326	652,500	-	-	6,894	47,137,138	0.07%	4,297
2007	43,644,216	152,147	435,000	5,050,000	-	6,759	49,288,122	0.07%	4,395
2008	42,827,780	73,810	217,500	12,820,000	-	2,432,409	58,371,499	NA	5,093
2009	39,309,481	32,932	-	14,085,814	10,325,018	3,002,816	53,428,227	NA	4,562
2010	35,681,948	9,338	-	19,819,925	8,892,713	2,859,769	67,263,693	NA	5,454

(1) Based on personal income for Fairfax, Fairfax City and Falls Church shown on Table 12.
NA - Not available. There is no census data available for personal income.

*Note: The City restated net assets as of June 30, 2009. The restatements are not included in the data for years prior to FY2009. For more information, see Note I.I of the Notes to the Financial Statements.

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>
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%	4,208
2007	48,694,216	-	48,694,216	1.44%	4,342
2008	55,647,780	-	55,647,780	1.60%	4,856
2009	53,395,295	-	53,395,295	1.59%	4,559
2010	55,501,873	-	55,501,873	1.74%	4,501

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 140,472,390	\$ 179,996,377	\$ 182,071,680	\$ 232,021,812	\$ 271,054,630	\$ 339,609,980	\$ 356,527,840	\$ 359,008,750	\$ 333,108,780	\$ 328,521,957
Total net debt applicable to limit	<u>28,825,000</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>	<u>58,080,190</u>	<u>53,395,295</u>	<u>55,501,873</u>
Legal debt margin	<u>\$ 111,647,390</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>	<u>\$ 300,928,560</u>	<u>\$ 279,713,485</u>	<u>\$ 273,020,084</u>
Total net debt applicable to the limit as a percentage of debt limit	21%	15%	14%	21%	17%	14%	14%	16%	16%	17%

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	\$ 3,063,042,870
Add back exempt real property	<u>222,176,700</u>
Total assessed value	<u>3,285,219,570</u>
Debt limit (10% of total assessed value)	328,521,957
Debt applicable to limit:	
General obligation bonds	<u>55,501,873</u>
Total net debt applicable to limit	<u>55,501,873</u>
Legal debt margin	<u>\$ 273,020,084</u>

TABLE 12

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)
2001	10,900	\$ 53,645,334	\$ 52,746	NA	1,721	2.7
2002	11,000	54,729,033	53,538	NA	1,749	3.4
2003	11,000	56,895,209	55,488	NA	1,817	3.5
2004	10,600	60,711,811	58,971	NA	1,846	3.4
2005	10,942	65,331,356	63,106	40.1	1,848	3.4
2006	10,970	69,215,469	67,033	NA	1,845	3.0
2007	11,214	72,330,171	69,556	NA	1,870	3.0
2008	11,460	73,716,386	69,885	NA	1,905	4.1
2009	11,711	NA	NA	NA	1,941	7.3
2010	12,332	NA	NA	NA	2,010	6.3

(1) Source: For 2001-2009 Weldon Cooper Center for Public Service; numbers are estimates as of July 1; July 1, 2009 is a provisional estimate. Year 2010 is based on U.S. Census estimate as of April 1, 2010.

(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.

TABLE 13

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

Employer	2010			2006		
	Employees (1)	Rank	Percentage of Total City Employment (2)	Employees	Rank	Percentage of Total City Employment
Falls Church City Schools	386	1	3.39%	375	1	3.95%
Falls Church City Government	284	2	2.49%	261	3	2.75%
Kaiser Permanente	260	3	2.28%	375	2	3.95%
Tax Analysts	184	4	1.61%	150	5	1.58%
Koon's Ford & Nissan	175	5	1.54%	196	4	2.06%
BG Healthcare Services	150	6	1.32%			
Giant Food Store	145	7	1.27%	67	9	0.71%
Care Options	100	8	0.88%			
Don Beyer Volvo	92	9	0.81%	104	6	1.09%
Home Instead Senior Care	82	10	0.72%			
United States Postal Service				97	7	1.02%
Knowlogy				85	8	0.89%
Center for Multicultural Human Services			9.00%	58	10	0.61%
Total	1,858		25.31%	1,768		18.61%

1. Source: City of Falls Church Office of Economic Development

2. Total employment estimate of 11,400 from Falls Church Planning Division

3. There is no employment data available from 2001. 2006 is the first year when this data was available.

**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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government administration	NA	34.75	34.75	34.75	34.75	37.75	37.75	38.25	38.87	37.88
Judicial administration	NA	12.60	13.10	13.10	12.60	11.60	17.01	17.01	17.01	17.01
Public safety	NA	56.00	57.00	57.40	57.00	58.40	51.60	53.35	53.60	51.45
Public works	NA	28.16	27.41	28.41	28.41	28.96	31.58	32.58	34.08	32.75
Health and welfare	NA	10.12	8.84	9.09	9.09	8.00	9.75	8.85	8.85	7.85
Parks, recreation, and cultural	NA	44.51	43.97	43.97	42.09	44.69	34.48	36.35	36.35	36.35
Community development	NA	9.75	9.75	9.75	12.75	12.75	13.75	13.75	13.81	13.81
Economic development	NA	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Water	NA	51.61	51.44	53.34	52.04	52.04	52.32	52.32	52.27	53.65
Sewer	NA	3.70	3.70	3.75	4.05	4.10	4.10	4.10	4.15	4.10
	NA	254.20	252.96	256.56	255.78	261.29	255.34	259.56	261.99	257.85

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

TABLE 15

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

Function	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government administration										
<u>Communications</u>										
Number of Media Releases	72	72	77	78	122	94	109	94	90	NA
Number of Periodical Publications	NA	NA	5	4	6	9	10	10	10	NA
eFOCUS Newsletter Subscribers	NA	NA	NA	NA	NA	1,628	1,580	1,454	1,267	NA
Judicial Administration										
<u>Court Services</u>										
Aurora House Recidivism (%)	NA	NA	0%	0%	14%	10%	25%	16%	29%	0%
Aurora House Program Completion (%)	NA	NA	82%	88%	90%	62%	50%	83%	78%	73%
Court Services Juvenile Recidivism (%)	NA	NA	9%	4%	8%	14%	13%	9%	22%	16%
Court Services Adult Recidivism (%)	NA	NA	0%	15%	7%	22%	20%	15%	33%	23%
Public safety										
<u>Police</u>										
Part I Crimes (1)	463	452	405	428	370	370	365	384	329	NA
Calls for Service	22,319	19,798	18,223	22,317	25,347	25,171	26,554	27,924	25,618	NA
Accidents	296	298	295	282	278	257	230	217	235	NA
Traffic Enforcement	5,251	5,156	4,966	5,739	4,102	3,664	6,507	9,033	8,218	NA
DWI Arrests	72	45	40	40	64	52	62	68	90	NA
<u>Inspections</u>										
Plan Review	NA	NA	NA	371	490	490	552	577	442	671
Stop Work Orders	NA	NA	NA	19	21	21	11	16	8	8
Public works										
Refuse collected (Tons)	2,488	2,536	2,883	2,981	2,799	2,845	2,711	2,704	2,415	2,178
Recycling Collected (Tons)	2,963	2,921	2,994	3,257	3,261	2,728	3,618	4,544	3,690	3,077
Street resurfacing (Miles)		1	2	1	2	2	2	2	1.87	1.7
Health and welfare										
Housing & Human Services Information/Referral Contacts	1,618	2,766	3,137	2,287	2,375	1,786	2,674	2,555	2,882	2,971
Education										
Student membership	1,721	1,749	1,817	1,846	1,848	1,845	1,873	1,906	1,941	2,010
Parks, recreation, and cultural										
<u>Parks & Recreation</u>										
Special Events (2)	11	11	51	135	127	133	130	132	164	160
Class participants	NA	NA	NA	2,625	2,750	2,920	2,765	2,140	2,307	2,654
Room Reservations	NA	NA	6,920	6,280	6,027	6,132	6,150	6,548	6,205	5,982
Tennis Reservations	NA	NA	785	890	1,150	1,226	1,460	1,570	1,723	1,760
Youth Sports Participants	1,463	1,410	1,746	1,706	1,839	1,932	2,358	2,207	2,431	2,542
Adult Sports Teams	NA	NA	69	76	61	108	117	102	100	99
Teen Dance Participants	50	1,257	1,698	1,701	1,699	1,799	2,152	1,875	1,260	979
Teen Center Attendance	NA	1,400	1,820	2,000	4,428	4,851	4,976	4,250	4,000	3,675
Summer Camps Offered	84	140	168	168	196	224	186	196	201	223
Summer Camp Participants	NA	NA	NA	3,289	3,562	3,769	4,073	4,211	4,258	4,163
Senior Center lunch meals served	2,661	2,725	2,504	2,789	3,028	2,360	1,760	1,824	1,588	1,255
<u>Library</u>										
Size of collection (all formats)	110,599	107,849	119,601	123,127	127,236	130,472	150,709	154,175	159,631	143,365
Total circulation of all materials	317,647	331,663	331,371	318,775	335,912	341,626	346,637	365,861	429,286	452,498
Total visits to library (door count)	212,975	243,743	245,766	222,999	212,322	192,222	202,002	203,743	219,831	232,379
Number of registered borrowers	23,111	22,101	21,375	21,503	22,428	23,003	25,470	25,155	23,357	25,263
Number of website visits/yr (3)	53,821	96,036	104,854	126,771	154,570	164,839	141,932	135,579	166,258	182,373
Number of programs/yr	247	318	286	295	351	357	312	297	345	298
Attendance at programs	7,322	8,950	9,419	10,691	10,976	11,998	11,321	12,773	14,235	11,710
Community development										
<u>Planning</u>										
Development Inquiries	NA	NA	NA	NA	NA	6,000	6,200	6,400	9,905	8,927
Plans Reviewed	NA	NA	NA	NA	NA	20	49	52	34	26
Code/ Policy Review	NA	NA	NA	NA	NA	25	18	35	72	NA
<u>Zoning</u>										
Development Inquiries	NA	NA	NA	NA	NA	1,500	2,200	2,000	2,570	2,100
Permits/Plans Reviewed	NA	NA	NA	NA	NA	2,000	2,100	1,700	660	600
<u>Urban Forestry</u>										
Development Inquiries	NA	NA	NA	NA	NA	1,300	1,200	2,400	1,400	NA
Permits/Plans Reviewed	NA	NA	NA	NA	NA	56	75	443	192	NA
Trees Planted/removed/pruned	NA	NA	NA	NA	NA	369	897	859	825	NA
Water										
New connection applications	NA	346	123	216	90	374	90	60	53	23
Water main breaks	123	95	151	102	102	100	172	112	141	118

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	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government administration										
City Hall	1	1	1	1	1	1	1	1	1	1
Judicial administration (1)										
<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	1	1	1	1	1
Public safety (2)										
Fire Stations (3)	1	1	1	1	1	1	1	1	1	1
Public works										
Streets -Miles/Lane Miles	NA	32	32	32	32	32	32	32	32	32
Traffic signals	NA	30	30	30	30	30	34	34	29	29
Streetlights	NA	124	124	124	124	136	136		142	142
Refuse Trucks	NA	4	4	4	4	4	5	5	5	5
Education										
School Buildings	3	3	3	3	3	4	4	4	4	4
Parks, recreation, and cultural										
<u>Recreation & 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	12	13	13	13	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	3	3	3	3	3	5	6	6	6	6
<u>Library</u>										
Library (Facility)	1	1	1	1	1	1	1	1	1	1
Community development										
<u>Urban Forestry</u>										
Vehicles	-	-	-	2	2	2	3	3	3	3
Water										
Water Mains (Miles)	NA	485	486	489	489	491	496	497	497	497
Tanks	9	9	9	10	10	10	10	10	10	10
Pumps	11	11	11	11	11	11	11	12	12	12
Fire Hydrants	NA	3,003	3,020	3,017	3,097	3,132	3,169	3,188	3,201	3,201
Sewer										
Sanitary Sewer Mains (Miles)	NA	NA	43	NA	43	NA	43	43	43	44
Sanitary Sewer Manholes	NA	NA	988	NA	998	NA	1,001	1,001	1,001	1,175

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
(703) 248-5100
www.fallschurchva.gov



CITY OF FALLS CHURCH, VIRGINIA

**AUDIT OF FEDERAL AWARDS PERFORMED IN
ACCORDANCE WITH U.S. OFFICE OF MANAGEMENT
AND BUDGET CIRCULAR A-133**

Year Ended June 30, 2010

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 28, 2011. 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 *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. **However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item 10-1 to be a material weakness.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are further described in the accompanying schedule of findings and questioned costs as Items 10-6, 10-7, 10-8, and 10-9.**

We noted certain matters that we reported to management of the City in a separate letter dated February 28, 2011.

The City’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City’s responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, management, the Auditor of Public Accounts of the Commonwealth of Virginia, federal awarding agencies, and pass-through entities. It is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
February 28, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Falls Church, Virginia's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed four instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Items 10-2, 10-3, 10-4, and 10-5.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. **Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.**

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2010, and have issued our report thereon dated February 28, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Mayor, City Council, management, the Auditor of Public Accounts of the Commonwealth of Virginia, federal awarding agencies, and pass-through entities. It is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
February 28, 2011

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency/ Program	Grant	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-through payments:			
Commonwealth of Virginia Department of Agriculture and Consumer Service			
National School Lunch Program		10.555	\$ 114,100
School Breakfast Program		10.553	2,122
			<hr/>
Total U.S. Department of Agriculture			116,222
U.S. Department of Homeland Security			
Direct payments:			
United States Secret Service			
Secret Service Training Activities		97.000	2,721
High Intensity Drug Trafficking Area		97.000	3,869
Pass-through payments:			
District of Columbia Homeland Security and Emergency Management			
Homeland Security Grant Program		97.067	70,156
Arlington County			
Homeland Security Grant Program		97.067	25,000
Northern Virginia Regional Commission			
Homeland Security Grant Program		97.067	40,750
			<hr/>
Total U.S. Department of Homeland Security			142,496
U.S. Department of Housing and Urban Development			
Pass-through payments:			
County of Arlington, Virginia:			
Community Development Block Grants/Entitlement Grants		14.218	53,046
Home Investments Partnership Program		14.239	38,117
Falls Church Education Foundation:			
Community Development Block Grants/Brownfields Economic Development Initiative		14.246	83,308
			<hr/>
Total U.S. Department of Housing and Urban Development			174,471
U.S. Department of Justice			
Direct payments:			
Bulletproof Vest Partnership Program		16.607	5,248
Recovery Act		16.000	5,125
Pass-through payments:			
Virginia Compensation Board			
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories		16.803	2,428
			<hr/>
Total U.S. Department of Justice			12,801
U.S. Department of Transportation			
Pass-through payments:			
Virginia Department of Transportation			
Highway Planning and Construction		20.205	124,805
Alcohol Open Container Requirements		20.607	4,185
			<hr/>
Total U.S. Department of Transportation			128,990

See accompanying notes to the schedule.

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency/ Program	Grant	Federal CFDA Number	Federal Expenditures
U.S. Department of Education			
Pass-through payments:			
Commonwealth of Virginia Department of Education:			
Title I - Grants to Local Educational Agencies		84.010	25,338
State Grants for Innovative Programs		84.298	1,343
Special Education - Grants to States		84.027	358,170
Special Education - Preschool Grants		84.173	10,473
Safe and Drug-free Schools and Communities - State Grants		84.186	19,223
English Language Acquisition Grants		84.365	12,193
Improving Teacher Quality State Grants		84.367	29,086
Recovery Act - State Fiscal Stabilization Fund (SFSF) - Education, State Grants		84.394	405,272
Recovery Act - Special Education Grants to States		84.391	151,890
Vocational Education - Basic Grants to States		84.048	9,606
			<hr/>
Total U.S. Department of Education			1,022,594
			<hr/>
Total Expenditures of Federal Awards			\$ 1,597,574
			<hr/> <hr/>

See accompanying notes to the schedule.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

I. Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

The information presented in this Schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the City's CAFR.

II. Subrecipients

The accompanying Schedule of Expenditures of Federal Awards includes grants to subrecipients during fiscal year 2010 as follows:

Subrecipient Name	Federal CFDA Number	Federal Funds Awarded
Community Development Block Grants/State's Program	14.218	
HomeStretch, Inc.		\$ 5,000
Falls Church Community Services		2,910
Arlington Home Ownership Made Easier		958
Mt. Daniel Elementary School		2,482
RJP Housing		4,000
FC First Time Homebuyers/Downpayment		20,000
Total Subrecipient Awards		\$ 35,350

III. Non-Cash Assistance

The City of Falls Church participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The accompanying Schedule of Expenditure of Federal Awards includes commodity distributions of \$31,510 from the National School Lunch Program.

The City also received pass-through award of trailers and supplies from the Homeland Security Grant Program, CFDA Number 97.067. The accompanying Schedule of Expenditure of Federal Awards includes the value of the trailers and supplies for \$65,750.

CITY OF FALLS CHURCH, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2010

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Sheriff Internal Controls

State Agency Requirements

Education
Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

LOCAL COMPLIANCE MATTERS

City Charter

City Code

Other City Regulations

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

A. SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report expresses an **unqualified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements was reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. **Item 10-1 was determined to be a material weakness.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor’s report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **four audit findings relating to major programs**.
7. The major programs of the City are:

Name of Program	CFDA #
ARRA – State Fiscal Stabilization Fund – Education State Grants	84.394
Title IV-B – Special Education – Grants to States	84.027
Title IV-B – Special Education – Preschool Grants	84.173
ARRA – Special Education – Grants to States	84.391

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The City of Falls Church was **not** determined to be a **low-risk auditee**.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

B. FINDINGS – FINANCIAL STATEMENT AUDIT

10-1: Adjustments – (Material Weakness)

Condition:

A number of adjustments were necessary for the financial statements to be in compliance with generally accepted accounting principles. The adjustments related to improper accounting for capital assets and long-term liabilities related to intergovernmental agreements, unrecorded termination benefit liabilities, unreconciled deposit amounts, errors in amounts owed and due from other governmental entities, and errors in other post-employment benefit calculations. The items noted above cause adjustments to both current and prior period financial statements. Some of the adjustments were caused by a lack of communication with the Finance Department regarding the nature of the transaction, while others occurred due to improper conclusions reached regarding the nature of the transactions.

Recommendation:

Management should develop policies and procedures to address these weaknesses in internal controls. Recommendations include the following:

- The Finance Department should review all City Council, School Board, and EDA board minutes to identify transactions that might have accounting implications.
- The Finance Department should be informed as to all significant agreements entered into by other departments early in the process to ensure that they are recorded properly.
- Supporting documents for account balances should be reviewed and approved by someone other than the preparer.
- Consider purchasing additional research sources to help identify proper accounting treatment.

Management's Response:

The auditee concurs with these recommendations.

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

10-2: Special Education – CFDA 84.027, 84.173, and 84.391; State Fiscal Stabilization Fund – CFDA 84.394

Condition:

Reimbursement requests for the month of June 2010 included salaries and fringes that were accrued for ten month employees but not paid until July and August 2010.

Recommendation:

Reimbursement requests should only be submitted for qualifying expenses that have been paid.

Management's Response:

The auditee concurs with this recommendation.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

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

10-3: Submission of Single Audit Reporting Package

Condition:

The June 30, 2008 Single Audit reporting package was not submitted to the Single Audit Clearinghouse due to the oversight of the prior auditors.

Recommendation:

The City should ensure that all previous and future reporting packages are properly submitted.

Management's Response:

The auditee concurs with this recommendation.

10-4: Special Education – CFDA 84.027, 84.173, and 84.391; State Fiscal Stabilization Fund – CFDA 84.394

Condition:

The second and third quarter Section 1512 reports were not submitted to the prime recipient until the filing of the fourth quarter data.

Recommendation:

The City should ensure that all Section 1512 reporting data is submitted to the prime recipient no later than the 10th day following the end of the quarter.

Management's Response:

The auditee concurs with this recommendation.

10-5: Special Education – CFDA 84.027, 84.173, and 84.391

Condition:

During the current year, a proper level of effort was not maintained whereby nonfederal funding was reduced to a level below that of the preceding year.

Recommendation:

Steps should be taken to ensure a proper level of effort is maintained.

Management's Response:

The auditee concurs with this finding and is taking action to more closely monitor and project special education revenues and expenditures to ensure that the required level of maintenance of effort is met.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA LOCAL REGULATIONS

10-6: Commonwealth of Virginia Disclosure Statements

Condition:

Three out of fifty-one members of City appointed governing bodies did not file statements of economic interest by the January 15th deadline and two did not file at all as required by the *Code of Virginia*.

Recommendation:

Steps should be taken to ensure that these statements are filed and in a timely manner.

Management's Response:

The auditee concurs with this recommendation.

10-7: Exonerations

Condition:

The *Code of Virginia* requires that all exoneration forms be properly approved. None of the seven personal property exonerations that we examined received approval.

Recommendation:

The City should properly document approval of all exonerations.

Management's Response:

The auditee concurs with this recommendation.

10-8: Highway Maintenance – Costs

Condition:

In our sample of twenty work orders charged to highway maintenance, we noted one for which salaries charged were calculated incorrectly.

Recommendation:

We recommend that all charges to the highway maintenance program are reviewed for accuracy.

Management's Response:

The auditee concurs with this recommendation.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA LOCAL REGULATIONS

10-9: Pension and OPEB Investment Allocations

Condition:

The City's pension and OPEB investment allocation exceeded predetermined limits set by City Council with regard to the City's investments in international equities and a rebalancing of investments has not occurred.

Recommendation:

The City should implement procedures to reallocate the investment portfolio to be in compliance with the limits set by City Council and monitor future compliance.

Management's Response:

The auditee concurs with this recommendation.