

City of Fairfax, Virginia



*Comprehensive Annual Financial
Report for the Fiscal Year Ended
June 30, 2015*

CITY OF FAIRFAX, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

PREPARED BY:

Department of Finance
David E. Hodgkins, Assistant City Manager/Director of Finance
Jennie A. Tripoli, Assistant Director of Finance

City of Fairfax, Virginia
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Year Ended June 30, 2015
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INTRODUCTORY SECTION

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City of Fairfax

10455 Armstrong Street • Fairfax, VA 22030-3630

January 29, 2016

Honorable Mayor, Members of the City Council and Citizens
City of Fairfax
Commonwealth of Virginia

We are pleased to present the City of Fairfax's (the City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. The Code of the Commonwealth of Virginia requires that all local governments shall be audited annually with a report to the Governing Body. The CAFR fulfills this reporting requirement. In addition to regular operations, the City successfully implemented a voluminous new accounting standard, Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27, and converted to a new cashing and billing system conversion.

The financial statements included in this report, which have earned an unmodified ("clean") audit opinion, conform to the standards of financial reporting as prescribed by the GASB, the Government Finance Officers Association of the United States and Canada (GFOA), and the Auditor of Public Accounts (APA).

City management is responsible for the accuracy, fairness and completeness of the information, including all disclosures that are presented in this report. To the best of our knowledge, the enclosed data is believed to be accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds of the City. All necessary disclosures have been included to enable the reader to gain a thorough understanding of the City's financial affairs.

City management is also responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City's financial statements have been audited by Cherry Bekaert, LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2015, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by City management; and evaluating the overall financial statement presentation. The independent auditor's report is located at the front of the Financial Section of the CAFR.

Management's Discussion and Analysis (MD&A) is found immediately following the independent auditor's report. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

FINANCIAL REPORTING ENTITY

This report includes the financial activities of the City government (the primary government), which are controlled by the Mayor and Council, as well as the financial activities of the City's component units. Component units are legally separate entities for which the primary government is financially accountable and, therefore, are included in the primary government's CAFR.

The City of Fairfax provides a full range of governmental services including law enforcement, emergency medical response, fire protection and fire code safety; maintenance of over 70 miles of roads; judicial services; health and social services; refuse; wastewater; planning and zoning services; parks, recreation and cultural activities; and general government administration services. These services are either provided by the City or through contracts with Fairfax County. In addition, the City provides inter-County and intra-City bus service. The City also operated its own water treatment and distribution system until January 2014, when the City sold its distribution system to Fairfax County Water Authority and its water treatment plant, reservoir, and dams to Loudoun County Water Authority, effectively divesting from the water treatment and distribution business. There were still some residual transactions related to this sale that occurred in fiscal year 2015.

Discretely presented component units are reported in a separate column in the financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. The City of Fairfax School Board is presented in its own column for financial presentation purposes as a major component unit. The City's public school program is provided through an independent school district administered by a school board and superintendent that contracts with the Fairfax County Public School system for operating the four City schools - Fairfax High, Sidney Lanier Middle, Daniels Run Elementary, and Providence Elementary. The Industrial Development Authority and Economic Development Authority are combined in one column as non-major component units.

ORGANIZATION OF GOVERNMENT

The City is governed under the Council-Manager form of government since changing from town status in 1961. As a Virginia City, it is independent, and not a part of any county. Under this form of government, a mayor and six council members are elected by the citizens every two years to provide direction to the locality. The City Council employs a City Manager who is the executive officer of the City and is responsible to the Council for the proper administration of the City government.

ECONOMIC CONDITION AND OUTLOOK

An independent jurisdiction of 6.34 square miles, just 15 miles west of Washington D.C., the City of Fairfax lies in the heart of Northern Virginia. Bounded by Interstate 66 to the north and less than five miles west of the Capital Beltway, the City is at the crossroads of the area's major north/south and east/west highways. Two major airports, Washington Dulles

ECONOMIC CONDITION AND OUTLOOK (CONTINUED)

International Airport and Ronald Reagan National Airport, are within 30 minutes of the City. The City-run bus system provides direct access to rail mass transit at the Vienna/Fairfax/GMU Metro station, less than three miles from the center of the City.

Local Economy

Economic recovery remains somewhat erratic in the City. Private sector employment within the City actually decreased year over year. As of June 30, 2015, there were 19,347 private sector jobs within the City of Fairfax (as reported by the Bureau of Labor Statistics or BLS), representing a decrease of 2.9% from June 30, 2014. Encouragingly, the City's unemployment rate of 3.7% is well below state (4.2%) and national (5.0%) averages.

Downsizing by federal contractors has had a discernable impact on the regional office market. The City experienced an increase of almost 2% in office vacancy over the last year, reaching 15%. Fortunately the retail market continues to bolster the City's economy; at 3.0%, the City's retail vacancy rate remains among the lowest in the region.

Three key revenue sources are bellwethers for the local economy - general property taxes, local sales and use tax, and Business Professional and Occupational License (BPOL) taxes. As reported in Exhibit 2, general property tax revenues increased \$2.2 million or 3.3% in F/Y 15 over F/Y 14, resulting from both an increase in assessed values (4.4%) and a higher real estate tax rate for the second half of the fiscal year. BPOL remained flat, as projected, driven mainly by reduced volume flowing through the tank farm located in the City. Local sales and use tax revenues decreased by \$0.4 million. The shuttering of K-mart is partially responsible for this reduction; however, with Lowe's taking its place, the City expects local sales taxes to increase once that project is complete. While these results are certainly mixed, overall the outlook remains positive as continued strengthening in the real estate market and healthy consumer spending will continue to help the City recover during this extended post-recession period.

Economic Development Program

The Economic Development Office (EDO) in partnership with the Economic Development Authority (EDA) focuses on ensuring a strong economic base across the City. The EDO promotes the City's office and retail spaces to business prospects and vacant commercial properties to developers, assists businesses in their location decisions and processing through the City's administrative procedures, and acts as a facilitator for existing businesses in understanding and working through issues with City ordinances and policies.

City Council was the driving force behind increased outreach and communication with the business community over the last year. Recognizing the importance small businesses have on the City's economy, City leadership formalized the role of the Economic Development Office as that of a business ombudsman, or liaison with the business community. It also directed staff to begin work on identifying an incentive package the city could offer to attract and retain new businesses or serve as a catalyst for redevelopment of underutilized property.

The City will also embark upon a rebranding initiative in the fall of 2016 in order to create an identity reflective of the City's unique qualities and characteristics in a compelling way.

ECONOMIC CONDITION AND OUTLOOK (CONTINUED)

Major Projects

Commercial:

Major mixed-use development projects are in process, continuing to fulfill the City's Fairfax Boulevard Master Plan.

Fairfax Circle Plaza Shopping Center Redevelopment: Final plans to redevelop approximately 108,000 square feet of commercial space (the oldest dating back to 1964) were approved in 2014. The mixed-use development will include 400 multifamily apartments and 88,000 square feet of retail space, including a 54,000 square feet grocery store. Ground breaking is expected in 2016.

Northfax: The \$30 million Northfax transportation and stormwater improvement project is underway creating new and significant opportunities for public and private investment on Fairfax Boulevard.

Lowe's: This big-box retailer has redeveloped a former Kmart in the City's Kamp Washington area, occupying roughly 75,000 square feet of space. Construction of the new building is nearly complete and scheduled to open in February 2016. Significant site improvements including landscaping, bike facilities, and new signage will help maximize visibility of other businesses in the shopping center.

Residential:

Eleven Oaks: This project is currently under construction and will consist of 12 single family detached units.

Residences at Main: This project includes 42 luxury town homes with nearly all constructed as of the date of this letter.

Canfield Village: This project includes approximately 20,000 square feet of commercial (office and first floor retail) space and 14 town homes. The majority of the commercial space has now been leased and the homes sold.

Mount Vineyard: This project includes 132 dwelling units (94 condominiums and 38 townhouses) to replace an aging garden style apartment complex. Ground breaking is expected in 2016.

The Enclave: An 80-unit condominium project is expected to break ground in 2016. The project will add high quality condominiums to a property with existing office and educational uses.

Novus Fairfax Gateway: This project will add over 400 luxury rental apartments and 29,000 square feet of commercial space to the Kamp Washington area. The project will construct new streets to connect to a roadway system supporting redevelopment of other parcels in the area. Ground breaking is expected in 2016.

Mayfair: This project includes 25 townhouse-style condominiums near a shared, secured parking structure. This project is located at the edge of the City's historic district and replaces a vacant property that had become an eyesore in recent years. The project is currently under construction.

ECONOMIC CONDITION AND OUTLOOK (CONTINUED)

Accolades/Distinctions:

Google named the City of Fairfax as the 2014 e-City for Virginia. Google's e-City Awards "recognize the strongest online business community in each state," observing how businesses in each city use their Web presence for business development and customer service.

The Mason Enterprise Center at George Mason University (GMU) was recently named as one of the Top 10 U.S. and Top 20 Global University Business Incubators (UBI) by the UBI Index. A project spearheaded and supported by the City in an ongoing partnership with GMU, the Mason Enterprise Center (MEC) is an integrated network of programs and professional resources. It provides direct support for university- and corporate-based entrepreneurship, technology transfer and innovation, and for private sector clients engaged in business start-up and expansion.

The City of Fairfax Parks & Recreation Department wins the National Gold Medal Award, 2011. The National Recreation and Park Association Gold Medal Award honors communities throughout the United States that demonstrate excellence in long-range planning, resource management, and agency recognition. Each agency is judged on its ability to address the needs of those it serves through the collective energies of citizens, staff, and elected officials.

Forbes called the City of "a great place for entrepreneurs" and stated the City's sole-proprietors-per-capita ranks in the top 1% nationwide.

The Atlantic magazine, a brand of Atlantic Media, which is "dedicated to equipping opinion leaders with breakthrough ideas and original insights," recently identified the City as one of the nation's top jurisdictions for its high concentration of "creative class" workers.

In 2009, the City was ranked third by Forbes magazine in their article titled "America's Top 25 Towns to Live Well." The City is proud of this accolade based on the quality of services provided to the citizens, and the significant investments made to its schools, parks, public buildings, and open space preservation.

FINANCIAL CONDITION

The total taxable assessed value of residential and commercial real property increased by 2.6% over the prior year. The residential real estate tax rate increased by \$0.012 and the commercial and industrial real estate tax rate increased by \$0.032 for the June billing cycle. In total for the year, real estate revenues increased by \$1.6 million or 2.8% over F/Y 14. School tuition costs increased in F/Y 15 by \$1.4 million or 3.3%, which, while just slightly lower than budgeted, was actually \$0.3 million higher than estimated. Current estimates indicate the population of City students in City schools will continue to grow in F/Y 16, resulting in higher tuition and lower reimbursement for classroom rental from the County as the proportion of City children to County children increases.

In order to keep existing programs funded, salaries of public employees competitive, and to address the expanding program needs of the community in a recovering economy, careful budgeting is required. The City strives to keep operating costs flat; however, in F/Y 15 the City provided a merit increase of 3.5% for eligible employees and a 1.0% cost of living adjustment (COLA) to remain competitive with surrounding jurisdictions. The City took advantage of continued low interest rates to finance the replacement of the synthetic turf at

FINANCIAL CONDITION (CONTINUED)

Fairfax High School and additional vehicle and equipment replacement. Wastewater rates increased 10.0% due to additional debt service costs relating to the City's share of Fairfax County wastewater plant upgrades (where the City's wastewater is treated). Water rates remained frozen until July 2015, at which point they were lowered to match the rates of Fairfax Water's legacy customers. The timing of the rate decrease was accelerated by the City's early payoff in F/Y 15 of the note due to Fairfax Water. This accelerated payment benefitted both the City with the recognition of interest income, and Fairfax Water, with the use of those funds for capital projects at a rate lower than their normal borrowing cost.

The City's outstanding debt continues to decline. Though the City uses debt financing in addition to the "pay-as-you-go" approach to fund certain capital projects, the City's net direct debt to tax base ratio decreased to 1.58% at June 30, 2015 from 1.70% at June 30, 2014.

The following table shows the overall real property assessed value has nearly doubled since 2002 including a 2.6% increase from 2014 to 2015. Real property taxes, which are based on assessments as of January 1st of each year, are due in two payments. The first six months of the real estate tax is due on June 21st and the second half on December 5th.

Tax Year	Residential Assessed Value	Residential % Increase (Decrease)	Industrial / Commercial Assessed Value	Industrial / Commercial % Increase (Decrease)	Total Taxable Assessed Value	Total % Increase (Decrease)
2002	1,756,005,200	17.6	1,103,310,900	10.9	2,859,316,100	14.9
2003	2,111,088,700	20.2	1,206,961,700	9.4	3,318,050,400	16.0
2004	2,439,123,400	15.5	1,314,291,800	8.9	3,753,415,200	13.1
2005	3,063,115,200	25.6	1,382,126,100	5.0	4,445,241,300	18.4
2006	3,817,504,900	24.6	1,626,385,700	17.7	5,443,890,600	22.5
2007	3,723,667,700	(2.5)	1,884,634,000	15.9	5,608,301,700	3.0
2008	3,475,794,600	(6.7)	2,161,997,400	14.7	5,637,792,000	0.5
2009	3,182,468,200	(8.4)	2,177,141,800	0.7	5,359,610,100	(4.9)
2010	3,013,912,200	(5.2)	1,968,035,100	(9.6)	4,981,947,300	(7.0)
2011	3,123,099,700	3.6	1,954,294,800	(0.7)	5,077,394,500	1.9
2012	3,195,889,977	2.3	2,025,966,286	3.7	5,221,856,263	2.8
2013	3,266,638,900	2.2	2,073,994,400	2.4	5,340,633,300	2.3
2014	3,463,135,200	6.0	2,085,815,600	0.6	5,548,950,800	3.9
2015	3,624,478,000	4.6	2,068,542,000	(0.8)	5,693,020,000	2.6

The City's tax year is on a calendar year basis with property assessed as of January 1st of each year.

BOND RATING

The City's bond ratings are as follows:

	Moody's Investors Service	Standard & Poor's
General Obligation Bonds	Aaa	AAA

BUDGETARY ACCOUNTING AND INTERNAL CONTROLS

The budget process begins in the fall. City Council sets guidelines for the budget, usually in November. These guidelines provide the framework for developing the new budget. Requests from departments and City offices are reviewed and evaluated for priority and, based on estimated revenues, funding is requested by the City Manager in support of those programs and services. Revenue estimates are derived from a review of current and projected economic indicators, current and proposed federal and state legislation, knowledge of future planned events in the City, and review of historic trends. By law, local government budgets must be balanced; i.e., current expenditures may not exceed current revenues and appropriated fund balance.

The Capital Improvement Program (CIP) follows a similar process whereby departments submit requests, which are evaluated for priority and funding. The initial proposed CIP is issued in November and forwarded to the City Council and Planning Commission for joint discussion. The Planning Commission then holds a public hearing on the CIP and provides recommendations to the City Council. The City Council holds at least one public hearing on the CIP and defers action until adoption of the operating and capital budgets in April or May. The City Manager refines the initial proposed CIP based on an evaluation of operating funding requests and available resources.

A capital budget (year one of the proposed CIP) is included in the operating budget. The capital budget and operating budget together become the proposed budget.

The City Council reviews the proposed budget and holds a series of public hearings, work sessions, and outreach meetings to provide the public with an opportunity to comment, ensuring that the budget is responsive to the citizens' needs. After careful deliberation, the proposed budget, as modified for additions and deletions, is adopted by City Council.

As a management tool, budgetary control is maintained at the department level requiring the encumbrance of funds, which generates vendor purchase orders. In addition, revenues and expenditures are monitored throughout the year, enabling the City to measure actual income and expenses against those projected in the budget.

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 2014 CAFR for the 34th consecutive year. GFOA awards a certificate to governmental units that exemplify excellence in financial reporting and conform to the stringent reporting requirements promulgated by that association and various other authoritative bodies.

To earn a Certificate of Achievement, a CAFR must tell its financial story clearly, thoroughly, and understandably. The report must be efficiently organized, employ certain 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".

A Certificate is valid for a period of only one year. The City believes its current report continues to conform to the Certificate of Achievement Program requirements and standards, and is submitting it to the GFOA to determine its eligibility for another certificate for this current fiscal year.

ACKNOWLEDGMENTS

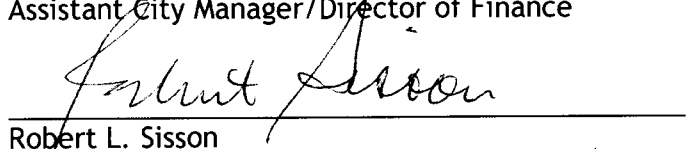
We wish to express our appreciation to the staff of the Department of Finance. Their efficient and dedicated service assisted in the preparation of this report.

We would also like to thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

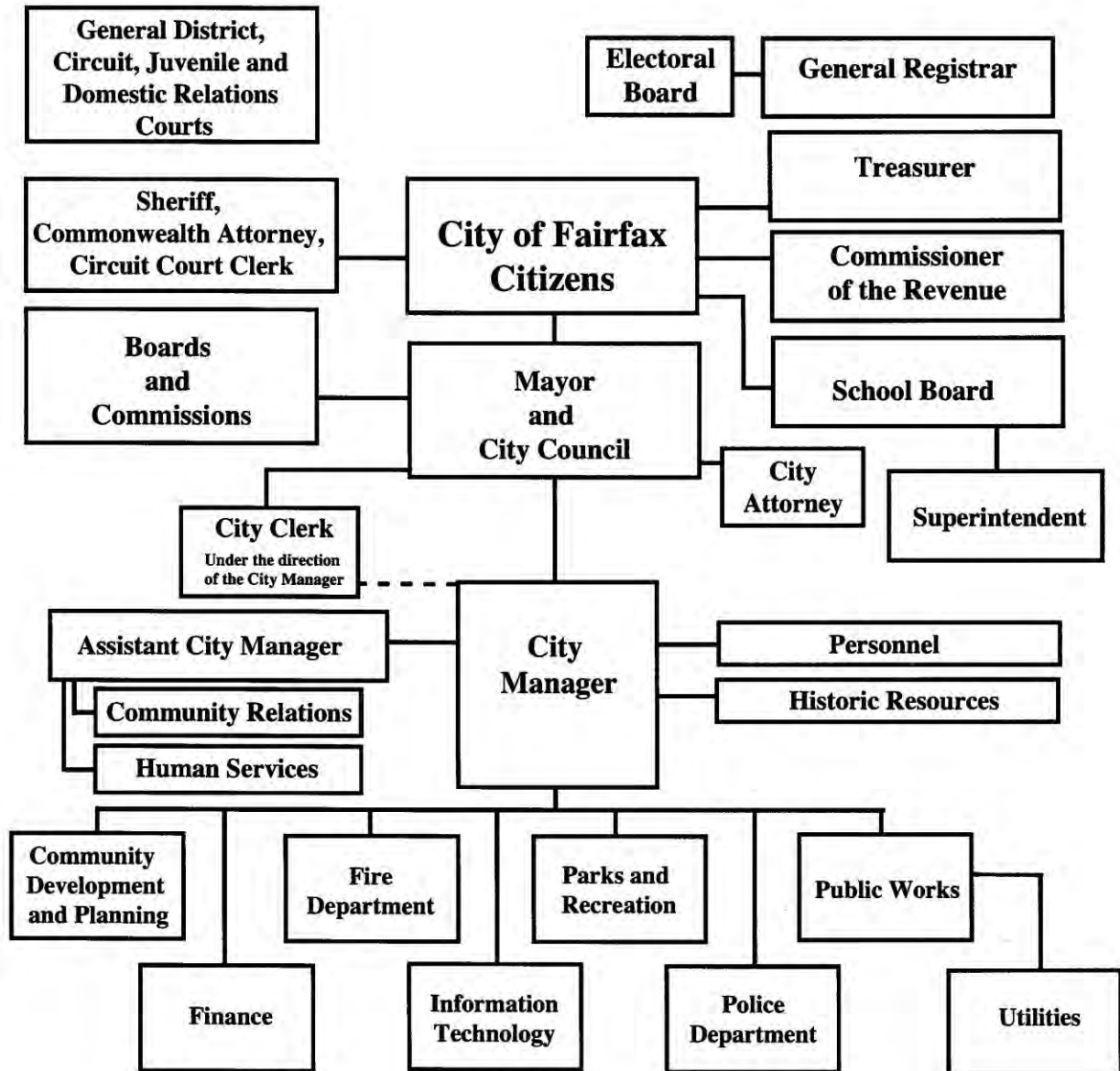


David E. Hodgkins
Assistant City Manager/Director of Finance



Robert L. Sisson
City Manager

City of Fairfax, Virginia Organizational Chart



CITY OF FAIRFAX, VIRGINIA
PRINCIPAL OFFICIALS
June 30, 2015

CITY COUNCIL

R. Scott Silverthorne, Mayor

Michael. J. DeMarco
Jeffrey C. Greenfield
Nancy F. Loftus

David L. Meyer
Janice B. Miller
Eleanor D. Schmidt

STAFF

Robert L. Sisson..... City Manager
David E. Hodgkins Assistant City Manager/Director of Finance
William Page Johnson II Commissioner of Revenue¹
W. Thomas Scibilia Treasurer¹
David Rohr Fire Chief²
Carl R. Pardiny..... Chief of Police
Brooke Hardin Director of Community Development and Planning
Lynn L. Barbour..... Director of Information Technology
David Summers..... Director of Public Works
Catherine Salgado. Director of Parks and Recreation
Sara Greer Personnel Director
Thomas E. Reed Real Estate Assessment Director
Melanie Burrell City Clerk
Kevin Linehan General Registrar³
Peter Noonan City School Superintendent

ADVISORS

Brian J. Lubkeman..... City Attorney
Cherry Bekaert, LLP..... Independent Auditors

¹ Elected by City voters to 4-year terms. Current terms expire December 31, 2017

² Retired on August 1, 2015; Andrew Vita is Acting Fire Chief

³ Retired on July 1, 2015. Brenda Cabrera is the new General Registrar



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Fairfax
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

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FINANCIAL SECTION

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Report of Independent Auditor

To the Honorable Members of City Council
City of Fairfax, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairfax, Virginia (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Fairfax, Virginia, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the basic financial statements, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective July 1, 2014. As a result, related net position as of June 30, 2014 has been restated. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Other Supplementary Information as listed in the Table of Contents, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Other Supplementary Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Tysons Corner, Virginia
January 29, 2016

CITY OF FAIRFAX, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

The following discussion and analysis of the City of Fairfax, Virginia's ("City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Users of these financial statements are encouraged to consider the information presented here in conjunction with the City's basic financial statements and the information furnished in our letter of transmittal, which can be found in the introductory section.

HIGHLIGHTS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Primary Government assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$58.5 million (*net position*) at the close of the most recent fiscal year ("F/Y") on June 30, 2015.

- The City implemented Governmental Accounting Standards Board (GASB) Statement No. 68 requiring the presentation of certain pension-related liabilities and deferred inflows/outflows on the Statement of Net Position and resulting in a restatement of F/Y 2014 Governmental Activities' net position from \$81.8 million to \$43.4 million. Governmental Activities' net position at the end of F/Y 15 was \$49.6 million, an increase of \$6.2 million over the restated balance. Refer to Table 1 for more information.
- A combination of increased real property assessments, a \$0.012 increase in the residential real estate and a \$0.032 increase in the commercial and industrial real estate tax rates for half the fiscal year, modest increases in charges for services, and a near doubling of federal capital grants/contributions contributed to the majority of the increase in governmental net position. Refer to Tables 1 and 2 for more information.
- The Component Unit School Board decreased its net position by \$1.7 million during the year, driven primarily by a \$1.3 million increase in school tuition. At the end of F/Y 15, the City recorded a payable to Fairfax County Public Schools of \$1.1 million for underpayment of tuition; that charge will be added to the first bill in F/Y 16. Conversely, in F/Y14, there was a receivable due from Fairfax County Public Schools (FCPS) of \$1.1 million for overpayment of contracted school tuition.
- At the end of June 30, 2015, the City's governmental, business-type, and component unit school board activities had invested \$203.6, \$19.1, \$5.9 million, net of accumulated depreciation, respectively, in a variety of capital assets. Refer to Table 3 for more information.
- The City's total governmental outstanding long-term debt is \$152.4 million, which is a decrease of \$6.8 million, driven mainly by debt retirement during the normal course of business. Total enterprise outstanding long-term debt decreased by \$20.1 million, due primarily to the early payment of the note payable to Fairfax County Water Authority in exchange for a reduction in debt principal and an expedited timetable to reduce water rates for former customers of the City's water utility. Refer to the Outstanding Debt Table in this section or Note 7 under the Notes to the Financial Statements section of this report for additional information.

CITY OF FAIRFAX, VIRGINIA

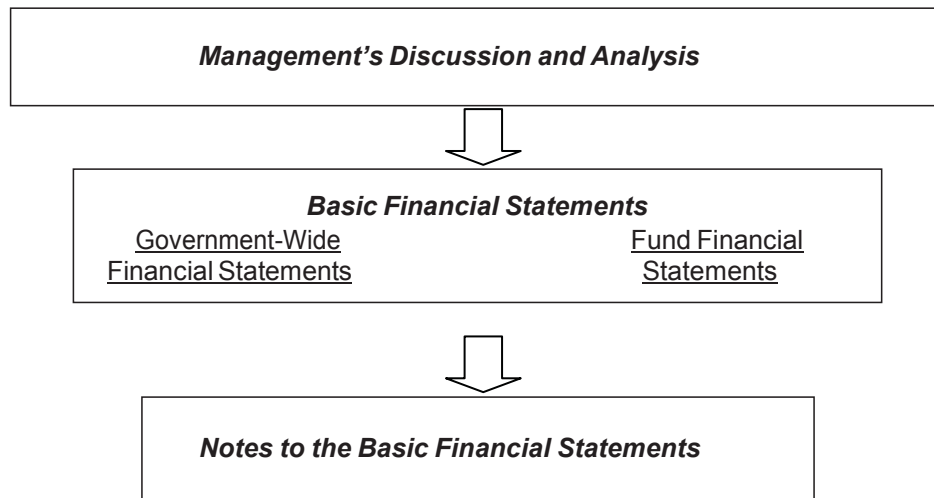
MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

USING THE FINANCIAL SECTION OF THE ANNUAL REPORT

- This Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical, and compliance. The financial section is further broken down as displayed in the chart below.

COMPONENTS OF THE FINANCIAL SECTION



GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by most private-sector companies. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. One of the most important questions that could be asked about the City's financial position is: "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which are the government-wide statements, report information about the City as a whole and about its activities in a way to address this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in it. One can think of the City's net position – the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or declining. Other non-financial factors will need to be considered, for example, changes in the City's property tax base and the condition of the City's facilities, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into the following:

Governmental Activities – Most of the City's basic services are reported here: General Government, Judicial Administration, Public Safety, Public Works, Health and Social Services, Parks, Recreation and Cultural, and Planning and Community Development. Property taxes, other local taxes, and state and federal aid finance most of these activities.

CITY OF FAIRFAX, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

Business-type Activities – The City's Wastewater System and the City's Transit System are reported here. The City was out of the water treatment and distribution business in all of F/Y 15; however, residual transactions related to the sale of the utility did occur in F/Y 15. The City charges a fee to customers to cover all of the cost of water and waste-water services. Historically, a significant portion of the Transit System had been subsidized by the City, but in the last two fiscal years, the City has been permitted to use "30%" state funds to fund Transit operations.

Component Units – The City includes three legal entities as Component Units in its report – the School Board, Industrial Development Authority, and the Economic Development Authority. The School Board is presented as a separate column while the others are combined as non-major component units for presentation purposes. These legally separate "component units" are each important because the City is financially accountable for them, and provides a significant portion of their operating and capital funding.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The fund financial statements provide more information about the City's most significant funds – not the City as a whole. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The City has three types of funds:

Governmental Funds – This fund type includes most of the City's basic services, and focuses on (1) how cash and other financial assets that are readily converted to cash, flow in and out, and (2) on the balances left at year-end that are available for spending. Consequently, the governmental funds' statements provide a detailed short-term 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.

Proprietary Funds – This fund type includes services for which the City charges customers a fee, and the fee is to support the majority, if not all, of the cost. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

Fiduciary Funds – This fund type accounts for assets held by the City in a trustee capacity and consists of pension trust funds.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide postemployment benefits to its employees and other information related to its pension plans. Required supplementary information immediately follows the notes to the financial statements.

The combining statements in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions and other postemployment benefits.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statement of Net Position

The table on the next page presents the condensed Statement of Net Position of the Primary Government and the School Board Component Unit in a comparative format:

CITY OF FAIRFAX, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

Table 1
Summary of Statement of Net Position
June 30, 2015 and 2014
(in millions)

	Primary Government						Major Component Unit	
	Governmental Activities		Business-type Activities		Totals		School Board	
	2015	2014 *	2015	2014 *	2015	2014 *	2015	2014 *
ASSETS								
Current and other assets	\$ 74.4	\$ 74.5	\$ 20.2	\$ 40.4	\$ 94.6	\$ 114.9	\$ 2.5	\$ 3.1
Capital assets, net	203.6	201.6	19.1	17.5	222.7	219.1	5.9	7.5
Total Assets	\$ 278.0	\$ 276.1	\$ 39.3	\$ 57.9	\$ 317.3	\$ 334.0	\$ 8.4	\$ 10.6
Deferred outflows of resources	\$ 21.6	\$ 14.8	\$ 0.6	\$ 0.4	\$ 22.2	\$ 15.2	\$ -	\$ -
LIABILITIES								
Current and other liabilities	\$ 20.7	\$ 19.6	\$ 4.1	\$ 22.4	\$ 24.8	\$ 42.0	\$ 1.2	\$ 1.7
Long-term liabilities	190.4	198.5	26.5	27.1	216.9	225.6	0.2	0.2
Total Liabilities	\$ 211.1	\$ 218.1	\$ 30.6	\$ 49.5	\$ 241.7	\$ 267.6	\$ 1.4	\$ 1.9
Deferred inflows of resources	\$ 38.9	\$ 29.4	\$ 0.4	\$ -	\$ 39.3	\$ 29.4	\$ -	\$ -
NET POSITION								
Net investment in capital assets	\$ 65.4	\$ 63.4	\$ 12.2	\$ 7.1	\$ 77.6	\$ 70.5	\$ 5.9	\$ 7.5
Unrestricted	(15.8)	(20.0)	(3.3)	1.7	(19.1)	(18.3)	1.1	1.2
Total Net Position	\$ 49.6	\$ 43.4	\$ 8.9	\$ 8.8	\$ 58.5	\$ 52.2	\$ 7.0	\$ 8.7

Note - immaterial rounding differences between the tables in the MD&A and the Exhibits in the Financial Section of the CAFR may exist

* Balances have been restated to reflect the implementation of required pension reporting.

Over time, net position may serve as a useful indicator of the City's financial position. For the most recently concluded fiscal year, the Primary Government's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$58.5 million, which is an increase of \$6.3 million from the net position as of June 30, 2014, as restated.

The largest portion of the City's net position reflects its investment in capital assets (e.g. land, buildings, infrastructure improvements, machinery and equipment, and construction in progress, net of accumulated depreciation) less any related outstanding debt used to acquire those assets. As of June 30, 2015, this investment totaled \$83.5 million for the entire reporting entity (\$77.6 million for the Primary Government and \$5.9 million for the School Board). The City uses these assets to provide services to its citizens; consequently, these assets are not readily available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves would not likely be used to liquidate these liabilities.

Statement of Activities

The following table shows the revenues and expenses of the governmental and business-type activities and the School Board Component Unit:

CITY OF FAIRFAX, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

Table 2
Summary of Changes in Net Position
Years Ended June 30, 2015 and 2014
(in millions)

	Primary Government						Major Component Unit	
	Governmental Activities		Business-type Activities		Totals		School Board	
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues:								
Program Revenues:								
Charges for services	\$ 5.5	\$ 5.3	\$ 7.4	\$ 11.5	\$ 12.9	\$ 16.8	\$ 0.5	\$ 0.5
Operating grants and contributions	4.0	4.1	0.9	0.6	4.9	4.7	7.6	7.1
Capital grants and contributions	7.0	3.2	-	-	7.0	3.2	-	-
General Revenues:								
General property taxes	68.9	66.6	-	-	68.9	66.6	-	-
Other local taxes	32.0	32.1	-	-	32.0	32.1	-	-
Contribution from City	-	-	-	-	-	-	38.7	37.8
Grants and contributions not restricted to specific programs	5.7	5.7	-	-	5.7	5.7	-	-
Use of money and property	0.9	0.6	-	-	0.9	0.6	1.9	2.1
Miscellaneous	2.5	7.1	-	-	2.5	7.1	-	-
Total Revenues	126.5	124.7	8.3	12.1	134.8	136.8	48.7	47.5
Expenses:								
General government	10.2	7.9	-	-	10.2	7.9	-	-
Judicial administration	2.6	2.5	-	-	2.6	2.5	-	-
Public safety	24.8	25.8	-	-	24.8	25.8	-	-
Public works	18.9	18.4	9.2	16.1	28.1	34.5	-	-
Health and social services	5.6	5.3	-	-	5.6	5.3	-	-
Education	42.2	43.0	-	-	42.2	43.0	50.4	48.8
Parks, recreation, and cultural	8.1	6.2	-	-	8.1	6.2	-	-
Planning and community develop	2.4	2.1	-	-	2.4	2.1	-	-
Interest	5.2	5.9	-	-	5.2	5.9	-	-
Total Expenses	120.0	117.1	9.2	16.1	129.2	133.2	50.4	48.8
Change in net position, before transfer	6.5	7.6	(0.9)	(4.0)	5.6	3.6	(1.7)	(1.3)
Transfers	(0.3)	-	0.3	-	-	-	-	-
Special item	-	-	0.7	(12.4)	0.7	(12.4)	-	-
Change in net position	6.2	7.6	0.1	(16.4)	6.3	(8.8)	(1.7)	(1.3)
Net position, beginning of year	81.8	74.2	10.8	27.2	92.6	101.4	8.8	10.1
Cumulative effect of change in accounting principle *	(38.4)	-	(2.0)	-	(40.4)	-	(0.1)	-
Net position, beginning of year adjusted	43.4	74.2	8.8	27.2	52.2	101.4	8.7	10.1
Net position, end of year	\$ 49.6	\$ 81.8	\$ 8.9	\$ 10.8	\$ 58.5	\$ 92.6	\$ 7.0	\$ 8.8

Note - immaterial rounding differences between the tables in the MD&A and the Exhibits in the Financial Section of the CAFR may exist

* Balances have been restated to reflect the implementation of required pension reporting.

Governmental Activities

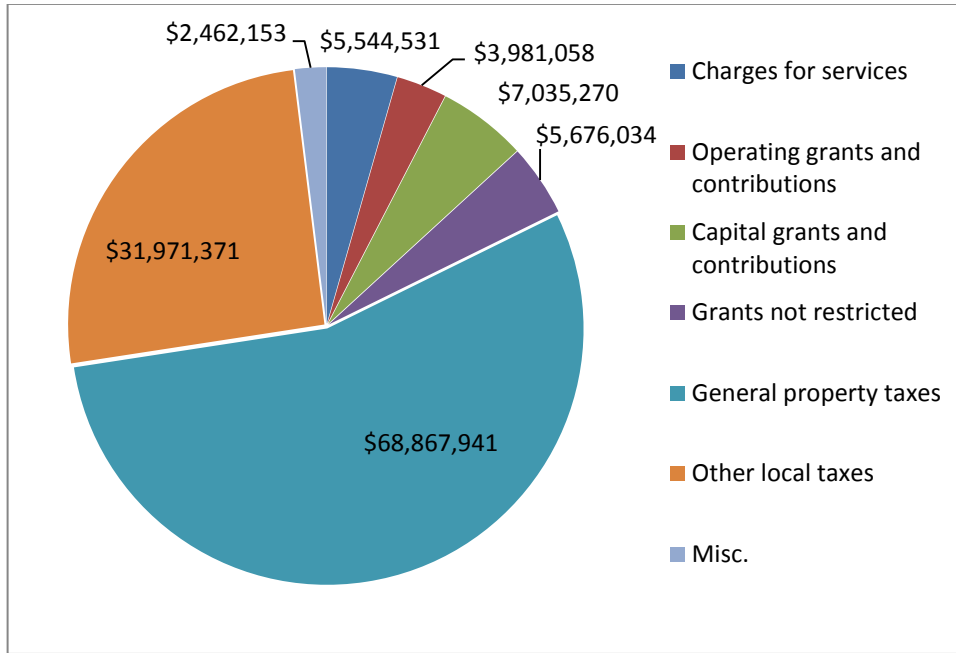
Revenues for the City's governmental activities were \$126.5 million, which is an increase of \$1.8 million from the prior year.

- General property taxes are the largest revenue source for the City. A healthy 2.6% increase in assessments of taxable real property and a \$.012 increase in the RE tax rate from \$1.04 to \$1.052, effective May 1, 2015, contributed to the \$2.2 million increase in these revenues.
- Modest gains in business license, meals, consumer utility, and other local taxes of \$0.4 million were more than offset by a total decrease of \$0.5 million in local sales and use and franchise taxes.
- Miscellaneous revenues decreased by \$4.6 million primarily attributable to one-time net proceeds of \$4.2 million from the sale of the 11 Oaks property in F/Y 14.
- Federal and state revenue-sharing transportation-related grants were the main factors behind the increase of capital grant revenues by \$3.8 million.

CITY OF FAIRFAX, VIRGINIA MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

The chart below shows F/Y 2015 governmental activities' revenues by program source:



Expenses for the City's governmental activities were \$120.0 million in F/Y 2015, which is an increase of \$2.9 million from F/Y 2014.

- A 3.5% merit for eligible employees, a 1.0% cost of living adjustment (COLA) for all employees, and increases in actuarially determined employer costs for the Virginia Retirement System (VRS) and the City's supplemental retirement plans contributed to an overall increase in personnel costs.
- School tuition increased by \$1.4 million or 3.1%, resulting from an increase in the ADM of City students by 82. The delay of the Layton Hall apartment renovation project is one of the main drivers of the increase.

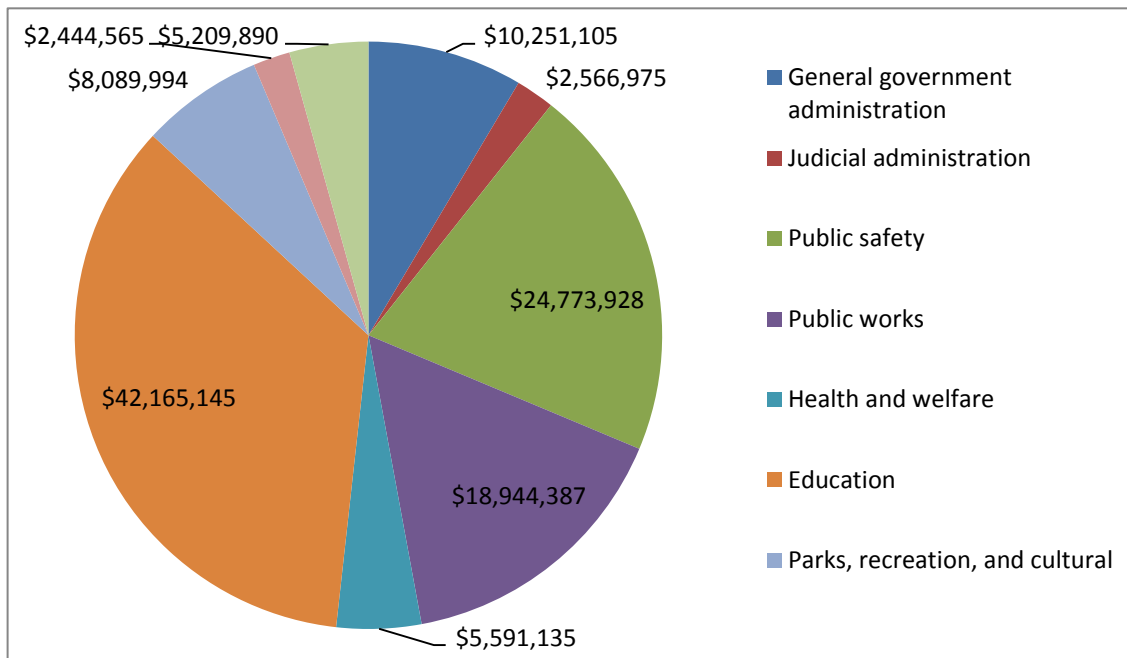
As shown in the chart on the next page, education remains the City's largest program, followed by Public Safety and Public Works.

CITY OF FAIRFAX, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

Governmental activity expenses by major category are as follows:



Business-type Activities

Business-type activities decreased the City's net position, before transfers and special items, by \$0.9 million, as charges for services and grants came in lower than expenses. However, both revenues and expenses decreased from F/Y 14 by \$3.8 million and \$6.9 million, respectively. The main driver of the decreases is the City still being in the water treatment and distribution business for half of F/Y14 until the utility was sold in January 2014. Wastewater revenues were far lower than projected due to the cancellation of the Layton Hall apartment redevelopment project, which would have resulted in high new connection fees. Finally, F/Y 14 saw a (\$12.4) million one-time special item resulting from the sale of the water utility.

Component Unit Activities

The School Board's net position decreased by \$1.7 million during the year, primarily driven by the \$1.4 million increase in tuition.

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.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$32.3 million, a decrease of \$3.0 million from the prior year. Approximately 42% of this total amount (\$13.4 million) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is classified as non-spendable (\$.9 million), restricted (\$4.9

CITY OF FAIRFAX, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

million), committed (\$3.5 million), and assigned (\$9.6 million) to indicate that the funds are not available for new spending.

The General Fund is the primary operating fund of the City. The total fund balance decreased by \$1.2 million (revenues of \$117.6 million less expenditures of \$112.1 million and other financing uses, net of \$6.7 million). Approximately \$6.9 million of the financing uses represents the transfer of assigned fund balance from F/Y 15 to the various Capital Projects fund, offset by a \$0.2 million transfer into the General Fund. The transfers out decreased by \$4.5 million from F/Y 14 since F/Y 14 had a one-time transfer of bond proceeds from the General Fund to the Capital Fund related to the sale of the 11 Oaks property and subsequent payoff of the bond.

The City's other governmental funds reflected overall decreases of \$1.9 million in the total fund balance, consisting of the following: General Capital Projects Fund (\$.9 million increase), Old Town Fairfax Fund (\$4.5 million decrease), and Other Governmental Funds (\$1.7 million increase). The decrease in the Old Town Fund is attributable to the use of proceeds from financing activities to construct Old Town Square Park. The increases in the other fund balances are due primarily to increases in State and Federal revenues. The General Capital Projects, Old Town Fairfax, and Other Governmental fund balances are restricted, committed or assigned to capital projects and unavailable for other spending.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The City has the following proprietary funds: Wastewater, Water and Transportation Fund. The Water Fund ceased operations and will close out once final transactions related to the sale of the water treatment and distribution assets, and the purchase of capacity from FCWA are complete.

Unrestricted net position of the Wastewater Utility Fund, Water Utility Fund, and Transportation Fund at June 30, 2015 totaled (\$3.1), \$1.3, and (\$1.5) million, respectively. The total proprietary fund unrestricted net position decreased by \$7.2 million to (\$3.3) million from the prior year.

Major events during the current fiscal year included the following:

- Implementation of voluminous new accounting pronouncements related to pensions;
- Conversion of the billing and cashing system used by the City Treasurer and the Commissioner of the Revenue;
- A \$1.6 million lease financing to fund replacement of the synthetic turf at Fairfax High School and the replacement of several vehicles/pieces of equipment;
- Early payoff of the note payable to Fairfax County Water Authority to buy into their treatment and distribution system, resulting in interest income for the City and an accelerated rate reduction for the former customers of the City of Fairfax water utility, and
- An increase in Wastewater rates of 10.0%. Residual cash in the Water Fund was used to supplement the C&I tax rate in order to maximize the receipt of "30%" transportation funding from the State since the City set that tax rate at \$0.075, and not at the maximum \$0.125 allowed.

CITY OF FAIRFAX, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

General Fund Budgetary Highlights
Fiscal Year 2015

	Final Budget	Actual	Actual Over/(Under) Final Budget
Revenues:			
Taxes	\$ 104,121,022	\$ 100,485,091	\$ (3,635,931)
Intergovernmental	7,463,936	10,435,669	2,971,733
Other	6,530,506	6,686,109	155,603
Totals	<u>118,115,464</u>	<u>117,606,869</u>	<u>(508,595)</u>
Expenditures	<u>113,713,160</u>	<u>112,047,162</u>	<u>1,665,998</u>
Excess of revenues over expenditures	<u>4,402,304</u>	<u>5,559,707</u>	<u>1,157,403</u>
Other financing sources and (uses) transfers out	<u>(6,997,397)</u>	<u>(6,724,016)</u>	<u>273,381</u>
Changes in fund balance	(2,595,093)	(1,164,309)	1,430,784
Fund balance, beginning of year	2,595,093	16,536,567	13,941,474
Fund balance, end of year	<u>\$ -</u>	<u>\$ 15,372,258</u>	<u>\$ 15,372,258</u>

Actual revenues were under final budget amounts by \$0.5 million and actual expenditures beat final budget amounts by \$1.7 million. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2015, include the following (See Exhibit 7 for more detail):

- The overall negative variance of \$0.5 million in revenues from budget is attributable mainly to local sales taxes underperforming. Reduced volumes of petrol products through the tank farm in the City continue to hinder these revenues.
- PPTRA of \$3.0 million is budgeted in Taxes but recorded in Intergovernmental. It is necessary to net the two variances in order to analyze performance.
- Overall expenditures came in under budget as a result of cost containments and salary vacancy, which is the savings realized when positions remain vacant for a portion of the year and employees at the top of their pay ranges retire.

CAPITAL ASSETS

At the end of June 30, 2015, the City's governmental activities, business-type activities, and the activities of the Component Unit School Board had invested \$203.6, \$19.1, \$5.9 million net of accumulated depreciation, respectively, in a variety of capital assets, as reflected in the following table (in millions)*

	Primary Government						Component Unit	
	Governmental Activities		Business-type Activities		Totals		School Board	
	2015	2014	2015	2014	2015	2014	2015	2014
Land	\$ 43.4	\$ 42.1	\$ -	\$ -	\$ 43.4	\$ 42.1	\$ 1.4	\$ 1.4
Construction in progress	17.9	10.0	1.3	0.5	19.2	10.5	-	-
Depreciable Capital Assets:					-	-		
Buildings and improvements	52.8	52.7	1.5	1.5	54.3	54.2	36.8	33.2
Machinery and equipment	25.2	24.3	4.1	4.2	29.3	28.5	1.4	1.4
Joint tenancy assets	79.9	83.6	-	-	79.9	83.6	-	-
Intangible assets	-	-	16.8	15.5	16.8	15.5	-	-
Infrastructure	49.2	48.2	8.2	8.2	57.4	56.4	-	-
Accumulated depreciation	<u>(64.8)</u>	<u>(59.3)</u>	<u>(12.8)</u>	<u>(12.4)</u>	<u>(77.6)</u>	<u>(71.7)</u>	<u>(33.7)</u>	<u>(28.5)</u>
Total	<u>\$ 203.6</u>	<u>\$ 201.6</u>	<u>\$ 19.1</u>	<u>\$ 17.5</u>	<u>\$ 222.7</u>	<u>\$ 219.1</u>	<u>\$ 5.9</u>	<u>\$ 7.5</u>

* Immaterial rounding differences between the tables in the MD&A and the Exhibits in the Financial Section of the CAFR may exist

CITY OF FAIRFAX, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$222.7 million, net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure. Common infrastructure items include roadways, bridges, storm drainage areas, wastewater lines, sidewalks, curbs, bike paths and traffic lights. The net increase in the City's investment in capital assets of \$3.6 million during the current fiscal year is due to new investments exceeding depreciation.

Major capital asset transactions of the City during F/Y15 in both the governmental and business-type activities included the following:

- Additions to construction in progress focusing on the roadways and transportation, including replacement of the bridge on Rt. 123 at Rust Curve, Kamp Washington spot improvements, and work on Rt. 29/50 at Northfax, as well as construction of Old Town Square Park and new cashing software in Treasury/Revenue, all totaling about \$7.9 million.
- Continued investment in the Noman Cole Sewer Treatment Plant of \$1.3 million (construction in progress).
- A capital lease of \$1,6 million to replace the synthetic turf at Fairfax High School and multiple vehicles/pieces of equipment.

The City's investment in capital assets for its School Board Component Unit as of June 30, 2015, was \$5.9 million, net of accumulated depreciation, a net decrease of \$1.6 million from the prior fiscal year. The investment in capital assets is comprised of the same categories as listed above for the City, and also includes joint tenancy assets (e.g. classroom improvements and school infrastructure funded by the City).

Additional information on the City's capital assets can be found in Note 6 of the Notes to the Financial Statements section of this report.

CITY OF FAIRFAX'S OUTSTANDING DEBT (in millions)*

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 91.5	\$ 96.0	\$ -	\$ -	\$ 91.5	\$ 96.0
General Obligation Bonds - Premiums	7.8	8.3	-	-	7.8	8.3
Lease revenue bonds	30.2	31.1	-	-	30.2	31.1
Public improvement COPS	10.9	12.6	-	-	10.9	12.6
Notes payable	7.2	7.2	-	-	7.2	7.2
Capital leases	4.8	4.0	-	-	4.8	4.0
Governmental Debt	<u>152.4</u>	<u>159.2</u>	<u>-</u>	<u>-</u>	<u>152.4</u>	<u>159.2</u>
Water - Lease Revenue Bonds	-	-	-	19.6	-	19.6
Sewer - Lease Revenue Bonds and Premiums	-	-	24.2	24.7	24.2	24.7
Total Self Supporting Debt	<u>-</u>	<u>-</u>	<u>24.2</u>	<u>44.3</u>	<u>24.2</u>	<u>44.3</u>
Total City Debt	<u>\$ 152.4</u>	<u>\$ 159.2</u>	<u>\$ 24.2</u>	<u>\$ 44.3</u>	<u>\$ 176.6</u>	<u>\$ 203.5</u>

* Immaterial rounding differences between the tables in the MD&A and the Exhibits in the Financial Section of the CAFR may exist

Additional information on the City of Fairfax's long-term debt can be found in Note 7 of Notes to the Financial Statements section of this report.

CITY OF FAIRFAX, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

ECONOMIC FACTORS

While certain economic indicators, such as real property assessments and other local taxes had solid gains during F/Y 15, local sales and use taxes were \$0.4 million lower than the prior year, and meals, business license, and franchise taxes were essentially flat. Additionally, even though real estate assessments increased by 2.6%, that increase was driven by the residential sector. Commercial assessments actually decreased by 0.1%. Consequently, there is still concern about inhibited business investment.

Despite these challenges, the City's unemployment rate has continued to improve, closing the fiscal year out at 3.7% and remains lower than national (5.0%) and State (4.2%) unemployment rates. The City's bond ratings, Aaa (Moody's Investor Services) and AAA (Standard and Poor's) place it in the top tier of municipal bond issuers. The City continues to maintain a strong economic base. Approaching a five-year low, retail vacancy rates of 3.0% in the City are among the lowest in the region. Office space vacancy increased to around 15.0%; however, this rate is comparable to the vacancy rate in surrounding jurisdictions. The City has aggressively pursued multiple redevelopment opportunities along the Route 50/29 Corridor (Fairfax Boulevard), and has approved mixed-use development projects at Fairfax Circle, Kamp Washington, and Northfax Gateway. Several major projects have been completed along the Boulevard with many others in various stages of planning, design, and development.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our 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. Questions concerning this report or requests for additional financial information should be directed to the Director of Finance, City of Fairfax, 10455 Armstrong Street, Fairfax, Virginia 22030, telephone (703) 385-7870, or visit the City's web site at www.fairfaxva.gov.

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CITY OF FAIRFAX
Statement of Net Position

Exhibit 1

June 30, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Nonmajor Component Units
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 29,966,708	\$ 18,519,710	\$ 48,486,418	\$ 2,499	\$ 745,681
Cash and cash equivalents - in custody of others	3,425,675	-	3,425,675	-	-
Receivables, net of allowance for uncollectibles:					
Property taxes	32,696,523	1,064,176	33,760,699	-	-
Accounts receivable	1,369,436	-	1,369,436	-	-
Other	27,906	-	27,906	-	-
Due from other governments	4,870,874	626,337	5,497,211	771,108	-
Due from Primary Government	-	-	-	451,416	-
Due from component units	1,100,825	-	1,100,825	-	-
Inventories	771,674	-	771,674	-	862,594
Prepaid items	124,660	-	124,660	-	-
Advance to other governments	-	-	-	1,253,009	-
Total Current Assets	74,354,281	20,210,223	94,564,504	2,478,032	1,608,275
Noncurrent Assets:					
Capital assets, net of accumulated depreciation:					
Land and improvements	43,437,235	17,583	43,454,818	1,381,115	-
Buildings and improvements	52,756,776	1,491,528	54,248,304	36,792,005	-
Machinery and equipment	25,243,195	4,086,034	29,329,229	1,464,562	-
Joint tenancy assets	79,924,698	-	79,924,698	-	-
Infrastructure	49,159,073	8,228,775	57,387,848	-	-
Intangible assets	-	16,796,908	16,796,908	-	-
Construction in progress	17,858,249	1,309,029	19,167,278	-	-
Accumulated depreciation	(64,763,496)	(12,814,671)	(77,578,167)	(33,694,189)	-
Total Noncurrent Assets	203,615,730	19,115,186	222,730,916	5,943,493	-
Total Assets	277,970,011	39,325,409	317,295,420	8,421,525	1,608,275
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	11,004,133	-	11,004,133	-	-
Deferred pension investment experience - City Plans	7,271,529	374,910	7,646,439	-	-
Deferred pension contributions - VRS	3,336,591	210,788	3,547,379	9,925	-
Total Deferred Outflows of Resources	21,612,253	585,698	22,197,951	9,925	-
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued liabilities	5,819,580	988,268	6,807,848	1,222,524	-
Retainage payable	614,820	56,591	671,411	-	-
Accrued interest payable	2,037,725	342,251	2,379,976	-	5,819
Customer deposits and other liabilities	1,608,327	340,379	1,948,706	-	-
Due to Primary Government	-	-	-	-	1,100,825
Due to component unit	451,416	-	451,416	-	-
Due to Fairfax Water	-	1,801,251	1,801,251	-	-
Unearned revenues	1,203,758	-	1,203,758	-	-
Current portion of long-term obligations	8,976,112	548,343	9,524,455	4,378	-
Total Current Liabilities	20,711,738	4,077,083	24,788,821	1,226,902	1,106,644
Noncurrent Liabilities:					
Noncurrent portion of long-term obligations	190,399,126	26,515,577	216,914,703	179,403	-
Total Liabilities	211,110,864	30,592,660	241,703,524	1,406,305	1,106,644
DEFERRED INFLOWS OF RESOURCES					
Deferred Revenue - property taxes	31,017,698	-	31,017,698	-	-
Deferred pension investment experience - VRS	6,168,798	389,711	6,558,509	20,804	-
Deferred pension experience - City Plans	1,755,796	43,476	1,799,272	-	-
Total Deferred Inflows of Resources	38,942,292	433,187	39,375,479	20,804	-
NET POSITION					
Net investment in capital assets	65,367,317	12,154,407	77,521,724	5,943,493	-
Unrestricted	(15,838,209)	(3,269,147)	(19,107,356)	1,060,848	501,631
Total Net Position	\$ 49,529,108	\$ 8,885,260	\$ 58,414,368	\$ 7,004,341	\$ 501,631

For the Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			School Board	Nonmajor Component Units
					Governmental Activities	Business-type Activities	Total		
PRIMARY GOVERNMENT									
Governmental activities:									
General government administration	\$ 10,251,105	\$ 318,520	\$ 335,323	\$ -	\$ (9,597,262)	\$ -	\$ (9,597,262)	\$ -	\$ -
Judicial administration	2,566,975	1,331,838	-	-	(1,235,137)	-	(1,235,137)	-	-
Public safety	24,773,928	1,979,808	1,196,520	-	(21,597,600)	-	(21,597,600)	-	-
Public works	18,944,387	433,037	2,449,215	7,035,270	(9,026,865)	-	(9,026,865)	-	-
Health and welfare	5,591,135	-	-	-	(5,591,135)	-	(5,591,135)	-	-
Education	42,165,145	-	-	-	(42,165,145)	-	(42,165,145)	-	-
Parks, recreation, and cultural	8,089,994	1,103,761	-	-	(6,986,233)	-	(6,986,233)	-	-
Community development	2,444,565	377,567	-	-	(2,066,998)	-	(2,066,998)	-	-
Interest on long-term debt	5,209,890	-	-	-	(5,209,890)	-	(5,209,890)	-	-
Total Governmental Activities	120,037,124	5,544,531	3,981,058	7,035,270	(103,476,265)	-	(103,476,265)	-	-
Business-type activities:									
Sewer	5,445,448	6,095,415	-	-	-	649,967	649,967	-	-
Water	102,544	-	-	-	-	(102,544)	(102,544)	-	-
Transportation	3,481,209	1,309,277	855,874	-	-	(1,316,058)	(1,316,058)	-	-
Total Business-type Activities	9,029,201	7,404,692	855,874	-	-	(768,635)	(768,635)	-	-
Total Primary Government	\$ 129,066,325	\$ 12,949,223	\$ 4,836,932	\$ 7,035,270	\$ (103,476,265)	\$ (768,635)	\$ (104,244,900)	\$ -	\$ -
COMPONENT UNITS									
School Board	\$ 50,362,924	\$ 532,062	\$ 7,562,576	\$ -	\$ -	\$ -	\$ -	\$ (42,268,286)	\$ -
Nonmajor Component Units:									
Industrial Development Authority	42,028	65	-	-	-	-	-	-	(41,963)
Economic Development Authority	10,593	-	-	-	-	-	-	-	(10,593)
Total Nonmajor Component Units	52,621	65	-	-	-	-	-	-	(52,556)
Total Component Units	\$ 50,415,545	\$ 532,127	\$ 7,562,576	\$ -	\$ -	\$ -	\$ -	\$ (42,268,286)	\$ (52,556)
General Revenues:									
General property taxes					\$ 68,867,941	\$ -	\$ 68,867,941	\$ -	\$ -
Local sales and use taxes					11,181,909	-	11,181,909	-	-
Business license taxes					8,740,824	-	8,740,824	-	-
Consumer utility taxes					1,710,251	-	1,710,251	-	-
Meals tax					5,771,239	-	5,771,239	-	-
Franchise tax					1,657,236	-	1,657,236	-	-
Other local taxes					2,909,912	-	2,909,912	-	-
Unrestricted revenues from use of money and property					896,735	-	896,735	1,839,392	16,201
Contribution from Primary Government					-	-	-	38,700,601	-
Grants and contributions not restricted to specific programs					5,676,034	-	5,676,034	-	-
Miscellaneous					2,462,153	24,836	2,486,989	-	-
Transfers					(310,186)	310,186	-	-	-
Total General Revenues and Transfers					109,564,048	335,022	109,899,070	40,539,993	16,201
Special item - water authority reimbursement					-	666,219	666,219	-	-
Change in Net Position					6,087,783	232,606	6,320,389	(1,728,293)	(36,355)
Net Position - Beginning, as Restated (Note 20)					43,441,325	8,652,654	52,093,979	8,732,634	537,986
Net Position - Ending					\$ 49,529,108	\$ 8,885,260	\$ 58,414,368	\$ 7,004,341	\$ 501,631

CITY OF FAIRFAX, VIRGINIA
Balance Sheet - Governmental Funds
 June 30, 2015

Exhibit 3

	General	General Capital Projects	Old Town Fairfax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 15,150,771	\$ 5,591,570	\$ 1,073,618	\$ 8,150,749	\$ 29,966,708
Cash and cash equivalents - in custody of others	-	3,167,624	258,051	-	3,425,675
Receivables, net of allowance for uncollectibles:					
Taxes, including penalties	32,696,523	-	-	-	32,696,523
Accounts	1,369,436	-	-	-	1,369,436
Other	-	-	27,906	-	27,906
Inventories	771,674	-	-	-	771,674
Prepaid items	63,049	61,611	-	-	124,660
Due from other governments	2,790,692	1,860,096	-	220,086	4,870,874
Due from component unit	940,825	160,000	-	-	1,100,825
Total Assets	53,782,970	10,840,901	1,359,575	8,370,835	74,354,281
LIABILITIES					
Accounts payable and accrued liabilities	3,703,403	1,434,124	183,587	498,465	5,819,579
Retainage payable	-	384,536	216,623	13,661	614,820
Customer deposits and other liabilities	1,451,677	156,650	-	-	1,608,327
Unearned revenues	494,169	709,589	-	-	1,203,758
Due to component unit	451,416	-	-	-	451,416
Total Liabilities	6,100,665	2,684,899	400,210	512,126	9,697,900
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	32,310,047	-	-	-	32,310,047
FUND BALANCES					
Non-spendable	834,723	61,611	-	-	896,334
Restricted	623,913	3,758,624	-	514,198	4,896,735
Committed	-	876,374	-	2,631,440	3,507,814
Assigned	484,181	3,459,393	959,365	4,713,071	9,616,010
Unassigned	13,429,441	-	-	-	13,429,441
Total Fund Balances	15,372,258	8,156,002	959,365	7,858,709	32,346,334
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 53,782,970	\$ 10,840,901	\$ 1,359,575	\$ 8,370,835	\$ 74,354,281

CITY OF FAIRFAX, VIRGINIA

Exhibit 4

Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position

June 30, 2015

		<u>Primary Government</u>
Total fund balances - governmental funds		\$ 32,346,334
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.:		
Capital Assets	268,379,226	
Less accumulated depreciation	<u>(64,763,496)</u>	203,615,730
Unavailable revenue represents amounts that were not available to fund current expenditures and, therefore, is not reported as revenue in the governmental funds.		1,292,348
Deferred items:		
Deferred charge on refunding	11,004,133	
Deferred pension investment experience - City Plans	7,271,529	
Deferred pension investment experience inflow - VRS	(6,168,798)	
Deferred pension contributions - VRS	3,336,591	
Deferred pension experience - City Plans	<u>(1,755,796)</u>	13,687,659
Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.		
Accrued interest payable		(2,037,725)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
General obligation bonds	(91,455,000)	
Lease revenue bonds	(30,195,000)	
Notes payable	(7,250,000)	
Public facility certificate of participation	(10,925,800)	
Capital leases	(4,818,092)	
Premiums on bonds payable	(7,786,178)	
Net OPEB obligation	(4,414,102)	
Net Pension Liability - VRS	(34,216,500)	
Net Pension Liability - City Plans	(6,059,206)	
Compensated absences	<u>(2,255,360)</u>	(199,375,238)
Net position of governmental activities		<u>\$ 49,529,108</u>

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds

For the Year Ended June 30, 2015

	Governmental Funds				Total Governmental Funds
	General	General Capital Projects	Old Town Fairfax Fund	Other Governmental Funds	
Revenues:					
General property taxes	\$ 68,513,720	\$ -	\$ -	\$ -	\$ 68,513,720
Other local taxes	31,971,371	-	-	-	31,971,371
Permits, privilege fees, and regulatory licenses	1,300,349	-	-	-	1,300,349
Fines and forfeitures	1,233,802	-	-	-	1,233,802
Revenue from use of money and property	886,602	10,133	-	-	896,735
Charges for services	2,767,312	-	-	-	2,767,312
Miscellaneous	498,044	245,978	-	1,859,691	2,603,713
Intergovernmental:					
Fairfax County	778,578	-	-	-	778,578
Commonwealth	9,177,217	29,143	-	257,224	9,463,584
Federal	479,874	6,812,712	-	-	7,292,586
Total Revenues	117,606,869	7,097,966	-	2,116,915	126,821,750
Expenditures:					
Current:					
General government administration	8,788,807	2,244,189	-	-	11,032,996
Judicial administration	2,524,409	-	-	-	2,524,409
Public safety	25,325,575	404,005	-	-	25,729,580
Public works	12,230,869	8,471,887	4,504,308	2,214,408	27,421,472
Health and welfare	5,499,532	-	-	-	5,499,532
Education	36,321,754	42,123	-	-	36,363,877
Parks, recreation, and cultural	5,798,525	1,193,891	2,235	1,543	6,996,194
Planning and community development	2,390,017	-	-	-	2,390,017
Debt service:					
Principal retirement	7,923,005	-	-	-	7,923,005
Interest and other fiscal charges	5,244,669	-	-	-	5,244,669
Total Expenditures	112,047,162	12,356,095	4,506,543	2,215,951	131,125,751
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,559,707	(5,258,129)	(4,506,543)	(99,036)	(4,304,001)
Other Financing Sources (Uses):					
Capital lease issuance	-	1,586,000	-	-	1,586,000
Transfers in	184,255	4,554,555	234,072	3,509,274	8,482,156
Transfers (out)	(6,908,271)	-	(184,255)	(1,699,816)	(8,792,342)
Total Other Financing Sources (Uses), Net	(6,724,016)	6,140,555	49,817	1,809,458	1,275,814
Net Change in Fund Balances	(1,164,309)	882,426	(4,456,726)	1,710,422	(3,028,187)
Fund Balance - Beginning	16,536,567	7,273,576	5,416,091	6,148,287	35,374,521
Fund Balance - Ending	\$ 15,372,258	\$ 8,156,002	\$ 959,365	\$ 7,858,709	\$ 32,346,334

CITY OF FAIRFAX, VIRGINIA

Exhibit 6

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2015

	Primary Government
Net change in fund balances - total governmental funds	\$ (3,028,187)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	
Capital outlay	11,475,931
Depreciation expense	<u>(7,158,055)</u>
	4,317,876
Transfer of assets from Primary Government to the Component Unit School Board	(2,384,682)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net position.	64,749
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Details of this item consist of:	
Unavailable taxes	354,220
Deferred items:	
Deferred pension investment experience, net	1,102,731
Deferred pension experience	(1,755,796)
Deferred pension contributions	<u>(105,576)</u>
	(758,641)
The issuance of long-term debt (e.g. bonds, 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. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items. A summary of items supporting this adjustment is as follows:	
Debt issued or incurred:	
Issuance of capital leases	(1,586,000)
Principal repayments on debt:	
Principal retired on general obligation debt	4,528,000
Principal retired on public improvement bonds	1,647,300
Principal retired on lease revenue bonds	940,000
Principal retired on capital lease obligations	<u>724,188</u>
	6,253,488
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:	
Change in accrued interest payable	54,354
Change in compensated absences	143,827
Change in net OPEB obligation	(447,069)
Net Pension Liability activity	1,548,565
Amortization of premiums on bonds payable	543,798
Amortization of loss on refunding	<u>(574,515)</u>
	1,268,960
Change in net position of governmental activities	<u>\$ 6,087,783</u>

CITY OF FAIRFAX, VIRGINIA

Exhibit 7

**Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual - General Fund**

For the Year Ended June 30, 2015

Fund, Function, Activity, Element	General Fund			Variance with Final Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
General property taxes	\$ 71,501,022	\$ 71,501,022	\$ 68,513,720	\$ (2,987,302)
Other local taxes	32,620,000	32,620,000	31,971,371	(648,629)
Permits, privilege fees, and regulatory licenses	1,462,869	1,462,869	1,300,349	(162,520)
Fines and forfeitures	1,307,700	1,307,700	1,233,802	(73,898)
Revenue from use of money and property	797,128	797,128	886,602	89,474
Charges for services	2,518,183	2,585,183	2,767,312	182,129
Miscellaneous	257,700	377,626	498,044	120,418
Intergovernmental:				
Fairfax County	797,334	797,334	778,578	(18,756)
Commonwealth	6,112,454	6,127,325	9,177,217	3,049,892
Federal	228,800	539,277	479,874	(59,403)
Total revenues	117,603,190	118,115,464	117,606,869	(508,595)
Expenditures:				
General government administration:				
Legislative:				
City Council	77,494	77,494	76,135	1,359
City Clerk	167,016	167,016	177,355	(10,339)
Total Legislative	244,510	244,510	253,490	(8,980)
Board of Elections:				
Electoral Board	223,234	223,234	218,114	5,120
General and Financial Administration:				
City Manager	489,692	489,692	459,800	29,892
City Attorney	575,269	575,269	502,461	72,808
Public audit of accounts	74,828	74,828	74,828	-
Treasurer	837,713	837,713	803,707	34,006
Commissioner of Revenue	1,046,118	1,046,118	1,049,766	(3,648)
Personnel	609,838	609,922	645,761	(35,839)
Community relations	173,740	173,740	180,547	(6,807)
Cable television	246,600	246,600	235,971	10,629
Information technology	1,973,416	2,011,942	1,959,001	52,941
Printing and office supplies	219,288	257,933	232,479	25,454
Motor pool	-	46,861	8,163	38,698
Telephone services	116,861	126,861	128,401	(1,540)
Finance and accounting	771,026	771,025	787,194	(16,169)
Real estate assessment	594,176	594,176	617,251	(23,075)
Marketing	158,302	163,302	200,521	(37,219)
Retirement	112,000	112,000	120,825	(8,825)
Contingencies	75,000	75,000	-	75,000
Salary vacancy factor	(761,836)	(761,836)	-	(761,836)

CITY OF FAIRFAX, VIRGINIA

Exhibit 7

**Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual - General Fund**

For the Year Ended June 30, 2015

Fund, Function, Activity, Element	General Fund			Variance with Final Positive (Negative)
	Original Budget	Final Budget	Actual	
Expenditures: (continued)				
Budget cuts	\$ (206,000)	\$ (206,000)	\$ -	\$ (206,000)
Risk management	321,051	346,051	310,527	35,524
Total General and Financial Administration	7,427,082	7,591,197	8,317,203	(726,006)
Total General and Government Administration	7,894,826	8,058,941	8,788,807	(729,866)
Judicial Administration:				
General District Court	19,450	19,450	10,970	8,480
Commonwealth Attorney	77,114	105,854	102,094	3,760
Joint court service	269,918	269,918	287,953	(18,035)
Jail and custody services	1,743,596	2,103,114	2,123,392	(20,278)
Total Judicial Administration	2,110,078	2,498,336	2,524,409	(26,073)
Public Safety:				
Police administration	1,171,222	1,171,222	1,066,430	104,792
Police services	3,895,170	3,924,082	3,786,920	137,162
Police operations	7,616,370	7,617,747	7,041,632	576,115
Fire and rescue administration	1,490,161	1,660,722	1,462,442	198,280
Fire and rescue suppression	9,589,715	9,750,677	10,166,418	(415,741)
Code enforcement	1,842,311	1,869,906	1,801,733	68,173
Total Public Safety	25,604,949	25,994,356	25,325,575	668,781
Public Works:				
Highways	1,227,937	1,227,937	1,146,853	81,084
Concrete maintenance	872,695	872,695	919,748	(47,053)
Snow and ice removal	373,197	497,497	457,091	40,406
Storm drainage	853,704	886,704	909,283	(22,579)
Highways, lighting, and signals	2,072,382	2,133,538	2,002,848	130,690
Refuse collection	2,561,979	2,631,053	2,675,968	(44,915)
Building maintenance	1,620,219	1,694,219	1,710,631	(16,412)
Street right of way and public grounds	1,157,127	1,205,036	1,209,651	(4,615)
Administration	830,704	830,704	996,305	(165,601)
County agent	47,795	47,795	42,409	5,386
Regional agencies	159,384	159,384	160,082	(698)
Total Public Works	11,777,123	12,186,562	12,230,869	(44,307)
Health and Welfare:				
Health service department	1,166,628	1,166,628	1,155,887	10,741
Commission for women	1,575	1,575	1,587	(12)
Community Services Board	1,453,677	1,453,677	1,389,544	64,133
Senior citizen tax relief	992,850	992,850	970,716	22,134
Social services	1,880,756	1,880,756	1,863,572	17,184
Human services coordinator	123,143	123,143	118,226	4,917
Total Health and Welfare	5,618,629	5,618,629	5,499,532	119,097

CITY OF FAIRFAX, VIRGINIA

Exhibit 7

**Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual - General Fund**

For the Year Ended June 30, 2015

Fund, Function, Activity, Element	General Fund			Variance with Final Positive (Negative)
	Original Budget	Final Budget	Actual	
Expenditures: (continued)				
Education:				
Contribution to Fairfax City School Board	\$ 37,325,203	\$ 37,433,903	\$ 36,321,754	\$ 1,112,149
Parks, Recreation, and Cultural				
Recreation:				
Recreation - administration	2,240,003	2,307,003	2,309,991	(2,988)
Special events	471,682	531,737	472,172	59,565
Parks and ball field maintenance	1,309,444	1,309,444	1,320,835	(11,391)
Recreation - historic resources	594,831	596,331	602,102	(5,771)
Recreation - old town hall	349,383	352,883	314,847	38,036
Total Recreation	4,965,343	5,097,398	5,019,947	77,451
Library Services	797,334	797,334	778,578	18,756
Total Parks, Recreation, and Cultural	5,762,677	5,894,732	5,798,525	96,207
Planning and Community Development:				
Planning	1,430,416	1,590,148	1,249,026	341,122
Community development	790,774	910,212	878,491	31,721
Economic development	283,270	283,270	262,500	20,770
Total Planning and Community Development	2,504,460	2,783,630	2,390,017	393,613
Debt Service:				
Principal retirement	7,893,488	7,923,902	7,923,005	897
Interest and fiscal charges	5,319,938	5,320,169	5,244,669	75,500
Total Debt Services	13,213,426	13,244,071	13,167,674	76,397
Total expenditures	111,811,371	113,713,160	112,047,162	1,665,998
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,791,819	4,402,304	5,559,707	1,157,403
Other Financing Sources (Uses):				
Transfers (out), net	(6,992,397)	(6,997,397)	(6,724,016)	273,381
Net Change in Fund Balances	(1,200,578)	(2,595,093)	(1,164,309)	1,430,784
Fund Balances, Beginning of Year	1,200,578	2,595,093	16,536,567	13,941,474
Fund Balances, End of Year	\$ -	\$ -	\$ 15,372,258	\$ 15,372,258

City of Fairfax, Virginia
Statement of Net Position
Proprietary Funds

Exhibit 8

June 30, 2015

	Business-type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Sewer Utility Fund	Water Utility Fund	Transportation Fund	Totals
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 15,022,728	\$ 3,496,200	\$ 782	\$ 18,519,710
Receivables, net of allowance for uncollectibles:				
Accounts receivable	1,064,176	-	-	1,064,176
Due from other governments	-	-	626,337	626,337
Total Current Assets	<u>16,086,904</u>	<u>3,496,200</u>	<u>627,119</u>	<u>20,210,223</u>
Noncurrent Assets:				
Capital Assets:				
Land and improvements	17,583	-	-	17,583
Buildings and improvements	1,264,570	-	226,958	1,491,528
Machinery and equipment	1,836,495	-	2,249,539	4,086,034
Water and sewer infrastructure	8,228,775	-	-	8,228,775
Intangible assets	16,796,908	-	-	16,796,908
Construction in progress	1,309,029	-	-	1,309,029
Accumulated depreciation	(10,623,786)	-	(2,190,885)	(12,814,671)
Total Noncurrent Assets	<u>18,829,574</u>	<u>-</u>	<u>285,612</u>	<u>19,115,186</u>
Total Assets	<u>34,916,478</u>	<u>3,496,200</u>	<u>912,731</u>	<u>39,325,409</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension investment experience - City Plans	77,781	-	297,129	374,910
Deferred pension contributions - VRS	51,686	-	159,102	210,788
Total Deferred Outflows of Resources	<u>129,467</u>	<u>-</u>	<u>456,231</u>	<u>585,698</u>
Current Liabilities:				
Accounts payable and accrued liabilities	896,510	7,963	83,796	988,269
Retainage payable	-	56,591	-	56,591
Accrued interest payable	342,250	-	-	342,250
Due to Fairfax Water	-	1,801,251	-	1,801,251
Customer deposits and other liabilities	16,460	323,919	-	340,379
Compensated absences, current portion	2,248	-	13,060	15,308
Bonds payable, current portion	533,035	-	-	533,035
Total Current Liabilities	<u>1,790,503</u>	<u>2,189,724</u>	<u>96,856</u>	<u>4,077,083</u>
Noncurrent Liabilities:				
Compensated absences, net of current portion	44,963	-	112,725	157,688
Net Pension Liability - VRS	530,039	-	1,631,577	2,161,616
Net Pension Liability - City Plans	17,621	-	67,313	84,934
Net OPEB obligation	114,783	-	335,681	450,464
Bonds payable, net of current portion	23,660,875	-	-	23,660,875
Total Noncurrent Liabilities	<u>24,368,281</u>	<u>-</u>	<u>2,147,296</u>	<u>26,515,577</u>
Total Liabilities	<u>26,158,784</u>	<u>2,189,724</u>	<u>2,244,152</u>	<u>30,592,660</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension investment experience - VRS	95,559	-	294,152	389,711
Deferred pension experience - City Plans	9,020	-	34,456	43,476
Total Deferred Outflows of Resources	<u>104,579</u>	<u>-</u>	<u>328,608</u>	<u>433,187</u>
NET POSITION				
Net investment in capital assets	11,868,795	-	285,612	12,154,407
Unrestricted	(3,086,213)	1,306,476	(1,489,410)	(3,269,147)
Total Net Position	<u>\$ 8,782,582</u>	<u>\$ 1,306,476</u>	<u>\$ (1,203,798)</u>	<u>\$ 8,885,260</u>

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds

For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds			Total
	Major Funds		Nonmajor Fund	
	Sewer	Water	Transportation	
	Utility	Utility		
Fund	Fund	Fund		
Operating Revenues:				
Charges for services	\$ 5,685,132	\$ -	\$ 1,309,277	\$ 6,994,409
Other operating revenues	36,334	-	-	36,334
Total Operating Revenues	5,721,466	-	1,309,277	7,030,743
Operating Expenses:				
Salaries	520,591	11,368	1,559,148	2,091,107
Fringe benefits	204,979	22,685	628,743	856,407
Contractual services	1,679,484	49,002	18,967	1,747,453
Internal services	629,315	-	1,181,703	1,811,018
Other operating expenses	386,494	19,489	55,633	461,616
Miscellaneous capital outlay	169,300	-	-	169,300
Depreciation and amortization	481,189	-	37,015	518,204
Total Operating Expenses	4,071,352	102,544	3,481,209	7,655,105
Income (Loss) from Operations	1,650,114	(102,544)	(2,171,932)	(624,362)
Nonoperating Revenues (Expenses):				
Investment income	24,836	-	-	24,836
Interest expense	(1,374,096)	-	-	(1,374,096)
Northern Virginia Transportation Commission	-	-	855,874	855,874
Federal interest subsidy	373,949	-	-	373,949
Total Nonoperating Revenues (Expenses)	(975,311)	-	855,874	(119,437)
Net Income (Loss) Before Transfers and Special Item	674,803	(102,544)	(1,316,058)	(743,799)
Transfers:				
Transfers in	-	-	1,590,000	1,590,000
Transfers (out)	-	(1,279,814)	-	(1,279,814)
Net Operating Transfers	-	(1,279,814)	1,590,000	310,186
Special item - water authority reimbursement	-	666,219	-	666,219
Change in Net Position	674,803	(716,139)	273,942	232,606
Total Net Position - Beginning, as Restated (Note 20)	8,107,779	2,022,615	(1,477,740)	8,652,654
Total Net Position - Ending	\$ 8,782,582	\$ 1,306,476	\$ (1,203,798)	\$ 8,885,260

City of Fairfax, Virginia

Exhibit 10

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds			Total
	Major Funds		Nonmajor Fund	
	Sewer Utility Fund	Water Utility Fund	Transportation Fund	
Cash flows from operating activities:				
Receipts from customers and users	\$ 5,482,740	\$ 9,872	\$ 987,111	\$ 6,479,723
Payments to employees, including fringe benefits	(718,454)	(34,053)	(2,176,209)	(2,928,716)
Payments for operating activities	(3,284,558)	(141,106)	(1,258,879)	(4,684,543)
Net cash provided by (used in) operating activities	1,479,728	(165,287)	(2,447,977)	(1,133,536)
Cash flows from noncapital financing activities:				
Transfers in	-	-	1,590,000	1,590,000
Transfers (out)	-	(1,279,814)	-	(1,279,814)
Intergovernmental grants and reimbursements	373,949	666,219	855,874	1,896,042
Net cash provided by (used in) noncapital financing activities	373,949	(613,595)	2,445,874	2,206,228
Cash flows from capital and related financing activities:				
Purchase and construction of capital assets	(2,137,350)	-	-	(2,137,350)
Principal paid on bonds and notes	(508,035)	(17,833,828)	-	(18,341,863)
Interest paid on debt	(1,379,189)	-	-	(1,379,189)
Net cash used in capital and related financing activities	(4,024,574)	(17,833,828)	-	(21,858,402)
Cash flows from investing activities:				
Interest income	24,836	-	-	24,836
Net decrease in cash and cash equivalents	(2,146,061)	(18,612,710)	(2,103)	(20,760,874)
Cash and cash equivalents, beginning of year	17,168,789	22,108,910	2,885	39,280,584
Cash and cash equivalents, end of year	\$ 15,022,728	\$ 3,496,200	\$ 782	\$ 18,519,710
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Cash flows from operations:				
Income (loss) from operations	\$ 1,650,114	\$ (102,544)	\$ (2,171,932)	\$ (624,362)
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	481,189	-	37,015	518,204
Changes in operating accounts:				
(Increase) decrease in:				
Accounts receivable	(238,726)	9,872	(322,166)	(551,020)
Increase (decrease) in:				
Accounts payable	(419,965)	(70,189)	17,576	(472,578)
Compensated absences	7,200	-	(5,770)	1,430
Net OPEB obligation	8,941	-	35,766	44,707
Net pension activity	(9,025)	-	(23,466)	(32,491)
Customer deposits and other liabilities	-	(2,426)	(15,000)	(17,426)
Net cash provided by (used in) operating activities	\$ 1,479,728	\$ (165,287)	\$ (2,447,977)	\$ (1,133,536)

City of Fairfax, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds

Exhibit 11

June 30, 2015

ASSETS

Cash and cash equivalents	\$ (17,154)
Accounts receivable	502,204
Mutual and money market funds	94,987,573
Stocks	25,290,179
Accrued interest	8,423
Total Assets	<u>120,771,225</u>

NET POSITION

Held in trust for pension benefits	<u>\$ 120,771,225</u>
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City of Fairfax, Virginia**Exhibit 12****Statement of Changes in Fiduciary Net Position
Fiduciary Funds**For the Year Ended June 30, 2015

Additions:	
Plan members and employer contributions	\$ 4,228,003
Investment Income:	
Interest and dividends earned on investments	2,249,880
Net appreciation in fair value of investments	(2,793,098)
Total Investment Income	(543,218)
Less investment expenses	(702,628)
Net Investment Income	(1,245,846)
Total Additions	2,982,157
Deductions:	
Retirement and disability benefits	6,481,340
Total Deductions	6,481,340
Change in net position	(3,499,183)
Net position, beginning of year	124,270,408
Net position, end of year	\$ 120,771,225

CITY OF FAIRFAX, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Fairfax, Virginia, conform with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The more significant of the government's accounting policies are described below.

A. Entity and Services

The City of Fairfax, Virginia (the "City") is a political subdivision of the Commonwealth of Virginia. Cities in Virginia are separate from counties, and thus, the City is not part of any other political subdivision. Citizens elect a Mayor and a six-member City Council to two-year terms and a Treasurer and Commissioner of Revenue to four-year terms. The Mayor and the Council appoint a City Manager to act as chief executive.

The City provides the following services: public safety (police and fire), community development (planning and zoning), public works (streets, etc.), sewage collection, refuse collection, and local bus service. The City contracts with Fairfax County and the Commonwealth of Virginia to provide the following services to its residents: courts, correctional facilities, educational services (in City-owned buildings), welfare, libraries, and sewage treatment.

B. Financial Reporting Entity

As required by GAAP, the accompanying financial statements present the financial data of the City (the Primary Government) and its component units. The financial data of the component units are included in the City's basic financial statements because of the significance of their operational or financial relationships with the City. The City and its component units are together referred to herein as the reporting entity.

Discretely Presented Component Units - Discretely presented component units are reported separate from the primary government to emphasize that they are legally separate from the City. The following organizations have been included in the reporting entity as discretely presented component units:

City of Fairfax School Board - The City of Fairfax School Board is responsible for educating the school age population of the City facilitated through a contractual school services agreement with the County of Fairfax, Virginia. The City of Fairfax School Board consists of five (5) qualified voters of the City elected by popular vote at large. The School Board is fiscally dependent upon the City because the City Council approves the annual budget of the School Board, levies the necessary taxes to finance operations and approves the borrowing of money and issuance of debt. Further, the City is enjoined in the School Service Agreement for tuition under the County contract. The School Board does not issue separate financial statements and, as such, they have been included in these statements. The School Board utilizes an operating and a capital projects fund:

School Operating Fund - This fund is the primary operating fund of the School Board and accounts for and reports all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from charges for services, appropriations from the City and state and federal grants.

School Bond Renovation Capital Projects Fund - Accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments.

Industrial Development Authority (IDA) and Economic Development Authority (EDA) - These Authorities have responsibility for encouraging industrial and commercial development in the City and making

CITY OF FAIRFAX, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

recommendations to City Council. Each of these Authorities has a Board consisting of seven directors appointed by City Council. Although the Authorities are legally separate, they are fiscally dependent on the City, which also acts as their fiscal agent by paying all their personnel and administrative expenses associated with the Authorities. Separate financial statements are not issued.

Industrial Development Authority Fund - accounts for and reports the general operations of the IDA with financing provided by rental income from owned properties.

Economic Development Authority Fund - accounts for and reports the general operations of the EDA with financing provided through miscellaneous reimbursements.

Other Related Organizations not included in these Financial Statements

Fairfax Volunteer Fire Department, Inc. - Fairfax Volunteer Fire Department, Inc. is organized as a volunteer firefighting organization and is designed as a Fire Company of the City. The Department Chief is the Department Head, appointed by the City Manager, after consultation with the Board of Directors of the Fairfax Volunteer Fire Department, Inc., and with concurrence of City Council. The Department Chief has responsibility and authority for all operations and administration of the Department. The City cannot impose its will on the Volunteer Fire Department or override or modify the decisions of the Board of Directors. The Volunteer Fire Department is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements.

Historic Fairfax City, Inc. - Historic Fairfax, Inc. was incorporated in 1983 as a non-profit corporation for the purpose of promoting and preserving historic properties and increasing public awareness and appreciation of the history of the City of Fairfax and the Courthouse area. The Board consists of fourteen (14) members. Five (5) members are appointed by City Council. The Corporation is legally separate and the City cannot impose its will on the Corporation. The Corporation is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements.

Northern Virginia Regional Park Authority - The Northern Virginia Regional Park Authority (NVRPA) was created under the authority of the *Code of Virginia*, Title 15.1, Chapter 27-*Park Authorities Act*, for the purpose of planning, acquiring, developing, constructing, operating, and maintaining a system of regional parks within the geographical limits of the political subdivisions composing the said Authority. The bylaws were adopted on February 3, 1959, and amended on April 14, 1965. The NVRPA consists of twelve (12) members. Two (2) members are appointed by City Council. The NVRPA is legally separate and the City cannot impose its will on the NVRPA, which is also fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements.

C. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and proprietary fund categories, as well as the fiduciary funds, (by category) and the component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, the governmental activities columns (a) are presented on a consolidated basis and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government

CITY OF FAIRFAX, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. Operating grants and contributions include operating-specific and discretionary grants while the capital grants column reflects capital-specific grants. Proprietary fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings and other revenues not directly derived from the providing of services.

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

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented to briefly explain the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements. The proprietary funds utilize the accrual basis of accounting, where the measurement focus is upon determination of net income. The City's fiduciary funds are two pension trust funds and since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City:

- **Governmental Funds** - Account for the expendable financial resources, other than those accounted for in Proprietary and Fiduciary Funds, and utilize the modified accrual basis of accounting, where the measurement focus is upon determination of financial position and changes in financial position, rather than the determination of net income. The individual governmental funds are:

General Fund - The primary operating fund of the City and is used to account for and report all revenues and expenditures applicable to the general operations of the City, which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. Many of the more important activities of the City, including operation of the City's general service departments, street and highway maintenance, public safety, parks, cemetery, library and recreation programs, are accounted for in this fund. The General Fund is considered a major fund for financial reporting purposes.

Capital Projects Funds - Account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds. The General Capital Projects Fund and Old Town Fairfax Fund are considered major funds. The Commercial Transportation Tax Fund and the Stormwater Fund are reported as nonmajor funds.

CITY OF FAIRFAX, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Special Revenue Funds - Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The City's only special revenue fund is the Legacy for Fairfax Fund, which is considered a nonmajor fund.

- **Proprietary Funds** - Account for operations that are financed in a manner similar to private business enterprises wherein the measurement focus is upon determination of net income, net position, and changes in net position. Enterprise 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 City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The City's enterprise funds consist of the following:

Sewer Utility Fund – This major fund is used to account for the operation and maintenance of the City's sanitary sewer system.

Water Utility Fund - The Water Utility Fund is used to account for the remaining activities after the sale of the City's water system in the prior fiscal year.

Transportation Fund - This non-major fund is used to account for the operation and maintenance of the City's CUE Bus System, which receives funding through grants from the Commonwealth and the Federal government as well as General Fund transfers and charges for services.

- **Fiduciary Funds** - Account for assets held by the City in a trustee capacity and utilize the accrual basis of accounting. The following funds are included in this fund type:

City Supplemental Pension Trust Fund - Accounts for pension funds for the City's full-time general employees.

City Firefighters, Policemen, and Policewomen Pension Trust Fund - Accounts for pension funds for the City's full-time public safety personnel.

D. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet in the fund statements. Long-term assets and liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The government-wide Statement of Net Position and Statement of Activities, all proprietary funds, and private purpose trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the Statement of Net Position or on the Statement of Fiduciary Net Position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

The Statement of Net Position, Statement of Activities, proprietary and fiduciary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and

CITY OF FAIRFAX, VIRGINIA

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expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The governmental fund financial statements, for the Primary Government and component units, are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current period. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectable amounts. Property taxes not collected within 45 days after year-end are reflected as deferred inflows of resources - unavailable revenues taxes. Sales and utility taxes, which are collected by the Commonwealth or utilities and subsequently remitted to the City, are recognized as revenues and receivable upon collection, which is generally one or two months preceding receipt by the City. Licenses, permits, fines, and rents are recorded revenues when received. Intergovernmental revenues, consisting primarily of Federal, state, and other grants for the purpose of funding specific expenditures, are recognized when the qualifying expenditures have been incurred and all other eligibility requirements have been met. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the City receives cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this rule include: (1) accumulated unpaid vacation leave, sick leave, and other employee amounts (e.g., other postemployment benefits), which are recognized when paid, and (2) principal and interest payments on general long-term debt, both of which are recognized when due.

E. Stewardship, Compliance, and Accountability

Budgeting Information

The City Council's fiscal control is exercised through two distinct processes: budgeting and appropriations. The City budget is developed for informative and fiscal planning purposes only and presents an itemized listing of contemplated expenditures and estimated revenues for the ensuing fiscal year. The City Council adopts an annual budget for the General Fund. Budgets for the Capital Projects Funds, Old Town Fairfax Fund, the Commercial Transportation Tax Fund and the Stormwater Fund are prepared annually as part of a five-year plan for capital improvements and represent project-length budgets. Budgets for the enterprise funds serve as a spending guide for the City and do not constitute legally binding limitations.

When the budget becomes effective at the beginning of the fiscal year, the City Council must make appropriations before money may be expended for any budgeted program, project or operation. Appropriations are made on an annual basis with supplemental appropriations made as needed. Such appropriations may be greater than contemplated in the annual budget. All appropriations lapse at year-end.

The City's appropriated budget is prepared by fund and department. Appropriations are legally controlled at the department level. The budget is administratively controlled at the department level. The City Manager may approve all transfers within the same department. All other transfers must be approved by City Council. A supplemental appropriation which exceeds one percent of total expenditures shown in the currently adopted budget must be accomplished by publishing a notice of public hearing in a newspaper having general circulation in the City seven days prior to the hearing. The notice shall state the City's intent to amend the amounts to be appropriated and include a brief synopsis of the proposed action. The City Council approved supplemental appropriations that increased the original budget by \$2,196,147 in the various Funds.

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The budgets are prepared using the same accounting basis and practices as are used to account for and prepare the financial reports for the fund; thus, the budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

Encumbrance accounting, under which purchase orders and contracts are recorded to commit that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year end are not included as expenditures but are reported as commitments of fund balances in all funds and are reappropriated in the following year. Encumbrances totaled \$484,181 for the General Fund as of June 30, 2015.

Excess of Expenditures over Appropriations

Expenditures exceeded appropriations for the year ended June 30, 2015 as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
City clerk	\$ 167,016	\$ 177,355	\$ (10,339)
Commissioner of Revenue	1,046,118	1,049,766	(3,648)
Personnel	609,922	645,761	(35,839)
Misc.	173,740	180,547	(6,807)
Telephone services	126,861	128,401	(1,540)
Finance and accounting	771,025	787,194	(16,169)
Real estate assessment	594,176	617,251	(23,075)
Marketing	163,302	200,521	(37,219)
Retirement	112,000	120,825	(8,825)
Joint court service	269,918	287,953	(18,035)
Jail and custody services	2,103,114	2,123,392	(20,278)
Fire and rescue suppression	9,750,677	10,166,418	(415,741)
Concrete maintenance	872,695	919,748	(47,053)
Storm drainage	886,704	909,283	(22,579)
Refuse collection	2,631,053	2,675,968	(44,915)
Building maintenance	1,694,219	1,710,631	(16,412)
Street right of way and public grounds	1,205,036	1,209,651	(4,615)
Administration	830,704	996,305	(165,601)
Regional agencies	159,384	160,082	(698)
Commission for women	1,575	1,587	(12)
Recreation - administration	2,307,003	2,309,991	(2,988)
Parks and ball field maintenance	1,309,444	1,320,835	(11,391)
Recreation - historic resources	596,331	602,102	(5,771)

F. Cash and Cash Equivalents

For purposes of reporting cash flows for proprietary-type funds, cash and cash equivalents include cash on hand, money market funds, certificates of deposit and investments with maturities of three months or less.

Cash of individual funds (other than the Industrial Development Authority and the Economic Development Authority) is combined to form a pool of cash and investments. The pool consists primarily of certificates of deposit, repurchase agreements, government and corporate obligations, commercial paper, and the Commonwealth of Virginia's Local Government Investment Pool (LGIP). All securities are stated at fair value, based on quoted market prices and the investment in the LGIP, which operates in accordance with appropriate state laws and regulations, is reported at the pool's share price. The reported value of the pool is the same as the fair value of the pool shares. Interest earned as a result of pooling is distributed to the appropriate funds utilizing a formula based on month-end balances. All investments are stated at fair value.

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G. Inventories and Prepaid Items

Inventory is stated at cost (first-in, first-out), which is not in excess of market value. It consists primarily of operating materials held for consumption and or supplies for repairs and maintenance.

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.

H. Receivables and Payables

Activity between 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" (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to \$568,401 at June 30, 2015 and is comprised of the following:

General Fund - property taxes	\$ 377,913
Sewer Utility Fund	16,355
Water Utility Fund	<u>174,133</u>
	<u>\$ 568,401</u>

Property taxes are levied as of January 1 based on the assessed value of real and personal property as of that date. The City's legal right to collect property taxes attaches each year when the rates are approved and the taxes are assessed. Real estate taxes are collectible twice a year, on June 5 and December 5. Personal property taxes are due on October 5. Amounts not collected within 45 days after year-end are reflected as unavailable revenue.

	<u>Real Property</u>	<u>Personal Property</u>
Levy date	January 1	January 1
Due date and collection date	June 5 and December 5	October 5
Lien date for delinquent taxes	3 years from due date	Various

I. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds and as assets in the proprietary funds and in the government-wide financial statements to the extent the City's capitalizations threshold is met. The City capitalizes assets which have an initial cost of \$10,000 or more per unit (\$5,000 for assets purchased with Federal monies) and a useable life of two or more years. "Infrastructure" assets (roads, bridges, curbs, gutters, etc.) are capitalized when the initial cost exceeds \$50,000. Also, the City does not capitalize interest costs which are incurred during the construction period of general capital assets. Repairs and maintenance are charged to operations as they are incurred. Additions and betterments are capitalized. The cost of assets retired, along with accumulated depreciation, are removed from the accounts.

All capital assets are included in the financial statements at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair market values on the date donated.

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Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 50 years
Infrastructure	12 - 75 years
Water and sewer infrastructure	25 - 50 years
Machinery and equipment	5 - 25 years
Intangibles	25 - 32 years

Capital assets having historical significance and being maintained by the City, are not expected to decrease in value and, therefore, are not being depreciated

J. Compensated Absences

City employees accumulate vacation leave hours for subsequent use up to the maximum of 300 hours per employee. Unused vacation in excess of 300 hours is credited toward sick leave. Sick leave does not vest with the employee and is not accrued; however, unused sick leave is credited toward years of service for retirement purposes.

All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. For governmental fund types, the amount of accumulated unpaid vacation leave which is payable from available resources is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirement or resignation. For City proprietary funds the cost of vacation and sick leave is recorded as a liability when earned.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources representing a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. One City deferred outflow of resources relates to the amount by which the principal and premium of a refunding bond exceed the net carrying amount of the refunded debt and is being amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows for pensions result from changes in actuarial assumptions, pension investment returns that exceed projected earnings and pension contributions made subsequent to the measurement date. Changes in actuarial assumptions are deferred and amortized over the remaining service life of all participants and investment experience amounts are deferred and amortized over a closed five-year period.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources representing an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources, under the modified accrual basis of accounting, representing property taxes receivable, are reported in the governmental funds' Balance Sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year to fund the next fiscal year and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. Deferred inflows of resources are also reported for amounts related to pensions in the government-wide statement of net position. Actuarial losses resulting from a difference in actual experience and actuarial assumptions and changes in actuarial assumptions are deferred and amortized over the remaining service life of all participants. Deferred inflows resulting from pension investment returns lower than projected earnings are also deferred and amortized over a closed five-year period..

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L. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

M. Retirement Plan

Retirement plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The City's policy is to fund pension cost as it accrues.

N. Net Position

Net position is the difference between a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any net outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

O. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

P. Component Unit-School Board Capital Asset and Debt Presentation

By law, the School Board does not have taxing authority and, therefore, it cannot incur debt through general obligation bonds to fund the acquisition, construction or improvement of its capital assets. That responsibility lies with the City who issues the debt on behalf of the School Board. However, the *Code of Virginia* requires the School Board to hold title to the capital assets (buildings and equipment) due to their responsibility for maintaining the asset.

In the Statement of Net Position, this scenario presents a dilemma for the City as debt issued on behalf of the School Board is reported as a liability of the Primary Government, thereby reducing the net position of the City. The corresponding capital assets are reported as assets of the School Board (title holder), thereby increasing its net position.

The Virginia General Assembly amended the *Code of Virginia* to allow a tenancy in common with the School Board whenever the locality incurs a financial obligation which is payable over more than one fiscal year for any school property. The tenancy in common terminates when the associated debt has been paid in full. For financial reporting purposes, the legislation permits the locality to report the portion of the school property related to any outstanding financial obligation, thus eliminating a potential deficit from financing capital assets with debt.

Q. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred

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inflows of resources as well as the disclosure of contingent amounts at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

R. Fund Equity

The City reports fund balance in accordance with GAAP, wherein the following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable Fund Balance* - Amounts that are not in spendable form (such as inventory and prepaids);
- *Restricted Fund Balance* - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- *Committed Fund Balance* - Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority (e.g., Council ordinance); to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- *Assigned Fund Balance* - Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority, and
- *Unassigned Fund Balance* - Amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). In accordance with City policy, assigned fund balance is established by City Council or the Assistant City Manager/Director of Finance as amounts intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

CITY OF FAIRFAX, VIRGINIA
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	General Fund	General Capital Projects Fund	Old Town Fairfax Fund	Other Governmental Funds	Total
Fund Balances:					
Nonspendable:					
Misc.	\$ 771,674	\$ -	\$ -	\$ -	\$ 771,674
Prepays	63,049	61,611	-	-	124,660
Total Nonspendable Fund Balance	<u>834,723</u>	<u>61,611</u>	<u>-</u>	<u>-</u>	<u>896,334</u>
Restricted:					
Grants	588,439	-	-	-	588,439
Asset forfeiture	25,555	591,000	-	-	616,555
Legacy for Fairfax donations	-	-	-	514,198	514,198
Debt proceeds	9,919	3,167,624	-	-	3,177,543
Total Restricted Fund Balance	<u>623,913</u>	<u>3,758,624</u>	<u>-</u>	<u>514,198</u>	<u>4,896,735</u>
Committed:					
Wireless signal detectors	-	96,500	-	-	96,500
Street repaving	-	674,662	-	-	674,662
Route 123 bridge at Rust Curve	-	19,326	-	-	19,326
Energy upgrades	-	85,886	-	-	85,886
Jermantown Road	-	-	-	2,090,224	2,090,224
Daniels Run Stream Restoration	-	-	-	541,216	541,216
Total Committed Fund Balance	<u>-</u>	<u>876,374</u>	<u>-</u>	<u>2,631,440</u>	<u>3,507,814</u>
Assigned:					
Equipment replacement/maintenance	255,918	-	-	-	255,918
Contract services	220,645	-	-	-	220,645
Capital projects	-	3,459,393	959,365	4,713,071	9,131,829
Other purposes	7,618	-	-	-	7,618
Total Assigned Fund Balance	<u>484,181</u>	<u>3,459,393</u>	<u>959,365</u>	<u>4,713,071</u>	<u>9,616,010</u>
Unassigned Fund Balance	<u>13,429,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,429,441</u>
Total Fund Balances	<u>\$ 15,372,258</u>	<u>\$ 8,156,002</u>	<u>\$ 959,365</u>	<u>\$ 7,858,709</u>	<u>\$ 32,346,334</u>

NOTE 2—DEPOSITS AND INVESTMENTS

Deposits - Deposits with banks are covered by the Federal Deposit Insurance Corporation (“FDIC”) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

CITY OF FAIRFAX, VIRGINIA

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Investment Policy - State statutes and the City's investment policy authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development ("World Bank"), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, certificates of deposit or savings accounts that are Virginia qualified depositories, mutual funds, the State non-arbitrage pool (SNAP) and the LGIP.

The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Sec. 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at its regularly scheduled monthly meetings.

Investment in SNAP is used to assist in avoiding arbitrage penalties enacted with the Tax Reform Act of 1986. Sections 2.2-4700 through 2.2-4705 of the *Code of Virginia*, the Government Non-Arbitrage Investment Act, authorizes the Virginia Treasury Board to provide assistance to the Commonwealth of Virginia, counties, cities, and towns in the Commonwealth, and to their agencies, institutions and authorities of any combination of the foregoing ("Virginia governments") in the management of and accounting for their bond funds, including, without limitation, bond proceeds, reserves, and sinking funds, and the investment thereof.

The policies and standards that regulate specific investments and the composition of the investment portfolio shall include, but not be limited to, the following:

- No investment shall be purchased if the yield is less than that of the most recently auctioned issue of the United States Treasury of a similar term.
- At no time shall more than 35% of the portfolio be invested in commercial paper.
- No more than 10% of the portfolio shall be invested in the commercial paper of a single entity.
- At no time shall the aggregate dollar amount of securities with maturity dates in excess of six months exceed 10% of the total budget of the City for the current fiscal year.
- The Treasurer shall avoid an excessive concentration in any type of investment and an excessive number of investment transactions with any financial institution or broker/dealer.
- The Treasurer shall use the average of the three-month Treasury bill auctions for a quarter as a benchmark for the return on the investment portfolio.

The Treasurer may direct SNAP to invest bond proceeds in securities with maturities greater than one year if it is determined that such bond proceeds will be redeemed more than one year in the future. Further, investments of \$500,000 or more must be selected on a competitive basis. The Treasurer may purchase or sell investments at his discretion without competition provided that the securities involved meet all the criteria for allowed investments and do not exceed \$500,000. Consideration for the safety of capital shall be paramount over the probable income to be derived. There are also certain standards of "adequacy" and "appropriateness" set by the Treasurer, in addition to the credit worthiness of an institution that must be considered.

Credit Risk of Debt Securities - 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.

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<u>Rated Debt Investments</u>	<u>Fair Quality Ratings AAAm</u>
SNAP	\$ 23,095,276
LGIP	19,519,102
Total	<u>\$ 42,614,378</u>

SNAP is an open-end management investment company registered with the Securities and Exchange Commission. The fair value of the positions in the external investment pools (LGIP and SNAP) is the same as the value of the pool shares. As LGIP is not SEC registered regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

Concentration of Credit Risk - Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. If certain investments in any one issuer represent 5% of total investments, there must be a disclosure for the amount and issuer. At June 30, 2015, no portion of the City's portfolio, excluding the LGIP, SNAP, and U.S. Government money market mutual funds, exceeded 5% of the total portfolio.

Interest Rate Risk - Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. 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 two years from the date of purchase. Interest rate risk does not apply to the LGIP or the SNAP.

NOTE 3—RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The City determines its allowances using historical collection data, specific account analysis and management's judgment. Receivables at June 30, 2015 for the government's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

Primary Government

	General Fund	Sewer Utility Fund	Totals
Property taxes	\$ 33,074,436	\$ -	\$ 33,074,436
Trade and other accounts	1,369,436	1,080,531	2,449,967
Gross receivables	34,443,872	1,080,531	35,524,403
Less allowance for uncollectible accounts	<u>(377,913)</u>	<u>(16,355)</u>	<u>(394,268)</u>
Net receivables	<u>\$ 34,065,959</u>	<u>\$ 1,064,176</u>	<u>\$ 35,130,135</u>

Governmental funds report deferred/unavailable/unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred/unavailable revenue and unearned revenue reported in the primary governmental funds were as follows:

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	Unavailable/Unearned	
	Governmental Activities	Governmental Funds
Property taxes receivable	\$ 30,696,519	31,988,868
Prepaid property taxes	321,179	321,179
Subtotal	<u>31,017,698</u>	<u>32,310,047</u>
Other	1,203,758	1,203,758
Total	<u>\$ 32,221,456</u>	<u>\$ 33,513,805</u>

Amounts due from other governments include the following:

	Governmental Activities			Business-type Activities	Total Primary Government	Component Unit School Board
	General		Commercial	Transportation		
	General	Capital Projects Fund	Transportation Tax Fund			
Commonwealth of Virginia:						
Local sales tax	\$ 2,127,564	\$ -	\$ -	\$ -	\$ 2,127,564	\$ -
Communication sales tax	372,018	-	-	-	372,018	-
State sales tax	-	-	-	-	-	646,672
Other	108,867	42,054	-	-	150,921	124,436
Federal government	144,632	1,818,042	220,086	-	2,182,760	-
Northern Virginia						
Transportation Commission	-	-	-	626,337	626,337	-
District Court	37,611	-	-	-	37,611	-
Total	<u>\$ 2,790,692</u>	<u>\$ 1,860,096</u>	<u>\$ 220,086</u>	<u>\$ 626,337</u>	<u>\$ 5,497,211</u>	<u>\$ 771,108</u>

NOTE 4—DUE TO/FROM PRIMARY GOVERNMENT BALANCES, ADVANCES AND TRANSFERS

Interfund Fund/Component Unit receivables and payables related to working capital loans at June 30, 2015 are as follows:

Component Unit / Fund	Due From	Due To
Economic Development Authority	\$ -	\$ 1,100,825
School Board	451,416	-
General Fund	940,825	451,416
General Capital Projects	160,000	-
Total	<u>\$ 1,552,241</u>	<u>\$ 1,552,241</u>

A summary of interfund activity is presented as follows:

	Transfers In	Transfers Out
General Fund	\$ 184,255	\$ 6,908,271
Capital Projects Fund	4,554,555	-
Old Town Fairfax Fund	234,072	184,255
Commercial Transportation Tax Fund	2,406,072	1,699,816
Stormwater Fund	1,103,202	-
Water Utility Fund	-	1,279,814
Transportation Fund	1,590,000	-
Total	<u>\$ 10,072,156</u>	<u>\$ 10,072,156</u>

The transfer from the General Fund to the General Capital Projects Fund, Stormwater Fund and Old Town Fairfax Fund are for the City's annual support of capital project expenditures. The transfer from the General Fund to the

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Commercial Transportation Tax Fund is to transfer tax revenues.

NOTE 5—INVENTORY

At June 30, 2015, the City has inventory recorded in the General Fund (\$771,674 of expendable supplies) and Economic Development Authority (\$862,594 of land and building held for resale).

NOTE 6—CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Primary Government					
Governmental Activities:					
Capital assets, not being depreciated					
Land	\$ 42,083,090	1,354,145	\$ -	\$ -	\$ 43,437,235
Construction in progress	10,026,259	7,831,990	-	-	17,858,249
Total capital assets, not being depreciated	<u>52,109,349</u>	<u>9,186,135</u>	<u>-</u>	<u>-</u>	<u>61,295,484</u>
Capital assets, being depreciated					
Buildings and improvements	52,741,016	15,760	-	-	52,756,776
Machinery and equipment	24,349,015	1,356,915	(500,435)	37,700	25,243,195
Jointly-owned assets	83,555,750	-	(3,631,052)	-	79,924,698
Infrastructure	48,226,192	932,881	-	-	49,159,073
Total capital assets, being depreciated	<u>208,871,973</u>	<u>2,305,556</u>	<u>(4,131,487)</u>	<u>37,700</u>	<u>207,083,742</u>
Accumulated Depreciation:					
Buildings and improvements	12,451,264	1,367,432	-	-	13,818,696
Machinery and equipment	15,489,085	1,737,803	(511,724)	-	16,715,164
Jointly-owned assets	13,699,921	2,756,586	(1,246,370)	-	15,210,137
Infrastructure	17,723,265	1,296,234	-	-	19,019,499
Total accumulated depreciation	<u>59,363,535</u>	<u>7,158,055</u>	<u>(1,758,094)</u>	<u>-</u>	<u>64,763,496</u>
Total capital assets, being depreciated, net	<u>149,508,438</u>	<u>(4,852,499)</u>	<u>(2,373,393)</u>	<u>37,700</u>	<u>142,320,246</u>
Governmental Activities' capital assets, net	<u>\$201,617,787</u>	<u>\$ 4,333,636</u>	<u>\$ (2,373,393)</u>	<u>\$ 37,700</u>	<u>\$203,615,730</u>
Business-type Activities					
Sewer Utility Fund:					
Capital assets, not being depreciated					
Land and land improvements	\$ 17,583	\$ -	\$ -	\$ -	\$ 17,583
Construction in progress	483,588	825,441	-	-	1,309,029
Total capital assets, not being depreciated	<u>501,171</u>	<u>825,441</u>	<u>-</u>	<u>-</u>	<u>1,326,612</u>
Capital assets, being depreciated					
Buildings and improvements	1,264,570	-	-	-	1,264,570
Machinery and equipment	1,949,971	-	(75,776)	(37,700)	1,836,495
Intangibles	15,484,999	1,311,909	-	-	16,796,908
Infrastructure	8,228,775	-	-	-	8,228,775
Total capital assets, being depreciated	<u>26,928,315</u>	<u>1,311,909</u>	<u>(75,776)</u>	<u>(37,700)</u>	<u>28,126,748</u>
Accumulated Depreciation:					
Buildings and improvements	178,830	25,290	-	-	204,120
Machinery and equipment	1,317,104	140,071	(113,476)	-	1,343,699
Intangibles	3,578,986	179,600	-	-	3,758,586
Infrastructure	5,181,153	136,228	-	-	5,317,381
Total accumulated depreciation	<u>10,256,073</u>	<u>481,189</u>	<u>(113,476)</u>	<u>-</u>	<u>10,623,786</u>
Total capital assets, being depreciated, net	<u>16,672,242</u>	<u>830,720</u>	<u>37,700</u>	<u>(37,700)</u>	<u>17,502,962</u>
Net capital assets	<u>\$ 17,173,413</u>	<u>\$ 1,656,161</u>	<u>\$ 37,700</u>	<u>\$ (37,700)</u>	<u>\$ 18,829,574</u>

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	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Transportation Fund				
Capital Assets, being depreciated:				
Buildings and improvements	\$ 226,958	\$ -	\$ -	\$ 226,958
Machinery and equipment	2,249,539	-	-	2,249,539
Total capital assets, not being depreciated	<u>2,476,497</u>	<u>-</u>	<u>-</u>	<u>2,476,497</u>
Accumulated Depreciation:				
Buildings and improvements	45,391	4,539	-	49,930
Machinery and equipment	2,108,479	32,476	-	2,140,955
Total accumulated depreciation	<u>2,153,870</u>	<u>37,015</u>	<u>-</u>	<u>2,190,885</u>
Total capital assets, being depreciated	<u>322,627</u>	<u>(37,015)</u>	<u>-</u>	<u>285,612</u>
Net capital assets	<u>\$ 322,627</u>	<u>\$ (37,015)</u>	<u>\$ -</u>	<u>\$ 285,612</u>
Discretely Presented Component Unit - School Board				
Capital Assets, not being depreciated				
Land	\$ 1,381,115	\$ -	\$ -	\$ 1,381,115
Total capital assets, not being depreciated	<u>1,381,115</u>	<u>-</u>	<u>-</u>	<u>1,381,115</u>
Capital Assets, being depreciated:				
Buildings and improvements	33,176,713	3,631,052	(15,760)	36,792,005
Machinery and equipment	1,464,562	-	-	1,464,562
Total capital assets, being depreciated	<u>34,641,275</u>	<u>3,631,052</u>	<u>(15,760)</u>	<u>38,256,567</u>
Accumulated Depreciation:				
Buildings and improvements	27,670,228	5,148,240	-	32,818,468
Machinery and equipment	785,136	90,585	-	875,721
Total accumulated depreciation	<u>28,455,364</u>	<u>5,238,825</u>	<u>-</u>	<u>33,694,189</u>
Total capital assets, being depreciated, net	<u>6,185,911</u>	<u>(1,607,773)</u>	<u>(15,760)</u>	<u>4,562,378</u>
Net capital assets	<u>\$ 7,567,026</u>	<u>\$ (1,607,773)</u>	<u>\$ (15,760)</u>	<u>\$ 5,943,493</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government administration	\$ 682,317
Public safety	734,872
Public works	1,541,401
Education	3,432,346
Parks, recreation and cultural	767,119
Total Governmental Activities	<u>\$ 7,158,055</u>
Business-type Activities:	
Sewer utility	\$ 481,189
Transportation	37,015
Total Business-type Activities	<u>518,204</u>
Component Unit - School Board:	
Education	\$ 3,992,455
Accumulated depreciation on joint tenancy transfer	1,246,370
Total Increase in Accumulated Depreciation	<u>\$ 5,238,825</u>

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NOTE 7—LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2015:

	Balance at July 1, 2014, Restated	Issuances/ Increases	Retirements/ Decreases	Balance at June 30, 2015	Amounts Due Within One Year
Primary Government					
Governmental Activities:					
General obligation bonds	\$ 95,983,000	\$ -	\$ (4,528,000)	\$ 91,455,000	\$ 4,691,000
Lease revenue bonds	31,135,000	-	(940,000)	30,195,000	990,000
Public improvement COPS	12,573,100	-	(1,647,300)	10,925,800	791,000
Notes payable	7,250,000	-	-	7,250,000	500,000
Capital leases	3,956,280	1,586,000	(724,188)	4,818,092	1,034,433
Compensated absences	2,399,187	589,670	(733,497)	2,255,360	433,377
Net Pension Liability - VRS	41,449,124	3,336,591	(10,569,215)	34,216,500	-
Net Pension Liability (Asset) - City Plans	375,147	9,703,035	(4,018,976)	6,059,206	-
Net OPEB obligation	3,967,033	447,069	-	4,414,102	-
Premiums on bonds payable	8,329,976	-	(543,798)	7,786,178	536,302
Total	<u>\$ 207,417,847</u>	<u>\$ 15,662,365</u>	<u>\$ (23,704,974)</u>	<u>\$ 199,375,238</u>	<u>\$ 8,976,112</u>
Enterprise Funds:					
Sewer Utility Fund:					
Lease revenue bonds	\$ 24,080,000	\$ -	\$ (485,000)	\$ 23,595,000	\$ 510,000
Premium on bonds payable	621,945	-	(23,035)	598,910	23,035
Net Pension Liability - VRS	642,078	51,686	(163,725)	530,039	-
Net Pension Liability - City Plans	(56,959)	107,831	(33,251)	17,621	-
Net OPEB obligation	105,842	8,941	-	114,783	-
Compensated absences	40,011	29,443	(22,243)	47,211	2,248
Total	<u>25,432,917</u>	<u>197,901</u>	<u>(727,254)</u>	<u>24,903,564</u>	<u>535,283</u>
Water Utility Fund:					
Lease revenue bonds	<u>19,635,079</u>	<u>-</u>	<u>(19,635,079)</u>	<u>-</u>	<u>-</u>
Transportation Fund:					
Net Pension Liability - VRS	1,976,456	159,102	(503,981)	1,631,577	-
Net Pension Liability - City Plans	(217,587)	411,922	(127,022)	67,313	-
Net OPEB obligation	299,915	35,766	-	335,681	-
Compensated absences	131,555	-	(5,770)	125,785	13,060
Total	<u>2,190,339</u>	<u>606,790</u>	<u>(636,773)</u>	<u>2,160,356</u>	<u>13,060</u>
Total Enterprise Funds	<u>\$ 47,258,335</u>	<u>\$ 804,691</u>	<u>\$ (20,999,106)</u>	<u>\$ 27,063,920</u>	<u>\$ 548,343</u>
Discretely Presented Component Units					
School Board:					
Net Pension Liability - VRS	\$ 158,000	\$ 12	\$ (18,012)	140,000	\$ -
Compensated absences	34,350	12,248	(2,817)	43,781	4,378
Total	<u>\$ 192,350</u>	<u>\$ 12,260</u>	<u>\$ (20,829)</u>	<u>\$ 183,781</u>	<u>\$ 4,378</u>
Economic Development Authority:					
Notes payable	<u>\$ 246,447</u>	<u>\$ -</u>	<u>\$ (246,447)</u>	<u>\$ -</u>	<u>\$ -</u>

The beginning balances in the rollforward have been restated from June 30, 2014 amounts to reflect the inclusion of

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the Reporting Entity's net pension liabilities in accordance with GAAP. General Fund revenues are used to pay all long-term general obligation debt, capital leases, net OPEB obligation, and compensated absences. School Fund revenues and appropriations from the General Fund are used to pay its compensated absences.

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	Governmental Activities Obligations									
	Bonds		Lease Revenue Bonds		COPS		Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 4,691,000	\$ 3,053,376	\$ 990,000	\$ 1,454,225	\$ 791,000	\$ 332,577	\$ 500,000	\$ 163,437	\$ 1,034,433	\$ 79,251
2017	4,826,000	2,874,066	1,040,000	1,406,856	816,100	307,847	510,000	151,880	754,817	66,599
2018	4,920,000	2,714,680	1,090,000	1,356,925	841,400	282,367	520,000	140,093	768,929	55,844
2019	3,714,000	2,549,199	1,145,000	1,301,378	3,772,300	295,790	535,000	128,017	634,110	44,843
2020	4,293,000	2,430,850	1,200,000	1,243,013	4,705,000	72,928	545,000	115,650	424,613	35,239
2021 - 2025	19,108,000	9,585,868	6,970,000	5,254,594	-	-	2,925,000	382,538	593,280	113,751
2026 - 2030	17,638,000	6,658,954	8,885,000	3,337,884	-	-	1,715,000	108,001	607,910	33,826
2031 - 2035	24,180,000	3,562,656	8,875,000	913,572	-	-	-	-	-	-
2036 - 2037	8,085,000	339,844	-	-	-	-	-	-	-	-
Total	\$ 91,455,000	\$ 33,769,493	\$ 30,195,000	\$ 16,268,447	\$ 10,925,800	\$ 1,291,509	\$ 7,250,000	\$ 1,189,616	\$ 4,818,092	\$ 429,353

Details of Long-Term Obligations:

Primary Government

Governmental Activities:

General Obligations Bonds:

\$11,975,000 school refunding bonds, issued March 17, 2005, due in annual maturities of \$30,000 to \$1,360,000 through April 2018, plus interest at 2.5% to 5.0%. \$ 3,885,000

\$32,480,000 refunding bonds issued March 25, 2010 due in annual maturities of \$110,000 to \$3,520,000 beginning July 15, 2010 through July 15, 2026, plus interest at 1.75% to 5.0%. 29,740,000

\$3,415,000 refunding bonds issued November 10, 2011 due in semi-annual maturities of \$15,000 to \$1,525,000 beginning January 15, 2012 through July 15, 2024, plus interest at 2.18%. 3,290,000

\$19,346,000 refunding bonds issued March 7, 2012 due in annual maturities of \$139,000 to \$3,779,000 through January 15, 2030, plus interest at 2.73%. 18,855,000

\$35,685,000 refunding bonds issued September 26, 2012 due in periodic maturities of \$1,675,000 to \$5,295,000 beginning January 15, 2020 through January 15, 2037, interest due semiannually ranging from 3.00% to 4.00%. 35,685,000

Total General Obligation Bonds 91,455,000

Lease Revenue Bonds:

\$33,105,000 lease revenue bonds dated June 2012, due in annual maturities of \$910,000 to \$2,390,000 beginning October 1, 2012 through October 1, 2033, interest at 2.125% to 5.125%. 30,195,000

Notes Payable:

\$7,250,000 financing lease agreement dated April 2014, due in annual maturities of \$325,000 to \$615,000 through August 1, 2029, interest payable semi-annually at 2.10% to 2.47%. 7,250,000

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Primary Government (Continued)

Governmental Activities:

Public Improvement Certificates of Participation

\$5,164,800 certificate issued April 2011, due in semi-annual maturities of \$114,000 to \$3,011,100 through June 15, 2019, interest at 3.10%.	\$ 4,111,800
\$8,574,000 certificate issued May 2011, due in semi-annual maturities of \$170,000 to \$4,705,000 through August 1, 2019, interest at 3.10%.	<u>6,814,000</u>
Total Public Improvement Certificates of Participation	<u>10,925,800</u>

Capital Leases:

\$606,750 capital lease for the acquisition of trash trucks, due in annual maturities of \$129,952 through June 2015, including interest at 3.45%.	125,454
\$875,000 capital lease for financing the acquisition of equipment, due in annual maturities of \$149,300 through January 2017, including interest at 1.07%.	438,183
\$146,395 capital lease for financing the acquisition of a dump truck, due in annual maturities of \$30,032 through July 2015, including interest at 1.65%.	29,544
\$666,463 capital lease for financing the acquisition of equipment, due in annual maturities of \$135,649 through July 2015, including interest at 1.235%.	133,994
\$1,300,000 capital lease for financing the acquisition of equipment, due in annual maturities of \$222,673 through July 2018, including interest at 1.26%.	863,327
\$1,708,450 capital lease for financing energy efficient improvements, due in various semi-annual maturities through January 2029, including interest at 2.40%.	1,641,590
\$1,586,000 capital lease for various equipment due in various annual maturities through 2019, including interest at 1.4%.	<u>1,586,000</u>
Total Capital Leases	<u>4,818,092</u>
Compensated absences	2,255,360
Net Pension Liabilities	40,275,706
Net OPEB obligations	4,414,102
Premium on bonds payable	<u>7,786,178</u>
Total Governmental Activities	<u>\$199,375,238</u>

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Annual requirements to amortize enterprise funds long-term obligations and related interest are as follows:

<u>Year Ending June 30,</u>	<u>Enterprise Funds</u>	
	<u>Lease Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 510,000	\$ 1,356,494
2017	535,000	1,331,949
2018	565,000	1,305,224
2019	595,000	1,275,064
2020	625,000	1,243,344
2021-2025	3,535,000	5,704,232
2026-2030	4,250,000	4,639,886
2031-2035	5,190,000	3,213,863
2036-2040	6,355,000	1,447,368
2041	1,435,000	44,053
Total	<u>\$ 23,595,000</u>	<u>\$ 21,561,477</u>

Details of Long-Term Obligations

Sewer Utility Fund:

Lease Revenue Bonds:

\$24,080,000 lease revenue bonds issued November 2010, due in annual maturities ranging from \$485,000 to \$1,435,000 through October 2040, plus interest ranging from 1.245% to 6.142%.

\$ 23,595,000

NOTE 8—PENSION PLANS

The City's employees are covered under various plans as follows:

A. Plan Description – Virginia Retirement System

Name of Plan: Virginia Retirement System (VRS)
 Identification of Plan: Agent (City) and Cost-Sharing Multiple-Employer Pension Plan (School Board)
 Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

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Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and, Hybrid. Each plan has different eligibility and benefit structures as set out below:

VRS-PLAN 1

- 1. Plan Overview** - VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
- 2. Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
- 3. Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

- 4. Retirement Contributions** - Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- 5. Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- 6. Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

- 7. Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

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8. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.
10. **Normal Retirement Age** - Age 65.
11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.
- Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.
12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.
13. **Cost of Living Adjustment (COLA) in Retirement** - The Cost of Living Adjustment ("COLA") matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.
14. **Eligibility** - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.
- For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
15. **Exceptions to COLA Effective Dates** - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program ("VSDP").
 - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
 - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death in service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
16. **Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased, or granted. Most state employees are covered under the VSDP, and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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17. **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave, or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS - PLAN 2

1. **Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
2. **Eligible Members** - Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
3. **Hybrid Opt-In Election** - VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

4. **Retirement Contributions** - Same as VRS Plan 1 – Refer to Section 4.
5. **Creditable Service** – Same as VRS Plan 1 – Refer to Section 5.
6. **Vesting** - Same as VRS Plan 1 – Refer to Section 6.
7. **Calculating the Benefit** - Same as VRS Plan 1 – Refer to Section 7.
8. **Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.
10. **Normal Retirement Age** - Normal Social Security retirement age.
11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

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12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 60 with at least five year (60 months) of creditable service.
13. **Cost of Living Adjustment (COLA) in Retirement** - The Cost of Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.
14. **Eligibility** – Same as VRS Plan 1 – Refer to Section 14.
15. **Exceptions to COLA Effective Dates** – Same as VRS Plan 1 – Refer to Section 15.
16. **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
17. **Purchase of Prior Service** - Same as VRS Plan 1 – Refer to Section 17.

HYBRID RETIREMENT PLAN

1. **Plan Overview** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)
 - The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
 - The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
 - In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
 - State employees*
 - School division employees
 - Political subdivision employees*
 - Judges appointed or elected to an original term on or after January 1, 2014
 - Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014
3. **Non-Eligible Members** - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
 - Members of the State Police Officers’ Retirement System (SPORS)
 - Members of the Virginia Law Officers’ Retirement System (VaLORS)

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- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

- 4. Retirement Contributions** - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

5. Creditable Service

Defined Benefit Component - Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

6. Vesting

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.
- Distribution is not required by law until age 70½.

7. Calculating the Benefit

Defined Benefit Component - Same as VRS Plan 1-Refer to Section 7.

Defined Contribution Component - The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

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8. Average Final Compensation – Same as VRS Plan 2-Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

9. Service Retirement Multiplier - The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

10. Normal Retirement Age

Defined Benefit Component – Same as VRS Plan 2-Refer to Section 10.

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

11. Earliest Unreduced Retirement Eligibility

Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

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

12. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

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

13. Cost of Living Adjustment (COLA) in Retirement

Defined Benefit Component - Same as VRS Plan 2 - Refer to Section 13.

Defined Contribution Component - Not Applicable.

14. Eligibility - Same as VRS Plan 1 and VRS Plan 2 - Refer to Section 14.

15. Exceptions to COLA Effective Dates - Same as VRS Plan 1 and VRS Plan 2 - Refer to Section 15.

16. Disability Coverage - Eligible political subdivision and school division members (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (“VLDP”) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (“VSDP”), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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17. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 1 and VRS Plan 2 - Refer to Section 17.

Defined Contribution Component - Not Applicable.

VRS City Employees by Class:

Retirees or beneficiaries currently receiving benefits:	
Inactive Members:	261
Vested inactive members	64
Non-vested inactive members	53
Inactive members active elsewhere in VRS	58
Total inactive members	175
Active Employees:	390
Total	826

Contributions

Members and employers are required to contribute to the retirement plans as provided by Title 51.1 of the *Code of Virginia* (1950), as amended. The member contribution is 5% of compensation contributed by members or employers. The City and School Board are required to contribute the remaining amounts necessary to fund the pension plans using the entry age normal actuarial cost method adopted by the VRS Board of Trustees. The System's actuary computed the amount of contributions to be provided by the City and School Board. The contribution rates for fiscal year 2015 were based on the actuary's valuation as of June 30, 2013. In addition, the actuary computed a separate contribution requirement for the School Board for the teacher cost-sharing pool using the same valuation date.

The City's contractually required contribution rate for the year ended June 30, 2015 was 13.07% of covered employee compensation. This rate was based on actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan for the years ended June 30, 2015 and June 30, 2014, respectively were \$3.5 million and \$3.4 million.

The School Board's contractually required contribution rate for the Teacher Retirement Plan for the year ended June 30, 2015 was \$9,925 or 14.5% of covered employee compensation. This rate was based on actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the Teacher Retirement Plan was 18.2%.

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Net Pension Liability

The most recent actuarial valuation to determine the net pension liabilities for the City and School Board was prepared as of June 30, 2013. The total pension liability was determined based on that actuarial valuation using updated actuarial assumptions applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2014. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	VRS General City Employees	VRS Public Safety Employees	VRS School Board Teacher Retirement Plan Employees
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return, net of pension plan investment expense, including inflation	7.00%	7.00%	7.0%
Inflation	2.5%	2.5%	2.5%
Projected Salary Increases	1.5% - 5.35%	3.5% - 4.75%	3.5% - 4.5%
Mortality Rates (% of deaths assumed to be service related)	14%	60%	N/A

General City Employees:

Pre-Retirement:

RP-2000 Employee Mortality Table with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table with Scale AA to 2020 with males set forward 1 year.

Public Safety Employees:

Pre-Retirement:

RP-2000 Employee Mortality Table with Scale AA to 2020 with males set forward 4 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table projected to 2020 with males set back 3 years and no provision for future mortality improvement.

Teacher Plan Employees:

Pre-Retirement:

RP-2000 Employee Mortality Table with Scale AA to 2020 with males set back 3 years and females set back 5 years.

Post-Retirement:

RP-2000 Combined Mortality Table with Scale AA to 2020 with m males set back 2years and females set back 3 years.

Post-Disablement:

RP-2000 Disability Life Mortality Table projected to 2020 with males set back 1 year and no provision for future mortality improvement.

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The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions for the VRS Local Plans as a result of the experience study include updating mortality tables; decreasing rates of service retirement; decreasing rates of disability retirement; reducing rates of salary increases by 0.25% per year and increasing rates of withdrawals for 3 through 9 years of service.

The long term expected rate of return on pension plan investments was determined using log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class:	Target Allocation:	VRS Plans	
		Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Rate of Return:
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	(1.50)%	(0.02)%
Total	<u>100.00%</u>		<u>5.83%</u>
	Inflation		<u>2.50%</u>
**Expected arithmetic nominal return			<u>8.33%</u>

** Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33%, but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the City's retirement plan will be subject to the portion of the VRS Board-certified rates that are funding by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the City Employees' VRS Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 7/1/2013	\$ 137,855,267	\$ 93,787,609	\$ 44,067,658
Changes for the Year:			
Service cost	2,553,033	-	2,553,033
Interest	9,430,342	-	9,430,342
Contributions -- employer	-	3,659,625	(3,659,625)
Contributions -- employee	-	1,374,989	(1,374,989)
Net investment income	-	14,717,193	(14,717,193)
Benefit payments including refunds of employee contributions	(6,272,188)	(6,272,188)	-
Administrative expense	-	(79,665)	79,665
Other changes	-	775	(775)
Net Changes	5,711,187	13,400,729	(7,689,542)
Balances at 6/30/2014	\$ 143,566,454	\$ 107,188,338	\$ 36,378,116

In accordance with the requirements of GAAP, regarding the sensitivity of the net pension liability to changes in the discount rate, the table below presents the VRS related net pension liability for the City and School Board calculated using the discount rate of 7.00%, as well as what it would be at a discount rate 1.00% lower and 1.00% higher.

	1.00% Lower 6.00%	Current Discount Rate: 7.00%	1.00% Higher 8.00%
City's Net Pension Liability	\$56,237,375	\$36,378,116	\$19,966,596
School Board's Net Pension Liability	\$206,000	\$140,000	\$86,000

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City recognized pension expense of \$2,528,591 related to VRS.

At June 30, 2015, the School Board Teacher Retirement Plan reported a liability of \$140,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, based on the annual actuarial valuation performed on June 30, 2013, which was actuarially rolled forward to the measurement date. The School Board's proportionate share of net pension liability was based on actual contributions made to the plan during the measurement period. At June 30, 2014, the School Board Teacher Retirement Plan's proportion was 0.00116% as compared to 0.00115% at June 30, 2013. There were no changes in assumptions or benefit terms since the prior measurement period. There were no changes between the measurement date of the collective net pension liability and the School Board's reporting date.

For the year ended June 30, 2015, the School Board's Teacher Retirement plan recognized pension expense of \$12,090.

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At June 30, 2015, the City and School Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	City Pension Plan		School Board Teacher Retirement Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments.	\$ -	\$ 6,558,509	\$ -	\$ 20,804
Contributions to the plan subsequent to the measurement date	3,547,379	-	9,925	-
Total	\$3,547,379	\$ 6,558,509	\$ 9,925	\$ 20,804

\$3,547,379 and \$9,925 reported as deferred outflows of resources related to pensions resulting from the City's and School Board's Teacher Retirement plan, respectively, contributions subsequent to the measurement date will be recognized as a reduction of the respective net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	City Pension Plan	School Board Teacher Retirement Plan
2016	\$(1,639,627)	\$(5,201)
2017	(1,639,627)	(5,201)
2018	(1,639,627)	(5,201)
2019	(1,639,628)	(5,201)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

B. Plan Description – City Supplemental Pension Plans

The City's Supplemental Retirement Plans cover all full-time and permanent part-time employees of the City except police officers and firefighters who are covered under a separate plan for police and firefighters. Both plans are single-employer, defined benefit pension plans, authorized by the City Council, and administered by the City Retirement Committee composed of nine individuals appointed by the Mayor and Council.

Upon retirement, a participant in 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, the beneficiary receives the same monthly benefit that would have been payable to the participant, assuming the joint and 100% survivor option was elected.

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Membership

According to the last available actuary statement, the membership in the City Supplemental Retirement (General) Plan and the Firefighters, Policemen, and Policewomen (Public Safety) Plan at June 30, 2015 is as follows:

	City General Plan	City Public Safety
Retirements and beneficiaries	\$ 206	\$ 98
Terminated vested members	31	7
Active members	251	135
Total	<u>\$ 488</u>	<u>\$ 240</u>

Significant Accounting Policies

Basis of Accounting - The City's Supplemental Retirement Plans' financial statements are prepared using the accrual basis of accounting.

Reporting - The plans are accounted for as a pension trust fund of the City. A separate actuarial report for each plan is generated by the Actuary each year. There were no separate financial statements for the plans.

Investment Policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Plan Board by a majority vote of its members. It is the policy of the Plan Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. As of June 30, 2015, the asset allocation policy was as follows:

Asset Class	Target Allocation
Large Cap Equities	20.00%
Small/Mid Cap Equities	5.00%
International Equities	12.00%
Emerging International Equities	8.00%
Core Bonds	20.00%
Global Asset Allocation	20.00%
Risk Parity	15.00%
Cash	0.00%
Total	<u>100%</u>

Investment Valuation and Income Recognition - Shares of registered investment companies (mutual funds), corporate bonds, and stocks are reported at fair value based on the quoted market price of the investment, which represents the net asset value of the shares held by the Plan.

Payment of Benefits - Benefits are recorded when paid.

Refunds - In the event that a participant terminates employment with the City before reaching normal retirement age, other than by death or disability, and has less than five years of credited service, the participant's accumulated contributions including credited interest will be refunded. Participants with at least 5 years of credited service will be eligible for a deferred retirement benefit if accumulated contributions remain in deposit in the plan.

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Administrative Costs - Administrative costs are financed from investment earnings.

Contributions

The contribution requirements of Plan members and the City are established and may be amended by City Council. The City's annual pension cost for the current year and related information for each Plan is as follows:

Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Equities	5.66%
Small/Mid Cap Equities	6.45%
International Equities	6.69%
Emerging International Equities	8.79%
Core Bonds	1.12%
Global Asset Allocation	4.75%
Risk Parity	4.24%
Cash	0.25%

For the year ended June 30, 2015, the annual money-weighted rate of return, which expresses investments performance, net of investment expense, adjusted for the changing amounts actually invested on pension plan investments, net of pension plan investment expense, was (1.40)%.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities: The components of the pension liabilities at June 30, 2015, were as follows:

	<u>General</u>	<u>Public Safety</u>	<u>Total</u>
Total pension liability	\$ 57,535,309	\$ 69,380,056	\$126,915,365
Plan fiduciary net position	(56,717,383)	(64,053,842)	(120,771,225)
Net Pension Liability	<u>\$ 817,926</u>	<u>\$ 5,326,214</u>	<u>\$ 6,144,140</u>
Plan fiduciary net position as a percentage of the total pension liability	98.58%	92.32%	95.16%

Pension Expense: For the year ended June 30, 2015, the City recognized pension expense of \$1,334,709 (General) and \$1,780,938 (Public Safety)

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Deferred outflows of resources and deferred inflows of resources related to pensions: Deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources:

	City General Plan		City Public Safety Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 418,670	\$ -	\$ 1,380,602	\$ -	\$ 1,799,272
Net difference between projected and actual earnings on pension plan investments	3,610,426	-	4,036,013	-	7,646,439	-
Total	\$ 3,610,426	\$ 418,670	\$ 4,036,013	\$ 1,380,602	\$ 7,646,439	\$ 1,799,272

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	City General Pension Plan	City Public Safety Plan
2016	\$803,845	\$747,098
2017	803,845	747,098
2018	803,845	747,098
2109	803,843	747,098
2020	(23,622)	(261,905)
Thereafter	-	(71,076)

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Changes in the Net Pension Liability

	City General Pension Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
Balances at 7/1/2014	\$ 56,041,501	\$ 58,685,404	\$ (2,643,903)
Changes for the Year:			
Service cost	1,223,136	-	1,223,136
Interest	3,724,963	-	3,724,963
Contributions -- employer	-	1,064,636	(1,064,636)
Contributions -- employee	-	478,806	(478,806)
Difference between expected and actual experience of the Total Pension Liability	(517,432)	-	(517,432)
Net investment income	-	(598,006)	598,006
Benefit payments including refunds of employee contributions	(2,936,859)	(2,936,859)	-
Other changes	-	23,402	(23,402)
Net Changes	1,493,808	(1,968,021)	3,461,829
Balances at 6/30/2015	\$ 57,535,309	\$ 56,717,383	\$ 817,926

	City Public Safety Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 7/1/2014	\$ 68,329,508	\$ 65,585,004	\$ 2,744,504
Changes for the Year:			
Service cost	1,687,952	-	(1,687,952)
Interest	4,549,584	-	(4,549,584)
Contributions -- employer	-	1,854,639	1,854,639
Contributions -- employee	-	781,168	781,168
Net investment income	-	(647,840)	(647,840)
Difference between expected and actual experience of the Total Pension Liability	(1,642,507)	-	1,642,507
Benefit payments including refunds of employee contributions	(3,544,481)	(3,544,481)	-
Other changes	-	25,352	25,352
Net Changes	1,050,548	(1,531,162)	(2,581,710)
Balances at 6/30/2015	\$ 69,380,056	\$ 64,053,842	\$ 5,326,214

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the entry age actuarial cost method, a level percent of payroll and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	4.0% - 8.5% including inflation
Investment rate of return	6.75%
Remaining amortization period	10 years

The mortality table used to measure non-disabled retired life mortality is the RP-2000 Combined Healthy Mortality Table for males and females projected to 2020 using projection scale AA. The base table is the RP-

CITY OF FAIRFAX, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

2000 Combined Healthy Mortality Table projected to the valuation date and the provision for future mortality improvement is the projection to 2020. The mortality tables used to measure disabled retired life mortality were the same as described above, set-forward 10-years.

Discount Rate

A Single Discount Rate of 6.75% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.80%. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2091. As a result, the long-term expected rate of return on the Plans' investments was applied to projected benefit payments through the year 2091, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of Net Pension Liability to Changes in Discount Rate

The following presents the net pension liability of the City Plans, calculated using the discount rate of 7%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
General Plan			
Net pension liability(asset)	\$ 7,916,078	\$ 817,926	\$ (5,138,541)
Public Safety Plan			
Net pension liability(asset)	14,334,404	5,326,214	(2,157,782)

CITY OF FAIRFAX, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

The following is a summary of financial information for the City's local retirement plans:

	Pension Trust Funds		
	City Supplemental Pension Trust Fund	Firefighters, Policemen, and Policewomen Pension Trust Fund	Total
Assets			
Cash and cash equivalents	\$ (8,056)	\$ (9,098)	\$ (17,154)
Accounts receivable	235,848	266,356	502,204
Mutual and money market funds	44,608,693	50,378,880	94,987,573
Stocks	11,876,942	13,413,237	25,290,179
Accrued interest	3,956	4,467	8,423
Total Assets	<u>\$ 56,717,383</u>	<u>\$ 64,053,842</u>	<u>\$120,771,225</u>
Net Position			
Held in trust for pension benefits	<u>\$ 56,717,383</u>	<u>\$ 64,053,842</u>	<u>\$120,771,225</u>
Additions			
Plan members' contributions	\$ 1,566,844	\$ 2,661,159	\$ 4,228,003
Investment income:			
Interest and dividends earned on investments	1,079,942	1,169,938	2,249,880
Net appreciation in fair value of investments	(1,340,687)	(1,452,411)	(2,793,098)
Total Investment Income	(260,745)	(282,473)	(543,218)
Less investment expenses	(337,261)	(365,367)	(702,628)
Net Investment Income	(598,006)	(647,840)	(1,245,846)
Total Additions	<u>968,838</u>	<u>2,013,319</u>	<u>2,982,157</u>
Deductions			
Retirement and disability benefits	2,936,859	3,544,481	6,481,340
Total Deductions	<u>2,936,859</u>	<u>3,544,481</u>	<u>6,481,340</u>
Change in Net Position	(1,968,021)	(1,531,162)	(3,499,183)
Net Position, Beginning	<u>58,685,404</u>	<u>65,585,004</u>	<u>124,270,408</u>
Net Position, Ending	<u>\$ 56,717,383</u>	<u>\$ 64,053,842</u>	<u>\$120,771,225</u>

Concentrations

At June 30, 2015, the Plans' assets were comprised of cash and cash equivalents, stocks, corporate bonds, and mutual funds. The following table presents the fair value of the investments in the Plans. Single investments representing more than 5% of the Plans' net position as of June 30, 2015 are separately identified. Investments at fair value as determined by quoted market prices are as follows:

Mutual Funds:	
GMO Foreign Fund	\$ 15,305,360
Wellington	28,028,349
GMO Strategic Opportunities	13,298,839
Putnam Total Return	18,730,348
DFA Emerging Markets	7,543,230
SSGA Funds	17,773,904
Other investments individually less than 5% of Plan assets	<u>19,597,722</u>
Total	<u>\$ 120,277,752</u>

CITY OF FAIRFAX, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9—FAIRFAX COUNTY AGREEMENTS

The City and School Board are parties to certain contracts under which services are provided to its citizens by Fairfax County (the “County”), an unrelated local governmental entity. The costs of these services are summarized below.

<u>Description</u>	
Joint court service	\$ 735,951
Jail and custody services	1,587,613
Fire suppression	157,869
Health	1,155,887
Social Services	1,055,580
Library services	778,578
Education	45,389,893
Refuse collection	428,871
County agent	42,409
Debt service judicial center	94,659
Sewage treatment	1,648,895
	<u>\$ 53,076,205</u>

The City constructs and owns its school facilities. In accordance with the education contract, the County manages, maintains and provides instruction in these facilities to City residents for a fee. Under the contract the City reimburses the County for the portion of the County’s school expenditures related to City students.

The City pays tuition to Fairfax County Public Schools (FCPS) quarterly, based on estimates provided by FCPS. After the end of each fiscal year, FCPS provides a reconciliation of actual expenditures to estimates, and either increases or decreases the amount due from the City for the first quarter’s tuition for the following fiscal year as a result. As of June 30, 2015, the City had recorded a liability of \$1,124,453 for underpayment of tuition during fiscal year 2015. This amount will be added by FCPS to the first quarter’s invoice for fiscal year 2016.

NOTE 10—TRANSPORTATION CONTRACTS

The City provides bus transportation services to its citizens in two ways:

CUE Bus – CUE Bus is an intra-city bus service operations in cooperation with George Mason University. Funding received from George Mason University was \$720,000 for the fiscal year ended 2015.

Washington Metropolitan Area Transit Authority - The City contracts on an annual basis for rail service from the Washington Metropolitan Area Transit Authority (“WMATA”). The City’s share of WMATA’s capital and operating for bus and rail service for the year ended June 30, 2015 was \$2,481,859. This amount was paid from the City’s account at the Northern Virginia Transportation Commission (“NVTC”).

Northern Virginia Transportation Commission (“NVTC”) – NVTC receives funds designated for the City and it also disburses the designated funds for the City. As of June 30, 2015, the balance designated for the City is \$3,553,667. The NVTC received \$3,671,673 and disbursed \$3,028,501 on behalf of the City for the fiscal year ended June 30, 2015.

NOTE 11—MAJOR CUSTOMER

The City has one major water customer and for the year ended June 30, 2015, water revenue from this customer was approximately \$98,000.

CITY OF FAIRFAX, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 12—SURETY BOND

	<u>Coverage</u>
City Funds:	
WML Insurance Programs:	
Tom Sicilia - City Treasurer	\$ 250,000
City Council and all employees	250,000
City of Fairfax School Board	250,000
State Funds:	
Tom Scibilia - City Treasurer	500,000
William Page Johnson, II - Commission of the Revenue	450,000
Commonwealth of Virginia Performance of Duty Bond Self Insurance Plan:	
All employees of constitutional officers - blanket bond - each loss	250,000

NOTE: The coverage with respect to the City Treasurer does not apply to pecuniary loss sustained by the City by reason or in consequence of the failure of the Treasurer to faithfully and fully discharge according to laws the duties pertaining to said position.

NOTE 13—OTHER POSTEMPLOYMENT BENEFITS HEALTH INSURANCE

Plan Description - In addition to the pension benefits described in Note 8, through a single employer defined benefit plan, the City provides postemployment health care insurance benefits for employees who are eligible for retirement benefits. General Government employees are eligible for normal retirement if they have attained the age of 60 with 5 years of service. Public Safety employees are eligible for normal retirement if they have attained the age of 50 with 5 years of service or have 20 years of service. General Government employees are eligible for early retirement if they have attained the age of 50 years with 5 years of service or have 25 years of service. Disabled individuals must have completed 5 years of service to be eligible to participate in the plan.

Funding Policy - The City establishes employer contribution rates for plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will partially fund the plan or fully fund the plan. Again this is determined annually as part of the budgetary process. For participating retirees which retired before July 1, 2004 the Retiree pays 100% of the monthly premium. For participating retirees which retired on or after July 1, 2004 the City pays a stipend ranging from \$50 to \$175 per month depending on years of service towards the monthly premium and the retiree contributes remaining funds towards the monthly premium. Retirees pay 100% of spousal premiums. Surviving spouses can stay in the plan, but must pay the entire premium.

Annual OPEB Cost and Net OPEB Obligation - The City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover 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 annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

CITY OF FAIRFAX, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Annual required contribution	\$ 958,421
Interest on net OPEB obligation	174,912
Adjustment to annual required contribution	<u>(145,760)</u>
Annual OPEB cost	987,573
Contributions made	<u>(495,797)</u>
Increase in net OPEB obligation	491,776
Net OPEB obligation - beginning of year	<u>4,372,790</u>
Net OPEB obligation - end of year	<u><u>\$ 4,864,566</u></u>

Funded Status and Funding Progress - The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the next OPEB obligation for the current and two preceding years are as follows:

Ended Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 1,101,098	37%	\$ 4,041,239
June 30, 2014	1,079,313	37%	4,372,790
June 30, 2015	987,573	50%	4,864,566

The funded status of the plan as of June 30, 2014 is as follows:

Actuarial accrued liability (AAL)	\$ 13,333,658
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	13,333,658
Funded ratio (actuarial value of plan assets / AAL)	-
Covered payroll (active plan members)	21,611,954
UAAL as a percentage of covered payroll	61.70%

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 employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are 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.

CITY OF FAIRFAX, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Cost Method - Normal cost, the allocation of benefit values between service rendered before and after the valuation date, was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

- The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefits at the time of retirement;
- Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Interest Assumptions - In the June 30, 2014 most recent actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 3.5% after ten years. Both rates included a 3.5% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014, was thirty years.

NOTE 14—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; injuries to employees and natural disasters. To reduce insurance costs and the need for self-insurance, the City has joined with other municipalities in the Commonwealth of Virginia in several public entity risk pools that operate as common risk management and insurance programs for member municipalities. The City is not self-insured.

The City has coverage with the VML Insurance Programs ("Program"). Each Program member jointly and severally agrees to assume, pay and discharge any liability. The City pays VML the contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Program and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Program may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The City also contracts with private insurance carriers for accident insurance for all volunteer firefighters and holds a policy for any pollution associated with underground storage tanks. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 15—COMMITMENTS AND CONTINGENCIES

Federal programs in which the City participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

CITY OF FAIRFAX, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

In fiscal year 2014, the City entered into an agreement to sell certain water assets to Fairfax County Water Authority. The City has potential liability related to any material adverse effects of the sale on the Authority. As of June 30, 2015, management is unaware of any liabilities related to this part of the sale agreement.

NOTE 16—LITIGATION

At June 30, 2015, the City was named as a defendant in various matters. It is not known what liability, if any, the City faces.

NOTE 17—CONSTRUCTION COMMITMENTS

At June 30, 2015, the City had several major projects under construction which are summarized below:

	Contract Amount	Expenditures as of June 30, 2015	Contract Balance
Primary Government:			
Jermantown Road	\$ 2,453,965	\$ 363,741	\$ 2,090,224
Daniels Run stream restoration	562,251	21,035	541,216
Wireless signal detectors	96,500	-	96,500
Street repaving	1,783,837	1,109,175	674,662
Total	<u>\$ 4,896,553</u>	<u>\$ 1,493,951</u>	<u>\$ 3,402,602</u>

NOTE 18—DEFEASED DEBT

In prior years, the City defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2015, the City had \$30,310,000 of bonds outstanding and considered defeased from refunding transactions in prior years.

NOTE 19—NEW ACCOUNTING STANDARDS

The GASB has issued the following statements, which are not yet effective.

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses issues related to fair value measurements and defines what fair value is, and provides guidance for determining a fair value measurement for financial reporting purposes. The statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement is effective for the year ending June 30, 2016.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68. In addition, the statement establishes requirements of defined contribution pensions that are not within the scope of Statement No. 68 and also amends certain provisions of Statements No. 67 and 68. The statement is effective for the fiscal year ending June 30, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for governments whose employees are provided

CITY OF FAIRFAX, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

with OPEB. The scope of this statement applies to OPEB plans administered through trusts for which the contributions are irrevocable, the plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms, and the plan assets are legally protected from the creditors of employers. The statement is effective for the fiscal year ending June 15, 2017.

GASB Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense. This statement is effective for the fiscal year ending June 30, 2018.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, identifies the hierarchy of GAAP. The statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction is not specified within a source of authoritative GAAP. This statement is effective for the year ending June 30, 2016.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about both the reporting government's own tax abatement agreements and those that are entered into by other governments and reduce the reporting government's tax revenues. This statement is effective for the fiscal year ending June 30, 2017.

Management has not yet evaluated the effects, if any, of adopting these standards.

NOTE 20—RESTATEMENT OF BEGINNING NET POSITION

The implementation of GASB Statement No.'s 68 and 71 requires the reporting of a net pension liability on the financial statements of the full accrual basis statements. The implementation of these standards required the restatement of Net Position for the beginning balance of the net pension liability as actuarially determined by an actuary. The effect of this restatement is as follows:

	Primary Government						School Board Component Unit
	Governmental Activities	Business-type Activities					
		Business-type Activities	Sewer	Water	Transportation		
Net Position							
June 30, 2014, as previously stated	\$ 81,823,429	\$ 10,779,184	\$ 8,639,576	\$ 2,022,615	\$ 116,993	\$ 8,890,634	
Restatement:							
Beginning net pension (liability)asset							
City pension plans - General	2,369,357	274,546	56,959	-	217,587	-	
City pension plans - Public Safety	(2,744,504)	-	-	-	-	-	
VRS pension plan	(38,006,957)	(2,401,076)	(588,756)	-	(1,812,320)	(158,000)	
Net Position							
June 30, 2014, as restated	\$ 43,441,325	\$ 8,652,654	\$ 8,107,779	\$ 2,022,615	\$ (1,477,740)	\$ 8,732,634	

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Fairfax, Virginia
Schedule of OPEB Funding Progress

Exhibit 13

Last Four Valuations

The following Schedule of Funding Progress is presented as unaudited required supplementary information applicable to the participation of the City's employees in a single employer defined benefit plan for other postemployment benefits, as described in the footnotes of the accompanying basic financial statements. GAAP requires presentation of this information in employer financial statements. This information is intended to help users assess the funded status of the plan and the progress made in accumulating sufficient assets to pay benefits when due.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as % of Payroll (4) / (6)
Other Postemployment Benefits						
6/30/2014	\$ -	\$ 13,333,658	\$ 13,333,658	0.00%	\$ 21,611,954	61.70%
6/30/2012	-	13,668,557	13,668,557	0.00%	25,901,110	52.77%
6/30/2010	-	14,931,043	14,931,043	0.00%	26,381,262	56.60%
6/30/2008	-	13,001,916	13,001,916	0.00%	25,784,857	50.42%

Cost Method - Normal cost, the allocation of benefit values between service rendered before and after the valuation date, was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

- The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefits at the time of retirement;
- Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Interest Assumptions - In the June 30, 2014 the most recent actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 3.5% after ten years. Both rates included a 3.5% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014, was thirty years.

Cost Method - Normal cost, the allocation of benefit values between service rendered before and after the valuation date, was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

- The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefits at the time of retirement;
- Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

City of Fairfax, Virginia

Exhibit 14

Schedule of Changes in Net Pension Liability and Related Ratios

For the Year Ended June 30,

	City - VRS		City - General		City - Public Safety	
	2015 *	2015	2014	2015	2014	2014
Total Pension Liability						
Service cost	\$ 2,553,033	\$ 1,223,136	\$ 1,238,483	\$ 1,687,952	\$ 1,721,480	
Interest	9,430,342	3,724,963	3,693,905	4,549,584	4,482,529	
Benefit changes	-	-	40,012	-	143,528	
Differences between expected and actual experience	-	(517,432)	(1,277,224)	(1,642,507)	(1,925,872)	
Benefit payments, including refunds of member contributions	(6,272,188)	(2,936,859)	(3,517,912)	(3,544,481)	(3,278,507)	
Net change in total pension liability	5,711,187	1,493,808	177,264	1,050,548	1,143,158	
Total pension liability, beginning of year	137,855,267	56,041,501	55,864,237	68,329,508	67,186,350	
Total pension liability, end of year (a)	143,566,454	57,535,309	56,041,501	69,380,056	68,329,508	
Plan Fiduciary Net Pension						
Contributions - employer	3,659,625	1,064,636	876,511	1,854,639	1,772,644	
contributions - member	1,374,989	478,806	512,116	781,168	816,864	
Net investment income	14,717,193	(598,006)	6,985,339	(647,840)	7,567,450	
Benefit payments, including refunds of member contributions	(6,272,188)	(2,936,859)	(3,517,912)	(3,544,481)	(3,278,507)	
Other	776	23,402	24,368	25,352	26,399	
Administrative expenses	(79,665)	-	-	-	-	
Net change in plan fiduciary net position	13,400,730	(1,968,021)	4,880,422	(1,531,162)	6,904,850	
Plan fiduciary net position, beginning of year	93,787,609	58,685,404	53,804,982	65,585,004	58,680,154	
Plan fiduciary net position, end of year (b)	107,188,339	56,717,383	58,685,404	64,053,842	65,585,004	
Net pension liability (asset) (a - b)	<u>\$ 36,378,115</u>	<u>\$ 817,926</u>	<u>\$ (2,643,903)</u>	<u>\$ 5,326,214</u>	<u>\$ 2,744,504</u>	
Plan fiduciary net position as a percentage of the total pension liability(asset)	74.66%	98.58%	104.72%	92.32%	95.98%	
Covered - employee payroll	\$ 26,210,225	\$ 16,374,172	\$ 15,346,754	\$ 11,474,760	\$ 11,561,315	
Net pension liability(asset) as a percentage of covered - employee payroll	138.79%	5.00%	-17.23%	46.42%	23.74%	

Note: The City implemented GASB 67 in fiscal year 2014. Information for the previous years is unavailable.

* CAFR reporting year, measurement date June 30 of prior year

City of Fairfax, Virginia
Schedule of Contributions

Exhibit 15

For the Year Ended June 30,

	<u>2015</u>	<u>2014</u>
General Plan **:		
Actuarially determined contribution	\$ 1,064,636	\$ 876,511
Contributions in relation to the actuarially determined contribution	<u>1,064,636</u>	<u>876,511</u>
Contribution excess	<u>-</u>	<u>-</u>
Covered - employee payroll	\$ 16,374,172	\$ 15,346,754
Contributions as a percentage of covered - employee payroll	6.50%	5.71%
Public Safety Plan **:		
Actuarially determined contribution	\$ 1,854,639	\$ 1,772,644
Contributions in relation to the actuarially determined contribution	<u>1,854,639</u>	<u>1,772,644</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 11,474,760	\$ 11,561,315
Contributions as a percentage of covered - employee payroll	16.16%	15.33%
City - VRS *		
Contractually required contribution		\$ 3,659,625
Contributions in relation to the actuarially determined contribution		<u>3,659,625</u>
Contribution excess		<u>\$ -</u>
Covered - employee payroll		\$ 26,210,225
Contributions as a percentage of covered - employee payroll		13.96%
School Board - VRS *		
Contractually required contribution		\$ 9,925
Contributions in relation to the actuarially determined contribution		<u>9,925</u>
Contribution excess		<u>\$ -</u>
Covered - employee payroll		\$ 85,118
Contributions as a percentage of covered - employee payroll		11.66%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, 12 months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

	<u>General Plan and Public Safety Plan</u>	<u>City and School Board - VRS</u>
Actuarial cost method	Entry age actuarial cost method	Entry age normal actuarial cost method
Amortization method	Level percent of payroll	Level percent of payroll
Remaining amortization period	10 years	30 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Inflation	3.50%	2.50%
Salary increases	4.0% to 8.5% including inflation	3.5% to 5.35% , per annum, compounded annual
Investment rate of return	6.75%	7.00%

There have been no significant changes to the benefit provisions since the prior actuarial valuation.

* Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, with a 2014 measurement date, no other data is available. However, additional years will be included as they become available

** The City implemented GASB 67 in fiscal year 2014. Information for the previous years is unavailable.

City of Fairfax, Virginia

Exhibit 16

**Schedule of City Investment Returns and School Board's
Proportionate Share of Net Pension Liability**

For the Year Ended June 30,

	<u>2015</u>	<u>2014</u>
City Supplemental Retirement Plans		
Annual money-weighted rate of return, net of investment expense	<u>-1.40%</u>	<u>14.50%</u>
 School Board's Proportionate Share of Net Pension Liability in VRS *		
Proportion of the net pension liability	0.00116%	
Proportionate share of the net pension liability	\$ 140,000	
Covered-employee payroll	\$ 85,118	
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	164.48%	
Plan fiduciary net position as a percentage of the total pension liability	70.88%	

* The amounts presented have a measurement date of the previous fiscal year.

Note: The City implemented GASB 67 in fiscal year 2014. Information for the previous years is unavailable.

OTHER SUPPLEMENTARY INFORMATION

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CITY OF FAIRFAX, VIRGINIA
Combining Balance Sheet -
Nonmajor Governmental Funds

Exhibit 17

June 30, 2015

	Special	Capital Projects Funds		Total Nonmajor Governmental Funds
	Revenue Fund	Stormwater Fund	Commercial Transportation Tax Fund	
	Legacy for Fairfax			
ASSETS				
Cash and cash equivalents	\$ 539,859	\$ 1,019,481	\$ 6,591,409	\$ 8,150,749
Due from other governmental units	-	-	220,086	220,086
Total Assets	<u>\$ 539,859</u>	<u>\$ 1,019,481</u>	<u>\$ 6,811,495</u>	<u>\$ 8,370,835</u>
Liabilities				
Accounts payable	\$ 31	\$ 259,878	\$ 238,556	\$ 498,465
Retainage payable	-	1,052	12,609	13,661
Total Liabilities	<u>31</u>	<u>260,930</u>	<u>251,165</u>	<u>512,126</u>
FUND BALANCES				
Restricted	514,198	-	-	514,198
Committed	-	541,216	2,090,224	2,631,440
Assigned	25,630	217,335	4,470,106	4,713,071
Total Fund Balances	<u>539,828</u>	<u>758,551</u>	<u>6,560,330</u>	<u>7,858,709</u>
Total Liabilities and Fund Balances	<u>\$ 539,859</u>	<u>\$ 1,019,481</u>	<u>\$ 6,811,495</u>	<u>\$ 8,370,835</u>

CITY OF FAIRFAX, VIRGINIA

Exhibit 18

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds**

For the Year Ended June 30, 2015

	Special			Total Nonmajor Governmental Funds
	Revenue Fund	Capital Projects Funds		
	Legacy for Fairfax	Stormwater Fund	Commercial Transportation Tax Fund	
Revenues:				
Miscellaneous	\$ 27,173	\$ -	\$ 1,832,518	\$ 1,859,691
Intergovernmental:				
Commonwealth	-	37,138	220,086	257,224
Total Revenues	27,173	37,138	2,052,604	2,116,915
Expenditures:				
Current:				
Public works	-	1,281,955	932,453	2,214,408
Parks, recreation, and cultural	1,543	-	-	1,543
Total Expenditures	1,543	1,281,955	932,453	2,215,951
Excess (Deficiency) of Revenues Over (Under) Expenditures	25,630	(1,244,817)	1,120,151	(99,036)
Other Financing Sources (Uses):				
Transfers in	-	1,103,202	2,406,072	3,509,274
Transfers (out)	-	-	(1,699,816)	(1,699,816)
Total Other Financing Sources, Net	-	1,103,202	706,256	1,809,458
Net Changes in Fund Balances	25,630	(141,615)	1,826,407	1,710,422
Fund Balances, Beginning of Year	514,198	900,166	4,733,923	6,148,287
Fund Balances, End of Year	\$ 539,828	\$ 758,551	\$ 6,560,330	\$ 7,858,709

City of Fairfax, Virginia

Exhibit 19

Combining Statement of Fiduciary Net Position -
Fiduciary Funds

June 30, 2015

	City Supplemental Pension Trust Fund	Firefighters, Policemen and Policewoman Pension Trust Fund	Totals
ASSETS			
Cash and cash equivalents	\$ (8,056)	\$ (9,098)	\$ (17,154)
Accounts receivable	235,848	266,356	502,204
Mutual and money market funds	44,608,693	50,378,880	94,987,573
Stocks	11,876,942	13,413,237	25,290,179
Accrued interest	3,956	4,467	8,423
Total Assets	<u>56,717,383</u>	<u>64,053,842</u>	<u>120,771,225</u>
NET POSITION			
Held in trust for pension benefits	<u>\$ 56,717,383</u>	<u>\$ 64,053,842</u>	<u>\$ 120,771,225</u>

City of Fairfax, Virginia

Exhibit 20

**Combining Statement of Changes in Fiduciary Net Position -
Fiduciary Funds**

For the Year Ended June 30, 2015

	City Supplemental Pension Trust Fund	Firefighters, Policemen and Policewoman Pension Trust Fund	Totals
Additions:			
Plan members and employer contributions	\$ 1,566,844	\$ 2,661,159	\$ 4,228,003
Investment Income:			
Interest and dividends earned on investments	1,079,942	1,169,938	2,249,880
Net appreciation in fair value of investments	(1,340,687)	(1,452,411)	(2,793,098)
Total Investment Income	(260,745)	(282,473)	(543,218)
Less investment expenses	(337,261)	(365,367)	(702,628)
Net Investment Income	(598,006)	(647,840)	(1,245,846)
Total Additions	968,838	2,013,319	2,982,157
Deductions:			
Retirement and disability benefits	2,936,859	3,544,481	6,481,340
Total Deductions	2,936,859	3,544,481	6,481,340
Change in Net Position	(1,968,021)	(1,531,162)	(3,499,183)
Net Position, Beginning of Year	58,685,404	65,585,004	124,270,408
Net Position, End of Year	<u>\$ 56,717,383</u>	<u>\$ 64,053,842</u>	<u>\$ 120,771,225</u>

City of Fairfax, Virginia

Exhibit 21

Combining Balance Sheet -

Discretely Presented Component Unit - School Board

June 30, 2015

	School Operating Fund	School Bond Renovation Fund	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 2,499	\$ 2,499
Advance to Fairfax County Public Schools	-	1,253,009	1,253,009
Due from other governments	771,108	-	771,108
Due from Primary Government	451,416	-	451,416
Total Assets	<u>\$ 1,222,524</u>	<u>\$ 1,255,508</u>	<u>\$ 2,478,032</u>
LIABILITIES			
Accounts payable	<u>\$ 1,222,524</u>	<u>\$ -</u>	<u>\$ 1,222,524</u>
Total Liabilities	<u>1,222,524</u>	<u>-</u>	<u>1,222,524</u>
FUND BALANCES			
Nonspendable - advance	-	1,253,009	1,253,009
Assigned - capital projects	-	2,499	2,499
Total Fund Balances	<u>-</u>	<u>1,255,508</u>	<u>1,255,508</u>
Total Liabilities and Fund Balances	<u>\$ 1,222,524</u>	<u>\$ 1,255,508</u>	<u>\$ 2,478,032</u>

City of Fairfax, Virginia**Exhibit 22****Reconciliation of the Balance Sheet of the Governmental Funds to
the Statement of Net Position -
Discretely Presented Component Unit - School Board**June 30, 2015

	Governmental Funds
Total fund balances - governmental funds	\$ 1,255,508
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds:	
Capital assets:	
Land	\$ 1,381,115
Buildings and improvements	36,792,005
Machinery and equipment	1,464,562
Less accumulated depreciation	<u>(33,694,189)</u>
	5,943,493
Deferred items:	
Deferred pension contributions	9,925
Deferred pension experience	(20,804)
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:	
Compensated absences	(43,781)
Net pension liability	<u>(140,000)</u>
Net position of governmental activities	<u><u>\$ 7,004,341</u></u>

City of Fairfax, Virginia

Exhibit 23

Statement of Revenues, Expenditures, and
 Changes in Fund Balances -
 Discretely Presented Component Unit - School Board

For the Year Ended June 30, 2015

	School Operating Fund	School Bond Renovation Fund	Total
Revenues:			
Revenue from use of money and property	\$ 1,839,392	\$ -	\$ 1,839,392
Charges for services	532,062	-	532,062
Miscellaneous		-	-
Intergovernmental:			
City contribution to the School Board	36,321,754	-	36,321,754
Commonwealth	7,562,576	-	7,562,576
Total Revenues	<u>46,255,784</u>	<u>-</u>	<u>46,255,784</u>
Expenditures:			
Current:			
Education	46,255,784	102,450	46,358,234
Total Expenditures	<u>46,255,784</u>	<u>102,450</u>	<u>46,358,234</u>
Net Changes in Fund Balances	-	(102,450)	(102,450)
Fund Balances, Beginning of Year	-	1,357,958	1,357,958
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 1,255,508</u>	<u>\$ 1,255,508</u>

City of Fairfax, Virginia

Exhibit 24

Reconciliation of Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities -
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2015

	<u>Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net changes in fund balances - total governmental funds	\$ (102,450)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation expense exceeded capital outlay in the current period.	
Depreciation expense	(3,992,455)
Transfer of joint tenancy assets from Primary Government to Component Unit School Board, net	2,384,682
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The following is a summary of items supporting this adjustment:	
Change in compensated absences	\$ (9,431)
Change in pension related items	(8,639)
	<u>(18,070)</u>
Change in net position of governmental activities	<u>\$ (1,728,293)</u>

City of Fairfax, Virginia

Exhibit 25

Combining Statement of Net Position -

Discretely Presented Nonmajor Component Units

June 30, 2015

	Industrial Development Authority	Economic Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 636,622	\$ 109,059	\$ 745,681
Inventory - property held for resale	-	862,594	862,594
Total Assets	<u>\$ 636,622</u>	<u>\$ 971,653</u>	<u>\$ 1,608,275</u>
LIABILITIES			
Current Liabilities:			
Accrued interest payable	\$ -	\$ 5,819	\$ 5,819
Due to Primary Government	-	1,100,825	1,100,825
Total Liabilities	<u>-</u>	<u>1,106,644</u>	<u>1,106,644</u>
NET POSITION			
Unrestricted	<u>636,622</u>	<u>(134,991)</u>	<u>501,631</u>
Total Net Position	<u>636,622</u>	<u>(134,991)</u>	<u>501,631</u>
Total Liabilities and Net Position	<u>\$ 636,622</u>	<u>\$ 971,653</u>	<u>\$ 1,608,275</u>

City of Fairfax, Virginia
Combining Statement of Activities -
Discretely Presented Nonmajor Component Units

Exhibit 26

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Industrial Development Authority	Economic Development Authority	
Nonmajor Component Units:					
Industrial Development authority	\$ 42,028	\$ 65	\$ (41,963)	\$ -	\$ (41,963)
Economic Development Authority	10,593	-	-	(10,593)	(10,593)
Total Nonmajor Component Units	<u>\$ 52,621</u>	<u>\$ 65</u>	<u>(41,963)</u>	<u>(10,593)</u>	<u>(52,556)</u>
General Revenues:					
Unrestricted revenues from use of money			-	16,201	16,201
Total General Revenues			-	16,201	16,201
Change in net position			(41,963)	5,608	(36,355)
Net position, beginning of year			678,585	(140,599)	537,986
Net position, end of year			<u>\$ 636,622</u>	<u>\$ (134,991)</u>	<u>\$ 501,631</u>

City of Fairfax, Virginia

Exhibit 27

Combining Balance Sheet -

Discretely Presented Nonmajor Component Units

June 30, 2015

	Industrial Development Authority	Economic Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 636,622	\$ 109,059	\$ 745,681
Total Assets	<u>\$ 636,622</u>	<u>\$ 109,059</u>	<u>\$ 745,681</u>
LIABILITIES			
Due to Primary Government	\$ -	\$ 854,378	\$ 854,378
Total Liabilities	<u>-</u>	<u>854,378</u>	<u>854,378</u>
FUND BALANCES			
Unassigned	636,622	(745,319)	\$ (108,697)
Total Fund Balances	<u>636,622</u>	<u>(745,319)</u>	<u>(108,697)</u>
Total Liabilities and Fund Balances	<u>\$ 636,622</u>	<u>\$ 109,059</u>	<u>\$ 745,681</u>

City of Fairfax, Virginia

Exhibit 28

Combining Reconciliation of the Balance Sheet of the Governmental
Funds to the Statement of Net Position -
Discretely Presented Nonmajor Component Units

June 30, 2015

	Industrial Development Authority	Economic Development Authority	Totals
Total fund balances - governmental funds	\$ 636,622	\$ (745,319)	\$ (108,697)
<p>Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:</p>			
<p>Assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds:</p>			
Inventory held for resale	-	862,594	862,594
<p>Interest on long-term obligations is not accrued in the governmental funds, but rather recognized as an expenditure when due.</p>			
	-	(5,819)	(5,819)
<p>Long-term obligations are not due and payable in the current period and, therefore, are not reported as liabilities of the governmental funds.</p>			
	-	(246,447)	(246,447)
Net position of governmental activities	<u>\$ 636,622</u>	<u>\$ (134,991)</u>	<u>\$ 501,631</u>

City of Fairfax, Virginia

Exhibit 29

Statement of Revenues, Expenditures, and
Changes in Fund Balances -

Discretely Presented Nonmajor Component Units

For the Year Ended June 30, 2015

	Industrial Development Authority	Economic Development Authority	Totals
Revenues:			
Revenue from use of money and property	\$ 65	\$ 16,201	\$ 16,266
Total Revenues	<u>65</u>	<u>16,201</u>	<u>16,266</u>
Expenditures:			
Current:			
Planning and community development	42,028	4,775	46,803
Debt Service:			
Interest and fiscal charges	-	5,818	5,818
Total Expenditures	<u>42,028</u>	<u>10,593</u>	<u>52,621</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(41,963)</u>	<u>5,608</u>	<u>(36,355)</u>
Net Changes in Fund Balances	(41,963)	5,608	(36,355)
Fund Balances, Beginning of Year	678,585	(750,927)	(72,342)
Fund Balances, End of Year	<u>\$ 636,622</u>	<u>\$ (745,319)</u>	<u>\$ (108,697)</u>

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STATISTICAL SECTION

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CITY OF FAIRFAX, VIRGINIA

**STATISTICAL SECTION
TABLE OF CONTENTS**

The statistical section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information presented in the financial statements, note disclosures and required supplementary information say about the City's overall financial health. This information has not been audited by the independent auditor.

Contents	Table Number
Financial Trends These tables contain trend information to help the reader understand how the City's financial performance and well being have changed over time.	1 to 5
Revenue Capacity These tables contain information to help the reader assess the City's most significant local revenue sources, the property tax, as well as other revenue sources.	6 to 10
Debt Capacity These tables present information to help the reader assess the affordability of the City's current level of outstanding debt and the City's ability to issue additional debt in the future.	11 to 13
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	14
Operating Information These tables contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	15 to 18

Sources:

Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial report for the relevant year.

Note - the following statistical table recommended by the National Council on Governmental Accounting is not included for the reason stated below:

The City of Fairfax, Virginia has no overlapping debt with any other government within its boundaries. Cities in the Commonwealth of Virginia are not part of the surrounding counties, and cities have no political subdivisions.

City of Fairfax, Virginia
Net Position By Component
Last Ten Fiscal Years
(accrual basis of accounting) - (unaudited)

For the Year Ended June 30,

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental Activities:				
Invested in capital assets, net of related debt	\$ (11,812,521)	\$ (48,500,591)	\$ 38,986,748	\$ 34,396,876
Unrestricted	<u>(16,939,669)</u>	<u>(1,066,325)</u>	<u>12,750,610</u>	<u>23,158,474</u>
Total Governmental Activities Net Position	<u>\$ (28,752,190)</u>	<u>\$ (49,566,916)</u>	<u>\$ 51,737,358</u>	<u>\$ 57,555,350</u>
Business-type Activities:				
Invested in capital assets, net of related debt	\$ 25,005,792	\$ 24,895,262	\$ 20,264,835	\$ 24,450,435
Unrestricted	<u>5,850,290</u>	<u>5,369,440</u>	<u>7,224,926</u>	<u>2,854,098</u>
Total Business-type Activities Net Position	<u>\$ 30,856,082</u>	<u>\$ 30,264,702</u>	<u>\$ 27,489,761</u>	<u>\$ 27,304,533</u>
Primary Government:				
Invested in capital assets, net of related debt	\$ 13,190,271	\$ (23,605,329)	\$ 59,251,583	\$ 58,847,311
Unrestricted (deficit)	<u>(11,089,379)</u>	<u>4,303,115</u>	<u>19,975,536</u>	<u>26,012,572</u>
Total Primary Government Net Position	<u>\$ 2,100,892</u>	<u>\$ (19,302,214)</u>	<u>\$ 79,227,119</u>	<u>\$ 84,859,883</u>
Component Units: (1)				
Component Unit - School Board:				
Invested in capital assets, net of related debt	\$ 66,251,923	\$ 103,979,947	\$ 13,005,785	\$ 13,508,352
Unrestricted	<u>50,485,036</u>	<u>19,401,869</u>	<u>6,517,420</u>	<u>2,947,883</u>
Total Component Unit - School Board Net Position	<u>\$ 116,736,959</u>	<u>\$ 123,381,816</u>	<u>\$ 19,523,205</u>	<u>\$ 16,456,235</u>
Component Unit - All Other Aggregate:				
Restricted	\$ 307,920	\$ 273,943	\$ -	\$ -
Unrestricted	<u>456,061</u>	<u>466,884</u>	<u>(27,149)</u>	<u>(106,376)</u>
Total Component Unit - All Other Aggregate Net Position	<u>\$ 763,981</u>	<u>\$ 740,827</u>	<u>\$ (27,149)</u>	<u>\$ (106,376)</u>
Component Units:				
Invested in capital assets, net of related debt	\$ 66,251,923	\$ 103,979,947	\$ 13,005,785	\$ 13,508,352
Restricted	307,920	273,943	-	-
Unrestricted	<u>50,941,097</u>	<u>19,868,753</u>	<u>6,490,271</u>	<u>2,841,507</u>
Total Component Units Net Position	<u>\$ 117,500,940</u>	<u>\$ 124,122,643</u>	<u>\$ 19,496,056</u>	<u>\$ 16,349,859</u>
Total Reporting Entity:				
Invested in capital assets, net of related debt	\$ (23,202,806)	\$ (28,390,382)	\$ 72,257,368	\$ 72,355,663
Restricted	307,920	273,943	-	-
Unrestricted (deficit)	<u>142,496,718</u>	<u>132,936,868</u>	<u>26,465,807</u>	<u>28,854,079</u>
Total Reporting Entity Net Position	<u>\$ 119,601,832</u>	<u>\$ 104,820,429</u>	<u>\$ 98,723,175</u>	<u>\$ 101,209,742</u>

Table 1

2010	2011	2012	2013	2014	2015
\$ 39,308,283	\$ 39,486,639	\$ 50,255,490	\$ 53,890,492	\$ 63,399,428	\$ 65,367,317
25,359,148	24,969,176	20,076,021	20,325,737	18,424,001	(15,838,209)
<u>\$ 64,667,431</u>	<u>\$ 64,455,815</u>	<u>\$ 70,331,511</u>	<u>\$ 74,216,229</u>	<u>\$ 81,823,429</u>	<u>\$ 49,529,108</u>
\$ 24,498,812	\$ 22,938,374	\$ 23,422,114	\$ 25,745,684	\$ 7,100,899	\$ 12,154,408
3,697,754	4,709,709	2,536,617	1,471,619	3,678,285	(3,269,148)
<u>\$ 28,196,566</u>	<u>\$ 27,648,083</u>	<u>\$ 25,958,731</u>	<u>\$ 27,217,303</u>	<u>\$ 10,779,184</u>	<u>\$ 8,885,260</u>
\$ 63,807,095	\$ 62,425,013	\$ 73,677,604	\$ 79,636,176	\$ 70,500,327	\$ 77,521,725
29,056,902	29,678,885	22,612,638	21,797,356	22,102,286	(19,107,357)
<u>\$ 92,863,997</u>	<u>\$ 92,103,898</u>	<u>\$ 96,290,242</u>	<u>\$ 101,433,532</u>	<u>\$ 92,602,613</u>	<u>\$ 58,414,368</u>
\$ 14,268,025	\$ 13,162,745	\$ 9,923,786	\$ 8,786,215	\$ 7,567,026	\$ 5,943,493
2,401,691	1,664,486	1,345,893	1,350,904	1,323,608	1,060,848
<u>\$ 16,669,716</u>	<u>\$ 14,827,231</u>	<u>\$ 11,269,679</u>	<u>\$ 10,137,119</u>	<u>\$ 8,890,634</u>	<u>\$ 7,004,341</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(170,104)	(10,165)	(16,352)	427,561	537,986	501,631
<u>\$ (170,104)</u>	<u>\$ (10,165)</u>	<u>\$ (16,352)</u>	<u>\$ 427,561</u>	<u>\$ 537,986</u>	<u>\$ 501,631</u>
\$ 14,268,025	\$ 13,162,745	\$ 9,923,786	\$ 8,786,215	\$ 7,567,026	\$ 5,943,493
-	-	-	-	-	-
2,231,587	1,654,321	1,329,541	1,778,465	1,861,594	1,562,479
<u>\$ 16,499,612</u>	<u>\$ 14,817,066</u>	<u>\$ 11,253,327</u>	<u>\$ 10,564,680</u>	<u>\$ 9,428,620</u>	<u>\$ 7,505,972</u>
\$ 78,075,120	\$ 75,587,758	\$ 83,601,390	\$ 88,422,391	\$ 78,067,353	\$ 83,465,218
-	-	-	-	-	-
31,288,489	31,333,206	23,942,179	23,575,821	23,963,880	(17,544,878)
<u>\$ 109,363,609</u>	<u>\$ 106,920,964</u>	<u>\$ 107,543,569</u>	<u>\$ 111,998,212</u>	<u>\$ 102,031,233</u>	<u>\$ 65,920,340</u>

City of Fairfax, Virginia
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting) - (Unaudited)

Table 2a

For the Year Ended June 30,

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses:										
Governmental Activities:										
General government administration	\$ 6,588,630	\$ 4,501,657	\$ 5,790,057	\$ 7,477,262	\$ 7,163,564	\$ 7,909,199	\$ 7,724,635	\$ 6,866,783	\$ 7,903,372	\$ 10,251,105
Judicial administration	1,098,304	1,588,440	1,672,007	1,739,567	2,032,559	1,810,335	2,005,982	2,066,544	2,527,823	2,566,975
Public safety	18,918,613	18,375,185	22,370,185	22,617,672	22,569,030	23,001,352	23,066,551	24,072,403	25,761,694	24,773,928
Public works	12,993,041	15,645,734	15,056,333	12,547,792	10,373,323	14,190,482	15,213,056	15,425,436	18,350,340	18,944,387
Health and social services	4,303,021	4,623,541	4,874,994	4,790,384	4,839,913	4,715,869	4,811,623	5,168,971	5,287,258	5,591,135
Parks, recreation, and cultural	5,506,525	18,451,806	9,104,464	5,012,481	4,735,093	7,490,623	4,832,756	5,067,701	6,239,803	42,165,145
Planning and community development	1,928,300	8,433,836	3,435,986	2,101,996	2,108,858	2,072,584	2,414,662	2,761,343	2,096,919	8,089,994
Education	69,700,277	34,051,143	19,030,288	30,778,612	35,884,552	35,635,880	35,682,802	40,413,546	42,997,193	2,444,565
Interest	6,479,175	7,392,158	7,950,084	7,299,070	6,863,092	7,580,448	5,802,938	6,311,082	5,932,138	5,209,890
Total Government Activities Expenses	127,515,886	113,063,500	89,284,398	94,364,836	96,569,984	104,406,772	101,555,005	108,153,809	117,096,540	120,037,124
Business-type Activities:										
Sewer	3,766,595	3,967,948	3,876,585	3,960,547	3,770,579	4,417,029	4,768,856	4,145,887	5,396,798	5,445,448
Water	7,735,802	8,007,885	7,859,380	8,420,622	8,503,675	9,706,260	9,286,729	9,116,938	7,199,246	102,544
Transportation	2,981,937	3,085,684	3,137,971	3,048,667	2,981,900	2,977,867	2,977,927	3,126,339	3,472,495	3,481,209
Total Business-type Activities Expenses	14,484,334	15,061,517	14,873,936	15,429,836	15,256,154	17,101,156	17,033,512	16,389,164	16,068,539	9,029,201
Total Primary Government Expenses	142,000,220	128,125,017	104,158,334	109,794,672	111,826,138	121,507,928	118,588,517	124,542,973	133,165,079	129,066,325
Program Revenue:										
Governmental Activities:										
Charges for Services:										
General Government Administration	465,151	358,362	221,030	239,652	263,865	291,048	386,170	323,121	242,671	318,520
Judicial administration	978,733	848,240	771,992	768,841	855,289	1,005,567	1,026,807	944,447	1,011,907	1,331,838
Public safety	744,380	634,789	735,565	1,571,900	1,675,070	1,700,143	2,633,859	2,628,651	2,251,606	1,979,808
Public works	292,250	342,136	343,431	345,774	378,634	624,368	382,035	369,964	436,455	433,037
Parks, recreation, and cultural	434,290	557,264	780,237	918,688	946,381	1,027,621	1,075,741	991,345	996,192	1,103,761
Planning and community development	184,211	242,676	261,461	284,462	386,282	282,954	358,896	288,651	336,430	377,567
Operating Grants and Contributions:										
General Government Administration	298,925	319,875	347,860	335,316	301,953	262,777	271,658	260,485	276,398	335,323
Public safety	1,679,357	1,201,134	1,312,710	1,361,192	1,480,939	1,278,573	969,851	912,478	1,340,855	-
Public works	1,889,760	1,962,308	2,026,573	2,092,878	2,120,166	2,193,594	2,277,255	2,557,748	2,459,170	1,196,520
Parks, recreation, and cultural	-	-	5,000	5,000	30,499	23,084	19,245	-	32,500	2,449,215
Planning and community development	7,182	5,000	32,052	79,307	-	-	-	3,527	-	-
Capital Grants and Contributions:										
General Government Administration	-	898	-	-	-	-	-	-	-	-
Public safety	-	241,350	-	-	-	-	-	-	-	-
Public works	373,386	74,457	467,991	2,437,582	595,393	1,662,535	2,138,099	1,576,275	3,193,417	7,035,270
Total Governmental Activities Program Revenue	7,347,625	6,788,489	7,305,902	10,440,592	9,034,471	10,352,264	11,539,616	10,856,692	12,577,601	16,560,859
Business-type Activities:										
Charges for Services:										
Sewer	3,067,876	3,127,259	2,989,180	3,323,391	3,532,646	4,178,752	4,499,929	5,221,887	4,752,802	6,095,415
Water	6,408,222	7,744,604	7,468,413	8,893,201	9,319,840	9,141,327	7,765,200	9,835,466	5,418,292	-
Transportation	558,927	596,367	705,693	846,825	811,570	1,195,092	1,153,240	1,332,652	1,298,553	1,309,277
Operating Grants and Contributions:										
Sewer	-	-	-	-	-	-	-	209,767	284,508	-
Water	-	-	-	-	-	-	-	193,631	89,845	-
Transportation	1,245,472	1,206,004	1,094,448	1,103,651	1,707,647	1,814,754	1,039,435	1,122,784	224,602	855,874
Capital Grants and Contributions:										
Sewer	-	-	-	-	-	92,064	209,767	-	-	-
Water	-	-	-	-	-	84,982	193,631	-	-	-
Transportation	53,172	-	-	-	-	-	-	-	-	-
Total Business-type Activities Program Revenue	11,333,669	12,674,234	12,257,734	14,167,068	15,371,703	16,506,971	14,861,202	17,916,187	12,068,602	8,260,566
Total Primary Government Program Revenues	18,681,294	19,462,723	19,563,636	24,607,660	24,406,174	26,859,235	26,400,818	28,772,879	24,646,203	24,821,425
Net (Expense) Revenue:										
Governmental activities	(120,168,261)	(106,275,011)	(81,978,496)	(83,924,244)	(87,535,513)	(94,054,508)	(90,015,389)	(97,297,117)	(104,518,939)	(103,476,265)
Business-type activities	(3,150,665)	(2,387,283)	(2,616,202)	(1,262,768)	115,549	(594,185)	(2,172,310)	1,527,023	(3,999,937)	(768,635)
Total Primary Government Net Expense	(123,318,926)	(108,662,294)	(84,594,698)	(85,187,012)	(87,419,964)	(94,648,693)	(92,187,699)	(95,770,094)	(108,518,876)	(104,244,900)

City of Fairfax, Virginia
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting) - (Unaudited)

Table 2b

For the Year Ended June 30,

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Revenues and Other Changes in Net Position:										
Governmental Activities:										
Taxes:										
General property	\$ 44,736,332	\$ 47,189,602	\$ 50,795,457	\$ 56,197,375	\$ 56,195,202	\$ 56,379,581	\$ 57,215,662	\$ 65,024,377	\$ 66,643,189	\$ 68,867,941
Local sales	13,721,180	13,587,593	13,433,256	8,831,495	10,644,038	9,907,063	10,200,696	10,263,955	11,580,673	11,181,909
Business license	8,444,976	8,662,866	8,599,019	8,375,552	7,485,809	8,151,072	8,554,669	8,932,634	8,709,712	8,740,824
Consumer utility	3,063,302	2,132,805	1,459,146	1,512,860	1,547,114	1,551,010	1,727,091	1,704,649	1,653,003	1,710,251
Meals	2,235,496	2,301,359	4,628,046	4,646,735	4,654,171	4,938,869	5,252,922	5,553,975	5,703,399	5,771,239
Other local taxes	4,601,572	4,521,076	6,203,308	5,713,597	3,760,252	4,117,253	4,513,531	4,353,693	4,436,047	4,567,148
Intergovernmental, other than grants	3,283,706	3,367,088	3,307,841	3,288,406	5,673,620	5,691,383	5,656,930	5,679,569	5,674,059	5,676,034
Gain/(loss) on disposal of capital assets	-	-	-	-	2,915,936	-	-	582,790	-	-
Use of money and property	5,106,837	5,246,271	2,595,320	946,400	350,867	282,100	161,424	130,632	628,143	896,735
Miscellaneous	475,662	220,325	298,029	1,244,816	2,200,585	2,845,072	372,970	491,046	7,088,666	2,462,153
Transfers	(700,000)	(1,768,700)	218,686	(1,015,000)	(780,000)	(20,511)	(428,000)	(115,181)	9,248	(310,186)
Total Governmental Activities	84,969,063	85,460,285	91,538,108	89,742,236	94,647,594	93,842,892	93,227,895	102,602,139	112,126,139	109,564,048
Business-type Activities:										
Use of money and property	103,364	30,203	59,947	62,540	(3,516)	25,191	54,958	48,589	26,106	24,836
Special items	-	-	-	-	-	-	-	-	(12,455,040)	666,219
Transfers	700,000	1,768,700	(218,686)	1,015,000	780,000	20,511	428,000	115,181	(9,248)	310,186
Total Business-type Activities	803,364	1,798,903	(158,739)	1,077,540	776,484	45,702	482,958	163,770	(12,438,182)	1,001,241
Total Primary Government	85,772,427	87,259,188	91,379,369	90,819,776	95,424,078	93,888,594	93,710,853	102,765,909	99,687,957	110,565,289
Changes in Net Position:										
Governmental activities	(35,199,198)	(20,814,726)	9,559,612	5,817,992	7,112,081	(211,616)	3,212,506	5,305,022	7,607,200	6,087,783
Business-type activities	(2,347,301)	(588,380)	(2,774,941)	(185,228)	892,033	(548,483)	(1,689,352)	1,690,793	(16,438,119)	232,606
Total Primary Government	(37,546,499)	(21,403,106)	6,784,671	5,632,764	8,004,114	(760,099)	1,523,154	6,995,815	(8,830,919)	6,320,389
Component Units:										
Component unit - School Board:										
Expenses:										
Instruction	34,905,380	36,420,856	39,724,887	39,197,375	37,627,755	39,703,706	44,884,486	47,853,635	48,786,613	50,362,924
Total Expenses	34,905,380	36,420,856	39,724,887	39,197,375	37,627,755	39,703,706	44,884,486	47,853,635	48,786,613	50,362,924
Program Revenues:										
Charges for services	338,006	354,796	377,503	396,955	406,213	421,973	445,037	490,199	500,072	532,062
Operating grants and contributions	5,911,101	6,870,293	7,023,599	6,970,754	6,156,427	6,309,784	6,795,139	7,329,947	7,115,499	7,562,576
Total Program Revenues	6,249,107	7,225,089	7,401,102	7,367,709	6,562,640	6,731,757	7,240,176	7,820,146	7,615,571	8,094,638
Net Expense	(28,656,273)	(29,195,767)	(32,323,785)	(31,829,666)	(31,065,115)	(32,971,949)	(37,644,310)	(40,033,489)	(41,171,042)	(42,268,286)
General Revenues and Other Changes in Net Position:										
Component Unit-School Board:										
Grants and contributions not restricted to specific programs	69,697,297	34,051,143	18,632,758	30,408,392	29,634,913	29,514,032	32,493,659	37,291,280	37,852,745	38,700,601
Use of money and property	1,749,700	1,769,481	1,557,078	1,480,065	1,623,683	1,595,432	1,573,099	1,589,649	2,071,812	1,839,392
Gain/(loss) on disposal of capital assets	-	-	-	(3,145,761)	-	-	-	-	-	-
Miscellaneous	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	-	-
Total General Revenues and Other Changes in Net Position	71,466,997	35,840,624	20,209,836	28,762,696	31,278,596	31,129,464	34,086,758	38,900,929	39,924,557	40,539,993
Component Unit - School Board Change in Net Position	42,810,724	6,644,857	(12,113,949)	(3,066,970)	213,481	(1,842,485)	(3,557,552)	(1,132,560)	(1,246,485)	(1,728,293)
Component Unit - All Others Aggregate:										
Expenses:										
Renaissance Housing Corporation	97,041	194,873	-	-	-	-	-	-	-	-
Industrial Development Authority	216,670	781,294	784,763	783,726	821,075	834,312	760,708	474,560	866,228	42,028
Economic Development Authority	264,379	136,953	182,692	203,086	195,187	85,840	170,861	59,406	3,487	10,593
Total Expenses	2,528,124	1,113,120	967,455	986,812	1,016,262	920,152	931,569	533,966	869,715	52,621
General Revenues and Other Changes in Net Position:										
Use of money and property	21,878	37,506	10,418	4,711	1,012	332	388	174	18,504	16,201
Miscellaneous	150,000	200,000	40,000	27,000	25,617	50,100	85,986	-	-	-
Charges for services	1,092,573	852,460	865,148	875,874	925,905	1,029,659	789,008	795,560	961,636	65
Total General Revenues and Other Changes in Net Position	1,264,451	1,089,966	915,566	907,585	952,534	1,080,091	875,382	795,734	980,140	16,266
Total Component Unit - All Others Aggregate Change in Net Position	(1,263,673)	(23,154)	(51,889)	(79,227)	(63,728)	159,939	(56,187)	261,768	110,425	(36,355)
Total Component Units Change in Net Position	41,547,051	6,621,703	(12,165,838)	(3,146,197)	149,753	(1,682,546)	(3,613,739)	(870,792)	(1,136,060)	(1,764,648)
Total Reporting Entity Change in Net Position	\$ 4,000,552	\$ (14,781,403)	\$ (5,381,167)	\$ 2,486,567	\$ 8,153,867	\$ (2,442,645)	\$ (2,090,585)	\$ 6,125,023	\$ (9,966,979)	\$ 4,555,741

Notes:

(1) Net (expense) revenue is the difference between the expenses and program revenues. This difference indicates the degree to which a function or program is supported with its own fees and program-specific grants versus its reliance upon funding from taxes and other general revenues. Numbers in parentheses are net expenses indicating that expenses were greater than program revenues and, therefore, general revenues were needed to finance that function or program. Numbers without parentheses are net revenues, demonstrating that program revenues were more than sufficient to cover expenses.

City of Fairfax, Virginia
Program Revenues by Function/Program
Last Ten Fiscal Years
(accrual basis of accounting) - (Unaudited)

For the Year Ended June 30,

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Primary Government:					
Governmental Activities:					
General government administration	\$ 764,076	\$ 678,237	\$ 568,890	\$ 574,968	\$ 565,818
Judicial administration	978,733	848,240	771,992	768,841	855,289
Public safety	2,423,737	1,836,821	2,048,275	2,933,092	3,156,009
Public works	2,555,396	2,545,794	2,837,995	4,876,234	3,094,193
Parks, recreation, and cultural	434,290	631,721	785,237	923,688	976,880
Planning and community development	191,393	247,676	293,513	363,769	386,282
Total Governmental Activities	<u>7,347,625</u>	<u>6,788,489</u>	<u>7,305,902</u>	<u>10,440,592</u>	<u>9,034,471</u>
Business-type Activities:					
Sewer	3,067,876	3,127,259	2,989,180	3,323,391	3,532,646
Water	6,408,222	7,744,604	7,468,413	8,893,201	9,319,840
Transportation	1,857,571	1,802,371	1,800,141	1,950,476	2,519,217
Total Business-type Activities	<u>11,333,669</u>	<u>12,674,234</u>	<u>12,257,734</u>	<u>14,167,068</u>	<u>15,371,703</u>
Total Government	<u>18,681,294</u>	<u>19,462,723</u>	<u>19,563,636</u>	<u>24,607,660</u>	<u>24,406,174</u>
Component Units:					
Component Unit - School Board:					
Instruction	6,249,107	7,225,089	7,401,102	7,367,709	7,186,929
Component Units - All Others Aggregate:					
Renaissance Housing Corporation	168,922	174,325	-	-	-
Industrial Development Authority	937,870	808,699	815,602	819,095	866,044
Economic Development Authority	3,266,871	106,943	49,546	56,779	59,861
Total Nonmajor Component Units	<u>4,373,663</u>	<u>1,089,967</u>	<u>865,148</u>	<u>875,874</u>	<u>925,905</u>
Total Reporting Entity	<u>\$ 29,304,064</u>	<u>\$ 27,777,779</u>	<u>\$ 27,829,886</u>	<u>\$ 32,851,243</u>	<u>\$ 32,519,008</u>

Table 3

2011	2012	2013	2014	2015
\$ 553,825	\$ 657,828	\$ 583,606	\$ 519,069	\$ 653,843
1,005,567	1,026,807	944,447	1,011,907	1,331,838
2,978,716	3,603,710	3,610,023	3,592,461	3,176,328
4,480,497	4,797,389	4,435,093	6,089,042	9,917,522
1,050,705	1,094,986	991,345	1,028,692	1,103,761
282,954	358,896	292,178	336,430	377,567
<u>10,352,264</u>	<u>11,539,616</u>	<u>10,856,692</u>	<u>12,577,601</u>	<u>16,560,859</u>
4,270,816	4,709,696	5,431,654	5,037,310	6,095,415
9,226,309	7,958,831	10,029,097	5,508,137	-
3,009,846	2,192,675	2,455,436	1,523,155	2,165,151
<u>16,506,971</u>	<u>14,861,202</u>	<u>17,916,187</u>	<u>12,068,602</u>	<u>8,260,566</u>
<u>26,859,235</u>	<u>26,400,818</u>	<u>28,772,879</u>	<u>24,646,203</u>	<u>24,821,425</u>
<u>6,731,757</u>	<u>7,240,176</u>	<u>7,820,146</u>	<u>7,615,571</u>	<u>8,094,638</u>
-	-	-	-	-
963,797	747,255	782,732	961,636	65
65,862	66,753	12,828	-	-
<u>1,029,659</u>	<u>814,008</u>	<u>795,560</u>	<u>961,636</u>	<u>65</u>
<u>\$ 34,620,651</u>	<u>\$ 34,455,002</u>	<u>\$ 37,388,585</u>	<u>\$ 33,223,410</u>	<u>\$ 32,916,128</u>

City of Fairfax, Virginia
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting) - (Unaudited)

For the Year Ended June 30,

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Fund:					
Reserved	\$ 1,102,170	\$ 694,142	\$ 811,052	\$ 1,278,465	\$ 1,254,535
Unreserved	13,176,313	14,612,947	16,312,240	14,420,568	15,569,904
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total General Fund	<u>\$ 14,278,483</u>	<u>\$ 15,307,089</u>	<u>\$ 17,123,292</u>	<u>\$ 15,699,033</u>	<u>\$ 16,824,439</u>
All Other Governmental Funds:					
Reserved	\$ 24,235,778	\$ 6,522,884	\$ 4,505,089	\$ 8,581,428	\$ 6,682,971
Unreserved, reported in:					
Capital projects funds	30,878,626	24,899,521	17,927,671	10,360,928	10,959,407
Nonspendable, reported in:					
Capital projects funds	-	-	-	-	-
Restricted	-	-	-	-	-
Committed, reported in:	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Reporting Entity	<u>\$ 55,114,404</u>	<u>\$ 31,422,405</u>	<u>\$ 22,432,760</u>	<u>\$ 18,942,356</u>	<u>\$ 17,642,378</u>

NOTE: The City implemented GASB 54 beginning with fiscal year 2011 - see Note 1 in the Notes to the Basic Financial Statements section of the report.

* This negative unassigned fund balance is a temporary timing difference. Funds assigned to pay off debt associated with the sale of the inventory in this fund, which will close in early 2014, have been assigned in the General Fund.

Table 4

2011	2012	2013	2014	2015
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
810,071	705,866	724,455	793,671	834,723
66,439	4,598,270	188,048	230,671	623,913
470,845	597,541	4,422,688	381,377	484,181
15,171,679	13,205,665	16,288,209	15,130,848	13,429,441
<u>\$ 16,519,034</u>	<u>\$ 19,107,342</u>	<u>\$ 21,623,400</u>	<u>\$ 16,536,567</u>	<u>\$ 15,372,258</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
4,056,171	4,075,739	4,061,007	-	61,611
135,766	169,362	192,927	514,198	4,272,822
590,673	2,454,002	579,763	7,534,934	3,507,814
10,662,464	6,202,671	4,766,255	10,788,822	9,131,829
-	-	(568,873)	-	-
<u>\$ 15,445,074</u>	<u>\$ 12,901,774</u>	<u>\$ 9,031,079</u>	<u>\$ 18,837,954</u>	<u>\$ 16,974,076</u>

City of Fairfax, Virginia

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years (modified accrual basis of accounting) - (Unaudited)

For the Year Ended June 30,

	2006	2007	2008	2009
Revenues:				
General property taxes	\$ 44,808,950	\$ 47,059,528	\$ 50,687,883	\$ 55,639,263
Other local taxes	32,066,526	31,205,699	34,322,775	29,080,239
Permits, privilege fees, and licenses	1,509,454	1,397,467	1,206,160	1,228,451
Fines and forfeitures	954,306	879,235	893,190	873,601
Use of money and property	5,106,837	5,246,271	2,595,320	946,400
Charges for services	635,255	706,765	1,014,366	2,027,265
Miscellaneous	331,140	220,325	298,029	1,244,816
Recovered costs	-	-	-	420,009
Intergovernmental	8,197,105	8,024,260	8,487,759	10,552,826
Total Revenues	<u>93,609,573</u>	<u>94,739,550</u>	<u>99,505,482</u>	<u>102,012,870</u>
Expenditures:				
General government administration	6,824,416	8,089,989	7,369,660	6,954,234
Judicial administration	1,090,776	1,588,440	1,672,007	1,720,033
Public safety	19,586,179	21,185,213	22,375,860	21,745,756
Public works	24,608,412	21,262,349	16,274,979	15,269,159
Health and social services	4,302,640	4,612,319	4,874,283	4,746,065
Parks, recreation, and cultural	9,098,348	18,889,445	12,319,692	8,977,780
Planning and community development	9,992,176	8,376,952	3,452,197	3,505,001
Education	70,224,788	34,051,143	27,571,892	27,724,105
Debt service:				
Principal	4,192,126	5,123,537	6,515,101	6,951,253
Interest and fiscal charges	5,304,550	8,254,858	8,661,866	8,319,147
Total Expenditures	<u>155,224,411</u>	<u>131,434,245</u>	<u>111,087,537</u>	<u>105,912,533</u>
Excess of Revenues (Under) Expenditures	<u>(61,614,838)</u>	<u>(36,694,695)</u>	<u>(11,582,055)</u>	<u>(3,899,663)</u>
Other Financing Sources (Uses):				
Transfers in	9,692,142	14,139,244	2,554,297	3,383,729
Transfers out	(10,392,142)	(15,907,944)	(2,335,611)	(4,398,729)
Issuance of debt	90480000	15,800,000	4,189,927	-
Proceeds from the sale of capital assets	-	-	-	-
Issuance of refunding bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Premium on issuance debt	1,721,506	-	-	-
Total Other Financing Sources (Uses)	<u>91,501,506</u>	<u>14,031,300</u>	<u>4,408,613</u>	<u>(1,015,000)</u>
Net Changes in Fund Balance	<u>\$ 29,886,668</u>	<u>\$ (22,663,395)</u>	<u>\$ (7,173,442)</u>	<u>\$ (4,914,663)</u>
Debt Service as a Percentage of Noncapital Expenditures:				
Primary Government:				
Total debt service	\$ 9,496,676	\$ 13,378,395	\$ 15,176,967	\$ 15,270,400
Total Expenditures	155,224,411	131,434,245	111,087,537	105,912,533
Less capital outlay - primary government	26,577,656	14,778,965	18,442,278	9,842,310
Noncapital Expenditures	<u>\$ 128,646,755</u>	<u>\$ 116,655,280</u>	<u>\$ 92,645,259</u>	<u>\$ 96,070,223</u>
Debt Service as a Percentage of Noncapital Expenditures	<u>7.38%</u>	<u>11.47%</u>	<u>16.38%</u>	<u>15.90%</u>
Component Units: (2)				
Expenditures:				
School board	\$ 33,500,788	\$ 34,917,722	\$ 51,631,725	\$ 41,994,373
All other aggregate	4,356,865	1,113,120	942,378	986,812
Less capital outlay - school board	32,489,768	38,796,585	300,793	1,532,448
Noncapital Expenditures	<u>5,367,885</u>	<u>(2,765,743)</u>	<u>52,273,310</u>	<u>41,448,737</u>
Total Reporting Entity:				
Total Noncapital Expenditures (3)	<u>\$ 134,014,640</u>	<u>\$ 113,889,537</u>	<u>\$ 144,918,569</u>	<u>\$ 107,789,125</u>
Debt Service as a Percentage of Noncapital Expenditures	<u>7.09%</u>	<u>11.75%</u>	<u>10.47%</u>	<u>14.17%</u>

Notes:

- (1) For fiscal years 2006 through 2015, the amounts used for capital outlay were obtained from the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.
- (3) For the reporting entity totals, expenditures have been reduced by the amounts given to the public schools and the other component units so that the expenditures are not counted twice.

Table 5

	2010	2011	2012	2013	2014	2015
\$	56,070,278	\$ 56,771,987	\$ 57,920,903	\$ 64,350,723	\$ 66,650,305	\$ 68,513,720
	28,091,384	28,665,267	30,248,908	30,808,906	32,082,834	31,971,371
	1,484,843	1,434,252	1,843,288	1,638,948	1,612,136	1,300,349
	919,492	1,041,171	1,288,332	1,148,262	1,113,718	1,233,802
	350,867	282,100	379,849	582,790	628,143	896,735
	2,101,186	2,456,278	2,731,888	2,758,969	2,549,407	2,767,312
	2,200,585	2,845,072	372,970	491,046	7,088,666	2,603,713
	3,244,991	-	-	-	-	-
	11,024,414	11,806,319	12,023,789	11,727,058	13,720,623	17,534,748
	<u>105,488,040</u>	<u>105,302,446</u>	<u>106,809,927</u>	<u>113,506,702</u>	<u>125,445,832</u>	<u>126,821,750</u>
	7,123,209	7,120,746	7,342,947	7,479,585	7,858,184	11,032,996
	1,950,422	1,728,595	1,920,697	1,990,262	2,431,157	2,524,409
	21,821,855	22,457,743	22,542,972	23,422,922	25,324,764	25,729,580
	17,229,424	15,846,187	16,711,634	19,022,312	22,956,008	27,421,472
	4,787,163	4,666,290	4,757,819	5,139,751	5,243,811	5,499,532
	7,401,377	7,938,260	5,556,258	5,372,128	6,865,979	6,996,194
	3,988,566	3,322,835	2,777,070	2,702,948	2,139,855	2,390,017
	28,571,397	30,181,608	32,168,415	34,822,695	35,482,847	36,363,877
	7,003,215	7,549,852	12,125,002	8,627,619	16,884,749	7,923,005
	8,482,176	7,890,102	7,645,385	6,007,069	5,806,134	5,244,669
	<u>108,358,804</u>	<u>108,702,218</u>	<u>113,548,199</u>	<u>114,587,291</u>	<u>130,993,488</u>	<u>131,125,751</u>
	<u>(2,870,764)</u>	<u>(3,399,772)</u>	<u>(6,738,272)</u>	<u>(1,080,589)</u>	<u>(5,547,656)</u>	<u>(4,304,001)</u>
	5,441,825	3,570,275	4,802,436	4,834,425	12,756,654	8,482,156
	(6,221,825)	(3,590,786)	(5,230,436)	(4,949,606)	(12,747,406)	(8,792,342)
	-	690,807	6,819,091	875,000	10,258,450	1,586,000
	3,129,357	-	-	150,000	-	-
	32,480,000	19,905,800	64,066,000	35,685,000	-	-
	(35,442,932)	(19,679,033)	(63,673,811)	(35,826,362)	-	-
	3,309,767	-	-	619,778	-	-
	<u>2,696,192</u>	<u>897,063</u>	<u>6,783,280</u>	<u>1,388,235</u>	<u>10,267,698</u>	<u>1,275,814</u>
\$	<u>(174,572)</u>	<u>(2,502,709)</u>	<u>45,008</u>	<u>307,646</u>	<u>4,720,042</u>	<u>(3,028,187)</u>
\$	15,485,391	\$ 15,439,954	\$ 19,770,387	\$ 14,634,688	\$ 22,690,883	\$ 13,167,674
	108,358,804	108,702,218	113,548,199	114,587,291	130,993,488	131,125,751
	11,609,406	5,712,018	4,991,167	7,549,604	7,796,757	11,475,931
\$	<u>96,749,398</u>	<u>\$ 102,990,200</u>	<u>\$ 108,557,032</u>	<u>\$ 107,037,687</u>	<u>\$ 123,196,731</u>	<u>\$ 119,649,820</u>
	<u>16.01%</u>	<u>14.99%</u>	<u>18.21%</u>	<u>13.67%</u>	<u>18.42%</u>	<u>11.01%</u>
\$	37,941,520	\$ 39,434,345	\$ 41,509,575	\$ 44,122,119	\$ 44,900,191	\$ 46,358,234
	1,018,335	935,843	935,843	528,269	1,528,441	52,621
	227,897	-	2,473,840	-	-	-
	<u>38,731,958</u>	<u>40,370,188</u>	<u>39,971,578</u>	<u>44,650,388</u>	<u>46,428,632</u>	<u>46,410,855</u>
\$	<u>106,925,459</u>	<u>\$ 113,118,045</u>	<u>\$ 116,444,823</u>	<u>\$ 116,995,751</u>	<u>\$ 134,428,790</u>	<u>\$ 129,696,798</u>
	<u>14.48%</u>	<u>13.65%</u>	<u>16.98%</u>	<u>12.51%</u>	<u>16.88%</u>	<u>10.15%</u>

(2) In Virginia, the City issues debt to finance the construction of school facilities for the public schools because the public schools do not have borrowing or taxing authority. Therefore, the debt service payments related to school facilities are presented as debt service of that component unit. Debt service as a percentage of noncapital expenditures for the total reporting entity more appropriately reflects the unique Virginia school debt requirement

City of Fairfax, Virginia

Table 6

Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years

(modified accrual basis of accounting) - Unaudited

For the Year Ended June 30,

Fiscal Year			Business	Consumer				
June 30,	Property	Local Sales	License	Utility	Meals	Tobacco	Other	Totals
2006	\$ 44,808,950	\$ 13,721,180	\$ 8,444,976	\$ 3,063,302	\$ 2,235,496	\$ 897,579	\$ 3,703,993	\$ 76,875,476
2007	47,059,528	13,587,593	8,662,866	2,132,805	2,301,359	811,123	3,709,953	78,265,227
2008	50,687,883	13,433,256	8,599,019	1,459,146	4,628,046	778,192	5,425,116	85,010,658
2009	55,639,263	8,831,495	8,375,552	1,512,860	4,646,735	775,714	4,937,883	84,719,502
2010	56,070,278	10,644,038	7,485,809	1,547,114	4,654,171	829,555	2,930,697	84,161,662
2011	56,771,987	9,907,063	8,151,072	1,551,010	4,938,869	1,028,992	3,088,261	85,437,254
2012	57,920,903	10,200,696	8,554,669	1,727,091	5,252,922	918,341	3,595,190	88,169,812
2013	64,350,723	10,263,955	8,932,634	1,704,649	5,553,975	975,457	3,378,236	95,159,629
2014	66,650,305	11,580,673	8,709,712	1,653,003	5,703,399	924,350	3,511,697	98,733,139
2015	68,513,720	11,181,816	8,740,824	1,710,251	5,771,329	862,776	3,704,375	100,485,091
Change								
2006-2015	52.90%	-18.51%	3.50%	-44.17%	158.17%	-3.88%	0.01%	30.71%

(1) During FY2007 - House Bill 568 replaced many of the state & local communications taxes and fees with a centrally administrated communications sales, use tax, and a landline E-911 fee. This bill resulted in City Consumer Utility revenue dropping significantly from FY2006 to FY2007

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City of Fairfax, Virginia

Assessed and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years

(Unaudited)

For the Year Ended June 30,

Fiscal Year June 30,	Residential Property	Direct Tax Rate	Commercial Property	Direct Tax Rate	Public Service Corporation	Nontaxable	Total Assessed Value
2006	\$3,817,504,900	0.710	\$ 1,626,385,700	0.710	\$90,098,852	\$ 333,581,700	\$ 5,867,571,152
2007	3,723,667,700	0.720	1,884,634,000	0.720	93,444,978	353,598,900	6,055,345,578
2008	3,475,794,600	0.790	2,161,997,400	0.790	87,580,035	372,660,900	6,098,032,935
2009	3,182,468,200	0.880	2,177,141,900	0.880	94,044,526	388,478,700	5,842,133,326
2010	3,013,912,200	0.955	1,968,035,100	0.955	93,846,777	389,153,800	5,464,947,879
2011	3,123,099,700	0.942	1,954,294,800	0.942	97,144,428	394,555,500	5,569,094,430
2012	3,195,889,977	1.010	2,025,966,286	1.010	92,221,418	488,638,000	5,802,715,683
2013	3,266,638,900	1.060	2,073,994,400	1.060	90,856,256	494,790,700	5,926,280,258
2014	3,463,135,200	1.040	2,085,815,600	1.040	88,183,403	499,269,600	6,136,403,805
2015	3,624,478,000	1.052	2,068,542,000	1.052	92,174,117	496,129,000	6,281,323,117

Source: Real Estate Assessor's Office

- Notes:
- 1) Real Estate assessments are done on a calendar year basis.
 - 2) Commercial property values include commercial, industrial, and apartments.
 - 3) "Nontaxable" is interpreted to mean tax exempt properties.
 - 4) Total Assessed Value category includes real estate, public service corporations, and exempt properties.
 - 5) Total Taxable Assessed Value includes real estate and public service corporation properties.
 - 6) Nontaxable Assessed Values increased in 2012 after a complete review and revaluation.

Table 7

Total Taxable Assessed Value	Percent Growth	Total Direct Tax Rate	Actual Taxable Value	Value as a Percentage of Actual Value
\$ 5,533,989,452	21.8%	0.710	\$ 5,533,989,452	100%
5,701,746,678	3.0%	0.720	5,701,746,678	100%
5,725,372,035	0.4%	0.790	5,725,372,035	100%
5,453,654,626	-4.7%	0.880	5,453,654,626	100%
5,075,794,077	-6.9%	0.955	5,075,794,077	100%
5,174,538,928	1.9%	0.942	5,174,538,928	100%
5,314,077,681	2.7%	1.010	5,314,077,681	100%
5,431,489,556	2.2%	1.060	5,431,489,556	100%
5,637,134,203	3.8%	1.040	5,637,134,203	100%
5,785,194,117	2.6%	1.052	5,785,194,117	100%

City of Fairfax, Virginia**Table 8**

Direct and Overlapping Property Tax Rates

Last Ten Fiscal Years

(Unaudited)

For the Year Ended June 30,

Fiscal Year June 30,	Real Estate	Personal Property
2006	\$ 0.71	\$ 3.79
2007	0.72	4.13
2008	0.79	4.13
2009	0.88	4.13
2010	0.955	4.13
2011	0.942	4.13
2012	1.010	4.13
2013	1.060	4.13
2014	1.040	4.13
2015	1.052	4.13

Note:

- (1) The city of Fairfax has no overlapping tax rates (Cities in the Commonwealth of Virginia are not part of the Counties, and Cities have no political subdivisions).

City of Fairfax, Virginia
Principal Property Taxpayers
Current Year and Nine Years Ago
(Unaudited)

Table 9

For the Year Ended June 30,

Taxpayer	2015			2006		
	Taxable Assessed Value	Rank	Percentage (%) of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage (%) of Total City Taxable Assessed Value
Fairfax Square/Van Metre	\$ 113,119,100	1	1.96%	\$ 60,239,300	3	1.11%
RKB & RPB Willowood LLC (I, II)	94,545,800	2	1.63%	56,977,200	4	1.05%
Fair City HHH, LLC	81,262,600	3	1.40%	69,602,300	1	1.28%
Combined Properties	56,498,700	4	0.98%	28,440,600	6	0.52%
Army Navy Country Club	53,815,700	5	0.93%	67,206,600	2	1.23%
CH Realty VI/R Fairfax	35,464,900	6	0.61%	-	-	-
Saul Holdings, LP/Shops at Fairfax, LLC	34,012,800	7	0.59%	25,577,900	10	0.47%
CH Realty III/Old Town	31,714,300	8	0.55%	-	-	-
Avalon at Providence Park, LLC	31,617,400	9	0.55%	-	-	-
Turnpike, LLC	29,870,200	10	0.52%	-	-	-
SMII Fairfax LLC	-	-	-	52,024,300	5	0.96%
Main Street Retail Partners, LLC	-	-	-	27,407,100	8	0.50%
Pickett's Reserve Dev., LLC	-	-	-	26,557,100	9	0.49%
John F. Swart, ETAL	-	-	-	27,563,100	7	0.51%
Total	\$ 561,921,500		9.71%	\$ 441,595,500		8.11%

Source: Real Estate Assessments

City of Fairfax, Virginia
Real Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

Table 10

For the Year Ended June 30,

Fiscal Year June 30,	Taxes Levied for the 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
2006	\$ 38,862,866	\$ 38,330,448	98.63%	\$ 532,418	\$ 38,862,866	100.00%
2007	41,095,855	40,508,516	98.57%	587,339	41,095,855	100.00%
2008	43,780,473	43,171,104	98.61%	609,348	43,780,452	100.00%
2009	47,682,500	46,678,811	97.90%	1,003,060	47,681,871	100.00%
2010	49,560,633	48,593,292	98.05%	964,436	49,557,728	99.99%
2011	49,769,304	48,879,797	98.21%	881,939	49,761,736	99.98%
2012	52,346,460	51,474,451	98.33%	844,264	52,318,715	99.95%
2013	56,984,359	56,079,986	98.41%	781,632	56,861,618	99.78%
2014	59,363,005	58,015,432	97.73%	641,696	58,657,128	98.81%
2015	60,183,528	58,867,230	97.81%	941,391	59,808,621	99.38%

Source: City of Fairfax Treasurer's Office

Ratios of Outstanding Debt by Type and General Bonded Debt Outstanding Last Ten Fiscal Years - (Unaudited)

For the Year Ended June 30,

Fiscal Year June 30,	Governmental Activities					Business-Type Activities		Total Primary Government	Percentage of Personal Income	Debt Per Capita
	General Obligation Bonds	Lease Revenue Bonds	Notes Payable	Public Improvement COPS	Capital Leases	Revenue Bonds	Notes Payable			
2006	\$ 122,682,596	\$ 39,630,000	\$ 13,975,798	\$ -	\$ 634,394	\$ 1,183,034	\$ 136,990	\$ 178,242,812	14.57%	\$ 8,326
2007	119,124,230	39,630,000	28,355,767	-	556,505	387,882	93,093	188,147,477	14.34%	8,678
2008	114,767,655	39,330,000	30,768,959	-	474,713	5,016,885	47,452	190,405,664	14.22%	8,611
2009	110,300,000	39,030,000	28,671,254	-	388,821	4,821,000	-	183,211,075	14.04%	8,172
2010	106,825,000	38,170,000	26,489,109	-	298,625	4,652,000	-	176,434,734	13.22%	7,819
2011	102,605,000	37,285,000	4,540,125	19,905,800	877,905	28,555,000	-	193,768,830	13.70%	8,447
2012	101,361,000	33,105,000	8,433,465	17,572,800	1,279,103	28,371,000	-	190,122,368	12.82%	8,104
2013	100,382,000	32,045,000	8,316,733	15,095,100	1,608,324	28,179,000	-	185,626,157	12.08%	7,743
2014	95,983,000	31,135,000	7,250,000	12,573,100	3,956,280	24,080,000	19,635,079	194,612,459	12.06%	7,976
2015	91,455,000	30,195,000	7,250,000	10,925,800	4,818,092	23,595,000	-	168,238,892	10.12%	6,751

General bonded debt outstanding:

Fiscal Year June 30,	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Debt Per Capita
2006	\$ 122,682,596	2.22%	\$ 7,118
2007	119,124,230	2.09%	6,809
2008	114,767,655	2.00%	6,403
2009	110,300,000	2.74%	6,054
2010	106,825,000	2.86%	5,727
2011	102,605,000	1.98%	4,473
2012	101,361,000	1.91%	4,320
2013	100,382,000	1.85%	4,187
2014	95,983,000	1.70%	3,934
2015	91,455,000	1.58%	\$ 3,670

Notes:

- (1) Details regarding the City's outstanding debt may be found in the notes to the basic financial statements.
- (2) Population and person income data can be found in table 14.
- (3) See table 7 for property value data.
- (4) The Lease revenue Bonds under the Governmental Activities will be repaid with general government resources.

City of Fairfax, Virginia
Legal Debt Margin Information
Last Ten Fiscal Years
(Unaudited)

For the Year Ended June 30,

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Debt Limit	\$ 553,398,945	\$ 570,174,668	\$ 572,537,204	\$ 545,365,463
Total net debt applicable to limit	<u>176,922,788</u>	<u>187,666,502</u>	<u>185,341,327</u>	<u>178,390,075</u>
Legal debt margin	<u>\$ 376,476,157</u>	<u>\$ 382,508,166</u>	<u>\$ 387,195,877</u>	<u>\$ 366,975,388</u>
Total net debt applicable to the limit as a percentage of debt limit	31.97%	32.91%	32.37%	32.71%
Legal debt margin calculation for fiscal year 2015:		Summary of outstanding debt:		
Assessed value of real estate	<u>\$5,785,194,117</u>	Public Improvement COPS	\$ -	
Debt limit (10% of assessed value)	\$ 578,519,412	General Obligation Bonds	110,300,000	
Debt applicable to limit:		Lease Revenue Bonds	39,030,000	
Net direct debt outstanding	<u>144,643,892</u>	Notes payable	28,671,255	
Legal debt margin	<u>\$ 433,875,520</u>	Capital leases	<u>388,821</u>	
			<u>\$ 178,390,076</u>	

Notes:

- (1) Net direct debt excludes debt service on general obligation bond issues supported by revenues of the water and sewer systems. Revenues of the water and sewer system have been sufficient to cover debt service on such bonds.
- (2) Under the City Charter and Constitution of Virginia, the City may not issue bonds in excess of 10% of assessed valuation. Self-supporting debt is not included in this calculation.

Table 12

2010	2011	2012	2013	2014	2015
\$ 507,579,408	\$ 517,453,893	\$ 531,407,768	\$ 563,713,420	\$ 563,713,420	\$ 578,519,412
171,782,734	165,213,830	161,751,368	157,447,157	150,897,380	144,643,892
<u>\$ 335,796,674</u>	<u>\$ 352,240,063</u>	<u>\$ 369,656,400</u>	<u>\$ 406,266,263</u>	<u>\$ 412,816,040</u>	<u>\$ 433,875,520</u>
33.84%	31.93%	30.44%	27.93%	26.77%	25.00%
\$ -	\$ 19,905,800	\$ 17,572,800	\$ 15,095,100	\$ 12,573,100	\$ 10,925,800
106,825,000	102,605,000	101,361,000	100,382,000	95,983,000	91,455,000
38,170,000	37,285,000	33,105,000	32,045,000	31,135,000	30,195,000
26,489,109	4,540,125	8,433,465	8,316,733	7,250,000	7,250,000
298,625	877,905	1,279,103	1,608,324	3,956,280	4,818,092
<u>\$ 171,782,734</u>	<u>\$ 165,213,830</u>	<u>\$ 161,751,368</u>	<u>\$ 157,447,157</u>	<u>\$ 150,897,380</u>	<u>\$ 144,643,892</u>

City of Fairfax, Virginia
Pledged-Revenue Coverage
Last Ten Fiscal Years
(Unaudited)

For the Year Ended June 30,

Fiscal Year June 30,	Water Revenue Bonds						
	Utility Service Charge	Operating Expenses	Net Available Revenue	Debt Service		Coverage	
				Principal	Interest		
2006	\$ 6,453,364	\$ 6,391,239	\$ 62,125	\$ 1,063,908	\$ 41,413	0.06	
2007	8,502,293	6,813,558	1,688,735	795,152	21,771	2.07	
2008	7,526,494	6,704,459	822,035	191,997	119,549	2.64	
2009	8,940,605	7,159,290	1,781,315	195,885	128,544	5.49	
2010	9,315,674	7,268,863	2,046,811	169,000	213,246	5.35	
2011	8,676,006	8,116,546	559,460	177,000	477,471	0.85	
2012	7,740,780	7,365,331	375,449	184,000	525,875	0.53	
2013	9,845,211	7,305,156	2,540,055	192,000	657,782	2.99	
2014	N/A	N/A	N/A	N/A	N/A	N/A	
2015	N/A	N/A	N/A	N/A	N/A	N/A	

Notes:

- (1) Total utility service charges include interest and transfers in from other funds, but do not include developer contributions.
- (2) Total operating expenses are exclusive of depreciation, amortization, interest expense, and losses on disposition of assets.
- (3) The 2008 Water revenue bond was paid off in FY14 after the sale of the water utility, and the 2010 VRA bond was transferred to the Wastewater Fund (approved by VRA). Prior to the sale, some of the debt service for these two bonds was paid from the water fund, but 100% of the VRA bond debt service is presented in the Wastewater Fund here.

Table 13

Wastewater Revenue bonds						
Utility Service Charge	Operating Expenses	Net Available Revenue	Debt Service		Coverage	
			Principal	Interest		
\$ 3,126,098	\$ 3,322,479	\$ (196,381)	\$ 42,220	\$ 7,120	N/A	
3,528,473	3,549,732	(21,259)	43,897	5,440	N/A	
4,075,046	3,444,774	630,272	45,641	3,698	N/A	
3,338,527	3,544,242	(205,715)	47,452	1,884	N/A	
3,543,296	3,362,005	181,291	-	-	N/A	
4,284,829	3,536,310	748,519	-	316,771	2.36	
4,637,225	3,547,837	1,089,388	-	512,708	2.12	
5,351,015	2,982,422	2,368,593	-	512,708	4.62	
5,028,442	3,394,380	1,634,062	-	1,389,374	1.18	
5,709,968	3,590,162	2,119,806	-	1,374,096	1.54	

City of Fairfax, Virginia
Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)

Table 14

For the Year Ended June 30,

Fiscal Year June 30,	(1) Population	(2) Personal Income	(2) Per Capita Personal Income	(3) School Enrollment	(4) Unemployment Rate
2006	21,407	\$ 1,223,197,000	\$ 57,100	2,582	2.40%
2007	21,682	1,311,826,000	60,500	2,766	2.60%
2008	22,112	1,339,333,000	60,600	2,771	3.20%
2009	22,418	1,305,142,000	58,200	2,764	5.70%
2010	22,565	1,334,796,000 *	59,200 *	2,905	5.00%
2011	22,940	1,413,943,000 *	61,600 *	2,976	4.80%
2012	23,461	1,483,368,000 *	63,200 *	3,081	4.10%
2013	23,973	1,536,636,621	64,100	3,107	3.90%
2014	24,400	1,613,916,074	66,100	3,080	4.10%
2015	24,919	* 1,662,109,000 *	66,700 *	3,170	3.70%

Notes:

* Estimated by City of Fairfax

- (1) Population updated from 2010 US Census Bureau results and annual population estimates. 2015 population estimated by City staff.
- (2) Personal income is published annually (with a 2-year delay) by the BEA. The most recent available figures are for 2013 (released in November 2014).
- (2) To estimate personal income for 2014 & 2015, an estimated annual change in personal income was projected based on the average of the previous five years' increases.
- (2) The BEA agglomerates the City of Fairfax with Fairfax County and the City of Falls Church in its reporting of personal income. To separate City data, each year's Census-reported proportion of City population within these three jurisdictions was applied to the total personal income figure. Further, the proportion of City Per Capita Personal Income to its County equivalent, as reported in the American Community Survey, was applied to give a more accurate estimate of City PCPI.
- (3) Average Daily Membership "ADM" as reported in City of Fairfax annual budget.
- (4) US Bureau of Labor Statistics, Local Area Unemployment Statistics.
- (4) Unemployment rates are annual averages. 2015 unemployment rate estimated by averaging all available months (Jan-Oct) of 2015 data.

City of Fairfax, Virginia

Table 15

Principal Property Taxpayers Current Year and Nine Years Ago (Unaudited)

For the Year Ended June 30,

Employer (1)	2015			2006		
	(1) Employees	Rank	Percentage (2) of Total City Employment	Employees	Rank	Percentage (2) of Total City Employment
The Wackenhut Corporation	410	1	2.13%	-	-	-
Fairfax Nursing Center	400	2	2.07%	250	4	1.00%
City of Fairfax	397	3	2.06%	340	2	1.36%
Inova Health System	390	4	2.02%	-	-	-
Tedd Britt Ford Sales	300	5	1.56%	-	-	-
Zeta Associates	275	6	1.43%	-	-	-
Multivision, Inc.	150	7	0.78%	-	-	-
Fairfax Volkswagen, Honda	150	7	0.78%	200	6	0.80%
Dominion Virginia Power	150	7	0.78%	170	10	0.68%
Crestar Bank	-	-	-	450	1	1.79%
Bell Atlantic Cellular	-	-	-	262	3	1.05%
Mid-Atlantic Cars	-	-	-	200	6	0.80%
Commonwealth Nursing	-	-	-	192	8	0.77%
DA Foster Industries	-	-	-	190	9	0.76%
Total	2,622		13.59%	2,254		8.99%

Source:

(1) City of Fairfax Economic Development Office, Fall 2013

(2) US Census Bureau State and County QuickFacts

City of Fairfax, Virginia

Table 16

Full-Time Equivalent city Government Employees by Function/Program
Last Ten Fiscal Years
(Unaudited)

For the Year Ended June 30,

Function/Program	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
City Clerk	2.00	2.00	2.00	2.00	2.00	2.00	1.50	1.50	1.50	1.50
Electoral Board	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
City Manager	3.00	2.50	2.50	2.50	2.50	2.13	2.63	2.63	3.00	3.00
Personnel	5.00	5.00	5.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00
Community Relations	2.50	2.50	2.50	2.00	1.00	1.00	1.00	1.00	1.00	1.00
Marketing	0.00	0.00	0.00	0.88	0.00	0.50	0.50	0.50	0.50	0.50
Cable TV	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75
Information Technology	11.00	11.00	11.00	11.00	9.00	9.00	9.00	9.00	9.00	9.00
Printing and Office Supplies	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Motor Pool	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	12.00	12.00
Finance and Accounting	7.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Real Estate Assessment	5.00	5.00	5.00	5.00	4.00	4.00	4.00	4.00	5.00	5.00
Treasurer	7.50	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Commissioner of Revenue	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Police Department	85.50	85.75	88.00	88.00	90.00	91.13	90.00	90.00	90.25	90.25
Fire Department	70.00	80.00	80.00	80.00	79.00	80.00	79.00	79.00	80.00	80.00
Public Works	69.20	74.70	77.00	77.00	76.10	77.50	75.50	75.50	77.20	76.10
Social Services	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62
Parks and Recreation	17.63	17.63	18.63	18.25	17.13	19.88	19.13	19.13	19.88	19.38
Historic Resources	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95
Planning and Design	14.50	15.00	15.70	15.70	15.70	15.70	15.70	15.70	16.50	17.50
Economic Development	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Education	3.13	2.63	1.90	1.90	1.90	2.85	1.90	1.90	1.90	1.85
Wastewater	8.00	8.00	8.00	8.00	8.00	6.00	8.60	8.60	9.10	9.20
Water	31.00	31.00	31.00	32.00	32.00	32.00	34.40	34.40	0.00	0.00
Stormwater	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.70	0.70
Transit	30.00	30.50	30.50	30.50	30.38	31.50	30.50	30.50	30.50	33.25
Total	404.53	421.03	426.55	427.55	420.53	427.01	425.18	425.18	397.10	399.30

Source: City Budget Office

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City of Fairfax, Virginia
Operating Indicators by Function/Program
Last Ten Fiscal Years
(Unaudited)

For the Year Ended June 30,

	Actual 2006	Actual 2007	Actual 2008	Actual 2009
GENERAL GOVERNMENT				
Public Works:				
Homes served - refused collection	6,168	6,226	6,245	6,249
Elections:				
Registered Voters	14,101	14,307	14,266	15,525
Number of votes last General Election	6,804	8,177	5,557	11,478
Percent of registered voters last General Election	48.25%	57.15%	38.95%	73.93%
Parks and Recreation:				
Old Town Hall Occupancy Rate	90%	90%	*	*
Old Town Hall Rentals	*	74	75	85
Total Unique Recreation Programs	49	50	51	50
Total Recreation Programs	117	135	386	306
Day Camp program participants	507	563	574	759
Community Development and Planning:				
Planning Studies/Reports prepared	225	220	*	*
Residential/Non-residential Use Permits	1,400	1,400	*	*
Administrative Permit-Review/Approve	2,500	2,500	*	*
Neighborhood Renaissance Conferences	*	450	600	600
Board of Architectural Review (BAR) Applications	*	48	51	51
Enforcement Citations	*	450	540	550
Land Use Applications	*	38	42	45
Development Plans and Subdivisions	*	37	59	60
Economic Development:				
Vacancy Rate - office space	6.75%	6.90%	7.25%	9.50%
Vacancy Rate - retail space	1.10%	1.10%	1.50%	6.00%
SCHOOLS				
Education:				
Average daily membership	2,745	2,766	2,771	2,764
Elementary - Kindergarten	205	189	229	198
Elementary - (1-6)	1,290	1,324	1,294	1,307
Secondary - (7-12)	1,250	1,253	1,248	1,260
Tuition cost per student	\$ 11,915	\$ 12,030	\$ 13,548	\$ 13,078
PUBLIC SAFETY				
Police Department:				
Cases assigned	332	245	255	250
Cases closed	207	173	172	168
Calls for service	17,414	14,970	14,589	13,958
Criminal arrests	1,756	1,756	1,388	1,340
Fire Department:				
Staff training hours	9,725	14,399	14,420	15,090
Responses to fire incidents	3,390	3,169	3,367	3,327
Responses to EMS incidents	7,435	7,395	7,458	5,907
Plans reviewed	932	1,088	1,290	894
Building Permits Issued	653	629	531	530
Cost associated with building permits	\$ 47,430,498	\$ 37,402,772	\$ 33,968,649	\$ 21,654,448
UTILITIES				
Wastewater:				
Number of new service connections	43	53	47	31
Amount of new service connections	\$ 331,611	\$ 341,075	\$ 377,208	\$ 347,858
Average daily flow (MGD)	4.00	4.00	4.00	3.90
Feet of pipeline rehabilitated	3,881	3,881	4,288	4,500
Site plans reviewed	22	22	22	21
Water:				
Amount of new customer connections	\$ 54,218	\$ 49,542	\$ 46,130	\$ 61,213
Number of new service connections	52	105	111	200
Amount of new service connections	\$ 301,773	\$ 826,596	\$ 1,243,299	\$ 1,621,803
Gallons of water produced (millions)	4,351	4,351	4,380	3,400
Feet of pipeline replaced	600	600	-	3,000
Number of site plans reviewed	22	25	22	22
TRANSIT				
Total Ridership	1,093,926	1,126,966	1,055,664	952,072

Notes:

Source: City Annual Operating Budget and Comprehensive Annual Financial Report

* - Information not available (not tracked)

Notes:

The City outsourced Wastewater billing to Fairfax Counting Water Authority in conjunction with the sale of the water utility in FY14. Operating indicators were not readily available from Fairfax Water for June 30, 2014.

Table 17

Actual 2010	Actual 2011	Actual/Estimate 2012	Actual/Estimate 2013	Actual/Estimate 2014	Actual/Estimate 2015
6,249	6,249	6,338	6,498	6,498	6,498
14,937	15,027	14,835	15,794	15,372	15,496
6,197	7,112	4,638	11,706	7,120	7,052
41.49%	47.33%	31.26%	74.12%	46.32%	45.51%
*	*	*	*	*	*
153	231	164	165	165	160
98	71	80	223	252	238
512	513	686	422	428	458
819	927	801	707	727	938
*	*	*	*	*	*
*	*	*	*	*	*
*	*	*	*	*	*
600	600	600	600	*	*
48	86	80	80	62	81
450	550	550	550	458	450
38	31	44	33	30	41
37	47	49	49	59	56
12.00%	13.00%	12.40%	13.60%	15.00%	14.10%
4.50%	5.50%	4.70%	3.15%	3.40%	2.40%
2,905	2,976	3,081	3,039	3,078	3,160
221	239	210	216	240	208
1,319	1,259	1,386	1,346	1,351	1,415
1,398	1,478	1,485	1,477	1,487	1,537
\$ 12,027	\$ 12,745	\$ 13,110	\$ 14,268	\$ 14,088	\$ 13,782
240	169	198	204	225	220
171	130	172	178	168	165
13,764	13,896	13,947	14,000	14,176	15,026
1,243	1,272	1,373	1,359	1,323	1,192
16,568	16,879	15,536	13,790	9,900	8,566
2,585	2,846	4,015	2,899	4,135	2,320
6,409	6,569	5,766	7,709	5,595	4,311
972	1,333	1,401	1,353	1,003	884
494	605	647	621	578	503
\$ 38,388,562	\$ 27,634,266	\$ 39,254,118	\$ 34,633,451	\$ 30,308,610	\$ 27,034,602
20	20	54	30	*	*
\$ 223,358	\$ 223,358	\$ 558,027	\$ 335,025	*	*
3.90	2.95	2.95	3.20	*	*
3,906	7,840	7,840	7,000	*	*
23	40	40	33	*	*
\$ 64,450	\$ 64,450	\$ 62,954	\$ 62,882	N/A	N/A
40	40	59	55	N/A	N/A
\$ 1,294,495	\$ 1,294,495	\$ 426,329	\$ 144,208	N/A	N/A
3,167	2,900	2,620	600	N/A	N/A
1,100	447	100	100	N/A	N/A
49	40	40	30	N/A	N/A
941,694	910,549	908,367	850,809	826,747	766,708

City of Fairfax, Virginia
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years
(Unaudited)

Table 18

For the Year Ended June 30,

	2006	2007	2008	2009	2010	2011	2012	2013	Actual/ Estimate 2014	2015
GENERAL GOVERNMENT										
Parks and Recreation:										
Acres of parks	279	279	279	279	279	279	279	279	283	286
Number of major parks	9	9	9	9	9	9	9	9	9	10
Number of Neighborhood parks	13	13	13	14	14	14	15	15	15	15
Public Works:										
Vehicle availability (%)	97%	97%	97%	97%	97%	97%	98%	98%	90%	88%
Vehicle repair orders	2,455	2,672	3,800	3,600	3,600	2,600	3,766	3,766	2,872	3,112
Total fleet	548	560	563	590	590	590	664	664	653	661
Miles of streets - primary	15.58	15.58	15.58	15.58	15.58	15.58	16.50	15.50	15.50	15.5
Miles of streets - secondary	54.76	54.76	54.76	55.33	55.33	55.33	54.00	56.50	56.50	56.5
Number of street lights	2,950	2,950	2,950	2,967	2,967	1,967	2,967	2,967	2,967	2,967
PUBLIC SAFETY										
Police:										
Number of stations	1	1	1	1	1	1	1	1	1	1
Fire:										
Number of stations	2	2	2	2	2	2	2	2	2	2
Number of fire hydrants	870	870	870	870	870	870	870	870	870	870
UTILITIES										
Water:										
Gallons produced (millions)	4,351	4,351	4,380	3,431	3,500	2,900	2,620	2,620	N/A	N/A
Water mains (miles)	182.68	182.68	182.68	183.77	184.01	184.01	184.01	184.01	N/A	N/A
Sewer:										
Sanitary sewers (miles)	97.03	97.03	97.03	97.07	97.14	97.14	100.00	100.00	100.00	100.00
TRANSIT										
Number of Buses	12	12	12	12	12	12	12	12	12	12

Notes:

Source: City Annual Operating Budget and Comprehensive Annual Financial Report

* Information is not available

COMPLIANCE SECTION

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**Report of Independent Auditor on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Honorable Members of City Council
City of Fairfax, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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 Fairfax, Virginia (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 29, 2016. Our report recognizes that the City implemented two new accounting standards effective July 1, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrnt CP". The signature is written in a cursive style.

Tysons Corner, Virginia
January 29, 2016

Report of Independent Auditor on Compliance for the Major Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Honorable Members of City Council
City of Fairfax, Virginia

Report on Compliance for the Major Federal Program

We have audited the City of Fairfax, Virginia's (the "City") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2015. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive, flowing style.

Tysons Corner, Virginia
January 29, 2016

City of Fairfax, Virginia
Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Grantor/State Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF JUSTICE			
Direct Payments:			
Bulletproof Vest Partnership Program	16.607	N/A	\$ 1,660
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	N/A	4,463
Pass-through Payments:			
Department of Criminal Justice Services:			
Edward Byrne Memorial Justice Assistant Grant Program	16.738	39001-51100	1,872
Total Department of Justice			7,995
DEPARTMENT OF TRANSPORTATION			
Direct Payments:			
Federal Highway Administration:			
Highway Planning and Construction	20.205	N/A	6,812,712
Pass-through Payments:			
Virginia Department of Motor Vehicles:			
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	60507-53302/54020	12,407
Total Department of Transportation			6,825,119
DEPARTMENT OF HOMELAND SECURITY			
Direct Payments:			
Homeland Security Grant Program	97.067	N/A	138,108
Staffing for Adequate Fire and Emergency Respons (SAFER)	97.083	N/A	257,875
Pass-through Payments:			
Department of Emergency Services:			
Homeland Security Grant Program	97.067	77501-52702	12,557
Non-profit Security Program	97.008	77501-52231/52232	50,932
Total Department of Homeland Security			459,472
Total Expenditures of Federal Awards			\$ 7,292,586
Note - Program Total:			
Homeland Security Grant Program	97.067		\$ 138,108
Homeland Security Grant Program	97.067		12,557
		Program Total	\$ 150,665

CITY OF FAIRFAX, VIRGINIA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2015

NOTE 1—BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the City under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

NOTE 3—RELATIONSHIP TO FINANCIAL STATEMENTS

Federal expenditures, revenues, and capital contributions are reported in the City’s basic financial statements as follows:

Intergovernmental Federal Revenues per the Basic Financial Statements:

Primary Government:

Governmental Funds:

General Fund	\$ 479,874
General Capital Projects	<u>6,812,712</u>
	<u>7,292,586</u>

Enterprise Funds - Sewer	<u>373,949</u>
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Total Primary Government	7,666,535
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Less interest subsidy	<u>(373,949)</u>
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Total Federal Expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 7,292,586</u></u>
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City of Fairfax, Virginia

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

A. Summary of Auditor's Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major programs: **None reported**
6. Material weaknesses in internal control over major programs: **No**
7. The type of report issued on compliance for major programs: **Unmodified opinion**
8. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **No**
9. The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction Cluster

10. Dollar threshold used to distinguish between type A and type B programs: **\$300,000**
11. The City of Fairfax, Virginia qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

None

C. Findings and Questioned Costs Relating to Federal Awards:

None

D. Resolution of Prior Year Findings:

No findings.