

City of Fairfax, Virginia



Comprehensive Annual Financial Report

for the Fiscal Year Ended

June 30, 2012

CITY OF FAIRFAX, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2012

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

Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
Title Page	
Table of Contents	
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	i-vii
Organizational Chart	ix
Directory of Principal Officials	xi
Certificate of Achievement for Excellence in Financial Reporting	xiii
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-15
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-wide Financial Statements:	
Exhibit 1 Statement of Net Assets	21
Exhibit 2 Statement of Activities	22-23
Fund Financial Statements:	
Exhibit 3 Balance Sheet-Governmental Funds	27
Exhibit 4 Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets	28
Exhibit 5 Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds	29
Exhibit 6 Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	30
Exhibit 7 Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual-General Fund	31-33
Exhibit 8 Statement of Net Assets-Proprietary Funds	34
Exhibit 9 Statement of Revenues, Expenses and Changes in Net Assets- Proprietary Funds	35

CITY OF FAIRFAX, VIRGINIA

Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2012

TABLE OF CONTENTS

(Continued)

	<u>Page</u>
<u>FINANCIAL SECTION: (CONTINUED)</u>	
<u>BASIC FINANCIAL STATEMENTS: (CONTINUED)</u>	
Fund Financial Statements: (continued)	
Exhibit 10	Statement of Cash Flows—Proprietary Funds 36
Exhibit 11	Statement of Fiduciary Net Assets—Fiduciary Funds 37
Exhibit 12	Statement of Changes in Fiduciary Net Assets—Fiduciary Funds 38
Notes to Financial Statements	39-82
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Exhibit 13	Schedules of Funding Progress 85
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Combining and Individual Fund Statements and Schedules	
Exhibit 14	Combining Balance Sheet—Nonmajor Governmental Funds 91
Exhibit 15	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds 92
Exhibit 16	Combining Statement of Fiduciary Net Assets—Fiduciary Funds 93
Exhibit 17	Combining Statement of Changes in Fiduciary Net Assets—Fiduciary Funds 94
Exhibit 18	Balance Sheet—Discretely Presented Component Unit School Board 95
Exhibit 19	Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets—Discretely Presented Component Unit School Board 96
Exhibit 20	Statement of Revenues, Expenditures and Changes in Fund Balances—Discretely Presented Component Unit School Board 97
Exhibit 21	Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities—Discretely Presented Component Unit School Board 98

CITY OF FAIRFAX, VIRGINIA

Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2012

TABLE OF CONTENTS

(Continued)

	<u>Page</u>
<u>OTHER SUPPLEMENTARY INFORMATION: (Continued)</u>	
Combining and Individual Fund Statements and Schedules: (Continued)	
Exhibit 22	Combining Statement of Net Assets—Discretely Presented Nonmajor Component Units 99
Exhibit 23	Combining Statement of Activities— Discretely Presented Nonmajor Component Units 100-101
Exhibit 24	Balance Sheet—Discretely Presented Nonmajor Component Units 102
Exhibit 25	Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets—Discretely Presented Nonmajor Component Units 103
Exhibit 26	Statement of Revenues, Expenditures and Changes in Fund Balances— Discretely Presented Nonmajor Component Units 104
Exhibit 27	Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities—Discretely Presented Nonmajor Component Units 105

STATISTICAL SECTION:

Statistical Section—Table of Contents

Table 1	Net Assets by Component	108-109
Table 2	Changes in Net assets	110-111
Table 3	Program Revenues by Function/Program	112-113
Table 4	Fund Balances, Governmental Funds	115
Table 5	Changes in Fund Balances, Governmental Funds	116-117
Table 6	Tax Revenues by Source, Governmental Funds	119
Table 7	Assessed and Estimated Actual Value of Taxable Property	120-121
Table 8	Direct and Overlapping Property Tax Rates	122

CITY OF FAIRFAX, VIRGINIA

Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2012

TABLE OF CONTENTS

(Continued)

	<u>Page</u>
<u>STATISTICAL SECTION: (CONTINUED)</u>	
Table 9 Principal Property Taxpayers	123
Table 10 Real Property Tax Levies and Collections	124
Table 11 Ratios of Outstanding Debt by Type and General Bonded Debt Outstanding	125
Table 12 Legal Debt Margin Information	126-127
Table 13 Pledged Revenue Coverage	128-129
Table 14 Demographic and Economic Statistics	131
Table 15 Principal Employers	132
Table 16 Full-time Equivalent City Government Employees by Function/Program	133
Table 17 Operating Indicators by Function/Program	134-135
Table 18 Capital Asset Statistics by Function/Program	136
<u>COMPLIANCE SECTION:</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	137-138
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	139-140
Schedule of Expenditures of Federal Awards	141
Notes to Schedule of Expenditures of Federal Awards	142
Schedule of Findings and Questioned Costs	143
Summary Schedule of Prior Audit Findings	144



City of Fairfax

10455 Armstrong Street • Fairfax, VA 22030-3630

December 26, 2012

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, 2012. The Code of the Commonwealth of Virginia requires that all local governments shall be audited annually with a report to the governing body by December 31. This report is published to fulfill that requirement.

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

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 Robinson, Farmer, Cox Associates, 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, 2012, 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 auditors' 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 of Fairfax 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; judicial services; health and social services; refuse; waste-water; 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 has its own water system and also provides inter-County and intra-City bus service.

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 Fairfax public school program is provided through an independent school district administered by a school board and superintendent that contracts with the Fairfax County School System for operating the four City schools - Fairfax High, Sidney Lanier Middle, Daniel's Run, and Providence Elementary. The Industrial Development Authority and Economic Development Authority are combined in one column as non-major component units.

ORGANIZATION OF GOVERNMENT

This year, the City of Fairfax celebrated its 51st anniversary as an independent City, 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, the 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, 15 miles west of Washington, D.C., the City of Fairfax lies in the heart of the Northern Virginia area. Bounded by Interstate 66 on the north and less than five miles west of the Capital Beltway, the City of Fairfax is at the crossroads of Northern Virginia's major north/south and east/west highways. Fairfax's neighbors include the Vienna/Fairfax GMU station of the Metro regional rapid-rail system, and, at the southern boundary of the City, George Mason University (GMU). The City is within 30 minutes of both Dulles International Airport and Reagan Washington National Airport.

The City provides the high-level services that Northern Virginians expect. With a population of approximately 23,000, the City offers a good government, low taxes and a strong feeling of community pride. Residential tax burdens are among the lowest in Northern Virginia with a real property tax rate of \$1.01 per \$100 of assessed value, and a personal property tax rate of \$4.13 per \$100 of assessed value (rates effective 1/1/2012). On residential real property, Council dedicated \$0.01 of the \$1.01 to the Stormwater Fund to meet Federally-required improvements to the aging stormwater infrastructure. Businesses also enjoy the City's low rate with business license rates that compare favorably with those of other Northern Virginia jurisdictions. Forbes called the City of Fairfax "a great place for entrepreneurs" and stated the City's sole-proprietors-per-capita ranks in the top 1% nationwide.

ECONOMIC CONDITION AND OUTLOOK (CONTINUED)

The Atlantic identified the City as one of the nation's top jurisdictions for its high concentration of "creative class" workers.

In addition to the City's \$1.01 real property tax rate, the City Council again approved the commercial real estate tax rate at \$0.055, dedicated for transportation improvements. This additional commercial property tax levy is charged on all non-residential commercial and industrial properties, located in the City of Fairfax. The General Assembly authorized the City of Fairfax, as a Northern Virginia Transportation Authority member, to raise revenue by enacting a local ordinance imposing this additional commercial tax. The revenue collected from this tax is to be used solely for new transportation improvements in the City of Fairfax. The adopted rate of \$0.055 generates about \$1.0 million in recurring revenues annually. As a result of the additional commercial tax, the effective property tax rate for commercial and industrial properties is \$1.065.

The City is one of the few places in Northern Virginia where a small-town sensibility still exists. In an effort to nurture this environment, plans are underway to make the pedestrian environment even more hospitable with wider sidewalks, landscaping, boulevard-style developments, bike trails and other improvements. Add the proximity of George Mason University, many historical buildings and an active artistic community, and the sum is a locale with a unique sense of community. In 2009, the City of Fairfax 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 land purchases as part of open space preservation.

Additionally, the City still has a strong commercial base, as highlighted below:

- \$4.0 billion economy
- Office Space of 4.2 million square feet with a vacancy rate of 10.4%
- Retail Space of 3.3 million square feet with a vacancy rate of 2.8%
- Industrial Space of 0.5 million square feet with a vacancy rate of less than 1.0%
- Over 20,000 jobs in the City of Fairfax; daily workforce estimated at 30,000 once outside consultants and contractors are included
- 5,250 licensed businesses

The City has lower commercial vacancy rates than the surrounding County and Greater Washington, DC region.

Recovery from the recession and job creation have both remained sluggish, and uncertainty about the "fiscal cliff" and possible Federal spending cuts have added to businesses' worries. With 77% of residents working outside the city, reductions in federal procurement will likely have direct and indirect impacts locally. However, the slowly improving economy has been supported by consumer spending and business investment. Over 300,000 square feet in existing retail centers are currently undergoing renovations or have planned for future improvements or redevelopment. An additional 160,000 square feet of office space is undergoing significant exterior and interior improvements. Multiple high-end residential projects are under construction or already on the market. Additionally, the City's unemployment rate has declined from 7.3% in September 2011 to 5.7% in June 2012, which is below the State's unemployment rate of 6.0% and the national unemployment rate of 8.4%.

ECONOMIC CONDITION AND OUTLOOK (CONTINUED)

The City remains dedicated to the redevelopment of the Route 50/29 Corridor. The Route 50/29 Corridor is the City's economic engine, providing nearly 40% of all tax revenues generated from the community. Known as Fairfax Boulevard, the City, in partnership with the Economic Development Authority and the Planning Commission, is aggressively pursuing multiple redevelopment opportunities. The City also remains committed to the Fairfax Boulevard Master Plan, which identifies three main commercial centers prime for redevelopment. These locations are Fairfax Circle, Kamp Washington and Lee Highway (Route 29) to include Jermantown Road, at the western portion of the corridor. The potential impact of multifamily and mixed-use developments are currently being considered at multiple locations.

With the Old Town Plaza redevelopment project in downtown Fairfax and the construction of a high-end townhome community complete, the City is now focused on redesigning "Old Town Square". Various concepts are under consideration for this section of the block next to Old Town Hall, with the vision being a development which showcases a blend of civic, commercial and historic uses. The redevelopment has proved a catalyst for the potential revitalization of other properties in Old Town Fairfax.

The undergrounding of utility wires in the Old Town area is in its final phase, with completion expected in FY13. This project serves to make the City not only more visually appealing, but safer.

The area continues to use civic engagement, arts resources and leveraged partnerships, such as George Mason University, to advance the commercial viability and vitality of Old Town. Planning for other underutilized properties in the downtown continues to evolve; understanding that, enriched by the presence of students, artists, arts and historic organizations, the downtown attract a greater volume of visitors and residents and, as the economy strengthens, will continue to add new commercial and business owners into the community.

FINANCIAL CONDITION

The total taxable assessed value of residential and commercial real property increased by 2.85% over the prior year. Along with the \$.068 increase in the real estate tax rate, the result was a 1.48% increase in revenues, or \$836k. However, the 6.50% increase in school tuition costs exceeded the increase in revenue. The result was a \$1.7 million shortfall in the tuition account. Current estimates indicate the population of City students in the school will continue to increase, along with other administrative costs.

In light of the increasing tuition costs, keeping existing programs funded, salaries of public employees competitive, and addressing the budget and expanded program needs of the community's growing economy require careful budgeting. In addition to aggressive cost reductions in discretionary spending, the City filled several full-time positions vacated through retirement with part-time positions. The City has implemented cost cutting measures in the operating departments, and did not provide employee merit increases FY 2012. A 1.0% cost of living adjustment (COLA), effective January 1, 2012, was instituted. The City took advantage of historically low interest rates to refinance much of its debt, resulting in over \$4.0 million in savings over the remaining life of the bonds. Any new revenues anticipated with the fully operational Old Town Village and the institution of a fire recovery fee with George Mason University are much needed in today's climate. CUE bus fare increased from \$1.70 to \$1.80, and weekday evening service was reduced by 1 hour to cut personnel costs.

FINANCIAL CONDITION (CONTINUED)

Water and Sewer rates increased 7.5% and 12%, respectively, due to a significant number of capital projects, and additional debt service costs relating to the City's share of Fairfax County wastewater plant upgrades, where the City's wastewater is treated. The City has affirmed it will stay in the water treatment business; as such, significant upgrades to the water treatment plant and the dams are required. Combining this fiscal reality with continuing community expectations of high quality services will force us to continually confront difficult choices.

The City's financial philosophy encourages the use of surplus General Fund revenue and resources derived from under-expenditures to fund capital projects rather than to fund ongoing operating programs. Even though the City has begun to use more debt financing rather than a purely "pay-as-you-go" approach to funding some capital projects, the City's net direct debt to tax base ratio increased modestly to 3.25% at June 30, 2012 compared to 3.20% at June 30, 2011.

GENERAL GOVERNMENT FUNCTIONS

The following table shows the overall real property assessed value has increased over \$2.7 billion since 2001 including a 2.85 % increase from 2011 to 2012. 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 tax for the remaining six months is due 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)
2001	1,493,534,686	20.4	994,457,600	9.4	2,487,992,286	15.7
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	3.02
2008	3,475,794,600	(6.7)	2,161,997,400	14.7	5,637,792,000	0.52
2009	3,182,468,200	(8.4)	2,177,141,800	0.7	5,359,610,100	(4.93)
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	(.70)	5,077,394,500	1.92
2012	3,195,889,977	2.3	2,025,966,286	3.6	5,221,856,263	2.85

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

BOND RATING

As of December 2012, the City's bond ratings were as follows:

	<u>Moody's Investors Service</u>	<u>Standard & Poors</u>
General Obligation Bonds	Aaa	AAA

These ratings were re-affirmed in September 2012. However, along with most other jurisdictions in close proximity to Washington, DC, the City of Fairfax remains on negative outlook with Moody's Investors Service.

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 for those programs and services required to maintain an essential level of service or provide for enhancements to programs as identified by City Council. 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 estimates, which are evaluated for priority and funding. The initial proposed CIP is issued in November and forwarded to the Planning Commission for public hearing and evaluation. The Planning Commission holds a public hearing on the CIP and provides recommendations and suggestions 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 (one year of the proposed CIP) is included in the operating budget. The capital budget and operating budget together become the proposed budget.

Once presented to Council, Council reviews the proposed budget and a minimum of one public hearing is held to provide the public with an opportunity to comment to ensure 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 the approved budget.

As a management tool, budgetary control is maintained at the department level and by the encumbrance of purchase amounts before the release of purchase orders to vendors. In addition, throughout the year, revenues and expenditures are monitored to enable 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 2011 CAFR for the 31st 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.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING (CONTINUED)

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. The City is submitting it to GFOA to determine its eligibility for another certificate for this current fiscal year.

ACKNOWLEDGMENTS

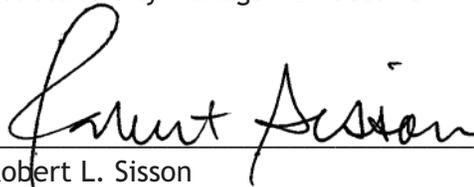
We wish to express our appreciation to the staff of the Department of Finance. Their efficient and dedicated service assisted in the preparation of this Report.

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,



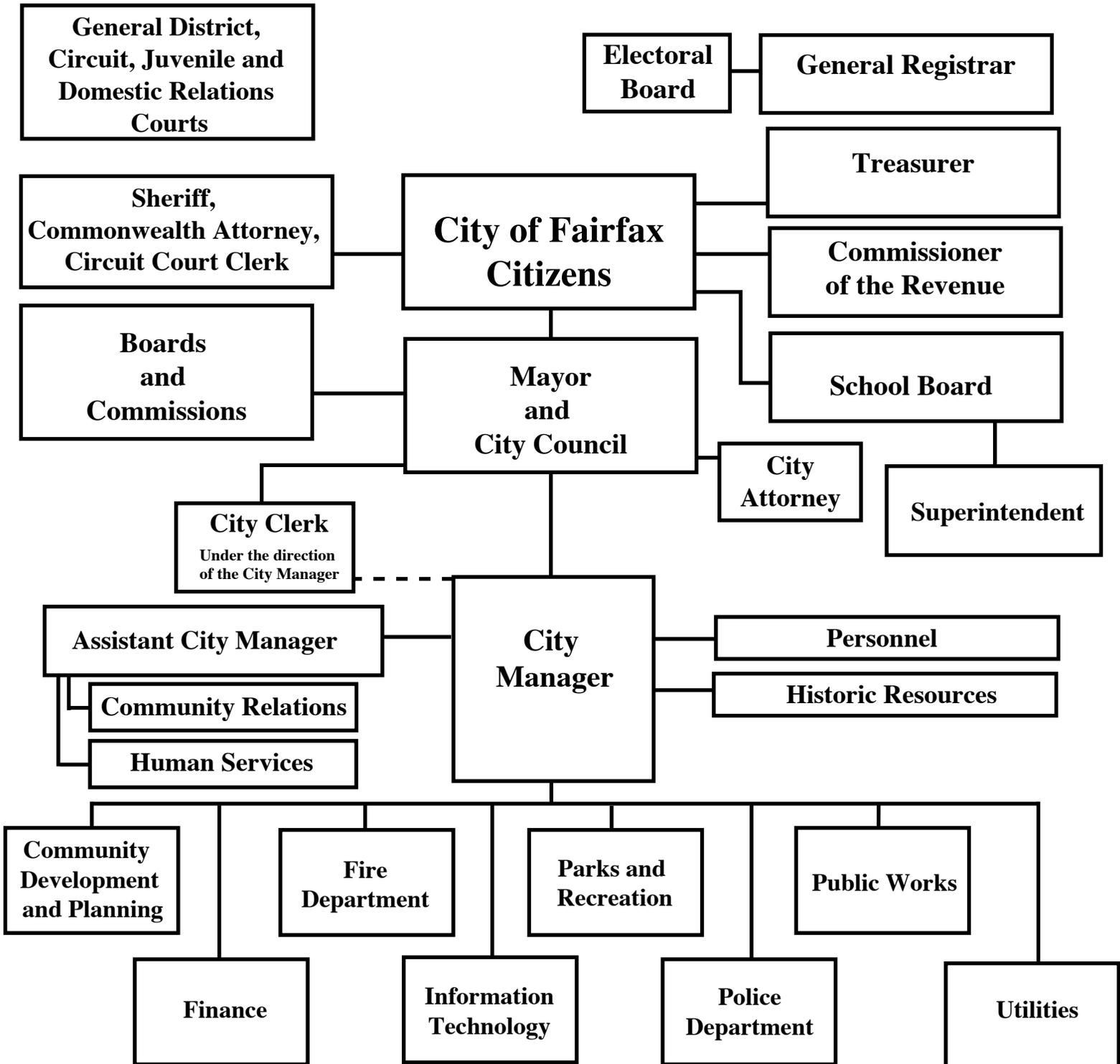
David E. Hodgkins
Assistant City Manager/Director of Finance



Robert L. Sisson
City Manager

This page intentionally left blank

City of Fairfax, Virginia Organizational Chart



revised 12/2004

This page intentionally left blank

CITY OF FAIRFAX, VIRGINIA
PRINCIPAL OFFICIALS
June 30, 2012

CITY COUNCIL

R. Scott Silverthorne, Mayor

Michael. J. DeMarco
Daniel F. Drummond
Jeffrey C. Greenfield

David L. Meyer
Eleanor D. Schmidt
Steven C. Stombres

STAFF

Robert L. Sisson City Manager
David E. Hodgkins Assistant City Manager/Director of Finance
William Page Johnson II Commissioner of Revenue¹
Stephen L. Moloney Treasurer¹
David L. Rohr Fire Chief
Richard J. Rappoport Chief of Police
David B. Hudson Director of Community Development and Planning
Gail A. Bohan Director of Information Technology
David Summers Director of Public Works
Richard C. Thoesen Director of Utilities
Michael D. McCarty. Director of Parks and Recreation
Sara Sharp Personnel Director
Thomas E. Reed Real Estate Assessment Director
Melanie Burrell City Clerk
Kevin Linehan General Registrar
Peter Noonan City School Superintendent

ADVISORS

Brian J. Lubkeman City Attorney
Robinson, Farmer, Cox, Associates..... Independent Auditors

¹ Elected by City voters to 4-year terms. Current terms expire December 31, 2013

This page intentionally left blank

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, 2011

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



Christopher P. Moynell

President

Jeffrey R. Emer

Executive Director

This page intentionally left blank

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairfax, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the City of Fairfax, Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fairfax, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairfax, Virginia, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012, on our consideration of the City of Fairfax, Virginia'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of pension and OPEB funding progress 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 management's discussion and analysis and schedules of funding progress 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 management's discussion and analysis and schedules of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Robinson, Tamara, Cox Associates

Fredericksburg, Virginia
December 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the City of Fairfax's (City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. 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.

FINANCIAL HIGHLIGHTS FOR 2012

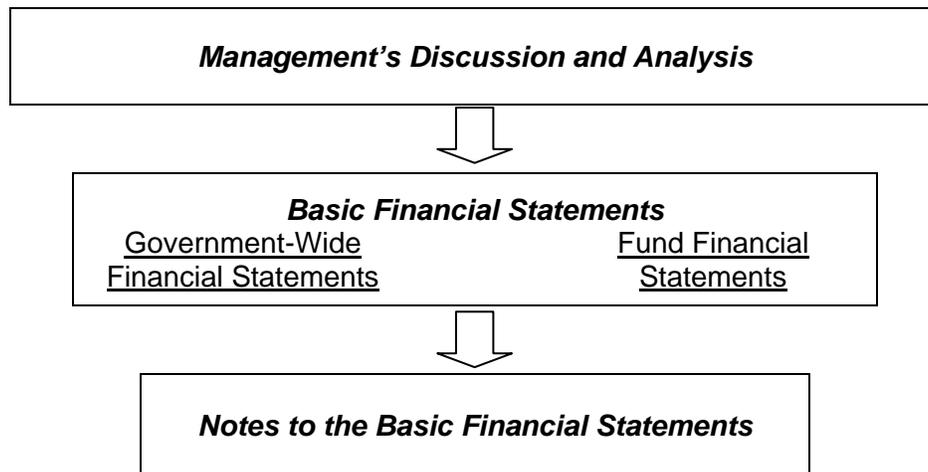
The primary government assets of the City of Fairfax exceeded its liabilities by \$96.2 million (*net assets*) at the close of the most recent fiscal year (F/Y) on June 30, 2012.

- The City's total primary government net assets increase of 2%, or \$1.8 million, was driven by two main factors. First, property taxes receivable increased by \$3 million as a result of a higher real estate tax rate and rising assessments. Second, long-term obligations decreased due to regular principal pay-down and to the three advanced refundings done during F/Y 12. Losses on advanced refundings are deductions from non-current liabilities.
- Larger investments in the Noman Cole Sewer Treatment Plant and CIP upgrades to the Goose Creek Water Treatment Plant, transmission mains, and automated meter-readers were made in F/Y 12, and were paid out of proceeds from the 2010 VRA bond and the 2008 Water Lease Revenue bond. While the impact on total assets is near zero, these large investments are worth noting. In F/Y 12, City Council reaffirmed the City's desire to stay in the water treatment business; therefore, on-going investment in the water treatment plant and infrastructure will be seen.
- The Component Unit School board decreased net assets by \$3.6 million during the year, due to the following: a \$3.4 million net addition to capital assets offset by higher accumulated depreciation of \$6.6 million; a \$0.6 million increase in current assets stemming from higher amounts due from primary government; and a \$1.0 million increase in payables to Fairfax County Public Schools (FCPS) for school tuition. The year-end school tuition reconciliation resulted in this additional payable due to an increase in the "Average Daily Membership" (ADM), a measure of the number of City students attending FCPS schools, during the year.
- The City's governmental funds reflect a combined fund balance of \$30.3 million. Of this balance, \$4.8 million is non-spendable inventories and prepaid expenses, \$4.8 million is restricted by grantors/donors, \$2.5 million is committed to construction contracts, \$5.1 million is assigned to capital projects, and \$13.2 million is unassigned.
- At the end of June 30, 2012, the City's governmental, business-type, and Component Unit School Board activities had invested \$206.3, \$36.3, \$9.9 million, net of accumulated depreciation, respectively, in a variety of capital assets (please see Table 3).
- The City's total governmental outstanding long-term debt is \$160.3 million, which is a decrease of \$4.0 million. Total enterprise outstanding long-term debt decreased \$0.3 million to \$28.3 million. Debt retirement during the normal course of business was the main driver of both decreases. The City advance refunded three bonds, resulting in \$9.2 million (NPV) in debt service savings over the next 25 years. 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.
- Despite a \$0.068 increase in the real estate tax rate to \$1.01 per \$100 of assessed value, and a 2.7% growth in assessed values on taxable real property, general property tax revenues missed budget by \$2.3 million. \$1.3 million was due to a judgment in favor of the Army-Navy Country Club for past assessments; the remaining shortfall can be attributed to the increase in the assessed value of non-taxable properties.

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 Assets 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 assets and changes in it. One can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets 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 Assets 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.

Business-type Activities - The City's Water and Waste-water Systems and the City's Transit System are reported here. The City charges a fee to customers to cover all or most of the cost of water and waste-water services. A significant portion of the Transit System is subsidized by the City.

GOVERNMENT-WIDE STATEMENTS: (CONTINUED)

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. Although legally separate, these "component units" are 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 pension benefits to its employees. 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.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statement of Net Assets:

The following table presents the condensed Statement of Net Assets of the primary government and the School Board Component Unit in a comparative format:

Table 1
Summary of Statement of Net Assets
June 30, 2012 and 2011
(In millions)*

	Primary Government						Major Component Unit	
	Governmental Activities		Business-type Activities		Totals		School Board	
	2012	2011	2012	2011	2012	2011	2012	2011
Assets:								
Current and other assets	\$67.7	\$64.8	\$22.2	\$27.5	\$89.9	\$92.3	\$3.3	\$2.6
Capital assets, net	206.3	206.6	36.3	32.2	242.6	238.8	9.9	13.2
Total Assets	274.0	271.4	58.5	59.7	332.5	331.1	13.2	15.8
Liabilities:								
Current and other liabilities	46.6	41.9	2.9	2.3	49.5	44.2	1.9	0.9
Long -term liabilities	157.1	162.8	29.7	29.8	186.8	192.6	0.1	0.0
Total Liabilities	203.7	204.7	32.6	32.1	236.3	236.8	2.0	1.0
Net Assets:								
Invested in capital assets, net of related debt	51.9	41.7	23.4	22.9	75.3	64.6	9.9	13.2
Unrestricted	18.4	25.0	2.5	4.7	20.9	29.7	1.3	1.6
Total net assets	\$ 70.3	\$ 66.7	\$ 25.9	\$ 27.6	\$ 96.2	\$ 94.3	\$ 11.2	\$ 14.8

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

Over time, net assets may serve as a useful indicator of the City's financial position. For the most recently concluded fiscal year, the City's primary government assets exceeded its liabilities by \$96.2 million, which is an increase of \$1.8 million from the prior year, as discussed under the Financial Highlights for 2012 section.

The largest portion of the City's net assets 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 shown above, as of June 30, 2012, this investment totaled \$85.2 million for the entire reporting entity. 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.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE: (CONTINUED)

Statement of Activities:

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

Table 2
Summary of Changes in Net Assets
Years Ended June 30, 2012 and 2011
(In millions)*

	Primary Government						School Board Component	
	Governmental Activities		Business-type Activities		Totals		School Board	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenues:								
Program revenues:								
Charges for services	\$ 5.9	\$ 4.9	\$13.4	\$14.5	\$ 19.3	\$ 19.4	\$ 0.4	\$ 0.4
Operating grants and contributions	3.5	3.8	1.4	1.8	4.9	5.6	6.8	6.3
Capital grants and contributions	2.1	1.6	-	0.2	2.1	1.8	-	-
General revenues:								
General property taxes	57.2	56.4	-	-	57.2	56.4	-	-
Other local taxes	30.2	28.7	-	-	30.2	28.7	-	-
Contribution from City	-	-	-	-	-	-	32.5	29.5
Grants and contributions not restricted to specific programs	5.7	5.7	-	-	5.7	5.7	-	-
Use of money and Property	0.4	0.3	-	-	0.4	0.3	1.6	1.6
Miscellaneous	0.4	2.8	-	-	0.4	2.8	-	-
Gain/(loss) disposable capital assets	-	-	0.1	-	0.1	-	0.0	-
Total revenues	\$105.4	\$104.2	\$14.9	\$16.5	\$120.3	\$120.7	\$41.3	\$37.9
Expenses:								
General government	\$ 7.7	\$ 7.9	\$ -	\$ -	\$ 7.7	\$ 7.9	\$ -	\$ -
Judicial administration	2.0	1.8	-	-	2.0	1.8	-	-
Public safety	23.0	23.0	-	-	23.0	23.0	-	-
Public works	15.2	14.2	17.0	17.1	32.2	31.3	-	-
Health & social services	4.8	4.7	-	-	4.8	4.7	-	-
Education	35.7	35.6	-	-	35.7	35.6	44.9	39.7
Parks, recreation and cultural	4.8	5.3	-	-	4.8	5.3	-	-
Planning and community develop	2.4	2.1	-	-	2.4	2.1	-	-
Interest	5.8	7.6	-	-	5.8	7.6	-	-
Total expenses	\$101.4	\$102.2	\$17.0	\$17.1	\$118.4	\$119.3	\$44.9	\$39.7
Change in net assets before transfers	\$ 4.0	\$ 2.0	\$ (2.2)	\$ (0.6)	\$ 1.8	\$ 1.4	\$ (3.6)	\$ (1.8)
Transfers	(0.4)	-	0.4	-	-	-	-	-
Change in net assets	\$ 3.6	\$ 2.0	\$ (1.8)	\$ (0.6)	\$ 1.8	\$ 1.4	\$ (3.6)	\$ (1.8)
Net assets, beginning as restated	\$ 66.7	\$ 64.7	\$27.6	\$28.2	\$ 94.3	\$ 92.9	\$14.8	\$16.7
Net assets, ending	\$ 70.3	\$ 66.7	\$25.9	\$27.6	\$ 96.2	\$ 94.3	\$11.2	\$14.8

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE: (CONTINUED)

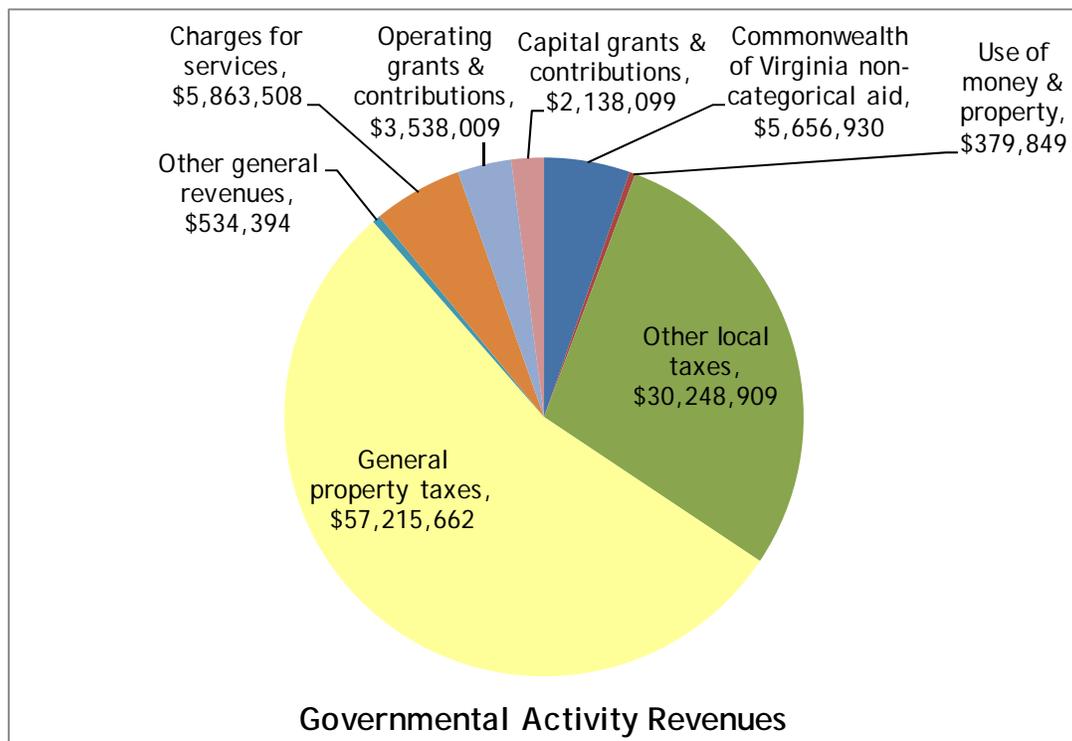
Statement of Activities: (Continued)

Governmental Activities

Revenues for the City's governmental activities were \$105.4 million, which is an increase of \$1.2 million from the prior year.

- Increases in general property taxes, local taxes (e.g. meals tax, business licenses, etc.), charges for services and capital grants and contributions were partially offset by a significant decrease in unrestricted grant revenue. The SAFER grant ended in F/Y 2012, which is the main driver.
- General property taxes are the largest revenue source for the City. These revenues increased by \$0.8 million year over year, as a result of a 2.7% increase in the assessed value of real property and a higher real estate tax rate. Effective January 1, 2012, the real estate tax rate increased from \$.942 to \$1.01 per \$100 of assessed value. General property taxes would have increased more, but a judgment against the City totaling \$1.2 million was paid out of the property tax revenue account. Personal property tax revenues were flat; the rate remains \$4.13 per \$100 of assessed value.
- Capital grant revenues increased as a result of funding received from the Virginia Department of Transportation (VDOT) for bridge improvements on Route 123 and the Kamp Washington / Northfax road improvement project.

The chart below shows F/Y 2012 governmental revenues by program source:



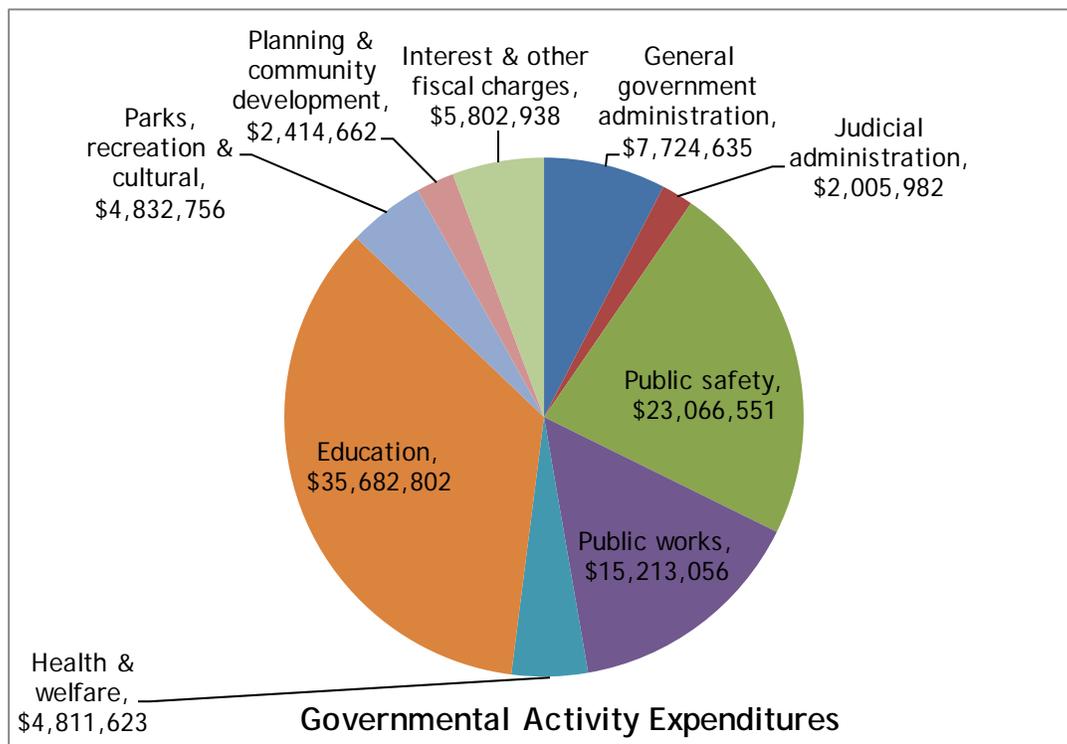
Expenditures for the City's governmental activities were \$101.4 million in F/Y 2012, which is a decrease of \$.8 million from F/Y 2011.

- \$1.8 million in savings on interest on long-term debt were realized due to refundings both in the current and two prior fiscal years.
- Decreases in Parks, Recreation, and Culture's expenditures by \$.5 million were partially offset by increases in Public Works and Community Development. Other departments' expenditures remained flat. Council and staff have continued to watch and cut costs aggressively.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE: (CONTINUED)

Statement of Activities: (Continued)

As shown in the chart below, education remains the City's largest program, followed by Public Safety. Governmental activity expenditures by major category are as follows:



Business-type Activities

Business-type activities decreased the City's net assets by \$1.8 million. Though residential and commercial revenues increased as a result of a 7.5% water rate increase and a 12.0% wastewater rate increase, wholesale water revenues declined over \$1.0 million as Loudoun Water purchased less water from the City during F/Y 12 than in the prior year. CUE bus fares increased by 5.8%; however, the transportation fund required a \$0.4 million transfer from the general fund in F/Y 2012. No fund transfer was needed in F/Y 2011.

Component Unit Activities

The School Board's net assets decreased by \$3.6 million during the year, driven by the following key elements:

- Tuition rose by \$2.5 million due to higher ADM, which is essentially the number of City children attending schools in the FCPS system, and higher administrative costs. There was a \$1.8 million shortfall in the tuition account as a result.
- Increases in capital assets offset by higher accumulated depreciation.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE: (CONTINUED)

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 \$30.3 million, a decrease of \$1.6 million over the prior year. Approximately 43.5% of this total amount (\$13.2 million) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is comprised of non-spendable (\$4.8 million), restricted (\$4.8 million), committed (\$2.5 million), and assigned (\$5.1 million) to indicate that it is not available for new spending.

The general fund is the primary operating fund of the City. The total fund balance increased by \$2.6 million (revenues of \$104.3 million less expenditures of \$105.5 million and other financing sources of \$3.8 million), but the unassigned fund balance decreased by \$2.0 million to \$13.2 million. The main cause is the excess of refunding proceeds over payments to the escrow agent, which are restricted. The City also had more funds committed to construction projects at the end of F/Y 12 versus F/Y 11.

The City's other governmental funds reflected overall decreases in fund balances of \$4.2 million. The total decrease of fund balances consisted of the following: General Capital Projects Fund (\$0.3 million) and the Old Town Fairfax Fund (\$4.5 million). The Other Governmental Funds increased their fund balance by \$0.6 million. All of these fund balances are nonspendable, restricted, committed or assigned and therefore unavailable for spending. Key revenue and expenditure factors have already been discussed.

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 Fund, Water Fund, and Transit Fund. Unrestricted net assets of the Wastewater Utility Fund, Water Utility Fund, and Transportation Fund at the end of the year totaled \$1.4, \$0.3, and \$0.8 million, respectively. The total proprietary fund unrestricted net assets decreased by \$2.2 million from the prior year.

Major events during the current fiscal year included the following:

- Continued investment in the Noman Cole Sewer Treatment Plant CIP upgrades, using bond monies.
- Upgrades to the Goose Creek Water Treatment Plant, dams, and water mains, using bond monies.
- Increases in Wastewater (12.0%) and Water (7.5%) rates and Transit fares (5.8%). CUE also cut one hour of evening weekday service to cut personnel-related costs.

Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE: (CONTINUED)

General Fund Budgetary Highlights
Fiscal Year 2012 (in millions)*

	Final Budget	Actual	Actual Over/(Under) Final Budget
Revenues:			
Taxes	\$ 89.0	\$ 88.1	\$ (0.9)
Intergovernmental	7.4	9.9	2.5
Other	5.6	6.3	0.7
Totals	102.0	104.3	2.3
Expenditures	101.9	105.5	3.6
Excess of revenues over expenditures:	0.1	(1.2)	(1.3)
Other financing sources and (uses):			
Issuance of refunding debt	-	64.1	64.1
Payment to refunded bond escrow agent	-	(61.0)	(61.0)
Bond premium	-	5.7	5.7
Gain on sale of capital assets	-	0.2	0.2
Transfers out	(4.9)	(5.2)	(0.3)
Totals	(4.9)	3.8	8.7
Changes in fund balance	(4.8)	2.6	7.4
Fund balance, beginning	4.8	16.5	11.7
Fund balance, ending	\$ -	\$ 19.1	\$ 19.1

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

Actual revenues were greater than final budget amounts by \$2.3 million, and actual expenditures were over the final budget amounts by \$3.6 million. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2012, include the following:

- Tax revenues were bolstered by increases in meals taxes, local sales taxes, and business licenses. However, tax revenues were pushed \$1.2 million lower due to the real estate assessment judgment against the City. The \$1.2 million was paid out of the real estate tax revenue accounts.
- Three advance refundings of two school and the public facility revenue bonds is the main driver of other financing source, which is the excess of refunding proceeds over payments to the escrow agent.
- Actual expenditures were \$3.6 million more than the final budget amount. Principal retirement and the accounting treatment of losses on current refundings (Eleven Oaks) comprise the majority of this overage.

CAPITAL ASSETS

At the end of June 30, 2012, the City's governmental activities, business-type activities, and the activities of the Component Unit School Board had invested \$206.3, \$36.3, \$9.9 million net of accumulated depreciation, respectively, in a variety of capital assets, as reflected in the following table.

Table 3
Statement of Capital Assets
June 30, 2012 and 2011
(In millions)*

	Primary Government						Component Unit	
	Governmental Activities		Business-type Activities		Totals		School Board	
	2012	2011	2012	2011	2012	2011	2012	2011
Land	\$ 37.9	\$ 36.2	\$ 0.7	\$ 0.7	\$ 38.6	\$ 36.9	\$ 1.4	\$ 1.4
Construction in Progress	29.1	30.4	3.7	0.8	32.8	31.2	-	-
Depreciable Capital Assets:								
Buildings and Improvements	49.6	44.8	31.0	31.0	80.6	75.8	26.0	22.7
Machinery and Equipment	23.4	22.6	6.3	7.5	29.7	30.1	1.5	1.5
Joint Tenancy Assets	90.4	93.8	-	-	90.4	93.8	-	-
Intangible Assets	-	-	12.1	9.7	12.1	9.7	-	-
Infrastructure	26.1	26.2	28.2	28.0	54.3	54.2	-	-
Accumulated depreciation	(50.2)	(47.4)	(45.7)	(45.5)	(95.9)	(92.9)	(19.0)	(12.4)
Total	\$ 206.3	\$ 206.6	\$ 36.3	\$ 32.2	\$ 242.6	\$ 238.8	\$ 9.9	\$ 13.2

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

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$242.6 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, sewer lines, water lines, sidewalks, curbs, bike paths and traffic lights. The net increase in the City's investment in capital assets for the current fiscal year was \$3.8 million.

Major capital asset transactions of the City during F/Y 2012 in both the governmental and business-type activities included the following:

- Upgrades to the Water Treatment Plant and infrastructure for \$2.8 million (construction in progress).
- Continued investment in the Noman Cole Sewer Treatment Plant of \$2.4 million (construction in progress).
- Leasing of multiple vehicle and equipment replacements for \$812,859.
- Additional construction in progress activity includes: Route 50 re-paving, bridge improvements, Old Town redevelopment projects, Northfax improvements, and traffic signal controller and emergency power upgrades.

CAPITAL ASSETS: (CONTINUED)

The City's investment in capital assets for its School Board Component Unit as of June 30, 2012, was \$9.9 million, net of accumulated depreciation, a net decrease of \$3.3 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

**General Obligation, Revenue Bonds and Notes Payable
(In millions)***

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds						
2010 Refunding Bonds (8)	\$ 11.8	\$ 11.9	\$ -	\$ -	\$ 11.8	\$ 11.9
2010 School Refunding Bonds (3,12)	20.2	20.2	-	-	20.2	20.2
2012 VRA Refunding Bonds (5)	33.1	-	-	-	33.1	-
2012 School Refunding Bonds A (3,4)	3.3	-	-	-	3.3	-
2012 School Refunding Bonds B (3,4)	19.3	-	-	-	19.3	-
2005 School Bonds (3)	19.2	28.9	-	-	19.2	28.9
2005 School Refunding Bonds (3)	7.8	9.1	-	-	7.8	9.1
2004 School Bonds (3)	18.7	30.6	-	-	18.7	30.6
2002 Public Improvements (11)	0.9	1.9	-	-	0.9	1.9
2008 Utility Revenue Bonds (6)	-	-	4.3	4.5	4.3	4.5
2011 VRA Revenue Bond (10)	-	-	24.1	24.1	24.1	24.1
Fairfax County Note Payable (2)	0.2	0.4	-	-	0.2	0.4
Downtown Redevelopment Note Payable (5)	-	37.2	-	-	-	37.2
Public Improvement COPS (9)	17.6	19.9	-	-	17.6	19.9
Bus Parking Lot Note Payable (12)	3.9	-	-	-	3.9	-
Eleven Oaks Note Payable (7)	4.3	4.2	-	-	4.3	4.2
Gross debt	\$ 160.3	\$ 164.3	\$ 28.4	\$ 28.6	\$ 188.7	\$ 192.9
Less Self-supporting Debt:						
Water System (10)	\$ -	\$ -	\$ 15.9	\$ 16.1	\$ 15.9	\$ 16.1
Wastewater System (10)	-	-	12.5	12.5	12.5	12.5
Total Self-supporting	\$ -	\$ -	\$ 28.4	\$ 28.6	\$ 28.4	\$ 28.6
Net Direct Debt (1)	\$ 160.3	\$ 164.3	\$ -	\$ -	\$ 160.3	\$ 164.3

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

See notes on the following page.

CITY OF FAIRFAX'S OUTSTANDING DEBT: (CONTINUED)

Notes:

- (1) Net direct debt excludes debt service on General Obligation Bonds 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) Note payable to Fairfax County for receipt of the County's car rental tax.
- (3) The financing liability of all School Board capital asset projects has to be reflected in the City's Statement of Net Assets; the City is legally obligated for the retirement of the debt.
- (4) These bonds were refunded in advance in FY2012 in two series for maturities after 2015, resulting in savings of \$5.7M (NPV) over the life of the new bonds.
- (5) The Downtown Redevelopment Financing was fully refunded (2012 VRA Advance Refunding), resulting in savings of \$3.5M (NPV) over the life of the new bond.
- (6) Water and Sewer system projects.
- (7) Enabled City to complete the George Mason Boulevard Road project. This note was fully refunded (current) in FY12 to lower interest payments and push off the balloon payment.
- (8) The advance refunding was undertaken to reduce the total interest costs over the next 15 years by \$2.2M.
- (9) The Public Improvement Certificates of Participation (COPS) were issued in three series: A (3 years, 1.27%); B (8 years, 3.10%); and C (8 years, 3.10%). The City will realize interest savings of approximately \$1.1M over the life of these Certificates.
- (10) 30 year, 3.97% lease revenue bond, through the Virginia Resources Authority (Virginia Pooled Financing Program). The City receives an interest subsidy from the Federal government through the Build America Bonds (BABs) program; however, the interest subsidy may be in jeopardy due to sequestration. These bond monies will be used for the City's investment in capital improvements to the Noman Cole Sewer Treatment Plant and to make upgrades to the City's water treatment plant and distribution system.
- (11) Unrefunded portion of 2002 General Obligation bonds issued for improvements to the City.
- (12) Taxable lease financing done at the same time the Eleven Oaks refunding occurred. These monies will be used to purchase property for the development of a school bus parking lot.

Capital leases have not been included in the table above. The outstanding amount for the capital leases is \$1.3 million. Amounts due for compensated absences have also been omitted in the table above.

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.

ECONOMIC FACTORS

While certain economic indicators, such as increases in real property assessments, meals taxes, business licenses, and local sales taxes, have improved for the second consecutive year, overall economic recovery still remains sluggish. Also, the City's proximity to the seat of the Federal government, long viewed as a stabilizing factor to the entire region's economy, is continuing to show a downside. Both Standard & Poors and Moody's Investor Services re-affirmed the City's AAA and Aaa ratings, respectively, Moody's has not removed their "negative outlook" designation. There is still much uncertainty about both the short and long-term impacts of the "fiscal cliff", health care legislation, and inflation that is inhibiting business investment. Additionally, school tuition is again projected to increase due to a growing student population, compounded with escalating operating costs. Further, as noted by Fairfax County Public Schools, the replenishment of deferred VRS costs for schools will begin in F/Y 2013 and continue through F/Y 2021. The City will bear a portion of these replenishment costs.

Though still challenged by the downturn in the national, regional and local economies, the City has a strong economic base. Overall office space vacancy rates (10.4%) and retail vacancy rates (2.8%) in the City are down from 2011. The City's office space vacancy rates are lower than those of the nearest surrounding jurisdictions. The City remains supportive of the redevelopment of its Route 50/29 Corridor, and is aggressively pursuing multiple redevelopment opportunities primarily at and around 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.

A new high-end townhome community was completed in F/Y 2012 (Madison Mews), with other such projects and possible multi-family and/or mixed-use properties in the pipeline.

A sluggish economy and an uncertain economic forecast coupled with continuing community expectations for high quality services will again force the City to confront difficult choices. Future revenue from a slow-recovering national and local economy may not keep up with the expenditures necessary to maintain today's high level of services. Challenges lie ahead since the City's financial position is not as robust as in past years; however, with improving assessments and tax revenues, our community is positioned to remain among the strongest financially rated communities in the United States.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and 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.

This page intentionally left blank

BASIC FINANCIAL STATEMENTS

This page intentionally left blank

Government-wide Financial Statements

This page intentionally left blank

Statement of Net Assets
At June 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business- Type Activities	Totals	School Board	Nonmajor Component Units
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 27,662,208	\$ 18,625,169	\$ 46,287,377	\$ 2,499	\$ 373,494
Receivables (net of allowance for uncollectibles):					
Property taxes	28,841,328	-	28,841,328	-	-
Accounts receivable	1,269,891	2,102,426	3,372,317	-	-
Due from other governments	3,568,796	1,007,775	4,576,571	659,738	-
Due from component units	165,000	-	165,000	-	-
Inventories	4,717,985	54,887	4,772,872	-	862,594
Prepaid items	63,620	6,038	69,658	-	-
Advance to other governments	-	-	-	1,371,694	-
Due from primary government	-	-	-	1,232,951	-
Total Current Assets	\$ 66,288,828	\$ 21,796,295	\$ 88,085,123	\$ 3,266,882	\$ 1,236,088
Noncurrent Assets:					
Financing costs, net	\$ 1,420,304	\$ 432,221	\$ 1,852,525	\$ -	\$ -
Capital assets (net of accumulated depreciation):					
Land and improvements	\$ 37,893,473	\$ 663,198	\$ 38,556,671	\$ 1,381,115	\$ -
Buildings and improvements	49,517,472	31,033,155	80,550,627	26,028,396	-
Equipment	23,412,248	6,278,494	29,690,742	1,461,522	-
Joint tenancy assets	90,423,902	-	90,423,902	-	-
Infrastructure	26,140,969	28,243,507	54,384,476	-	-
Intangible assets	-	12,075,441	12,075,441	-	-
Construction in progress	29,080,088	3,702,132	32,782,220	24,644	-
Less: Accumulated depreciation	(50,169,003)	(45,663,162)	(95,832,165)	(18,971,891)	-
Total capital assets	\$ 206,299,149	\$ 36,332,765	\$ 242,631,914	\$ 9,923,786	\$ -
Total Noncurrent Assets	\$ 207,719,453	\$ 36,764,986	\$ 244,484,439	\$ 9,923,786	\$ -
Total Assets	\$ 274,008,281	\$ 58,561,281	\$ 332,569,562	\$ 13,190,668	\$ 1,236,088
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued liabilities	\$ 3,368,822	\$ 1,346,928	\$ 4,715,750	\$ 114,870	\$ -
Due to other governments	-	-	-	1,777,819	-
Retainage payable	406,400	17,858	424,258	-	-
Accrued interest payable	2,009,946	432,938	2,442,884	-	20,681
Customer deposits and other liabilities	2,014,877	829,047	2,843,924	-	-
Due to primary government	-	-	-	-	165,000
Due to component unit	1,232,951	-	1,232,951	-	-
Unearned revenue	28,647,355	-	28,647,355	-	-
Current portion of long-term obligations	8,799,780	241,342	9,041,122	2,830	-
Total Current Liabilities	\$ 46,480,131	\$ 2,868,113	\$ 49,348,244	\$ 1,895,519	\$ 185,681
Noncurrent Liabilities:					
Noncurrent portion of long-term obligations	157,196,639	29,734,437	186,931,076	25,470	884,614
Total Liabilities	\$ 203,676,770	\$ 32,602,550	\$ 236,279,320	\$ 1,920,989	\$ 1,070,295
NET ASSETS					
Invested in capital assets, net of related debt	\$ 51,917,773	\$ 23,422,114	\$ 75,339,887	\$ 9,923,786	\$ -
Unrestricted assets	18,413,738	2,536,617	20,950,355	1,345,893	165,793
Total Net Assets	\$ 70,331,511	\$ 25,958,731	\$ 96,290,242	\$ 11,269,679	\$ 165,793
Total Liabilities and Net Assets	\$ 274,008,281	\$ 58,561,281	\$ 332,569,562	\$ 13,190,668	\$ 1,236,088

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

CITY OF FAIRFAX, VIRGINIA

Statement of Activities
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 7,724,635	\$ 386,170	\$ 271,658	\$ -
Judicial administration	2,005,982	1,026,807	-	-
Public safety	23,066,551	2,633,859	969,851	-
Public works	15,213,056	382,035	2,277,255	2,138,099
Health and welfare	4,811,623	-	-	-
Education	35,682,802	-	-	-
Parks, recreation, and cultural	4,832,756	1,075,741	19,245	-
Community development	2,414,662	358,896	-	-
Interest on long-term debt	5,802,938	-	-	-
Total governmental activities	\$ 101,555,005	\$ 5,863,508	\$ 3,538,009	\$ 2,138,099
Business-type activities:				
Sewer	\$ 4,768,856	\$ 4,499,929	\$ 209,767	\$ -
Water	9,286,729	7,765,200	193,631	-
Transportation	2,977,927	1,153,240	1,039,435	-
Total business-type activities	\$ 17,033,512	\$ 13,418,369	\$ 1,442,833	\$ -
Total primary government	\$ 118,588,517	\$ 19,281,877	\$ 4,980,842	\$ 2,138,099
COMPONENT UNITS:				
School Board	\$ 44,884,486	\$ 445,037	\$ 6,795,139	\$ -
Nonmajor component units:				
Industrial Development Authority	\$ 760,708	\$ 747,255	\$ 25,000	\$ -
Economic Development Authority	170,861	41,753	25,000	-
Total nonmajor component units	\$ 931,569	\$ 789,008	\$ 50,000	\$ -
Total component units	\$ 45,816,055	\$ 1,234,045	\$ 6,845,139	\$ -

General revenues:
 General property taxes
 Local sales and use taxes
 Business license taxes
 Consumer utility taxes
 Meals tax
 Other local taxes
 Unrestricted revenues from use of money and property
 Gain on disposal of capital assets
 Contribution from City
 Grants and contributions not restricted to specific programs
 Miscellaneous
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning, as restated
 Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets					
Primary Government			Component Units		
Governmental Activities	Business-Type Activities	Total	School Board	Nonmajor Component Units	
\$ (7,066,807)	\$ -	\$ (7,066,807)	\$ -	\$ -	
(979,175)	-	(979,175)	-	-	
(19,462,841)	-	(19,462,841)	-	-	
(10,415,667)	-	(10,415,667)	-	-	
(4,811,623)	-	(4,811,623)	-	-	
(35,682,802)	-	(35,682,802)	-	-	
(3,737,770)	-	(3,737,770)	-	-	
(2,055,766)	-	(2,055,766)	-	-	
(5,802,938)	-	(5,802,938)	-	-	
<u>\$ (90,015,389)</u>	<u>\$ -</u>	<u>\$ (90,015,389)</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ -	\$ (59,160)	\$ (59,160)	\$ -	\$ -	
-	(1,327,898)	(1,327,898)	-	-	
-	(785,252)	(785,252)	-	-	
<u>\$ -</u>	<u>\$ (2,172,310)</u>	<u>\$ (2,172,310)</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>\$ (90,015,389)</u>	<u>\$ (2,172,310)</u>	<u>\$ (92,187,699)</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (37,644,310)</u>	<u>\$ -</u>	
\$ -	\$ -	\$ -	\$ -	\$ 11,547	
-	-	-	-	(104,108)	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (92,561)</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (37,644,310)</u>	<u>\$ (92,561)</u>	
\$ 57,215,662	\$ -	\$ 57,215,662	\$ -	\$ -	
10,200,696	-	10,200,696	-	-	
8,554,669	-	8,554,669	-	-	
1,727,091	-	1,727,091	-	-	
5,252,922	-	5,252,922	-	-	
4,513,531	-	4,513,531	-	-	
379,849	54,958	434,807	1,573,099	388	
161,424	-	161,424	-	182,145	
-	-	-	32,493,659	-	
5,656,930	-	5,656,930	-	-	
372,970	-	372,970	20,000	85,986	
(428,000)	428,000	-	-	-	
<u>\$ 93,607,744</u>	<u>\$ 482,958</u>	<u>\$ 94,090,702</u>	<u>\$ 34,086,758</u>	<u>\$ 268,519</u>	
\$ 3,592,355	\$ (1,689,352)	\$ 1,903,003	\$ (3,557,552)	\$ 175,958	
66,739,156	27,648,083	94,387,239	14,827,231	(10,165)	
<u>\$ 70,331,511</u>	<u>\$ 25,958,731</u>	<u>\$ 96,290,242</u>	<u>\$ 11,269,679</u>	<u>\$ 165,793</u>	

This page intentionally left blank

Fund Financial Statements

This page intentionally left blank

Balance Sheet - Governmental Funds
At June 30, 2012

	General	General Capital Projects	Old Town Fairfax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 20,062,572	\$ 1,563,629	\$ 1,767,311	\$ 4,268,696	\$ 27,662,208
Receivables (Net of allowance for uncollectibles):					
Taxes, including penalties	28,841,328	-	-	-	28,841,328
Accounts	1,213,793	56,098	-	-	1,269,891
Inventories	661,592	4,056,393	-	-	4,717,985
Prepaid items	44,274	-	19,346	-	63,620
Due from other governments	2,767,961	800,835	-	-	3,568,796
Due from component units	5,000	160,000	-	-	165,000
	<u>53,596,520</u>	<u>6,636,955</u>	<u>1,786,657</u>	<u>4,268,696</u>	<u>66,288,828</u>
Total assets	\$ 53,596,520	\$ 6,636,955	\$ 1,786,657	\$ 4,268,696	\$ 66,288,828
LIABILITIES					
Accounts payable and accrued liabilities	\$ 2,597,644	\$ 581,478	\$ 27,797	\$ 161,903	\$ 3,368,822
Retainage payable	-	298,900	107,500	-	406,400
Customer deposits and other liabilities	1,835,407	179,470	-	-	2,014,877
Due to component unit	1,232,951	-	-	-	1,232,951
Deferred revenue	28,823,176	95,769	-	-	28,918,945
	<u>34,489,178</u>	<u>1,155,617</u>	<u>135,297</u>	<u>161,903</u>	<u>35,941,995</u>
Total liabilities	\$ 34,489,178	\$ 1,155,617	\$ 135,297	\$ 161,903	\$ 35,941,995
FUND BALANCES					
Nonspendable	\$ 705,866	\$ 4,056,393	\$ 19,346	\$ -	\$ 4,781,605
Restricted	4,598,270	-	-	169,362	4,767,632
Committed	-	1,022,308	252,162	1,179,532	2,454,002
Assigned	597,541	402,637	1,379,852	2,757,899	5,137,929
Unassigned	13,205,665	-	-	-	13,205,665
	<u>19,107,342</u>	<u>5,481,338</u>	<u>1,651,360</u>	<u>4,106,793</u>	<u>30,346,833</u>
Total fund balances	\$ 19,107,342	\$ 5,481,338	\$ 1,651,360	\$ 4,106,793	\$ 30,346,833
Total liabilities and fund balances	<u>\$ 53,596,520</u>	<u>\$ 6,636,955</u>	<u>\$ 1,786,657</u>	<u>\$ 4,268,696</u>	<u>\$ 66,288,828</u>

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

Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Assets
At June 30, 2012

		<u>Primary Government</u>
Total fund balances - governmental funds	\$	30,346,833
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:		
Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds:		
Capital assets	\$ 256,468,152	
Less: accumulated depreciation	<u>(50,169,003)</u>	206,299,149
Deferred revenue represents amounts that were not available to fund current expenditures and therefore is not reported as revenue in the governmental funds.		
		271,590
Other assets used in governmental activities are not financial resources and therefore not reported in the governmental funds:		
Financing costs	\$ 1,627,616	
Less: accumulated amortization	<u>(207,312)</u>	1,420,304
Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.		
Interest payable		(2,009,946)
Long-term liabilities, including bonds payable, are not due and payable in the current current period and therefore are not reported as liabilities in the governmental funds.		
General obligation bonds	\$ (101,361,000)	
Lease revenue bonds	(33,105,000)	
Notes payable	(8,433,465)	
Public facility certificate of participation	(17,572,800)	
Capital lease	(1,279,103)	
Premiums on bonds payable	(8,971,643)	
Deferred loss on financing	9,656,615	
Other post employment benefits	(2,778,727)	
Compensated absences	<u>(2,151,296)</u>	
Total long-term liabilities		<u>(165,996,419)</u>
Net assets of governmental activities	\$	<u><u>70,331,511</u></u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances -
 Governmental Funds
 Year Ended June 30, 2012

	Governmental Funds				Total Governmental Funds
	General	General Capital Projects	Old Town Fairfax Fund	Other Governmental Funds	
Revenues:					
General property taxes	\$ 57,920,904	\$ -	\$ -	\$ -	\$ 57,920,904
Other local taxes	30,248,909	-	-	-	30,248,909
Permits, privilege fees and regulatory licenses	1,540,688	302,600	-	-	1,843,288
Fines and forfeitures	1,288,332	-	-	-	1,288,332
Revenue from use of money and property	377,333	905	1,611	-	379,849
Charges for services	2,731,888	-	-	-	2,731,888
Miscellaneous	294,879	-	-	78,091	372,970
Intergovernmental:					
Fairfax County	690,751	-	-	-	690,751
Commonwealth	8,867,244	591,572	-	-	9,458,816
Federal	308,450	1,149,307	397,220	19,245	1,874,222
Total revenues	\$ 104,269,378	\$ 2,044,384	\$ 398,831	\$ 97,336	\$ 106,809,929
Expenditures:					
Current:					
General government administration	\$ 7,342,435	\$ 512	\$ -	\$ -	\$ 7,342,947
Judicial administration	1,920,697	-	-	-	1,920,697
Public safety	22,227,780	315,192	-	-	22,542,972
Public works	10,743,014	5,052,532	-	916,088	16,711,634
Health and welfare	4,757,819	-	-	-	4,757,819
Education	32,083,787	84,628	-	-	32,168,415
Parks, recreation, and cultural	4,956,285	554,598	880	44,495	5,556,258
Community development	2,012,345	-	2,427,008	-	4,439,353
Debt service:					
Principal retirement	11,986,841	138,161	-	-	12,125,002
Interest and other fiscal charges	7,487,514	157,871	-	-	7,645,385
Total expenditures	\$ 105,518,517	\$ 6,303,494	\$ 2,427,888	\$ 960,583	\$ 115,210,482
Excess (deficiency) of revenues over expenditures	\$ (1,249,139)	\$ (4,259,110)	\$ (2,029,057)	\$ (863,247)	\$ (8,400,553)
Other financing sources (uses):					
Issuance of refunding debt	\$ 64,066,000	\$ -	\$ -	\$ -	\$ 64,066,000
Capital lease issuance	-	812,858	-	-	812,858
Bond premium	5,766,233	-	-	-	5,766,233
Proceeds from the sale of capital assets	240,000	-	-	-	240,000
Payment to refunded bond escrow agent	(61,004,350)	-	(2,669,463)	-	(63,673,813)
Transfers in	-	3,212,108	188,153	1,402,175	4,802,436
Transfers (out)	(5,230,436)	-	-	-	(5,230,436)
Total other financing sources (uses)	\$ 3,837,447	\$ 4,024,966	\$ (2,481,310)	\$ 1,402,175	\$ 6,783,278
Net changes in fund balances	\$ 2,588,308	\$ (234,144)	\$ (4,510,367)	\$ 538,928	\$ (1,617,275)
Fund balances at beginning of year	16,519,034	5,715,482	6,161,727	3,567,865	31,964,108
Fund balances at end of year	\$ 19,107,342	\$ 5,481,338	\$ 1,651,360	\$ 4,106,793	\$ 30,346,833

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

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2012

		<u>Primary Government Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net changes in fund balances - total governmental funds	\$	(1,617,275)
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 capital outlays exceeded depreciation in the current period. The following details support this adjustment:		
Capital outlay	\$ 6,653,450	
Depreciation expense	<u>(6,505,256)</u>	148,194
Transfer of assets from Primary Government to the Component Unit School Board		(409,872)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.		(78,576)
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:		
Deferred taxes		(705,242)
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 issuance costs, premiums, discounts, and similar items. A summary of items supporting this adjustment is as follows:		
Debt issued or incurred:		
Issuance of refunding debt	\$ (64,066,000)	
Bond premium	(5,766,233)	
Deferred amount on refunding	6,296,547	
Issuance of capital leases	(812,858)	
Issuance costs	693,189	
Loss on refunding		
Principal repayments on debt:		
Principal retired on general obligation debt	24,005,000	
Principal retired on public improvement bonds	2,333,000	
Principal retired on lease revenue bonds	37,285,000	
Principal retired on notes payable	4,306,660	
Principal retired on capital lease obligations	<u>411,660</u>	4,685,965
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	\$ 995,398	
Change in compensated absences	15,589	
Change in other post employment benefits	(692,952)	
Capitalized financing costs	(562,573)	
Amortization of premiums on bonds payable	2,081,041	
Amortization of loss on refunding	<u>(267,342)</u>	1,569,161
Change in net assets of governmental activities	\$	<u>3,592,355</u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2012

Fund, Function, Activity, Element	General Fund			Variance From Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
General property taxes	\$ 60,254,848	\$ 60,254,848	\$ 57,920,904	\$ (2,333,944)
Other local taxes	28,743,079	28,743,079	30,248,909	1,505,830
Permits, privilege fees and regulatory licenses	1,354,166	1,364,166	1,540,688	176,522
Fines and forfeitures	1,134,022	1,134,022	1,288,332	154,310
Revenue from use of money and property	358,400	358,400	377,333	18,933
Charges for services	2,342,565	2,462,565	2,731,888	269,323
Miscellaneous	242,642	244,644	294,879	50,235
Intergovernmental:				
Fairfax County	974,082	974,082	690,751	(283,331)
Commonwealth	5,897,933	5,897,933	8,867,244	2,969,311
Federal	346,400	599,469	308,450	(291,019)
Total revenues	\$ 101,648,137	\$ 102,033,208	\$ 104,269,378	\$ 2,236,170
Expenditures:				
General government administration:				
Legislative:				
City council	\$ 42,850	\$ 42,850	\$ 29,470	\$ 13,380
City clerk	153,789	152,853	144,404	8,449
Total legislative	\$ 196,639	\$ 195,703	\$ 173,874	\$ 21,829
Board of elections:				
Electoral board	\$ 160,694	\$ 162,394	\$ 153,763	\$ 8,631
General and financial administration:				
City manager	\$ 330,052	\$ 330,052	\$ 325,498	\$ 4,554
City attorney	540,000	840,000	888,244	(48,244)
Public audit of accounts	82,100	82,100	74,200	7,900
Treasurer	616,418	616,418	597,541	18,877
Commissioner of revenue	938,378	938,761	924,207	14,554
Personnel	405,573	405,573	393,213	12,360
Community relations	82,499	74,499	69,209	5,290
Cable television	138,484	142,729	143,820	(1,091)
Information technology	1,473,059	1,601,357	1,449,827	151,530
Printing and office supplies	251,485	234,388	225,190	9,198
Motor pool	-	33,976	-	33,976
Telephone services	125,000	128,468	123,940	4,528
Finance and Accounting	624,164	624,317	605,233	19,084
Real estate assessment	460,272	468,272	471,125	(2,853)
Marketing	125,937	141,937	121,492	20,445
Retirement	68,000	68,000	43,172	24,828
Contingencies	50,000	188,550	225,935	(37,385)
Salary vacancy factor	(1,044,183)	(1,044,183)	-	(1,044,183)
Risk management	408,220	408,220	332,952	75,268
Total general and financial administration	\$ 5,675,458	\$ 6,283,434	\$ 7,014,798	\$ (731,364)
Total general government administration	\$ 6,032,791	\$ 6,641,531	\$ 7,342,435	\$ (700,904)

Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2012

Fund, Function, Activity, Element	General Fund			Variance From Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Expenditures: (continued)				
Judicial administration:				
General district court	\$ 17,450	\$ 17,450	\$ 13,611	\$ 3,839
Commonwealth attorney	63,500	63,500	67,060	(3,560)
Joint court service	832,714	832,714	654,929	177,785
Jail and custody services	1,185,424	1,185,424	1,185,097	327
Total judicial administration	\$ 2,099,088	\$ 2,099,088	\$ 1,920,697	\$ 178,391
Public safety:				
Police administration	\$ 1,049,522	\$ 1,051,750	\$ 1,024,310	\$ 27,440
Police services	3,699,134	3,808,830	3,303,854	504,976
Police operations	6,566,301	6,572,229	6,474,288	97,941
Fire and rescue administration	1,067,411	1,139,338	1,124,285	15,053
Fire and rescue suppression	8,993,057	9,110,163	8,591,422	518,741
Code enforcement	1,845,683	1,931,180	1,709,621	221,559
Total public safety	\$ 23,221,108	\$ 23,613,490	\$ 22,227,780	\$ 1,385,710
Public works:				
Highways	\$ 1,091,749	\$ 1,114,998	\$ 1,141,392	\$ (26,394)
Concrete maintenance	863,486	843,486	766,048	77,438
Snow and ice removal	291,630	320,733	177,593	143,140
Storm drainage	744,984	744,984	729,295	15,689
Highways, lighting, and signals	2,158,522	2,203,019	1,875,394	327,625
Refuse collection	2,484,798	2,484,798	2,380,853	103,945
Building maintenance	1,621,987	1,628,051	1,597,600	30,451
Street right of way and public grounds	1,212,071	1,219,571	1,075,411	144,160
Administration	807,062	972,212	839,823	132,389
County agent	46,000	46,000	32,398	13,602
Regional agencies	170,616	170,616	127,207	43,409
Total public works	\$ 11,492,905	\$ 11,748,468	\$ 10,743,014	\$ 1,005,454
Health and welfare:				
Health service department	\$ 1,183,816	\$ 1,183,816	\$ 986,953	\$ 196,863
Commission for women	750	750	467	283
Community Services Board	1,309,900	1,309,900	1,309,900	-
Senior citizen tax relief	679,342	705,342	713,587	(8,245)
Social services	1,774,263	1,774,263	1,668,157	106,106
Human services coordinator	79,969	79,969	78,755	1,214
Total health and social services	\$ 5,028,040	\$ 5,054,040	\$ 4,757,819	\$ 296,221
Education:				
Contribution to Fairfax City School Board	\$ 30,572,048	\$ 30,643,553	\$ 32,083,787	\$ (1,440,234)

Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2012

Fund, Function, Activity, Element	General Fund			Variance From Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Expenditures: (continued)				
Parks, recreation and cultural:				
Recreation - administration	\$ 1,854,559	\$ 1,977,142	\$ 2,070,551	\$ (93,409)
Special events	340,623	377,104	327,122	49,982
Parks and ball field maintenance	1,083,896	1,076,147	1,084,068	(7,921)
Recreation - historic resources	507,441	520,756	505,110	15,646
Recreation - old town hall	322,444	314,441	278,683	35,758
Total recreation	\$ 4,108,963	\$ 4,265,590	\$ 4,265,534	\$ 56
Library services	\$ 823,000	\$ 823,000	\$ 690,751	\$ 132,249
Total parks, recreation and cultural	\$ 4,931,963	\$ 5,088,590	\$ 4,956,285	\$ 132,305
Planning and community development:				
Planning	\$ 934,164	\$ 932,820	\$ 1,035,732	\$ (102,912)
Community development	936,185	983,939	727,336	256,603
Economic development	338,383	314,383	249,277	65,106
Total planning and community development	\$ 2,208,732	\$ 2,231,142	\$ 2,012,345	\$ 218,797
Debt service:				
Principal retirement	\$ 7,362,625	\$ 7,362,625	\$ 11,986,841	\$ (4,624,216)
Interest and fiscal charges	7,369,861	7,369,859	7,487,514	(117,655)
Total debt service	\$ 14,732,486	\$ 14,732,484	\$ 19,474,355	\$ (4,741,871)
Total expenditures	\$ 100,319,161	\$ 101,852,386	\$ 105,518,517	\$ (3,666,131)
Excess (deficiency) of revenues over expenditures	\$ 1,328,976	\$ 180,822	\$ (1,249,139)	\$ (1,429,961)
Other financing sources (uses):				
Issuance of refunding debt	\$ -	\$ -	\$ 64,066,000	\$ 64,066,000
Bond premium	-	-	5,766,233	5,766,233
Proceeds from the sale of capital assets	-	-	240,000	240,000
Payment to refunded bond escrow agent	-	-	(61,004,350)	(61,004,350)
Transfers (out)	(4,956,668)	(4,957,604)	(5,230,436)	(272,832)
Total other financing sources (uses)	\$ (4,956,668)	\$ (4,957,604)	\$ 3,837,447	\$ 8,795,051
Net changes in fund balance	\$ (3,627,692)	\$ (4,776,782)	\$ 2,588,308	\$ 7,365,090
Fund balance at beginning of year	3,627,692	4,776,782	16,519,034	11,742,252
Fund balance at end of year	\$ -	\$ -	\$ 19,107,342	\$ 19,107,342

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

Statement of Net Assets - Proprietary Funds
At June 30, 2012

	Business-type Activities - Enterprise Funds			Totals
	Major Funds		Non-Major Fund	
	Sewer Utility Fund	Water Utility Fund	Transportation Fund	
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 7,722,936	\$ 10,672,892	\$ 229,341	\$ 18,625,169
Receivables (net of allowance for uncollectibles):				
Accounts receivable	488,457	1,613,969	-	2,102,426
Due from other governments	7,775	-	1,000,000	1,007,775
Due from other funds	-	301,690	-	301,690
Prepaid items	266	5,772	-	6,038
Inventories	-	54,887	-	54,887
Total Current Assets	\$ 8,219,434	\$ 12,649,210	\$ 1,229,341	\$ 22,097,985
Noncurrent Assets				
Financing costs, net	\$ 224,755	\$ 207,466	\$ -	\$ 432,221
Capital assets:				
Land and improvements	\$ 17,583	\$ 645,615	\$ -	\$ 663,198
Buildings and improvements	1,264,570	29,541,627	226,958	31,033,155
Equipment	1,343,981	2,709,627	2,224,886	6,278,494
Water and sewer infrastructure	8,149,673	20,093,834	-	28,243,507
Intangible assets	12,075,441	-	-	12,075,441
Construction in progress	-	3,702,132	-	3,702,132
Less: Accumulated depreciation	(9,049,888)	(34,667,897)	(1,945,377)	(45,663,162)
Total Capital Assets (net)	\$ 13,801,360	\$ 22,024,938	\$ 506,467	\$ 36,332,765
Total Noncurrent Assets	\$ 14,026,115	\$ 22,232,404	\$ 506,467	\$ 36,764,986
Total Assets	\$ 22,245,549	\$ 34,881,614	\$ 1,735,808	\$ 58,862,971
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 767,358	\$ 523,376	\$ 56,194	\$ 1,346,928
Retainage payable	-	17,858	-	17,858
Due to other funds	301,690	-	-	301,690
Accrued interest	180,619	252,319	-	432,938
Customer deposits and other liabilities	16,500	797,547	15,000	829,047
Current portion of compensated absences	1,265	12,860	12,182	26,307
Current portion of notes and bonds payable	11,978	203,057	-	215,035
Total Current Liabilities	\$ 1,279,410	\$ 1,807,017	\$ 83,376	\$ 3,169,803
Noncurrent Liabilities				
Noncurrent portion of compensated absences	\$ 74,466	\$ 171,909	\$ 98,266	\$ 344,641
Noncurrent portion of other post employment benefits	92,697	266,008	207,111	565,816
Noncurrent portion of notes and bonds payable	12,856,990	15,966,990	-	28,823,980
Total Noncurrent Liabilities	\$ 13,024,153	\$ 16,404,907	\$ 305,377	\$ 29,734,437
Total Liabilities	\$ 14,303,563	\$ 18,211,924	\$ 388,753	\$ 32,904,240
NET ASSETS				
Invested in capital assets, net of related debt	\$ 6,521,031	\$ 16,394,616	\$ 506,467	\$ 23,422,114
Unrestricted assets	1,420,955	275,074	840,588	2,536,617
Total Net Assets	\$ 7,941,986	\$ 16,669,690	\$ 1,347,055	\$ 25,958,731
Total Liabilities and Net Assets	\$ 22,245,549	\$ 34,881,614	\$ 1,735,808	\$ 58,862,971

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

Statement of Revenues, Expenses and Changes in Net Assets -
 Proprietary Funds
 Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds			
	Major Funds		Non-Major Fund	Totals
	Sewer Utility Fund	Water Utility Fund	Transportation Fund	
Operating revenues:				
Charges for services	\$ 4,392,570	\$ 7,527,079	\$ 1,153,240	\$ 13,072,889
Other operating revenues	107,359	238,121	-	345,480
Total operating revenues	\$ 4,499,929	\$ 7,765,200	\$ 1,153,240	\$ 13,418,369
Operating expenses:				
Salaries	\$ 472,738	\$ 2,352,899	\$ 1,557,931	\$ 4,383,568
Fringe benefits	178,624	842,699	563,035	1,584,358
Contractual services	1,928,003	365,743	66,209	2,359,955
Internal services	570,996	1,565,433	543,540	2,679,969
Other operating expenses	88,182	1,831,500	57,735	1,977,417
Miscellaneous capital outlay	309,296	407,047	-	716,343
Depreciation and amortization	438,190	999,876	189,477	1,627,543
Total operating expenses	\$ 3,986,029	\$ 8,365,197	\$ 2,977,927	\$ 15,329,153
Income (loss) from operations	\$ 513,900	\$ (599,997)	\$ (1,824,687)	\$ (1,910,784)
Nonoperating revenues (expenses):				
Investment income	\$ 34,888	\$ 20,070	\$ -	\$ 54,958
Interest expense	(782,827)	(921,532)	-	(1,704,359)
Northern Virginia Transportation Commission	-	-	1,039,435	1,039,435
Federal interest subsidy	209,767	193,631	-	403,398
Total nonoperating revenues (expenses)	\$ (538,172)	\$ (707,831)	\$ 1,039,435	\$ (206,568)
Net income (loss) before transfers	\$ (24,272)	\$ (1,307,828)	\$ (785,252)	\$ (2,117,352)
Transfers:				
Transfers in	\$ -	\$ -	\$ 428,000	\$ 428,000
Net operating transfers	\$ -	\$ -	\$ 428,000	\$ 428,000
Change in net assets	\$ (24,272)	\$ (1,307,828)	\$ (357,252)	\$ (1,689,352)
Net assets, beginning of year	7,966,258	17,977,518	1,704,307	27,648,083
Net assets, end of year	\$ 7,941,986	\$ 16,669,690	\$ 1,347,055	\$ 25,958,731

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

Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds			Totals
	Major Funds		Non-Major Fund	
	Sewer Utility Fund	Water Utility Fund	Transportation Fund	
Cash flows from operating activities:				
Receipts from customers and users	\$ 4,664,778	\$ 8,277,579	\$ 1,153,240	\$ 14,095,597
Payments to employees (including fringe benefits)	(611,052)	(3,074,704)	(2,018,067)	(5,703,823)
Payments for operating activities	(2,441,576)	(4,208,507)	(671,694)	(7,321,777)
Net cash provided by (used in) operating activities	\$ 1,612,150	\$ 994,368	\$ (1,536,521)	\$ 1,069,997
Cash flows from non-capital financing activities:				
Transfers in	\$ -	\$ -	\$ 428,000	\$ 428,000
Due to and from other funds	-	-	-	-
Intergovernmental grants	209,767	193,631	824,669	1,228,067
Net cash provided by (used in) non-capital financing activities	\$ 209,767	\$ 193,631	\$ 1,252,669	\$ 1,656,067
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	\$ (2,534,237)	\$ (3,311,751)	\$ -	\$ (5,845,988)
Disposal of capital assets	-	48,046	-	48,046
Principal paid on bonds and notes	-	(184,000)	-	(184,000)
Interest paid on debt	(734,614)	(879,628)	-	(1,614,242)
Net cash provided by (used in) capital and related financing activities	\$ (3,268,851)	\$ (4,327,333)	\$ -	\$ (7,596,184)
Cash flows from investing activities:				
Interest earned	\$ 34,888	\$ 20,070	\$ -	\$ 54,958
Net increase (decrease) in cash and cash equivalents	\$ (1,412,046)	\$ (3,119,264)	\$ (283,852)	\$ (4,815,162)
Cash and cash equivalents at beginning of year	9,134,982	13,792,156	513,193	23,440,331
Cash and cash equivalents at end of year	\$ 7,722,936	\$ 10,672,892	\$ 229,341	\$ 18,625,169
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Cash flows from operations:				
Income (loss) from operations	\$ 513,900	\$ (599,997)	\$ (1,824,687)	\$ (1,910,784)
Adjustment to reconcile net income (loss) to net cash provided by (used in) operations:				
Depreciation and amortization	438,190	999,876	189,477	1,627,543
Changes in operating accounts:				
(Increase) decrease in:				
Accounts receivable and prepaids	164,583	512,379	-	676,962
Prepaid items	-	(5,417)	-	(5,417)
Due from other governments	36,065	-	-	36,065
Inventories	-	7,424	-	7,424
Increase (decrease) in:				
Accounts payable	419,103	(24,667)	(4,210)	390,226
Accrued payroll	14,051	57,898	46,607	118,556
Compensated absences	10,686	16,280	1,790	28,756
Other post employment benefits	15,572	46,716	54,502	116,790
Customer deposits and other liabilities	-	(16,124)	-	(16,124)
Net cash provided by (used in) operating activities	\$ 1,612,150	\$ 994,368	\$ (1,536,521)	\$ 1,069,997

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

Statement of Fiduciary Net Assets
Fiduciary Funds
At June 30, 2012

Assets

Mutual funds	\$	55,518,077
Stocks		49,927,252
Accrued interest		<u>111,108</u>
Total assets	\$	<u><u>105,556,437</u></u>

Net Assets

Held in trust for pension benefits	\$	<u><u>105,556,437</u></u>
------------------------------------	----	---------------------------

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

Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 Year Ended June 30, 2012

Additions

Plan members and employer contributions	\$ 2,216,227
Investment income:	
Interest and dividends earned on investments	\$ 1,152,092
Net appreciation in fair value of investments	(2,670,687)
Total investment income	\$ (1,518,595)
Less: Investment expenses	569,519
Net investment income	\$ (2,088,114)
 Total additions	 \$ 128,113

Deductions

Retirement and disability benefits	\$ 5,411,301
Refunds to members	81,148
 Total deductions	 \$ 5,492,449
 Change in net assets	 \$ (5,364,336)

Net assets - beginning	110,920,773
Net assets - ending	\$ 105,556,437

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

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012

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 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.), water treatment and distribution, 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

For financial reporting purposes, in conformance with Governmental Accounting Standards Board pronouncements, the City's Basic Financial Statements include all funds, agencies, boards, commissions, authorities and other governmental organizations for which the City has financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the Primary Government to impose its will on the organization or if there is a financial benefit/burden relationship. Also, an organization that is fiscally dependent on the Primary Government should be included in its reporting entity.

The financial statements represent the City of Fairfax, Virginia (the Primary Government) and its Component Units. The Component Units discussed below are included in the City's reporting entity because of the significance of the operational or financial relationship with the City.

Blended Component Units - Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City has no blended component units.

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. The School Board has entered into 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. Although the School Board is legally separate, the City approves the School Board's budget and any debt issued. Further the City is enjoined in the School Service Agreement for tuition under the County contract. Separate financial statements are not issued on the School Board. The School Board is presented as a governmental fund-type and consists of a general fund and a capital projects fund.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Financial Reporting Entity (Continued)

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 of Fairfax and state and federal grants. The School Operating Fund is considered a major fund of the School Board for financial reporting purposes.

Capital Projects Fund - 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 or for assets held in trust for individuals, private organizations, or other governments. The School Bond Renovation Fund is considered a major fund of the School Board for financial reporting purposes.

Industrial Development Authority and Economic Development Authority - These Authorities have responsibility for encouraging industrial and commercial development in the City and making 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 of Fairfax and the City acts as fiscal agent for them paying all personnel and administrative expenses associated with the Authorities. Separate financial statements are not issued on the Authorities. The Authorities provide services entirely for the City as administrative entities of the City and, accordingly, are included within the City's financial statements as discretely presented component units. The Authorities do not provide benefits for other governments or others that are not part of the reporting entity. The Authorities are presented as governmental fund types.

Industrial Development Authority Fund - accounts for and reports the general operations of the Authority. Financing is provided by rental income from property owned by the Industrial Development Authority.

Economic Development Authority Fund - accounts for and reports the general operations of the Authority. Financing is 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 shall be 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 shall have 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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Financial Reporting Entity (Continued)

Other Related Organizations not Included in these Financial Statements: (Continued)

Northern Virginia Regional Park Authority - The Northern Virginia Regional Park Authority 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 Northern Virginia Regional Park Authority consists of twelve (12) members. Two (2) members are appointed by City Council. The Authority is legally separate and the City cannot impose its will on the Authority. The Authority 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.

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 business-type 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 Assets, 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 and receivables 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 City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

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 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. The operating grants include operating-specific and discretionary (either operating or capital) 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.

The City's internal activities include water and sewer billings. It is the City's policy not to eliminate water and sewer billing revenues in the government-wide statement of activities.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Government-Wide and Fund Financial Statements (Continued)

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 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 which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in fiscal year 2012.

1. Governmental Funds:

Governmental Funds account for the expendable financial resources, other than those accounted for in Proprietary and Fiduciary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual Governmental Funds are:

a. General Fund - The General Fund is 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.

b. Capital Projects Funds:

The 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 or for assets held in trust for individuals, private organizations, or other governments. The General Capital Projects Fund and Old Town Fairfax Fund are considered major funds. The Commercial Transportation Tax fund and the Stormwater Fund are nonmajor funds.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Government-Wide and Fund Financial Statements (Continued)

1. Governmental Funds: (Continued)

c. Special Revenue Funds:

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 only special revenue fund is the Legacy for Fairfax Fund, which is considered a nonmajor fund.

2. Proprietary Funds - account for operations that are financed in a manner similar to private business enterprises. The Proprietary Fund measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.

Enterprise Funds - 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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed. The following comprise the City's major enterprise funds:

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

Water Utility Fund - This fund is used to account for the operation and maintenance of the City's water system.

The other enterprise fund of the City is considered nonmajor and is as follows:

Transportation Fund - This fund is used to account for the operation and maintenance of the City's CUE Bus System. The transportation fund receives funding through State and Federal grants and General Fund transfers, in addition to charges for services.

3. Fiduciary Funds

Fiduciary Funds (Trust and Agency Funds) account for assets held by a governmental unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. Fiduciary funds utilize the accrual basis of accounting as described in the Proprietary Funds presentation.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Government-Wide and Fund Financial Statements (Continued)

3. Fiduciary Funds: (Continued)

The following funds are included in this fund type:

City Supplemental Retirement Plan - This fund accounts for pension funds for the City's full time general employees.

City Firefighters, Policemen and Policewomen Retirement Plan - This 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 long-term 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 net current assets.

The government-wide Statement of Net Assets 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 Assets or on the Statement of Fiduciary Net Assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The Statement of Net Assets, Statement of Activities, and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements of the General and Capital Projects Funds, (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. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

E. Stewardship, Compliance, and Accountability

1. 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. 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 the total expenditures shown in the currently adopted budget must be accomplished by publishing a notice of a public hearing in a newspaper having general circulation in the City seven days prior to the public 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 \$30,153,544 in the various Funds.

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.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

E. Stewardship, Compliance, and Accountability: (Continued)

2. Excess of Expenditures over Appropriations

Expenditures exceeded appropriations for the year ended June 30, 2012 as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
City attorney	\$ 840,000	\$ 888,244	\$ (48,244)
Cable television	142,729	143,820	(1,091)
Real estate assessment	468,272	471,125	(2,853)
Commonwealth attorney	63,500	67,060	(3,560)
Highways	1,114,998	1,141,392	(26,394)
Senior citizen tax relief	705,342	713,587	(8,245)
Contribution to Fairfax City School Board	30,643,553	32,083,787	(1,440,234)
Recreation - administration	1,977,142	2,070,551	(93,409)
Parks and ball field maintenance	1,076,147	1,084,068	(7,921)
Planning	932,820	1,035,732	(102,912)
Debt service	14,732,484	19,474,355	(4,741,871)

F. Deposits and Investments

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 a local government investment pool. The government and corporate securities are stated at fair value based on quoted market prices and the investment in the Local Government Investment Pool is reported at the pool's share price. The Local Government Investment Pool operates in accordance with appropriate state laws and regulations. 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.

Investments are stated at fair value.

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.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 approximately \$763,989 at June 30, 2012 and is comprised of the following:

General Fund-Property taxes	\$	586,720
Sewer Utility Fund		81,544
Water Utility Fund		95,725
		<hr/>
Total	\$	<u>763,989</u>

Property Taxes-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 deferred 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

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 and accumulated depreciation for enterprise funds are removed from the accounts.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

I. Capital Assets: (Continued)

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.

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. 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 assets. 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, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

L. 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.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Therefore, unspent bond proceeds are excluded from net assets invested in capital assets, net of related debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. 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 Assets, this scenario presents a dilemma for the City. Debt issued on behalf of the School Board is reported as a liability of the primary government, thereby reducing the net assets of the City. The corresponding capital assets are reported as assets of the Component Unit-School Board (title holder), thereby increasing its net assets.

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.

O. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities 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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

P. Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. 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) or are required to be maintained intact (corpus of a permanent fund);
- 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; 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;
- 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). 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

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

P. Fund Equity: (Continued)

	General Fund	General Capital Projects Fund	Old Town Fairfax Fund	Other Governmental Funds	Total
Fund Balances:					
Nonspendable:					
Inventory	\$ 661,592	\$ 4,056,393	\$ -	\$ -	\$ 4,717,985
Prepays	44,274	-	19,346	-	63,620
Total Nonspendable Fund Balance	\$ 705,866	\$ 4,056,393	\$ 19,346	\$ -	\$ 4,781,605
Restricted:					
Grants	\$ 54,287	-	-	-	\$ 54,287
Legacy for fairfax donations	-	-	-	169,362	169,362
Capital projects	4,525,166	-	-	-	4,525,166
Other purposes	18,817	-	-	-	18,817
Total Restricted Fund Balance	\$ 4,598,270	\$ -	\$ -	\$ 169,362	\$ 4,767,632
Committed:					
Demolition	-	\$ 191,300	-	-	\$ 191,300
Storm drainage	-	270,202	-	97,307	367,509
Streets	-	559,213	-	1,040,668	1,599,881
Dry duct/ underground utilities	-	-	252,162	-	252,162
Other purposes	-	1,593	-	41,557	43,150
Total Committed Fund Balance	\$ -	\$ 1,022,308	\$ 252,162	\$ 1,179,532	\$ 2,454,002
Assigned:					
Equipment replacement/maintenance	\$ 221,096	-	-	-	\$ 221,096
Contract services	264,825	-	-	-	264,825
Capital projects	-	402,637	1,379,852	2,757,899	4,540,388
Other purposes	111,620	-	-	-	111,620
Total Assigned Fund Balance	\$ 597,541	\$ 402,637	\$ 1,379,852	\$ 2,757,899	\$ 5,137,929
Unassigned Fund Balance	\$ 13,205,665	\$ -	\$ -	\$ -	\$ 13,205,665
Total Fund Balances	\$ 19,107,342	\$ 5,481,338	\$ 1,651,360	\$ 4,106,793	\$ 30,346,833

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.

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Investment Policy

State statutes and the City's 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, banker's acceptances, repurchase agreements, certificates of deposit or savings accounts that are Virginia qualified depositories, mutual funds, the State non-arbitrage pool (SNAP), and the State Treasurer's Local Government Investment Pool (LGIP).

The City has investments with LGIP and SNAP.

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. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share.

Investment in the Virginia State Non-Arbitrage Program 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.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Investment Policy (Continued)

The Treasury may direct the State Non-Arbitrage Program 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

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.

City's Rated Debt Investments' Values

<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>	
	<u>AAAm</u>	<u>A1+</u>
Local Government Investment Pool	\$ 12,465,266	\$ -
Money Market Mutual Fund	2,667,761	-
SNAP	24,120,508	-
Commercial Paper	-	3,000,000
Total	<u>\$ 39,253,535</u>	<u>\$ 3,000,000</u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

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, 2012 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.

<u>Investment Maturities</u>		
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>
Commercial Paper	\$ 3,000,000	\$ 3,000,000
U.S. Treasuries Money Market Funds	<u>2,667,761</u>	<u>2,667,761</u>
Total	<u>\$ 5,667,761</u>	<u>\$ 5,667,761</u>

Interest rate risk does not apply to the Local Government Investment Pool or the State Non-Arbitrage Pool.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 3—RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE AMOUNTS:

The City determines its allowances using historical collection data, specific account analysis and management's judgment. Receivables at June 30, 2012 for the government's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

Primary Government

	<u>General Fund</u>	<u>General Capital Projects Fund</u>	<u>Sewer Utility Fund</u>	<u>Water Utility Fund</u>	<u>Totals</u>
Property taxes	\$ 29,428,048	\$ -	\$ -	\$ -	\$ 29,428,048
Trade and other accounts	<u>1,213,793</u>	<u>56,098</u>	<u>570,001</u>	<u>1,709,694</u>	<u>3,549,586</u>
Gross receivables	\$ 30,641,841	\$ 56,098	\$ 570,001	\$ 1,709,694	\$ 32,977,634
Less allowance for uncollectible accounts	<u>586,720</u>	<u>-</u>	<u>81,544</u>	<u>95,725</u>	<u>763,989</u>
Net receivables	<u>\$ 30,055,121</u>	<u>\$ 56,098</u>	<u>\$ 488,457</u>	<u>\$ 1,613,969</u>	<u>\$ 32,213,645</u>

Governmental funds report deferred 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 revenue and unearned revenue reported in the primary governmental funds were as follows:

	<u>Governmental Activities</u>	
	<u>Deferred</u>	<u>Unearned</u>
Property taxes receivable	\$ 28,451,940	\$ 28,180,350
Prepaid property taxes	164,473	164,473
Other	<u>302,532</u>	<u>302,532</u>
Total	<u>\$ 28,918,945</u>	<u>\$ 28,647,355</u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 3—RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE AMOUNTS: (CONTINUED)

Amounts due from other governments include the following:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	<u>Component Unit School Board</u>
	<u>General</u>	<u>General Capital Projects Fund</u>	<u>Sewer Utility Fund</u>	<u>Transportation Fund</u>		
Commonwealth of Virginia:						
Local sales tax	\$ 1,781,314	\$ -	\$ -	\$ -	\$ 1,781,314	\$ -
Communication sales tax	396,177	-	-	-	396,177	-
State sales tax	-	-	-	-	-	505,623
Other	214,165	252,983	-	-	467,148	154,115
Federal government	170,157	547,852	-	-	718,009	-
County of Fairfax	-	-	7,775	-	7,775	-
Northern Virginia						
Transportation Commission	-	-	-	1,000,000	1,000,000	-
Cigarette Tax Board	90,462	-	-	-	90,462	-
District Court	115,686	-	-	-	115,686	-
Total	\$ 2,767,961	\$ 800,835	\$ 7,775	\$ 1,000,000	\$ 4,576,571	\$ 659,738

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, 2012 are as follows:

<u>Component Unit / Fund</u>	<u>Due From</u>	<u>Due To</u>
Economic Development Authority	\$ -	\$ 165,000
School Board	1,232,951	-
General Fund	5,000	1,232,951
General Capital Projects	160,000	-
Total	\$ 1,397,951	\$ 1,397,951

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 4—DUE TO/FROM PRIMARY GOVERNMENT BALANCES, ADVANCES AND TRANSFERS: (CONTINUED)

A summary of interfund transfer activity is presented as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 5,230,436
Capital Projects Fund	3,212,108	-
Old Town Fairfax Fund	188,153	-
Commercial Transportation Tax Fund	1,002,675	-
Stormwater Fund	399,500	-
Transportation Fund	428,000	-
	<u>5,230,436</u>	<u>5,230,436</u>
Totals	<u>\$ 5,230,436</u>	<u>\$ 5,230,436</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 Commercial Transportation Tax Fund is to transfer tax revenues.

NOTE 5—INVENTORY:

At June 30, 2012 the City has inventory recorded in the various funds as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Component Unit Economic Development Authority</u>
Expendable supplies / materials	\$ 661,592	\$ 54,887	\$ -
Land and building inventory held for resale	<u>4,056,393</u>	<u>-</u>	<u>862,594</u>
Totals	<u>\$ 4,717,985</u>	<u>\$ 54,887</u>	<u>\$ 862,594</u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 6—CAPITAL ASSETS:

The following is a summary of capital asset activity for the year ended June 30, 2012:

	Balance July 1, 2011 as Restated	Additions	Deletions	Balance June 30, 2012
Primary Government:				
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 36,231,190	\$ 1,662,283	\$ -	\$ 37,893,473
Construction in progress-jointly owned assets	75,000	-	-	75,000
Construction in progress	30,427,746	3,093,732	4,516,390	29,005,088
Total capital assets, not being depreciated	<u>\$ 66,733,936</u>	<u>\$ 4,756,015</u>	<u>\$ 4,516,390</u>	<u>\$ 66,973,561</u>
Capital assets being depreciated:				
Buildings	\$ 44,740,082	\$ 4,813,606	\$ 36,216	\$ 49,517,472
Equipment	22,619,526	1,600,218	807,496	23,412,248
Jointly owned assets	93,797,232	-	3,373,330	90,423,902
Infrastructure	26,140,969	-	-	26,140,969
Total capital assets being depreciated	<u>\$ 187,297,809</u>	<u>\$ 6,413,824</u>	<u>\$ 4,217,042</u>	<u>\$ 189,494,591</u>
Less accumulated depreciation for:				
Buildings	\$ 9,158,728	\$ 341,171	\$ -	\$ 9,499,899
Equipment	12,410,371	1,604,154	765,136	13,249,389
Jointly owned assets	9,559,310	3,104,515	2,963,458	9,700,367
Infrastructure	16,263,933	1,455,415	-	17,719,348
Total accumulated depreciation	<u>\$ 47,392,342</u>	<u>\$ 6,505,255</u>	<u>\$ 3,728,594</u>	<u>\$ 50,169,003</u>
Total capital assets being depreciated, net	<u>\$ 139,905,467</u>	<u>\$ (91,431)</u>	<u>\$ 488,448</u>	<u>\$ 139,325,588</u>
Governmental activities capital assets, net	<u>\$ 206,639,403</u>	<u>\$ 4,664,584</u>	<u>\$ 5,004,838</u>	<u>\$ 206,299,149</u>
Business-type Activities:				
Sewer Utility Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 17,583	\$ -	\$ -	\$ 17,583
Total capital assets, not being depreciated	<u>\$ 17,583</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,583</u>
Capital assets being depreciated:				
Buildings and building improvements	\$ 1,264,570	\$ -	\$ -	\$ 1,264,570
Equipment	1,328,741	15,240	-	1,343,981
Intangibles	9,649,824	2,425,617	-	12,075,441
Infrastructure	8,056,293	93,380	-	8,149,673
Total capital assets being depreciated, net	<u>\$ 20,299,428</u>	<u>\$ 2,534,237</u>	<u>\$ -</u>	<u>\$ 22,833,665</u>
Less accumulated depreciation for:				
Buildings and building improvements	\$ 102,957	\$ 25,291	\$ -	\$ 128,248
Equipment	694,528	98,501	-	793,029
Intangibles	3,040,186	179,600	-	3,219,786
Infrastructure	4,774,027	134,798	-	4,908,825
Total accumulated depreciation	<u>\$ 8,611,698</u>	<u>\$ 438,190</u>	<u>\$ -</u>	<u>\$ 9,049,888</u>
Total capital assets being depreciated, net	<u>\$ 11,687,730</u>	<u>\$ 2,096,047</u>	<u>\$ -</u>	<u>\$ 13,783,777</u>
Net capital assets	<u>\$ 11,705,313</u>	<u>\$ 2,096,047</u>	<u>\$ -</u>	<u>\$ 13,801,360</u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Water Utility Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 645,615	\$ -	\$ -	\$ 645,615
Construction in Progress	840,692	2,878,454	17,014	3,702,132
Total capital assets not being depreciated	<u>\$ 1,486,307</u>	<u>\$ 2,878,454</u>	<u>\$ 17,014</u>	<u>\$ 4,347,747</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 29,541,627	\$ -	\$ -	\$ 29,541,627
Equipment	2,485,846	271,827	48,046	2,709,627
Infrastructure	19,915,350	178,484	-	20,093,834
Total capital assets being depreciated	<u>\$ 51,942,823</u>	<u>\$ 450,311</u>	<u>\$ 48,046</u>	<u>\$ 52,345,088</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 21,011,157	\$ 550,734	\$ -	\$ 21,561,891
Equipment	1,936,356	172,672	-	2,109,028
Infrastructure	10,720,508	276,470	-	10,996,978
Total accumulated depreciation	<u>\$ 33,668,021</u>	<u>\$ 999,876</u>	<u>\$ -</u>	<u>\$ 34,667,897</u>
Total capital assets being depreciated, net	<u>\$ 18,274,802</u>	<u>\$ (549,565)</u>	<u>\$ 48,046</u>	<u>\$ 17,677,191</u>
Net capital assets	<u>\$ 19,761,109</u>	<u>\$ 2,328,889</u>	<u>\$ 65,060</u>	<u>\$ 22,024,938</u>
Transportation Fund:				
Capital assets being depreciated:				
Buildings and improvements	\$ 226,958	\$ -	\$ -	\$ 226,958
Equipment	3,645,802	-	1,420,916	2,224,886
Total capital assets being depreciated	<u>\$ 3,872,760</u>	<u>\$ -</u>	<u>\$ 1,420,916</u>	<u>\$ 2,451,844</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 31,774	\$ 4,539	\$ -	\$ 36,313
Equipment	3,145,042	184,938	1,420,916	1,909,064
Total accumulated depreciation	<u>\$ 3,176,816</u>	<u>\$ 189,477</u>	<u>\$ 1,420,916</u>	<u>\$ 1,945,377</u>
Total capital assets being depreciated, net	<u>\$ 695,944</u>	<u>\$ (189,477)</u>	<u>\$ -</u>	<u>\$ 506,467</u>
Net capital assets	<u>\$ 695,944</u>	<u>\$ (189,477)</u>	<u>\$ -</u>	<u>\$ 506,467</u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Discretely Presented Component Unit-School Board:				
Capital assets, not being depreciated:				
Land	\$ 1,381,115	\$ -	\$ -	\$ 1,381,115
Construction in progress	<u>24,644</u>	<u>-</u>	<u>-</u>	<u>24,644</u>
Total capital assets, not being depreciated	<u>\$ 1,405,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,405,759</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 22,655,066	\$ 3,373,330	\$ -	\$ 26,028,396
Equipment	<u>1,461,522</u>	<u>-</u>	<u>-</u>	<u>1,461,522</u>
Total capital assets being depreciated	<u>\$ 24,116,588</u>	<u>\$ 3,373,330</u>	<u>\$ -</u>	<u>\$ 27,489,918</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 11,874,146	\$ 6,502,425	\$ -	\$ 18,376,571
Equipment	<u>485,456</u>	<u>109,864</u>	<u>-</u>	<u>595,320</u>
Total accumulated depreciation	<u>\$ 12,359,602</u>	<u>\$ 6,612,289</u>	<u>\$ -</u>	<u>\$ 18,971,891</u>
Total capital assets being depreciated, net	<u>\$ 11,756,986</u>	<u>\$ (3,238,959)</u>	<u>\$ -</u>	<u>\$ 8,518,027</u>
School Board capital assets, net	<u><u>\$ 13,162,745</u></u>	<u><u>\$ (3,238,959)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,923,786</u></u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

Depreciation expense was charged to functions / programs as follows:

Primary government:	
Governmental activities:	
General government administration	\$ 608,634
Public safety	404,441
Public works	1,834,332
Education	3,104,515
Parks, recreation and cultural	<u>553,333</u>
Total governmental activities	<u>\$ 6,505,255</u>
Business-type activities:	
Water utility	\$ 999,876
Sewer utility	438,190
Transportation	<u>189,477</u>
Total business-type activities	<u>\$ 1,627,543</u>
Component Unit-School Board:	\$ <u>3,648,831</u> (1)
Education	
(1) Depreciation expense	\$ 3,648,831
Accumulated depreciation on Joint tenancy transfer	<u>2,963,458</u>
Total increase in accumulated depreciation, page 60	<u>\$ 6,612,289</u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS:

Primary Government

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2012:

	Balance at June 30, 2011	Issuances/ Increases	Retirements/ Decreases	Balance at June 30, 2012	Amounts Due Within One Year
Governmental Obligations:					
General obligation bonds	\$ 102,605,000	\$ 22,761,000	\$ 24,005,000	\$ 101,361,000	\$ 4,369,000
Lease revenue bonds	37,285,000	33,105,000	37,285,000	33,105,000	1,060,000
Public Improvement COPS	19,905,800	-	2,333,000	17,572,800	2,477,700
Notes payable	4,540,125	8,200,000	4,306,660	8,433,465	116,733
Capital leases	877,905	812,858	411,660	1,279,103	396,479
Compensated absences	2,166,885	417,788	433,377	2,151,296	430,259
Other post employment benefits	2,085,775	1,096,547	403,595	2,778,727	-
Premiums on bonds payable	5,286,451	5,766,233	2,081,041	8,971,643	536,302
Loss on refunding	(3,627,410)	267,342	6,296,547	(9,656,615)	(586,693)
Total	\$ 171,125,531	\$ 72,426,768	\$ 77,555,880	\$ 165,996,419	\$ 8,799,780
Enterprise Funds:					
Sewer Utility Fund:					
Lease revenue bonds	\$ 12,521,600	\$ -	\$ -	\$ 12,521,600	\$ -
Premium on bonds payable	359,346	-	11,978	347,368	11,978
Other post employment benefits	77,125	24,642	9,070	92,697	-
Compensated absences	65,044	17,191	6,504	75,731	1,265
Total	\$ 13,023,115	\$ 41,833	\$ 27,552	\$ 13,037,396	\$ 13,243
Water Utility Fund:					
Lease revenue bonds	\$ 16,033,400	\$ -	\$ 184,000	\$ 15,849,400	\$ 192,000
Premium on bonds payable	331,704	-	11,057	320,647	11,057
Other post employment benefits	219,292	73,925	27,209	266,008	-
Compensated absences	168,489	20,715	4,435	184,769	12,860
Total	\$ 16,752,885	\$ 94,640	\$ 226,701	\$ 16,620,824	\$ 215,917
Transportation Fund:					
Other post employment benefits	\$ 152,609	\$ 86,246	\$ 31,744	\$ 207,111	\$ -
Compensated absences	108,659	59,277	57,488	110,448	12,182
Total	\$ 261,268	\$ 145,523	\$ 89,232	\$ 317,559	\$ 12,182
Total Enterprise Funds	\$ 30,037,268	\$ 281,996	\$ 343,485	\$ 29,975,779	\$ 241,342
Discretely Presented Component Units:					
School Board:					
Compensated absences	\$ 16,897	\$ 13,093	\$ 1,690	\$ 28,300	\$ 2,830
Economic Development Authority:					
Notes Payable	\$ 2,392,305	\$ -	\$ 1,507,691	\$ 884,614	\$ -

General Fund revenues are used to pay all long-term general obligation debt, capital leases and compensated absences. School Fund revenues and appropriations from the General Fund are used to pay its compensated absences.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

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

Year Ending June 30,	Governmental Obligations									
	General Obligation Bonds		Public Facility Lease Revenue Bonds		COPS		Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 4,369,000	\$ 3,908,877	\$ 1,060,000	\$ 1,380,766	\$ 2,477,700	\$ 452,810	\$ 116,733	\$ 127,106	\$ 396,479	\$ 26,345
2014	4,399,000	3,812,274	910,000	1,537,763	2,522,000	407,910	116,732	190,950	293,187	21,298
2015	4,528,000	3,624,168	940,000	1,500,881	1,647,300	362,128	-	164,313	300,445	14,041
2016	4,691,000	3,380,643	990,000	1,454,225	791,000	332,577	8,200,000	82,156	288,992	6,539
2017	4,826,000	3,201,333	1,040,000	1,406,856	816,100	307,847	-	-	-	-
2018	4,920,000	3,041,947	1,090,000	1,356,925	841,400	282,367	-	-	-	-
2019	3,714,000	2,876,467	1,145,000	1,301,378	3,772,300	295,790	-	-	-	-
2020	3,833,000	2,758,117	1,200,000	1,243,012	4,705,000	72,928	-	-	-	-
2021	4,012,000	2,578,660	1,265,000	1,179,847	-	-	-	-	-	-
2022	4,172,000	2,416,908	1,325,000	1,119,403	-	-	-	-	-	-
2023	4,322,000	2,266,934	1,390,000	1,057,856	-	-	-	-	-	-
2024	2,999,000	2,113,141	1,455,000	987,053	-	-	-	-	-	-
2025	3,123,000	1,997,650	1,535,000	910,434	-	-	-	-	-	-
2026	3,242,000	1,903,748	1,615,000	829,716	-	-	-	-	-	-
2027	3,357,000	1,779,897	1,695,000	749,947	-	-	-	-	-	-
2028	3,584,000	1,691,815	1,775,000	671,428	-	-	-	-	-	-
2029	3,676,000	1,593,972	1,855,000	589,309	-	-	-	-	-	-
2030	3,779,000	1,493,617	1,945,000	497,484	-	-	-	-	-	-
2031	4,020,000	1,390,450	2,050,000	395,113	-	-	-	-	-	-
2032	4,215,000	1,201,994	2,160,000	287,231	-	-	-	-	-	-
2033	4,410,000	1,004,394	2,275,000	173,585	-	-	-	-	-	-
2034	4,615,000	797,650	2,390,000	57,645	-	-	-	-	-	-
2035	4,830,000	584,150	-	-	-	-	-	-	-	-
2036	5,050,000	360,700	-	-	-	-	-	-	-	-
2037	2,675,000	127,063	-	-	-	-	-	-	-	-
Total	\$ 101,361,000	\$ 51,906,569	\$ 33,105,000	\$ 20,687,857	\$ 17,572,800	\$ 2,514,357	\$ 8,433,465	\$ 564,525	\$ 1,279,103	\$ 68,223

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-Term Obligations: (Continued)

Primary Government: (Continued)

General Obligation Bonds:

\$20,000,000 public improvement bonds issued July 2002, due in annual maturities of \$875,000 to \$940,000 through July 2013, plus interest at 3.0% to 5.0%	\$ 940,000
\$42,000,000 school bonds, issued December 31, 2004, due in annual maturities of \$725,000 to \$2,495,000 through January 2036, plus interest at 3.25% to 5.50%	18,695,000
\$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%	7,770,000
\$44,800,000 school bonds issued November 2005, due in annual maturities of \$745,000 beginning January 15, 2008 to \$2,675,000 through January 15, 2037, plus interest at 4.68%	19,205,000
\$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%	32,025,000
\$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%	3,380,000
\$19,346,000 refunding bonds issued March 7, 2012 due in annual maturities of \$139,000 to \$3,779,000 beginning January 15, 2013 through January 15, 2030, plus interest at 2.73%	<u>19,346,000</u>
Total General Obligation Bonds	<u>\$ 101,361,000</u>

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%	<u>\$ 33,105,000</u>
--	----------------------

Notes Payable:

\$2,167,325 Fairfax County note payable, due in annual maturities of \$116,733 through July 2014, plus interest at 2%	\$ 233,465
\$8,200,000 financing lease agreement dated May 2012, due in full at maturity on July 15, 2015, interest payable semi-annually at 1.67% to 2.3%	<u>8,200,000</u>
Total Notes Payable	<u>\$ 8,433,465</u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-Term Obligations: (Continued)

Primary Government: (Continued)

Public Improvement Certificates of Participation:

\$6,167,000 certificate issued April 2011, due in semi-annual maturities of \$876,000 to \$890,000 through July 15, 2014, interest at 1.27% \$ 4,414,000

\$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% 4,924,800

\$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% 8,234,000

Total Public Improvement Certificates of Participation \$ 17,572,800

Capital Lease:

\$606,750 capital lease for the acquisition of trash trucks, due in annual maturities of \$129,952 through June 2015, including interest at 1.41% \$ 476,898

\$84,057 capital lease for the acquisition of a lawn mower, due in annual maturities of \$18,952 through July 2014, including interest at 2.55% 50,306

\$711,430 capital lease for financing the acquisition of turf for a football field, due in semi-annual maturities of \$54,170 through January 2013, including interest at 4.95% 104,447

\$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% 116,363

\$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% 531,089

Total Capital Leases \$ 1,279,103

Compensated absences \$ 2,151,296

Other post employment benefits \$ 2,778,727

Premium on bonds payable \$ 8,971,643

Loss on refunding \$ (9,656,615)

Total governmental funds \$ 165,996,419

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

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

Year Ending June 30,	Water Utility Fund		Sewer Utility Fund	
	Principal	Interest	Principal	Interest
2013	\$ 192,000	\$ 851,412	\$ -	\$ 722,474
2014	200,000	843,156	-	722,474
2015	441,800	829,667	252,200	717,178
2016	462,800	809,787	265,200	705,377
2017	483,800	788,631	278,200	692,613
2018	508,200	766,042	293,800	678,716
2019	532,600	741,374	309,400	663,033
2020	558,000	715,528	325,000	646,539
2021	585,800	688,397	343,200	629,165
2022	608,800	660,807	356,200	611,807
2023	630,400	632,616	366,600	594,310
2024	655,400	602,715	379,600	575,520
2025	680,400	571,026	392,600	555,398
2026	708,800	537,498	408,200	533,889
2027	737,200	501,147	423,800	509,975
2028	769,000	462,133	442,000	483,827
2029	422,400	421,530	457,600	456,658
2030	441,600	395,438	478,400	428,391
2031	458,400	368,255	496,600	398,943
2032	477,600	339,743	517,400	368,055
2033	496,800	309,827	538,200	335,646
2034	518,400	278,660	561,600	301,882
2035	540,000	246,169	585,000	266,683
2036	561,600	212,348	608,400	230,044
2037	585,600	177,126	634,400	191,886
2038	609,600	140,435	660,400	152,138
2039	633,600	102,271	686,400	110,794
2040	660,000	62,556	715,000	67,769
2041	688,800	21,146	746,200	22,908
Total	\$ 15,849,400	\$ 14,077,440	\$ 12,521,600	\$ 13,374,092

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Water Utility Fund:

Lease Revenue Bonds:

\$4,821,000 lease revenue bonds issued June 2008, due in annual maturities ranging from \$169,000 to \$361,000 through January 2028, plus interest at 4.30% \$ 4,291,000

\$11,558,400 lease revenue bonds issued November 2010, due in annual maturities ranging from \$232,800 to \$688,800 through October 2040, plus interest ranging from 4.2% to 6.142% 11,558,400

Total Lease Revenue Bonds \$ 15,849,400

Sewer Utility Fund:

Lease Revenue Bonds:

\$12,521,600 lease revenue bonds issued November 2010, due in annual maturities ranging from \$252,200 to \$746,200 through October 2040, plus interest ranging from 1.245% to 6.142% \$ 12,521,600

Component Unit—Economic Development Authority

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

Year Ending June 30,	Principal	Interest
2013	\$ -	\$ 44,584
2014	634,167	28,604
2015	<u>250,447</u>	<u>6,311</u>
Total	<u>\$ 884,614</u>	<u>\$ 79,499</u>

Details of Long-Term Debt

\$2,000,000 note payable issued October 2004, due in various installments through July 15, 2015 with semi-annual interest payments at 5.04% \$ 884,614

\$ 884,614

NOTE 8—DEFINED BENEFIT PENSION PLANS:

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

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 8—DEFINED BENEFIT PENSION PLANS: (CONTINUED)

A. Plan Description: (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/publications/2011-Annual-Report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City’s and School’s non-professional employee contribution rates for the fiscal year ended 2012 were 9.91% and 6.33% of annual covered payroll, respectively.

C. Annual Pension Cost

For fiscal year 2012, the City’s annual pension cost of \$2,594,574 was equal to the City’s required and actual contributions.

For fiscal year 2012, the City School Board’s annual pension cost for the Board’s non-professional employees was \$4,867 which was equal to the Board’s required and actual contributions.

Three-year Trend information for the City and School Board:

Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
City:			
June 30, 2012	\$ 2,594,574	100%	\$ -
June 30, 2011	2,581,987	100%	\$ -
June 30, 2010	2,258,911	100%	-
School Board:			
June 30, 2012	\$ 4,867	100%	\$ -
June 30, 2011	3,008	100%	\$ -
June 30, 2010	5,288	100%	-

(1) Employer portion only

NOTE 8—DEFINED BENEFIT PENSION PLANS: (CONTINUED)

C. Annual Pension Cost: (Continued)

The FY2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the City's plan was 67.90% funded. The actuarial accrued liability for benefits was \$126,796,829, and the actuarial value of assets was \$86,097,808, resulting in an unfunded actuarial accrued liability (UAAL) of \$40,699,021. The covered payroll (annual payroll of active employees covered by the plan) was \$26,384,757, and ratio of the UAAL to the covered payroll was 154.25%.

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

E. Defined Benefit Pension Plan-Supplemental Retirement Plans

Plan Description

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 the 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.

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.

NOTE 8—DEFINED BENEFIT PENSION PLANS: (CONTINUED)

E. Defined Benefit Pension Plan-Supplemental Retirement Plans (Continued)Significant Accounting Policies: (Continued)

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.

Administrative costs: Administrative costs are financed from investment earnings.

Concentrations

At June 30, 2012, plan assets were comprised of stocks, corporate bonds, and mutual funds. The following table presents the fair value of the investments in this Plan. Single investments representing more than 5% of the Plan's net assets as of June 30, 2012 are separately identified.

<u>Investments at Fair Value as Determined by Quoted Market Prices</u>	
Mutual Funds:	
Wellington	\$ 25,851,011
GMO Strategic Opp Allocation - III	10,310,856
GMR Foreign Fund Class III	11,486,918
Mariner Select	12,043,919
Putnam Total Return	15,269,281
Other Investments Individually Less than 5% of Plan Assets	<u>30,483,344</u>
Total	<u>\$ 105,445,329</u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 8—DEFINED BENEFIT PENSION PLANS: (CONTINUED)

E. Defined Benefit Pension Plan-Supplemental Retirement Plans (Continued)

Funding Policy

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:

	<u>City Supplemental Retirement Plan</u>	<u>City Firefighters, Policemen and Policewomen</u>
Contribution rate: (2011)		
City	3.52%	7.85%
Plan members - hire pre - April 1, 1983 *	1.5%	5.5%
Plan members - hire post - March 31, 1983	3.0%	7%

* Until reaching 30 years of service, then no further contributions are required.

Annual pension cost (2011) (1)	\$276,502	\$421,734
Contributions made (2011) (1)	\$276,502	\$421,734
Actuarial valuation date	June 30, 2011	June 30, 2011
Actuarial cost method	Entry age actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll	Level percent of payroll
Remaining amortization period	10 years, open	10 years, open
Asset valuation method	5 year smoothed market value	5 year smoothed market value
Actuarial assumptions:		
Investment rate of return **	7%	7%
Projected salary increases **	4.5% - 10%	4.4% - 9.9%
** Includes wage inflation of cost of living adjustments	4%	4%
	2.8% compound	2.8% compound
(1) Employer portion only		

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 8—DEFINED BENEFIT PENSION PLANS: (CONTINUED)

E. Defined Benefit Pension Plan-Supplemental Retirement Plans (Continued)

Trend Information

	<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
City Supplemental Retirement Plan	2006	\$ -	100%	\$ -
	2007	-	100%	-
	2008	-	100%	-
	2009	-	100%	-
	2010	-	100%	-
	2011	276,502	100%	-
City Firefighters, Policemen and Policewomen	2006	\$ -	100%	\$ -
	2007	87,866	100%	-
	2008	471,789	100%	-
	2009	356,692	100%	-
	2010	365,744	100%	-
	2011	421,734	100%	-

Six-year trend information is required.

Other Information

According to the last available actuary statement, the membership in the City Supplemental and Police and Firefighters Plan at June 30, 2012 is as follows:

	<u>City Supplemental Retirement Plan</u>	<u>City Firefighters, Policemen and Policewomen Plan</u>
Retirees and beneficiaries	\$ 165	\$ 87
Terminated vested members	22	7
Active members	286	132
Total	<u>\$ 473</u>	<u>\$ 226</u>

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 8—DEFINED BENEFIT PENSION PLANS: (CONTINUED)

E. Defined Benefit Pension Plan-Supplemental Retirement Plans (Continued)

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	Totals
Assets			
Mutual funds	\$ 26,612,862	\$ 28,905,215	\$ 55,518,077
Stocks	23,932,872	25,994,380	49,927,252
Accrued interest	53,260	57,848	111,108
	<u>\$ 50,598,994</u>	<u>\$ 54,957,443</u>	<u>\$ 105,556,437</u>
Total assets			
Net Assets			
Held in trust for pension benefits	<u>\$ 50,598,994</u>	<u>\$ 54,957,443</u>	<u>\$ 105,556,437</u>
Additions			
Plan members contributions	<u>\$ 1,000,977</u>	<u>\$ 1,215,250</u>	<u>\$ 2,216,227</u>
Investment income:			
Interest and dividends earned on investments	\$ 541,977	\$ 610,115	\$ 1,152,092
Net appreciation in fair value of investments	(1,255,223)	(1,415,464)	(2,670,687)
Total investment income	<u>\$ (713,246)</u>	<u>\$ (805,349)</u>	<u>\$ (1,518,595)</u>
Less: Investment expenses	267,674	301,845	569,519
Net investment income	<u>\$ (980,920)</u>	<u>\$ (1,107,194)</u>	<u>\$ (2,088,114)</u>
Total additions	<u>\$ 20,057</u>	<u>\$ 108,056</u>	<u>\$ 128,113</u>
Deductions			
Retirement and disability benefits	\$ 2,301,306	\$ 3,109,995	\$ 5,411,301
Refunds to members	13,794	67,354	81,148
Total deductions	<u>\$ 2,315,100</u>	<u>\$ 3,177,349</u>	<u>\$ 5,492,449</u>
Change in net assets	<u>\$ (2,295,043)</u>	<u>\$ (3,069,293)</u>	<u>\$ (5,364,336)</u>
Net assets - beginning	52,894,037	58,026,736	110,920,773
Net assets - ending	<u>\$ 50,598,994</u>	<u>\$ 54,957,443</u>	<u>\$ 105,556,437</u>

F. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the City Supplemental plan was 106.97% funded. The actuarial accrued liability for benefits was \$51,630,000, and the actuarial value of assets was \$55,230,000, resulting in an unfunded actuarial accrued liability (UAAL) of (\$3,600,000). The covered payroll (annual payroll of active employees covered by the plan) was \$16,790,000, and ratio of the UAAL to the covered payroll was (21.44%).

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 8—DEFINED BENEFIT PENSION PLANS: (CONTINUED)

F. Funded Status and Funding Progress: (Continued)

As of June 30, 2011, the most recent actuarial valuation date, the City Firefighters, Policemen, and Policewomen Plan was 100.55% funded. The actuarial accrued liability for benefits was \$60,090,000, and the actuarial value of assets was \$60,420,000, resulting in an unfunded actuarial accrued liability (UAAL) of (\$330,000). The covered payroll (annual payroll of active employees covered by the plan) was \$10,320,000, and ratio of the UAAL to the covered payroll was (3.20%).

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 plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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	\$	588,064
Jail and custody services		1,104,859
Health		986,951
Social services		860,538
Library services		690,751
Education		40,392,677
Refuse collection		415,030
County agent		32,398
Debt service judicial center		81,932
Sewage treatment		<u>1,908,190</u>
Total	\$	<u><u>47,061,390</u></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's first quarter tuition payment for the fiscal year ending June 30, 2012 will be increased by \$1,777,819. This amount has been recorded as a payable and represents the final adjustment to fiscal year 2012 tuition cost.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 10—TRANSPORTATION CONTRACTS:

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

CUE Bus

CUE Bus is an intracity bus service operated in cooperation with George Mason University. Funding received from George Mason University was \$540,000 for the fiscal year ended 2012.

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 ending June 30, 2012 was \$1,039,435. These amounts were 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, 2012, the balance designated for the City is \$1,960,670. The NVTC received \$3,143,744 and disbursed \$2,830,962 on behalf of the City for the fiscal year ended June 30, 2012.

NOTE 11—MAJOR CUSTOMER:

The City of Fairfax has one major water customer and for the year ended June 30, 2012, water revenue from this customer was approximately \$779,642. Accounts receivable from this customer amounted to approximately \$743,986 at June 30, 2012.

NOTE 12—SURETY BONDS:

	<u>Coverage</u>
City Funds:	
VML Insurance Programs:	
Stephen L. Moloney, City Treasurer	\$ 250,000
City Council and all employees	250,000
City of Fairfax School Board	250,000
State Funds:	
Stephen L. Moloney, City Treasurer	500,000
William Page Johnson, II, Commissioner of Revenue	450,000
Commonwealth of Virginia Performance of Duty Bond Self Insurance Plan:	
All Employees of constitutional officers-blanket bond-each loss	250,000

* The coverage with respect to the Treasurer of the City 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.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM:

City:

A. Plan Description:

In addition to the pension benefits described in Note 8, the City provides post-retirement 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.

B. 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.

C. 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 GASB Statement 45. 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:

Annual required contribution	\$ 1,264,461
Interest on net OPEB obligation	101,392
Adjustment to annual required contribution	(84,493)
Annual OPEB cost (expense)	\$ 1,281,360
Contributions made	(471,618)
Increase in net OPEB obligation	\$ 809,742
Net OPEB obligation-beginning of year	2,534,801
Net OPEB obligation-end of year	\$ 3,344,543

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)**City: (Continued)****C. Annual OPEB Cost and Net OPEB Obligation: (Continued)****Funded Status and Funding Progress**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 1,211,486	30%	\$ 1,710,605
June 30, 2011	1,243,503	34%	2,534,801
June 30, 2012	1,281,360	37%	3,344,543

The funded status of the plan as of June 30, 2010 is as follows:

Actuarial accrued liability (AAL)	\$ 14,931,043
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	14,931,043
Funded ratio (actuarial value of plan assets / AAL)	-
Covered payroll (active plan members)	26,381,262
UAAL as a percentage of covered payroll	56.60%

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.

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

City: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation: (Continued)

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:

- (i) 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;
- (ii) Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Interest Assumptions

In the June 30, 2010 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 4% after ten years. Both rates included a 4% 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, 2010, was thirty years.

	<u>Unfunded</u>
Discount rate	4.00%
Payroll growth	4.00%

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.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 14—RISK MANAGEMENT: (CONTINUED)

The City has coverage with the VML Insurance Programs (Programs). 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.

NOTE 16—LITIGATION:

At June 30, 2012, the City has been named as defendant in various matters. It is not known what liability if any, the City faces.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 17—CONSTRUCTION COMMITMENTS:

At June 30, 2012, the City has several major projects under construction which are summarized below:

Project	Contract Amount	Expenditures as of June 30, 2012	Contract Balance
Primary Government:			
Dry Duct	\$ 979,362	\$ 898,156	\$ 81,206
Fairfax Boulevard	1,329,739	1,328,145	1,594
Northfax Consulting/Improvements	3,160,812	1,766,420	1,394,392
Underground Utilities	199,685	28,730	170,955
Signal and Controller Upgrades	553,150	282,948	270,202
Rt. 123 Bridge over Accotink	1,043,098	837,608	205,490
Westmore Demolition	191,300	-	191,300
Ashby Pond	479,644	438,086	41,558
Storm Drainage	149,947	52,640	97,307
Total	<u>\$ 8,086,737</u>	<u>\$ 5,632,733</u>	<u>\$ 2,454,004</u>

NOTE 18—DEBT REFUNDING:

The City of Fairfax, Virginia issued \$33,105,000 in VRA Lease Revenue Bonds, with an effective interest rate from 2.125% to 5.125%. The Bonds were issued to refund \$36,370,000 of Public Facility Lease Revenue Bonds. The Bonds will be repaid in various installments beginning October 1, 2012 to October 1, 2033. As a result, the refunded bonds are considered to be defeased in substance and the liability for those bonds has been removed from the financial statements. The reacquisition price exceeded the carrying amount of the old debt by \$4,754,602. The advance refunding was undertaken to reduce the total debt service payments over the next 23 years by \$4,871,331 and resulted in an economic gain of \$3,566,282. At June 30, 2012 the defeased bonds had balances outstanding of \$36,370,000.

The City of Fairfax, Virginia issued \$3,415,000 General Obligation Refunding Bonds, with an effective interest rate of 2.18%. The Bonds were issued to refund \$2,935,000 of Bonds. The Bonds will be repaid in various installments beginning January 15, 2012 to July 15, 2024. As a result, the refunded bonds are considered to be defeased in substance and the liability for those bonds has been removed from the financial statements. The reacquisition price exceeded the carrying amount of the old debt by \$413,211. The advance refunding was undertaken to reduce the total debt service payments over the next 14 years by \$333,765 and resulted in an economic gain of \$273,462. At June 30, 2012 the defeased bonds had balances outstanding of \$2,935,000.

The City of Fairfax, Virginia issued \$19,346,000 General Obligation Refunding Bonds, with an effective interest rate of 2.73%. The Bonds were issued to refund \$16,975,000 of Bonds. The Bonds will be repaid in various installments beginning January 15, 2013 to July 15, 2030. As a result, the refunded bonds are considered to be defeased in substance and the liability for those bonds has been removed from the financial statements. The reacquisition price exceeded the carrying amount of the old debt by \$2,218,694. The advance refunding was undertaken to reduce the total debt service payments over the next 18 years by \$2,517,689 and resulted in an economic gain of \$2,000,098. At June 30, 2012 the defeased bonds had balances outstanding of \$16,975,000.

CITY OF FAIRFAX, VIRGINIA

Notes to the Financial Statements
As of June 30, 2012 (Continued)

NOTE 19—RESTATEMENT:

Certain amounts in the beginning net assets have been restated in fiscal year 2012 as follows:

	<u>Governmental Activities</u>
Beginning net assets, as previously reported	\$ 64,455,815
Restatement to adjust for additional Construction in Progress	<u>2,283,341</u>
Beginning net assets, as restated	<u><u>\$ 66,739,156</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

This page intentionally left blank

Schedules of Pension and OPEB Funding Progress
For the Year Ended June 30, 2012

A. Virginia Retirement System:

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)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2011	\$ 86,097,808	\$ 126,796,829	\$ 40,699,021	67.90%	\$ 26,384,757	154.25%
6/30/2010	84,039,964	120,366,342	36,326,378	69.82%	26,381,262	137.70%
6/30/2009	83,342,627	107,585,559	24,242,932	77.47%	25,804,906	93.95%

B. City Supplemental Retirement Plan:

6/30/2011	\$ 55,230,000	\$ 51,630,000	(3,600,000)	106.97%	\$ 16,790,000	(21.44%)
6/30/2010	54,940,000	49,030,000	(5,910,000)	112.05%	16,980,000	(34.81%)
6/30/2009	55,230,000	48,270,000	(6,960,000)	114.42%	16,870,000	(41.26%)
6/30/2008	55,730,000	46,440,000	(9,290,000)	120.00%	16,750,000	(55.46%)
6/30/2007	53,110,000	44,070,000	(9,040,000)	120.51%	15,970,000	(56.61%)
6/30/2006	45,769,920	36,740,493	(9,029,427)	124.58%	14,964,917	(60.34%)

C. City Firefighters, Policemen and Policewomen Plan:

6/30/2011	\$ 60,420,000	\$ 60,090,000	(330,000)	100.55%	\$ 10,320,000	(3.20%)
6/30/2010	60,190,000	59,430,000	(760,000)	101.28%	10,510,000	(7.23%)
6/30/2009	60,640,000	58,540,000	(2,100,000)	103.59%	10,330,000	(20.33%)
6/30/2008	61,170,000	56,590,000	(4,580,000)	108.09%	10,570,000	(43.33%)
6/30/2007	57,910,000	54,020,000	(3,890,000)	107.20%	9,660,000	(40.27%)
6/30/2006	46,433,098	41,829,858	(4,603,240)	111.00%	9,147,911	(50.32%)

Note: Starting with 6/30/07 the City Supplemental Retirement Plan and City Firefighters, Policemen and Policewomen Plan's actuarial valuation presented the Schedule of Funding Progress amounts in millions.

D. Other Post-Employment Benefits

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%

This page intentionally left blank

OTHER SUPPLEMENTARY INFORMATION

This page intentionally left blank

Combining and Individual Fund Statements and Schedules

This page intentionally left blank

Combining Balance Sheet
 Nonmajor Governmental Funds
 At June 30, 2012

	Special Revenue Fund	Capital Projects Funds		Total Nonmajor Governmental Funds
	Legacy for Fairfax Fund	Stormwater Fund	Commercial Transportation Tax Fund	
Assets				
Cash and cash equivalents	\$ 191,125	\$ 522,381	\$ 3,555,190	\$ 4,268,696
Total assets	<u>\$ 191,125</u>	<u>\$ 522,381</u>	<u>\$ 3,555,190</u>	<u>\$ 4,268,696</u>
Liabilities				
Accounts payable	\$ 21,763	\$ 140,140	\$ -	\$ 161,903
Total assets	<u>\$ 21,763</u>	<u>\$ 140,140</u>	<u>\$ -</u>	<u>\$ 161,903</u>
Fund Balances				
Fund balances:				
Restricted	\$ 169,362	\$ -	\$ -	\$ 169,362
Committed	-	138,864	1,040,668	1,179,532
Assigned	-	243,377	2,514,522	2,757,899
Total fund balances	<u>\$ 169,362</u>	<u>\$ 382,241</u>	<u>\$ 3,555,190</u>	<u>\$ 4,106,793</u>
Total liabilities and fund balances	<u>\$ 191,125</u>	<u>\$ 522,381</u>	<u>\$ 3,555,190</u>	<u>\$ 4,268,696</u>

Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2012

	Special Revenue Fund	Capital Projects Funds		Total Nonmajor Governmental Funds
	Legacy for Fairfax Fund	Stormwater Fund	Commercial Transportation Tax Fund	
Revenues				
Miscellaneous	\$ 78,091	\$ -	\$ -	\$ 78,091
Intergovernmental: Federal	-	19,245	-	19,245
Total revenues	\$ 78,091	\$ 19,245	\$ -	\$ 97,336
Expenditures				
Current:				
Public works	\$ -	\$ 862,668	\$ 53,420	\$ 916,088
Parks, recreation and cultural	44,495	-	-	44,495
Total expenditures	\$ 44,495	\$ 862,668	\$ 53,420	\$ 960,583
Excess (deficiency) of revenue over expenditures	\$ 33,596	\$ (843,423)	\$ (53,420)	\$ (863,247)
Other financing sources (uses)				
Transfers in	\$ -	\$ 399,500	\$ 1,002,675	\$ 1,402,175
Total other financing sources (uses)	\$ -	\$ 399,500	\$ 1,002,675	\$ 1,402,175
Net changes in fund balances	\$ 33,596	\$ (443,923)	\$ 949,255	\$ 538,928
Fund balances, beginning	135,766	826,164	2,605,935	3,567,865
Fund balances, ending	\$ 169,362	\$ 382,241	\$ 3,555,190	\$ 4,106,793

Combining Statement of Fiduciary Net Assets
 Fiduciary Funds
 At June 30, 2012

	City Supplemental Pension Trust Fund	Firefighters, Policemen and Policewomen Pension Trust Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
Assets			
Mutual funds	\$ 26,612,862	\$ 28,905,215	\$ 55,518,077
Stocks	23,932,872	25,994,380	49,927,252
Accrued interest	53,260	57,848	111,108
	<u>\$ 50,598,994</u>	<u>\$ 54,957,443</u>	<u>\$ 105,556,437</u>
Total assets			
Net Assets			
Held in trust for pension benefits	<u>\$ 50,598,994</u>	<u>\$ 54,957,443</u>	<u>\$ 105,556,437</u>

Combining Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 Year Ended June 30, 2012

	City Supplemental Pension Trust Fund	Firefighters, Policemen and Policewomen Pension Trust Fund	Totals
Additions			
Plan member and employer contributions	\$ 1,000,977	\$ 1,215,250	\$ 2,216,227
Investment income:			
Interest and dividends earned on investments	\$ 541,977	610,115	\$ 1,152,092
Net appreciation in fair value of investments	(1,255,223)	(1,415,464)	(2,670,687)
Total investment income	\$ (713,246)	\$ (805,349)	\$ (1,518,595)
Less: Investment expenses	267,674	301,845	569,519
Net investment income	\$ (980,920)	\$ (1,107,194)	\$ (2,088,114)
 Total additions	 \$ 20,057	 \$ 108,056	 \$ 128,113
Deductions			
Retirement and disability benefits	\$ 2,301,306	\$ 3,109,995	\$ 5,411,301
Refunds to members	13,794	67,354	81,148
 Total deductions	 \$ 2,315,100	 \$ 3,177,349	 \$ 5,492,449
 Change in net assets	 \$ (2,295,043)	 \$ (3,069,293)	 \$ (5,364,336)
Net assets - beginning	52,894,037	58,026,736	110,920,773
Net assets - ending	\$ 50,598,994	\$ 54,957,443	\$ 105,556,437

Balance Sheet -
Discretely Presented Component Unit - School Board
At June 30, 2012

	School Operating Fund	School Bond Renovation Fund	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 2,499	\$ 2,499
Advance to Fairfax County Public Schools	-	1,371,694	1,371,694
Due from primary government	1,232,951		1,232,951
Due from other governments	659,738	-	659,738
	<u>1,892,689</u>	<u>1,374,193</u>	<u>3,266,882</u>
Total assets	\$ <u>1,892,689</u>	\$ <u>1,374,193</u>	\$ <u>3,266,882</u>
LIABILITIES			
Accounts payable	\$ 114,870	\$ -	\$ 114,870
Due to other governments	1,777,819	-	1,777,819
	<u>1,892,689</u>	<u>-</u>	<u>1,892,689</u>
Total liabilities	\$ <u>1,892,689</u>	\$ <u>-</u>	\$ <u>1,892,689</u>
FUND BALANCES			
Nonspendable - advance	\$ -	\$ 1,371,694	\$ 1,371,694
Assigned - capital projects	-	2,499	2,499
	<u>-</u>	<u>1,374,193</u>	<u>1,374,193</u>
Total fund balances	\$ <u>-</u>	\$ <u>1,374,193</u>	\$ <u>1,374,193</u>
Total liabilities and fund balances	\$ <u>1,892,689</u>	\$ <u>1,374,193</u>	\$ <u>3,266,882</u>

Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Assets -
Discretely Presented Component Unit - School Board
At June 30, 2012

	<u>Governmental Funds</u>
Total fund balances - governmental funds	\$ 1,374,193
Amounts reported for governmental activities in the Statement of Net Assets 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	26,028,396
Equipment	1,461,522
Construction in progress	24,644
Less: accumulated depreciation	<u>(18,971,891)</u>
	9,923,786
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	<u>(28,300)</u>
Net assets of governmental activities	<u>\$ 11,269,679</u>

Statement of Revenues, Expenditures and Changes in Fund Balances -
Discretely Presented Component Unit - School Board
Year Ended June 30, 2012

	School Operating Fund	School Bond Renovation Fund	Total
Revenues:			
Revenue from use of money and property	\$ 1,570,600	\$ 2,499	\$ 1,573,099
Charges for services	445,037	-	445,037
Miscellaneous	20,000	-	20,000
Recovered costs	285,323		285,323
Intergovernmental:			
City contribution to School Board	32,083,787	-	32,083,787
Commonwealth	6,795,139	-	6,795,139
 Total revenues	 \$ 41,199,886	 \$ 2,499	 \$ 41,202,385
Expenditures:			
Current:			
Education	\$ 41,199,886	\$ -	\$ 41,199,886
Capital projects	-	309,689	309,689
Contribution to the City	-	-	-
 Total expenditures	 \$ 41,199,886	 \$ 309,689	 \$ 41,509,575
 Net changes in fund balances	 \$ -	 \$ (307,190)	 \$ (307,190)
 Fund balances at beginning of year	 -	 1,681,383	 1,681,383
 Fund balances at end of year	 \$ -	 \$ 1,374,193	 \$ 1,374,193

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
Year Ended June 30, 2012

	<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	\$ (307,190)
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	\$ <u>(3,648,831)</u> (3,648,831)
Transfer of joint tenancy assets from Primary Government to Component Unit School Board, net	409,872
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 compensated absences	<u>(11,403)</u>
Change in net assets of governmental activities	\$ <u><u>(3,557,552)</u></u>

Combining Statement of Net Assets -
Discretely Presented Nonmajor Component Units
At June 30, 2012

	<u>Industrial Development Authority</u>	<u>Economic Development Authority</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 274,943	\$ 98,551	\$ 373,494
Inventory - property held for resale	<u>-</u>	<u>862,594</u>	<u>862,594</u>
Total assets	<u>\$ 274,943</u>	<u>\$ 961,145</u>	<u>\$ 1,236,088</u>
LIABILITIES			
Current liabilities:			
Accrued interest	\$ -	\$ 20,681	\$ 20,681
Due to primary government	<u>-</u>	<u>165,000</u>	<u>165,000</u>
Total current liabilities	\$ -	\$ 185,681	\$ 185,681
Noncurrent Liabilities:			
Noncurrent portion of long-term obligations	<u>-</u>	<u>884,614</u>	<u>884,614</u>
Total liabilities	<u>\$ -</u>	<u>\$ 1,070,295</u>	<u>\$ 1,070,295</u>
NET ASSETS			
Unrestricted	<u>\$ 274,943</u>	<u>\$ (109,150)</u>	<u>\$ 165,793</u>
Total net assets	<u>\$ 274,943</u>	<u>\$ (109,150)</u>	<u>\$ 165,793</u>
Total liabilities and net assets	<u>\$ 274,943</u>	<u>\$ 961,145</u>	<u>\$ 1,236,088</u>

CITY OF FAIRFAX, VIRGINIA

Combining Statement of Activities -
 Discretely Presented Nonmajor Component Units
 Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Nonmajor component units:				
Industrial Development Authority	\$ 760,708	\$ 747,255	\$ 25,000	\$ -
Economic Development Authority	170,861	41,753	25,000	-
Total nonmajor component units	<u>\$ 931,569</u>	<u>\$ 789,008</u>	<u>\$ 50,000</u>	<u>\$ -</u>

General revenues:
 Unrestricted revenues from use of money and property
 Gain on disposal of capital assets
 Miscellaneous
 Total general revenues
 Change in net assets
 Net assets - beginning
 Net assets - ending

Exhibit 23

Industrial Development Authority	Economic Development Authority	Total
\$ 11,547	\$ -	\$ 11,547
<u>-</u>	<u>(104,108)</u>	<u>(104,108)</u>
\$ 11,547	\$ (104,108)	\$ (92,561)
\$ 280	\$ 108	\$ 388
-	182,145	182,145
-	85,986	85,986
<u>280</u>	<u>268,239</u>	<u>268,519</u>
\$ 11,827	\$ 164,131	\$ 175,958
263,116	(273,281)	(10,165)
<u>274,943</u>	<u>(109,150)</u>	<u>165,793</u>

Balance Sheet -
Discretely Presented Nonmajor Component Units
At June 30, 2012

	<u>Industrial Development Authority</u>	<u>Economic Development Authority</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 274,943	\$ 98,551	\$ 373,494
Total assets	<u>\$ 274,943</u>	<u>\$ 98,551</u>	<u>\$ 373,494</u>
LIABILITIES			
Due to primary government	\$ -	\$ 165,000	\$ 165,000
Total liabilities	<u>\$ -</u>	<u>\$ 165,000</u>	<u>\$ 165,000</u>
FUND BALANCES			
Unassigned	\$ 274,943	\$ (66,449)	\$ 208,494
Total fund balances	<u>\$ 274,943</u>	<u>\$ (66,449)</u>	<u>\$ 208,494</u>
Total liabilities and fund balances	<u>\$ 274,943</u>	<u>\$ 98,551</u>	<u>\$ 373,494</u>

Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets -
Discretely Presented Nonmajor Component Units
At June 30, 2012

	<u>Industrial Development Authority</u>	<u>Economic Development Authority</u>	<u>Totals</u>
Total fund balances - governmental funds	\$ 274,943	\$ (66,449)	\$ 208,494
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:			
Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds:			
Inventory held for resale	-	862,594	862,594
Interest on long-term obligations is not accrued in the governmental funds, but rather is recognized as an expenditure when due.			
	-	(20,681)	(20,681)
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.			
Notes payable	-	(884,614)	(884,614)
Net assets of governmental activities	<u>\$ 274,943</u>	<u>\$ (109,150)</u>	<u>\$ 165,793</u>

Statement of Revenues, Expenditures and Changes in Fund Balances -
Discretely Presented Nonmajor Component Units
Year Ended June 30, 2012

	Industrial Development Authority	Economic Development Authority	Totals
Revenues:			
Revenue from use of money and property	\$ 747,535	\$ 66,861	\$ 814,396
Miscellaneous	25,000	85,986	110,986
Total revenues	<u>\$ 772,535</u>	<u>\$ 152,847</u>	<u>\$ 925,382</u>
Expenditures:			
Current:			
Planning and community development	\$ 760,708	\$ 30,242	\$ 790,950
Debt service:			
Principal retirement	\$ -	\$ 1,507,691	\$ 1,507,691
Interest and fiscal charges	-	175,199	175,199
Total expenditures	<u>\$ 760,708</u>	<u>\$ 1,713,132</u>	<u>\$ 2,473,840</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 11,827</u>	<u>\$ (1,560,285)</u>	<u>\$ (1,548,458)</u>
Other financing sources (uses):			
Proceeds from the sale of land	\$ -	\$ 1,662,283	\$ 1,662,283
Net changes in fund balances	\$ 11,827	\$ 101,998	\$ 113,825
Fund balances at beginning of year	<u>263,116</u>	<u>(168,447)</u>	<u>94,669</u>
Fund balances at end of year	<u><u>\$ 274,943</u></u>	<u><u>\$ (66,449)</u></u>	<u><u>\$ 208,494</u></u>

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities - Discretely Presented Nonmajor Component Units
Year Ended June 30, 2012

	<u>Industrial Development Authority</u>	<u>Economic Development Authority</u>	<u>Totals</u>
Net changes in fund balances-discretely presented nonmajor component units	\$ 11,827	\$ 101,998	\$ 113,825
Amounts reported for governmental activities in the statement of activities are different because:			
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.	-	(1,480,138)	(1,480,138)
The net effect of principal retirement of long-term obligations		1,507,691	1,507,691
Change in interest payable	<u>-</u>	<u>34,580</u>	<u>34,580</u>
Change in net assets of governmental activities	<u>\$ 11,827</u>	<u>\$ 164,131</u>	<u>\$ 175,958</u>

This page intentionally left blank

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
<p>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.</p>	1 to 5
<p>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.</p>	6 to 10
<p>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.</p>	11 to 13
<p>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.</p>	14
<p>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.</p>	15 to 18

Sources:

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

COMMENTS RELATIVE TO STATISTICAL SECTION

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 Assets By Component
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	2003	2004	2005	2006	2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ 22,031,344	\$ 24,783,163	\$ 46,953,895	\$ (11,812,521)	\$ (48,500,591)
Restricted	7,072	49,245	43,764	-	-
Unrestricted	<u>14,804,578</u>	<u>15,626,504</u>	<u>(40,550,651)</u>	<u>(16,939,669)</u>	<u>(1,066,325)</u>
Total governmental activities net assets	\$ 36,842,994	\$ 40,458,912	\$ 6,447,008	\$ (28,752,190)	\$ (49,566,916)
Business-type activities:					
Invested in capital assets, net of related debt	\$ 20,597,502	\$ 23,348,054	\$ 25,198,355	\$ 25,002,792	\$ 24,895,262
Unrestricted	<u>12,522,432</u>	<u>11,124,005</u>	<u>8,002,028</u>	<u>5,850,290</u>	<u>5,369,440</u>
Total business-type activities net assets	\$ 33,119,934	\$ 34,472,059	\$ 33,200,383	\$ 30,853,082	\$ 30,264,702
Primary government:					
Invested in capital assets, net of related debt	\$ 42,628,846	\$ 48,131,217	\$ 72,152,250	\$ 13,190,271	\$ (23,605,329)
Restricted	7,072	49,245	43,764	-	-
Unrestricted (deficit)	<u>27,327,010</u>	<u>26,750,509</u>	<u>(32,548,623)</u>	<u>(11,089,379)</u>	<u>4,303,115</u>
Total primary government net assets	\$ 69,962,928	\$ 74,930,971	\$ 39,647,391	\$ 2,100,892	\$ (19,302,214)
Component units: (1)					
Component unit - school board:					
Invested in capital assets, net of related debt	\$ 30,807,245	\$ 31,615,523	\$ 35,369,476	\$ 66,251,923	\$ 103,979,947
Unrestricted	<u>912,881</u>	<u>1,358,664</u>	<u>38,556,759</u>	<u>50,485,036</u>	<u>19,401,869</u>
Total component unit - school board net assets	\$ 31,720,126	\$ 32,974,187	\$ 73,926,235	\$ 116,736,959	\$ 123,381,816
Component unit - all others aggregate					
Invested in capital assets, net of related debt	\$ 2,303,650	\$ 2,280,550	\$ 1,258,300	\$ -	\$ -
Restricted	433,606	306,522	299,529	307,920	273,943
Unrestricted (deficit)	<u>420,085</u>	<u>410,990</u>	<u>437,389</u>	<u>456,061</u>	<u>466,884</u>
Total component unit - all others aggregate net assets	\$ 3,157,341	\$ 2,998,062	\$ 1,995,218	\$ 763,981	\$ 740,827
Component units:					
Invested in capital assets, net of related debt	\$ 33,110,895	\$ 33,896,073	\$ 36,627,776	\$ 66,251,923	\$ 103,979,947
Restricted	433,606	306,522	299,529	307,920	273,943
Unrestricted (deficit)	<u>1,332,966</u>	<u>1,769,654</u>	<u>38,994,148</u>	<u>50,941,097</u>	<u>19,868,753</u>
Total component units net assets	\$ 34,877,467	\$ 35,972,249	\$ 75,921,453	\$ 117,500,940	\$ 124,122,643
Total reporting entity:					
Invested in capital assets, net of related debt	\$ 56,239,741	\$ 63,827,290	\$ 49,605,026	\$ (23,202,806)	\$ (28,390,382)
Restricted	440,678	355,767	343,293	307,920	273,943
Unrestricted (deficit)	<u>48,159,976</u>	<u>46,720,163</u>	<u>65,620,525</u>	<u>142,496,718</u>	<u>132,936,868</u>
Total reporting entity net assets	\$ 104,840,395	\$ 110,903,220	\$ 115,568,844	\$ 119,601,832	\$ 104,820,429

Notes:

- (1) Component Unit net assets are included in this table due to public schools and the others aggregated being significant portions of the City operations. In Virginia, the City issues debt to finance the construction of facilities for these component units because they do not have borrowing or taxing authority.

Table 1

	2008	2009	2010	2011	2012
\$	38,986,748	\$ 34,396,876	\$ 39,308,283	\$ 39,486,639	\$ 51,917,773
	<u>12,750,610</u>	<u>23,158,474</u>	<u>25,359,148</u>	<u>24,969,176</u>	<u>18,413,738</u>
\$	<u>51,737,358</u>	<u>57,555,350</u>	<u>64,667,431</u>	<u>64,455,815</u>	<u>70,331,511</u>
\$	20,264,835	\$ 24,450,435	\$ 24,498,812	\$ 22,938,374	\$ 23,422,114
	<u>7,224,926</u>	<u>2,854,098</u>	<u>3,697,754</u>	<u>4,709,709</u>	<u>2,536,617</u>
\$	<u>27,489,761</u>	<u>27,304,533</u>	<u>28,196,566</u>	<u>27,648,083</u>	<u>25,958,731</u>
\$	59,251,583	\$ 58,847,311	\$ 63,807,095	\$ 62,425,013	\$ 75,339,887
	<u>19,975,536</u>	<u>26,012,572</u>	<u>29,056,902</u>	<u>29,678,885</u>	<u>20,950,355</u>
\$	<u>79,227,119</u>	<u>84,859,883</u>	<u>92,863,997</u>	<u>92,103,898</u>	<u>96,290,242</u>
\$	13,005,785	\$ 13,508,352	\$ 14,268,025	\$ 13,162,745	\$ 9,923,786
	<u>6,517,420</u>	<u>2,947,883</u>	<u>2,401,691</u>	<u>1,664,486</u>	<u>1,345,893</u>
\$	<u>19,523,205</u>	<u>16,456,235</u>	<u>16,669,716</u>	<u>14,827,231</u>	<u>11,269,679</u>
\$	-	\$ -	\$ -	\$ -	\$ -
	<u>(27,149)</u>	<u>(106,376)</u>	<u>(170,104)</u>	<u>(10,165)</u>	<u>165,793</u>
\$	<u>(27,149)</u>	<u>(106,376)</u>	<u>(170,104)</u>	<u>(10,165)</u>	<u>165,793</u>
\$	13,005,785	\$ 13,508,352	\$ 14,268,025	\$ 13,162,745	\$ 9,923,786
	<u>6,490,271</u>	<u>2,841,507</u>	<u>2,231,587</u>	<u>1,654,321</u>	<u>1,511,686</u>
\$	<u>19,496,056</u>	<u>16,349,859</u>	<u>16,499,612</u>	<u>14,817,066</u>	<u>11,435,472</u>
\$	72,257,368	\$ 72,355,663	\$ 78,075,120	\$ 75,587,758	\$ 85,263,673
	<u>26,465,807</u>	<u>28,854,079</u>	<u>31,288,489</u>	<u>31,333,206</u>	<u>22,462,041</u>
\$	<u>98,723,175</u>	<u>101,209,742</u>	<u>109,363,609</u>	<u>106,920,964</u>	<u>107,725,714</u>

Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses:										
Governmental activities:										
General government administration	\$ 5,992,243	\$ 8,181,818	\$ 7,944,888	\$ 6,588,630	\$ 4,501,657	\$ 5,790,057	\$ 7,477,262	\$ 7,163,564	\$ 7,909,199	\$ 7,724,635
Judicial administration	1,026,564	1,020,073	1,105,303	1,098,304	1,588,440	1,672,007	1,739,567	2,032,559	1,810,335	2,005,982
Public safety	14,160,416	15,085,222	17,097,263	18,918,613	18,375,185	22,370,185	22,617,672	22,569,030	23,001,352	23,066,551
Public works	10,772,058	11,305,843	12,035,896	12,993,041	15,645,734	15,056,333	12,547,792	10,373,323	14,190,482	15,213,056
Health and social services	3,418,460	3,627,848	3,874,857	4,303,021	4,623,541	4,874,994	4,790,384	4,839,913	4,715,869	4,811,623
Parks, recreation and cultural	3,334,352	3,625,794	4,155,577	5,506,525	18,451,806	9,104,464	5,012,481	4,735,093	7,490,623	4,832,756
Planning and community development	1,610,783	1,602,478	1,564,705	1,928,300	8,433,836	3,435,986	2,101,996	2,108,858	2,072,584	2,414,662
Education	22,543,976	25,153,505	65,673,214	69,700,277	34,051,143	19,030,288	30,778,612	35,884,552	35,635,880	35,682,802
Interest	2,008,605	2,013,416	2,744,269	6,479,175	7,392,158	7,950,084	7,299,070	6,863,092	7,580,448	5,802,938
Total governmental activities expenses	\$ 64,867,457	\$ 71,615,997	\$ 116,195,972	\$ 127,515,886	\$ 113,063,500	\$ 89,284,398	\$ 94,364,836	\$ 96,569,984	\$ 104,406,772	\$ 101,555,005
Business-type activities:										
Sewer	\$ 3,479,636	\$ 3,544,868	\$ 3,647,372	\$ 3,766,595	\$ 3,967,948	\$ 3,876,585	\$ 3,960,547	\$ 3,770,579	\$ 4,417,029	\$ 4,768,856
Water	6,345,220	6,431,715	7,431,685	7,735,802	8,007,885	7,859,380	8,420,622	8,503,675	9,706,260	9,286,729
Transportation	2,453,768	3,139,468	2,947,051	2,981,937	3,085,684	3,137,971	3,048,667	2,981,900	2,977,867	2,977,927
Total business-type activities expenses	\$ 12,278,624	\$ 13,116,051	\$ 14,026,108	\$ 14,484,334	\$ 15,061,517	\$ 14,873,936	\$ 15,429,836	\$ 15,256,154	\$ 17,101,156	\$ 17,033,512
Total primary government expenses	\$ 77,146,081	\$ 84,732,048	\$ 130,222,080	\$ 142,000,220	\$ 128,125,017	\$ 104,158,334	\$ 109,794,672	\$ 111,826,138	\$ 121,507,928	\$ 118,588,517
Program revenue:										
Governmental activities:										
Charges for services:										
General government administration	\$ 303,100	\$ 371,202	\$ 354,887	\$ 465,151	\$ 358,362	\$ 221,030	\$ 239,652	\$ 263,865	\$ 291,048	\$ 386,170
Judicial administration	544,835	969,096	922,229	978,733	848,240	771,992	768,841	855,289	1,005,567	1,026,807
Public safety	959,923	881,927	1,349,949	744,380	634,789	735,565	1,571,900	1,675,070	1,700,143	2,633,859
Public works	314,674	322,523	349,295	292,250	342,136	343,431	345,774	378,634	624,368	382,035
Parks, recreation and cultural	350,828	463,813	452,081	434,290	557,264	780,237	918,688	946,381	1,027,621	1,075,741
Planning and community development	133,482	129,040	144,488	184,211	242,676	261,461	284,462	386,282	282,954	358,896
Operating grants and contributions:										
General government administration	266,073	268,679	284,555	298,925	319,875	347,860	335,316	301,953	262,777	271,658
Public safety	769,842	819,684	1,359,793	1,679,357	1,201,134	1,312,710	1,361,192	1,480,939	1,278,573	969,851
Public works	1,745,860	1,932,737	1,792,120	1,889,760	1,962,308	2,026,573	2,092,778	2,120,166	2,193,594	2,277,255
Parks, recreation and cultural	-	36,415	5,000	-	-	5,000	5,000	30,499	23,084	19,245
Planning and community development	-	-	-	7,182	5,000	32,052	79,307	-	-	-
Capital grants and contributions:										
General government administration	114,904	58,979	107,398	-	-	-	-	-	-	-
Public safety	426,950	664,969	-	-	898	-	-	-	-	-
Public works	260,009	234,135	298,914	373,386	241,350	467,991	2,437,582	595,393	1,662,535	2,138,099
Parks, recreation and cultural	-	30,000	-	-	74,457	-	-	-	-	-
Total governmental activities program revenue	\$ 6,190,480	\$ 7,183,199	\$ 7,420,709	\$ 7,347,625	\$ 6,788,489	\$ 7,305,902	\$ 10,440,592	\$ 9,034,471	\$ 10,352,264	\$ 11,539,616
Business-type activities:										
Charges for services:										
Sewer	\$ 3,131,569	\$ 2,741,097	\$ 3,078,461	\$ 3,067,876	\$ 3,127,259	\$ 2,989,180	\$ 3,323,391	\$ 3,532,646	\$ 4,178,752	\$ 4,499,929
Water	6,753,714	6,596,970	6,540,968	6,408,222	7,744,604	7,468,413	8,893,201	9,319,840	9,141,327	7,765,200
Transportation	509,413	562,117	634,659	558,927	596,367	705,693	846,825	811,570	1,195,092	1,153,240
Operating grants and contributions:										
Sewer	-	7,346	-	-	-	-	-	-	-	209,767
Water	3,722	10,110	3,757	-	-	-	-	-	-	193,631
Transportation	-	-	-	1,245,472	1,206,004	1,094,448	1,103,651	1,707,647	1,814,754	1,039,435
Capital grants and contributions:										
Sewer	\$ 269,850	\$ 534,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 92,064	\$ -
Water	74,235	757,425	-	-	-	-	-	-	-	84,982
Transportation	2,652,989	1,610,481	1,109,375	53,172	-	-	-	-	-	-
Total business-type activities program revenues	\$ 13,395,492	\$ 12,820,046	\$ 11,367,220	\$ 11,333,669	\$ 12,674,234	\$ 12,257,734	\$ 14,167,068	\$ 15,371,703	\$ 16,506,971	\$ 14,861,202
Total primary government program revenues	\$ 19,585,972	\$ 20,003,245	\$ 18,787,929	\$ 18,681,294	\$ 19,462,723	\$ 19,563,636	\$ 24,607,660	\$ 24,406,174	\$ 26,859,235	\$ 26,400,818
Net (expense) revenue:										
Governmental activities	\$ (58,676,977)	\$ (64,432,798)	\$ (108,775,263)	\$ (120,168,261)	\$ (106,275,011)	\$ (81,978,496)	\$ (83,924,244)	\$ (87,535,513)	\$ (94,054,508)	\$ (90,015,389)
Business-type activities	1,116,868	(296,005)	(2,658,888)	(3,150,665)	(2,387,283)	(2,616,202)	(1,262,768)	115,549	(594,185)	(2,172,310)
Total primary government net expense	\$ (57,560,109)	\$ (64,728,803)	\$ (111,434,151)	\$ (123,318,926)	\$ (108,662,294)	\$ (84,594,698)	\$ (85,187,012)	\$ (87,419,964)	\$ (94,648,693)	\$ (92,187,699)
General revenues and other changes in net assets:										
Governmental activities:										
Taxes:										
General property	\$ 35,230,935	\$ 38,155,395	\$ 41,913,827	\$ 44,736,332	\$ 47,189,602	\$ 50,795,457	\$ 56,197,375	\$ 56,195,202	\$ 56,379,581	\$ 57,215,662
Local sales	9,875,008	10,608,683	11,604,756	13,721,180	13,587,593	13,433,256	8,831,495	10,644,038	9,907,063	10,200,696
Business license	7,660,442	7,664,177	8,370,119	8,444,976	8,662,866	8,599,019	8,375,552	7,485,809	8,151,072	8,554,669
Consumer utility	2,403,880	2,850,414	2,774,256	3,063,302	2,132,805	1,459,146	1,512,860	1,547,114	1,551,010	1,727,091
Meals	1,930,225	2,087,428	2,176,558	2,235,496	2,301,359	4,628,046	4,646,735	4,654,171	4,938,869	5,252,922
Other local taxes	2,925,083	3,793,123	4,278,371	4,601,572	4,521,076	6,203,308	5,713,597	3,760,252	4,117,253	4,513,531
Intergovernmental, other than grants	3,176,355	3,321,928	3,178,470	3,283,706	3,367,088	3,307,841	3,288,406	5,673,620	5,691,383	5,656,930
Gain/(loss) on disposal of capital assets	-	-	-	-	-	-	-	2,915,936	-	161,424
Use of money and property	1,001,487	880,309	1,493,699	5,106,837	5,246,271	2,595,320	946,400	350,867	282,100	379,849
Miscellaneous	268,957	230,315	260,376	475,662	220,325	298,029	1,244,816	2,200,585	2,845,072	372,970
Transfers	(1,007,107)	(1,543,056)	(1,287,073)	(700,000)	(1,768,700)	218,686	(1,015,000)	(780,000)	(20,511)	(428,000)
Total governmental activities	\$ 63,465,265	\$ 68,048,716	\$ 74,763,359	\$ 84,969,063	\$ 85,460,285	\$ 91,538,108	\$ 89,742,236	\$ 94,647,594	\$ 93,842,892	\$ 93,607,744

Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Program revenue: (Continued)										
Business-type activities:										
Use of money and property	\$ 170,483	\$ 105,074	\$ 100,139	\$ 103,364	\$ 30,203	\$ 59,947	\$ 62,540	\$ (3,516)	\$ 25,191	\$ 54,958
Transfers	1,007,107	1,543,056	1,287,073	700,000	1,768,700	(218,686)	1,015,000	780,000	20,511	428,000
Total business-type activities	\$ 1,177,590	\$ 1,648,130	\$ 1,387,212	\$ 803,364	\$ 1,798,903	\$ (158,739)	\$ 1,077,540	\$ 776,484	\$ 45,702	\$ 482,958
Total primary government	\$ 64,642,855	\$ 69,696,846	\$ 76,150,571	\$ 85,772,427	\$ 87,259,188	\$ 91,379,369	\$ 90,819,776	\$ 95,424,078	\$ 93,888,594	\$ 94,090,702
Changes in net assets:										
Governmental activities	\$ 4,788,288	\$ 3,615,918	\$ (34,011,904)	\$ (35,199,198)	\$ (20,814,726)	\$ 9,559,612	\$ 5,817,992	\$ 7,112,081	\$ (211,616)	\$ 3,592,355
Business-type activities	2,294,458	1,352,125	(1,271,676)	(2,347,301)	(588,380)	(2,774,941)	(185,228)	892,033	(548,483)	(1,689,352)
Total primary government	\$ 7,082,746	\$ 4,968,043	\$ (35,283,580)	\$ (37,546,499)	\$ (21,403,106)	\$ 6,784,671	\$ 5,632,764	\$ 8,004,114	\$ (760,099)	\$ 1,903,003
Component units: (2)										
Component unit - school board:										
Expenses:										
Instruction	\$ 28,517,588	\$ 29,626,772	\$ 32,482,318	\$ 34,905,380	\$ 36,420,856	\$ 39,724,887	\$ 39,197,375	\$ 37,627,755	\$ 39,703,706	\$ 44,884,486
Total expenses	\$ 28,517,588	\$ 29,626,772	\$ 32,482,318	\$ 34,905,380	\$ 36,420,856	\$ 39,724,887	\$ 39,197,375	\$ 37,627,755	\$ 39,703,706	\$ 44,884,486
Program revenues:										
Charges for services	\$ 255,000	\$ 289,914	\$ 313,991	\$ 338,006	\$ 354,796	\$ 377,503	\$ 396,955	\$ 406,213	\$ 421,973	\$ 445,037
Operating grants and contributions	4,637,081	4,916,007	5,683,282	5,911,101	6,870,293	7,023,599	6,970,754	6,156,427	6,309,784	6,795,139
Total program revenues	\$ 4,892,081	\$ 5,205,921	\$ 5,997,273	\$ 6,249,107	\$ 7,225,089	\$ 7,401,102	\$ 7,367,709	\$ 6,562,640	\$ 6,731,757	\$ 7,240,176
Net expense	\$ (23,625,507)	\$ (24,420,851)	\$ (26,485,045)	\$ (28,656,273)	\$ (29,195,767)	\$ (32,323,785)	\$ (31,829,666)	\$ (31,065,115)	\$ (32,971,949)	\$ (37,644,310)
General revenues and other changes in net assets:										
Component Unit-School Board:										
Grants and contributions not restricted to specific programs	\$ 22,543,976	\$ 25,153,505	\$ 65,673,214	\$ 69,697,297	\$ 34,051,143	\$ 18,632,758	\$ 30,408,392	\$ 29,634,913	\$ 29,514,032	\$ 32,493,659
Use of money and property	506,197	521,407	1,763,879	1,749,700	1,769,481	1,557,078	1,480,065	1,623,683	1,595,432	1,573,099
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
Total general revenues and other changes in net assets	\$ 23,050,173	\$ 25,674,912	\$ 67,437,093	\$ 71,466,997	\$ 35,840,624	\$ 20,209,836	\$ 28,762,696	\$ 31,278,596	\$ 31,129,464	\$ 34,086,758
Total component unit - school board change in net assets	\$ (575,334)	\$ 1,254,061	\$ 40,952,048	\$ 42,810,724	\$ 6,644,857	\$ (12,113,949)	\$ (3,066,970)	\$ 213,481	\$ (1,842,485)	\$ (3,557,552)
Component unit - all others aggregate										
Expenses:										
Renaissance Housing Corporation	\$ 230,116	\$ 340,929	\$ 189,556	\$ 97,041	\$ 194,873	\$ -	\$ -	\$ -	\$ -	\$ -
Industrial Development Authority	521,355	622,649	1,530,901	2,166,704	781,294	784,763	783,726	821,075	834,312	760,708
Economic Development Authority	27,831	29,122	331,777	264,379	136,953	182,692	203,086	195,187	85,840	170,861
Total expenses	\$ 779,302	\$ 992,700	\$ 2,052,234	\$ 2,528,124	\$ 1,113,120	\$ 967,455	\$ 986,812	\$ 1,016,262	\$ 920,152	\$ 931,569
General revenues and other changes in net assets:										
Grants and contributions not restricted to specific programs	\$ 300,000	\$ 200,000	\$ 242,133	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property	510,767	608,216	801,051	21,878	37,506	10,418	4,711	1,012	332	388
Gain/(loss) on disposal of capital assets	-	-	-	-	-	-	-	-	-	182,145
Miscellaneous	2,325	25,205	6,206	150,000	200,000	40,000	27,000	25,617	50,100	85,986
Operating grants and contributions	-	-	-	-	-	-	-	-	-	50,000
Charges for services	-	-	-	1,092,573	852,460	865,148	875,874	925,905	1,029,659	789,008
Total general revenues and other changes in net assets	\$ 813,092	\$ 833,421	\$ 1,049,390	\$ 1,264,451	\$ 1,089,966	\$ 915,566	\$ 907,585	\$ 952,534	\$ 1,080,091	\$ 1,107,527
Total component unit - all others aggregate change in net assets	\$ 33,790	\$ (159,279)	\$ (1,002,844)	\$ (1,263,673)	\$ (23,154)	\$ (51,889)	\$ (79,227)	\$ (63,728)	\$ 159,939	\$ 175,958
Total component units change in net assets	\$ (541,544)	\$ 1,094,782	\$ 39,949,204	\$ 41,547,051	\$ 6,621,703	\$ (12,165,838)	\$ (3,146,197)	\$ 149,753	\$ (1,682,546)	\$ (3,381,594)
Total reporting entity change in net assets	\$ 6,541,202	\$ 6,062,825	\$ 4,665,624	\$ 4,000,552	\$ (14,781,403)	\$ (5,381,167)	\$ 2,486,567	\$ 8,153,867	\$ (2,442,645)	\$ (1,478,591)

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 a 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.

(2) Component units were included in this table due to their significance to the City.

CITY OF FAIRFAX, VIRGINIA

Program Revenues by Function/Program
 Last Ten Fiscal Years
 (accrual basis of accounting)
 (Unaudited)

Function / Program	2003	2004	2005	2006	2007
Primary government:					
Governmental activities:					
General government administration	\$ 684,077	\$ 698,860	\$ 746,840	\$ 764,076	\$ 678,237
Judicial administration	544,835	969,096	922,229	978,733	848,240
Public safety	2,156,715	2,366,580	2,709,742	2,423,737	1,836,821
Public works	2,320,543	2,489,395	2,440,329	2,555,396	2,545,794
Parks, recreation and cultural	350,828	530,228	457,081	434,290	631,721
Planning and community development	133,482	129,040	144,488	191,393	247,676
Total governmental activities	\$ 6,190,480	\$ 7,183,199	\$ 7,420,709	\$ 7,347,625	\$ 6,788,489
Business-type activities:					
Sewer	\$ 3,401,419	\$ 3,282,943	\$ 3,078,461	\$ 3,067,876	\$ 3,127,259
Water	6,831,671	7,364,505	6,544,725	6,408,222	7,744,604
Transportation	3,162,402	2,172,598	1,744,034	1,857,571	1,802,371
Total business-type activities	\$ 13,395,492	\$ 12,820,046	\$ 11,367,220	\$ 11,333,669	\$ 12,674,234
Total government	\$ 19,585,972	\$ 20,003,245	\$ 18,787,929	\$ 18,681,294	\$ 19,462,723
Component units:					
Component unit - school board:					
Instruction	\$ 4,892,081	\$ 5,205,921	\$ 5,997,273	\$ 6,249,107	\$ 7,225,089
Component unit - all others aggregate					
Renaissance Housing Corporation	\$ 316,028	\$ 207,355	\$ 211,232	\$ 168,922	\$ 174,325
Industrial Development Authority	496,666	599,822	626,457	937,870	808,699
Economic Development Authority	398	26,244	211,701	3,266,871	106,943
Total non major component unit	813,092	833,421	1,049,390	4,373,663	1,089,967
Total reporting entity	\$ 25,291,145	\$ 26,042,587	\$ 25,834,592	\$ 29,304,064	\$ 27,777,779

Table 3

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$	568,890	\$ 574,968	\$ 565,818	\$ 553,825	\$ 657,828
	771,992	768,841	855,289	1,005,567	1,026,807
	2,048,275	2,933,092	3,156,009	2,978,716	3,603,710
	2,837,995	4,876,234	3,094,193	4,480,497	4,797,389
	785,237	923,688	976,880	1,050,705	1,094,986
	293,513	363,769	386,282	282,954	358,896
\$	<u>7,305,902</u>	<u>\$ 10,440,592</u>	<u>\$ 9,034,471</u>	<u>\$ 10,352,264</u>	<u>\$ 11,539,616</u>
\$	2,989,180	\$ 3,323,391	\$ 3,532,646	\$ 4,270,816	\$ 4,709,696
	7,468,413	8,893,201	9,319,840	9,226,309	7,958,831
	1,800,141	1,950,476	2,519,217	3,009,846	2,192,675
\$	<u>12,257,734</u>	<u>\$ 14,167,068</u>	<u>\$ 15,371,703</u>	<u>\$ 16,506,971</u>	<u>\$ 14,861,202</u>
\$	<u>19,563,636</u>	<u>\$ 24,607,660</u>	<u>\$ 24,406,174</u>	<u>\$ 26,859,235</u>	<u>\$ 26,400,818</u>
\$	<u>7,401,102</u>	<u>\$ 7,367,709</u>	<u>\$ 7,186,929</u>	<u>\$ 6,731,757</u>	<u>\$ 7,240,176</u>
\$	-	\$ -	\$ -	\$ -	-
	815,602	819,095	866,044	963,797	772,255
	49,546	56,779	59,861	65,862	66,753
	865,148	875,874	925,905	1,029,659	839,008
\$	<u>27,829,886</u>	<u>\$ 32,851,243</u>	<u>\$ 32,519,008</u>	<u>\$ 34,620,651</u>	<u>\$ 34,480,002</u>

This page intentionally left blank

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

	Fiscal Year June 30,				
	2003	2004	2005	2006	2007
General Fund:					
Reserved	\$ 378,305	\$ 460,566	\$ 576,450	\$ 1,102,170	\$ 694,142
Unreserved	10,078,259	10,514,821	11,957,796	13,176,313	14,612,947
Total General Fund	\$ 10,456,564	\$ 10,975,387	\$ 12,534,246	\$ 14,278,483	\$ 15,307,089
All Other Governmental Funds:					
Reserved	\$ 2,219,532	\$ 2,239,943	\$ 20,327,193	\$ 24,235,778	\$ 6,522,884
Unreserved, reported in:					
Capital projects funds	23,616,201	23,840,377	6,644,780	30,878,626	24,899,521
Total all other government funds	\$ 25,835,733	\$ 26,080,320	\$ 26,971,973	\$ 55,114,404	\$ 31,422,405
	Fiscal Year June 30,				
	2008	2009	2010	2011	2012
General Fund:					
Reserved	\$ 811,052	\$ 1,278,465	\$ 1,254,535	\$ -	\$ -
Unreserved	16,312,240	14,420,568	15,569,904	-	-
Nonspendable	-	-	-	810,071	705,866
Restricted	-	-	-	66,439	4,598,270
Committed	-	-	-	-	-
Assigned	-	-	-	470,845	597,541
Unassigned	-	-	-	15,171,679	13,205,665
Total General Fund	\$ 17,123,292	\$ 15,699,033	\$ 16,824,439	\$ 16,519,034	\$ 19,107,342
All Other Governmental Funds:					
Reserved	\$ 4,505,089	\$ 8,581,428	\$ 6,682,971	\$ -	\$ -
Unreserved, reported in:					
Capital projects funds	17,927,671	10,360,928	10,959,407	-	-
Nonspendable, reported in:					
Capital projects funds	-	-	-	4,056,171	4,075,739
Restricted, reported in:					
Special revenue funds	-	-	-	135,766	169,362
Committed, reported in:					
Capital projects funds	-	-	-	590,673	2,454,002
Assigned, reported in:					
Capital projects funds	-	-	-	10,662,464	4,540,388
Total all other government funds	\$ 22,432,760	\$ 18,942,356	\$ 17,642,378	\$ 15,445,074	\$ 11,239,491

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.

CITY OF FAIRFAX, VIRGINIA

Changes In Fund Balances, Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (Unaudited)

	2003	2004
Revenues:		
General property taxes	\$ 35,055,871	\$ 38,325,686
Other local taxes	24,794,638	27,003,825
Permits, privilege fees and licenses	1,268,887	1,280,551
Fines and forfeitures	916,078	1,243,358
Use of money and property	1,001,487	880,309
Charges for services	536,781	672,671
Miscellaneous	268,957	310,315
Recovered costs	-	-
Intergovernmental	6,645,089	7,228,547
Total revenues	\$ 70,487,788	\$ 76,945,262
Expenditures:		
General government administration	\$ 5,586,736	\$ 5,782,988
Judicial administration	1,003,637	981,164
Public safety	14,351,969	15,142,630
Public works	8,150,943	8,668,491
Health and social services	3,418,164	3,627,545
Parks, recreation and cultural	3,168,627	3,431,311
Planning and community development	1,610,564	1,595,332
Education	21,977,841	24,781,155
Non-departmental	-	2,167,325
Capital outlay	5,620,278	5,470,831
Debt service:		
Principal	2,377,815	3,045,450
Interest and fiscal charges	1,861,103	2,111,899
Total expenditures	\$ 69,127,677	\$ 76,806,121
Excess of revenues (under) expenditures	\$ 1,360,111	\$ 139,141
Other financing sources (uses):		
Transfers in	\$ 25,511,695	\$ 5,430,017
Transfers out	(26,518,802)	(6,973,073)
Issuance of debt	20,000,000	5,417,325
Proceeds from the sale of capital assets	-	-
Issuance of refunding bonds	-	-
Payment to refunded bond escrow agent	-	(3,250,000)
Premium on issuance debt	189,993	-
Total other financing sources (uses)	\$ 19,182,886	\$ 624,269
Net changes in fund balance	\$ 20,542,997	\$ 763,410
Debt Service as a percentage of noncapital expenditures:		
Primary government:		
Total debt service	\$ 4,238,918	\$ 5,157,349
Total expenditures	\$ 69,127,677	\$ 76,806,121
Less: Capital outlay - primary government	3,798,161	3,772,576
Noncapital expenditures	\$ 65,329,516	\$ 73,033,545
Debt service as a percentage of Noncapital expenditures	6.49%	7.06%
Component units: (2)		
Expenditures:		
School board	\$ 27,665,696	\$ 30,062,202
All others aggregate	756,202	969,600
Less: Capital outlay - school board	777,054	1,918,229
Less: Capital outlay - others aggregate	-	-
Noncapital expenditures	\$ 27,644,844	\$ 29,113,573
Total reporting entity:		
Total noncapital expenditures (3)	\$ 70,696,519	\$ 77,165,963
Debt service as a percentage of Noncapital expenditures	6.49%	7.06%

Notes:

(1) For fiscal years 2003 through 2012, 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.

(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.

Table 5

	2005	2006	2007	2008	2009	2010	2011	2012
\$	41,962,115	\$ 44,808,950	\$ 47,059,528	\$ 50,687,883	\$ 55,639,263	\$ 56,070,278	\$ 56,771,987	\$ 57,920,903
	29,204,060	32,066,526	31,205,699	34,322,775	29,080,239	28,091,384	28,665,267	30,248,908
	1,472,063	1,509,454	1,397,467	1,206,160	1,228,451	1,484,843	1,434,252	1,843,288
	1,567,914	954,306	879,235	893,190	873,601	919,492	1,041,171	1,288,332
	1,493,699	5,106,837	5,246,271	2,595,320	946,400	350,867	282,100	379,849
	640,350	635,255	706,765	1,014,366	2,027,265	2,101,186	2,456,278	2,731,888
	260,376	331,140	220,325	298,029	1,244,816	2,200,585	2,845,072	372,970
	-	-	-	-	420,009	3,244,991	-	-
	6,918,852	8,197,105	8,024,260	8,487,759	10,552,826	11,024,414	11,806,319	12,023,789
\$	<u>83,519,429</u>	<u>93,609,573</u>	<u>94,739,550</u>	<u>99,505,482</u>	<u>102,012,870</u>	<u>105,488,040</u>	<u>105,302,446</u>	<u>106,809,927</u>
\$	6,994,940	\$ 6,824,416	\$ 8,089,989	\$ 7,369,660	\$ 6,954,234	\$ 7,123,209	\$ 7,120,746	\$ 7,342,947
	1,062,608	1,090,776	1,588,440	1,672,007	1,720,033	1,950,422	1,728,595	1,920,697
	16,956,386	19,586,179	21,185,213	22,375,860	21,745,756	21,821,855	22,457,743	22,542,972
	9,647,984	24,608,412	21,262,349	16,274,979	15,269,159	17,229,424	15,846,187	16,711,634
	3,873,923	4,302,640	4,612,319	4,874,283	4,746,065	4,787,163	4,666,290	4,757,819
	4,024,734	9,098,348	18,889,445	12,319,692	8,977,780	7,401,377	7,938,260	5,556,258
	1,581,489	9,992,176	8,376,952	3,452,197	3,505,001	3,988,566	3,322,835	4,439,353
	65,608,917	70,224,788	34,051,143	27,571,892	27,724,105	28,571,397	30,181,608	32,168,415
	-	-	-	-	-	-	-	-
	14,973,743	-	-	-	-	-	-	-
	4,366,347	4,192,126	5,123,537	6,515,101	6,951,253	7,003,215	7,549,852	12,125,002
	2,240,243	5,304,550	8,254,858	8,661,866	8,319,147	8,482,176	7,890,102	7,645,385
\$	<u>131,331,314</u>	<u>155,224,411</u>	<u>131,434,245</u>	<u>111,087,537</u>	<u>105,912,533</u>	<u>108,358,804</u>	<u>108,702,218</u>	<u>115,210,482</u>
\$	<u>(47,811,885)</u>	<u>(61,614,838)</u>	<u>(36,694,695)</u>	<u>(11,582,055)</u>	<u>(3,899,663)</u>	<u>(2,870,764)</u>	<u>(3,399,772)</u>	<u>(8,400,555)</u>
\$	7,519,836	\$ 9,692,142	\$ 14,139,244	\$ 2,554,297	\$ 3,383,729	\$ 5,441,825	\$ 3,570,275	\$ 4,802,436
	(8,806,909)	(10,392,142)	(15,907,944)	(2,335,611)	(4,398,729)	(6,221,825)	(3,590,786)	(5,230,436)
	63,036,430	90,480,000	15,800,000	4,189,927	-	690,807	812,858	812,858
	-	-	-	-	-	3,129,357	-	240,000
	-	-	-	-	-	32,480,000	19,905,800	64,066,000
	(12,638,993)	-	-	-	-	(35,442,932)	(19,679,033)	(63,673,811)
	1,152,033	1,721,506	-	-	-	3,309,767	-	5,766,233
\$	<u>50,262,397</u>	<u>91,501,506</u>	<u>14,031,300</u>	<u>4,408,613</u>	<u>(1,015,000)</u>	<u>2,696,192</u>	<u>897,063</u>	<u>6,783,280</u>
\$	<u>2,450,512</u>	<u>29,886,668</u>	<u>(22,663,395)</u>	<u>(7,173,442)</u>	<u>(4,914,663)</u>	<u>(174,572)</u>	<u>(2,502,709)</u>	<u>(1,617,275)</u>
\$	<u>6,606,590</u>	<u>9,496,676</u>	<u>13,378,395</u>	<u>15,176,967</u>	<u>15,270,400</u>	<u>15,485,391</u>	<u>15,439,954</u>	<u>19,770,387</u>
\$	<u>131,331,314</u>	<u>155,224,411</u>	<u>131,434,245</u>	<u>111,087,537</u>	<u>105,912,533</u>	<u>108,358,804</u>	<u>108,702,218</u>	<u>115,210,482</u>
\$	<u>13,159,210</u>	<u>26,577,656</u>	<u>14,778,965</u>	<u>18,442,278</u>	<u>9,842,310</u>	<u>11,609,406</u>	<u>5,712,018</u>	<u>4,991,167</u>
\$	<u>118,172,104</u>	<u>128,646,755</u>	<u>116,655,280</u>	<u>92,645,259</u>	<u>96,070,223</u>	<u>96,749,398</u>	<u>102,990,200</u>	<u>110,219,315</u>
	<u>5.59%</u>	<u>7.38%</u>	<u>11.47%</u>	<u>16.38%</u>	<u>15.90%</u>	<u>16.01%</u>	<u>14.99%</u>	<u>17.94%</u>
\$	36,167,553	\$ 33,500,788	\$ 34,917,722	\$ 51,631,725	\$ 41,994,373	\$ 37,941,520	\$ 39,434,345	\$ 41,509,575
	6,329,984	4,356,865	1,113,120	942,378	986,812	1,018,335	935,843	935,843
	4,844,913	32,489,768	38,796,585	300,793	1,532,448	227,897	-	2,473,840
	5,245,736	-	-	-	-	-	-	-
\$	<u>32,406,888</u>	<u>5,367,885</u>	<u>(2,765,743)</u>	<u>52,273,310</u>	<u>41,448,737</u>	<u>38,731,958</u>	<u>40,370,188</u>	<u>39,971,578</u>
\$	<u>84,727,942</u>	<u>134,014,640</u>	<u>113,889,537</u>	<u>144,918,569</u>	<u>107,789,125</u>	<u>106,925,459</u>	<u>113,118,045</u>	<u>118,107,106</u>
	<u>5.59%</u>	<u>7.38%</u>	<u>11.47%</u>	<u>16.38%</u>	<u>15.90%</u>	<u>16.01%</u>	<u>14.99%</u>	<u>17.94%</u>

(3) For the reporting entity totals, the 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.

This page intentionally left blank

Tax Revenues by Source, Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (Unaudited)

Fiscal Year June 30,	Property	Local Sales	Business License	Consumer Utility	Meals	Tobacco	Other	Totals
2003	\$ 35,055,871	\$ 9,875,008	\$ 7,660,442	\$ 2,403,880	\$ 1,930,225	\$ 609,630	\$ 2,315,453	\$ 59,850,509
2004	38,325,686	10,608,683	7,664,177	2,850,414	2,087,428	963,680	2,829,443	65,329,511
2005	41,962,115	11,604,756	8,370,119	2,774,256	2,176,558	939,837	3,338,534	71,166,175
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
Change 2003-2012	65.22%	3.30%	11.67%	-28.15%	172.14%	50.64%	55.27%	47.32%

Source:

Notes:

- (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 FY 2006 to FY 2007.

CITY OF FAIRFAX, VIRGINIA

Assessed and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year June 30,	Residential Property	Direct Tax Rate	Commercial Property	Direct Tax Rate	Public Service Corporation	Nontaxable	Total Assessed Value
2003	\$ 2,111,088,700	0.92	\$ 1,206,961,700(6)	0.92	\$ 103,967,671	\$ 226,029,300	\$ 3,648,047,371
2004	2,439,123,400	0.90	1,314,291,800	0.90	98,693,202	251,341,800	4,103,450,202
2005	3,063,115,200	0.84	1,382,126,100	0.84	96,641,780	296,497,400	4,838,380,480
2006	3,817,504,900	0.71	1,626,385,700	0.71	90,098,852	333,581,700	5,867,571,152
2007	3,723,667,700	0.72	1,884,634,000	0.72	93,444,978	353,598,900	6,055,345,578
2008	3,475,794,600	0.79	2,161,997,400	0.79	87,580,035	372,660,900	6,098,032,935
2009	3,182,468,200	0.88	2,177,141,900	0.88	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

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 & 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) The Public Service Corporation assessment listed for 2003 is the original assessment.
 This assessment was revised based on a law suit settlement.
 - 7) Nontaxable assessed values increased in 2012 after a complete review and revaluation.

Table 7

	<u>Total Taxable Assessed Value</u>	<u>Percent Growth</u>	<u>Total Direct Tax Rate</u>	<u>Actual Taxable Value</u>	<u>Value as a Percentage of Actual Value</u>
\$	3,422,018,071	16.1%	\$ 0.92	\$ 3,422,018,071	100%
	3,852,108,402	12.6%	0.90	3,852,108,402	100%
	4,541,883,080	17.9%	0.84	4,541,883,080	100%
	5,533,989,452	21.8%	0.71	5,533,989,452	100%
	5,701,746,678	3.0%	0.72	5,701,746,678	100%
	5,725,372,035	0.4%	0.79	5,725,372,035	100%
	5,453,654,626	-4.8%	0.88	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%

Direct and Overlapping Property Tax Rates
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year June 30,	Real Estate	Personal Property
2003	\$ 0.92	\$ 3.29
2004	0.90	3.29
2005	0.81	3.29
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

Note:

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

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

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage (%) of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage (%) of Total City Taxable Assessed Value
RKB & RPB Willowood LLC (I, II)	\$ 102,672,000	1	1.97%	\$ -	-	-
Fairfax Square LP.	94,012,600	2	1.80%	52,352,700	2	1.58%
Fair City HHH, LLC	71,784,900	3	1.51%	55,146,700	1	1.66%
Army Navy Country Club	69,859,500	4	1.03%	32,200,600	5	0.97%
CH Realty III/Old Town	33,839,500	6	0.65%	-	-	-
Saul Holdings, LP	33,056,300	7	0.63%	-	-	-
Avalon at Providence Park, LLC	30,205,100	8	0.58%	-	-	-
Lucilla Higginbotham, et al.	26,938,200	9	0.52%	-	-	-
USRP I, LLC	26,602,800	10	0.51%	-	-	-
John Swart, Jr., et al	-	-		22,662,600	7	0.68%
SMII Fairfax LLC	-	-		39,045,800	4	1.18%
Norman Higginbotham, et al	-	-		19,711,000	10	0.59%
Combined Properties LTD	36,909,900	5	0.71%	20,783,800	8	0.63%
Mosby, LLC	-	-		20,167,600	9	0.61%
Providence Square LC	-	-		29,382,600	6	0.89%
Willowood Plaza Partners LLC	-	-		42,904,300	3	1.29%
Total	\$ 525,880,800		9.91%	\$ 334,357,700		10.08%

Source:
Real Estate Assessments

Real Property Tax Levies And Collections
 Last Ten Fiscal Years
 (Unaudited)

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
2003	\$ 30,123,867	\$ 29,572,768	98.17%	\$ 550,476	\$ 30,123,244	100.00%
2004	33,302,756	32,873,737	98.71%	429,019	33,302,756	100.00%
2005	37,407,495	36,859,176	98.53%	548,319	37,407,495	100.00%
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%	605,274	43,776,378	99.97%
2009	47,682,500	46,678,811	97.90%	991,699	47,670,510	99.86%
2010	49,560,633	48,593,292	98.05%	924,969	49,518,261	99.68%
2011	49,769,304	48,879,797	98.21%	752,110	49,631,907	99.72%
2012	52,346,460	51,474,451	98.33%	N/A	51,474,451	98.33%

Source:
 City of Fairfax Treasurer's Office.

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

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	Capital Leases	Notes Payable			
2003	\$ 43,300,000	\$ 755,000	\$ -	\$ -	\$ 188,690	\$ 4,055,000	\$ 409,581	\$ 258,873	\$ 48,967,144	4.88%	2,276
2004	40,755,000	390,000	2,167,325	-	92,147	3,316,589	180,510	219,817	47,121,388	4.50%	2,227
2005	80,665,418	-	9,040,404	-	711,430	2,246,942	-	179,210	92,843,404	8.42%	4,451
2006	122,682,596	39,630,000	13,975,798	-	634,394	1,183,034	-	136,990	178,242,812	14.86%	8,326
2007	119,124,230	39,630,000	28,355,767	-	556,505	387,882	-	93,093	188,147,477	14.55%	8,678
2008	114,767,655	39,330,000	30,768,959	-	474,713	5,016,885	-	47,452	190,405,664	14.26%	8,611
2009	110,300,000	39,030,000	28,671,254	-	388,821	4,821,000	-	-	183,211,075	13.90%	8,172
2010	106,825,000	38,170,000	26,489,109	-	298,625	4,652,000	-	-	176,434,734	13.56%	7,819
2011	102,605,000	37,285,000	4,540,125	19,905,800	877,905	28,555,000	-	-	193,768,830	14.93%	8,547
2012	101,361,000	33,105,000	8,433,465	17,572,800	1,279,103	28,371,000	-	-	190,122,368	14.27%	8,386

General bonded debt outstanding:

Fiscal Year June 30,	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Debt Per Capita
2003	\$ 44,055,000	1.29%	\$ 1,980
2004	41,145,000	1.07%	1,862
2005	80,665,418	1.78%	3,667
2006	162,312,596	2.93%	7,118
2007	158,754,230	2.78%	6,809
2008	154,097,655	2.69%	6,403
2009	149,330,000	2.74%	6,054
2010	144,995,000	2.86%	5,727
2011	139,890,000	2.70%	6,170
2012	134,466,000	2.53%	5,931

Notes:

(1) Details regarding the City's outstanding debt may be found in the notes to the basic financial statements.

(2) Population and personal 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)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Debt limit	\$ 342,201,807	\$ 385,210,840	\$ 454,188,308	\$ 553,398,945	\$ 570,174,668
Total net debt applicable to limit	<u>44,055,000</u>	<u>41,145,000</u>	<u>90,417,252</u>	<u>176,922,788</u>	<u>187,666,502</u>
Legal debt margin	<u>\$ 298,146,807</u>	<u>\$ 344,065,840</u>	<u>\$ 363,771,056</u>	<u>\$ 376,476,157</u>	<u>\$ 382,508,166</u>
Total net debt applicable to the limit as a percentage of debt limit	8.54%	12.87%	10.68%	19.91%	31.97%

Legal debt margin calculation for fiscal year 2012	Summary of outstanding debt:		<u>2007</u>
Assessed value of real estate	<u>\$ 5,314,077,681</u>	2012 general obligation refunding bonds	\$ -
Debt limit (10% of assessed value)	\$ 531,407,768	2012 school refunding bonds	-
Debt applicable to limit:		2010 general obligation refunding bonds	-
Net direct debt outstanding	<u>161,751,368</u>	2004 general obligation refunding bonds	1,469,230
Legal debt margin	<u>\$ 369,656,400</u>	2002 general obligation bonds	17,090,000
		Public Improvement COPS	-
		School bonds	100,565,000
		Lease Revenue Bonds	39,630,000
		Notes payable	28,355,767
		Capital leases	<u>556,505</u>
			<u>\$ 187,666,502</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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$	572,537,204	\$ 545,365,463	507,579,408	517,453,893	531,407,768
	<u>185,341,328</u>	<u>178,390,076</u>	<u>171,782,734</u>	<u>165,213,830</u>	<u>161,751,368</u>
\$	<u><u>387,195,876</u></u>	<u><u>366,975,387</u></u>	<u><u>335,796,673</u></u>	<u><u>352,240,063</u></u>	<u><u>369,656,400</u></u>
	32.91%	32.37%	32.71%	33.84%	30.44%
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$	-	\$ -	\$ -	\$ -	\$ 33,105,000
					22,726,000
	-	-	12,017,600	11,889,950	11,849,250
	747,655	-	-	-	-
	16,305,000	15,490,000	2,725,000	1,850,000	940,000
	-	-	-	19,905,800	17,572,800
	97,715,000	94,810,000	92,082,400	88,865,050	65,845,750
	39,330,000	39,030,000	38,170,000	37,285,000	-
	30,768,960	28,671,255	26,489,109	4,540,125	8,433,465
	<u>474,713</u>	<u>388,821</u>	<u>298,625</u>	<u>877,905</u>	<u>1,279,103</u>
\$	<u><u>185,341,328</u></u>	<u><u>178,390,076</u></u>	<u><u>171,782,734</u></u>	<u><u>165,213,830</u></u>	<u><u>161,751,368</u></u>

CITY OF FAIRFAX, VIRGINIA

Pledged-Revenue Coverage
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year June 30,	Water Revenue Bonds						Coverage
	Utility Service Charges	Operating Expenses	Net Available Revenue	Debt Service			
				Principal	Interest		
2003	\$ 6,876,281	\$ 4,700,402	\$ 2,175,879	\$ 938,599	\$ 325,247	1.72	
2004	6,673,100	5,140,636	1,532,464	738,411	120,666	1.78	
2005	6,608,525	6,152,166	456,359	1,069,647	61,158	0.40	
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	7,365,321	375,459	184,000	525,875	0.53	

Notes:

- (1) Total utility service charges include interest & 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.

Table 13

Sewer Revenue Bonds						
Utility Service Charges	Operating Expenses	Net Available Revenue	Debt Service		Coverage	
			Principal	Interest		
\$ 3,183,207	\$ 3,047,513	\$ 135,694	\$ 37,563	\$ 11,775	2.75	
2,787,497	3,103,903	(316,406)	39,056	10,283	N/A	
3,114,800	3,195,501	(80,701)	40,607	8,731	N/A	
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	
4,744,584	3,547,839	1,196,745	-	361,237	3.31	

This page intentionally left blank

Demographic and Economic Statistics
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year June 30,	Population	Personal Income	Per Capita Personal Income	School Enrollment	Unemployment Rate
	(1)	(2)	(2)	(3)	(4)
2003	21,518	\$ 1,002,852,000	\$ 46,600	2,751	2.70%
2004	21,160	1,047,422,000	49,500	2,767	2.70%
2005	20,860	1,102,682,000	52,900	2,784	2.60%
2006	21,407	1,199,790,000	56,000	2,582	2.40%
2007	21,682	1,293,463,000	59,700	2,766	2.50%
2008	22,112	1,335,019,000	60,400	2,771	3.20%
2009	22,418	1,317,776,000	58,800	2,764	5.60%
2010	22,565	1,300,755,709 *	57,600 *	2,905	5.70%
2011	22,671	1,297,429,219 *	57,200 *	2,976	6.00%
2012	22,671	1,332,664,782 *	58,783 *	3,081	5.70%

Notes:

*Estimated by City of Fairfax

- (1) Population updated from 2010 US Census Bureau results and 2001-2009 intercensal estimates.
- (2) Personal income derived from 1997 - 2008 figures from the US Bureau of Economic Analysis (BEA).
- (2) Personal income is published annually (with a 2-year delay) by the BEA. The most recent available figures are for 2011 (released in April 2012).
- (2) To estimate personal income for 2010 and 2011, an estimated annual change in personal income was projected for these two years. In this case, due to wage stagnation resulting from the nationwide recession, both years resulted in negative projections. An increase for inflation (2.7%) was factored into 2012's number.
- (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) Final tuition bills from Fairfax County. The numbers represent Average Daily Membership "ADM". Average daily attendance approximates 94 % of ADM.
- (4) US Bureau of Labor Statistics, Local Area Unemployment Statistics.
- (4) 2011 unemployment rate estimated by averaging all available months (Jan-Sep) of 2011 data.

Principal Employers
 Current Year and Nine Years Ago
 (Unaudited)

Employer (1)	2012			2003		
	(1) Employees	Rank	Percentage (2) of Total City Employment	Employees	Rank	Percentage of Total City Employment
City of Fairfax	420	1	1.91%	340	2	1.36%
Inova Health System	400	2	1.82%	-	-	-
Fairfax Nursing Center	300	3	1.37%	250	4	1.00%
Zeta Associates	275	4	1.25%	-	-	-
U.S. Department of Homeland Defense	250	5	1.14%	-	-	-
Tedd Britt Ford Sales	225	6	1.03%	-	-	-
Fairfax Volkswagen, Honda	150	8	0.68%	200	6	0.80%
Multivision, Inc.	150	8	0.68%	-	-	-
Dominion Virginia Power	150	8	0.68%	170	10	0.68%
General Services Administration	200	10	0.91%	-	-	-
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	2,520		11.48%	2,254		8.99%
Average Total Employment (3)			21,944			25,071

Sources:

- (1) City of Fairfax Economic Development Office, Fall 2012
- (2) US Census Bureau State & County QuickFacts
- (3) Virginia LMI.com

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

Function/program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
City Clerk	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	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	3.00	3.00	3.00	2.50	2.50	2.50	2.50	2.13	2.63
Personnel	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.00	4.00	4.00
Community Relations	2.75	2.00	2.00	2.50	2.50	2.50	2.00	1.00	1.00	1.00
Marketing	0.00	0.00	0.00	0.00	0.00	0.00	0.88	0.00	0.50	0.50
Cable TV	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Information Technology	10.00	10.00	10.00	11.00	11.00	11.00	11.00	9.00	9.00	9.00
Printing & 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	13.00	13.00
Finance & Accounting	7.00	7.00	7.00	7.00	7.50	7.50	7.50	7.50	7.50	7.50
Real Estate Assessment	4.00	4.00	5.00	5.00	5.00	5.00	5.00	4.00	4.00	4.00
Treasurer	7.50	7.50	7.50	7.50	7.75	7.75	7.75	7.75	7.75	7.75
Commissioner of Revenue	8.50	8.50	8.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Police Department	85.95	86.95	85.75	85.50	85.75	88.00	88.00	90.00	91.13	90.00
Fire Department	65.00	70.00	69.00	70.00	80.00	80.00	80.00	79.00	80.00	79.00
Public Works	70.00	70.70	70.70	69.20	74.70	77.00	77.00	76.10	77.50	75.50
Social Services	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62
Parks & Recreation	16.75	16.75	17.00	17.63	17.63	18.63	18.25	17.13	19.88	19.13
Historic Resources	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95
Planning & Design	12.25	12.25	12.63	14.50	15.00	15.70	15.70	15.70	15.70	15.70
Economic Development	2.00	2.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Education	4.13	3.13	2.26	3.13	2.63	1.90	1.90	1.90	2.85	1.90
Wastewater	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	6.00	8.60
Water	29.00	29.00	29.00	31.00	31.00	31.00	32.00	32.00	32.00	34.40
Transit	30.00	30.00	30.00	30.00	30.50	30.50	30.50	30.38	31.50	30.50
Total	<u>395.40</u>	<u>400.35</u>	<u>397.91</u>	<u>404.53</u>	<u>421.03</u>	<u>426.55</u>	<u>427.55</u>	<u>420.53</u>	<u>427.01</u>	<u>425.18</u>

Source:

City Budget Office.

CITY OF FAIRFAX, VIRGINIA

Operating Indicators By Function/Program
Last Ten Fiscal Years
(Unaudited)

	Actual 2003	Actual 2004	Actual 2005	Actual 2006
GENERAL GOVERNMENT:				
Public Works				
Homes Served - Refuse Collection	6,000	6,032	6,032	6,168
Elections				
Registered Voters	13,809	13,937	14,478	14,387
# of Votes cast last General Election	6,227	2,090	10,651	8,177
% of Registered Voters last General Election	45.09%	15.00%	73.57%	56.84%
Parks and Recreation				
Old Town Hall Occupancy Rate	90%	90%	92%	90%
Old Town Hall Rentals	*	*	*	*
Total Unique Recreation Programs	*	*	*	49
Total Recreation Programs	*	*	*	117
Day Camp program participants	*	*	534	507
Community Development and Planning				
Planning Studies/Reports prepared	225	225	275	225
Residential/Non-residential Use Permits	1,110	1,100	1,250	1,400
Administrative Permit-Review/Approve	2,970	2,500	2,500	2,500
Neighborhood Renaissance Conferences	*	*	*	*
Board of Architectural Review (BAR) Applications	*	*	*	*
Enforcement Citations	*	*	*	*
Land Use Applications	*	*	*	*
Development Plans & Subdivisions	*	*	*	*
Economic Development				
Vacancy Rate - Office Space	8.50%	8.50%	6.25%	6.75%
Vacancy Rate - Retail Space	2%	2.20%	0.90%	1.10%
SCHOOLS:				
Education				
Average Daily Membership	2,751	2,767	2,784	2,745
Elementary - Kindergarten	204	215	204	205
Elementary - (1-6)	1,250	1,255	1,266	1,290
Secondary - (7-12)	1,297	1,297	1,314	1,250
Tuition Cost Per Student	\$ 9,745	\$ 10,486	\$ 10,812	\$ 11,915
PUBLIC SAFETY:				
Police Department				
Cases Assigned	500	382	346	332
Cases Closed	300	286	221	207
Calls for Service	18,375	18,013	16,042	17,414
Criminal Arrests	1,626	1,748	1,894	1,756
Fire Department				
Staff Training Hours	8,000	8,355	9,056	9,725
Responses to Fire Incidents	3,265	3,325	3,325	3,390
Responses to EMS Incidents	7,362	7,400	7,400	7,435
Plans reviewed	1,094	1,207	1,028	932
Building Permits Issued	2,447	2,522	2,604	653
Cost Associated with Building Permits	\$ 32,875,698	\$ 30,286,780	\$ 34,834,731	\$ 47,430,498
UTILITIES:				
Wastewater				
Number of New Service Connections	45	35	57	43
\$ Amount of New Service Connections	\$ 341,282	\$ 213,656	\$ 372,106	\$ 331,611
Average Daily Flow (MGD)	4	4	4	4
Feet of Pipeline Rehabilitated	6,156	3,603	2,346	3,881
Site Plans Reviewed	31	31	25	22
Water				
\$ Amount of New Customer Connections	\$ 52,048	\$ 49,691	\$ 50,440	\$ 54,218
Number New Service Connections	21	55	11	52
\$ Amount of New Service Connections	\$ 296,228	\$ 360,317	\$ 406,235	\$ 301,773
Gallons of Water Produced (millions)	4,417	4,426	4,426	4,351
Feet of Pipeline replaced	6,800	4,650	4,707	600
Number of Site Plans Reviewed	31	31	26	22
TRANSIT:				
Total Ridership	920,000	985,000	1,000,000	1,093,926

Notes:

Source: City Annual Operating Budget & Comprehensive Annual Financial Report

* - information not available (not tracked)

MGD - Millions Gallons Daily

- (1) The City held off replacing water pipeline in 2006 waiting for completion of downtown renovation.
- (2) The dollar amount of new water service connections increased more than 100% due to a large new townhouse development called Beech Grove.
- (3) The dollar amount of new water service connections increased more than 100% due to a large new townhouse development called Beech Grove and GMU's growth.
- (4) The City will continue this work in FY 2011 due to the revised CIP plan.

Table 17

	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual/Estimate 2012
	6,226	6,245	6,249	6,249	6,249	6,342
	13,772	15,476	14,920	14,937	14,912	15,000
	5,557	11,478	7,206	9,914	7,112	9,000
	40.35%	74.17%	48.30%	66.37%	47.69%	60.00%
	90%	*	*	*	*	*
	74	75	85	153	231	200
	50	51	50	98	71	62
	135	386	306	512	513	514
	563	574	759	819	927	801
	220	*	*	*	*	*
	1,400	*	*	*	*	*
	2,500	*	*	*	*	*
	450	600	600	600	600	600
	48	51	51	48	86	80
	450	540	550	450	550	550
	38	42	45	38	31	32
	37	59	60	37	47	44
	6.90%	7.25%	9.50%	12.00%	13.00%	12.50%
	1.10%	1.50%	6.00%	4.50%	5.50%	4.00%
	2,766	2,771	2,764	2,905	2,976	3,081
	189	229	198	221	239	210
	1,324	1,294	1,307	1,319	1,259	1,386
	1,253	1,248	1,260	1,398	1,478	1,485
\$	12,030 \$	13,548 \$	13,078 \$	12,027 \$	12,745 \$	13,110
	245	255	250	240	169	200
	173	172	168	171	130	154
	14,970	14,589	13,958	13,764	13,896	14,000
	1,756	1,388	1,340	1,243	1,272	1,300
	14,399	14,420	15,090	16,568	16,879	17,000
	3,169	3,367	3,327	2,585	2,846	2,959
	7,395	7,458	5,907	6,409	6,569	6,897
	1,088	1,290	894	972	1,333	1,250
	629	531	530	494	605	600
\$	37,402,772 \$	33,968,649 \$	21,654,448 \$	38,388,562 \$	27,634,266 \$	35,000,000
	53	47	31	20	20	54
\$	341,075	377,208	347,858	223,358	223,358	558,027
	4	4	3.9	3.9	2.95	3.2
	3,881	4,288	4,500	3,906	7,840	7,000
	22	22	21	23	40	33
\$	49,542 \$	46,130 \$	61,213 \$	64,450 \$	64,450 \$	80,133
	105	111	200	40	40	59
\$	826,596 (2)	1,243,299 (2)	1,621,803 (2)	1,294,495 \$	1,294,495 \$	426,329
	4,351	4,380	3,400	3,167	2,900	2,620
l)	600 (1)	0 (1)	3,000	1,100	447 (4)	100
	25	22	22	49	40	33
	1,126,966	1,055,664	952,072	941,694	910,549	912,378

Capital Asset Statistics By Function/Program
Last Ten Fiscal Years
(Unaudited)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	Actual/ Estimate 2012
<u>GENERAL GOVERNMENT</u>										
Parks and Recreation										
Acres of Parks	178	222	279	279	279	279	279	279	279	279
Number of Major Parks	8	9	9	9	9	9	9	9	9	9
Number of Neighborhood Parks	8	13	13	13	13	13	14	14	14	15
Public Works										
Vehicle Availability (%)	97%	97%	97%	97%	97%	97%	97%	97%	97%	98%
Vehicle Repair Orders	3,389	3,389	2,823	2,455	2,672	3,800	3,600	3,600	3,600	3,600
Total Fleet	512	522	522	548	560	563	590	590	590	629
Miles of Streets - Primary	15.58	15.58	15.58	15.58	15.58	15.58	15.58	15.58	15.58	16.5
Miles of Streets - Secondary	54.38	54.38	54.38	54.76	54.76	54.76	55.33	55.33	55.33	54
Number of Street Lights	2,928	2,940	2,950	2,950	2,950	2,950	2,967	2,967	2,967	2,967
<u>PUBLIC SAFETY</u>										
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	1,099	1,110	1,110	1,110	1,110	1,110	1,124	1,129	870	870
<u>UTILITIES:</u>										
Water										
Gallons produced (millions)	4,417	4,426	4,426	4,351	4,351	4,380	3,431	3,500	2,900	2,620
Water Mains (miles)	181.93	182.68	182.68	182.68	182.68	182.68	183.77	184.01	184.01	184.01
Sewer										
Sanitary Sewers (miles)	96.74	97.03	97.03	97.03	97.03	97.03	97.07	97.14	97.14	100.00
<u>TRANSIT:</u>										
Number of Buses	12	12	12	12	12	12	12	12	12	12

Notes:

Source: City Annual Operating Budget & Comprehensive Annual Financial Report

* - information not available

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairfax, Virginia as of and for the year ended June 30, 2012, which collectively comprise the City of Fairfax, Virginia's basic financial statements and have issued our report thereon dated December 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Fairfax, Virginia in a separate letter dated December 26, 2012.

This report is intended solely for the information and use of the City Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Tamara, Cox Associates

Fredericksburg, Virginia
December 26, 2012

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the City of Fairfax, Virginia's 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 each of its major federal programs for the year ended June 30, 2012. The City of Fairfax, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Fairfax, Virginia's management. Our responsibility is to express an opinion on the City of Fairfax, Virginia's compliance based on our audit.

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

In our opinion, the City of Fairfax, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

Internal Control Over Compliance (Continued)

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

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

This report is intended solely for the information and use of the City Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Turner, Cox Associates

Fredericksburg, Virginia
December 26, 2012

CITY OF FAIRFAX, VIRGINIA

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/State Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>DEPARTMENT OF JUSTICE:</u>			
<u>Direct payments:</u>			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	N/A	22,938
<u>Pass through payments:</u>			
Department of Criminal Justice Services: Edward Byrne Memorial Justice Assistance Grant Program	16.738	39001-81100	<u>1,929</u>
Total Department of Criminal Justice			\$ <u>24,867</u>
<u>DEPARTMENT OF TRANSPORTATION:</u>			
<u>Direct payments:</u>			
Federal Highway Administration: Highway Planning and Construction Grant	20.205	N/A	\$ 898,799
ARRA - Highway Planning and Construction Grant	20.205	N/A	<u>250,508</u>
Total 20.205			\$ <u>1,149,307</u>
<u>Pass through payments:</u>			
National Highway Traffic Safety Administration: Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	60507-52213	\$ <u>14,440</u>
Total Department of Transportation			\$ <u>1,163,747</u>
<u>DEPARTMENT OF HOMELAND SECURITY:</u>			
<u>Direct payments:</u>			
State Homeland Security Program	97.073	N/A	\$ 1,660
<u>Pass through payments:</u>			
Federal Emergency Management Agency: State Homeland Security Program	97.073	77501-52700	<u>514</u>
Total 97.073			\$ <u>2,174</u>
<u>Direct payments:</u>			
Emergency Management Performance Grant	97.042	N/A	\$ 100
<u>Pass through payments:</u>			
Federal Emergency Management Agency: Emergency Management Performance Grant	97.042	77501-52740	<u>36,727</u>
Total 97.042			\$ <u>36,827</u>
<u>Direct payments:</u>			
Homeland Security Grant Program	97.067	N/A	99,694
Citizens Community Resilience Innovation Challenge	97.053	N/A	1,458
Assistance for Firefighters Grant	97.044	N/A	47,700
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	N/A	\$ 59,640
<u>Pass through payments:</u>			
Federal Emergency Management Agency: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	77602-00148	<u>21,651</u>
Total Department of Homeland Security			\$ <u>269,144</u>
<u>ENVIRONMENTAL PROTECTION AGENCY:</u>			
<u>Direct Payments:</u>			
Chesapeake Bay Program	66.466	N/A	\$ <u>19,245</u>
Total expenditures of federal awards			\$ <u>1,477,003</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2012

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Fairfax, Virginia under programs of the federal government for the year ended June 30, 2012. 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 of Fairfax, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Fairfax, Virginia.

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	\$ 1,874,222
Enterprise Funds	<u>403,398</u>
Total primary government	\$ <u>2,277,620</u>
Less:	
Interest subsidy	\$ (403,397)
Reimbursements for expenditures made in prior years	<u>(397,220)</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>1,477,003</u></u>

CITY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction Grant
20.205	ARRA - Highway Planning and Construction Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

CITY OF FAIRFAX, VIRGINIA

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

There were no prior year audit findings.