

AT A MEETING OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF JAMES CITY, VIRGINIA, HELD ON NOVEMBER 21, 2002, AT 3:30 P.M. IN THE BUILDING C CONFERENCE ROOM, 101 MOUNTS BAY ROAD, JAMES CITY COUNTY, VIRGINIA.

1. CALL TO ORDER

The meeting was called to order by Chairman Nichols at 3:35 p.m.

2. ROLL CALL

A roll call identified the following members present:

Mr. Gilbert Bartlett
Mr. John Berkenkamp
Mr. Alvin Bush
Mr. Vincent Campana, Jr.
Ms. Virginia Hartmann
Mr. Sterling Nichols
Mr. Mark Rinaldi

ALSO PRESENT

Keith A. Taylor, IDA Secretary
Ann Davis, IDA Treasurer
Bruce Goodson, Board of Supervisors IDA Liaison
Sanford B. Wanner, County Administrator
Kelly See, IDA Recording Secretary
Sandra Barner, County Economic Development Project Coordinator
Sue Mellen, County Director of Budget and Accounting
Elizabeth Foster, KPMG, IDA Auditor
Steve Whetstine, KPMG, IDA Auditor
Doug Powell, County Assistant Manager of Community Services
John Horne, County Development Manager
Charles Waltz, Property Manager-Inactive Sites, BASF Corporation
Chris Henderson, Trammell Crow
Francis McRickard

3. PERSONNEL MATTERS

a. Nominating Committee Reminder for 2003 Officers

Mr. Nichols reported that Mr. Bartlett was the Chair of the Nominating Committee and that Mr. Bartlett would have a report for the January meeting.

4. APPROVAL OF MINUTES

On a motion by Mr. Berkenkamp and a second by Mr. Rinaldi, the minutes from the September 12, 2002 regular meeting were approved by unanimous voice vote.

5. FINANCIAL REPORTS

a. Treasurer's and Financial Reports

Ms. Mellen presented the Treasurer's and Financial Reports and answered questions. On a motion by Mr. Berkenkamp and a second by Mr. Bartlett, the Treasurer's and Financial Reports were accepted as presented by unanimous voice vote.

b. Fiscal Year 2002 Audit Presentation

Ms. Mellen introduced Ms. Elizabeth Foster with KPMG to present the IDA's Fiscal Year 2002 Audit. Ms. Foster introduced Mr. Steve Whetstine, who was responsible for the IDA audit. Ms. Foster reported that the audit was a clean audit, the best one that can be given. Ms. Foster explained the audit statement and answered questions from the Directors. On a motion by Mr. Berkenkamp and a second by Mr. Bartlett, the annual audit was accepted by unanimous voice vote.

6. ACTION ITEMS

a. Meeting Calendar for 2003

Mr. Nichols reported that the Directors had received a proposed 2003 meeting calendar in their packets. Mr. Taylor noted that the proposed calendar had an earlier start time of 3:00 PM. On a motion by Mr. Berkenkamp and a second by Mr. Campana, the 2003 meeting calendar was approved by unanimous voice vote.

b. Approval of James River Enterprise Zone Grant Request for Wal-Mart

Mr. Doug Powell, Enterprise Zone Administrator, requested that the IDA approve the application submitted by Wal-Mart for its first year Enterprise Zone grant on its second warehouse facility. He stated that this grant amounts to \$139,449.15, .45% of Wal-Mart's assessed value on its second warehouse. On a motion by Mr. Campana and a second by Mr. Bartlett, the IDA approved the application submitted by Wal-Mart for its first year Enterprise Zone grant on its second warehouse facility by unanimous voice vote.

7. PRESENTATIONS

a. BASF Property Status Update

Mr. Nichols introduced Mr. Charles Waltz, Property Manager-Inactive Sites for BASF Corporation. Mr. Waltz made a presentation to the IDA Directors to update them on BASF's redeployment plans for the Williamsburg site. Mr. Waltz reported that the site has been shut down since 1993. He also reported that ten waste lagoons had been left on the site, and they had been cleaned up within the last two years. He noted the site consists of 640 acres, of which 250 is developable.

Mr. Waltz summarized BASF's redeployment objectives for the site. He stated that the primary objective was to clean up the site. He stated that the secondary objective was to sell or lease the property so that it can be returned to active use or to prepare the site to be held long term by BASF. Mr. Waltz reported that the site has undergone cleanup costing tens of millions of dollars. He reported that most of the ground surface issues had been addressed but contamination of the soil under buildings and the groundwater remain. Mr. Taylor asked what the time frame was for redeployment under active remediation efforts. Mr. Waltz responded that the remediation efforts necessary to redeploy the property will be complete by 2003, but groundwater cleanup will take at least five years.

Mr. Waltz reported that the redeployment constraints faced by BASF include that BASF is a chemical company not a developer, that the purchase price must cover the dismantling cost of all structures, that business conditions are driving a redeployment decision in 2003, and that the divestiture must comply with BASF policies regarding environmental and land use protection. Mr. Waltz described the barriers to redeployment of the site, which include no waterline, a two-lane access road, and some shoreline erosion.

Mr. Waltz next reported on BASF's redeployment strategy. He stated that BASF had marketed the existing building for lease and hired Trammell Crow to market the property for non-residential uses. He reported that the potential redeployment uses for the property which Trammell Crow is focusing on include manufacturing use; corporate headquarters campus; maritime based industrial use; Virginia Port Authority expansion; government/municipal use; theme park; hotel, resort, marina and golf course; and timeshare resort. He stated that so far seven interested parties had come forward and two written proposals had been received, both of which were from the last two categories listed.

Mr. Waltz reported that BASF's conclusions were that it must redeploy the site in one transaction, the property is cost disadvantaged for industrial use, and other sites nearby would be looked to first by an industrial user. He stated that BASF saw its options as being to sell/lease to one large industrial user, to sell/lease to a mixed use developer or to hold the site forever. Mr. Waltz stated that BASF is seeking the zoning flexibility to continue down two paths, industrial and mixed use.

A discussion followed. Mr. Henderson presented some estimated numbers on the potential economic impact of an industrial user versus a timeshare development. Mr. Taylor reported that BASF will make a presentation to the Virginia Economic Development Partnership on the potential for industrial development of the property on Monday. Mr. Waltz stated that BASF will submit an application requesting a Comprehensive Plan change for the designation of the property.

8. REPORTS

a. BOS Liaison to IDA

Mr. Goodson stated he had no report at this time.

b. Comp Plan/Planning Commission Liaisons

Ms. Hartmann reported that she had received the calendar for the Comprehensive Plan Steering Committee which will meet over the next several months. She further reported that the committee will be reviewing the Economics Section of the Comprehensive Plan on December 9th and 16th. She reported that she had not received any other information on the Comprehensive Plan update. Mr. Taylor stated that he would remind Mr. Don Davis to copy Ms. Hartmann on all mailings. Mr. Wanner suggested that Mr. Taylor speak with the Steering Committee to find out the best way for the IDA to participate in the Comprehensive Plan update process. Mr. Taylor stated that he would resend to the IDA Directors the input the Office of Economic Development provided to Planning Staff for the Comprehensive Plan Technical Report, as well as the questions asked of citizens at the Community Conversations.

c. Peninsula Alliance for Economic Development

No report.

d. Crossroads Project Liaison

Mr. Wanner reported that a Stakeholders' Meeting was held concerning the Geriatric Center of Excellence. He stated that the SunTrust building was going up at New Town. He reported that Staubach had been disengaged from the New Town project. He also reported that New Town plans to start building houses in April or May. He reported that \$17.7 million had been approved under the bond referendum which passed during the November election for the Thomas Nelson Community College campus at Eastern State's Hancock Geriatric Center. However, Thomas Nelson cannot move in until all the patients now in the Center are moved, and an additional \$10.5 million is needed for Eastern State to renovate the buildings to which the patients are to be moved.

e. Technology Initiatives

Mr. Campana reported that the selection committee had met and come up with some good questions to ask the two consultants selected for interviews. He reported that the committee would next meet on December 5.

f. TAB Center Funding Request

Mr. Berkenkamp made a motion to deny the funding request from the TAB Center. On a second by Mr. Bartlett, the motion was approved by unanimous voice vote.

g. IDA Strategic Plan

No report.

h. Shell Building #2

Mr. Campana reported that the design and engineering of the second shell building was progressing. He reported that the committee had taken a field trip to look at building skins and material options. Mr. Taylor reported that a building footprint had been chosen. He further reported that he anticipated having cost estimates for the IDA at its next meeting.

9. REPORTS OF THE ECONOMIC DEVELOPMENT STAFF

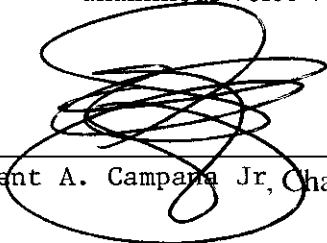
Mr. Taylor announced that he and Mr. Wanner had just received news that BP Solar will be selling or closing its facilities in Toano.

10. OTHER BUSINESS

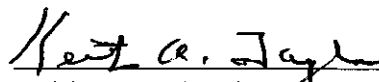
Mr. Nichols announced that he would be stepping down as an IDA Director effective the end of the year.

11. ADJOURNMENT

There being no further business Chairman Nichols entertained a motion from Mr. Berkenkamp to adjourn. The motion was seconded by Mr. Bartlett and approved by unanimous voice vote. The meeting was adjourned at 5:37 p.m.



Vincent A. Campana Jr, Chairman



Keith A. Taylor, Secretary

**Treasurer's Report-FY 03
Industrial Development Authority
Sept - Oct 2002**

Rev Code	Revenue Source	Prior Collections	Collected this period	Collected to Date
021-325-0100	Lease Income	\$0.00		\$0.00
021-325-0200	Interest on Available Cash	\$400.68	\$481.61	\$882.29
021-325-0600	General Fund Contribution	\$130,474.24	\$185,625.00	\$316,099.24
021-325-0400	Bond Fee Revenue	\$0.00	\$400.00	\$400.00
021-325-0500	Land Contract Payment Revenue	\$0.00		\$0.00
021-325-0250	Misc Revenue	\$0.00		\$0.00
	Expense Reimbursement	\$0.00		\$0.00
	Total receipts this period		\$186,506.61	
	Fiscal Year Receipts			\$317,381.53
	Bank balance June 30, 2002			\$240,651.36
	Total Receipts			\$558,032.89
	Disbursements this Period	\$199,336.41		
	Previous disbursements	\$135,946.91		
	Total disbursements to Date			\$335,283.32
	Bank balance Oct 31, 2002			<u>\$222,749.57</u>

INDUSTRIAL DEVELOPMENT AUTHORITY
EXPENDITURES

James City County

13-Nov-02

IDA: Year (2003) Period (4)

Ledger ID	Ledger Description	Beg Budget	September	October	Encumb	Total YTD Exp	Balance
OPERATING EXPENSES							
021-010-0203	PROFESSIONAL SERVICES	\$35,000.00	\$64.47	\$18.40	\$0.00	\$82.87	\$34,917.13
021-010-0205	PROMOTION	\$21,000.00	\$0.00	\$300.00	\$0.00	\$3,335.00	\$17,665.00
021-010-0210	INSURANCE	\$650.00	\$0.00	\$0.00	\$0.00	\$0.00	\$650.00
021-010-0220	TRAVEL & TRAINING	\$3,000.00	\$0.00	\$201.26	\$0.00	\$376.26	\$2,623.74
021-010-0222	LOCAL TRAVEL	\$200.00	\$11.78	\$0.00	\$0.00	\$36.40	\$163.60
021-010-0232	JAMES RIVER COMMERCE CTR - OPS	\$4,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,000.00
021-010-0234	STRAWBERRY PLAINS - OPS	\$1,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,000.00
021-010-0235	ANNUAL AUDIT	\$5,000.00	\$0.00	\$0.00	\$1,100.00	\$3,300.00	\$600.00
021-010-0245	MAINLAND FARM - OPER EXPENSES	\$100.00	\$5.50	\$5.50	\$0.00	\$16.50	\$83.50
021-010-0300	ADVERTISING	\$1,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,000.00
021-010-0319	OFFICE SUPPLIES & EQUIPMENT	\$250.00	\$183.71	\$44.89	\$0.00	\$228.60	\$21.40
021-010-0398	OED DISCRETIONARY EXPENDITURE	\$1,500.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,500.00
021-010-0600	SMALL BUSINESS ASSISTANCE	\$600.00	\$0.00	\$0.00	\$0.00	\$0.00	\$600.00
	Total Operating Expenses	\$73,300.00	\$265.46	\$570.05	\$1,100.00	\$7,375.63	\$64,824.37
CAPITAL EXPENSES							
021-010-0360	ENTERPRISE ZONE GRANTS	\$0.00	\$0.00	\$149,625.00	\$0.00	\$149,625.00	(\$149,625.00)
021-010-0405	CAPITAL EXPENDITURES	\$0.00	\$0.00	\$0.00	\$0.00	\$123,612.00	(\$123,612.00)
021-010-0550	PERFORMANCE AGREEMENT PMTS	\$0.00	\$26,000.00	\$10,000.00	\$0.00	\$36,000.00	(\$36,000.00)
	Total Capital Expenses	\$0.00	\$26,000.00	\$159,625.00	\$0.00	\$309,237.00	(\$309,237.00)

INDUSTRIAL DEVELOPMENT AUTHORITY
EXPENDITURES

James City County

13-Nov-02

IDACIP: Year (2003) Period (4)

Ledger ID	Ledger Description	Begin Budget	September	October	Project to Date	Encumbrances	Ending Balance
	CAPITAL PROJECTS FUND						

	(PROJECT TO DATE)						

021-011-0200	JRCC	\$168,626.00	\$0.00	\$0.00	\$9,713.12	\$0.00	\$158,912.88
021-011-0300	ECONOMIC DEVELOPMENT	\$3,625,000.00	\$0.00	\$0.00	\$1,798,120.86	\$0.00	\$1,826,879.14
021-011-0350	INDUSTRIAL PROP//INFRASTRUCTUR	\$2,496,535.00	\$0.00	\$12,875.90	\$38,858.27	\$97,124.10	\$2,360,552.63
021-011-0400	SHELL INDUSTRIAL BLDG FUND	\$70,910.80	\$0.00	\$0.00	\$5,271.87	\$0.00	\$65,638.93
	Total Capital Projects Fund	\$6,361,071.80	\$0.00	\$12,875.90	\$1,851,964.12	\$97,124.10	\$4,411,983.58

INDUSTRIAL DEVELOPMENT AUTHORITY
BRIDGE BETWEEN TREASURER'S REPORT AND ACCOUNTING REPORTS
October 31, 2002

Total disbursements per treasurer's report		\$335,283.32
Total operating expenses	\$7,375.63	
Total capital expenses	\$309,237.00	
Total capital projects expenses	\$13,965.19	
Accounts Payable		
Landmark Design Group - surveying services	\$5,800.00	
Dominion Virginia Power - Mainland Farm operating expense	\$5.50	
Prepaid Expense		
KPMG - auditing services	(\$1,100.00)	
Total expenses		\$335,283.32
Net difference		\$0.00



2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510

August 23, 2002

The Board of Directors
Industrial Development Authority of
James City County, Virginia

Dear Board of Directors:

We have audited the financial statements of the Industrial Development Authority of James City County, Virginia (the Authority) as of and for the year ended June 30, 2002 and have issued our report thereon dated August 23, 2002. Under auditing standards generally accepted in the United States of America, we are providing you with the following information related to the conduct of our audit.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

We have a responsibility to conduct our audit in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

INDEPENDENCE

With respect to the Authority, we are independent accountants within the meaning of Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public Accountants.

SIGNIFICANT (UNUSUAL) ACCOUNTING POLICIES

The significant accounting policies used by the Authority are described in note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2002. We noted no transactions entered into by the Authority during the year that were both significant and unusual and of which, under professional standards, we are required to inform you. We noted no transactions which lack authoritative accounting guidance or consensus.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Certain accounting estimates are particularly sensitive because





The Board of Directors
Industrial Development Authority of
James City County, Virginia
August 23, 2002
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of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

SIGNIFICANT AUDIT ADJUSTMENTS

We proposed no corrections of the financial statements that were not recorded that could, in our judgment, either individually or in the aggregate, have a significant effect on the Authority's financial reporting process. However, as noted in note 4 to the financial statements, the Authority recorded a prior period adjustment increasing previously stated retained earnings by \$124,791. This adjustment related to previously unrecorded administrative bond fees received by the Authority during 2002, but earned between 1997 and 2001.

DISAGREEMENTS WITH MANAGEMENT

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our report on the Authority's financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that were subject to the requirements of AU 625, *Reports on the Application of Accounting Principles*.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no difficulties in dealing with management in performing our audit.

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This report is intended solely for the information and use of the Board of Directors and is not intended to be, and should not be, used by anyone other than this specified party.

Very truly yours,

KPMG LLP



**INDUSTRIAL DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY, VIRGINIA**
(A Component Unit of the County of James City, Virginia)

Financial Statements and Schedule

June 30, 2002

(With Independent Auditors' Report Thereon)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY, VIRGINIA**
(A Component Unit of the County of James City, Virginia)

Authority Officials

June 30, 2002

Board Members

Sterling M. Nichols Chairman

Vincent A. Campana, Jr. Vice Chairman

Gilbert A. Bartlett

John Berkenkamp

Virginia B. Hartmann

Jon A. Nystrom

Mark G. Rinaldi

Other Officials

Keith A. Taylor Secretary

M. Ann Davis Treasurer

Frank M. Morton, III Legal Counsel



2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510

Independent Auditors' Report

The Members of the Industrial Development Authority
of James City County, Virginia:

We have audited the accompanying balance sheet of the Industrial Development Authority of James City County, Virginia (the Authority), a component unit of the County of James City, Virginia, as of June 30, 2002, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Industrial Development Authority of James City County, Virginia as of June 30, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying schedule of revenue bonds outstanding-conduit debt is not a required part of the basic financial statements, and we did not audit or apply limited procedures to such information. Accordingly, we do not express an opinion on it.

KPMG LLP

August 23, 2002



**INDUSTRIAL DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY, VIRGINIA**
(A Component Unit of the County of James City, Virginia)

Balance Sheet

June 30, 2002

Assets

Current assets:		
Cash (note 2)	\$	240,651
Prepaid expenses		<u>1,100</u>
Total current assets		241,751
Land (note 7)		2,608,122
Notes receivable (note 6)		<u>16,659</u>
Total assets	\$	<u><u>2,866,532</u></u>

Liabilities and Retained Earnings

Current liabilities:		
Accounts payable	\$	5,806
Current portion of note payable (note 7)		<u>60,000</u>
Total current liabilities		65,806
Note payable, less current portion (note 7)		<u>1,020,000</u>
Total liabilities		1,085,806
Retained earnings		<u>1,780,726</u>
Total liabilities and retained earnings	\$	<u><u>2,866,532</u></u>

See accompanying notes to financial statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY, VIRGINIA**
(A Component Unit of the County of James City, Virginia)

Statement of Revenues, Expenses and Changes in Retained Earnings

Year ended June 30, 2002

Operating revenues:	
County contribution	\$ 148,985
Bond fees	45,686
Lease income	7,363
Total operating revenues	202,034
Operating expenses:	
Note forgiveness (note 6)	39,021
Advertising	22,042
Community development	17,243
Enterprise zone grants	14,040
Professional fees	4,225
Travel and training	1,485
Total operating expenses	98,056
Operating income	103,978
Nonoperating revenue (expense):	
Interest income	1,815
Interest expense	(67,146)
Net nonoperating expense	(65,331)
Net income	38,647
Retained earnings at beginning of year as restated (note 4)	1,742,079
Retained earnings at end of year	\$ 1,780,726

See accompanying notes to financial statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY, VIRGINIA**
(A Component Unit of the County of James City, Virginia)

Statement of Cash Flows

Year ended June 30, 2002

Cash flows from operating activities:	
Operating income	\$ 103,978
Adjustments to reconcile operating income to cash provided by operating activities:	
Note forgiveness (note 6)	39,021
Changes in assets and liabilities:	
Accounts receivable	124,791
Prepaid expenses	(1,100)
Accounts payable	2,436
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Net cash provided by operating activities	269,126
Cash flows used in capital and capital related financing activities:	
Principal payments of note payable	(60,000)
Interest paid on note payable	(67,146)
	<hr/>
	(127,146)
Cash flows from investing activity -	
Interest received	1,815
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Net increase in cash	143,795
Cash at beginning of year	96,856
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Cash at end of year	\$ 240,651

See accompanying notes to financial statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY, VIRGINIA**
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The Industrial Development Authority of James City County, Virginia (the Authority) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the governing body of James City County (the County) on July 9, 1979, pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373, et seq., of the Code of Virginia (1950), as amended). The Authority is governed by a seven-member board appointed by the Board of Supervisors of James City County, Virginia. The essential purpose of the Authority is to promote industrial and commercial development in the County.

The Authority has been determined to be a component unit of the County in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. Component units are legally separate entities for which a primary government is financially accountable. The County is financially accountable due to the significance of the fiscal dependence relationship with the Authority. The information included in these financial statements is included in the financial statements of the County because of the significance of the Authority's financial relationship with the County.

Implementation of these reporting requirements shall in no way infringe upon the independence of the Authority nor otherwise impair the Authority's power to perform its functions under state law.

(a) Basis of Presentation

For accounting purposes, the Authority is considered a proprietary fund. Proprietary funds are used to account for the ongoing activities that are financed and operated similar to those often found in the private sector. The measurement focus is upon determination of net income. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, proprietary fund types may follow all applicable GASB pronouncements as well as only those Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins issued on or before November 30, 1989. Under paragraph 7 of GASB Statement No. 20, the Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

(b) Basis of Accounting

The Authority recognizes revenues and expenses on the accrual basis of accounting. Under the accrual method, revenues are recognized in the period earned and expenses are recognized when they are incurred.

(c) Fixed Assets

The Authority's policy is to capitalize fixed assets with a cost or donated basis of one thousand dollars (\$1,000) or greater. The costs of major improvements are capitalized, while the cost of maintenance and repairs, which do not improve or extend the life of an asset, are expensed. The Authority provides for depreciation of fixed assets using the straight-line method at amounts estimated to amortize the cost or basis of the assets over their estimated useful lives. As of June 30, 2002, the Authority's fixed assets consist of land.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY, VIRGINIA**
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2002

(d) *Pass-Through Financing Leases*

Some activities of the Authority represent pass-through leases. The Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities within the County. These agreements provide for periodic rental payments in amounts which are equal to the principal and interest payments due to project bondholders. The Authority has assigned all rights to the rental payments to the trustees of the bondholders, and the lessees have assumed responsibility for all operating costs, such as utilities, repairs and property taxes. In such cases, the Authority neither receives nor disburses funds.

Although title to these properties rests with the Authority, bargain purchase options or other lease provisions eliminate any equity interest that would otherwise be retained. Deeds of trust secure outstanding obligations and title will revert to the lessee when the bonds are fully paid.

Although the Authority provides a conduit to execute such transactions, it does not retain either the benefits of asset ownership or the liability for bond liquidation. Accordingly, the Authority does not recognize associated assets, liabilities, rental income or interest expense in its financial statements.

(2) Cash

The carrying value of the Authority's deposits with banks was \$240,651 at June 30, 2002. The bank balance, which may differ from the carrying value of deposits due primarily to outstanding checks and deposits in transit, is fully covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

(3) Conduit Debt Obligations

From time-to-time, the Authority has issued Industrial Revenue Bonds (the Bonds) to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the Bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the Bonds. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2002, there were 20 series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$143 million.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY, VIRGINIA**
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2002

(4) Prior Period Adjustment

During 2002, the Authority received payments totaling \$124,791 in administrative bond fees relating to conduit debt obligations. These payments were earned between 1997 and 2001, but were not previously recognized in the Authority's financial statements. As a result, the Authority increased previously stated retained earnings at July 1, 2001 of \$1,617,288 by \$124,791 to reflect this revenue.

(5) Transactions with Related Parties

Certain financial management and accounting services are provided to the Authority by the County. Services were provided at no charge during the year ended June 30, 2002. In addition, certain personnel costs in 2002 were incurred by the County for the benefit of the Authority at no charge to the Authority.

(6) Notes Receivable

During 1998, the Authority sold two parcels of land to unrelated organizations. In exchange for the land, the Authority received cash of \$160,851 and two notes receivable of \$38,750 and \$92,000. These notes receivable will be forgiven over a five-year period beginning in fiscal year 1999 in the event that the buyers maintain a certain taxable capital investment in the County. During 2002, the Authority forgave \$39,021 related to these notes.

(7) Note Payable

In August 1999, the Authority exercised an option to purchase 217 acres of real property known as the Mainland Farm. The acquisition was partially funded by incurring a \$1,200,000 promissory note pursuant to the option contract from an unrelated third party. Principal and interest are payable annually, and interest accrues at 5.89%. Any outstanding principal or interest is due in full in August 2009. Amounts outstanding are secured by a Deed of Trust conveying the real property. Maturities of outstanding principal are as follows:

Fiscal year ending June 30:

2003	\$	60,000
2004		60,000
2005		60,000
2006		60,000
2007		60,000
Thereafter		780,000
	\$	1,080,000

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY, VIRGINIA**
(A Component Unit of the County of James City, Virginia)

Schedule of Revenue Bonds Outstanding - Conduit Debt (Unaudited)

June 30, 2002

Bond	Date issued	Balance
Industrial Development Revenue Bond – Christopher Newport University Educational Foundation	05/18/01	\$ 8,000,000
Industrial Development Revenue Bond – Avid Medical	10/01/98	1,815,000
Industrial Development Revenue Bond – Greystone	09/23/98	4,550,000
Industrial Development Revenue Bond – Barre Co.	03/06/98	1,887,888
Industrial Development Revenue Bond – DYARRCC	09/01/97	2,328,963
Revenue Bond, Series A 1997 – Williamsburg Landing Inc.	10/16/96	38,030,000
Revenue Bond, Series B 1997 – Williamsburg Landing Inc.	10/16/96	8,000,000
Revenue Bond, Series 1997 – Anheuser-Busch	04/09/97	7,700,000
Residential Care Facility Revenue Bonds	04/11/97	30,500,000
Elderly Residential Mortgage Revenue Bonds	09/24/96	24,476,250
Refunding Revenue Bonds – Olde Towne Square	05/19/89	100,000
Private Activity Revenue Bonds – Williamsburg Winery	09/20/88	408,000
Retirement Community Refunding Revenue Bond – Williamsburg Landing Inc.	03/01/87	10,834,250
Industrial Development Revenue Bond – C & N	12/12/85	850,000
Industrial Development Revenue Bond – Burnt Ordinary	12/12/85	731,000
Industrial Development Revenue Bond – Sixty West	12/19/84	1,887,097
Industrial Development Revenue Bonds – Kubicki	11/28/84	383,846
Industrial Development Revenue Bonds – Lightfoot Motels	03/01/84	400,000
Supplementary Industrial Revenue Bond – Anderson	12/22/82	2,522
Industrial Development Revenue Bonds – Anderson	11/12/81	147,475
		<u>\$ 143,032,291</u>