AT A MEETING OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF JAMES CITY, VIRGINIA, HELD ON JANUARY 29, 2004, 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 Campana at 3:00 p.m.

2. ROLL CALL

A roll call identified the following members present:

Mr. John Berkenkamp
Mr. Alvin Bush
Mr. Vincent Campana, Jr.
Ms. Virginia Hartmann

Mr. Gilbert Bartlett arrived at 3:30 p.m.
Mr. Mark Rinaldi arrived at 3:30 p.m.

ALSO PRESENT

Ann Davis, Treasurer
Suzanne Mellen, Director of Budget and Accounting
Elizabeth P. Foster, KPMG LLP
Steven C. Whetstine, KPMG LLP
H. G. Hart, McKinney & Co.
Matt Clayton, The College of William & Mary
Bill Bean, The College of William & Mary
Bill Unaitis, The College of William & Mary
Joe McCleary, Planning Commission
Dara Glass, Peninsula Alliance for Economic Development, Senior Marketing Manager
Sanford B. Wanner, County Administrator
Michael J. Brown, Board of Supervisors IDA Liaison
Keith A. Taylor, IDA Secretary
Sandra Barner, County Economic Development Project Coordinator
Jennifer Barker, Recording Secretary for the Board of Supervisors

ABSENT

Mr. Bernard Ngo

3. PERSONNEL MATTERS

a. Introduction of 2004 Board Liaison Michael Brown

Mr. Campana stated that Mr. Brown has been reappointed by the Board of Supervisors as the IDA liaison for 2004.

b. Appointment of 2004 Committees & Liaisons

Mr. Campana stated that each of the Directors had received a list of Committee positions. He inquired if the Directors had comments regarding the assignments; hearing none, the assignments were accepted.

c. Search for Economic Development Assistance

Mr. Taylor stated that Kelly See, IDA Recording Secretary, resigned from her position and that Amanda Wroten will be filling in until early March. Staff has started the recruiting process for Kelly's replacement.

4. APPROAL OF MINUTES

On a motion by Mr. Berkenkamp and a second by Ms. Hartmann, the minutes from the November 21, 2003, Regular Meeting, were approved by unanimous voice vote.

5. FINANCIAL REPORTS

a. & b. FY2003 Audit and Treasurer's and Financial Reports

Ms. Mellen introduced Steven C. Whetstine, KPMG LLP, for an overview of the FY 2003 IDA Audit. Mr. Whetstine noted the new 34 GASB standards and impacts of the John Deere settlement. Mr. Berkenkamp noted that the IDA received a clean report for the year, which indicates there are no financial problems.

The Directors concurred to defer action on the Audit until their next meeting.

Ms. Mellen provided an overview of the Treasurer's and Financial Reports.

Chairman Campana inquired if the William & Mary study payments are noted in the Operating Budget.

Ms. Mellen stated she would research the inquiry and provide clarification on the payments in the detailed budget.

On a motion by Ms. Hartmann and a second by Mr. Berkenkamp, the Treasurer's and Financial Reports were approved by unanimous voice vote.

6. ACTION ITEMS – None

7. PRESENTATIONS

a. Virtual Shell Building Marketing Package

Mr. Taylor introduced H. G. Hart of McKinney & Company to make a presentation on the status of the Virtual Shell Building Marketing Package.

Mr. Hart presented an overview of the virtual Shell Building and its marketing strategies. He reported that the preliminary site plan approval and road/utility construction would be a benefit to the potential users who would be able to occupy the site more quickly and with less financial impact than if those were not in place. He stated that additional benefits of the marketing package include the ability to easily and quickly change renderings to suit potential users' needs.

Mr. Taylor stated that the virtual tour will afford the client the ability to visualize the layout, site, and features of the building and that McKinney can easily amend the virtual tour for specific specs.

The Directors inquired how easily the building specifications could be changed and what the costs would be to change the marketing materials accordingly.

Mr. Hart stated that marketing materials reflecting change in color, façade, skylights, and office space layouts can be turned around in about 72 hours and those adjustments would not incur additional cost.

The Directors inquired what type of control limitations the County can impose to ensure that regional and State distribution of the virtual shell building package ensure that proposals made do not conflict with County restrictions on the Master Plans.

Mr. Hart and Mr. Taylor stated that such specs would be subject to County approval.

Mr. Campana thanked Mr. Hart for his presentation.

b. William & Mary Technology and Business Center

Mr. Clayton, Mr. Bean, and Mr. Unaitis provided the Directors with an overview of the Technology and Business Center (TAB) services and how it does and can continue to benefit the County's interest in growing and diversifying its economy.

Mr. Campana thanked Mr. Clayton, Mr. Bean, and Mr. Unaitis for the presentation and recommended that if the TAB would like to present more information to the Directors they could do so in a smaller, less formal setting.

8. DISCUSSION ITEMS

a. Thomas Nelson Community College Williamsburg Area Campus

Mr. Wanner provided the Directors with an overview of the consideration of Thomas Nelson Community College to co-locate with James City County's proposed third high school. Mr. Wanner stated that a joint meeting will be held on February 26 between the County Board of Supervisors, Williamsburg City Council, and the Williamsburg/James City School Board to discuss the plans for the third high school. Mr. Wanner provided an overview of the constraints on the College by the Commonwealth and stated that a lot of items still need to be resolved.

Mr. Wanner answered questions from the Directors. Mr. Campana thanked Mr. Wanner for the presentation.

Mr. Campana recessed the meeting for a brief break at 4:45 p.m.

At 4:48 p.m. Mr. Campana reconvened the meeting.

9. REPORTS

a. BOS Liaison to IDA

Mr. Brown reported that specific guidance has been provided to Staff regarding the FY05 County Budget and that the guidance of developing a budget at an 85-cent tax rate will pose challenges such as paying increased employee Virginia Retirement System (VRS) contributions.

Mr. Brown stated that proposed low-to-moderate income housing on Croaker Road in the Stonehouse District creates a problem for commercial development, and that the Comprehensive Plan maintains the best flexibility for land use on the Massie property at the intersection.

The Directors requested they be advised if support from the IDA is needed during the consideration of this proposed land use.

b. Peninsula Alliance for Economic Development

Ms. Glass stated a consultant marketing event will be held in Chicago and will be attended by members of the Peninsula Alliance for Economic Development (PAED). A regional proposal has been submitted to NASA to have its shared services operation based in Hampton Roads. Ms. Glass stated that the NASA operation could employee 450-700 employees and a decision on the location is expected at the beginning of March.

Mr. Glass thanked the IDA for its letter of support.

Ms. Glass answered questions from the Directors. Mr. Campana thanked Ms. Glass for her presentation.

c. Planning Commission Liaison

Mr. Rinaldi and Ms. Hartmann were present. No report.

d. Crossroads Project Liaison

Mr. Wanner stated that a "Reuse Committee" is looking at the potential property reuses of the current Williamsburg Community Hospital site and encouraged the Directors to submit ideas of any potential use for the site. Mr. Wanner stated the TAB Center is relocating to the Discovery Center at New Town. There is an opportunity for the County, TAB, and other businesses to lease space in the building as well.

Mr. Wanner answered questions from the Directors. Mr. Campana thanked Mr. Wanner for his presentation.

e. Technology Policy Action Strategy

Mr. Campana and Mr. Taylor were present. They had no report as they were awaiting some additional senior Staff input.

f. Small and Minority Business Enterprise Initiatives

Mr. Bush stated that he met with PAED's David Piggott in October. PAED plans to reach out to some of the media, such as Black Enterprise magazine, to reach large corporations in the country about how Hampton Roads can contribute to their long-range cultural diversity plans.

10. REPORTS OF THE ECONOMIC DEVELOPMENT STAFF

Mr. Taylor stated that the IDA has not requested any operational funding from the County in its routine FY 2005 – 2006 Budget submissions to the County and that the Office of Economic Development is finalizing its budget submission.

Mr. Taylor stated that PAED's Atlanta Marketing Mission will be staffed by Sandra Barner and that the State is doing a trade show at the National Association of Manufacturers Conference in Chicago, which he will be staffing.

11. OTHER BUSINESS

a. Topics for 2004 IDA Work Sessions

Mr. Campana requested ideas and speakers for upcoming IDA Work Sessions.

Mr. Campana requested that for the upcoming Work Session, a presentation be made by SCORE, if Staff can arrange it.

b. VECTEC Grant Proposal

Mr. Taylor requested Sandra Barner provide a brief overview of the VECTEC.

Ms. Barner stated that the VECTEC provides services to assist companies wanting to do business on the Internet and has approached the IDA to provide funds which would be matched by funds from local businesses who desired VECTEC services. She requested guidance from the Directors on the proposal.

On a motion by Mr. Berkenkamp and a second by Ms. Hartmann, the Directors will make no grants to VECTEC by a unanimous voice vote.

12. ADJOURNMENT

Mr. Campana requested that future presenters and speakers at IDA meeting be provided a time limit.

There being no further business, Chairman Campana entertained a motion from Mr. Rinaldi to adjourn. The motion was seconded by Ms. Hartmann and approved by unanimous voice vote. The meeting was adjourned at 5:20 p.m.

Vincent A. Campana, Jr., Chairman

Keith A. Taylor, Secretary

RESOLUTION OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF JAMES CITY, VIRGINIA APPROVING THE FORM AND EXECUTION OF UP TO $5,100,000 INDUSTRIAL DEVELOPMENT REVENUE AND REFUNDING BONDS AND TAXABLE INDUSTRIAL DEVELOPMENT REVENUE BONDS (AVID MEDICAL, INC. PROJECT) SERIES 2004A AND 2004B

The Industrial Development Authority of the County of James City, Virginia (the "Authority") is duly organized under the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the "Act"). In furtherance of the Act's purposes, the Authority agrees to issue, at the request of Avid Realty, L.L.C., a Virginia limited liability company (the "Borrower"), its Industrial Development Revenue and Refunding Bonds (Avid Medical, Inc. Project), Series 2004A (the "Tax-Exempt Bonds") and its Taxable Industrial Development Revenue Bonds (Avid Medical, Inc. Project), Series 2004B (the "Taxable Bonds") in an original aggregate principal amount not to exceed $5,100,000 (collectively, the "Bonds") to (i) refund the outstanding principal balance of the Authority's $1,850,000 Industrial Development Revenue Bonds (Avid Medical, Inc. Project), Series 1998 (the "Prior Bonds"), the proceeds of which financed the acquisition, construction and equipping of an approximately 40,000 square foot manufacturing facility which is used in the manufacturing of medical devices and the manufacturing process of assembling and packing procedure - ready kits and subassemblies primarily for sale to health care providers (the "Existing Facility"), which is leased to Avid Medical, Inc., a Delaware corporation (the "Lessee"), (ii) finance the acquisition, construction and equipping of an approximately 45,000 square foot expansion of the Existing Facility (the "Project" and, together with the Existing Facility, the "Facility"), (iii) fund a debt service reserve fund and (iv) pay certain costs of issuance of the Bonds. The rental payments to be made by the Lessee for its lease of the Facility will be sufficient in amount to pay the principal, premium, if any, and interest on the Bonds.

The Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2004 (the "Indenture"), between the Authority and SunTrust Bank, as trustee (the "Trustee"). The Bonds are limited obligations of the Authority, the principal of, premium, if any, and interest on which will be payable solely from (i) the revenues received by the Authority under the Loan Agreement, dated as of March 1, 2004 (the "Loan Agreement"), between the Authority and the Borrower, except for certain rights of the Authority to payment of its fees and expenses, indemnification and other reserved rights, (ii) a Promissory Note in an aggregate amount not to exceed $5,100,000, dated the date of the issuance of the Bonds (the "Promissory Note"), pursuant to which the Borrower has agreed to pay amounts sufficient to pay all amounts due and owing under the Bonds, (iii) the funds and accounts which the Trustee holds under the terms of the Indenture, (iv) amounts realized under a Deed of Trust and Security Agreement, dated as of March 1, 2004 (the "Deed of Trust"), from the Borrower to the deed of trust trustees therein and (v) amounts realized under any other security and/or guaranty agreements between the Borrower or the Lessee and the Trustee that are intended to secure payments on the Bonds.

The Bonds are being purchased by Ferris, Baker Watts, Inc. (the "Underwriter") pursuant to a Bond Purchase Agreement, dated as of the date of the purchase of the Bonds (the "Bond Purchase Agreement"), among the Underwriter, the Authority, the Borrower and the Lessee.

In connection with the issuance of the Bonds by the Authority, forms of the following documents have been presented to this meeting and filed with the Authority's records: (i) the Bonds, (ii) the Indenture, (iii) the Promissory Note, (iv) the Loan Agreement, (v) the Bond Purchase Agreement and (vi) a Preliminary Official Statement with respect to the issuance and sale of the Bonds (the "Preliminary Official Statement"). All of the documents referred to above, except the Bonds and the Preliminary Official Statement, are collectively referred to in this Resolution as the "Bond Documents."

After careful consideration and in furtherance of the public purposes for which the Authority was created, NOW, THEREFORE, BE IT RESOLVED BY THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF JAMES CITY, VIRGINIA, THAT:

1. The Authority hereby approves the issuance of the Bonds to finance the costs of the Project, refund the Prior Bonds, fund any required debt service reserve fund and pay the issuance costs incurred in connection with the issuance of the Bonds. The Authority hereby provides and specifies that the initial interest rates on the Tax-Exempt Bonds shall be equal to an annual rate of seven and one-quarter percent (7¼%) or any annual rate less than seven and one-quarter percent (7¼%) and the initial interest rates on the Taxable Bonds shall be equal to an annual rate of nine percent (9%) or any annual rate less than nine percent (9%). The Chairman and Vice Chairman, either of whom may act, are each authorized on behalf of the Authority to determine the actual initial interest rates on the Tax-Exempt Bonds and Taxable Bonds, provided that said rates shall be within the parameters set forth in the preceding sentence. The determination of the interest rates shall be conclusively evidenced by the execution of the Bonds by the Chairman or Vice Chairman. The Authority further provides and specifies that the Bonds (i) shall not mature later than March 1, 2034, (ii) shall not have a weighted average maturity in excess of twenty-five (25) years, (iii) shall be sold with an underwriter's discount not to exceed two percent (2%) of their aggregate principal amount, (iv) shall be in an aggregate principal amount not to exceed \$5,100,000 and (v) shall be subject to optional redemption no later than ten and one-half years after their issuance at a redemption premium not to exceed two percent (2%). The determination of the terms set forth in clauses (i) through (v) of the preceding sentence shall be conclusively evidenced by the execution of the Bonds by the Chairman or the Vice Chairman.

2. The Bonds and the Bond Documents are hereby approved in substantially the forms submitted to this meeting, with such changes, insertions or omissions (including, without limitation, changes of the dates thereof or the dates contained therein) as may be approved by the Chairman or the Vice Chairman of the Authority, whose approval shall be evidenced conclusively by their execution and delivery of the Bonds and such Bond Documents containing such changes, insertions or omissions.

3. The execution, delivery and performance by the Authority of the Bond Documents are authorized. The execution of the Bonds and their delivery against payment therefor are authorized.

4. The Chairman and Vice Chairman of the Authority, either of whom may act, are each authorized to execute, on behalf of the Authority, the Bonds and the Bond Documents, and, if required, the Secretary and the Assistant Secretary of the Authority, either of whom may act, are each authorized to affix the seal of the Authority to the Bonds and the Bond Documents and to attest such seal. Each officer of the Authority is authorized to execute and deliver on behalf of the Authority such instruments, documents or certificates, including without limitation Internal Revenue Service Form 8038, any escrow agreement that may be required by the trustee for the Prior Bonds and any redemption or other notice with respect to the redemption of the Prior Bonds, and to do and perform such things and acts, as they shall deem necessary or appropriate to carry out the transactions authorized by this Resolution or contemplated by the Bonds, the Bond Documents or such instruments, documents or certificates, and all of the foregoing, previously done or performed by the officers or directors of the Authority, are in all respects approved, ratified and confirmed.

5. The Authority determines that the issuance of the Bonds and use of the proceeds thereof to, among other things, finance the Project and refinance the Existing Facility by refunding the Prior Bonds and all other actions of the Authority contemplated under the Bond Documents will be in furtherance of the purposes for which the Authority was organized.

6. The Authority elects, pursuant to Section 144(a)(4)(A) and (E) of the Internal Revenue Code of 1986, as amended, to have the $10,000,000 limit provided for in such Section apply to the Tax-Exempt Bonds.

7. The use and distribution by the Underwriter of the Preliminary Official Statement substantially in the form now on file with the Authority and the final Official Statement are hereby authorized, ratified and approved. The Chairman and the Vice Chairman, either of whom may act, are each authorized to approve and, if necessary, execute the final Official Statement in substantially the form of the Preliminary Official Statement, with such changes therein and revisions thereof as are necessary to reflect accurately the terms of the Bond issue. The Chairman and Vice Chairman, either of whom may act, is authorized on behalf of the Authority, to deem the Preliminary Official Statement to be in final form as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), except for the omission of certain pricing and other information allowed to be omitted pursuant to the Rule.

8. All other acts of the officers of the Authority that are in conformity with the purposes and intent of this Resolution and in furtherance of the issuance and sale of the Bonds, whether such acts occurred before or occur after the adoption of this Resolution, are hereby ratified, approved and confirmed.

9. This Resolution shall take effect immediately upon its adoption.

Certificate

The undersigned Secretary of the Industrial Development Authority of the County of James City, Virginia hereby certifies that the foregoing is a true, correct and complete copy of a resolution duly adopted by the directors of the Industrial Development Authority of the County of James City, Virginia present and voting at a meeting duly called and held on March 11, 2004, and that such resolution has not been repealed, revoked, rescinded or amended, but is in full force and effect on the date hereof.

WITNESS my hand and the seal of the Authority this 11th day of March, 2004.

Keith A. Taylor
Secretary, Industrial Development Authority of the
County of James City, Virginia

(SEAL)

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INDUSTRIAL DEVELOPMENT AUTHORITY OF JAMES CITY COUNTY

101 MOUNTS BAY ROAD, P.O. BOX 8784
WILLIAMSBURG, VIRGINIA 23187-8784

(757) 253-6607
FAX: (757) 253-6833

September 2, 2003

KPMG LLP
2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the basic financial statements of the Industrial Development Authority of James City County (the Authority) as of and for the year ended June 30, 2003. We understand that your audit was conducted for the purpose of expressing opinions as to whether the basic financial statements present fairly, in all material respects, the financial position of the Authority and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the basic financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.

2. We have made available to you:

   a. All financial records and related data.

b. All minutes of the meetings of directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no:

a. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

b. Violations or possible violations of laws or regulations, the effects of which should be considered for disclosure in the basic financial statements or as a basis for recording a loss contingency.

c. False statements affecting the Authority's financial statements made to you, the Authority's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.

4. There are no significant deficiencies in the design or operation of internal controls which could adversely affect the Authority 's ability to record, process, summarize and report financial data, and we have identified no material weaknesses in internal controls. We interpret "significant deficiencies in the design or operation of internal controls" to be consistent with the concept of a "reportable condition," defined under standards established by the American Institute of Certified Public Accountants. Such standards define a "reportable condition" as a significant deficiency in the design or operation of internal control that could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. We understand that the term "material weakness in internal control" is a reportable condition for which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that could be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

5. There are no:

a. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.

b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.

c. Material transactions, for example, grants or encumbrances, that have not been properly recorded in the accounting records underlying the basic financial statements.

d. Events that have occurred subsequent to the date of the statement of net assets and through the date of this letter that would require adjustments to or disclosure in the basic financial statements.

6. There are no uncorrected financial statement misstatements either individually and in the aggregate, to the financial statements for each opinion unit.

7. The Authority has no:

a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.

b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.

c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.

8. The Authority has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

9. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated. There are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

10. Deposits and investment securities are properly classified and reported.

11. The Authority is responsible for the identification of and compliance with all aspects of laws, regulations, contracts, or grants that could have a material effect on the basic financial statement amounts in the event of noncompliance including legal and contractual provisions for reporting specific activities in separate funds and has disclosed those aspects of laws, regulations, contracts, or grants to you.

12. The Authority has complied, in all material respects, with applicable laws, regulations, contracts and grants that could have a material effect on the basic financial statements in the event of noncompliance.

13. The following have been properly recorded or disclosed in the basic financial statements:

    a. Related party (such as key administrative, financial, and legislative personnel or businesses they represent or have an interest in) transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments and amounts receivable from or payable to related parties, including revenues, expenditures, loans, transfers, leasing arrangements, and guarantees. We understand that the term "related party" refers to affiliates of the Authority; entities for which investments are accounted for by the equity method by the Authority; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; Authority management; members of the immediate families of Authority management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

    b. Guarantees, whether written or oral, under which the Authority is contingently liable.

    c. Arrangements with financial institutions involving compensating balances, or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.

    d. Agreements to repurchase assets previously sold, including sales with recourse.

    e. Changes in accounting principle affecting consistency.

    f. The existence of and transactions with joint ventures and other related organizations.

14. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the basic financial statements:

    a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;

    b. The amount of credit risk of financial instruments with off-balance-sheet credit risk and information about the collateral supporting such financial instruments; and

    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

15. The basic financial statements properly classify all funds and activities.

16. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified.

17. The Authority has complied with all tax and debt limits and with debt related covenants.

18. The Authority has presented all required supplementary information. This information has been measured and prepared within prescribed guidelines.

19. The Authority has complied with all applicable laws and regulations in adopting, approving and amending budgets.

20. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.

21. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

    a. Management,

b. Employees who have significant roles in internal control, or

c. Others where the fraud could have a material effect on the financial statements.

22. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

23. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.

24. Special and extraordinary items are appropriately classified and reported, as applicable.

Very truly yours,

Industrial Development Authority of James City County

Vincent A. Campana, Jr.
Chairman, Industrial Development Authority

Suzanne R. Mellen
Director of Budget and Accounting

KPMG LLP
2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510

September 2, 2003

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

Dear Board Members:

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, 2003 and have issued our report thereon dated September 2, 2003. 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. As described in note 1, in order to comply with the requirements of accounting principles generally accepted in the United States of America, the Authority adopted Governmental Accounting Standards Board No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

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 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. In addition, we have not discussed with management any significant financial misstatements that have not been corrected in the books and records of the Authority as of and for the year ended June 30, 2003.

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.

SIGNIFICANT WRITTEN COMMUNICATION BETWEEN THE AUDITOR AND MANAGEMENT

In accordance with the communication requirements of Statement on Auditing Standards No. 61, attached to our letter please find copies of the following material written communications between management and us:

1) Engagement letter
2) Management representation letter

* * * * *

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

Very truly yours,

KPMG LLP

KPMG

INDUSTRIAL DEVELOPMENT AUTHORITY OF JAMES CITY COUNTY, VIRGINIA

(A Component Unit of the County of James City, Virginia)

Basic Financial Statements and Schedule

June 30, 2003

(With Independent Auditors' Report Thereon)

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

Table of Contents

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

Authority Officials

June 30, 2003

Board Members

Vincent A. Campana, Jr. .... Chairman

Virginia B. Hartmann .... Vice Chairman

Gilbert A. Bartlett

John Berkenkamp

Alvin J. Bush

Bernard H. Ngo

Mark G. Rinaldi

Other Officials

Keith A. Taylor .... Secretary

M. Ann Davis .... Treasurer

Frank M. Morton, III .... Legal Counsel

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

Management's Discussion and Analysis

June 30, 2003

This section of the Industrial Development Authority's (the Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during fiscal year ended June 30, 2003.

Financial Highlights for Fiscal Year 2003

* The Authority had an increase in net assets of $2,237,879.

Overview of the Financial Statements

The financial section of this report has two components – Management's Discussion and Analysis (this section) and the basic financial statements. The basic financial statements are comprised of a Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows and Notes to Financial Statements. The Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34) during fiscal year 2003, which established new requirements and a new reporting model for the annual financial reports of state and local governments.

The Authority is a self-supporting entity and follows enterprise fund accounting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Authority.

Financial Analysis

This is the first year that the Authority has presented its financial statements under the new reporting model required by GASB Statement No. 34. This reporting model changes both the recording and presentation of financial data. However, under this statement, the Authority is not required to restate prior periods for the purpose of providing comparative information. In future years, when prior year information becomes available, a comparative analysis will be included in the Management's Discussion and Analysis.

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

Management's Discussion and Analysis

June 30, 2003

Balance Sheet

The following table reflects the condensed net assets information:

Table 1

Condensed Balance Sheet Information

June 30, 2003

Current and other assets	$	3,004,343
Capital assets		2,734,288
Total assets	$	5,738,631
Current liabilities	$	60,026
Long-term liabilities		1,660,000
Total liabilities		1,720,026
Net assets:		
Unrestricted		3,718,605
Restricted for community development		300,000
Total net assets		4,018,605
Total liabilities and net assets	$	5,738,631

Net assets (assets in excess of liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $4 million at June 30, 2003. Current and other assets consist primarily of cash. Current liabilities consist of accounts payable and the current portion of a note payable to Mainland Farm for $60,000, which is deemed current since it is due within one year. Included in long-term liabilities is a note payable to Mainland Farm in the amount of $960,000, as well as $700,000 in escrow liability.

Statement of Revenues, Expenses and Changes in Net Assets

The following table reflects the condensed revenues, expenses and changes in net assets:

Table 2

Summary of Changes in Net Assets

Year ended June 30, 2003

County contribution	$	610,479
Other operating revenue		90,664
Total operating revenue		701,143
Community development		300,709
Other expenses		89,956
Total operating expenses		390,665
Operating income		310,478
Performance agreement reimbursement		1,974,084
Net other nonoperating expense		(46,683)
Change in net assets		2,237,879
Net assets, beginning of year		1,780,726
Net assets, end of year	$	4,018,605

Total net assets increased $2,237,879 for the fiscal year ended June 30, 2003. This is a result of operating and nonoperating revenue of $2,675,227 exceeding operating and nonoperating expenses of $437,348. The performance agreement reimbursement noted above is the primary reason for the increase in net assets, and represents the balance on an agreement made between the Authority and Deere & Company (Deere). Deere was provided incentives to establish a manufacturing plant in James City County (the County), and had agreed to remain in the County for at least 10 years. Due to the realignment of Deere's operations and economic conditions, Deere closed after three years in the County, which resulted in negotiations for reimbursement. The Authority placed $700,000 of the reimbursement in escrow due to stipulations made by the Commonwealth of Virginia that this amount be used to provide incentives to market and sell the Deere Plant.

Operating revenue represents the County's contribution to the Authority and other operating revenue represents bond fees, and lease income collected from the operation that currently leases a portion of Mainland Farm for agricultural benefits. Community development consists primarily of grants awarded to local businesses for exceeding certain investment figures, while other expenses include costs such as advertising, professional fees and travel and training. Nonoperating expense is the net of $16,929 in interest income and $63,612 in interest expense paid on the note regarding the acquisition of Mainland Farm.

Capital Assets

As of the end of fiscal year 2003, the Authority had invested $2,608,122 in land and $126,166 in construction of the next shell building.

Debt Administration

The Authority had outstanding debt as of June 30, 2003 of $1,020,000 which was incurred to purchase 217 acres of real property known as the Mainland Farm. Interest accrues at 5.89% and is payable annually with a principal payment.

The Authority has issued Industrial Revenue 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. As of June 30, 2003, there were 19 series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $138 million. It should be noted that this debt is all conduit debt. Although conduit debt obligations bear the name of the governmental issuer, which is the Authority, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the James City County Department of Financial and Management Services, 101-A Mounts Bay Road, P.O. Box 8784, Williamsburg, Virginia 23187-8784.

KPMG

KPMG LLP
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 basic financial statements of the Industrial Development Authority of James City County, Virginia (the Authority), a component unit of the County of James City, Virginia, as of and for the year ended June 30, 2003, as listed in the table of contents. 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, 2003 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, the Authority has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, Government Accounting Standards Board Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Government Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures* effective July 1, 2002.

The Management's Discussion and Analysis on pages ii through v is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the Authority's basic financial statements. The information in the supplementary section of the report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

September 2, 2003

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

Balance Sheet

June 30, 2003

Assets		
Current assets:		
Cash (note 2)	$	1,968,343
Restricted cash (note 8)		1,000,000
Total current assets		2,968,343
Notes receivable (note 5)		36,000
Capital assets (notes 6 and 7):		
Land		2,608,122
Construction in progress		126,166
Total capital assets		2,734,288
Total assets	$	5,738,631
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	26
Current portion of note payable (note 7)		60,000
Total current liabilities		60,026
Note payable, less current portion (note 7)		960,000
Escrow liability (note 8)		700,000
Total liabilities		1,720,026
Net assets:		
Invested in capital assets, net of related debt		1,714,288
Restricted for community development (note 8)		300,000
Unrestricted		2,004,317
Total net assets		4,018,605
Total liabilities and net assets	$	5,738,631

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 Net Assets

Year ended June 30, 2003

Operating revenues:		
County contribution	$	610,479
Bond fees		63,827
Lease income		26,837
Total operating revenues		701,143
Operating expenses:		
Note forgiveness (note 5)		16,659
Advertising		20,735
Community development		300,709
Enterprise zone grants		9,360
Professional fees		39,400
Travel and training		3,802
Total operating expenses		390,665
Operating income		310,478
Nonoperating revenue (expense):		
Performance agreement reimbursement (note 8)		1,974,084
Interest income		16,929
Interest expense		(63,612)
Net nonoperating revenue		1,927,401
Change in net assets		2,237,879
Net assets at beginning of year		1,780,726
Net assets at end of year	$	4,018,605

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, 2003

Cash flows from operating activities:		
Receipts from customers	$	3,375,227
Payments to suppliers		(378,686)
Net cash provided by operating activities		2,996,541
Cash flows from capital and capital related financing activities:		
Construction of capital assets		(126,166)
Principal payments of note payable		(60,000)
Interest paid on note payable		(63,612)
Net cash used in capital and capital related financing activities		(249,778)
Cash flows from investing activities:		
Interest received		16,929
Issuance of notes receivable		(36,000)
Net cash used in investing activities		(19,071)
Net increase in cash		2,727,692
Cash at beginning of year		240,651
Cash at end of year	$	2,968,343
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	2,284,562
Adjustments to reconcile operating income to cash provided by operating activities:		
Note forgiveness (note 5)		16,659
Changes in assets and liabilities:		
Prepaid expenses		1,100
Accounts payable		(5,780)
Escrow		700,000
Net cash provided by operating activities	$	2,996,541

See accompanying notes to financial statements.

(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 Accounting and Presentation

The Authority is accounted for under the economic resources measurement focus and the accrual basis of accounting as an enterprise fund. Accordingly, revenues are recognized in the period earned and expenses are recognized when they are incurred. Enterprise funds are used to account for the ongoing activities that are financed and operated similar to those often found in the private sector. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the Authority's ongoing operations. Operating revenues include revenue from the County, bond fees and lease income. Operating expenses include the costs related to promoting and developing the County and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The Authority generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Authority may defer the use of restricted assets based on a review of the specific transaction.

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.

Effective July 1, 2001, the Authority adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and*

(Continued)

Management's Discussion and Analysis – for State and Local Governments: Omnibus. GASB Statement No. 34 affected the Authority's financial statements through certain presentation and disclosure requirements and inclusion of Management's Discussion and Analysis as required supplementary information. As applicable to the Authority, the implementation required that amounts previously reported as restricted and unrestricted retained earnings be recast as restricted net assets and unrestricted net assets. Additionally, GASB Statement No. 34 requires presentation of the statement of cash flows under the direct method. The implementation of these statements did not affect total net assets.

Also, effective July 1, 2002, the Authority adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The implementation of this statement affected certain note disclosures required by the Authority, but did not affect the determination of net assets or change in net assets.

(b) Capital Assets

The Authority's policy is to capitalize capital assets with a cost basis or fair value of donation 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 capital 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, 2003, the Authority's capital assets consist of land and construction in progress, which are not depreciated.

(c) 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 $2,968,343 at June 30, 2003. 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. If any member financial institution fails, the entire collateral becomes available to satisfy claims of the Authority. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks) of the pool. Therefore, these deposits are considered collateralized and as a result, are considered insured. 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, 2003, there were 19 series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $138 million.

(4) 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, 2003. In addition, certain personnel costs in 2003 were incurred by the County for the benefit of the Authority at no charge to the Authority.

(5) 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 were forgiven over a five-year period beginning in fiscal year 1999 contingent upon the buyers maintaining a certain taxable capital investment in the County. During 2003, the Authority forgave $16,659 related to these notes.

(6) Capital Assets

Capital assets at June 30, 2003 consist of land and construction in progress.

Balances in construction in progress represent design and engineering costs incurred related to the construction of a shell building.

The following is a summary of the capital asset activity for the year ended June 30, 2003.

	Balance at July 1, 2002	Additions	Sales or transfers	Balance at June 30, 2003
Land	$ 2,608,122	—	—	2,608,122
Construction in progress	—	126,166	—	126,166
	$ 2,608,122	126,166	—	2,734,288

(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.

The following is a summary of the note payable activity for the year ended June 30, 2003.

Amount payable at July 1, 2002	Additions	Reductions	Amount payable at June 30, 2003	Amounts due within one year
$ 1,080,000	—	60,000	1,020,000	60,000

Maturities are as follows:

	Principal	Interest
Fiscal year ending June 30:		
2004	$ 60,000	60,078
2005	60,000	56,544
2006	60,000	53,010
2007	60,000	49,476
2008	60,000	45,942
2009-2010	720,000	81,282
	$ 1,020,000	346,332

(8) Performance Agreement Reimbursement Revenue

In November 2002, the Authority negotiated the reimbursement of $2,674,084 under a Performance Based Agreement dated April 16, 1999 with Deere & Company (Deere). Under the agreement, Deere was provided with incentives to locate a commercial and consumer equipment manufacturing plant in the County in the form of loans and grant money received from the Commonwealth of Virginia (the Commonwealth). In order to secure Deere's performance for the incentives provided, the Authority and Deere entered into a performance agreement, which estimated that Deere would be located in the County for at least 10 years. Due to the realignment of Deere's operations and current economic conditions, the Deere facility was closed in October 2002, after approximately three years in the County.

The amounts reimbursed by Deere represent the balance on a performance agreement note of $1,674,084 and the grant received of $1,000,000. The grant reimbursement received was recorded as restricted cash based upon stipulations made by the Commonwealth that the funds are to be used for community development. The Authority placed $700,000 of the reimbursement in escrow due to stipulations made by the Commonwealth that the funds revert back to the Commonwealth if they were not used as incentives to new prospects interested in the Deere site within three years. The remaining $300,000 was recorded as revenue and is restricted for community development in accordance with terms negotiated with the Commonwealth.

Schedule

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

June 30, 2003

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	1,780,000
Industrial Development Revenue Bond – Greystone	09/23/98	3,900,000
Industrial Development Revenue Bond – Barre Co.	03/06/98	1,887,888
Industrial Development Revenue Bond – DYARRCC	09/01/97	2,153,963
Revenue Bond, Series A 1997 – Williamsburg Landing Inc.	10/16/96	36,870,000
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	29,600,000
Elderly Residential Mortgage Revenue Bonds	09/24/96	24,350,000
Refunding Revenue Bonds – Olde Towne Square	05/19/89	50,000
Private Activity Revenue Bonds – Williamsburg Winery	09/20/88	374,000
Retirement Community Refunding Revenue Bond – Williamsburg Landing Inc.	03/01/87	9,286,500
Industrial Development Revenue Bond – C & N	12/12/85	750,000
Industrial Development Revenue Bond – Burnt Ordinary	12/12/85	645,000
Industrial Development Revenue Bond – Sixty West	12/19/84	1,827,226
Industrial Development Revenue Bonds – Kubicki	11/28/84	274,152
Industrial Development Revenue Bonds – Lightfoot Motels	03/01/84	285,000
Industrial Development Revenue Bonds – Anderson	11/12/81	135,324
		$ 137,869,053

Unaudited – see accompanying independent auditors' report.