<u>MINUTES</u>

ECONOMIC DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY
BUILDING C CONFERENCE ROOM, 101 MOUNTS BAY ROAD
3:00 PM, THURSDAY, NOVEMBER 18, 2004

1. CALL TO ORDER

The meeting was called to order by Chairman Campana at 3:04 PM

2. ROLL CALL

A roll call identified the following members present:

Mr. John Berkenkamp
Mr. Alvin Bush
Mr. Vincent Campana, Jr.
Mr. Jay Diedzic
Ms. Virginia Hartmann
Mr. Bernard Ngo
Mr. Mark Rinaldi

Also Present:

Tara Woodruff, Accounting Supervisor
Barbara Finke, Accountant II
Keith A. Taylor, EDA Secretary
Sandra Barner, County Economic Development Project Coordinator
Marcè Musser, EDA Recording Secretary
Dara Glass, Marketing Manager, Peninsula Alliance for Economic Development
Erika Kennett, Marketing Specialist, Peninsula Alliance for Economic Development
Steve Whetstine, Senior Manager, KPMG LLP
Sanford B. Wanner, County Administrator

3. REPORT

Ms. Glass gave the PAED report.

a. Activity
    1. Oct. 18 – Reception at the Minority and Women in Business Forum in Washington D.C. with 150 in attendance. Comments by David Piggot, Director of Marketing for PAED, were well received.
    2. Nov. 1-3 – Marketing Mission to Northern Virginia and Washington D.C. at which one site consulting firm, Coldwell Banker in particular, had good representation and showed great interest

3. Nov. 8-10 – Marketing Mission/Prospecting Mission to Boston
4. Dec. 1-2 – Marketing Mission to Chicago to meet with CB Ellis. Sandra Barner is also going on this trip and will represent James City County's interests.
5. Dec. 6-8 – Marketing Mission to Pittsburg

b. Projects
   1. NASA Project for Newport Newshas cooled off. Proposals were submitted November 8, and the contract is to be awarded May 31, 2005.
   2. There has been a steering committee appointed to "nail down" details (size of Peninsula Office, Staffing, Financing, etc.) on the proposed merger between PAED and Hampton Roads Alliance. The committee will make its recommendation at a December 22 Executive Committee meeting. The final vote of the entire Board should come in January, 2005.

c. Personnel Update
   1. Ms. Erika Kennett was introduced as the new marketing specialist at PAED.
   2. PAED's Research Specialist is on short term disability. Ms. Kennett will also be assisting with research in the interim, in addition to her marketing duties.

Mr. Taylor gave a further update on the proposed merger, being an ad hoc member of the Board of Directors. All Peninsula jurisdictions were given an opportunity to vote on the merger. To date all jurisdictions support the merger with the exception of York County, which voted against, and Gloucester, which has not taken up the question yet.

Ms. Glass and Ms. Kennett entertained questions from EDA members, clarifying such issues as who our competition is for the NASA project and who the target market is for marketing missions.

4. APPROVAL OF MINUTES

On a motion by Mr. Berkenkamp, and a second by Ms. Hartmann, the minutes from the October 12, 2004 Work Session were approved by unanimous vote.

5. FINANCIAL REPORTS

a. Treasurer's and Financial Reports

Ms. Woodruff presented the Treasurer's and Financial Reports. Mr. Diedzic asked for clarification on how much is actually available to the EDA. After some explanation, Mr. Campana asked Mr. Ngo to assist County financial personnel with a program at the first EDA Work Session of 2005 to explain the budget and finance of the EDA. Ms. Woodruff was also asked to include a bridge report with future EDA financial reports.

On a motion by Mr. Berkenkamp, and a second by Ngo, the July/August and September/October Treasurer's and Financial Reports were adopted by unanimous voice vote.

b. Ms. Woodruff introduced Ms. Finke, who replaces Mr. Woodruff as the EDA's financial representative.

c. Auditor's FY 2004 Report – S. Whetstine

Ms. Woodruff introduced Mr. Whetstine for an overview of the FY 2004 EDA Audit. After reviewing both sections of the audit, required letters and the actual audit report, Mr. Whetstine stated that it was a clean audit opinion given by KPMG; it is unqualified, the highest opinion that can be given, and attests to the fact that the financials are presented correctly in all material respects.

On a motion by Mr. Berkenkamp, and a second by Mr. Ngo, the audit was accepted as presented.

6. ACTION ITEMS

a. Ball Corporation Enterprise Zone Grant

Mr. Campana presented a memo from Mr. Doug Powell, James City County Enterprise Zone Administrator, recommending the EDA approve Ball Corporation's application for the fifth and final year of their EDA grant for warehouse facility constructed in the Enterprise Zone in the amount of $4,680. On a motion by Mr. Berkenkamp, and seconded by Ms. Hartmann, the EDA approved Ball Corporation's grant application by unanimous vote.

c. Proposed 2005 EDA Meeting Calendar

On a motion by Mr. Berkenkamp, and a second by Mr. Ngo, the proposed 2005 meeting calendar was adopted by unanimous voice vote.

7. REPORTS

a. BOS Liaison to EDA, Mr. Michael Brown, was absent so no report was given.

b. Ms. Hartmann and Mr. Rinaldi had nothing to report as Planning Commission Liaisons.

c.. Mr. Taylor stated a preliminary plan for the Technology Business Incubator has been presented by staff to the County Administrator, and a meeting is scheduled Monday, November 22, to discuss the details.

Mr. Berkenkamp stated he has had conversations with Don Messmer of Williams and Mary regarding the Fiscal Model, and they agree to fix any problems we are having with it. Mr. Berkenkamp has a meeting with Mr. Taylor, and Mr. John McDonald, Financial and Management Services Director, to determine exactly what the problems and challenges are Friday, November 19, and will carry those concerns to Mr. Messmer's team before the holidays.

d. Mr. Bush and Ms. Barner had nothing to report on Small and Minority Business Enterprise Initiatives

8. RECESS

Mr. Campana recessed the meeting at 3:40 PM for the purpose of a discussion with the Nominating Committee regarding certain Directors' willingness to serve as 2005 EDA Officers.

At 3:55 PM Mr. Campana re-convened the meeting.

9. PERSONNEL MATTERS

Mr. Bush reported that his committee's nominations for Officers for 2005 were Ms. Virginia Hartmann for EDA Chair, Mark Rinaldi for EDA Vice Chair, County Economic Development Director for EDA Secretary, County Attorney for EDA General Counsel, and County Treasurer for EDA Treasurer.

On a motion by Mr. Berkenkamp, and a second by Mr. Rinaldi, the nominations presented by the Nominating Committee for 2005 EDA Officers were elected by unanimous voice vote.

10. REPORT

Mr. Wanner reported the Crossroads Stakeholders Committee met two Fridays past. The Committee heard a report from Thomas Nelson Community College on moving forward with the new Williamsburg campus. In his opening remarks, Mr. Tim Sullivan, President of The College of William & Mary, talked about the potential use of the Williamsburg Community Hospital Property, where he saw it as an opportunity for the College to put something there once the decision was made by the re-use committee and Sentara's fiduciary responsibility. The McCann group from New Town spoke on developments/ progress there. Jack Tuttle did an update relative to High Street progress.

Mr. Campana asked if Mr. Wanner thought the College would actually have interest in the hospital, to which Mr. Wanner replied that it was the first time the College has made an affirmative statement to this effect. We are still under our vow of secrecy for the hospital group. There is a City Stakeholders' Meeting scheduled on hospital reuse.

Ms. Hartmann asked what the hospital's time line is. Mr. Wanner replied that the hospital has two years, and explained the progress leading up to that.

Mr. Diedzic asked Mr. Wanner to clarify the purpose/make up of the Crossroads group. Mr. Wanner gave a brief overview of Crossroads make up, goals and mission.

11. STAFF REPORTS

Mr. Taylor asked that all Directors fill out the mandatory Conflict Of Interest Forms pursuant to Section 2.2-3118 of the Virginia Code and return them to Mary Frances Rieger, Legal Secretary, by January 15, 2004.

12. DISCUSSION ITEMS – Business Assistance Study/Recommendations

Ms. Barner and Mr. Taylor introduced a worksheet detailing facts gathered and discussion so far on Assistance, Incentive and Retention Policies Study Recommendations. Discussion followed.

Mr. Campana instructed staff to draft up notes from this discussion in memo form for review by the subcommittee, after which the subcommittee will make revisions it deems necessary. After revisions the memo will be circulated to all EDA Directors for comments and further revisions, with a final approved version presented to Mr. Wanner in December. Mr. Campana asked Mr. Taylor to send Mr. Wanner a memo outlining this process.

13. ADJOURNMENT

There being no further business, Chairman Campana entertained a motion by Mr. Rinaldi to adjourn. The motion was approved by unanimous voice vote. The meeting was adjourned at 5:10 PM

Virginia B. Hartmann, Chairman

Keith A. Taylor, Secretary

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

September 10, 2004

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

Dear Members:

We have audited the financial statements of the Industrial Development Authority of Virginia (the Authority) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 2004. Under generally accepted auditing standards, 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. 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, or transactions for which there is a lack of authoritative 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

KPMG

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 certain corrections to the financial statements, which have been recorded by the Authority.

Additionally, in connection with our audit of your financial statements, we have identified one financial statement misstatement that has not been accounted for in your books and records as of and for the year ended June 30, 2004. We have reported such misstatement to management on a Summary of Uncorrected Misstatement and have received written representations from management that management believes the effects of the uncorrected financial misstatement summarized in the accompanying schedule is immaterial to the financial statements taken as a whole.

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 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 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 acceptance.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

SIGNIFICANT WRITTEN COMMUNICATIONS BETWEEN THE AUDITOR AND MANAGEMENT

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

- Engagement letter;
- Management representation letter; and
- Summary of unadjusted misstatement.

* * * * *

KPMG

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

Very truly yours,

KPMG LLP

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

Telephone 757 616 7000
Fax 757 616 7133

June 2, 2004

PRIVATE & CONFIDENTIAL

Mr. Vincent A. Campana, Jr., Chairman
Industrial Development Authority of
James City County
P.O. Box 8784
Williamsburg, VA 23187

Dear Mr. Campana:

This letter will confirm KPMG LLP's (KPMG) understanding of our engagement to report upon our audit of the financial statements of the Industrial Development Authority of James City County (the IDA) as of and for the year ending June 30, 2004.

Objectives and limitations of services

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of an audit carried out in accordance with such standards is the expression of an opinion as to whether the presentation of the financial statements, taken as a whole, conforms with accounting principles generally accepted in the United States of America. In conducting the audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.

Our report will be addressed to the members of the Industrial Development Authority of James City County, Virginia (the Members). We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

Our audit is planned and performed to obtain reasonable, but not absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit performed in accordance with auditing standards generally accepted in the United States of

America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

In planning and performing our audit, we will consider the IDA's internal control in order to determine the nature, timing and extent of our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. The limited purpose of this consideration may not meet the needs of some users who require additional information about internal control. We can provide other services to provide you with additional information on internal control which we would be happy to discuss with you at your convenience.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the IDA's compliance with certain provisions of laws, regulations, contracts and grants violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on overall compliance with such provisions.

Our responsibility to communicate with the Members

While we are not being engaged to report on the IDA's internal control and are not obligated to search for reportable conditions as part of our audit, we will communicate reportable conditions to you to the extent they come to our attention. Reportable conditions are significant deficiencies in the design or operation of internal control which could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements under audit.

In accordance with *Government Auditing Standards* we will also issue a management letter to communicate other deficiencies in internal controls that are not reportable conditions and other violations of grants and contracts, and abuse that comes to our attention unless clearly inconsequential.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.

We will also communicate to you verbally disagreements with management or other serious difficulties encountered in performance of our audit or review services. We believe verbal communication of matters such as those noted above is the appropriate forum to provide open and frank dialogue.

We will report to you, in writing, the following matters:

- Audit adjustments arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the IDA's financial reporting process. In this context, audit adjustments, whether or not recorded by the entity, are proposed corrections of the financial statements that, in our judgment, may not have been detected except through the auditing procedures performed.

- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.

- Other matters required to be communicated by Statement on Auditing Standards No. 61, *Communication with Audit Committees.*

We will also read minutes of the board of directors meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management. We will also determine that you have been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to you our reasons for withdrawal.

Management responsibilities

The management of the IDA is responsible for the fair presentation, in accordance with accounting principles generally accepted in the United States of America, of the financial statements and all representations contained therein. Management also is responsible for preventing and detecting fraud, for adopting sound accounting policies and establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management also is responsible for informing us of all reportable conditions, of which it has knowledge, in the design or operation of such controls. Management also is responsible for identifying and ensuring that the IDA complies with laws, regulations, contracts and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations.

The IDA agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the IDA's personnel. As required by auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In accordance with *Government Auditing Standards,* as part of our planning of the audit we will consider the results of previous audits and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. To assist us, management agrees to identify previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and to identify corrective actions taken to address significant findings and recommendations August 31, 2004.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any unrecorded misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon. Because of the importance of management's representations to the effective performance of our services, the IDA agrees to release KPMG LLP and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAS report within 15 days of being provided with draft findings.

Management is responsible for the distribution of the reports issued by KPMG. In accordance with *Government Auditing Standards,* the reports issued citing *Government Auditing Standards* are to be made available for public inspection.

Other matters

This letter shall serve as the IDA's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the IDA and between KPMG and outside specialists or other entities engaged by either KPMG or the IDA. The IDA acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG.

Further, for purposes of the services described in this letter only, the IDA hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the IDA solely for presentations or reports to the IDA or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

Work paper access by regulators and others

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority given to it by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to regulatory agencies. These regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement in judicial or administrative proceedings to which KPMG is not a party, the IDA shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such request.

Other *Government Auditing Standards* matters

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report and letter of comments.

We will also assist management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we are required to confirm that management accepts responsibility for the financial statements and notes and, therefore, has a responsibility to be in a position in fact and appearance to make an informed judgment about them and that management will:

- Designate a qualified management-level individual to be responsible and accountable for overseeing the drafting of the financial statements.

- Establish and monitor the performance of the engagement to ensure that it meets management's objectives.
- Make any decisions that involve management functions related to the engagement and accept full responsibility for such decisions.
- Evaluate the adequacy of the financial statements and notes.

Fees for services

Based upon our discussions with and representations as to the level of assistance the IDA will provide, we estimate that our fees will approximate $4,800. This estimate is based on the level of experience of the individuals who will perform the services. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to complete the audit within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed. We propose billing our audit fee in four installments as follows:

Amount	Billing Period
$ 1,200	July 1, 2004
$ 1,200	August 1, 2004
$ 1,200	September 1, 2004
$ 1,200	upon delivery of report

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

Elizabeth P. Foster

Elizabeth P. Foster
Partner

EPF/chm

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ACCEPTED:

The Industrial Development Authority of James City County

____
Authorized Signature

Chairman, Economic Development Authority
Title

____
Date

Approved as to Form

Leo P. Rogers
Counsel to EDA

PRICEWATERHOUSECOOPERS

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500 Campus Drive
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Florham Park NJ 07932
Telephone (973) 236 7000
Facsimile (973) 236 7200

To the Partners of KPMG LLP
and the SEC Practice Section Peer Review Committee:

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the firm) in effect for the year ended March 31, 2002. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. In addition, the firm has agreed to comply with the membership requirements of the SEC Practice Section of the AICPA Division for CPA Firms (the Section). Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system and the Section's membership requirements based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Section and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it or with the membership requirements of the Section since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP in effect for the year ended March 31, 2002, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards. Also, in our opinion, the firm complied during that year with the membership requirements of the Section in all material respects.

As is customary in a peer review, we have issued a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. The matters described in the letter were not considered to be of sufficient significance to affect the opinion expressed in this report.

PricewaterhouseCoopers LLP

October 28, 2002

Description of the Peer Review Process

Overview

Member firms of the AICPA SEC Practice Section (the Section) must have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objective of evaluating whether:

- The reviewed firm's system of quality control for its accounting and auditing practice has been designed to meet the requirements of the Quality Control Standards established by the AICPA.

- The reviewed firm's quality control policies and procedures were being complied with to provide the firm with reasonable assurance of complying with professional standards.

- The reviewed firm was complying with the membership requirements of the Section in all material respects.

The Section's Peer Review Committee (PRC) establishes and maintains review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Transition Oversight Staff (formerly the staff of the Public Oversight Board), an independent oversight body, plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the peer review reports, letters of comments, and reviewed firms' responses, they are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC. That file also includes the firm's annual report which contains information regarding the number of firm offices, firm professionals, and SEC clients for which the firm is principal auditor-of-record.

Planning the Review

To plan the review of KPMG LLP, we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's quality control system in preventing the performance of engagements that do not comply with professional standards.

Performing the Review

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's quality control system. The engagements selected for review included audits of clients that are SEC registrants, audits performed under the Government Auditing Standards, audits performed under FDICIA, multi-office audits, and audits of employee benefit plans. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining work paper files and reports and interviewing engagement personnel. We also reviewed the supervision and control of portions of engagements performed outside the United States.

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for the elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. In addition, we tested compliance with the membership requirements of the Section, including those pertaining to independence quality controls, concurring partner review, and foreign associated firms.

Prior to concluding the review, we reassessed the adequacy of scope and conducted an exit conference with firm management to discuss our findings and recommendations.

ECONOMIC DEVELOPMENT AUTHORITY OF JAMES CITY COUNTY

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E-MAIL: econdev@james-city.va.us

(757) 253-6607
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September 10, 2004

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

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the former Industrial Development Authority of James City County, now the Economic Development Authority (the Authority), as of and for the year ended June 30, 2004. We understand that your audit was conducted for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Authority and the respective changes in financial position and cash flows, 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 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 meetings of the Board 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 financial statements or as a basis for recording a loss contingency.

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

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 lawyers have 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 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 financial position and through the date of this letter that would require adjustment to or disclosure in the basic financial statements.

6. 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 basic financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.

7. 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 basic financial statements.

8. 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.

9. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

11. 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.

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

13. The Authority is responsible for the identification of and compliance with all aspects of laws, regulations, contracts, grants, and donor restrictions that could have a material effect on the financial statements in the event of noncompliance and has disclosed those aspects of laws, regulations, contracts, grants, and donor restrictions to you.

14. The Authority has complied with all aspects of laws, regulations, contracts, and grants that would have a material effect on the basic financial statements in the event of noncompliance.

15. The following have been properly recorded or disclosed in the 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. We understand that the term "related party" refers to affiliates of the organization; entities for which investments are accounted for by the equity method by the organization; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; management; members of the immediate families of management; and other parties with which the organization 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. Significant affiliation relationships requiring disclosure.

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

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

f. Changes in accounting principle affecting consistency.

g. All assets and liabilities under the Authority's control.

16. 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.

17. 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.

19. The financial statements properly classify all funds and activities.

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

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

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

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

24. 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.

25. Special and extraordinary items are appropriately classified and reported.

26. In accordance with *Government Auditing Standards*, we have identified to you the significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit and have accurately communicated to you the related corrective actions taken to address the findings.

Sincerely,

Economic Development Authority of James City County

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

Suzanne R. Mellen
Director of Budget and Accounting, James City County

SAD SHEET
6/30/2004

Industrial Development Authority

WP Ref	Description	2004 Balance Sheet Dr	2004 Balance Sheet Cr	2004 Income Stmt Dr	2004 Income Stmt Cr
M-1	Community Development			4,150	
	Accounts Payable		4,150		
	To accrue for grants due at 6/30/04.				
		-	4,150	4,150	-
	Gross current year effect		4,150	4,150	

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, 2004

(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, 2004

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, 2004

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 the fiscal year ended June 30, 2004.

Financial Highlights for Fiscal Year 2004

* The Authority had an increase in net assets of $147,248 for fiscal year 2004 and $2,237,879 for fiscal year 2003.
* The Authority sold land in fiscal year 2004, resulting in a $148,052 gain.

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 (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, 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 second year that the Authority has presented its financial statements under the reporting model required by GASB Statement No. 34. This reporting model changes both the recording and presentation of financial data. The Authority is now able to provide comparative information 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, 2004

Balance Sheets

The following table reflects the condensed net assets information:

Table 1
Condensed Balance Sheet Information
June 30, 2004 and 2003

		2004	2003
Current and other assets	$	3,448,019	3,004,343
Capital assets		2,618,259	2,734,288
Total assets	$	6,066,278	5,738,631
Current liabilities	$	300,425	60,026
Long-term liabilities		1,600,000	1,660,000
Total liabilities		1,900,425	1,720,026
Net assets:			
Invested in capital assets, net of related debt		1,658,259	1,714,288
Restricted for community development		175,000	300,000
Unrestricted		2,332,594	2,004,317
Total net assets		4,165,853	4,018,605
Total liabilities and net assets	$	6,066,278	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 $4,165,853 at June 30, 2004, and $4,018,605 at June 30, 2003. Current and other assets consist of cash, restricted cash monies due from James City County (the County), notes receivable, and accounts receivable. Current liabilities consist of accounts payable and the current portion of a note payable for 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 for Mainland Farm in the amount of $900,000, as well as $700,000 in escrow liability.

Total assets experienced an increase of 5.71% primarily due to an increase in monies due from the County and an increase in the notes receivable. In fiscal year 2004, the Authority sold 10.3 acres of land to Wythe Will Distributing, L.L.C. From this sale, the Authority received proceeds of $273,068, of which $91,000 was a note receivable.

Total liabilities experienced an increase of 10.49% primarily due to an increase in accounts payable.

The decrease in restricted for community development from fiscal year 2003 is due to the Authority spending $125,000 of the revenue restricted in fiscal year 2003 in the amount of $300,000 from the Deere & Company (Deere) performance agreement reimbursement. This revenue was spent in accordance with the terms negotiated with the Commonwealth of Virginia.

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, 2004

Statements 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
Years ended June 30, 2004 and 2003

		2004	2003
County contribution	$	369,487	610,479
Other operating revenues		315,466	90,664
Total operating revenues		684,953	701,143
Community development		437,896	300,709
Other expenses		62,118	89,956
Total operating expenses		500,014	390,665
Operating income		184,939	310,478
Performance agreement reimbursement		—	1,974,084
Net other nonoperating expense		(37,691)	(46,683)
Change in net assets		147,248	2,237,879
Net assets, beginning of year		4,018,605	1,780,726
Net assets, end of year	$	4,165,853	4,018,605

Total net assets increased $147,248 and $2,237,879 for the fiscal years ended June 30, 2004 and 2003, respectively. The 2004 increase in net assets is more indicative of the Authority's normal operations. The primary reason for the increase in net assets for fiscal year 2003 is the performance agreement reimbursement noted above. This reimbursement represents the balance on an agreement made between the Authority and Deere. Deere was provided incentives to establish a manufacturing plant in James City 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. In fiscal year 2003, the Authority placed $700,000 of the reimbursement in escrow, and placed $300,000 restricted revenue, due to stipulations made by the Commonwealth of Virginia that this amount be used to provide incentives to market and sell the Deere Plant (See notes to financial statements, note 8).

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. Other operating revenue experienced an increase of $224,802 primarily as a result of the sale of land, which resulted in $148,052 revenue gain.

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. Community development costs experienced an increase of 45.62% for fiscal year 2004 primarily due to the expenses incurred for marketing the site of the Deere site in accordance with the agreement of the performance agreement reimbursement. Nonoperating expense of $37,691 is the net of $22,387 in interest income and $60,078 in interest expense paid on the note regarding the acquisition of Mainland Farm for fiscal year 2004.

Capital Assets

As of the end of fiscal years 2004 and 2003, the Authority had invested $2,483,106 and $2,608,122, respectively, in land, and $135,153 and $126,166, respectively, in construction of a shell building.

Debt Administration

The Authority had outstanding debt as of June 30, 2004 of $960,000, 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, 2004, there were 18 series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $144,000,000. At June 30, 2003, there were 19 series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $138,000,000. 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-F Mounts Bay Road, P.O. Box 8784, Williamsburg, Virginia 23187-8784.

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, 2004, as listed in the accompanying 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, 2004 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.

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 10, 2004

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

Balance Sheet

June 30, 2004

Assets

Current assets:		
Cash (note 2)	$	2,221,768
Restricted cash (note 8)		875,000
Due from James City County		240,420
Accounts receivable		2,476
Total current assets		3,339,664
Notes receivable (note 5)		108,355
Capital assets (notes 6 and 7):		
Land		2,483,106
Construction in progress		135,153
Total capital assets		2,618,259
Total assets	$	6,066,278

Liabilities and Net Assets

Current liabilities:		
Accounts payable	$	240,425
Current portion of note payable (note 7)		60,000
Total current liabilities		300,425
Note payable, less current portion (note 7)		900,000
Escrow liability (note 8)		700,000
Total liabilities		1,900,425
Net assets:		
Invested in capital assets, net of related debt		1,658,259
Restricted for community development (note 8)		175,000
Unrestricted		2,332,594
Total net assets		4,165,853
Total liabilities and net assets	$	6,066,278

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, 2004

Operating revenues:		
County contribution	$	369,487
Gain on sale of land		148,052
Bond fees		87,939
Lease income		79,475
Total operating revenues		684,953
Operating expenses:		
Community development		437,896
Advertising		20,022
Professional fees		19,600
Note forgiveness (note 5)		18,645
Travel and training		3,377
Other expenses		474
Total operating expenses		500,014
Operating income		184,939
Nonoperating revenue (expense):		
Interest income		22,387
Interest expense		(60,078)
Net nonoperating expense		(37,691)
Change in net assets		147,248
Net assets at beginning of year		4,018,605
Net assets at end of year	$	4,165,853

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, 2004

Cash flows from operating activities:		
Receipts from customers	$	294,010
Payments to suppliers		(240,975)
Net cash provided by operating activities		53,035
Cash flows from capital and capital related financing activities:		
Construction of capital assets		(8,987)
Principal payments of note payable		(60,000)
Interest paid on note payable		(60,078)
Net cash used in capital and capital related financing activities		(129,065)
Cash flows from investing activities:		
Proceeds from the sale of land		273,068
Interest received		22,387
Issuance of notes receivable		(91,000)
Net cash provided by investing activities		204,455
Net increase in cash		128,425
Cash at beginning of year		2,968,343
Cash at end of year	$	3,096,768
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	184,939
Adjustments to reconcile operating income to cash provided by operating activities:		
Note forgiveness (note 5)		18,645
Gain on the sale of land		(148,052)
Changes in assets and liabilities:		
Accounts payable		240,399
Due from James City County		(240,420)
Accounts receivable		(2,476)
Net cash provided by operating activities	$	53,035

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, 2002, 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*

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, 2004, 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 $3,096,768 at June 30, 2004. The bank balance, which may differ from the carrying value of deposits due primarily to outstanding checks and

(Continued)

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, 2004, there were 18 series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $144 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, 2004. In addition, certain personnel costs in 2004 were incurred by the County for the benefit of the Authority at no charge to the Authority.

(5) Notes Receivable

During fiscal year 2003, the Authority issued notes receivable to two unrelated organizations in the amounts of $10,000 and $26,000. The Authority forgave the first note in its entirety in fiscal year 2004. The second note will be forgiven over a five-year period, beginning with $8,645 forgiven in fiscal year 2004.

During fiscal year 2004, the Authority sold land to an unrelated organization. In exchange for this land, the Authority received cash of $273,068 of which $91,000 was a note receivable. This note will be forgiven over a five-year period beginning in fiscal year 2005, contingent upon the buyer maintaining a certain taxable capital investment in the County.

(Continued)

(6) Capital Assets

Capital assets at June 30, 2004 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, 2004.

	Balance at July 1, 2003	Additions	Sales or transfers	Balance at June 30, 2004
Land	$ 2,608,122	—	(125,016)	2,483,106
Construction in progress	126,166	8,987	—	135,153
	$ 2,734,288	8,987	(125,016)	2,618,259

(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, 2004.

Amount payable at July 1, 2003	Additions	Reductions	Amount payable at June 30, 2004	Amounts due within one year
$ 1,020,000	—	60,000	960,000	60,000

Maturities are as follows:

	Principal	Interest
Fiscal year ending June 30:		
2005	$ 60,000	53,010
2006	60,000	49,476
2007	60,000	45,942
2008	60,000	42,408
2009	60,000	38,874
2010	660,000	4,850
	$ 960,000	234,560

(Continued)

(8) Restricted Cash and Escrow Liability

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). 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 were 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 in 2003 and is restricted for community development in accordance with terms negotiated with the Commonwealth. In the current fiscal year, $125,000 of these funds was spent in accordance with the terms of the agreement for community development, leaving a restricted cash balance of $875,000 at June 30, 2004.

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, 2004

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		1,740,000
Industrial Development Revenue Bond – Barre Co.	03/06/98		1,672,221
Industrial Development Revenue Bond – DYARRCC	09/01/97		1,770,630
Revenue Bond, Series B 1997 – Williamsburg Landing Inc.	10/16/96		8,000,000
Revenue Bond, Series A 2003 – Williamsburg Landing Inc.	09/01/03		44,040,000
Revenue Bond, Series B 2003 – Williamsburg Landing Inc.	09/01/03		5,630,000
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
Private Activity Revenue Bonds – Williamsburg Winery	09/20/88		340,000
Retirement Community Refunding Revenue Bond – Williamsburg Landing Inc.	03/01/87		7,738,750
Industrial Development Revenue Bond – C & N	12/12/85		650,000
Industrial Development Revenue Bond – Burnt Ordinary	12/12/85		559,000
Industrial Development Revenue Bond – Sixty West	12/19/84		1,762,585
Industrial Development Revenue Bonds – Kubicki	11/28/84		155,921
Industrial Development Revenue Bonds – Lightfoot Motels	03/01/84		165,000
Industrial Development Revenue Bonds – Anderson	11/12/81		121,879
		$	143,995,985

Unaudited – see accompanying independent auditors' report.

ECONOMIC DEVELOPMENT AUTHORITY

2005 CHAIR/LIAISON/BOARD POSITIONS

POSITIONS	2005 EDA APPOINTEES
Board of Supervisors Liaison	Ginny Hartmann (historically EDA Chair)
Budget Liaison	Bernie Ngo/Jay Diedzic
Planning Commission Liaison	Mark Rinaldi
Business Assistance Liaison	Jay Diedzic
James River Commerce Center Architectural Review Board Member	Al Bush/Skip Campana
James River Enterprise Zone Advisory Board Member	Al Bush/Skip Campana
Nominating Committee Chair	Bernie Ngo
Peninsula Alliance for Economic Development Liaison	PAED Staff/ Keith Taylor
Shell Building #2 Advisory Liaison	Skip Campana
Technology Initiatives Liaisons	Skip Campana/ Mark Rinaldi
Work Session Liaison	John Berkenkamp

RESOLUTION

A RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF JAMES CITY, VIRGINIA, APPROVING THE MERGER AGREEMENT BETWEEN THE PENINSULA ALLIANCE FOR ECONOMIC DEVELOPMENT ("ALLIANCE") AND THE HAMPTON ROADS ECONOMIC DEVELOPMENT ALLIANCE ("HREDA")

WHEREAS, James City County, Virginia ("County") is a member of the Alliance; and

WHEREAS, the Executive Committee of the Alliance has voted affirmatively at its meeting of December 22, 2004, to approve the merger agreement between the Alliance and the HREDA, generally conveying to the HREDA certain marketing functions as delineated in the agreement, with the Alliance retaining its work force development functions; and

WHEREAS, a meeting of the Board of Directors of the Alliance and its membership is to be held January 26, 2005, at which the Directors, General Membership, and Governmental Membership will vote to approve or not approve the merger agreement, and if all bodies vote affirmatively to approve, then a vote to amend the Bylaws and Articles of Incorporation of the Alliance will be necessary in order to be in compliance with the terms of the merger agreement, a vote which requires two-thirds (2/3) of the Directors to vote affirmatively for the approval; a majority of the General Membership to vote affirmatively for the approval; and five-sevenths (5/7) of the Governmental Membership to vote affirmatively for the approval, provided two (2) of the five (5) affirmative votes are cast by the Cities of Newport News and Hampton; and

WHEREAS, in furtherance of the process to approve or not approve the merger agreement, the County shall be asked to vote upon it at the meeting of January 26, 2005, as a member of the Alliance.

NOW, THEREFORE, BE IT RESOLVED by the Board of Supervisors of the County of James City, Virginia, that the County votes affirmatively for approval of the merger agreement between the Peninsula Alliance for Economic Development and the Hampton Roads Economic Development Alliance and votes affirmatively to effect the attendant changes necessary in the Bylaws and Articles of Incorporation of the Alliance in order to be in compliance with the terms of the merger agreement, and shall so cast its vote, either in person or by proxy at the January 26, 2005, joint meeting of the Directors and Members.

NOW BE IT FURTHER RESOLVED that the Board of Supervisors authorizes and directs James City County Representative Bruce C. Goodson to vote in favor of the merger and perform other actions as may be necessary to effectuate such merger.

INDUSTRIAL DEVELOPMENT AUTHORITY
BRIDGE BETWEEN TREASURER'S REPORT AND ACCOUNTING REPORTS
December 31, 2004

Total disbursements per treasurer's report		$49,578.98
Total operating expenses	$1,850.71	
Total capital expenses	$47,249.01	
Accounts Payable		
Dominion Virginia Power - Mainland Farm operating expense	$5.50	
Expense Reimbursement- to Renwood Account	$473.76	
Total expenses		$49,578.98
Net difference		$0.00

Treasurer's Report-FY 05
Economic Development Authority
Nov - Dec 2004

Rev Code	Revenue Source	Prior Collections	Collected this period	Collected to Date
021-325-0100	Lease Income			$0.00
021-325-0200	Interest on Available Cash	$13,695.93	$8,158.32	$21,854.25
021-325-0250	Misc Revenue			$0.00
021-325-0400	Bond Fee Revenue	$2,475.94	$1,000.00	$3,475.94
021-325-0500	Land Contract Payment Revenue			$0.00
021-325-0600	General Fund Contribution	$9,982.09	$116,544.00	$126,526.09
021-325-1000	Gain/Loss on Sale			$0.00
	Expense Reimbursement		$473.76	$473.76
	Total receipts this period		$126,176.08	$152,330.04
	Fiscal Year Receipts			
	Bank balance June 30, 2004			$3,096,767.86
	Total Receipts			$3,249,097.90
	Disbursements this Period	$49,578.98		
	Previous disbursements	$130,539.54		
	Total disbursements to Date			$180,118.52
	Bank balance December 31, 2004			**$3,068,979.38**

ECONOMIC DEVELOPMENT AUTHORITY
EXPENDITURES

James City County

13-Jan-05

IDA: Year (2005) Period (6)

Ledger ID	Ledger Description	Beg Budget	NOVEMBER	DECEMBER	Encumb	Total YTD Exp	Balance
	OPERATING EXPENSES						
021-010-0205	PROMOTION	$25,000.00	$0.00	$0.00	$0.00	$2,093.19	$22,906.81
021-010-0220	TRAVEL & TRAINING	$4,000.00	$268.41	$0.00	$0.00	$268.41	$3,731.59
021-010-0222	LOCAL TRAVEL	$500.00	$0.00	$0.00	$0.00	$139.04	$360.96
021-010-0232	JAMES RIVER COMMERCE CTR - OPS	$5,000.00	$0.00	$0.00	$0.00	$0.00	$5,000.00
021-010-0235	ANNUAL AUDIT	$5,000.00	$1,200.00	$0.00	$0.00	$4,800.00	$200.00
021-010-0245	MAINLAND FARM - OPER EXPENSES	$4,250.00	$0.00	$5.50	$0.00	$4,172.08	$77.92
021-010-0300	ADVERTISING	$1,000.00	$0.00	$0.00	$0.00	$0.00	$1,000.00
021-010-0319	OFFICE SUPPLIES & EQUIPMENT	$500.00	$84.40	$292.40	$0.00	$385.94	$114.06
021-010-0325	MISCELLANEOUS EXPENSE	$16,869.00	$0.00	$0.00	$0.00	$0.00	$16,869.00
021-010-0398	OED DISCRETIONARY EXPENDITURES	$1,500.00	$0.00	$0.00	$0.00	$0.00	$1,500.00
021-010-0600	SMALL BUSINESS ASSISTANCE	$1,000.00	$0.00	$0.00	$0.00	$0.00	$1,000.00
	Total Operating Expenses	$64,619.00	$1,552.81	$297.90	$0.00	$11,858.66	$52,760.34

ECONOMIC DEVELOPMENT AUTHORITY EXPENDITURES

James City County

13-Jan-05

IDACIP: Year (2005) Period (6)

Ledger ID	Ledger Description	Begin Budget	NOVEMBER	DECEMBER	Encumbrances	Project to Date	Ending Balance
	CAPITAL EXPENSES						
021-010-0405	CAPITAL EXPENDITURES	$0.00	$0.00	$0.00	$116,544.00	$0.00	($116,544.00)
021-010-0450	RENWOOD FARMS	$0.00	$0.00	$47,249.01	$47,249.01	$0.00	($47,249.01)
	Total Capital Expenses	$0.00	$0.00	$47,249.01	$163,793.01	$0.00	($163,793.01)
	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	$3,589,000.00	$0.00	$0.00	$2,135,635.71	$0.00	$1,453,364.29
021-011-0350	INDUSTRIAL	$2,451,874.65	$0.00	$0.00	$3,982.09	$158.66	$2,447,733.90
	Total Capital Projects	$6,209,500.65	$0.00	$0.00	$2,149,330.92	$158.66	$4,060,011.07