MEETING MINUTES

ECONOMIC DEVELOPMENT AUTHORITY OF JAMES CITY COUNTY
BUILDING C CONFERENCE ROOM, 101 MOUNTS BAY ROAD
3:00 PM, THURSDAY, NOVEMBER 17,2005

1. CALL TO ORDER

Ms. Hartmann called the meeting to order at 3:05 PM

2. ROLLCALL

A roll call identified the following members present:

Mr. Vincet A. Campana, Jr.
Ms. Virginia Hartmann
Mr. Jay Diedzic
Mr. Mark G. Rinaldi
Mr. Thomas G. Tingle

Also Present:

Mr. M. Anderson Bradshaw, BOS Liaison
Ms. Sandra Barner, OED Project Coordinator
Ms. Loni Carr, Hampton Roads Technology Incubator Office Manager
Mr. Tim Early, Director, Hampton Roads Technology Incubator
Barbara Finke, EDA Fiscal Agent
Elizabeth Foster, KPMG
Sue Mellen, Director of Budget and Finance
Marcè Musser, EDA Recording Secretary
Jennifer Siltanen, KPMG
Keith A. Taylor, EDA Secretary
Tara Woodruff, Accounting Supervisor

Absent:

Mr. Alvin Bush
Mr. Bernard Ngo

3. APPROVAL OF MINUTES

On a motion by Mr. Rinaldi, and a second by Mr. Campana, the minutes from the September 22,2005 Regular Meeting, September 27,2005 BOS/EDA Joint Work Session, and October 18,2005 Work Session were approved by unanimous vote.

4. PERSONNEL MATTERS

a. Appointment of 2006 Nominating Committee

Ms. Hartmann announced she had asked Mr. Ngo to chair the nominating committee. and Mr. Campana to serve with him. Both have accepted.

b. 2006 Committee/Liaison Opportunities

Ms. Hartmann asked the Directors to review the list of Board/Committee/ Commission Liaisons and contact her if anyone is willing to serve in these positions for 2006. She announced a new position might be created, Business Assistance Task Force, to which she has proposed Mr. Tingle.

5. FINANCIAL REPORTS

a. September-October 2005 Treasurer's/Financial Reports

Ms. Mellen presented the Treasurer's and Financial Reports. She explained that the bridge report had been modified for better understanding by the Directors. Ms. Hartmann stated the report was much easier to understand and thanked Ms. Mellen.

Mr. Rinaldi made a motion to accept the Treasurer's report. Mr. Campana seconded the motion which passed unanimously.

b. Auditor's FY2005 Report

Ms. Mellen introduced Ms. Foster, who gave an overview of the FY2005 EDA Audit. She urged Directors to read the Management Discussion and Analysis (Sections II, III, IV and V of the Financial Statements). Ms. Foster said the auditor's opinion is the cleanest possible opinion KPMG could render.

After a question and answer period, Mr. Campana made a motion the audit report be accepted as presented. The motion was seconded by Mr. Tingle, and passed unanimously.

6. ACTION ITEM

Ms. Hartmann presented the proposed 2006 EDA meeting calendar. After discussion, Mr. Campana made a motion it be adopted. Mr. Diedzic seconded the motion, which passed unanimously

7. PRESENTATION

Mr. Early gave a presentation on the Hampton Roads Technology Incubator System, an adjunct of the Hampton Roads Technology Council (HRTC). HRTC is the proposed managing entity for James City County Technology Incubator. Mr. Early fielded questions during the presentation.

After the presentation Mr. Taylor asked the Directors to state their preference on the funding strategy presented at the October meeting, in conjunction with the presentation given by Mr. Early. It was the consensus of the Directors that the EDA move forward in supporting the Incubator concept and funding strategy as presented.

Mr. Tingle left the meeting due to a previously scheduled appointment.

8. CLOSED SESSION

Mr. Taylor recommended that the EDA go into Closed Session pursuant to Section 2.2-3711 (A) (5) of the Code of Virginia to discuss a prospective business or industry or expansion of an existing business or industry where no previous announcement has been made.

Mr. Rinaldi made the motion, seconded by Mr. Campana, to convene into Closed Session. The motion was approved by the following roll call vote:

Mr. Campana	Aye
Mr. Diedzic	Aye
Ms. Hartmann	Aye
Mr. Rinaldi	Aye

At 4:15 PM the EDA convened into Closed Session.

Ms. Hartmann reconvened the Authority into open session at 4:55 PM.

Ms. Hartmann considered a motion from Mr. Campana, seconded by Mr. Diedzic, to approve the Resolution Certification of Closed Meeting. The motion was approved by the following roll call vote:

Mr. Campana	Aye
Mr. Diedzic	Aye
Ms. Hartmann	Aye
Mr. Rinaldi	Aye

9. REPORTS

a. Planning Commission

M. Rinaldi expressed concem that Planning Commission materials were not received until, at the earliest, the Friday before a Monday meeting, leaving him virtually no way to prepare, contact EDA Directors, and present at a Planning Commission meeting on items of EDA interest. He asked that the EDA Planning Commission Liaison receive the materials at the same time the Planning Commission members receive their materials, which is usually the Wednesday before a Monday meeting.

Mr. Taylor advised Mr. Rinaldi staff look into this concem.

b. September 27,2005 Joint EDA/BOS Work Session Response Committee

Ms. Hartmann reported that she and Mr. Tingle had met and were working on a second draft of a proposal to the BOS regarding a Joint Task Force. They will circulate the draft to the Directors via email for comments and revisions, before forwarding it to the BOS for consideration.

10. REPORTS OF THE ECONOMIC DEVELOPMENT STAFF

Mr. Taylor announced that the reception for Mr. Bartlett, Mr. Berkenkamp, and Mr. Morton went very well. Ms. Hartmann thanked Mr. Taylor for the use of his home and their hospitality.

Ms. Musser asked the Directors to mark their calendars for the Business Leaders' Breakfast January 26,2006, at the Williamsburg Marriott. Mr. Taylor shared that Dr. Jim Koch, former president of ODU and now professor emeritus there, will be the featured speaker. Dr. Koch did a recent study of how money flows through the region when a company relocates there. Mr. Taylor has asked Dr. Koch to customize his study for James City County and present it at the Breakfast.

10. OTHER BUSINESS

Mr. Rinaldi asked what the status was on implementing the EDA's adopted attendance policy for Directors. Mr. Taylor responded that staff was presently waiting for an opinion from Counsel regarding whether the attendance policy is retroactive to the beginning of the year, or takes effect from the moment adopted

11. ADJOURNMENT

Ms. Hartmann entertained a motion from Mr. Diedzic to adjourn, which passed unanimously. The meeting was adjourned at 5:15 PM

Virginia B. Hartmann, Chair

Keith A. Taylor, Secretary

RESOLUTION

MEETING DATE: November 17,2005

CERTIFICATION OF CLOSED MEETING

WHEREAS, the Economic Development Authority of James City County, Virginia (EDA) has convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, Section 2.2-3711 of the Code of Virginia requires a certification by the Board that such closed meeting was conducted in conformity with Virginia law.

NOW, THEREFORE, BE IT RESOLVED that the Economic Development Authority of James City County, Virginia, hereby certifies that, to the best of each member's knowledge; (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed meeting to which this certification resolution applies; and (ii) only such public business matters were heard, discussed or considered by the EDA as were identified in the motion, Section 2.2-3711 (A) (5) of the Code of Virginia to discuss a prospective business or industry or expansion of an existing business or industry where no previous announcement has been made

Virginia B. Hartmann, Chair
Economic Development Authority

VOTE:

AYE: 4

NAY: 0

(For each nay vote, the substance of the departure from the requirements of the Act should be described.)

ATTEST:

Keith A. Taylor, Secretary
Economic Development Authority

KPMG

ECONOMIC DEVELOPMENT AUTHORITY OF JAMES CITY COUNTY, VIRGINIA

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

Basic Financial Statements and Schedule

June 30,2005

(With Independent Auditors' Report Thereon)

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

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

Authority Officials

June 30,2005

Board Members

Virginia B. Hartmann. ....Chairman

Mark G. Rinaldi.. .... Vice Chairman

John Berkenkamp

Alvin J. Bush

Vincent A. Campana, Jr.

Matthew John Diedzic, Jr.

Bernard H. Ngo

Other Officials

Keith A. Taylor .... Secretary

M. Ann Davis ....Treasurer

Leo P. Rogers ....Legal Counsel

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

Management's Discussion and Analysis

June 30, 2005

This section of the Economic 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 30,2005.

Financial Highlights **for** Fiscal Year 2005

* The Authority had an increase in net assets of $135,937 for fiscal year 2005 and $147,248 for fiscal year 2004.

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

The difference between assets and liabilities, net assets, is one way to measure financial health or financial position. Over time, increases and decreases in net assets are one indicator of whether an entity's financial health is improving or deteriorating. However, one would also need to consider other non-financial factors, such as changes in economic conditions, population and service area growth, and new or changed legislation.

Balance Sheets

The following table reflects a summary of the balance sheets:

Table 1
Condensed Balance Sheet Information
June 30,2005 and 2004

		2005	2004
Current and other assets	$	3,701,739	3,448,019
Capital assets		2,624,081	2,618,259
Total assets	$	6,325,820	6,066,278
Current liabilities	$	484,030	300,425
Long-term liabilities		1,540,000	1,600,000
Total liabilities		2,024,030	1,900,425
Net assets:			
Invested in capital assets, net of related debt		1,724,081	1,658,259
Restricted for economic development		—	175,000
Unrestricted		2,577,709	2,332,594
Total net assets		4,301,790	4,165,853
Total liabilities and net assets	$	6,325,820	6,066,278

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 $1,301,790 at June 30, *2005* and $4,165,853 at June 30, 2004. Current and other assets consist of cash and short-tenn investments, restricted short-term investments, notes receivable, and accounts receivable. Current liabilities consist of accounts payable and the current portion of a note payable for Mainland Farm of $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 $840,000, as well as $700,000 in escrow liability.

Total assets experienced an increase of 4.28% in 2005 primarily due to an increase in accounts receivable

Total liabilities experienced an increase of 6.50% in 2005 primarily due to an increase in accounts payable

The restriction of net assets of $175,000 was lifted during fiscal year 2005 due to fulfillment of the terms of an agreement with the Commonwealth of Virginia. See note 8 for further details.

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

Management's Discussion and Analysis

June 30,2005

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 30,2005 and 2004

		2005	2004
County contribution	$	316,648	369,487
Other operating revenues		112,295	315,466
Total operating revenues		428,943	684,953
Community development		247,536	437,896
Other expenses		47,110	62,118
Total operating expenses		294,646	500,014
Operating income		134,297	184,939
Net other nonoperating revenue (expense)		1,640	(37,691)
Change in net assets		135,937	147,248
Net assets, beginning of year		4,165,853	4,018,605
Net assets, end of year	$	4,301,790	4,165,853

Total net assets increased $135,937 and $147,248 for the fiscal years ended June 30, 2005 and 2004, respectively. These increases in net assets are indicative of the Authority's normal growth.

Operating revenue represents the County's contribution to the Authority, and other operating revenues 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. Community development costs experienced a decrease of 43.47% for fiscal year 2005. The large expense of 2004 was unique due to the expenses incurred for marketing the John Deere site in accordance with the performance agreement reimbursement (note 8). Net nonoperating revenue of $1.640 is the net of interest income and expense paid on the note regarding the acquisition of Mainland Farm for fiscal year 2005.

Capital Assets

As of the end of fiscal years 2005 and 2004, the Authority had invested $2,483,106 in land and $140.975 and $135,153, respectively, in construction of a shell building.

Debt Administration

The Authority had outstanding debt as of June 30, 2005 of $900,000, 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 Economic Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and constmction of industrial and commercial facilities deemed to be in the public interest. As of June 30, 2005, there were 13 series of Economic Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $144,500,000. 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' Keport

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

We have audited the accompanying basic financial statements of the Economic 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, 2005,* 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's intcmal control over financial reporting. Accordingly, we express no such opinion. 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 Economic Development Authority of James City County, Virginia, as of June *30, 2005,* 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

Septemher 1, *2005*

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

Balance Sheet

June 30,2005

Assets

Current assets:		
Cash and short term investments (note 2)	$	2,490,542
Restricted short-term investments (notes 2 and 8)		700,000
Due from James City County		422,664
Total current assets		3,613,206
Notes receivable (note 5)		88,533
Capital assets (notes 6 and 7):		
Land		2,483,106
Construction in progress		140,975
Total capital assets		2,624,081
Total assets	$	6,325,820

Liabilities and Net Assets

Current liabilities:		
Accounts payable	$	424,030
Current portion of note payable (note 7)		60,000
Total current liabilities		484,030
Note payable, less current portion (note 7)		840,000
Escrow liability (note 8)		700,000
Total liabilities		2,024,030
Net assets:		
Invested in capital assets, net of related debt		1,724,081
Unrestricted		2,577,709
Total net assets		4,301,790
Total liabilities and net assets	$	6,325,820

See accompanying notes to financial statements.

ECONOMIC 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, 2005

Operating revenues:		
County contribution	$	316,648
Bond fees		52,947
Lease income		59,348
Total operating revenues		428,943
Operating expenses:		
Community development		247,536
Advertising		20,744
Professional fees		4,800
Note forgiveness (note 5)		19,821
Travel and training		1,008
Other expenses		737
Total operating expenses		294,646
Operating income		134,297
Nonoperating revenue (expense):		
Interest income		58,184
Interest expense		(56,544)
Net nonoperating revenue		1,640
Change in net assets		135,937
Net assets at beginning of year		4,165,853
Net assets at end of year	$	4,301,790

See accompanying notes to financial statements

ECONOMIC 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, 2005

Cash flows from operating activities:		
Receipts from customers	$	431,419
Payments to suppliers		(273,463)
Net cash provided by operating activities		157,956
Cash flows from capital and capital related financing activities:		
Construction of capital assets		(5,822)
Principal payments of note payable		(60,000)
Interest paid on note payable		(56,544)
Net cash used in capital and capital related financing activities		(122,366)
Cash flows from investing activities - Interest received		58,184
Net increase in cash		93,774
Cash and short-tern investments at beginning of year		3,096,768
Cash and short-term investments at end of year	$	3,190,542
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	134,297
Adjustments to reconcile operating income to cash provided by operating activities:		
Note forgiveness (note 5)		19,821
Changes in assets and liabilities:		
Accounts payable		183,606
Due from James City County		(182,244)
Accounts receivable		2,476
Net cash provided by operating activities	$	157,956
Cash and short-term investments at June 30, 2005 are comprised of the following amounts:		
Cash and short-term investments	$	2,490,542
Restricted short-term investments		700,000
	$	3,190,542

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The Economic 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 Economic 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 infonnation 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 econoniic 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 Accounting Principles Board (APB) Opinions and Accounting Research Bulletins issued on or before November 30, 1989. Under paragraph7 of GASB Statement No. 20, the Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

Effective July 1, 2004, the Authority adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement modifies, establishes, and rescinds certain financial

(Continued)

statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 40.

(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, 2005, 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 and Short-Term Investments

(a) Cash

The carrying value of the Authority's deposits with banks was $2,284,730 at June 30, 2005. 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.

(b) *Investment Policy*

The Authority utilizes the Investment Policy (Policy) of the County which is enforced by the James City County Treasurer. In accordance with the Code of Virginia and other applicable law, including regulations, the Authority's Policy permits investments in U.S. Government obligations, municipal obligations, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

The Policy establishes limitations on the holdings of non-U.S. Government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

Registered money market mutual funds	100% maximum
State of Virginia LGIP	100% maximum
U.S. Government obligations	100% maximum
Repurchase agreements	50% maximum
Bankers' acceptances	40% maximum
Commercial paper	35% maximum
Negotiable certificates of deposit/bank notes	20% maximum
Municipal obligations	20% maximum
Corporate notes	15% maximum
Bank deposits	25% maximum

(c) **Credit** ***Risk***

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-I" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's, and Fitch Investor's Service. Corporate notes must have a minimum of "Aa" long-term debt rating by Moody's Investors Service and a minimum of "AA" long-term debt rating by Standard & Poor's. Negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-tern1 debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investors Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or money market mutual funds, the Authority has established stringent credit standards for these investments to minimize portfolio risk.

As of June 30, 2005, 100% of the Authority's portfolio was invested in the State of Virginia LGIP account.

(d) Concentrntion of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Authority's portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
Each money market mutual fund	50% maximum
Each federal agency	35% maximum
Each repurchase agreement counterparty	25% maximum

As of June 30, 2005, 100% of the Authority's portfolio was invested in the State of Virginia LGIP account.

(e) Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the Authority's Policy limits the investment of short-tenn operating funds to an average weighted maturity of no more than 180 days, with a portion of the portfolio continuously invested in readily available funds. The operating fund core portfolio will be invested in permitted investments with a stated maturity of no more than five years from the date of purchase. To control the volatility of the core portfolio, the Treasurer will determine a duration target, not to exceed three years.

As of June 30,2005, the fair values and maturities of the Authority's investments were as follows:

Investment type		Fair value	Maturity
Short-tenn investments -			
State of Virginia LGIP	$	205,812	1 day
Restricted short-term investments			
State of Virginia LGIP		700,000	1 day

(f) Custodial Credit Risk

The Policy requires that all investment securities purchased by the Authority or held as collateral on deposits or investments shall be held by the Authority or by a third-party custodial agent who may not otherwise be a counterparty to the investment transaction. As of June 30, 2005, all of the Authority's investments are held in a bank's trust department in the Authority's name.

(3) Conduit Debt Obligations

From time to time, the Authority has issued Economic 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

(Continued)

repayment of the Bonds. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2005, there were 13 series of Economic Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $145 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, 2005. In addition, certain personnel costs in 2005 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 a note receivable to an unrelated organization in the amount of $26,000. The note will be forgiven over a five-year period, and as of fiscal year 2005, $13,849 has been forgiven.

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 with $14,618 forgiven in fiscal year 2005, contingent upon the buyer maintaining a certain taxable capital investment in the County.

(6) Capital Assets

Capital assets at June 30,2005 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, 2005

		Balance at July 1,2004	Additions	Sales or transfers	Balance at June 30,2005
Land	$	2,483,106	—	—	2,483,106
Construction in progress		135,153	5,822	—	140,975
	$	2,618,259	5,822	—	2,624,081

(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 accmes 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.

(Continued)

The following is a summary of the note payable activity for the year ended June 30,2005

Amount payable at July 1, 2004	Additions	Reductions	Amount payable at June 30,2005	Amounts due within one year
$ 960,000	—	60,000	900,000	60,000

Maturities are as follows:

		Principal	Interest
Fiscal year ending June 30:			
2006	$	60,000	53,010
2007		60,000	49,476
2008		60,000	45,942
2009		60,000	42,408
2010		660,000	38,874
	$	900,000	229,710

(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 investments 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 economic development in accordance with terms negotiated with the Commonwealth. In the prior fiscal year, $125,000 of these funds was spent in accordance with the terms of the agreement for community development, leaving a restricted investment balance of $875,000 at June 30, 2004. In fiscal year 2005, the elements of the agreement on the remaining $175,000 restricted for economic development were fulfilled and the restrictions were lifted, leaving a restricted investment balance of $700,000.

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

Schedule of Revenue Bonds Outstanding – Conduit Debt (Unaudited)

June 30,2005

Bond	Date issued		Balance
Revenue and Refunding Bond – Residential Care Facility First Mortgage	05111105	$	18,000,000
Economic Development Revenue Bond – Virginia Association of the Preservation of Virginia Antiquities	11/16/04		6,000,000
Economic Development Revenue Bond – Christopher Newport University Educational Foundation	05/18/01		8,000,000
Revenue Bond, Series A 2003 – Williamsburg Landing Inc.	09/01/03		43,035,000
Revenue Bond, Series B 2003 – Williamsburg Landing Inc.	09/01/03		5,590,000
Variable Rate Demand Multifamily Housing Revenue Refunding Bonds (Charnbrel at Williamsburg Project) Series 2002	11/01/02		24,350,000
Revenue Bond, Series 1997 – Anheuser-Busch	04/09/97		7,700,000
Residential Care Facility Revenue Bonds	04/11/97		29,100,000
Private Activity Revenue Bonds – Williamsburg Winery	09/20/88		100,000
Economic Development Revenue Bond – C & N	12/12/85		550,000
Economic Development Revenue Bond – Burnt Ordinary	12/12/85		473,000
Economic Development Revenue Bond – Sixty West	12/19/84		1,610,850
Economic Development Revenue Bonds – Anderson	11/12/81		17,348
		$	144,526,198

Unaudited – see accompanying independent auditors' report.

KPMG

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

September 1,2005

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

Dear Members:

We have audited the basic financial statements of the Economic Development Authority of James City County, Virginia (the Authority) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. Under our professional standards, we are providing you with the following information related to the conduct of our audit.

Our Responsibility under Professional Standards

We have a responsibility to conduct our audit of the financial statements in accordance with professional standards. 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 of the financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit of the financial statements does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Significant Accounting Policies and Unusual Transactions

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

The preparation of the financial statements requires management of the Authority to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

KPMG

Audit Adjustments and Uncorrected Misstatements

We have not identified any significant financial statement misstatements that have not been corrected

There were no uncorrected misstatements to the financial statements

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 auditors' 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 year ended June 30, 2005.

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters with management each year prior to ow 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.

Material Written Communications

Attached to this report please find copies of the following material written communications between management and us:

- Engagement letter; and
- Management representation letter.

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationships between our firm and the Authority and provide confirmation that we are independent accountants with respect to the Authority.

We are not aware of any additional independence-related relationships between our firm and the Authority other than the professional services that have been provided to the Authority.

We hereby confirm that as of September 1, 2005, we are independent accountants with respect to the Authority under all relevant professional and regulatory standards.

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. This report is not intended for general use, circulation or publication and should not to be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

Very truly yours,

KPMG LLP

KPMG

KPMG LLP
2100 Dominion Tower
999 Waterside Drive
Norfolk VA 23510

Telephone 757 616 7000
Fax 757 616 1133
Internet www us kpmg cam

May 18, 2005

Ms Virginia Hartmann, Chau
Economic Development Authority of
James City County
P.O Box 8783
Williamsburg, VA 23187

Dear Ms. Hartmann:

This letter will confirm our understanding of our engagement to provide professional services to tne Economic Development Authority of James City County (the EDA).

Objectives **and** limitations **of** services

Audit Services

We will issue a written report upon our audit of the EDA's financial statements as set forth in Appendix I.

We have a responsibility to conduct and will conduct the audit of the financial statements 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, with the objective of expressing an opinion as to whether the presentation of ihe financial statements 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 ihe financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements 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 of financial statements performed in accordance with the 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.

Our report will be addressed to the Board of Directors. 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.

Internal Control Over Financial Reporting and Compliance ***and Other*** *Matters*

In planning and performing our audit of the financial statements, we will consider the EDA's internal control in order to determine the nature, timing and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. In accordance with *Government* ***Auditing*** *Standards*, we are required to communicate that the limited purpose of our consideration of internal control 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 EDA'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.

In accordance with ***Government Auditing Standards,*** we will prepare a written report, ***Report on Internal Control Over Financial Repot-ling and Compliance and Other Matters Based on an Audit of Financial Statements Perfovmed in Accordance With Government Auditing Standards*** (GAS report), on our consideration of internal control and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the EDA's internal control and we are not obligated to search for reportable conditions as part of our audit of the financial statements, this report will include any reportable conditions to the extent they come to our attention. Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect the EDA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The definition of ***reportable conditions*** does not include potential future internal control problems, that is. control problems coming to our attention that do not affect the preparation of financial statements for the period under audit. This report will also include illegal acts and fraud, unless clearly inconsequential and material violations of grants, contracts and abuse. it will indicate that it is intended solely for the information and use of the audit committee or its equivalent and management of EDA and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

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 attentton 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.

Offering Documents

Should Client wish to include or incorporate by reference these financial statements and our audit report thereon into an exempt offering, prior to our consenting to include or incorporate by reference our report on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perfomi procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be detennined at the time the services are to be performed.

Our responsibility to communicate **with** the Board of Directors

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 EDA'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.

- Any disagreements with management or other serious difficulties encountered in performance of our audit.

- Other matters required to be communicated by generally accepted auditing standards in the United States of America

We will also read minutes, if any, of audit committee 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, ctrcumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to you our reasons for modification or withdrawal.

Management responsibilities

The management of the EDA 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 identifying and ensuring that the EDA 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. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for 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 is also responsible for informing us, of which it has knowledge, of all reportable conditions, in the design or operation of such controls.

Management of the EDA also 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 EDA's personnel. As required by the 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, among other things, 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 prior to August 31, 2005.

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 uncorrected 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 EDA will release KPMG LLP (KPMG) and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter athibutable 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 20 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.

Dispute Resolution

Any dispute or claim arising out of or relating to the engagement letter between the parties, the services provided thereunder, or any other services provided by or on behalf of KPMG or any of its subcontractors or agents to the EDA or at its request (including any dispute or claim involving any person or entity for whose benefit the services in question are or were provided) shall bc resolved in accordance with the dispute resolution procedures set forth in Appendix II, which constitute the sole methodologies for the resolution of all such disputes. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction. Mediation, if selected, may take place at a place to be designated by the parties. Arbitration shall take place in New York, New York. Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction.

Notwithstanding the agreement to such procedures, either party may seek injunctive relief to enforce its rights with respect to the use or protection of (i) its confidential or proprietary information or material or (ii) its names, trademarks, service marks or logos, solely in the courts of the State of New York or in the courts of the United States located in the State of New York. The parties consent to the personal jurisdiction thereof and to sole venue therein only for such purposes.

Other matters

This letter shall serve as the EDA's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the EDA and between KPMG and outside specialists or other entities engaged by either KPMG or the EDA. The EDA 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. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

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

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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 for the EDA in judicial or administrative proceedings to which KPMG is not a party, the EDA shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

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.

Additional Reports and Fees for Services

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately From the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

KPMG

Ms Virginia Hartmann, Chair
Economic Development Authority of
James City County
May 18,2005
Page 8

* * * * *

Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I for each of its subsequent fiscal years until either Managcinent or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the Management.

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
Portner

S:\J\JamesCityCounty\2005\Audit\correspondence\el EDA 05e16 ept.doc

ACCEPTED:

The Economic Development Authority of James City County

Virginia B. Ha

Authorized Signature

Chairperson

Title

6/13/05

Date

KPMG

Appendix I

Fees for Services

Based upon our discussions with and representations of Management, our fees for services we will perform are estimated as follows:

Date	Amount
July 1,2005	$1,525
August 1,2005	$1,525
September 1, 2005	$1.525
Upon delivery of report	$1.525
Total	$6,100

The above estimates are 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 deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

KPMG

Appendix I

Fees for Services

Based upon our discussions with and representations of Management, our fees for services we will perform are estimated as follows:

Date	Amount
July 1,2004	$1,525
August 1,2004	$1,525
September 1, 2004	$1,525
Upon delivery of report	$1,525
Total	$6,100

The above estimates are 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 deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Appendix II

Dispute Resolution Procedures

The following procedures are the sole methodologies to be used to resolve any controversy or claim ("dispute"). If any of these provisions are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and binding on the parties to the fullest extent permitted by law.

Mediation

Any party may request mediation of a dispute by providing a written Request for Mediation to the other party or parties. The mediator, as well as the time and place of the mediation, shall be selected by agreement of the parties. Absent any other agreement to the contrary, the parties agree to proceed in mediation using the CPR Mediation Procedures (effective April 1, 1998) issued by the Center for Public Resources, with the exception of paragraph 2 which shall not apply to any mediation conducted pursuant to this agreement. As provided in the CPR Mediation Procedures, the mediation shall he conducted as specified by the mediator and as agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with facilitation by the mediator, to reach a consensual resolution of the dispute. The mediation shall be treated as a settlement discussion and shall be confidential. The mediator may not testify for any party in any later proceeding related to the dispute. No recording or transcript shall be made of the rnediation proceeding. Each party shall bear its own costs in the mediation. Absent an agreement to the contrary, the fees and expenses of the mediator shall be shared equally by the parties.

Arbitration

Arbitration shall be used to settle the following disputes: (I) any dispute not resolved by mediation 90 days after the issuance by one of the parties of a written Request for Mediation (or, if the parties have agreed to enter or extend the mediation, for such longer period as the parties may agree) or (2) any dispute in which a party declares, more than 30 days after receipt of a written Request for Mediation, mediation to be inappropriate to resolve that dispute and initiates a Request for Arbitration. Once commenced, the arbitration will be conducted either (I) in accordance with the procedures in this document and the Rules for Non-Administered Arbitration of the CPR Institute for Dispute Resolution ("CPR Arbitration Rules") as in effect on the date of the engagement letter or contract between the parties, or (2) in accordance with other rules and procedures as the parties may designate by mutual agreement. In the event of a conflict, the provisions of this document and the CPR Arbitration Rules will control.

The arbitration will be conducted before a panel of three arbitrators, two of whom may be designated by the parties using either the CPR Panels of Distinguished Neutrals or the Arbitration Rosters maintained by any United States office of the Judicial Arbitration and Mediation Service (JAMS). If the parties are unable to agree on the composition of the arbitration panel, the parties shall follow the screened selection process provided in Section B, Rules 5, 6, 7, and 8 of the CPR Arbitration Rules. Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these procedures, including any contention that all or part of these procedures are invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. No potential arbitrator shall be appointed unless he or she has agreed in writing to abide and be bound by these procedures.

The arbitration panel shall issue its final award in writing. The panel shall have no power to award non-monetary or equitable relief of any sort. Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages, shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Discovery shall be permitted in connection with the arbitration only to the extent, if any, expressly authorized by the arbitration panel upon a showing of substantial need by the party seeking discovery.

All aspects of the arbitration shall be treated as confidential. The parties and the arbitration panel may disclose the existence, content or results of the arbitration only as provided in the CPR Arbitration Rules. Before making any such disclosure, a party shall give written notice to all other parties and shall afford such parties a reasonable opportunity to protect their interests.

The award reached as a result of the arbitration will be binding on the parties, and confirmation of the arbitration award may be sought in any court having jurisdiction.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
500 Campus Drive
P.O. Box 805
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 tor 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 lo 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 inslances 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 practrce 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 renews 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 renew, 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 (I) 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 aud 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.

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October 28, 2002

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, and have issued our report thereon dated October 28, 2002. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report, which should be read in conjunction with this letter.

Engagement **Performance**

Comment – The firm has comprehensive policies and procedures regarding the supervision of engagement personnel and review of their work, including assuring that procedures performed and findings and conclusions have been adequately documented. It was noted in our review, as well as in the firm's internal inspection, that the review and supervision process on some engagements did not identify instances where (i) the audit work performed and the related conclusions were not fully documented, (ii) minor performance issues related to the execution of the engagement were not detected, or (iii) minor financial statement disclosures were overlooked. There were certain areas in which these observations were more prevalent than others, including income taxes (principally the consideration of key accounting issues and the testing of certain tax-related items), analytical procedures (principally the development and documentation of expectations), and the qualifications of external experts. Through discussion with firm personnel and the review of documentation on the engagements that led to this comment, we were satisfied that the nature and significance of each instance would not have altered the conclusions reached or impacted the financial statements taken as a whole.

Recommendation – We recommend that the firm reinforce its review and supervision policies and procedures through enhanced training and coaching, and consider other practices aimed at continually improving the consistency of their performance. Particular emphasis should be placed on the specific areas described above.

Personnel Management

Comment – The firm's policies for performance management include processes for goal-setting! individual evaluation and interim and annual assessments. Our testing identified instances where these processes were not documented in a timely manner, including instances where annual evaluations were not on file prior to announcing promotions.

Recommendation – We recommend formal communications to all professional staff emphasizing the importance of timely and meaningful feedback to the development of personnel, and more rigorous monitoring and follow-up on untimely or missing documentation.

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ECONOMIC DEVELOPMENT AUTHORITY
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November 9,2005

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Ladies and Gentlemen:

We are providing this letter in connection with your audit of the basic financial statements of the Economic Development Authority (the Authority), as of and for the year ended June 30,2005, 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 changes in its financial position and its 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 the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no reportable conditions in the design or operation of internal control over financial reporting 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 control over financial reporting.

5. There are no:

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

   b. 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.*

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

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

   e. Events that have occurred subsequent to the date of the statement of financial position 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 to be included on a schedule of uncorrected financial statement misstatements.

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 except as disclosed in the basic financial statements.

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

11. The Authority is responsible for the identitication 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 fmancial statements in the event of noncompliance.

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

  a Related party 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 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; key administrative, financial, and legislative personnel and other members of Authority management or businesses they represent or have an interest in; members of the immediate families of Authority management: and other patties 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 all 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 wmplied 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, deter 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 thefl causes the basic 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 over financial reporting, or

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

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

23. We have no knowledge of any officer or member of the governing body of the Authority, or any other person acting under the direction thereof, taking any action to fraudulently influence, coerce, manipulate or mislead you during your audit.

24. Receivables reported in the basic financial statements represent valid claims against debtors arising on or before the date of the balance sheet and have been appropriately reduced to their estimated net realizable value.

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

26. Special and **extraordinary** items are appropriately classified and reported.

27. 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.

28. KPMG assisted management in drafting the financial statements and notes. In accordance with ***Government Auditing Standards*****,** we confirm that we accept responsibility for the financial statements and notes and that we are in a position to make **informed** judgments about them. We also confirm that we:

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

    b. Established and monitored the performance of the drafting of the financial statements and notes to ensure it meets our objectives.

    c. Made all decisions that involve management functions and accept full responsibility for such decisions.

    d. Evaluated the adequacy of **the** financial statements and notes.

Sincerely,

V i a B. Hartmann
Economic Development Authority Chair

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