MEETING MINUTES

ECONOMIC DEVELOPMENT AUTHORITY
OF JAMES CITY COUNTY
BUILDING C CONFERENCE ROOM, 101 MOUNTS BAY ROAD
3:00 PM, THURSDAY, NOVEMBER 16, 2006

1. CALL TO ORDER

The meeting was called to order by Chairman Hartmann at 3:05 PM. Ms. Hartmann then appointed Mr. Steven T. Yavorsky Acting Secretary for this meeting.

2. ROLL CALL

A roll call identified the following Economic Development Authority (EDA) Directors present:

Mr. Vincent Campana, Jr.
Mr. Brien Craft
Ms. Virginia Hartmann
Mr. Mark G. Rinaldi
Mr. Thomas G. Tingle
Mr. Marshall Warner

Also Present:

Mr. Eric E. Ballou, William & Mary (W&M) Foundation Bond Counsel
Mr. M. Anderson Bradshaw, Board of Supervisors' (BOS) Liaison to the EDA
Mr. Douglas M. Gebhardt, EDA Director Appointee
Mr. Stephen M. Johnson, EDA Bond Counsel
Mr. Adam Kinsman, Assistant County Attorney
Mr. Joe Mason, Davenport & Company
Ms. Sue Mellen, Assistant Manager of Financial and Management Services
Ms. Marcè Musser, EDA Recording Secretary
Mr. Courtney Rogers, County Bond Counsel
Mr. Leo Rogers, EDA General Counsel
Ms. Jennifer Siltanen, KPMG, LLP
Ms. Tara Woodruff, Accounting Supervisor
Mr. Steven Yavorsky, Assistant Economic Development Director

3. PERSONNEL MATTERS

a. New EDA Director

Ms. Hartmann welcomed Mr. Douglas M. Gebhardt to the meeting, stating he had been appointed by the BOS to serve the unfulfilled term of Mr. Diedzic, and that he would be sworn in before the next meeting. Upon Ms. Hartmann's request, Mr. Gebhardt gave a brief overview of his credentials, and stated he was honored to be appointed to the EDA.

b. Absence of Mr. Taylor

Ms. Hartmann explained that Mr. Keith Taylor, EDA Secretary, was in New York with BOS Chairman Bruce C. Goodson at a Hampton Roads Economic Development Alliance marketing function.

4. APPROVAL OF MINUTES

On a motion by Mr. Rinaldi and a second by Mr. Campana the minutes from the September 21 Regular Meeting were approved by unanimous vote. Upon a motion by Mr. Tingle and a second by Mr. Craft, the October 12 Work Session minutes were approved as corrected by unanimous vote.

5. FINANCIAL REPORTS

a. Treasurer's and Financial Reports

Ms. Woodruff presented the Treasurer's and Financial Reports for September-October 2006, stating there had been very little activity. Mr. Bradshaw asked about interest activity. Ms. Woodruff stated she would check on the interest activity compared to last year and report this information to the EDA via email within the next few days. Ms. Hartmann entertained a motion by Mr. Rinaldi, seconded by Mr. Craft, to accept the reports as presented, which passed unanimously.

b. Annual Audit

Ms. Woodruff introduced Ms. Siltanen of KPMG, who presented the annual audit; Ms. Elizabeth Foster, Engagement Principle, was unable to attend.

Ms. Siltanen handed out the required comments summary and reviewed it with Directors. She then reviewed the annual audit report and fielded questions. Mr. Warner moved that the audit be accepted as presented, which was seconded by Mr. Craft and approved by unanimous vote.

6. ACTION ITEMS

a. 2007 Proposed EDA Meeting Calendar

Ms. Hartmann presented the proposed 2007 EDA meeting calendar. Mr. Craft moved that the calendar be adopted, followed by a second by Mr. Warner. The motion passed unanimously

b. W&M Foundation Bond

Mr. Ballou handed out and explained the final resolution for the W&M Foundation Revenue Bond. The sale of the bonds is expected the first or second week in December, and all transactions will close before the end of the year.

Mr. Campana asked for an explanation of "multi-modal interest," which Mr. Ballou clarified.

Mr. Rinaldi asked if having a separate holding company presented any problems in the future, to which Mr. Johnson answered that for 501 c.3. corporations there is no basic difference.

Mr. Tingle clarified that neither the EDA nor the County are responsible for the debt. Mr. Johnson stated that those buying the bonds were basically buying Suntrust credit.

Mr. Johnson stated he had reviewed all documents and that they were in order. He explained the fee option chosen by the Foundation, and that if there was a full $9.5 million issuance, administrative fees up front would be $29,000 plus the $1000 closing fee. (The $400 application fee has been paid.)

Mr. Johnson further stated that the bond would count against the ability to issue future bonds in calendar year 2006, but that the County does not expect to incur any additional debt in 2007. Because the W&M Foundation will close before December 31, 2006, the EDA's ability to issue bonds in 2007 will not be affected.

Mr. Campana made a motion to approve the final resolution, which was seconded by Mr. Tingle and approved by the following roll call vote:

Mr. Campana	Aye
Mr. Craft	Aye
Ms. Hartmann	Aye
Mr. Rinaldi	Aye
Mr. Tingle	Aye
Mr. Warner	Aye.

c. County Lease Revenue Bond

Ms. Mellen introduced Mr. Rogers and Mr. Mason from Christian & Barton, LLP (Davenport & Company?). Mr. Rogers gave an update on last year's EDA approved Lease Revenue Bond project, then an overview of the project presented for approval today. The $95 million Lease Revenue Bond presented for EDA approval is for two new elementary schools, one new middle school, and an addition to Stonehouse Elementary School.

By doing all schools at once, the county saves on interest rates (fixed) and a 20 year term. This bond will have level principal payments, which are higher on the front end, but less interest over the life of the loan. The County plans to go to market the first week in December and close before the end of 2006.

Ms. Mellen explained that one school anticipates opening in 2008, and the two others in 2009.

Mr. Rogers and Mr. Johnson explained the difference between a referendum, a GO Bond and the Lease Financing as not being full faith in credit due to annual appropriation by the BOS. There is no liability to the EDA.

After further discussion, Mr. Johnson explained the Bond structure and stated all was in order.

Mr. Rinaldi moved the resolution be approved, which was seconded by Mr. Campana and approved by the following roll call vote:

Mr. Campana	Aye
Mr. Craft	Aye
Ms. Hartmann	Aye
Mr. Rinaldi	Aye
Mr. Tingle	Aye
Mr. Warner	Aye.

7. REPORTS

a. BOS Liaison – A. Bradshaw

Mr. Bradshaw stated that the BOS appreciated names submitted for consideration for EDA Director. It is the wish of the BOS that when it is time for another Director appointment, the EDA will have encouraged and recruited more diversity.

In regard to the discussion at last month's EDA Work Session regarding EDA involvement in the development process, Mr. Bradshaw explained that the BOS does want EDA input, and is working on a resolution to the problem of a way to get issues to the EDA earlier in the process/in a timely manner.

b. James City County Technology Incubator.

Ms. Musser shared the recent Hampton Roads Technology Council (HRTC) and Incubator System (HRTI) schedule and told of the award given the County for support of JCCTI at HRTC's annual Fall Gala.

She also gave a report on the recent Virginia Business Incubator Round Table hosted in JCC's Building C Conference Room. Mr. Taylor was one of the panel presenters, speaking on JCCTI.

Ms. Barker, JCCTI Client Relations Manager, has been in the hospital and all JCCTI clients made a choice to work virtually in her absence. The Directors expressed concern that the Incubator would at any time be closed on a work day, including when Ms. Barker is required to attend meetings for HRTC in other jurisdictions.

Ms. Musser explained that due to the management agreement signed with HRTC, it was not the EDA's or the County's decision about when the Incubator was open or closed. Mr. Tingle asked, and other Director's concurred that Mr. Taylor be asked to write a letter to Mr. Tim Early, HRTI Director, explaining the EDA's concern and expressing their wish that HRTC/HRTI make arrangements for the Incubator to be manned in Ms. Barker's absence.

c. Business Climate Task Force (BCTF)

Mr. Tingle gave an update on BCTF activities, the main one being an effort by the BCTF to hire an Economic Development Consultant to do a study on business in the area. He discussed with the Director's that a Request for Qualifications had gone out, and three companies had been initially selected to review via teleconference next week.

Mr. Tingle asked for a consensus among directors for funding of the study not to exceed $45,000 and begin shortly after the first of the year, which he received. There was further discussion on using seasoned professionals versus W&M graduate students, SCORE, etc.

Mr. Porter explained why the BCTF chose consultants, and that all avenues (students, SCORE, etc.) may be used in conjunction with the consultant's study in order to save funds. Mr. Warner added his thoughts that a "Real" versus "Academic" study was needed. The desired consensus was reached.

The BCTF will present an interim report at the EDA's December 19 Work Session.

8. REPORTS OF THE ECONOMIC DEVELOPMENT STAFF

a. Mr. Yavorsky shared that the Celebration of Business was a success. Captain John Smith Award winner, C&F Bank, was very appreciative.

b. Ms. Musser gave an update on further Prepare and Profit Seminar planning.

c. Mr. Tingle asked for a report of the Industrial Asset Management Council event, the opening session of which the EDA sponsored. Ms. Hartmann gave a brief overview of the morning session and Mr. Yavorsky told of a panel presentation moderated by Mr. Taylor and featuring Mr. Sandy Wanner, County Administrator as a panelist. Mr. Bradshaw added that JCC got good recognition at the EDA sponsored morning session.

   Mr. Tingle asked that Mr. Taylor give a detailed report of the EDA's investment in order for the EDA to have a way to measure when the next request for sponsorship of an event of this type comes to the table.

9. <u>ADJOURNMENT</u>

There being no further business, Ms. Hartmann entertained a motion by Mr. Rinaldi to adjourn, which passed unanimously. The meeting was closed at 5:14 PM.

Mark G. Rinaldi, Chairman

Steven T. Yavorsky, Acting Secretary

Treasurer's Report-FY 07
Economic Development Authority
September - October 2006

Rev Code	Revenue Source	Prior Collections	Collected this period	Collected to Date
021-325-0100	Lease Income			$0.00
021-325-0200	Interest	$28,045.79	$13,318.80	$41,364.59
021-325-0250	Misc Revenue			$0.00
021-325-0400	Bond Fee Revenue			$0.00
021-325-0500	Land Contract Payment Revenue			$0.00
021-325-0600	General Fund Contribution			$0.00
021-325-0650	Transfer from Debt Service	$109,476.00		$109,476.00
021-325-1000	Gain/Loss on Sale			$0.00
	Expense Reimbursement			$0.00
	Total receipts this period		$13,318.80	$150,840.59
	Balance June 30, 2006			$3,297,216.01
	Total Receipts			$3,448,056.60
	Disbursements this Period	$18,104.41		
	Previous disbursements	$137,586.08		
	Total disbursements to Date			$155,690.49
	Balance October 31, 2006			**$3,292,366.11**

ECONOMIC DEVELOPMENT AUTHORITY

James City County

EXPENDITURES

15-Nov-06

IDA: Year (2007) Period (4)

Ledger ID	Ledger Description	Beg Budget	Sept	Oct	Encumb	Total YTD Exp	Balance
	OPERATING EXPENSES						
021-010-0205	PROMOTION	$37,000.00	$1,250.00	($265.92)	$0.00	$6,984.08	$30,015.92
021-010-0220	TRAVEL & TRAINING	$4,000.00	$221.60	$150.00	$0.00	$1,022.00	$2,978.00
021-010-0222	LOCAL TRAVEL	$550.00	$0.00	$5.92	$0.00	$43.05	$506.95
021-010-0232	JAMES RIVER COMMERCE CTR - OPS	$6,500.00	$0.00	$0.00	$0.00	$0.00	$6,500.00
021-010-0235	ANNUAL AUDIT	$6,500.00	$0.00	$1,600.00	$3,200.00	$3,200.00	$100.00
021-010-0245	MAINLAND FARM - OPER EXPENSES	$500.00	$5.50	$5.50	$0.00	$16.50	$483.50
021-010-0300	ADVERTISING	$1,000.00	$0.00	$0.00	$0.00	$0.00	$1,000.00
021-010-0319	OFFICE SUPPLIES & EQUIPMENT	$550.00	$0.00	$0.00	$0.00	$0.00	$550.00
021-010-0380	BUSINESS CLIMATE TASK FORCE	$2,500.00	$18.93	$21.04	$0.00	$60.53	$2,439.47
021-010-0390	INCUBATOR OPERATING SUBSIDIES	$56,000.00	$0.00	$18,333.32	$0.00	$18,333.32	$37,666.68
021-010-0398	OED DISCRETIONARY EXPENDITURE	$1,500.00	$0.00	$0.00	$0.00	$0.00	$1,500.00
021-010-0600	SMALL BUSINESS ASSISTANCE	$1,500.00	$0.00	$0.00	$0.00	$0.00	$1,500.00
	Total Operating Expenses	$118,100.00	$1,496.03	$19,849.86	$3,200.00	$29,659.48	$85,240.52

ECONOMIC DEVELOPMENT AUTHORITY
BRIDGE BETWEEN TREASURER'S REPORT AND ACCOUNTING REPORTS
October 31, 2006

	Period to Date	Year To Date
Total to date disbursements per treasurer's report	$ 18,104 41	$ 155,690.49
Operating Expenses		
Operating Expenses from Management's Report	$ 21,345.89	$ 29,659.48
Accounts Payable Dominion Power		$ 5.50
Reimbursement due to County for Small Business Assistance		$ 32.85
Incubator Operating Expense (Accrued)		$ 9,166.66
Reimbursement due to County	$ (2,850.95)	$ 240.53
Reimbursement due to County for travel and training	$ (371.60)	$ (371 60)
Reimbursement due to County business climate task force	$ (18.93)	$ (18.93)
Total Expenses		
Total Operating Expenses	$ 18,104.41	$ 38,714.49
EDA Incentives		
Renwood Farms		
Debt Expenses Funded by JCC		
Mainland Farm		$ 109,476.00
Incentives Funded by JCC		
Enterprise Zone Grant		
Incentives to Company		
Projects Funded by JCC		
James River Commerce Center		
Industrial Prop./ Infastructure		$ 7,500.00
Total Expenses for EDA Incentives	$ -	$ -
Total Expenses Funded by JCC	$ -	$ 116,976.00
Total Expenses	$ 18,104.41	$ 155,690.49
Net difference Treasurer's Report and EDA Expenses	$ -	$ -

KPMG

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

September 1, 2006

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, 2006, and have issued our report thereon dated September 1, 2006. 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

The Board of Directors
Economic Development Authority of
James City County
September 1, 2006
Page 2

Audit Adjustments and Uncorrected Misstatements

We proposed no audit adjustments to the Authority's books and records as of and for the year ended June 30, 2006.

In connection with our audit of the Authority's basic financial statements, we have discussed with management one financial statement misstatement that has not been corrected in the Authority's books and records as of and for the year ended June 30, 2006. We have reported the misstatement to management on a summary of uncorrected misstatements and have received written representations from management that management believes the effect of the uncorrected misstatement is immaterial to the basic financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.

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, 2006.

Major Issues Discussed with Management Prior to Retention

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

KPMG

The Board of Directors
Economic Development Authority of
James City County
September 1, 2006
Page 3

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, 2006, 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

DRAFT 11/15/2006 3:29 PM

September 1, 2006

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, 2006, and have issued our report thereon dated September 1, 2006. 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.

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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.

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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.

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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, 2006, 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

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

Telephone 757 616 7000
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Internet www.us.kpmg.com

NLB
10/11/0

June 26, 2006

Ms. Virginia Hartmann, Chair
Economic Development Authority of
James City County
P.O. Box 8784
Williamsburg, VA 23187-8784

Dear Ms. Hartmann:

This letter amends our engagement letter dated May 18, 2005 confirming our understanding to provide professional audit services to the Economic Development Authority of James City County (the EDA) by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified therein, all provisions of the aforementioned engagement letter remain in effect until either the audit committee or we terminate this agreement or mutually agree to the modification of its terms.

One additional amendment to our engagement letter is addressed below:

Offering Documents

Should the EDA wish to include or incorporate by reference these financial statements and our audit report thereon into an offering of exempt securities, 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 perform 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 determined at the time the services are to be performed.

Should the EDA wish to include or incorporate by reference these financial statements and our audit report thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report on such financial statements, and we are not otherwise associated with the offering document, then the EDA agrees to include the following language in the offering document:

"KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement."

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 in the space provided and return the copy to us.

Very truly yours,

KPMG LLP

Elizabeth P. Foster

Elizabeth P. Foster
Partner

EPF:vdm

KPMG

ACCEPTED:

The Economic Development Authority of James City County

Virginia B. Hartmann
Authorized Signature

Chairperson
Title

Aug 8, 2006
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 17, 2006	$1,600
August 14, 2006	$1,600
September 18, 2006	$1,600
Upon delivery of report	$1,600
Total	$6,400

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.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

ECONOMIC DEVELOPMENT AUTHORITY OF JAMES CITY COUNTY

101-C MOUNTS BAY ROAD, P.O. BOX 8784, WILLIAMSBURG, VA 23187-8784
(757) 253-6607 FAX: (757) 253-6833

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

November 8, 2006

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the basic financial statements of the Economic Development Authority (the Authority), as of and for the years ended June 30, 2006 and 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 U.S. generally accepted accounting principles. 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 U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

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

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

1. The basic financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.

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

   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 balance sheet and through the date of this letter that would require adjustments to or disclosure in the basic financial statements.

6. 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.

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.

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 financial statements.

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

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

12. 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 County management or businesses they represent or have an interest in; members of the immediate families of County management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

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

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

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

    e. Changes in accounting principle affecting consistency.

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

13. The Authority has identified and properly accounted for all non-exchange transactions.

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 and, if applicable, approved.

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 complied with all applicable laws and regulations in adopting, approving and amending budgets.

20. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, 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 theft causes the basic financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

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 could have a material effect on the basic 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 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 statement of net assets and have been appropriately reduced to their estimated net realizable value.

25. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities if applicable, and allocations have been made on a reasonable basis.

26. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

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

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

29. We believe that all material expenditures that have been deferred to future periods will be recoverable.

30. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles (GAAP). We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the Authority's current period basic financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the basic financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the basic financial statements in future periods.

31. 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.

32. 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.

Very truly yours,

Economic Development Authority of James City County

Virginia B. Hartmann
Economic Development Authority Chair

Suzanne R. Mellen
Assistant Manager of FMS – James City County

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, 2006 and 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, 2006 and 2005

Board Members

Virginia B. Hartmann. .... Chairman

Mark G. Rinaldi .... Vice Chairman

Alvin J. Bush

Vincent A. Campana, Jr.

Matthew John Diedzic, Jr.

Bernard H. Ngo

Thomas G. Tingle

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, 2006 and 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 years ended June 30, 2006 and 2005.

Financial Highlights for Fiscal Year 2006 and 2005

* The Authority had an increase in net assets of $159,200 for fiscal year 2006 and $135,937 for fiscal year 2005.

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.

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, 2006 and 2005

Balance Sheets

The following table reflects a summary of the balance sheets:

Table 1
Condensed Balance Sheet Information
June 30, 2006, 2005 and 2004

		2006	2005	2004
Current and other assets	$	3,935,203	3,701,739	3,448,019
Capital assets		2,632,226	2,624,081	2,618,259
Total assets	$	6,567,429	6,325,820	6,066,278
Current liabilities	$	626,439	484,030	300,425
Long-term liabilities		1,480,000	1,540,000	1,600,000
Total liabilities		2,106,439	2,024,030	1,900,425
Net assets:				
Invested in capital assets, net of related debt		1,792,226	1,724,081	1,658,259
Restricted for economic development		—	—	175,000
Unrestricted		2,668,764	2,577,709	2,332,594
Total net assets		4,460,990	4,301,790	4,165,853
Total liabilities and net assets	$	6,567,429	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 $4,460,990 at June 30, 2006 and $4,301,790 at June 30, 2005. Current and other assets consist of cash and short-term 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 $780,000, as well as $700,000 in escrow liability.

Total assets experienced an increase of 3.8% and 4.28% in 2006 and 2005, respectively, primarily due to an increase in accounts receivable.

Total liabilities experienced an increase of 4.1% and 6.50% in 2006 and 2005, respectively, 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.

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 Revenues, Expenses and Changes in Net Assets
For the Fiscal Years ended June 30, 2006, 2005 and 2004

		2006	2005	2004
County contribution	$	352,379	316,648	369,487
Other operating revenues		77,839	112,295	315,466
Total operating revenues		430,218	428,943	684,953
Community development		304,098	247,536	437,896
Other expenses		42,533	47,110	62,118
Total operating expenses		346,631	294,646	500,014
Operating income		83,587	134,297	184,939
Net other nonoperating revenue (expense)		75,613	1,640	(37,691)
Change in net assets		159,200	135,937	147,248
Net assets, beginning of year		4,301,790	4,165,853	4,018,605
Net assets, end of year	$	4,460,990	4,301,790	4,165,853

Total net assets increased $159,200 and $135,937 for the fiscal years ended June 30, 2006 and 2005, 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 an increase of 22.9% for fiscal year 2006. This increase is primarily due to the Authority's new agreement with the Hampton Roads Technology Council (HRTC), and the annual contribution of operating subsidies towards the development of a technology incubator. 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. Net nonoperating revenue of $1,640 is the net of interest income and expenses paid on the note regarding the acquisition of Mainland Farm for fiscal year 2005.

Capital Assets

As of the end of fiscal years 2006 and 2005, the Authority had invested $2,483,106 in land and $149,120 and $140,975, respectively, in construction of a shell building.

Debt Administration

The Authority had outstanding debt as of June 30, 2006 of $840,000, 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 construction of industrial and commercial facilities deemed to be in the public interest. As of June 30, 2006, there were 14 series of Economic Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $165,150,000. 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

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

Independent Auditors' Report

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 years ended June 30, 2006 and 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 audits.

We conducted our audits 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 internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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 U.S. generally accepted accounting principles. 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 1, 2006

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

Balance Sheets

June 30, 2006 and 2005

Assets		**2006**	**2005**
Current assets:			
Cash and short-term investments (note 2)	$	2,597,216	2,490,542
Restricted short-term investments (notes 2 and 8)		700,000	700,000
Due from James City County		559,073	422,664
Total current assets		3,856,289	3,613,206
Notes receivable (note 5)		78,914	88,533
Capital assets (notes 6 and 7):			
Land		2,483,106	2,483,106
Construction in progress		149,120	140,975
Total capital assets		2,632,226	2,624,081
Total assets	$	6,567,429	6,325,820
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	566,439	424,030
Current portion of note payable (note 7)		60,000	60,000
Total current liabilities		626,439	484,030
Note payable, less current portion (note 7)		780,000	840,000
Escrow liability (note 8)		700,000	700,000
Total liabilities		2,106,439	2,024,030
Commitment (note 9)			
Net assets:			
Invested in capital assets, net of related debt		1,792,226	1,724,081
Unrestricted		2,668,764	2,577,709
Total net assets		4,460,990	4,301,790
Total liabilities and net assets	$	6,567,429	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)

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2006 and 2005

		2006	2005
Operating revenues:			
County contribution	$	352,379	316,648
Bond fees		10,400	52,947
Lease income		66,010	59,348
Miscellaneous revenue		1,429	—
Total operating revenues		430,218	428,943
Operating expenses:			
Community development (note 9)		304,098	247,536
Advertising		22,063	20,744
Professional fees		6,100	4,800
Note forgiveness		9,619	19,821
Travel and training		3,633	1,008
Other expenses		1,118	737
Total operating expenses		346,631	294,646
Operating income		83,587	134,297
Nonoperating revenue (expense):			
Interest income		128,623	58,184
Interest expense		(53,010)	(56,544)
Net nonoperating revenue		75,613	1,640
Change in net assets		159,200	135,937
Net assets at beginning of year		4,301,790	4,165,853
Net assets at end of year	$	4,460,990	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)

Statements of Cash Flows

Years ended June 30, 2006 and 2005

		2006	2005
Cash flows from operating activities:			
Receipts from customers	$	430,218	431,419
Payments to suppliers		(331,012)	(273,463)
Net cash provided by operating activities		99,206	157,956
Cash flows from capital and capital related financing activities:			
Construction of capital assets		(8,145)	(5,822)
Principal payments of note payable		(60,000)	(60,000)
Interest paid on note payable		(53,010)	(56,544)
Net cash used in capital and capital related financing activities		(121,155)	(122,366)
Cash flows from investing activities - Interest received		128,623	58,184
Net increase in cash and short-term investments		106,674	93,774
Cash and short-term investments at beginning of year		3,190,542	3,096,768
Cash and short-term investments at end of year	$	3,297,216	3,190,542
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	83,587	134,297
Adjustments to reconcile operating income to cash provided by operating activities:			
Note forgiveness (note 5)		9,619	19,821
Changes in assets and liabilities:			
Accounts payable		142,409	183,606
Due from James City County		(136,409)	(182,244)
Accounts receivable		—	2,476
Net cash provided by operating activities	$	99,206	157,956
Cash and short-term investments at June 30, 2006 and 2005 are comprised of the following amounts:			
Cash and short-term investments	$	2,597,216	2,490,542
Restricted short-term investments		700,000	700,000
	$	3,297,216	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 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 speeific 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 paragraph 7 of GASB Statement No. 20, the Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

(Continued)

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 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 all 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, 2006 and 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 $2,353,225 and $2,284,730 at June 30, 2006 and 2005, respectively. 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-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's, and Fitch Investor's Service. Corporate notes 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-term 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.

(Continued)

As of June 30, 2006 and 2005, 100% of the Authority's portfolio was invested in the State of Virginia LGIP account.

(d) Concentration 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, 2006 and 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-term 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, 2006 and 2005, the fair values and maturities of the Authority's investments were as follows:

	2006	
Investment type	**Fair value**	**Maturity**
Short-term investments - State of Virginia LGIP	$ 243,991	1 day
Restricted short-term investments - State of Virginia LGIP	700,000	1 day

	2005	
Investment type	**Fair value**	**Maturity**
Short-term 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, 2006 and 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 repayment of the Bonds. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2006 and 2005, there were 14 series and 13 series of Economic Revenue Bonds outstanding, respectively, with an aggregate principal amount payable of approximately $165 million and $145 million, respectively.

(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 years ended June 30, 2006 and 2005. In addition, certain personnel costs in 2006 and 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 was fully forgiven as of June 30, 2006.

During fiscal year 2004, the Authority sold land to an unrelated organization. In exchange for this land, the Authority received proceeds of $273,068, of which $91,000 was a note receivable. This note will be forgiven over a five-year period contingent upon the buyer maintaining a certain taxable capital investment in the County. The note balance at June 30, 2006 was $78,914.

(6) Capital Assets

Capital assets at June 30, 2006 and 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.

(Continued)

The following is a summary of the capital asset activity for the year ended June 30, 2006 and 2005.

	Balance at July 1, 2005	Additions	Sales or transfers	Balance at June 30, 2006
Land	$ 2,483,106	—	—	2,483,106
Construction in progress	140,975	8,145	—	149,120
	$ 2,624,081	8,145	—	2,632,226

	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 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, 2006 and 2005.

Amount payable at July 1, 2005	Additions	Reductions	Amount payable at June 30, 2006	Amounts due within one year
$ 900,000	—	60,000	840,000	60,000

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

(Continued)

Maturities are as follows:

		Principal	Interest
Fiscal year ending June 30:			
2007	$	60,000	49,476
2008		60,000	45,942
2009		60,000	42,408
2010		660,000	38,874
	$	840,000	176,700

(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 fiscal year 2004, $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 as of June 30, 2006 and 2005.

(9) Commitment of Operating Subsidies

Effective February 27, 2006, the Authority, in conjunction with the County, entered into an agreement with the Hampton Roads Technology Council (HRTC) to initiate the operation of a small business incubator in the County. The Authority and the County view their collaboration with HRTC as a means of attracting and fostering the attraction and development of technology-driven businesses to and in the County. Under the agreement, the County agreed to provide a physical location for the incubator facility and the Authority agreed to provide financial support to HRTC to assist it in providing its services to its clients and tenants. The Authority expects to contribute to HRTC operating subsidies in the following amounts:

Years ending June 30,		
2007	$	56,000
2008		59,250
2009		60,750
2010		64,000
2011		50,250

The payments are due to HRTC in equal monthly installments and began when the agreement between HRTC and the Authority became effective in April 2006. As of June 30, 2006, payments totaling $13,750 were made to the HRTC and are included in community development expenses in the accompanying statement of revenues, expenses and changes in net assets.

Schedule

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, 2006

Bond	Date issued		Balance
Lease Revenue Bond – James City County	08/24/05	$	22,570,000
Revenue and Refunding Bond – Residential Care Facility First Mortgage	05/11/05		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		42,005,000
Revenue Bond, Series B 2003 – Williamsburg Landing Inc.	09/01/03		5,590,000
Variable Rate Demand Multifamily Housing Revenue Refunding Bonds (Chambrel 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		28,500,000
Private Activity Revenue Bonds – Williamsburg Winery	09/20/88		75,000
Economic Development Revenue Bond – C & N	12/12/85		450,000
Economic Development Revenue Bond – Burnt Ordinary	12/12/85		387,000
Economic Development Revenue Bond – Sixty West	12/19/84		1,509,519
Economic Development Revenue Bonds – Anderson	11/12/81		15,533
		$	165,152,052

Unaudited – see accompanying independent auditors' report.