

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)

Notes to Basic Financial Statements

June 30, 2007 and 2006

**(1) Organization and Summary of Significant Accounting Policies**

The James City Service Authority (the Authority) was established on June 30, 1969 by resolution of the board of supervisors of James City County, Virginia (the County or Primary Government), and was chartered by the Commonwealth of Virginia, State Corporation Commission in July 1969 to provide water and sewer service to County residents as permitted under the Code of Virginia (1950), as amended (the Enabling Act).

The Enabling Act authorizes the Authority, among other things: a) to acquire, construct, improve, extend, operate, and maintain any water, sewer, sewage disposal, or garbage/refuse collection and disposal system; b) to issue revenue bonds of the Authority, payable solely from revenues, to pay all or any part of the cost of such systems; c) to fix, revise, charge, and collect rates, fees, and charges for the use of and for the services furnished or to be furnished by any system operated by the Authority; and d) to enter into contracts with the Commonwealth of Virginia, or with any municipality, county, corporation, individual, or any public authority or unit thereof, relating to the services and facilities of any such system of the Authority. Further, the Enabling Act provides that the Authority is subject in all respects to the jurisdiction of the Department of Environmental Quality – Water Division (DEQ), formerly the State Water Control Board of the Commonwealth of Virginia, under the provision of the State Water Control Law.

The Authority's governing body is appointed by the County's board of supervisors, although the Authority is legally separate. The County's board of supervisors is the appointed board of directors of the Authority.

The County can impose its will over the Authority, significantly influencing the programs, projects, activities, or levels of service. Although a financial benefit or burden relationship may not exist, the County is financially accountable. The Authority is accounted for as a proprietary fund and its financial statements have been blended with the County's financial statements for reporting purposes.

**(a) Basis of Accounting and Presentation**

The Authority prepares its financial statements in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority, which reports its financial statements similar to an enterprise fund, has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority uses the economic resources management focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle, or one year. Current liabilities include those obligations to be liquidated with current assets. 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.

The Authority adopted the provisions of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which amends portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in 10-year trends, which assist financial

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statement users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The statistical section is a required part of a comprehensive annual financial report (CAFR).

**(b) Cash Equivalents**

For purposes of the statements of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near the maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, the Authority considers investments with original maturities of three months or less to be cash equivalents.

**(c) Investments**

All investments of the Authority are stated at fair value as of June 30, 2007 and 2006, in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

**(d) Inventories**

Inventories are valued at cost and are charged against operations on an average cost basis. They consist of water meters, pipes, and parts required to repair the utility systems.

**(e) Capital Assets**

All direct costs of water and sewer transmission facilities constructed are capitalized. In addition, interest amortization of bond and trustee expense, where applicable, are capitalized during the period of construction. Interest expense is reduced to the extent of any interest income earned on investment of bond proceeds. Nonutility property is capitalized at cost.

The Authority's policy is to capitalize capital assets with a cost or fair value at the date of donation of five thousand dollars (\$5,000) or greater. The cost of major improvements is capitalized, while the cost of maintenance and repairs, which does not improve or extend the life of an asset, is 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 follows:

Sewer systems	40 years
Water systems	30 years
Equipment and other	3-40 years

When capital assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the accompanying statements of revenues, expenses, and changes in net assets.

**(f) Unbilled Revenue**

The Authority records the amount of accrued but unbilled revenue by prorating actual subsequent billings. Amounts accrued but unbilled were approximately \$440,000 and \$406,000 at June 30, 2007 and 2006, respectively.

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**(g) Allowance for Uncollectible Accounts**

The Authority has few uncollectible receivables and does not use allowance accounts. State law permits filing of liens against real property for unpaid utility charges. The write-off of bad debts occurs when the property is sold prior to the lien process being instituted.

**(h) Budgetary Policy**

Although a budget is not legally required to be adopted, a fiscal year budget is prepared on a modified accrual basis for management and fiscal planning purposes. Any changes to the adopted budget require Board approval. Appropriations lapse at the end of the fiscal year with the exception of capital projects which continue until completed. For the year ended June 30, 2007, there were no supplemental appropriations.

**(i) Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. Property and liability coverages are provided through third-party insurance. The Authority's retention is through deductibles on a per claim basis as follows:

		<u>Deductibles</u>
Building/contents	\$	10,000
General liability/public officials' liability		100,000
Automobile liability		100,000
Blanket dishonesty		2,500
Theft/disappearance		1,000
		<u>Liability coverage limits</u>
Property insurance:		
Blanket general property	\$	109,583,446
Boiler and machinery		10,000,000
Scheduled property		1,062,908
Umbrella policy		5,000,000
Workers' compensation		statutory
Public employees' blanket bond		1,000,000
General liability and public officials' liability		1,000,000
Automobile liability		1,000,000
Blanket dishonesty		1,000,000
Theft/disappearance		500,000

There have been no reductions in insurance coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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**(j) Bond Premiums, Discounts, and Issuance Costs**

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the terms of the related issues on a straight-line basis.

**(k) Operating and Nonoperating Revenue and Expenses Recognition**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing water and sewer services. Revenues and expenses not meeting the operating definition are reported as nonoperating. These consist mainly of water and sewer connection fees, investment income, interest expense, and gain (loss) on disposal of capital assets.

**(l) Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

**(2) Cash and Cash Equivalents and Investments**

**(a) Deposits**

At June 30, 2007 and 2006, the carrying values of the Authority's deposits with banks and savings institutions were \$1,215,916 and \$1,349,986, respectively, and the bank balances were \$891,383 and \$2,464,657, respectively. The differences between the carrying values of bank deposits and the bank balances are primarily due to outstanding checks and deposits in transit. The bank balance is fully covered by Federal Depository Insurance Corporation (FDIC) or collateralized, in accordance with the Virginia Security for Public Deposits Act (the Act), which is considered to be insured. 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.

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**(b) Investments**

As of June 30, 2007 and 2006, the Authority had the following investments and maturities:

	Fair value	Investment maturity (in years)		
		Less than 1	1-2	2-4
<b>2007:</b>				
Money market funds	\$ 709,584	709,584	—	—
Corporate notes	3,969,823	—	976,369	2,993,454
Federal agency bonds/notes	19,212,778	—	3,570,109	15,642,669
U.S. Treasury notes	5,981,272	—	194,436	5,786,836
Total	\$ 29,873,457	709,584	4,740,914	24,422,959
	Fair value	Investment maturity (in years)		
		Less than 1	1-2	2-4
<b>2006:</b>				
Commercial paper	\$ 2,665,886	2,665,886	—	—
Corporate notes	1,930,299	—	—	1,930,299
Federal agency bonds/notes	18,462,040	1,971,874	7,512,959	8,977,207
U.S. Treasury notes	4,527,509	—	483,105	4,044,404
Total	\$ 27,585,734	4,637,760	7,996,064	14,951,910

**(c) Investment Policy**

In accordance with the Code of Virginia and other applicable laws, including regulations, the Authority's Investment Policy (the 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	50% 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

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The combined amount of bankers' acceptances, commercial paper, and corporate notes shall not exceed fifty percent (50%) of the total book value of the portfolio at the date of acquisition.

**(d) 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, Fitch Investor's Service, and Duff and Phelps. 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.

As of June 30, 2007 and 2006, the Authority's investments were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale:

		Investment ratings				
		AAA	AA+	AA	AA-	Unrated
<b>2007:</b>						
Money market funds	\$	—	—	—	—	709,584
Corporate notes		—	963,797	2,029,657	976,369	—
Federal agency bonds/notes		19,212,778	—	—	—	—
U.S. Treasury notes		—	—	—	—	5,981,272
Total	\$	<u>19,212,778</u>	<u>963,797</u>	<u>2,029,657</u>	<u>976,369</u>	<u>6,690,856</u>

		Investment ratings			
		AAA	AA-	A-1+	Unrated
<b>2006:</b>					
Commercial paper	\$	—	—	1,962,392	703,494
Corporate notes		—	1,930,299	—	—
Federal agency bonds/notes		18,462,040	—	—	—
U.S. Treasury notes		—	—	—	4,527,509
Total	\$	<u>18,462,040</u>	<u>1,930,299</u>	<u>1,962,392</u>	<u>5,231,003</u>

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**(e) Concentration of Credit Risk**

The Policy establishes guidelines 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 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, 2007 and 2006, the portion of the Authority's portfolio, excluding U.S. Treasury notes, that exceeded 5% of the total portfolio are as follows:

Issuer	% of portfolio
<b>2007:</b>	
Federal Home Loan Bank	17.0%
Federal Home Loan Mortgage Corporation	15.3
Federal National Mortgage Association	33.6
U.S. Treasury	20.5
<b>2006:</b>	
Federal Home Loan Bank	14.6%
Federal Home Loan Mortgage Corporation	37.7
Federal National Mortgage Association	14.6

**(f) Interest Rate Risk**

As a means of limiting exposure to fair value losses arising from rising interest rates, the 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.

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities, so long as the maturity does not exceed the expected disbursement date of those funds.

**(g) 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, 2007 and 2006, all of the Authority's investments were held in a bank's trust department in the name of James City Service Authority.

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**(3) Capital Assets**

The following is a summary of changes in capital assets for the fiscal years ended June 30, 2007 and 2006:

	<u>Balance July 1, 2006, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital assets not being depreciated:				
Utility plant:				
Land and land rights	\$ 890,438	70,300	6,000	954,738
Nonutility property:				
Land	1,785,961	—	23,000	1,762,961
Land improvements	13,183	—	—	13,183
Construction in progress	5,098,030	6,146,387	2,330,636	8,913,781
Total capital assets not being depreciated	<u>7,787,612</u>	<u>6,216,687</u>	<u>2,359,636</u>	<u>11,644,663</u>
Other capital assets:				
Utility plant:				
Water and sewer systems	184,876,629	10,249,933	2,297,934	192,828,628
Nonutility property:				
Central shop	1,903,142	49,425	—	1,952,567
Office fixtures and equipment	925,966	24,637	—	950,603
Automotive equipment	1,958,287	173,293	119,042	2,012,538
Total other capital assets	<u>189,664,024</u>	<u>10,497,288</u>	<u>2,416,976</u>	<u>197,744,336</u>
Less accumulated depreciation for:				
Water and sewer systems	56,910,251	5,328,132	112,631	62,125,752
Central shop	674,054	55,739	—	729,793
Office fixtures and equipment	594,496	55,220	—	649,716
Automotive equipment	1,583,316	140,520	119,041	1,604,795
Total accumulated depreciation	<u>59,762,117</u>	<u>5,579,611</u>	<u>231,672</u>	<u>65,110,056</u>
Other capital assets, net	<u>129,901,907</u>	<u>4,917,677</u>	<u>2,185,304</u>	<u>132,634,280</u>
	<u>\$ 137,689,519</u>	<u>11,134,364</u>	<u>4,544,940</u>	<u>144,278,943</u>

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	<u>Balance July 1, 2005, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006, as restated</u>
Capital assets not being depreciated:				
Utility plant:				
Land and land rights	\$ 910,138	—	19,700	890,438
Nonutility property:				
Land	1,584,998	212,663	11,700	1,785,961
Land improvements	13,183	—	—	13,183
Construction in progress	1,632,162	6,143,491	2,677,623	5,098,030
Total capital assets not being depreciated	<u>4,140,481</u>	<u>6,356,154</u>	<u>2,709,023</u>	<u>7,787,612</u>
Other capital assets:				
Utility plant:				
Water and sewer systems	173,024,309	12,285,710	433,390	184,876,629
Nonutility property:				
Central shop	1,955,674	—	52,532	1,903,142
Office fixtures and equipment	868,535	83,476	26,045	925,966
Automotive equipment	1,881,662	148,956	72,331	1,958,287
Total other capital assets	<u>177,730,180</u>	<u>12,518,142</u>	<u>584,298</u>	<u>189,664,024</u>
Less accumulated depreciation for:				
Water and sewer systems	52,263,567	5,058,442	411,758	56,910,251
Central shop	684,060	55,085	65,091	674,054
Office fixtures and equipment	566,996	55,935	28,435	594,496
Automotive equipment	1,482,816	146,860	46,360	1,583,316
Total accumulated depreciation	<u>54,997,439</u>	<u>5,316,322</u>	<u>551,644</u>	<u>59,762,117</u>
Other capital assets, net	<u>122,732,741</u>	<u>7,201,820</u>	<u>32,654</u>	<u>129,901,907</u>
	<u>\$ 126,873,222</u>	<u>13,557,974</u>	<u>2,741,677</u>	<u>137,689,519</u>

**(4) Advances for Construction**

Advances for construction consists of two separate agreement types. Funds were advanced by developers for the construction of specific facilities. These agreements call for rebates, up to the amount advanced, and have no expiration date. Developers can also construct a facility, dedicate it to the Authority, and receive rebates up to the cost of the facility for up to 10 years. As of June 30, 2007 and 2006, advances for construction consisted of:

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Funds advanced	\$	129,780
Facilities constructed		<u>5,522</u>
	\$	<u><u>135,302</u></u>

**(5) Long-Term Debt**

A summary of the Authority's long-term debt activity for the fiscal years ended June 30, 2007 and 2006 is presented as follows:

		<u>Amount payable at July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amount payable at June 30, 2007</u>	<u>Amounts due within one year</u>
Revenue bonds	\$	12,550,000	—	860,000	11,690,000	880,000
Deferred amounts -						
Add bond premium		<u>484,918</u>	—	<u>41,124</u>	<u>443,794</u>	—
Total	\$	<u><u>13,034,918</u></u>	<u>—</u>	<u><u>901,124</u></u>	<u><u>12,133,794</u></u>	<u><u>880,000</u></u>
		<u>Amount payable at July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amount payable at June 30, 2006</u>	<u>Amounts due within one year</u>
Revenue bonds	\$	13,390,000	—	840,000	12,550,000	860,000
Deferred amounts -						
Add bond premium		<u>526,041</u>	—	<u>41,123</u>	<u>484,918</u>	—
Total	\$	<u><u>13,916,041</u></u>	<u>—</u>	<u><u>881,123</u></u>	<u><u>13,034,918</u></u>	<u><u>860,000</u></u>

General long-term obligations at June 30, 2007 are comprised of the following:

\$14,650,000 Revenue Bonds, Series 2003, issued April 2003, maturing in various annual installments through 2018, with interest payable semiannually at 2.25%	\$	11,690,000
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Future maturities of the Authority's debt obligation with scheduled interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal year ending June 30:		
2008	880,000	503,631
2009	905,000	479,431
2010	935,000	450,019
2011	965,000	419,631
2012	1,000,000	383,444
2013-2017	5,690,000	1,223,581
2018	<u>1,315,000</u>	<u>67,394</u>
	<u><u>\$ 11,690,000</u></u>	<u><u>3,527,131</u></u>

Total costs of issuance for the above bonds are \$218,133 and have been capitalized in the accompanying balance sheets. Accumulated amortization at June 30, 2007 and 2006 was \$60,504 and \$45,962,

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respectively. Bond issuance costs are amortized on a straight-line basis over the life of the related bonds. Amortization expense was \$14,542 for the years ended June 30, 2007 and 2006.

**(6) Salaries and Fringe Benefits**

Salaries and fringe benefits, such as vacation, sick leave, hospitalization insurance, and pension plan costs are paid and provided by the County. The costs attributable to Authority personnel are reimbursed to the County by the Authority. Any costs associated with earned but unused vacation and sick leave are reported in the financial statements.

At June 30, 2007 and 2006, employees' earned but unused vacation was \$280,607 and \$252,306, respectively, and unused sick leave was \$69,901 and \$67,176, respectively, and are both included in accrued salaries and benefits in the accompanying balance sheets. Upon termination, employees are entitled to receive cash payments for sick leave at 25% of accumulated values up to a maximum of \$5,000. Employees are entitled to sick leave reimbursement only after having been employed by the Authority for a minimum of two years.

**(7) Defined-Benefit Pension Plan**

**(a) Plan Description**

The Authority contributes to the Virginia Retirement System (VRS or the System), an agent multiple-employer, defined-benefit pension plan administered by the Virginia Retirement System. All full-time, salaried, permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with at least 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

**(b) Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by the employer. In addition, the Authority is required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the statute and approved by

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the VRS board of trustees. The employer contribution rates for the fiscal years ended June 30, 2007 and 2006 were 10.65% and 6.50%, respectively, of annual covered payroll.

**(c) Annual Pension Cost**

For the fiscal years ended June 30, 2007 and 2006, the annual pension cost of \$382,475 and \$213,038, respectively, was equal to the required and actual contributions. The required contributions for fiscal year 2007 were determined as part of the June 30, 2006 actuarial valuation using the entry-age-normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases between 3.75% and 5.60%, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The remaining amortization period is 20 years. The amortization method is level percent, open.

The trend information for the Authority's employees is as follows:

<b>Three-year trend information</b>			
<b>Fiscal year ending</b>	<b>Annual pension cost (APC)</b>	<b>Percentage of APC contributed</b>	<b>Net pension obligation</b>
June 30, 2007	\$ 382,475	100%	none
June 30, 2006	213,038	100	none
June 30, 2005	199,041	100	none

**(8) Deferred-Compensation Plan**

The Authority offers its employees a deferred-compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to permanent part-time and full-time Authority employees, permits them to defer 25% of their gross income up to a maximum of \$15,500 per year. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

As required by Internal Revenue Code Section 457, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are held in trust for the participants. The County acts as trustee for the plan with the choice of investment options being made by the participants.

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Notes to Basic Financial Statements

June 30, 2007 and 2006

**(9) Special Services**

Special services are administrative and other operating charges incurred by the Authority. The components for the years ended June 30, 2007 and 2006 are as follows:

	<b>2007</b>	<b>2006</b>
Salaries	\$ 2,777,949	2,705,831
Fringe benefits	1,086,776	891,485
Special services	264,542	251,561
Professional services	187,461	119,088
Other	184,215	320,879
Motor fuel and lubrication	147,029	138,034
Computer services	114,739	109,275
Utilities	98,345	40,264
Insurance	87,972	94,630
Garage charges	84,073	114,041
Equipment maintenance	83,144	27,675
Operating	52,461	64,933
	\$ 5,168,706	4,877,696

**(10) Transactions with Related Parties**

Certain financial management, accounting, and other services are provided to the Authority by the County. The charges for these services amounted to \$874,947 and \$795,231 for the years ended June 30, 2007 and 2006, respectively, and are included in operating expenses under special services.

In addition, the County leases space in the Authority's administration building under a 25-year noncancelable operating lease agreement with the County, which expires in 2014. Rent revenue was \$76,830 and \$85,716 for the years ended June 30, 2007 and 2006, respectively. Rent revenue included utilities, insurance, maintenance, housekeeping supplies, and custodian services, which is included in rental income in the accompanying statements of revenues, expenses, and changes in net assets. Future minimum lease payments are estimated as follows:

2008	\$ 76,830
2009	79,007
2010	85,537
2011	85,537
2012	85,537
2013-2014	171,074
	\$ 583,522

**JAMES CITY SERVICE AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2007 and 2006

**(11) Commitments**

**(a) Construction in Progress**

At June 30, 2007, the Authority had several major projects under construction which are presented in the accompanying financial statements as construction in progress. Presented below is a list of major projects, by budget, expenditures to date, balance of contract, and budget balance.

Project	Budget	Expenditures to date	Balance of contract	Budget balance
Sewer improvements	\$ 4,977,479	919,514	566,455	3,491,510
Water supply	3,667,626	2,077,206	833,489	756,931
Water transmission	148,858	—	—	148,858
Water distribution	860,469	71,921	57,509	731,039
Water system acquisition	7,105,106	5,803,486	1,053,268	248,352
Other	2,285,167	41,654	5,275	2,238,238
	<u>\$ 19,044,705</u>	<u>8,913,781</u>	<u>2,515,996</u>	<u>7,614,928</u>

**(b) Other**

The Authority is not currently involved in any litigation which management feels could have a significant impact on the Authority's financial condition.

**(12) Note Receivable and Deferred Liability**

In August 2006, the Authority executed a performance based agreement with the Economic Development Authority of James City County and Avid Medical to construct a water tower in the Stonehouse area. The Authority has a \$500,000 note receivable from the Economic Development Authority to offset costs associated with construction of the water tower. In addition, Avid Medical was issued a forgivable loan from the Authority in the amount of \$500,000. This amount will be forgiven contingent upon the organization maintaining a certain taxable capital investment in James City County. At June 30, 2007, the note receivable and deferred liability balance was \$500,000.

**(13) Restated Beginning Net Assets**

The following table shows beginning net assets as restated for the effects of an error in accumulated depreciation:

	Water operations	Sewer operations	Total
Net assets at June 30, 2005, as previously reported	\$ 72,300,125	67,545,344	139,845,469
Adjustments related to accumulated depreciation - Capital assets	<u>565,031</u>	<u>378,973</u>	<u>944,004</u>
Net assets at June 30, 2005, as restated	<u>\$ 72,865,156</u>	<u>67,924,317</u>	<u>140,789,473</u>

The impact of this correction on previously reported 2006 depreciation expense is immaterial.