

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

Management's Discussion and Analysis

June 30, 2007 and 2006

This section of the James City Service Authority's (the Authority or JCSA) annual financial report presents our discussion and analysis of the Authority's financial performance during fiscal years ended June 30, 2007 and 2006.

**Financial Highlights for Fiscal Years 2007 and 2006**

- \* The Authority's total net assets were \$166.0 million at June 30, 2007, which represents a 7.1% increase from 2006. Total net assets at June 30, 2006 were \$155.0 million, as restated.
- \* The Authority's total operating expenses before depreciation and amortization increased by 13.7% in 2007 from 2006, and total operating revenues increased by 19.4% in 2007 from 2006. Total operating expenses before depreciation and amortization increased by 7.0% in 2006 from 2005, and total operating revenues increased by 8.6% in 2006 from 2005.
- \* Capital assets increased by 4.8% in 2007 from 2006. This was primarily due to the formal acceptance of 16 new water system dedications and 14 new sewer system dedications. In addition, new vehicles were purchased during the year.
- \* In September 2006, the Authority experienced effects from Tropical Storm Ernesto. Revenue totaling \$161,573 was received from insurance and Federal Emergency Management Agency to offset the costs associated with personnel, storm operating costs and equipment replacement.

**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 the balance sheets, statements of revenues, expenses, and changes in net assets, statements of cash flows, and notes to the basic financial statements.

Transactions are accounted for under the economic resources measurement focus and the accrual basis of accounting similar to 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 activities that are financed and operated similar to those often found in the private sector.

**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 the Authority's financial health is improving or deteriorating. However, it is also important to consider other nonfinancial factors, such as changes in economic conditions, population and service area growth, and new or changed legislation.

The Authority's net assets increased from last year by \$11.0 million. This increase is primarily related to the contribution of water and sewer systems to the Authority. The Authority's net assets increased by \$15.1 million in 2006 (as restated) from 2005. This increase is also primarily related to the contribution of water and sewer systems to the Authority.

Net assets at July 1, 2005 were restated as a result of discovering an error in accumulated depreciation. This resulted in a \$944,004 increase in net assets as of that date. It was not practical to determine the amount of the

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error for years prior to FY 2006. Therefore, information included in the MD&A and in the statistical section for fiscal years prior to 2006 has not been restated.

**Condensed Balance Sheet Information at June 30**

	2007	2006, as restated	2005	2007 vs. 2006	
				\$ Change	% Change
Capital assets	\$ 144,278,943	137,689,519	125,929,218	6,589,424	4.8%
Current and other assets	36,617,714	32,609,367	29,867,110	4,008,347	12.3
Total assets	\$ 180,896,657	170,298,886	155,796,328	10,597,771	6.2%
Current liabilities	\$ 3,501,273	3,002,823	2,739,516	498,450	16.6%
Long-term liabilities	11,389,096	12,310,220	13,211,343	(921,124)	(7.5)
Total liabilities	14,890,369	15,313,043	15,950,859	(422,674)	(2.8)
Net assets:					
Invested in capital assets, net of related debt	132,145,149	124,654,601	112,013,177	7,490,548	6.0
Restricted for capital projects	709,584	703,494	696,483	6,090	0.9
Unrestricted	33,151,555	29,627,748	27,135,809	3,523,807	11.9
Total net assets	166,006,288	154,985,843	139,845,469	11,020,445	7.1
	\$ 180,896,657	170,298,886	155,796,328	10,597,771	6.2%

The change in net assets can also be determined by reviewing the following condensed statements of revenues, expenses, and changes in net assets information.

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**Condensed Statements of Revenues, Expenses, and Changes in Net Assets Information**  
Years ended June 30

	2007	2006, as restated	2005	2007 vs. 2006	
				\$ Change	% Change
Water and sewer services	\$ 11,464,460	10,269,798	8,383,600	1,194,662	11.6%
Miscellaneous	1,747,670	930,060	1,262,416	817,610	87.9
Reimbursement for storm costs	161,573	—	—	161,573	1.0
Connection fees	5,904,875	6,132,383	6,130,640	(227,508)	(3.7)
Nonoperating revenues	1,503,939	935,971	531,063	567,968	60.7
<b>Total revenues</b>	<b>20,782,517</b>	<b>18,268,212</b>	<b>16,307,719</b>	<b>2,514,305</b>	<b>13.8</b>
Salaries	1,020,053	762,584	754,182	257,469	33.8
Fringe benefits	409,947	265,520	270,864	144,427	54.4
Operating supplies	737,092	560,840	480,994	176,252	31.4
Maintenance of buildings and equipment	793,764	637,345	856,296	156,419	24.5
Special services	5,168,706	4,877,696	4,292,880	291,010	6.0
Utilities	640,890	651,820	592,153	(10,930)	(1.7)
Water purchases	285,190	320,509	394,426	(35,319)	(11.0)
Storm costs	161,349	—	—	161,349	1.0
Other	203,327	207,397	101,570	(4,070)	(2.0)
Depreciation and amortization	5,594,153	5,330,865	4,547,931	263,288	4.9
Nonoperating expenses	2,674,057	534,642	513,617	2,139,415	400.2
<b>Total expenses</b>	<b>17,688,528</b>	<b>14,149,218</b>	<b>12,804,913</b>	<b>3,539,310</b>	<b>25.0</b>
Excess of revenues over expenses	3,093,989	4,118,994	3,502,806	(1,025,005)	(24.9)
Capital contributions	7,926,456	10,077,376	4,983,390	(2,150,920)	(21.3)
Change in net assets	11,020,445	14,196,370	8,486,196	(3,175,925)	(22.4)
Net assets at beginning of year	154,985,843	140,789,473	131,359,273	14,196,370	10.1
Net assets at end of year	\$ 166,006,288	154,985,843	139,845,469	11,020,445	7.1%

Revenues increased 13.8% from 2006, which was primarily a result of an increase in the water service charges, as well as an increase in customer growth. In addition, the Authority received \$530,518 in proffers from developers to fund capital improvements due to growth. Investment income was up this year from last due to an increase in interest rates. Expenses increased from last year by 34.0%, which is primarily due to the Authority donating a lift station to HRSD. This donation resulted in a loss on disposal of capital assets. In addition, there was an increase in special services, which is a result of new positions being approved during the current fiscal year.

Revenues increased 12.0% in 2006 from 2005, which was primarily a result of an increase in customer growth. In addition, the Authority received \$403,459 in proffers from developers to help mitigate impacts of new development. Investment income was up in 2006 from 2005 due to an increase in interest rates. Expenses increased from 2005 by 10.5%, which is due to an increase in special services, which was a result of new positions being approved during the fiscal year 2006.

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**Capital Assets**

At the end of fiscal year 2007, the Authority had invested \$144,278,943 in a broad range of capital assets, including land and land improvements, water and sewer systems, office fixtures and equipment, and automotive equipment. This amount represents a 4.8% net increase from last year. This increase was primarily the result of the contribution of water and sewer systems to the Authority during fiscal year 2007. Construction in progress increased by 74.8% over last year. This increase was primarily due to the continued construction of water storage tanks at Season's Trace and the Stonehouse area and the second phase of the Five Forks Water Treatment Facility.

At the end of fiscal year 2006, the Authority had invested \$137,689,519 in a broad range of capital assets, including land and land improvements, water and sewer systems, office fixtures and equipment, and automotive equipment. This amount represented a 9.3% net increase from 2005. This increase was primarily the result of the contribution of water and sewer systems to the Authority during fiscal year 2006. Construction in progress increased by 212.3% over 2005. This increase was primarily due to the construction of water storage tanks at Season's Trace and the Stonehouse area and the second phase of the Five Forks Water Treatment Facility. For further information, see Notes to Financial Statements (pgs. 13-26). Additional information on the Authority's capital assets can be found in Note 3 on pages 20-21. The following table summarizes the Authority's capital assets at June 30, 2007, 2006, and 2005:

	<u>2007</u>	<u>2006, as restated</u>	<u>2005</u>
Utility plant:			
Land and land rights	\$ 954,738	890,438	910,138
Water and sewer systems	192,828,628	184,876,629	173,024,309
Total utility plant	<u>193,783,366</u>	<u>185,767,067</u>	<u>173,934,447</u>
Nonutility property:			
Land	1,762,961	1,785,961	1,584,998
Central shop	1,952,567	1,903,142	1,955,674
Office fixtures and equipment	950,603	925,966	868,535
Land improvements	13,183	13,183	13,183
Automotive equipment	2,012,538	1,958,287	1,881,662
Total nonutility property	<u>6,691,852</u>	<u>6,586,539</u>	<u>6,304,052</u>
Construction in progress	8,913,781	5,098,030	1,632,162
Less accumulated depreciation	65,110,056	59,762,117	55,941,443
Net capital assets	<u>\$ 144,278,943</u>	<u>137,689,519</u>	<u>125,929,218</u>

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**Debt Administration**

At the close of the current fiscal year, the Authority's total outstanding debt was \$11,690,000 (before premiums). During fiscal year 2003, the Authority issued revenue bonds in the amount of \$14,650,000 to finance a groundwater treatment facility, wells, and water transmission lines and to provide for the costs of issuing the bonds and funding any necessary reserves. The revenue bonds ratings are Aaa from Moody's and AAA from Standard & Poor's rating services, based on the municipal bond insurance policy by the Insurer. The Series 2003 bonds have been assigned an underlying rating of AA by Standard & Poor's and of A1 by Moody's without giving effect to the issuance of the municipal bond insurance policy by the Insurer. These ratings allowed the Authority to borrow at lower interest rates. At the close of fiscal year 2006, the Authority's total outstanding debt was \$12,550,000 (before premiums). For further information on the Authority's outstanding debt, see Note 5 on page 22.

**Economic Factors and Next Year Budgets and Rates**

During the current fiscal year, the unrestricted net assets increased to \$33.2 million from \$29.6 million at June 30, 2006. The Authority did not appropriate any of this for spending during fiscal year 2008.

Overall, the portion of the budget for water operations is projected to increase by 6.6% in fiscal year 2008 from the 2007 projected budget level. The revenue increase is due to projected higher interest rates and new customer growth. The water operation expenses also reflect a corresponding increase to the administrative fund allocation, includes a replacement of two ¾-ton trucks and a salary increase.

Overall, the fiscal year 2008 sewer operating budget will increase by 11.3% from 2007. The revenue increase is due to projected higher interest rates and an increase due to customer growth.

The sewer operation expenses also reflect a corresponding increase to the administrative fund allocation, sewer infrastructure maintenance, equipment maintenance, utilities, and a salary increase.

**Contacting the Authority's Financial Management**

This financial report is designed to provide our customers 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.