



PREPARED BY THE DEPARTMENT OF FINANCIAL AND MANAGEMENT SERVICES  
JAMES CITY COUNTY, VIRGINIA  
[jamescitycountyva.gov/jcsa](http://jamescitycountyva.gov/jcsa)



# THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

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

Comprehensive Annual Financial Report  
(*With Independent Auditors' Report Thereon*)

June 30, 2016 and 2015

Prepared by:  
Department of Financial and Management Services  
James City County, Virginia

## **INTRODUCTORY SECTION**

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

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

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

**Authority Officials**

June 30, 2016

**Board of Directors**

Kevin D. Onizuk, Chair

Sue Sadler, Vice-Chair

Michael J. Hipple

Ruth Larson

John J. McGlennon

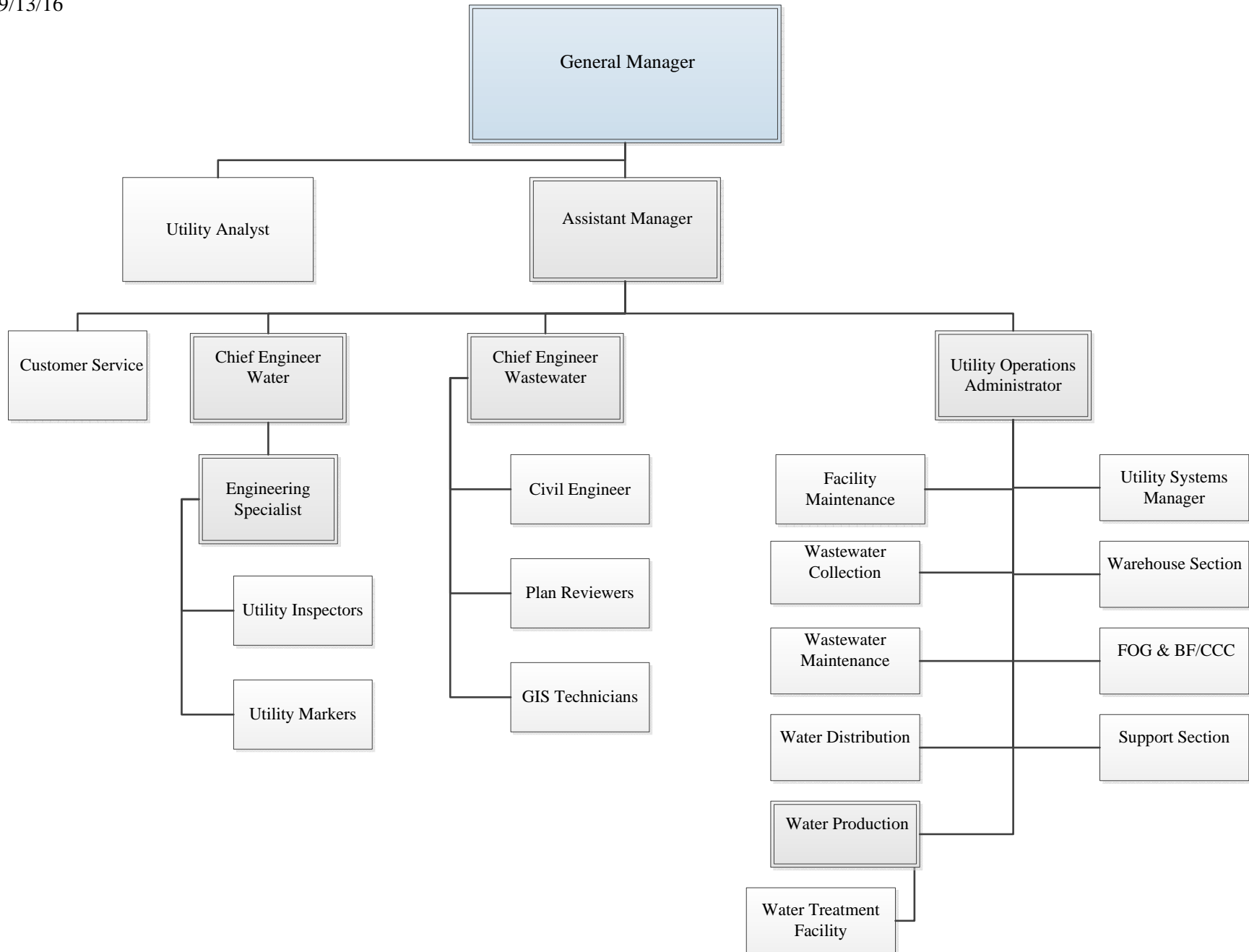
**Officials**

M. Douglas Powell  
General Manager

Stephanie A. Luton  
Assistant Manager/Treasurer

# James City Service Authority Organization Chart

Effective 09/13/16





Operations Center  
119 Tewning Road  
Williamsburg, VA 23188-2639  
P: 757-229-7421  
F: 757-229-2463  
jcsa@jamescitycountyva.gov

November 29, 2016

To the Members of the Board of Directors and the Citizens of James City County:

The Comprehensive Annual Financial Report of the James City Service Authority, a component unit of the County of James City, Virginia, for the fiscal years ending June 30, 2016 and 2015, is hereby submitted. This report presents the financial position of all fund types of the James City Service Authority (JCSA) and the results of operations for the years then ended.

The JCSA financial records have been audited by Dixon Hughes Goodman LLP. Their opinion and management's accompanying statements comprise the Financial Section of this report. This report was prepared by the JCSA, and responsibility for both the accuracy of the information presented and the completeness and fairness of the presentation, including all disclosures, rests with the JCSA. We believe the information as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the JCSA as measured by the financial activity of its various legal funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the JCSA's financial activity have been included. The funds included in our Comprehensive Annual Financial Report are controlled solely by the JCSA.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. JCSA's MD&A can be found on pages 3-8, immediately following the independent auditors' report.

### **The Reporting Entity and Its Service**

The James City Service Authority is a public body politic and corporate of the Commonwealth of Virginia. The JCSA was created in 1969 by the James City County Board of Supervisors pursuant to the Virginia Water and Sewer Authorities Act (Code of Virginia, 1950, as amended). The JCSA was created to acquire, construct, operate and maintain, to the extent determined by the JCSA to be financially feasible, an integrated water system and an integrated sewer collection system in James City County (County). The Board of Directors is appointed by the Board of Supervisors. Since 1976, the Board of Supervisors has appointed its members as Directors of the JCSA to more fully coordinate JCSA activities with those of the County in the planning and development of utility systems.

The Board of Supervisors has authorized water and sewer operations for the JCSA within the Primary Service Area (PSA) in the County. With the approval of the County, the JCSA has extended services beyond the PSA to several public sites in the County, including three public schools, Freedom Park and two major planned communities, Greensprings West and Governor's Land. The JCSA also provides water and/or sewer service to limited sections of York County and the City of Williamsburg with the concurrence of the appropriate governing bodies.

The JCSA's water system includes the central water system and Five Forks Water Treatment Facility with 10 water production facilities, and 8 independent water production facilities that are located outside the PSA. There are approximately 407 miles of water transmission and distribution lines throughout the entire system. The water system facilities supply approximately 4.7 million gallons of water per day to 21,669 water customers.





The JCSA's sewer system includes 76 pump stations with approximately 439 miles of sewer collection lines. The sewer system facilities collect and move approximately 5.1 million gallons of sewage per day for 23,402 sewer customers. The JCSA has no sewage treatment facilities. Sewage treatment for areas served by the JCSA, as well as for other Hampton Roads communities, is provided by the Hampton Roads Sanitation District (HRSB).

As of June 30, 2016, the JCSA had 89 full-time and 2 part-time employees with the responsibility to operate and maintain its utility facilities and lines. The JCSA's operating funds are self-supporting and the JCSA receives no share of any local or property tax levies. The Board of Directors has the sole power to set water and sewer utility rates and related fees. The Board of Directors adopted an inverted-block or inclining rate structure in 1996 for residential customers which incorporates a unit charge that increases with increasing consumption. The primary objective of the inverted-block rate structure is to promote water conservation, particularly from large-volume residential customers.

As a result of a comprehensive water and sewer rate study in fiscal year 2015, the Board of Directors adopted a new rate structure for fiscal year 2016 that included a fixed charge for water and sewer service. The rationale behind the fixed charge is that JCSA incurs significant costs to maintain infrastructure regardless of usage and JCSA should not be completely reliant on variable revenue to cover these fixed costs. The water and sewer fixed charges are based on meter size. For a typical residential customer in fiscal year 2016, the quarterly water fixed charge was \$7.22 and the quarterly sewer fixed charge was \$5.66.

The new rate structure also included changes to the water and sewer service rates to offset some of the additional customer cost from the fixed charge and provide for near term water supply enhancement projects and operating and maintenance costs. The first tier (0-15,000 gallons per quarter) water service rate for a typical single family residential customer decreased from \$2.85 per 1,000 gallons to \$2.47. The second tier (15,001-30,000 gallons per quarter) rate increased from \$3.45 per 1,000 gallons to \$4.93, and the third tier (30,000+ gallons per quarter) rate increased from \$9.80 to \$11.59. The water service rate for non-residential and multi-family residential customers increased from \$3.45 per 1,000 gallons to \$3.65. The sewer service rate decreased from \$3.22 to \$2.93. The rate changes increased a typical 5,000 gallons per month residential customer's bill by \$0.95 per month from \$30.35 to \$31.30.

### **Economic Condition and Outlook**

The County has a strong, diverse, and growing economic base. The County is located near the Cities of Hampton, Newport News and Williamsburg, and York County. Major employers within commuting distance include Busch Gardens, Anheuser-Busch, Owens-Illinois, Ball Metal, Newport News Shipbuilding, Langley Air Force Base, Fort Eustis, the Colonial Williamsburg Foundation, and the National Aeronautics and Space Administration. The County's population grew 9.4 percent from 2010 to 2015 while the Commonwealth of Virginia's population increased 4.8 percent during the same time period. A historically fast-growing population and expanding commercial base enhances the long-term economic outlook for the Authority.

### **Major Initiatives**

Implementation of the new rates and the fixed charge structure in fiscal year 2016 was the start of a multi-year budgetary initiative to ensure the long-term financial stability of the Authority. The goals of this initiative are to reduce revenue variability and adequately provide for both current water and wastewater operating needs and future capital infrastructure repairs, upgrades and expansion required by asset age and regulations.

The Authority currently has groundwater permits for its central water system to withdraw 8.9 million gallons per day to support its residential and commercial customers. Facilities currently provide ample resources and treatment capacity through at least 2040. The Virginia Department of Environmental Quality has expressed an interest in reducing the withdrawal of groundwater within the Eastern Virginia Groundwater Management Area, of

which the Authority is a part. The Authority is currently evaluating options for alternative sources of water should the groundwater withdrawal permit be reduced.

Major multi-year projects started in fiscal year 2016 are upgrading the existing Supervisory Control and Data Acquisition (SCADA) communication and control system for 107 remote sites and replacement of a deep production well and the reverse osmosis membranes at the Five Forks Water Treatment Facility. Wastewater projects completed in fiscal year 2016 include flood proofing Lift Station 4-7 along Route 5, replacement of Lift Station 3-5 on Marclay Lane, rehabilitation of a Kingsmill neighborhood sewer bridge, manhole raising and rehabilitation, and extensive sewer easement clearing. Work continued on the multi-year asset management and water meter replacement projects.

In 2007, the Board of Directors authorized the JCSA to enter into a Consent Agreement with the Virginia Department of Environmental Quality (DEQ) to address sewer system overflows. Thirteen other Hampton Roads localities entered into similar agreements during the same timeframe. In February 2014, Hampton Roads Sanitation District (HRSD) and fourteen Hampton Roads localities, including the JCSA, entered into a Regional Hybrid Consolidation Plan for meeting Consent Agreement requirements to reduce sewer overflows. Development of the detailed Plan is ongoing and scheduled for completion in November 2017.

Under this Plan, HRSD is responsible for major rehabilitation projects to repair deteriorated infrastructure and projects to increase the capacity of HRSD and locality pump stations and pipelines. Projects will be designed on a regional basis. Work will be performed where it is most needed rather than in each individual sewer basin within a locality that did not meet Consent Agreement standards. This regional approach to capital construction is estimated to save approximately \$1 billion regionally compared to the cost of each locality individually fulfilling its Consent Agreement responsibilities. HRSD will fund the work through a regional HRSD rate. In addition, HRSD will also assume liability for wet weather sewer overflows due to inadequate capacity.

JCSA keeps ownership and control of its local sewer infrastructure and is still responsible for monitoring and maintaining the local sewer system to Consent Agreement standards and fixing significant defects on an ongoing basis ("find and fix").

### **Accounting System and Budgetary Control**

The JCSA's accounting records are maintained on a full accrual basis incorporating the principles of enterprise fund accounting. Basically, this approach presents the statements on a profit and loss basis, including a provision for depreciation, which is comparable to private industry.

In developing and evaluating the JCSA's accounting system, consideration is given to the adequacy of internal accounting controls. The controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and, (2) the reliability of financial records for preparing the financial statements.

All internal control evaluations occur within the above framework using the concept of reasonable assurance and recognizing: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

We believe the JCSA's internal accounting controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

Budgetary controls are maintained to ensure compliance with the budget adopted by the Board of Directors. Encumbrances are used to reserve a portion of the applicable appropriation for purchase orders, contracts and commitments of the JCSA.

### **Awards of Achievement**

The Government Finance Officers' Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to James City Service Authority for its component unit financial report for the fiscal year ended June 30, 2015. This was the thirty-first year that the JCSA has received this prestigious award.

In order to be awarded a Certificate of Achievement, the JCSA must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

We wish to express our appreciation to the staff of the James City County Department of Financial and Management Services who participated in the preparation of the report. Also, we would like to thank the members of the Board of Directors for their continued support in the planning and implementation of the financial affairs and setting policy for water and sewer development of the JCSA.

Sincerely,



M. Douglas Powell  
General Manager



Stephanie A. Luton  
Assistant Manager/Treasurer



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**James City Service Authority  
Virginia**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

## **FINANCIAL SECTION**

## **Independent Auditors' Report**

Board of Directors  
James City Service Authority  
Williamsburg, Virginia

We have audited the accompanying financial statements of the business-type activities of the James City Service Authority (the "Authority"), a component unit of the County of James City, Virginia, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the James City Service Authority as of June 30, 2016 and 2015, and the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of changes in net pension liability and related ratios and schedule of employer contributions, and related notes on pages 3-8 and 38-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the James City Service Authority's basic financial statements. The schedule of net position – by activity, schedule of revenues, expenses, and changes in net position – by activity, and schedule of operating revenues and expenses – budget and actual – by activity are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016, on our consideration of the James City Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering James City Service Authority's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Newport News, Virginia  
November 29, 2016**

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
Management's Discussion and Analysis  
June 30, 2016 and 2015

This section of the James City Service Authority's (the Authority or JCSA) comprehensive annual financial report presents management's discussion and analysis of the Authority's financial performance during fiscal years ended June 30, 2016 and 2015. The information presented in this section should be read in conjunction with the letter of transmittal, which begins on page v.

**Financial Highlights for Fiscal Years 2016 and 2015**

- ◆ The Authority's total net position was \$177,056,592 and \$172,792,859 at June 30, 2016 and 2015, respectively.
- ◆ Capital assets remained relatively consistent in 2016 from 2015, primarily attributable to the netting effect of current year additions and current year depreciation expense. For fiscal year 2016, there was formal acceptance of 11 new water system dedications and 10 new sewer system dedications.

Capital assets decreased by 0.8% in 2015 from 2014. For fiscal year 2015, there was formal acceptance of 8 new water system dedications and 10 new sewer system dedications.

- ◆ The Authority's total operating expenses before depreciation and amortization decreased by 2.6% in 2016 from 2015. The slight decrease was primarily attributable to less maintenance expense.

Total operating expenses before depreciation and amortization decreased by 10.1% in 2015 from 2014. This was primarily due to fewer emergency repairs in 2015. In 2014, there were one-time emergency infrastructure and equipment repairs and replacements that were classified as maintenance and funded through the Authority's Capital Improvement Program budget and uncommitted reserves.

- ◆ The Authority's total operating revenues remained relatively flat in 2016 from 2015. Gains from the new rate structure including the introduction of a fixed water and sewer charge offset a reduction in proffers.

**Overview of the Financial Statements**

The Comprehensive Annual Financial Report consists of three sections: introductory, financial and statistical. The financial section includes the basic financial statements, which are comprised of the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

Transactions are accounted for under the economic resources measurement focus and the accrual basis of accounting utilizing 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.

The *statements of net position* present information on the Authority's (1) assets and deferred outflows of resources and (2) liabilities and deferred inflows of resources as of June 30, 2016 and 2015, with the difference between the two reported as net position.

The *statements of revenues, expenses, and changes in net position* present information showing how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows.

The *statements of cash flows* supplement the above two statements by presenting the changes in cash position as a result of the Authority's activities over the last two years.



**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
Management's Discussion and Analysis  
June 30, 2016 and 2015

*Notes to the financial statements* provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 12.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. The required supplementary information begins on page 38.

Net position is a financial measure that compares an entity's assets and deferred outflows of resources to its liabilities and deferred inflows of resources. Over time, increases and decreases in net position 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, industry trends, population and service area growth, and new or changed legislation.

### Financial Analysis

#### Condensed Statements of Net Position

	6/30/2016	6/30/2015	6/30/2014
Current and other assets	\$ 40,940,536	\$ 40,111,499	\$ 35,614,226
Capital assets	161,615,472	161,288,064	162,582,955
Total assets	202,556,008	201,399,563	198,197,181
Deferred charge on refunding, net	1,815,422	-	-
Deferred pension contributions	341,874	330,920	308,820
Total assets and deferred outflows	<u>\$ 204,713,304</u>	<u>\$ 201,730,483</u>	<u>\$ 198,506,001</u>
Current liabilities	\$ 2,443,765	\$ 3,278,575	\$ 2,466,259
Noncurrent liabilities	24,750,261	24,855,247	26,356,508
Total liabilities	27,194,026	28,133,822	28,822,767
Deferred pension investment experience	462,686	803,802	-
Net position:			
Net investment in capital assets	139,312,785	137,173,064	137,922,955
Restricted for debt service	729,605	2,716,277	2,601,160
Unrestricted	37,014,202	32,903,518	29,159,119
Total net position	<u>177,056,592</u>	<u>172,792,859</u>	<u>169,683,234</u>
Total liabilities, deferred inflows and net position	<u>\$ 204,713,304</u>	<u>\$ 201,730,483</u>	<u>\$ 198,506,001</u>

The largest portion of the Authority's net position at June 30, 2016 (78.7%), reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. The unrestricted portion of net position at June 30, 2016 (20.9%) may be used to meet the Authority's ongoing obligations.

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

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

Management's Discussion and Analysis

June 30, 2016 and 2015

**Condensed Statements of Revenues, Expenses and Changes in Net Position  
for the Year Ended**

	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Water and sewer services	\$ 12,774,840	\$ 12,588,470	\$ 11,825,702
Other	817,963	990,357	505,152
Total operating revenues	<u>13,592,803</u>	<u>13,578,827</u>	<u>12,330,854</u>
Salaries	4,347,283	4,257,924	4,288,721
Fringe benefits	1,583,480	1,546,525	1,337,328
Operating supplies	1,094,002	836,288	882,253
Maintenance of buildings & equipment	1,670,023	2,067,464	3,501,598
Utilities	870,220	861,074	875,020
Contractual fees	903,463	915,365	836,634
Other	233,233	497,803	496,851
Depreciation and amortization	7,930,632	7,810,808	7,670,391
Total expenses	<u>18,632,336</u>	<u>18,793,251</u>	<u>19,888,796</u>
Facility charges	3,243,535	3,863,650	4,305,728
Investment income (loss)	519,767	248,207	267,061
Gain (loss) on disposal of capital assets	(193,113)	23,497	15,352
Insurance recovery	14,219	-	-
Bond issuance costs	(402,364)	-	-
Interest, net	(744,124)	(1,095,684)	(1,114,130)
Total nonoperating revenues	<u>2,437,920</u>	<u>3,039,670</u>	<u>3,474,011</u>
Loss before capital contributions	(2,601,613)	(2,174,754)	(4,083,931)
Capital contributions	6,865,346	5,284,379	3,388,700
Change in net position	<u>4,263,733</u>	<u>3,109,625</u>	<u>(695,231)</u>
Net position, beginning of year	<u>172,792,859</u>	<u>169,683,234</u>	<u>170,378,465</u>
Net position, end of year	<u>\$ 177,056,592</u>	<u>\$ 172,792,859</u>	<u>\$ 169,683,234</u>

In fiscal year 2016, water and sewer service revenue increased by 1.5% over 2015, primarily a result of the introduction of a new rate structure. The Authority received \$218,987 in proffers from developers to fund capital improvements, which was \$231,275 less than the amount received in 2015. There was a decrease in the facility charges collected during 2016. This was primarily due to the lack of independent water system connection fees. The 2015 facility charges included independent water system connection fees, which are collected sporadically.

In fiscal year 2015, water and sewer service revenue increased by 6.5% over 2014. This was a result of increased water demand primarily attributable to irrigation. The Authority received \$450,262 in proffers from developers to fund capital improvements, which was \$392,816 more than what was received during 2014. There was a decrease in the facility charges collected during 2015. The 2014 facility charges included one large master metered apartment complex that accounted for approximately 25% of the total collected. New water connections increased to 388 in 2015 from 359 in 2014, and new sewer connections increased to 380 in 2015 from 261 in 2014. The large master metered apartment complex represents one connection in 2014.

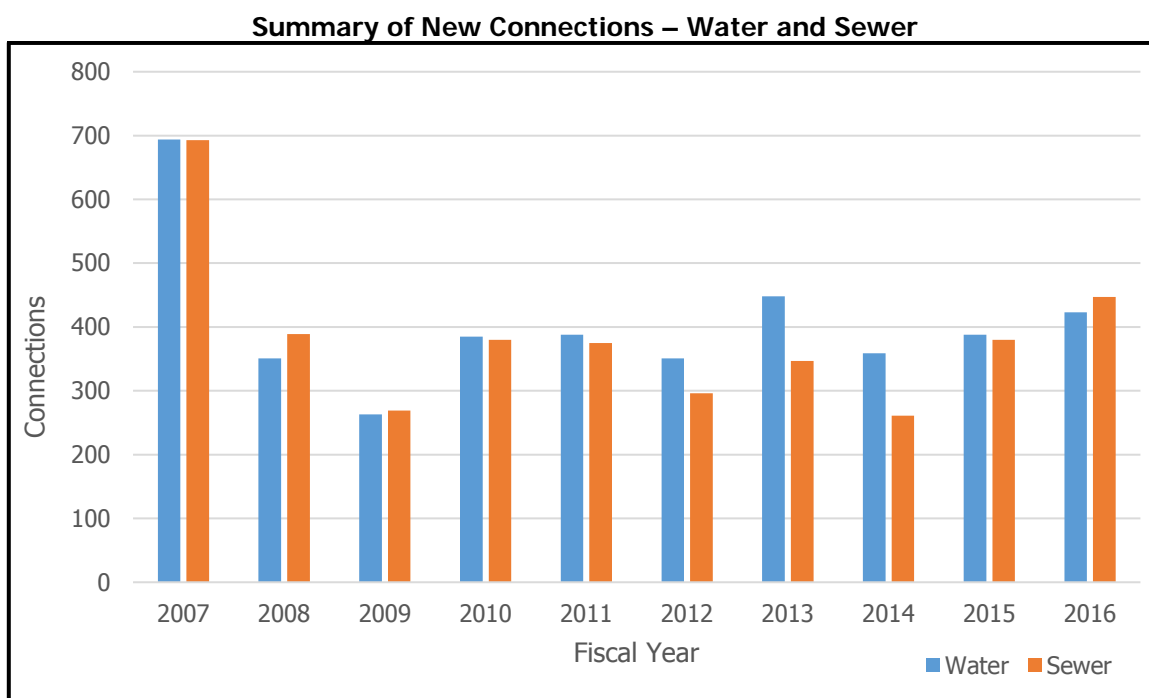
The Authority's net position increased by \$4,263,733 in 2016 from 2015. This was primarily a result of an increase in the number and value of water and sewer system dedications.

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

Management's Discussion and Analysis

June 30, 2016 and 2015

The Authority's net position increased by \$3,109,625 in 2015 from 2014. This was a result of increased water demand primarily attributable to irrigation, an increase in the number and value of water and sewer system dedications, an increase in proffer collections, and the absence of one-time emergency infrastructure and equipment repairs. The Authority's beginning net position for 2014 was restated due to the implementation of GASB 68 and 71.



### Capital Assets

The following table summarizes the Authority's capital assets at June 30, 2016, 2015 and 2014:

<b>Summary of Capital Assets, Net</b>			
	<b>6/30/2016</b>	<b>6/30/2015</b>	<b>6/30/2014</b>
Utility plant	\$ 252,024,248	\$ 244,982,711	\$ 237,989,599
Nonutility plant	11,115,091	10,937,511	10,694,552
Intangible assets	25,004,570	25,004,570	25,004,570
Construction in progress	1,334,553	705,860	1,748,620
Less accumulated depreciation and amortization	127,862,990	120,342,588	112,854,386
Net capital assets	<u>\$ 161,615,472</u>	<u>\$ 161,288,064</u>	<u>\$ 162,582,955</u>

At the end of fiscal year 2016, the Authority had invested \$161,615,472 (net of accumulated depreciation) in a broad range of capital assets, including land and land improvements, water and sewer systems, central shop, office fixtures and equipment, automotive equipment, intangible assets and construction in progress. This amount remains relatively consistent with 2015 (increase of \$327,408), which was primarily the result of increased water and sewer system dedications during fiscal year 2016 (increasing capital assets), offset by the current year depreciation expense. During the current fiscal year, construction in progress increased by 89.1%.

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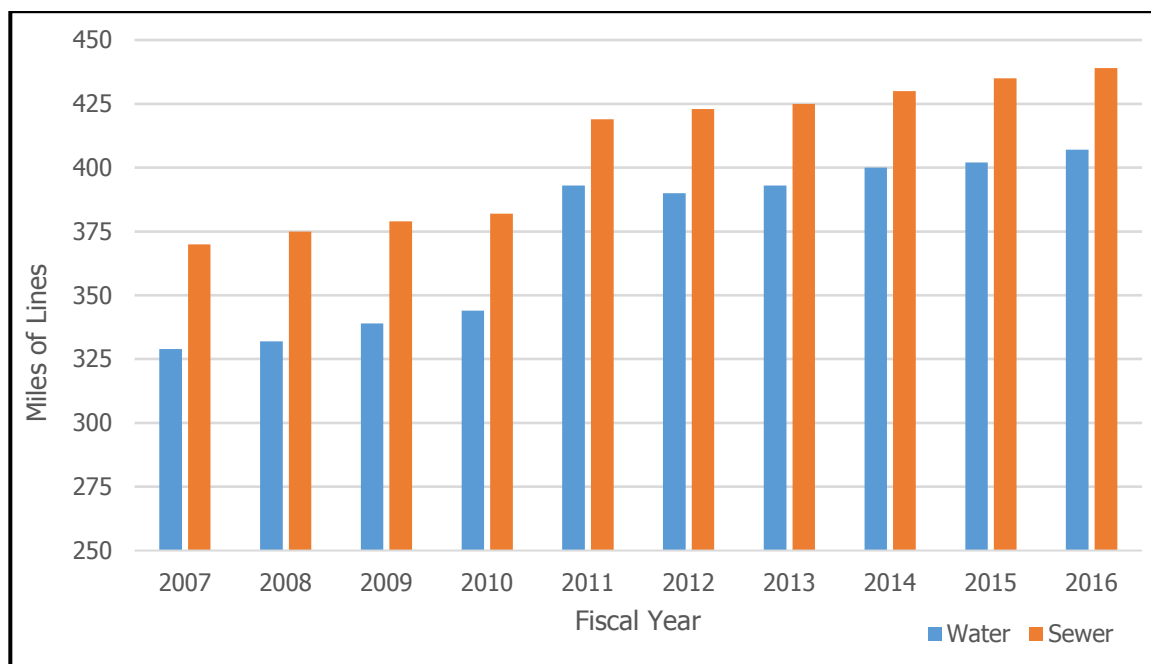
Management's Discussion and Analysis

June 30, 2016 and 2015

At the end of fiscal year 2015, the Authority had invested \$161,288,064 (net of accumulated depreciation) in capital assets. This amount represents a 0.8% net decrease from fiscal year 2014, which was primarily the result of depreciation expense during fiscal year 2015. Construction in progress decreased by 59.6% from fiscal year 2014. This was primarily due to the capitalization of a substantial rehabilitation project at Lift Station 1-5.

Further information related to the Authority's capital assets can be found in Note 3 to these financial statements.

**Water and Sewer Lines**



**Debt Administration**

At the close of the fiscal years 2016 and 2015, the Authority's total outstanding bonded debt was \$22,595,000 (before premiums) and \$24,115,000, respectively.

In August 2008, the Authority issued revenue bonds totaling \$27,120,000 to finance the purchase from the City of Newport News, Virginia of a "safe yield share" of treated water capacity from the King William Reservoir Project or an alternate water supply source. In April 2016, the Authority issued revenue refunding bonds totaling \$22,595,000 to advance refund the outstanding 2008 revenue bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. Consequently, the 2008 revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. In April 2016, Standard & Poor's upgraded its rating of AA+ to AAA, and Moody's Investors Service upgraded its rating of Aa2 to Aa1 for the Authority's outstanding bonded debt.

Further information on the Authority's outstanding debt can be found in Note 6 to these financial statements.

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

During the current fiscal year, the unrestricted net position increased by \$4,110,684 to approximately \$37.0 million from 2015. The Authority did not appropriate any of this for spending as part of the fiscal year 2017 budget.

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The JCSA's budget consists of five separate funds: Administration, Water, Sewer, Capital Improvements Program and Debt Service. The Administration fund gets allocated 42% to the Water fund and 58% to the Sewer fund. For financial reporting purposes, the Capital Improvements Program and Debt Service funds are allocated between the Water and Sewer funds as applicable. The fiscal year 2017 budget reflects service rates and charges recommended by the comprehensive water and sewer rate study conducted in fiscal year 2015.

The study concluded the Water Fund needs additional revenue for near term water supply enhancement projects and operating and maintenance costs. The Sewer Fund will require additional revenue beginning in fiscal year 2017 to continue meeting annual operating costs and ongoing Virginia Department of Environmental Quality (DEQ) Consent Order sewer rehabilitation and maintenance responsibilities. Based on these findings, the fiscal year 2017 budget contains the increase of a fixed charge for both water and sewer service and both a water and sewer rate increase for fiscal year 2017 as part of a multi-year plan to ensure the long term financial stability of the Authority.

The philosophy of the fixed charge is that the Authority incurs significant costs to maintain infrastructure regardless of usage and the Authority should not be completely reliant on variable revenue to cover these fixed costs. The water and sewer fixed charges are based on meter size. For a typical residential customer, the quarterly fixed charge for water is \$8.19 and for sewer is \$5.77.

The fiscal year 2017 budget contains new water and sewer service rates. In the Water Fund, the first tier (0-15,000 gallons per quarter) service rate for a typical single family residential customer increases from \$2.47 per 1,000 gallons to \$2.80. The second tier (15,001 – 30,000 gallons per quarter) rate increases from \$4.93 per 1,000 gallons to \$5.60, and the third tier (30,000+ gallons per quarter) rate increases from \$11.59 to \$13.15. The water service rate for non-residential and multi-family residential customers increases from \$3.65 per 1,000 gallons to \$4.14. The sewer service rate increases from \$2.93 per 1,000 gallons to \$2.99.

The rate changes will increase a typical 5,000 gallons per month residential customer's bill by \$2.30 per month from \$31.30 to \$33.60.

The Administration Fund budget increases by 1.3% in fiscal year 2017 from the 2016 budget. In the Water Fund, service revenue is projected to increase by 10.5% in fiscal year 2017 from the 2016 budget as a result of the rate changes. Direct expenses are budgeted to decrease by 3.5%. In the Sewer Fund, service revenue is projected to increase by 1.3% in fiscal year 2017 from the 2016 budget as a result of the rate changes. Direct expenses are budgeted to increase by 1.6%. The Capital Improvements Program budget decreases by 24.5% in fiscal year 2017 from the 2016 budget.

#### **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.

## **BASIC FINANCIAL STATEMENTS**

**Exhibit 1**

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
Statements of Net Position  
June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 655,568	\$ 837,750
Investments (note 2)	36,128,873	33,007,483
Restricted investments (note 2)	729,605	-
Accounts receivable, customers	2,456,377	2,574,394
Accounts receivable, other	33,218	38,520
Note receivable (note 3)	2,544	31,531
Interest receivable	125,238	88,112
Inventories	809,113	817,432
Total current assets	40,940,536	37,395,222
Noncurrent assets:		
Capital assets (note 4):		
Utility plant:		
Land	962,995	962,995
Water and sewer systems	251,061,253	244,019,716
Total utility plant	252,024,248	244,982,711
Nonutility property:		
Land	1,739,491	1,739,491
Central shop	4,892,209	4,892,209
Office fixtures and equipment	1,840,746	1,809,839
Land improvements	13,183	13,183
Automotive equipment	2,629,462	2,482,789
Total nonutility property	11,115,091	10,937,511
Intangible assets:		
Easements	4,570	4,570
Water rights	25,000,000	25,000,000
Total intangible assets	25,004,570	25,004,570
Construction in progress (note 11)	1,334,553	705,860
Less accumulated depreciation and amortization	127,862,990	120,342,588
Net capital assets	161,615,472	161,288,064
Restricted investments (note 2)	-	2,716,277
Total noncurrent assets	161,615,472	164,004,341
Total assets	202,556,008	201,399,563
<b>Deferred Outflow of Resources</b>		
Deferred charge on refunding, net (note 6)	1,815,422	-
Deferred pension contributions (note 7)	341,874	330,920
Total deferred outflows	2,157,296	330,920
Total assets and deferred outflows	<u>\$ 204,713,304</u>	<u>\$ 201,730,483</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable, trade	\$ 326,814	\$ 385,052
Accrued salaries	14,083	21,605
Compensated absences, current portion (note 6)	287,104	268,010
Due to James City County (note 10)	633,544	1,346,004
Deposits	180,490	196,804
Interest payable	152,823	496,100
Bonds payable, current portion (note 6)	785,000	565,000
Unamortized bond premium, current portion (note 6)	63,907	-
Total current liabilities	2,443,765	3,278,575
Noncurrent liabilities:		
Advances for construction (note 5)	32,902	32,902
Other post-employment benefits (OPEB) (note 8)	277,509	243,509
Compensated absences, net of current portion (note 6)	95,701	89,343
Bonds payable, net of current portion (note 6)	21,810,000	23,550,000
Unamortized bond premium, net of current portion (note 6)	1,459,202	-
Net pension liability (note 7)	1,074,947	939,493
Total noncurrent liabilities	24,750,261	24,855,247
Total liabilities	27,194,026	28,133,822
<b>Deferred Inflow of Resources</b>		
Deferred differences between expected and actual experience (note 7)	114,381	-
Deferred pension investment experience (note 7)	348,305	803,802
Total deferred inflows	462,686	803,802
<b>Net position</b>		
Net position:		
Net investment in capital assets	139,312,785	137,173,064
Restricted for debt service	729,605	2,716,277
Unrestricted	37,014,202	32,903,518
Total net position	177,056,592	172,792,859
Total liabilities, deferred inflow of resources, and net position	<u>\$ 204,713,304</u>	<u>\$ 201,730,483</u>

See accompanying notes to basic financial statements.

**Exhibit 2**

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
**Statements of Revenues, Expenses, and Changes in Net Position**  
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Water and sewer services	\$ 12,774,840	\$ 12,588,470
Water supply proffers	218,987	450,262
Rental income (note 10)	326,377	325,991
Other	272,599	214,104
Total operating revenues	<u>13,592,803</u>	<u>13,578,827</u>
Operating expenses:		
Salaries (note 6)	4,347,283	4,257,924
Fringe benefits (note 6)	1,583,480	1,546,525
Operating supplies	1,094,002	836,288
Maintenance of buildings and equipment	1,670,023	2,067,464
Utilities	870,220	861,074
Contractual fees (note 10)	903,463	915,365
Other	233,233	497,803
Total operating expenses	<u>10,701,704</u>	<u>10,982,443</u>
Operating income before depreciation and amortization	2,891,099	2,596,384
Depreciation and amortization	7,930,632	7,810,808
Operating loss	<u>(5,039,533)</u>	<u>(5,214,424)</u>
Nonoperating revenues (expenses):		
Facility charges	3,243,535	3,863,650
Investment income	519,767	248,207
Gain (loss) on disposal of capital assets	(193,113)	23,497
Insurance recovery	14,219	-
Bond issuance costs	(402,364)	-
Interest, net	(744,124)	(1,095,684)
Net nonoperating revenues	<u>2,437,920</u>	<u>3,039,670</u>
Loss before capital contributions	<u>(2,601,613)</u>	<u>(2,174,754)</u>
Capital asset contributions	6,865,346	5,284,379
Changes in net position	4,263,733	3,109,625
Net position, beginning of year	172,792,859	169,683,234
Net position, end of year	<u>\$ 177,056,592</u>	<u>\$ 172,792,859</u>

See accompanying notes to basic financial statements.



**Exhibit 3**

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
**Statements of Cash Flows**  
Years ended June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Cash received from customers	\$ 12,876,543	\$ 12,447,781
Other cash receipts	852,252	1,067,923
Cash payments to suppliers for goods and services	(5,533,320)	(4,368,094)
Cash payments for personnel services	(6,095,449)	(5,977,476)
Facility charges	3,243,535	3,863,650
Net cash provided by operating activities	<u>5,343,561</u>	<u>7,033,784</u>
Cash flows from capital and related financing activities:		
Repayments of debt	(1,814,357)	(545,000)
Interest paid	(1,085,357)	(1,104,431)
Bond issuance costs	(402,364)	-
Insurance recovery	14,219	-
Acquisition and construction of capital assets	(1,615,979)	(1,241,159)
Proceeds from sale of capital assets	30,172	33,118
Net cash used in capital and related financing activities	<u>(4,873,666)</u>	<u>(2,857,472)</u>
Cash flows from investing activities:		
Purchases of investments	(60,367,516)	(28,269,994)
Proceeds from sale of investments	59,232,798	24,103,069
Interest received	482,641	241,393
Net cash used in investing activities	<u>(652,077)</u>	<u>(3,925,532)</u>
Increase (decrease) in cash and cash equivalents	<u>(182,182)</u>	<u>250,780</u>
Cash and cash equivalents, beginning of year	837,750	586,970
Cash and cash equivalents, end of year	<u><u>\$ 655,568</u></u>	<u><u>\$ 837,750</u></u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (5,039,533)	\$ (5,214,424)
Adjustments to reconcile operating loss to cash provided by operating activities:		
Depreciation and amortization	7,930,632	7,810,808
Facility charges	3,243,535	3,863,650
Change in operating assets and liabilities:		
Accounts receivable, customers and others	123,319	(104,984)
Notes receivable	28,987	29,463
Inventories	8,319	2,768
Accounts payable, trade	(58,238)	(83,377)
Accrued salaries	(7,522)	21,605
Compensated absences	25,452	(44,208)
Due to James City County	(712,460)	890,509
Deposits	(16,314)	12,398
OPEB liability	34,000	36,000
Net pension liability and related deferred inflow/outflows of resources	(216,616)	(186,424)
Total adjustments	<u>10,383,094</u>	<u>12,248,208</u>
Net cash provided by operating activities	<u><u>\$ 5,343,561</u></u>	<u><u>\$ 7,033,784</u></u>
Supplemental schedules:		
Noncash capital activities:		
Capital asset contributions	\$ 6,865,346	\$ 5,284,379
Noncash investing activity:		
Unrealized gain (loss) from change in fair value of investments	<u><u>\$ 99,188</u></u>	<u><u>\$ (166,009)</u></u>

See accompanying notes to basic financial statements.

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

Notes to Financial Statements

June 30, 2016 and 2015

**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, to: a) acquire, construct, improve, extend, operate, and maintain any water, sewer, sewage disposal, or garbage/refuse collection and disposal system; b) issue revenue bonds of the Authority, payable solely from revenues, to pay all or any part of the cost of such systems; c) 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) 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.

**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 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.

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. The basic financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to the Financial Statements.

**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.

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

Notes to Financial Statements

June 30, 2016 and 2015

**1) Organization and Summary of Significant Accounting Policies, Continued**

**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.

**Capital Assets**

All direct costs of water and sewer transmission facilities constructed are capitalized. In addition, interest and 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 acquisition value at the date of donation of \$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

The Authority has easements and water rights that are considered intangible assets. The water rights are related to an agreement the Authority has with the City of Newport News to purchase and treat water to meet long-term water supply needs. These water rights are amortized using the straight-line depreciation method over the life of the agreement.

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 position.

**Unbilled Revenue**

The Authority records the amount of accrued but unbilled revenue by prorating actual subsequent billings. Amounts accrued but unbilled were approximately \$1,106,000 and \$1,196,000 at June 30, 2016 and 2015, respectively.

**Allowance for Uncollectible Accounts**

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

**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 years ended June 30, 2016 and 2015, there were \$44,600 and \$26,200, respectively, in supplemental appropriations for various grants.

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

Notes to Financial Statements

June 30, 2016 and 2015

**1) Organization and Summary of Significant Accounting Policies, Continued**

**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, liability and worker's compensation coverages are provided through a self-insurance pool. The Authority's retention is through deductibles. Deductibles and coverage limits at June 30, 2016 were as follows:

	<u>Deductibles</u>		<u>Liability coverage limits</u>
Property	\$ 10,000		
Inland marine	1,000		
Flood	25,000		
Earthquake	25,000		
General liability and law enforcement	100,000		
Automobile:			
Liability	100,000		
Comprehensive	1,000		
Collision	1,000		
Crime	250		
Worker's compensation	None		
Property insurance:			
Valuation at functional replacement		\$ 56,698,184	
Flood (outside 100 year flood plain)		56,698,184	
Business interruption/extra expense		3,000,000	
Property in transit		5,000,000	
Increased cost of construction/ordinance demolition		20,000,000	
Back-up of sewers and drains		1,000,000	
Debris removal		20,000,000	
Pollutant clean-up and removal		500,000	
Off premises power failure		2,000,000	
Media reproduction		100,000	
Newly acquired locations for up to 120 days		20,000,000	
General liability and law enforcement		9,000,000	
Automobile liability		9,000,000	
Public officials		9,000,000	
Crime		500,000	
Worker's compensation		Statutory limits	

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.

**Bond Premiums and Discounts**

Bond premiums and discounts are deferred and amortized over the terms of the related issues on a straight-line basis, which approximates the effective interest method.

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

Notes to Financial Statements

June 30, 2016 and 2015

**1) Organization and Summary of Significant Accounting Policies, Continued**

**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 facility charges, investment income, interest expense, and gain or loss on disposal of capital assets.

**Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

**Adoption of New Accounting Statement**

Effective with the financial statements for the fiscal year ended June 30, 2016, the Authority has adopted GASB Statement No. 72, Fair Value Measurement and Application. This statement requires the use of valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach, or an income approach.

The statement establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements.

**2) Cash and Investments**

The Authority's cash and investments at June 30, 2016 and 2015, consisted of the following:

	<u>6/30/2016</u>	<u>6/30/2015</u>
Bank deposits	\$ 654,963	\$ 837,145
Petty cash	605	605
Investments	36,858,478	35,723,760
Total	<u>\$ 37,514,046</u>	<u>\$ 36,561,510</u>

**Reconciliation to Statement of Net Position:**

Cash and cash equivalents	\$ 655,568	\$ 837,750
Investments	36,128,873	33,007,483
Restricted investments	729,605	2,716,277
Total	<u>\$ 37,514,046</u>	<u>\$ 36,561,510</u>

Deposits with banks are fully covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia.

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

Notes to Financial Statements

June 30, 2016 and 2015

**2) Cash and Investments, Continued**

The Authority's investments at June 30, 2016 were as follows:

<b>Investment Type</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b><i>Investments:</i></b>					
U.S. Treasury securities	\$ 16,198,777	\$ 16,328,592	\$ 16,328,592	\$ -	\$ -
Federal agency notes and bonds	6,243,569	6,218,850	-	6,218,850	-
Corporate notes and bonds	6,326,762	6,314,987	-	6,314,987	-
Commercial paper	2,084,038	2,089,218	-	2,089,218	-
Certificates of deposit	3,224,034	3,227,691	-	3,227,691	-
Federal agency collateralized mortgage obligation	1,952,505	1,949,535	-	1,949,535	-
Total	<u>\$ 36,029,685</u>	<u>\$ 36,128,873</u>	<u>\$ 16,328,592</u>	<u>\$ 19,800,281</u>	<u>\$ -</u>
<b><i>Restricted Investments:</i></b>					
Money market	<u>\$ 729,605</u>	<u>\$ 729,605</u>	N/A	N/A	N/A

	Amount	Weighted average maturity (in years)		
		Less than 1	1-2	2-7
<b>6/30/2016:</b>				
Money market funds	\$ 729,605	\$ 729,605	\$ -	\$ -
U.S. Treasury securities	16,328,592	310,630	3,834,076	12,183,886
Federal agency notes and bonds	6,218,850	50,356	4,392,166	1,776,328
Corporate notes and bonds	6,314,987	1,767,158	2,380,701	2,167,128
Commercial paper	2,089,218	2,089,218	-	-
Certificate of deposit	3,227,691	700,086	2,527,605	-
Federal agency collateralized mortgage obligation	1,949,535	-	226,823	1,722,712
Total	\$ 36,858,478	\$ 5,647,053	\$ 13,361,371	\$ 17,850,054

<b><i>6/30/2015:</i></b>				
Money market funds	\$ 2,593,852	\$ 2,593,852	\$ -	\$ -
U.S. Treasury securities	18,536,007	-	1,050,737	17,485,270
Federal agency notes and bonds	5,149,629	-	684,789	4,464,840
Corporate notes and bonds	5,965,056	-	-	5,965,056
Certificate of deposit	2,572,914	-	-	2,572,914
Municipal bonds	906,302	-	-	906,302
Total	<u>\$ 35,723,760</u>	<u>\$ 2,593,852</u>	<u>\$ 1,735,526</u>	<u>\$ 31,394,382</u>

**Investment Policy**

The JCSA Board of Directors adopted an updated Investment Policy on March 26, 2013. 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 fair value of the Authority's position in the LGIP is the same as the value of the pool shares. The Treasury Board of the Commonwealth of Virginia has regulatory oversight of the LGIP.

The Policy establishes limitations on the holdings of non-U.S. government obligations. 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.

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**2) Cash and Investments, Continued**

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	50% maximum
Commonwealth of Virginia LGIP	50% maximum
Repurchase agreements	50% maximum
Bankers' acceptances	35% maximum
Commercial paper	35% maximum
Negotiable certificates of deposit/bank deposit notes	20% maximum
Municipal obligations	20% maximum
Corporate notes	20% maximum

**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, 2016 and 2015, the Authority's investments rated by Standard & Poor's were as follows:

	Unrated	AAA	AA+	AA	AA-	A-1+	A-1
<b>6/30/2016:</b>							
Money market funds	\$ 729,605	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury securities	-	-	16,328,592	-	-	-	-
Federal agency notes and bonds	-	-	6,218,850	-	-	-	-
Corporate notes and bonds	-	1,047,539	1,836,052	591,805	2,839,591	-	-
Commercial paper	-	-	-	-	-	-	2,089,218
Certificate of deposit	-	-	-	-	1,301,967	1,225,638	700,086
Fed. agency coll. mortgage ob.	-	-	1,949,535	-	-	-	-
Total	<u>\$ 729,605</u>	<u>\$ 1,047,539</u>	<u>\$ 26,333,029</u>	<u>\$ 591,805</u>	<u>\$ 4,141,558</u>	<u>\$ 1,225,638</u>	<u>\$ 2,789,304</u>
<b>6/30/2015:</b>							
Money market funds	\$ 2,593,852	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury securities	-	-	18,536,008	-	-	-	-
Federal agency notes and bonds	-	-	5,149,629	-	-	-	-
Corporate notes and bonds	-	939,514	1,396,960	1,889,104	1,739,476	-	-
Certificate of deposit	122,425	-	-	-	1,750,062	700,428	-
Municipal bonds	-	-	906,302	-	-	-	-
Total	<u>\$ 2,716,277</u>	<u>\$ 939,514</u>	<u>\$ 25,988,899</u>	<u>\$ 1,889,104</u>	<u>\$ 3,489,538</u>	<u>\$ 700,428</u>	<u>\$ -</u>

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

June 30, 2016 and 2015

**2) Cash and Investments, Continued**

**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 the following exceptions:

U.S. Treasury	100% maximum
Each money market mutual fund	50% maximum
Each federal agency	35% maximum
Each federal agency mortgage-backed security	10% maximum
Each repurchase agreement counterparty	25% maximum
Commonwealth of Virginia LGIP	50% maximum
Bank deposits	35% maximum

At June 30, 2016 and 2015, the portions of the Authority's portfolio (excluding restricted investments) that exceeded 5% of the total were:

<u>Issuer</u>	<u>% of portfolio</u>
<b><u>6/30/2016:</u></b>	
U.S. Treasury	45.2%
Federal Home Loan Banks	7.2%
Federal Home Loan Mortgage Corporation	6.9%
<b><u>6/30/2015:</u></b>	
U.S. Treasury	56.0%
Federal Home Loan Mortgage Corporation	10.0%
Federal Home Loan Banks	5.6%

**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 Authority 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.

**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 counter party to the investment transaction. As of June 30, 2016 and 2015, all of the Authority's investments were held in a bank's trust department in the name of James City Service Authority.



**JAMES CITY SERVICE AUTHORITY**  
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June 30, 2016 and 2015

**3) Note Receivable**

In September 2009, the Authority executed a promissory note with Anderson-Hughes, LLC pursuant to the Sewer Modification Contract dated September 20, 2007 for the installation of grinder pumps. The promissory note was issued for \$170,000 at 6% interest. Anderson-Hughes, LLC is required to pay \$2,508 per month until August 2016. At June 30, 2016 and 2015, the note receivable balance was \$2,544 and \$31,531, respectively.

**4) Capital Assets**

The following is a summary of changes in capital assets for the fiscal years ended June 30, 2016 and 2015:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Utility plant:				
Land	\$ 962,995	\$ -	\$ -	\$ 962,995
Nonutility plant:				
Land	1,739,491	-	-	1,739,491
Land improvements	13,183	-	-	13,183
Construction in progress	705,860	1,505,763	877,070	1,334,553
Intangibles - easements	4,570	-	-	4,570
Total capital assets not being depreciated	<u>3,426,099</u>	<u>1,505,763</u>	<u>877,070</u>	<u>4,054,792</u>
Capital assets being depreciated:				
Utility plant:				
Water and sewer systems	244,019,716	7,472,448	430,911	251,061,253
Nonutility plant:				
Central shop	4,892,209	-	-	4,892,209
Office fixtures and equipment	1,809,839	98,578	67,671	1,840,746
Automotive equipment	2,482,789	281,607	134,934	2,629,462
Intangible - water rights	25,000,000	-	-	25,000,000
Total capital assets being depreciated	<u>278,204,553</u>	<u>7,852,633</u>	<u>633,516</u>	<u>285,423,670</u>
Less accumulated depreciation/amortization:				
Water and sewer systems	112,007,794	6,784,156	208,159	118,583,791
Central shop	1,488,065	144,245	-	1,632,310
Office fixtures and equipment	1,109,095	135,485	67,136	1,177,444
Automotive equipment	1,903,277	253,249	134,934	2,021,592
Intangibles - water rights	3,834,356	613,497	-	4,447,853
Total accumulated depreciation/amortization	<u>120,342,588</u>	<u>7,930,632</u>	<u>410,229</u>	<u>127,862,990</u>
Total capital assets being depr./amort, net	<u>157,861,967</u>	<u>(77,999)</u>	<u>223,287</u>	<u>157,560,680</u>
Total capital assets, net	<u>\$ 161,288,064</u>	<u>\$ 1,427,764</u>	<u>\$ 1,100,357</u>	<u>\$ 161,615,472</u>

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

June 30, 2016 and 2015

**4) Capital Assets, Continued**

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Utility plant:				
Land	\$ 962,995	\$ -	\$ -	\$ 962,995
Nonutility plant:				
Land	1,750,391	1,600	12,500	1,739,491
Land improvements	13,183	-	-	13,183
Construction in progress	1,748,620	1,773,110	2,815,870	705,860
Intangibles - easements	4,570	-	-	4,570
Total capital assets not being depreciated	<u>4,479,759</u>	<u>1,774,710</u>	<u>2,828,370</u>	<u>3,426,099</u>
Capital assets being depreciated:				
Utility plant:				
Water and sewer systems	237,026,604	7,070,270	77,158	244,019,716
Nonutility plant:				
Central shop	4,884,119	40,860	32,770	4,892,209
Office fixtures and equipment	1,696,932	129,734	16,827	1,809,839
Automotive equipment	2,349,927	338,334	205,472	2,482,789
Intangible - water rights	25,000,000	-	-	25,000,000
Total capital assets being depreciated	<u>270,957,582</u>	<u>7,579,198</u>	<u>332,227</u>	<u>278,204,553</u>
Less accumulated depreciation/amortization:				
Water and sewer systems	105,395,191	6,680,140	67,537	112,007,794
Central shop	1,377,610	143,225	32,770	1,488,065
Office fixtures and equipment	1,000,336	125,585	16,826	1,109,095
Automotive equipment	1,860,390	248,360	205,473	1,903,277
Intangibles - water rights	3,220,859	613,497	-	3,834,356
Total accumulated depreciation/amortization	<u>112,854,387</u>	<u>7,810,807</u>	<u>322,606</u>	<u>120,342,588</u>
Total capital assets being depr./amort, net	<u>158,103,197</u>	<u>(231,609)</u>	<u>9,621</u>	<u>157,861,967</u>
Total capital assets, net	<u>\$ 162,582,954</u>	<u>\$ 1,543,101</u>	<u>\$ 2,837,991</u>	<u>\$ 161,288,064</u>

**5) Advances for Construction**

Advances for construction consist of two separate agreement types. Funds can be 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. The Authority no longer enters into these types of agreements. As of June 30, 2016 and 2015, advances for construction consisted of:

Funds advanced	\$ 27,020
Facilities constructed	5,882
Total	<u>\$ 32,902</u>

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June 30, 2016 and 2015

**6) Long-Term Debt**

The Authority's long-term debt activity for the fiscal years ended June 30, 2016 and 2015 was as follows:

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016	Due within one year
Revenue bonds	\$ 24,115,000	\$ -	\$ 24,115,000	\$ -	\$ -
Refunding revenue bonds	-	22,595,000	-	22,595,000	785,000
Premium, refunding revenue bonds	-	1,533,760	10,651	1,523,109	63,907
Compensated absences	357,353	448,474	423,022	382,805	287,104
Total	<u>\$ 24,472,353</u>	<u>\$ 24,577,234</u>	<u>\$ 24,548,673</u>	<u>\$ 24,500,914</u>	<u>\$ 1,136,011</u>

	Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015	Due within one year
Revenue bonds	\$ 24,660,000	\$ -	\$ 545,000	\$ 24,115,000	\$ 565,000
Compensated absences	373,913	445,120	461,680	357,353	268,010
Total	<u>\$ 25,033,913</u>	<u>\$ 445,120</u>	<u>\$ 1,006,680</u>	<u>\$ 24,472,353</u>	<u>\$ 833,010</u>

**Revenue Bonds and Refunding Revenue Bonds (including Premium)**

In August 2008, the Authority issued revenue bonds totaling \$27,120,000 to finance the purchase from the City of Newport News, Virginia of a "safe yield share" of treated water capacity from the King William Reservoir Project or an alternate water supply source. In April 2016, the Authority issued revenue refunding bonds totaling \$22,595,000 to advance refund the outstanding 2008 revenue bonds. There was a \$1,533,760 premium issued on the new bonds. The interest rate on the bonds range from 3% - 5% and the net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. Consequently, the 2008 revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The reacquisition price exceeded the carrying value of the old debt by \$1,828,117 ("deferred charge on refunding"), and this amount is being amortized over the life of the new debt. The deferred charge on refunding net of accumulated amortization, was \$1,815,422 at June 30, 2016. The advance refunding reduced its total debt service payments over 24 years by \$6,956,051 and to obtain an economic gain of \$3,548,748. The refunding revenue bonds mature in various installments through 2040 with interest payable semiannually. Future maturities of principal and interest payments are as follows:

Year Ended June 30	Principal	Interest
2017	\$ 785,000	\$ 571,161
2018	605,000	749,450
2019	630,000	725,250
2020	655,000	700,050
2021	690,000	667,300
2022-2026	3,925,000	2,854,550
2027-2031	4,750,000	2,018,850
2032-2036	5,515,000	1,262,100
2037-2040	5,040,000	383,400
	<u>\$ 22,595,000</u>	<u>\$ 9,932,111</u>

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

June 30, 2016 and 2015

**6) Long-Term Debt, Continued**

**Compensated Absences**

Compensated absences consists of earned but unused vacation, sick leave and paid time off. The costs attributable to Authority personnel are paid by the County and reimbursed by the Authority. Upon termination and only after a minimum of 2 years of employment with the Authority, employees are entitled to receive cash payments for sick leave at 25% of accumulated values up to a maximum of \$5,000. At June 30, 2016 and 2015, compensated absences consisted of the following:

	<u>6/30/2016</u>	<u>6/30/2015</u>
Vacation	\$ 291,932	\$ 273,563
Sick	78,319	77,827
Paid-time off	12,554	5,963
Total	<u>\$ 382,805</u>	<u>\$ 357,353</u>

**7) Pension Plan**

***Pensions***

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's retirement plan and the additions to/deductions from the Authority's retirement plan's net fiduciary position have been determined on the same basis as they were reported by the VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

VRS issues a publicly available comprehensive annual financial report that includes financial statements, required supplementary information and detailed information about the fiduciary net position of the VRS plans. A copy of that report may be downloaded from their web site at <http://www.varetire.org/pdf/publications/2015-annual-report.pdf> or obtained by writing to VRS at P.O. Box 2500, Richmond, VA 23218-2500.

***Plan Description***

All full-time, salaried regular employees of the Authority are automatically covered by VRS upon employment. This plan is administered by the VRS (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2 and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out below.

<b>PLAN 1</b>
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***About VRS Plan 1***

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

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Notes to Financial Statements

June 30, 2016 and 2015

**7) Pension Plan, Continued**

***Eligible Members***

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

***Hybrid Opt-In Election***

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

***Retirement Contributions***

Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

***Creditable Service***

Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

***Vesting***

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

***Calculating the Benefit***

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

***Average Final Compensation***

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

***Service Retirement Multiplier***

The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.

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

June 30, 2016 and 2015

**7) Pension Plan, Continued**

***Normal Retirement Age***

Age 65.

***Earliest Unreduced Retirement Eligibility (non-hazardous duty)***

Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

***Earliest Reduced Retirement Eligibility (non-hazardous duty)***

Age 55 with at least five years (60 months) of creditable service or at age 50 with at least 10 years of creditable service.

***Cost-of-Living Adjustment (COLA) in Retirement***

The COLA matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

**Eligibility:**

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

**Exceptions to COLA Effective Dates:**

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- ◆ The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- ◆ The member retires on disability.
- ◆ The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- ◆ The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- ◆ The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

***Disability Coverage***

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

***Purchase of Prior Service***

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

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June 30, 2016 and 2015

**7) Pension Plan, Continued**

<b>PLAN 2</b>
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***About VRS Plan 2***

VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

***Eligible Members***

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

***Hybrid Opt-In Election***

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

***Retirement Contributions***

Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.

***Creditable Service***

Same as Plan 1.

***Vesting***

Same as Plan 1.

***Calculating the Benefit***

See definition under Plan 1.

***Average Final Compensation***

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

***Service Retirement Multiplier***

Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

***Normal Retirement Age***

Normal Social Security retirement age.

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June 30, 2016 and 2015

**7) Pension Plan, Continued**

***Earliest Unreduced Retirement Eligibility (non-hazardous duty)***

Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

***Earliest Reduced Retirement Eligibility non-hazardous duty)***

Age 60 with at least five years (60 months) of creditable service.

***Cost-of-Living Adjustment (COLA) in Retirement***

The COLA matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

**Eligibility:**

Same as Plan 1.

**Exceptions to COLA Effective Dates:**

Same as Plan 1.

***Disability Coverage***

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

***Purchase of Prior Service***

Same as Plan 1.

<b>Hybrid Retirement Plan</b>
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***About the Hybrid Retirement Plan***

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members"). The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

***Eligible Members***

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.



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**7) Pension Plan, Continued**

***Retirement Contributions***

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

***Creditable Service***

**Defined Benefit Component:**

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It may also count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

**Defined Contributions Component:**

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

***Vesting***

**Defined Benefit Component:**

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

**Defined Contributions Component:**

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

***Calculating the Benefit***

**Defined Benefit Component:**

See definition under Plan 1.

**Defined Contribution Component:**

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

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**7) Pension Plan, Continued**

***Average Final Compensation***

Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

***Service Retirement Multiplier***

The retirement multiplier for the defined benefit component is 1.0%. For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

***Normal Retirement Age***

**Defined Benefit Component:**

Same as Plan 2.

**Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

***Earliest Unreduced Retirement Eligibility***

**Defined Benefit Component:**

Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

**Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

***Earliest Reduced Retirement Eligibility***

**Defined Benefit Component:**

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

**Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

***Cost-of-Living Adjustment (COLA) in Retirement***

**Defined Benefit Component:**

Same as Plan 2.

**Defined Contribution Component:**

Not applicable.

**Eligibility:**

Same as Plan 1 and Plan 2.

**Exceptions to COLA Effective Dates:**

Same as Plan 1 and Plan 2.

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**7) Pension Plan, Continued**

***Disability Coverage***

Eligible political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

***Purchase of Prior Service***

**Defined Benefit Component:**

Same as Plan 1 with the following exceptions: Hybrid Retirement Plan members are ineligible for ported service; the cost for purchasing refunded service is the higher of 4% of credible compensation or average final compensation; plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost.

**Defined Contribution Component:**

Not applicable.

***Employees Covered by Benefit Terms***

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>35</u>
Inactive members:	
Vested	11
Non-vested	13
Active elsewhere in VRS	<u>31</u>
Total inactive members	<u>55</u>
Active members	<u>84</u>
Total	<u><u>174</u></u>

***Contributions***

The contributions requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

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**7) Pension Plan, Continued**

The Authority's contractually required contribution rate for the year ended June 30, 2016 was 8.49% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$341,874 and \$330,920 for the years ended June 30, 2016 and June 30, 2015, respectively.

***Net Pension Liability***

The Authority's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

***Actuarial Assumptions***

The total pension liability for general employees in the Authority's retirement plan was based on an actuarial valuation as of June 30, 2014, using the entry age normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7%, net of pension plan investment expense, including inflation*

\*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%.

However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10:

Pre-Retirement:

RP-2000 employee mortality table projected with scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 combined mortality table projected with scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 disability life mortality table projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others:

Pre-Retirement:

RP-2000 employee mortality table projected with scale AA to 2020 with males set forward 4 years and females were set back 2 years.

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**7) Pension Plan, Continued**

Post-Retirement:

RP-2000 combined mortality table projected with scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 disability life mortality table projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10:

- ◆ Update mortality table
- ◆ Decrease in rates of service retirement
- ◆ Decrease in rates of disability retirement
- ◆ Reduce rates of salary increase by 0.25% per year

All Others:

- ◆ Update mortality table
- ◆ Decrease in rates of service retirement
- ◆ Decrease in rates of disability retirement
- ◆ Reduce rates of salary increase by 0.25% per year

***Long-Term Expected Rate of Return***

The long-term expected rate of return on pension investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the table below:

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June 30, 2016 and 2015

**7) Pension Plan, Continued**

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

\*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

***Discount Rate***

The discount rate used to measure the total pension liability was 7%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the retirement plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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June 30, 2016 and 2015

**7) Pension Plan, Continued**

***Changes in Net Pension Liability***

	Total pension liability (a)	Plan fiduciary net pension (b)	Net pension liability (a) - (b)
Balances at June 30, 2014	\$ 14,197,242	\$ 13,257,749	\$ 939,493
Changes for the year:			
Service cost	430,269	-	430,269
Interest	978,647	-	978,647
Difference between expected and actual experience	(146,331)		(146,331)
Contributions - employer	-	329,381	(329,381)
Contributions - employee	-	193,349	(193,349)
Net investment income	-	612,704	(612,704)
Benefit payments, including refunds of employee contributions	(433,146)	(433,146)	-
Administrative expense	-	(8,173)	8,173
Other changes	-	(130)	130
Net changes	829,439	693,985	135,454
Balances at June 30, 2015	\$ 15,026,681	\$ 13,951,734	\$ 1,074,947

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following represents the net pension liability using the stated discount rate of 7%, as well as what the net position liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate:

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Net pension liability	\$ 3,188,176	\$ 1,074,947	\$ (677,716)

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ending June 30, 2016, the Authority recognized pension expense of \$123,719. At June 30, 2016 and 2015, the Authority reported deferred outflow of resources and deferred inflow of resources related to pensions from the sources:

	6/30/2016		6/30/2015	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ -	\$ 114,381	\$ -	\$ -
Net difference between projected and actual earnings on plan investments	-	348,305	-	803,802
Employer contributions subsequent to the measurement date	341,874	-	330,920	-
Total	\$ 341,874	\$ 462,686	\$ 330,920	\$ 803,802

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Notes to Financial Statements

June 30, 2016 and 2015

**7) Pension Plan, Continued**

The \$341,874 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30:		
2017	\$	(169,264)
2018		(169,264)
2019		(169,262)
2020		45,104
2021		-
Thereafter		-
	\$	<u>(462,686)</u>

**8) Other Post-Employment Benefits (OPEB)**

The Authority provides other post-employment health care benefits for qualifying retired employees who are not yet eligible for Medicare through a single-employer defined benefit plan that is administered by the County. Detailed disclosures regarding the plan and the actuarial information can be found in the County's annual financial statements. The benefits, benefit levels, employee contributions and employer contributions are governed by the Authority and can be amended by the Authority through its personnel manual.

***Funding Policy***

The Authority does not intend to establish a trust to pre-fund the obligation. The anticipated growth in the net OPEB obligation is based on contributions to the benefit plan on a pay-as-you-go cost basis. The data has been projected into the future based on the assumption the current active population remains constant. Retirees contribute towards their health insurance premiums based on a blended rate and therefore, the Authority has an implicit rate obligation. The estimated contributions are based on the implicit rate subsidy payments made during the year by the retirees.

***Plan Description***

Covered full-time active employees who retire directly from the Authority and are at least 50 years of age with 15 years of service are eligible to receive post-employment health care benefits. Each year, retirees participating in the Authority's sponsored plans will be given the opportunity to change plans or drop coverage during an open enrollment period. The pre-Medicare retirees have a choice of three plans: Optima, Healthkeepers and KeyCare. The majority of the participants are in Healthkeepers. There is no coverage for post-Medicare retirees. There were 75 active employee participants at the time of the actuarial study.

***Net OPEB Obligation***

As of June 30, 2016, the net pension obligation was calculated as follows:

Annual required contribution	\$	57,000
Amortization of net OPEB obligation		(12,000)
Interest on net OPEB obligation		10,000
Annual OPEB cost		<u>55,000</u>
Contributions made		(21,000)
Increase in net OPEB obligation		34,000
Net OPEB obligation, beginning of year		243,509
Net OPEB obligation, end of year	\$	<u>277,509</u>



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Notes to Financial Statements

June 30, 2016 and 2015

**8) Other Post-Employment Benefits (OPEB), Continued**

***Annual OPEB Cost***

<b>Year Ended June 30,</b>	<b>Annual OPEB cost</b>	<b>Actual contribution</b>	<b>Percentage of annual OPEB cost contributed</b>	<b>Net OPEB obligation</b>
2016	\$ 55,000	\$ 21,000	38.2%	\$ 277,509
2015	45,000	9,000	20.0%	243,509
2014	43,000	7,000	16.3%	207,509

***Actuarial Methods and Assumptions***

For the actuarial valuation at June 30, 2016, the projected unit credit method was used. Under this method, benefits provided by the substantive plan (the plan as understood by the Authority and the plan members) at the time of the actuarial study are projected and their present value is determined. The present value is divided into equal parts which are earned over the period from date of hire to the full eligibility date.

The actuarial assumptions included calculations based on a discount rate of 4% for the unfunded liability, rate of inflation of 2.2%, and a payroll growth of 3%. Amortization of the initial unfunded actuarial liability is over 23 years based on a level percent of payroll method. Future increases for medical benefits are assumed to range from an initial rate of 7.5% and decrease gradually with the ultimate rate being 5.04%. It should be noted actuarial calculations reflect a long-term perspective and therefore, actuarially determined amounts are subject to revision as results are compared to past expectations and new estimates are made about the future.

All active employees who are expected to meet the plan's eligibility requirements on or before the ultimate assumed retirement age are included in the calculations. Retirees, spouses and spouse survivors who are entitled to a benefit under the provisions of the plan are also included.

***Schedule of Funding Progress***

<b>Actuarial valuation date July 1,</b>	<b>Actuarial value of assets</b>	<b>Actuarial accrued liability (AAL) project unit credit</b>	<b>Unfunded actuarial accrued liability (UAAL)</b>	<b>Funded ratio</b>	<b>Covered payroll</b>	<b>UAAL as a percentage of covered payroll</b>
2015	\$ -	\$ 528,000	\$ 528,000	0.0%	\$ 4,026,779	13.1%
2014	-	423,000	423,000	0.0%	3,897,762	10.9%
2013	-	389,000	389,000	0.0%	3,943,666	9.9%

**9) 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 regular part-time and full-time Authority employees, permits them to defer 25% of their gross income up to a maximum of \$18,000 per year. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

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**9) Deferred Compensation Plan, Continued**

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.

**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 \$770,378 and \$807,844 for the years ended June 30, 2016 and 2015, respectively, and are included in the expenses under contractual fees. The Authority also owed the County \$633,544 and \$1,346,004 at June 30, 2016 and 2015, respectively, which primarily represents payroll expenses incurred by the Authority.

In addition, the County leases space in Authority buildings under ten year leases. Rent revenue was \$261,959 and \$260,928 for years ended June 30, 2016 and 2015, respectively.

**11) Commitments and Contingencies**

***Construction in Progress***

At June 30, 2016, the Authority had several major projects under construction which are presented in the accompanying financial statements as construction in progress. Below are the details for each project:

<b>Project</b>	<b>Budget</b>	<b>Expenditures to date</b>	<b>Balance of contract</b>	<b>Budget balance</b>
Sewer improvements	\$ 4,161,433	\$ 443,900	\$ 319,061	\$ 3,398,472
Water supply	16,526,620	722,217	108,493	15,695,910
Water distribution	319,792	-	-	319,792
Water transmission	500,000	34,435	10,640	454,925
Water storage	185,620	-	-	185,620
Other	1,205,717	134,001	37,851	1,033,865
	<u>\$ 22,899,182</u>	<u>\$ 1,334,553</u>	<u>\$ 476,045</u>	<u>\$ 21,088,584</u>

***Project Development Agreement – Long Term Water Supply***

The Authority entered into a project development agreement with the City of Newport News on March 25, 2008 for long-term water supply. The initial term of this agreement ends on January 1, 2050, at which time this agreement shall be automatically renewed for additional terms of 25 years. The Authority paid the City of Newport News \$25 million on December 31, 2008, which was the first installment of this agreement. The second payment of \$25 million is due by June 30, 2019. Both installment payments are considered to be for the purchase of an intangible asset (rights to water supply) and, as such, these costs will be capitalized and amortized over the remaining life of the agreement (initial term). See note 4 for more information on the intangible asset.

In addition to the installment payments, the Authority agreed to pay variable and fixed operating and maintenance costs to the City of Newport News payable by September 1 each year, based on its safe yield share of 20%.

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

June 30, 2016 and 2015

**11) Commitments and Contingencies, Continued**

The Authority did not receive any water from the City of Newport News for the years ended June 30, 2016 and 2015. Therefore, the Authority did not make a payment to the City of Newport News for the years ended June 30, 2016 and 2015, for these costs. Further, the Authority also agreed that if it receives water from the City of Newport News through this agreement, to pay for the treatment of such water at a cost of \$1.23 per 1,000 gallons. For the years ended June 30, 2016 and 2015, the Authority did not receive water from the City of Newport News under this agreement, and, as such, did not incur or pay for water treatment these fiscal years.

***Grinder Pump Maintenance***

The Authority entered into a contract with Final Phase Installations, Inc. where they will provide grinder pump maintenance. The initial term of the contract was November 1, 2011 through October 31, 2012, with the option to renew for up to 4 additional years. The contract allows for an increase based on the Consumer Price Index. For the years ended June 30, 2016 and 2015, the Authority paid \$223,783 and \$228,308, respectively, towards this contract.

***Water Storage Tank Maintenance***

The Authority entered into a contract with Superior Industrial Maintenance Company where they will provide water storage tank maintenance. The initial term of the contract was July 1, 2012 through June 30, 2013, with the option to renew for up to 4 additional years. For the years ended June 30, 2016 and 2015, the Authority paid \$127,353 and \$218,940, respectively, towards this contract.

***Regional Hybrid Consolidation Plan***

In February 2014, the Authority, HRSD and fourteen Hampton Roads localities entered into a Regional Hybrid Consolidation Plan for meeting Consent Agreement requirements to reduce sewer overflows. Under this plan, HRSD is responsible for major rehabilitation projects to repair deteriorated infrastructure and projects to increase the capacity of HRSD and locality pump stations and pipelines. HRSD will fund the work through a regional HRSD rate. The Authority keeps ownership and control of its local sewer infrastructure and is still responsible for monitoring and maintaining the local sewer system to Consent Agreement standards and fixing significant defects on an ongoing basis.

***Other***

The Authority is not currently involved in any litigation in which management deems the impact would be material to the financial statements.

\* \* \* \* \*

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MD&A (Unaudited)**

**Exhibit 4**

**JAMES CITY SERVICE AUTHORITY**  
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Schedule of Changes in the Net Pension Liability and Related Ratios  
Required Supplementary Information (Unaudited)  
Years Ended June 30, 2016 and 2015 (1)

	<u>2014</u>	<u>2015</u>
<b>Total pension liability</b>		
Service cost	\$ 417,066	\$ 430,269
Interest	913,818	978,647
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(146,331)
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(376,365)	(433,146)
<b>Net change in total pension liability</b>	<u>954,519</u>	<u>829,439</u>
<b>Total pension liability, beginning</b>	<u>13,242,723</u>	<u>14,197,242</u>
<b>Total pension liability, ending</b>	<u><u>\$ 14,197,242</u></u>	<u><u>\$ 15,026,681</u></u>
 <b>Plan fiduciary net position</b>		
Contributions - employer	\$ 308,820	\$ 329,381
Contributions - employee	197,188	193,349
Net investment income	1,802,418	612,704
Benefit payments, including refunds of employee contributions	(376,365)	(433,146)
Administrative expense	(9,511)	(8,173)
Other	95	(130)
<b>Net change in plan fiduciary net position</b>	<u>1,922,645</u>	<u>693,985</u>
<b>Plan fiduciary net position, beginning</b>	<u>11,335,104</u>	<u>13,257,749</u>
<b>Plan fiduciary net position, ending</b>	<u><u>\$ 13,257,749</u></u>	<u><u>\$ 13,951,734</u></u>
 <b>Net pension liability</b>	 <u><u>\$ 939,493</u></u>	 <u><u>\$ 1,074,947</u></u>
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	 <u>93.38%</u>	 <u>92.85%</u>
 <b>Covered-employee payroll</b>	 <u><u>\$ 3,943,666</u></u>	 <u><u>\$ 3,897,762</u></u>
 <b>Net pension liability as a percentage of the total covered-employee payroll</b>	 <u>23.82%</u>	 <u>27.58%</u>

(1) This schedule is intended to present 10 years of information. GASB 68 and 71 were implemented in fiscal year 2015, and additional years will be presented as the information becomes available.

**Exhibit 5**

**JAMES CITY SERVICE AUTHORITY**  
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Schedule of Employer Contributions  
Required Supplementary Information (Unaudited)  
Years Ended June 30, 2016 and 2015 (1)

<b>Fiscal year</b>	<b>Contractually required contribution</b>	<b>Contributions in relation to contractually required contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Employer's covered employee payroll</b>	<b>Contributions as a % of covered employee payroll</b>
2015	\$ 330,920	\$ 330,920	\$ -	\$ 3,897,762	8.49%
2016	341,874	341,874	-	4,026,779	8.49%

(1) This schedule is intended to present 10 years of information. GASB 68 and 71 were implemented in fiscal year 2015, and additional years will be presented as the information becomes available.

See accompanying notes and independent auditors' report.

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

Notes to Required Supplementary Information

June 30, 2016 and 2015

**1) Changes of benefit terms**

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes the Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

**2) Changes of assumptions**

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10:

- ◆ Update mortality table
- ◆ Decrease in rates of service retirement
- ◆ Decrease in rates of disability retirement
- ◆ Reduce rates of salary increase by 0.25% per year

All Others (non 10 largest):

- ◆ Update mortality table
- ◆ Decrease in rates of service retirement
- ◆ Decrease in rates of disability retirement
- ◆ Reduce rates of salary increase by 0.25% per year

## **SUPPLEMENTARY INFORMATION**



**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
Schedules of Net Position – by Activity  
June 30, 2016  
(with comparative totals for 2015)

			<b>Totals</b>	
	<b>Water operations</b>	<b>Sewer operations</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 301,561	\$ 354,007	\$ 655,568	\$ 837,750
Investments	14,576,015	21,552,858	36,128,873	33,007,483
Restricted investments	729,605	-	729,605	-
Accounts receivable, customers	1,164,759	1,291,618	2,456,377	2,574,394
Accounts receivable, other	33,218	-	33,218	38,520
Note receivable	2,544	-	2,544	31,531
Interest receivable	66,376	58,862	125,238	88,112
Inventories	756,953	52,160	809,113	817,432
Total current assets	17,631,031	23,309,505	40,940,536	37,395,222
Noncurrent assets:				
Capital assets:				
Utility plant:				
Land	-	962,995	962,995	962,995
Water and sewer systems	127,363,482	123,697,771	251,061,253	244,019,716
Total utility plant	127,363,482	124,660,766	252,024,248	244,982,711
Nonutility property:				
Land	1,739,491	-	1,739,491	1,739,491
Central shop	4,857,636	34,573	4,892,209	4,892,209
Office fixtures and equipment	1,332,498	508,248	1,840,746	1,809,839
Land improvements	13,183	-	13,183	13,183
Automotive equipment	2,072,595	556,867	2,629,462	2,482,789
Total nonutility property	10,015,403	1,099,688	11,115,091	10,937,511
Intangible assets:				
Easements	4,570	-	4,570	4,570
Water rights	25,000,000	-	25,000,000	25,000,000
Total intangible assets	25,004,570	-	25,004,570	25,004,570
Construction in progress	968,043	366,510	1,334,553	705,860
Less accumulated depreciation and amortization	68,210,459	59,652,531	127,862,990	120,342,588
Net capital assets	95,141,039	66,474,433	161,615,472	161,288,064
Restricted investments	-	-	-	2,716,277
Total noncurrent assets	95,141,039	66,474,433	161,615,472	164,004,341
Total assets	112,772,070	89,783,938	202,556,008	201,399,563
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding, net	1,815,422	-	1,815,422	-
Deferred pension contributions	143,587	198,287	341,874	330,920
Total deferred outflows	1,959,009	198,287	2,157,296	330,920
Total assets and deferred outflows	\$ 114,731,079	\$ 89,982,225	\$ 204,713,304	\$ 201,730,483
<b>Liabilities</b>				
Current liabilities:				
Accounts payable, trade	\$ 289,058	\$ 37,756	\$ 326,814	\$ 385,052
Accrued salaries	11,746	2,337	14,083	21,605
Compensated absences, current portion	287,104	-	287,104	268,010
Due to James City County	569,017	64,527	633,544	1,346,004
Deposits	180,490	-	180,490	196,804
Interest payable	152,823	-	152,823	496,100
Bond payable, current portion	785,000	-	785,000	565,000
Unamortized bond premium, current portion	63,907	-	63,907	-
Total current liabilities	2,339,145	104,620	2,443,765	3,278,575
Noncurrent liabilities:				
Advances for construction	5,882	27,020	32,902	32,902
Other post-employment benefits (OPEB)	149,855	127,654	277,509	243,509
Compensated absences, net of current portion	95,701	-	95,701	89,343
Bonds payable, net of current portion	21,810,000	-	21,810,000	23,550,000
Unamortized bond premium, net of current portion	1,459,202	-	1,459,202	-
Net pension liability	451,478	623,469	1,074,947	939,493
Total noncurrent liabilities	23,972,118	778,143	24,750,261	24,855,247
Total liabilities	26,311,263	882,763	27,194,026	28,133,822
<b>Deferred Inflow of Resources</b>				
Deferred pension investment experience	194,328	268,358	462,686	803,802
<b>Net Position</b>				
Net position:				
Net investment in capital assets	72,838,352	66,474,433	139,312,785	137,173,064
Restricted for debt service	729,605	-	729,605	2,716,277
Unrestricted	14,657,531	22,356,671	37,014,202	32,903,518
Total net position	88,225,488	88,831,104	177,056,592	172,792,859
Total liabilities, deferred inflow and net position	\$ 114,731,079	\$ 89,982,225	\$ 204,713,304	\$ 201,730,483

See accompanying independent auditors' report.

**Exhibit B**

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
Schedules of Revenues, Expenses, and Changes in Net Position – by Activity  
Year ended June 30, 2016  
(with comparative totals for year ended June 30, 2015)

	<b>Water operations</b>	<b>Sewer operations</b>	<b>Totals</b>	
			<b>2016</b>	<b>2015</b>
Operating revenues:				
Water and sewer services	\$ 6,815,616	\$ 5,959,224	\$ 12,774,840	\$ 12,588,470
Other	605,909	212,054	817,963	990,357
Total operating revenues	<u>7,421,525</u>	<u>6,171,278</u>	<u>13,592,803</u>	<u>13,578,827</u>
Operating expenses:				
Salaries	2,027,090	2,320,193	4,347,283	4,257,924
Fringe benefits	779,852	803,628	1,583,480	1,546,525
Operating supplies	676,245	417,757	1,094,002	836,288
Maintenance of buildings and equipment	490,832	1,179,191	1,670,023	2,067,464
Utilities	629,155	241,065	870,220	861,074
Contractual fees	444,546	458,917	903,463	915,365
Other	113,703	119,530	233,233	497,803
Total operating expenses	<u>5,161,423</u>	<u>5,540,281</u>	<u>10,701,704</u>	<u>10,982,443</u>
Operating income before depreciation and amortization	2,260,102	630,997	2,891,099	2,596,384
Depreciation and amortization	4,908,815	3,021,817	7,930,632	7,810,808
Operating loss	<u>(2,648,713)</u>	<u>(2,390,820)</u>	<u>(5,039,533)</u>	<u>(5,214,424)</u>
Nonoperating revenues (expenses):				
Facility charges	1,749,685	1,493,850	3,243,535	3,863,650
Investment income	389,972	129,795	519,767	248,207
Gain (loss) on disposal of capital assets	29,637	(222,750)	(193,113)	23,497
Insurance recovery	14,219	-	14,219	-
Bond issuance costs	(402,364)	-	(402,364)	-
Interest, net	(744,124)	-	(744,124)	(1,095,684)
Net nonoperating revenues	<u>1,037,025</u>	<u>1,400,895</u>	<u>2,437,920</u>	<u>3,039,670</u>
Loss before capital contributions	(1,611,688)	(989,925)	(2,601,613)	(2,174,754)
Capital asset contributions	4,321,025	2,544,321	6,865,346	5,284,379
Changes in net position	2,709,337	1,554,396	4,263,733	3,109,625
Net position, beginning of year	85,516,151	87,276,708	172,792,859	169,683,234
Net position, end of year	<u>\$ 88,225,488</u>	<u>\$ 88,831,104</u>	<u>\$ 177,056,592</u>	<u>\$ 172,792,859</u>

See accompanying independent auditors' report.

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
Schedule of Operating Revenues and Expenses – Budget and Actual – by Activity  
Year ended June 30, 2016

	<b>Water operations</b>		<b>Variance favorable (unfavorable)</b>	<b>Sewer operations</b>		<b>Variance favorable (unfavorable)</b>
	<b>Actual</b>	<b>Budget</b>		<b>Actual</b>	<b>Budget</b>	
Operating revenues:						
Water and sewer services	\$ 6,815,616	\$ 6,463,892	\$ 351,724	\$ 5,959,224	\$ 5,675,000	\$ 284,224
Other	605,909	265,589	340,320	212,054	206,338	5,716
Total operating revenues	<u>\$ 7,421,525</u>	<u>\$ 6,729,481</u>	<u>\$ 692,044</u>	<u>\$ 6,171,278</u>	<u>\$ 5,881,338</u>	<u>\$ 289,940</u>
Operating expenses:						
Salaries	\$ 2,027,090	\$ 2,136,468	\$ 109,378	\$ 2,320,193	\$ 2,432,839	\$ 112,646
Fringe benefits	779,852	899,094	119,242	803,628	984,017	180,389
Operating supplies	676,245	1,072,233	395,988	417,757	630,899	213,142
Maintenance of buildings and equipment *	490,832	944,055	453,223	1,179,191	1,693,451	514,260
Utilities	629,155	679,273	50,118	241,065	282,051	40,986
Contractual fees	444,546	576,708	132,162	458,917	543,422	84,505
Other	113,703	692,341	578,638	119,530	160,352	40,822
Total operating expenses	<u>\$ 5,161,423</u>	<u>\$ 7,000,172</u>	<u>\$ 1,838,749</u>	<u>\$ 5,540,281</u>	<u>\$ 6,727,031</u>	<u>\$ 1,186,750</u>

\*Includes budget from Capital Improvements Program for maintenance expenses related to the Department of Environmental Quality consent order.

See accompanying independent auditors' report.

## **STATISTICAL SECTION**

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

This part of the James City Service Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the Authority's overall financial health.

**Contents**

**Financial Trends** **Tables 1-2**

These tables contain trend information to help the reader understand how the Authority's financial performance and well-being has changed over time.

**Revenue Capacity** **Tables 3-4**

These tables contain information to help the reader assess the factors affecting the Authority's ability to generate its operating revenues.

**Debt Capacity** **Tables 5-7**

These tables present information to help the reader assess the affordability of the Authority's current level of outstanding debt and its ability to issue additional debt in the future.

**Demographic & Economic Information** **Tables 8-9**

These tables offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

**Operation Information** **Tables 10-16**

These tables contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.

**Sources:** Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

Table 1

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
Net Position  
Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Net Position</b>										
Net investment in capital assets	\$ 132,145,149	\$ 134,316,001	\$ 134,314,330	\$ 135,071,435	\$ 135,641,623	\$ 134,872,139	\$ 139,966,206	\$ 137,922,955	\$ 137,173,064	\$ 139,312,785
Restricted for debt service	-	-	-	-	-	-	-	-	-	729,605
Restricted for capital projects	709,584	705,775	4,674,837	4,610,218	4,740,769	4,876,760	2,620,384	2,601,160	2,716,277	-
Unrestricted	33,151,555	35,703,438	36,591,088	36,430,621	34,057,874	34,106,903	29,699,494	29,159,119	32,903,518	37,014,202
Total net position	<u>\$ 166,006,288</u>	<u>\$ 170,725,214</u>	<u>\$ 175,580,255</u>	<u>\$ 176,112,274</u>	<u>\$ 174,440,266</u>	<u>\$ 173,855,802</u>	<u>\$ 172,286,084</u>	<u>\$ 169,683,234</u>	<u>\$ 172,792,859</u>	<u>\$ 177,056,592</u>

Table 2

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
Changes in Revenues, Expenses and Net Position  
Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating revenues:										
Water and sewer services	\$ 11,464,460	\$ 11,211,578	\$ 12,279,796	\$ 12,314,268	\$ 12,603,818	\$ 11,718,297	\$ 12,002,533	\$ 11,825,702	\$ 12,588,470	\$ 12,774,840
Rental income	187,753	181,256	135,234	144,441	171,401	144,381	164,875	160,914	325,991	326,377
Water supply proffers	530,518	502,217	138,170	52,908	125,192	26,967	13,362	57,446	450,262	218,987
Reimbursements for storm costs	161,573	-	-	-	-	349,541	-	900	-	-
Other	1,029,399	615,883	241,569	450,027	190,467	198,025	242,028	285,892	214,104	272,599
Total operating revenues	13,373,703	12,510,934	12,794,769	12,961,644	13,090,878	12,437,211	12,422,798	12,330,854	13,578,827	13,592,803
Operating expenses:										
Salaries	3,798,002	4,066,458	4,360,920	4,133,261	4,040,543	4,144,696	4,306,155	4,288,721	4,257,924	4,347,283
Fringe benefits	1,496,723	1,529,173	1,612,176	1,570,514	1,585,037	1,584,707	1,636,038	1,337,328	1,546,525	1,583,480
Operating supplies	789,553	775,892	1,014,351	866,624	888,559	899,095	822,882	882,253	836,288	1,094,002
Maintenance of buildings and equipment	1,148,217	1,715,131	1,687,340	1,969,116	3,193,116	3,065,512	3,364,910	3,501,598	2,067,464	1,670,023
Utilities	739,235	893,503	1,008,602	771,544	813,478	917,498	862,665	875,020	861,074	870,220
Contractual fees	626,437	640,618	735,132	889,869	873,110	882,505	910,491	836,634	915,365	903,463
Storm costs	161,349	-	-	-	-	359,921	-	-	-	-
Other	660,802	584,824	535,001	784,305	697,629	560,671	504,573	496,851	497,803	233,233
Total operating expenses	9,420,318	10,205,599	10,953,522	10,985,233	12,091,472	12,414,605	12,407,714	12,218,405	10,982,443	10,701,704
Operating income before depreciation and amortization	3,953,385	2,305,335	1,841,247	1,976,411	999,406	22,606	15,084	112,449	2,596,384	2,891,099
Depreciation and amortization	5,594,153	5,864,920	6,410,118	7,087,224	7,273,473	7,469,016	7,619,431	7,670,391	7,810,808	7,930,632
Operating loss	(1,640,768)	(3,559,585)	(4,568,871)	(5,110,813)	(6,274,067)	(7,446,410)	(7,604,347)	(7,557,942)	(5,214,424)	(5,039,533)
Nonoperating revenues (expenses):										
Facility charges	5,904,875	3,428,121	2,507,300	3,260,875	3,839,702	3,165,330	3,868,654	4,305,728	3,863,650	3,243,535
Investment income (loss)	1,503,939	1,995,201	3,658,420	956,056	509,675	351,929	(1,249,111)	267,061	248,207	519,767
Gain (loss) on disposal of capital assets	(2,198,500)	181,615	74,226	(251,710)	34,324	21,285	(44,507)	15,352	23,497	(193,113)
Insurance recovery	-	-	-	-	-	-	-	-	-	14,219
Bond issuance costs	-	-	-	-	-	-	-	-	-	(402,364)
Interest expense, net	(475,557)	(480,584)	(1,379,059)	(1,749,899)	(1,531,715)	(1,478,060)	(1,141,052)	(1,114,130)	(1,095,684)	(744,124)
Net nonoperating revenues	4,734,757	5,124,353	4,860,887	2,215,322	2,851,986	2,060,484	1,433,984	3,474,011	3,039,670	2,437,920
Income (loss) before contributions	3,093,989	1,564,768	292,016	(2,895,491)	(3,422,081)	(5,385,926)	(6,170,363)	(4,083,931)	(2,174,754)	(2,601,613)
Capital asset contributions	7,926,456	3,154,158	4,563,025	3,427,510	1,750,073	5,395,362	4,600,645	3,388,700	5,284,379	6,865,346
Changes in net position	\$ 11,020,445	\$ 4,718,926	\$ 4,855,041	\$ 532,019	\$ (1,672,008)	\$ 9,436	\$ (1,569,718)	\$ (695,231)	\$ 3,109,625	\$ 4,263,733

Table 3

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Water and Sewer Rates  
 Last Ten Fiscal Years

**Quarterly Continuing Service Charges for Residential Water Service**

<b>Fiscal Year</b>	<b>Basic Charge</b>	<b>Rate per 1,000 gallons (1)</b>	<b>Quarterly Total (2)</b>	<b>% Change</b>
2007	\$ -	\$2.50 - \$3.00 - \$8.50	\$ 55.50	9.3%
2008	-	2.50 - 3.00 - 8.50	55.50	0.0%
2009	-	2.85 - 3.45 - 9.80	63.45	14.3%
2010	-	2.85 - 3.45 - 9.80	63.45	0.0%
2011	-	2.85 - 3.45 - 9.80	63.45	0.0%
2012	-	2.85 - 3.45 - 9.80	63.45	0.0%
2013	-	2.85 - 3.45 - 9.80	63.45	0.0%
2014	-	2.85 - 3.45 - 9.80	63.45	0.0%
2015	-	2.85 - 3.45 - 9.80	63.45	0.0%
2016	7.22	2.47 - 4.93 - 11.59	73.85	16.4%

**Quarterly Continuing Service Charges for Residential Sewer Service (1)**

<b>Fiscal Year</b>	<b>Basic Charge</b>	<b>Rate per 1,000 gallons</b>	<b>Quarterly Total (2)</b>	<b>% Change</b>
2007	\$ -	\$ 2.80	\$ 58.80	3.7%
2008	-	2.80	58.80	0.0%
2009	-	2.80	58.80	0.0%
2010	-	2.80	58.80	0.0%
2011	-	2.80	58.80	0.0%
2012	-	2.80	58.80	0.0%
2013	-	3.22	67.62	15.0%
2014	-	3.22	67.62	0.0%
2015	-	3.22	67.62	0.0%
2016	5.66	2.93	67.19	-0.6%

(1) Inverted Block Rate Structure:

1st Block based on 0 to 15,000 gallons used per quarter.

2nd Block based on 15,000 to 25,000 gallons used per quarter, which changed to 15,000 to 30,000 gallons used per quarter.

3rd Block based on over 25,000 gallons used per quarter, which changed to 30,000 gallons used per quarter.

(2) Assumes 21,000 gallons average quarterly use.

Source: James City Service Authority Schedule of Rates and Fees



Table 4

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Largest Utility Customers  
 Current Year and Nine Years Ago

	2016			2007		
	Gallons Billed	Service Charges	Rank	Gallons Billed	Service Charges	Rank
Owens-Illinois *	23,592,214	\$ 123,658	1	20,915,820	**	2
Country Village Mobile Home Park (sewer only)	15,994,484	47,139	2	18,305,804	**	3
Eastern State Hospital *	15,807,284	100,971	3	35,211,500	**	1
Patriots Colony	14,398,341	94,999	4	17,937,960	**	4
Platinum Management	13,684,829	90,930	5	9,828,650	**	9
Williamsburg-James City County Public Schools *	13,153,674	86,884	6	12,007,050	**	6
Double Tree by Hilton (sewer only)	12,067,484	35,477	7	N/A	N/A	N/A
Greystone *	12,023,000	74,782	8	N/A	N/A	N/A
Windy Hill Trailer (sewer only)	9,687,348	28,575	9	12,182,492	**	5
Rolling Meadows	8,686,485	57,475	10	10,024,650	**	8
Oxford-James	-	-		10,237,800	**	7
Williamsburg-Oxford	-	-		9,762,650	**	10
Total	<u>139,095,143</u>	<u>\$ 740,890</u>		<u>156,414,376</u>		

\* Subject to wastewater sub-meter adjustments

\*\* Statistics not available

Source: James City Service Authority, Administration Department

**Table 5**

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Ratio of Outstanding Debt  
 Last Ten Fiscal Years

<b>Fiscal year</b>	<b>Revenue bonds</b>	<b>Number of water connections</b>	<b>Debt per water connection</b>
2007	\$ 12,133,794	18,283	\$ 663.7
2008	11,212,670	18,770	597.4
2009	37,386,546	19,085	1,958.9
2010	35,950,422	19,368	1,856.2
2011	34,469,299	19,719	1,748.0
2012	32,938,175	20,070	1,641.2
2013	25,185,000	20,549	1,225.6
2014	24,660,000	20,858	1,182.3
2015	24,115,000	21,246	1,135.0
2016	22,595,000	21,669	1,042.7

Note: The James City Service Authority has no legal debt margin nor overlapping debt.

Source: James City Service Authority, Administration Department

Table 6

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Revenue Bond Coverage  
 Last Ten Fiscal Years

<b>Fiscal year</b>	<b>Gross revenue</b>	<b>Direct operating expenses</b>	<b>Net revenue available for debt service</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Coverage</b>
2007	\$ 20,782,517	\$ 9,420,318	\$ 11,362,199	\$ 880,000	\$ 503,631	\$ 1,383,631	8.21
2008	18,115,871	10,205,599	7,910,272	905,000	479,431	1,384,431	5.71
2009	19,034,715	10,953,522	8,081,193	1,395,000	1,637,050	3,032,050	2.67
2010	17,178,575	10,985,233	6,193,342	1,440,000	1,590,562	3,030,562	2.04
2011	17,474,579	12,091,472	5,383,107	1,490,000	1,537,750	3,027,750	1.78
2012	15,975,755	12,414,605	3,561,150	1,545,000	1,483,100	3,028,100	1.18
2013	14,997,834	12,407,714	2,590,120	525,000	1,119,306	1,644,306	1.58
2014	16,918,995	12,218,405	4,700,590	545,000	1,100,931	1,645,931	2.86
2015	17,714,181	10,982,443	6,731,738	565,000	1,081,856	1,646,856	4.09
2016	17,370,324	10,701,704	6,668,620	785,000	571,161	1,356,161	4.92

Note: The James City Service Authority has no legal debt margin nor overlapping debt.

**Table 7**

**JAMES CITY SERVICE AUTHORITY**  
(A Component Unit of the County of James City, Virginia)  
Outstanding Debt for James City County  
Last Ten Fiscal Years

<b>Fiscal year</b>	<b>General obligation bonds</b>	<b>Capital leases</b>	<b>Lease revenue bonds</b>	<b>Other debt</b>	<b>Total</b>
2007	\$ 126,590,560	\$ 13,038,190	\$ 112,780,000	\$ 125,000	\$ 252,533,750
2008	118,369,735	12,126,298	107,200,000	-	237,696,033
2009	109,974,105	11,170,533	101,595,000	-	222,739,638
2010	101,414,765	10,169,895	110,275,000	-	221,859,660
2011	93,283,624	10,285,522	104,055,000	-	207,624,146
2012	86,134,103	9,235,074	104,472,000	-	199,841,177
2013	80,004,294	1,098,854	123,034,000	-	204,137,148
2014	72,164,244	984,528	114,416,000	-	187,564,772
2015	65,458,589	858,833	103,604,000	-	169,921,422
2016	49,844,842	728,456	130,451,552	-	181,024,850

**Table 8**

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 County Demographic and Economic Statistics  
 Last Ten Calendar Years

<b>Calendar year</b>	<b>Population (1)</b>	<b>Personal income (2)</b>	<b>Per capita personal income (2)</b>	<b>Unemployment percentage (1)</b>
2007	60,867	\$ 3,641,841,000	\$ 47,825	2.5%
2008	61,195	3,985,612,000	51,274	3.2%
2009	63,135	3,840,912,000	48,129	5.5%
2010	67,745	3,907,522,000	47,983	6.3%
2011	68,114	4,267,524,000	51,652	6.1%
2012	69,451	4,502,567,000	53,495	5.7%
2013	70,376	4,817,524,000	56,208	5.3%
2014	71,254	5,015,208,000	57,465	4.9%
2015	72,682	**	**	4.3%
2016	**	**	**	**

Source:

- (1) Planning Division, supplemented by data from Virginia Employment Commission (<http://www.vec.virginia.gov/>)
- (2) Data from the Bureau of Economic Analysis (<http://www.bea.gov/>), and has combined data for James City County and the City of Williamsburg
- \*\* Statistics not yet available

Table 9

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Principal Employers in James City County  
 Current Year and Nine Years Ago

	2016			2007		
	Employees	Rank	Percentage of total County employment	Employees	Rank	Percentage of total County employment
Busch Gardens (1)	1000+	1	**	1000+	1	21.85%
Williamsburg-James City County Public Schools	1000+	2	4.86%	1000+	2	6.23%
Eastern State Hospital	500-999	3	2.73%	1000+	3	3.68%
James City County	500-999	4	2.28%	500-999	6	2.53%
Wal-Mart Distribution Center	500-999	5	1.82%	500-999	7	2.35%
Anheuser-Busch, Inc.	500-999	6	1.67%	500-999	5	3.08%
Riverside Regional Medical Center	500-999	7	1.52%	-		-
Kingsmill Resort	250-499	8	1.37%	-		-
Owens and Minor	250-499	9	1.21%	-		-
Jamestown-Yorktown Foundation	250-499	10	0.91%	500-999	8	1.91%
Williamsburg Landing	250-499	11	0.84%	250-499	10	1.03%
Williamsburg Plantation	250-499	12	0.76%	-		-
Diamond Resorts	250-499	13	0.76%	-		-
Busch Properties, Inc.	-		-	500-999	4	3.32%
Avid Medical	-		-	250-499	9	1.46%
Total			<u>20.73%</u>			<u>47.44%</u>

(1) Busch Gardens became publicly traded during fiscal year 2013, and information is not available.

Source: Economic Development, James City County and Virginia Employment Commission

Table 10

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Schedule of Insurance in Force  
 June 30, 2016

<b>Insurer</b>	<b>Type of coverage</b>	<b>Policy number</b>	<b>Policy period</b>		<b>Annual Premium</b>
			<b>from</b>	<b>to</b>	
Virginia Association of Counties Group Self-Insurance Risk Pool (VACoRP)	General liability Property Automobile Crime Public officials' liability	VA-JA-131-10	07/01/15	07/01/16	\$ 139,794
Virginia Association of Counties Group Self-Insurance Association (VACoGSIA)	Workers' compensation	VA-JA-131D-10	07/01/15	07/01/16	67,394

Table 11

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Full-time Employees by Function  
 Last Ten Fiscal Years

<b>Function</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Administration	62	63	65	65	60	63	63	63	63	63
Water	14	14	15	15	15	15	15	15	15	15
Sewer	11	11	11	11	11	11	11	11	11	11
Total	<b>87</b>	<b>88</b>	<b>91</b>	<b>91</b>	<b>86</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>89</b>

Source: James City County, Fiscal Year Adopted Budgets



Table 12

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Operating Indicators by Function  
 Last Ten Fiscal Years

<b>Function</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Water:										
New connections	694	351	263	385	388	351	448	359	388	423
Water main breaks	42	57	37	40	44	31	25	21	26	21
Sewer:										
New connections	693	389	269	380	375	296	347	261	380	447

Source: James City Service Authority, Administration Department

Table 13

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Capital Asset Statistics by Function  
 Last Ten Fiscal Years

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water:										
Water lines (miles)	329	332	339	344	393	390	393	400	402	407
Water customers	18,283	18,770	19,085	19,368	19,719	20,070	20,549	20,858	21,246	21,669
Storage tanks (greater than 250,000 gallons)	6	7	7	7	7	7	7	7	7	7
Average ERCs (1)	19,600	20,400	25,753	20,200	20,866	19,200	18,597	18,937	19,415	18,921
Sewer:										
Sewer lines (miles)	370	375	379	382	419	423	425	430	435	439
Gallons collected (millions)	1,680	1,727	1,765	1,833	1,598	1,771	1,739	1,862	1,897	1,863
Sewer customers	18,426	18,590	18,702	18,860	21,127	21,488	21,962	22,575	22,955	23,402

(1) Equivalent Residential Connections (ERCs) are determined based upon the rated capacity of a water meter (e.g., the average amount of water which can flow through such meter on a continuous basis) as compared to the rated capacity for a typical 5/8" residential water meter.

Source: James City Service Authority, Administration Department

**Table 14**

**JAMES CITY SERVICE AUTHORITY**  
 (A Component Unit of the County of James City, Virginia)  
 Summary of Historical Flows (MGD)  
 Last Ten Fiscal Years

<b>Function</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Water:										
Average Day	4.9	4.9	4.8	5.0	5.1	4.8	4.7	4.7	4.7	4.7
Average Day in Month of Maximum Flow	6.5	6.3	7.1	6.8	7.4	6.4	6.1	5.9	6.1	5.9
Month of Maximum Flow	June	July	August	June	July	July	July	June	July	August
Sewer:										
Average Day	4.6	4.7	5.4	4.5	4.4	5.0	5.0	5.1	5.1	5.1

Source: James City Service Authority, Administration Department

Table 15

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

**Comparison of Area Water Bills**  
**Annual Consumption 60,000 Gallons as of June 2016**

<b>Virginia Jurisdiction</b>	<b>Water Service</b>
City of Williamsburg	\$ 307.20
City of Norfolk	437.16
City of Newport News	441.48
City of Virginia Beach	353.52
James City Service Authority	177.12

Source: James City Service Authority

**Comparison of Area Sewer Bills**  
**Annual Consumption 60,000 Gallons as of June 2016**

<b>Virginia Jurisdiction</b>	<b>Sewer Service *</b>
City of Hampton	\$ 171.60
City of Newport News	310.32
City of Virginia Beach	369.72
City of Norfolk	306.36
York County	312.00
James City Service Authority	198.48

\* Rates charged by the municipality. Residents of these municipalities pay a separate wastewater treatment fee to Hampton Roads Sanitation District of \$5.52 per 1,000 gallons.

Source: James City Service Authority

**Availability Charges for a Typical Residential Connection (1)**  
 Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
2007	\$ 2,400	\$ 2,400	\$ 4,800
2008	4,200	2,520	6,720
2009	4,200	3,360	7,560
2010	4,200	3,360	7,560
2011	4,200	3,360	7,560
2012	4,200	3,360	7,560
2013	4,200	3,360	7,560
2014	4,200	3,360	7,560
2015	4,200	3,360	7,560
2016	4,200	3,360	7,560

(1) A system facilities charge for water service is assessed for each new separate service connection. The purpose of the charge is to defray in part the cost of providing major supply, transmission main, booster pumping and distribution facilities. A similar system facilities charge for sewer service is assessed for each new separate service connection. The current charge for a residential 5/8 inch meter is \$500 per bathroom fixture and has been in effect since 2008. The sewer service connection is also based on the size of the water meter and is \$400 per bathroom fixture and has been in effect since 2009.

Source: James City Service Authority

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

Rates and Fees

June 30, 2016

The following are the rates and fees of James City Service Authority:

**1) Wastewater Charges**

**(a) System Facilities Charge**

A system facilities charge for wastewater collection service to be furnished through each new separate service connection which is to be made to a public sewer, regardless of who may have paid for the installation of the public sewer to which the connection is to be made, shall be paid by each applicant for service prior to the installation of service, as follows:

*Metered Water Service*

Commercial, industrial, institutional, multi-family residential, and single-family residential:

<u>Meter size (inches)</u>	<u>Charge</u>
5/8 Residential	\$ 400 per bathroom fixture
5/8 Nonresidential	2,500
3/4	3,500
1	4,000
1 1/2	7,500
2	12,000
3	24,000
4	37,500
5	75,000

*Nonmetered Water Service*

Where water is provided by an unmetered source, the following estimated charges shall be assessed:

<u>Activity, use</u>	<u>Unit</u>	<u>Charge</u>
Single-family residences	Each	\$ 300 per bathroom fixture
Single-family mobile homes	Each	1,000
Mobile homes in parks	Each lot	1,000
Two family, apartments and townhouses	Each	300 per bathroom fixture
Schools (with showers)	Student	80
Schools (without showers)	Student	50
Motels and hotels	Room	650 or minimum 2,500
Manufacturing	Msf	300 or minimum 1,200
Warehouses	Msf	100 or minimum 1,200
Service stations	Each	1,200
Camping facilities	Each space	500 or minimum 1,200
Restaurants	Seat	20 or minimum 1,200
Commercial	Msf	minimum 1,500

<u>Activity, use</u>	<u>Unit</u>	<u>Charge</u>
First	30,000 sq. ft.	\$ 500
Next	10,000 sq. ft.	450
Next	10,000 sq. ft.	400
Over	50,000 sq. ft.	350

The purpose of this charge is to defray, in part, the cost of providing force mains, pump stations, transmission mains, booster pumps, and other system facilities.

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

Rates and Fees

June 30, 2016

**(b) Local Facilities Charge**

A local facilities charge of \$1,050 for each separate connection to public sewer shall be paid by each applicant who desires to secure wastewater service therefrom, which charge shall be paid prior to the approval of the application for service; provided, however, in any instance where satisfactory evidence shows that an applicant has paid the cost of installation of the local facility to which the connection is to be made, either by installing the local facility at his expense and then conveying the same to the Authority (or its predecessors) or by reimbursing the Authority (or its predecessors) for the cost of such local facilities, the local facilities charge shall be waived. Additionally, when the Authority does not install or have a rebate agreement, the local facilities charge shall also be waived. In situations where a new wastewater system has been installed by the Authority and whereas any applicant adjacent to this new system that has an existing septic system desires to receive wastewater service therefrom, the local facilities charge shall be waived for a period of 12 months from the completion date of the new wastewater system installation.

The purpose of this charge is to defray in part the cost of installing collection mains which are necessary to provide wastewater collection service to abutting properties and which have been provided at the expense of the Authority or persons, firms, or corporations other than the applicant. The charge shall be paid prior to issuance of a plumbing permit from Building Safety and Permits.

**(c) Grinder Pump Installation and Maintenance Charge**

Any applicant for a sewer connection requiring a residential grinder pump may purchase the grinder pump (that meets Authority standards and specifications) plus ancillary parts from the Authority at cost if the grinder pump is necessary to replace an existing septic system. In addition, if the connection to the public sewer system is replacing a septic system, the applicant is eligible for the deferred-payment plan discussed in Paragraph G, Section 2 of the *James City Service Authority Regulations Governing Utility Service*.

An annual grinder pump maintenance charge of \$260 shall be paid for each separate connection to a grinder pump when the operation and maintenance of said residential grinder pump is the responsibility of the Authority. The payment for this charge will be prorated in equal amounts in the customers' utility service charge billing. The Authority shall not maintain nonresidential grinder pumps or other commercial pump stations unless such utility maintenance is deemed by the Authority to be in the interest of the public health or is necessary to protect the integrity of the system, or such facility is located within a designated Reservoir Protection Zone.

**(d) Service Connection Charge**

A service connection charge shall be paid by each applicant for each new service connection prior to the approval of the application as follows:

<u>Service installed by</u>	<u>Charge</u>
Developer, applicant	\$10 per connection inspection fee
Utility	Actual cost times 1.25, including overhead

The purpose of this charge is to defray the cost of installation or inspection of a service connection from the public sewer main in the street to the curb or property line. The service connection charge shall be waived provided the applicant has paid a local facilities charge and the sewer service line is not greater than six inches in diameter for a gravity main or two inches in diameter for a force main. In the event that the service connection charge is not waived, the local facilities charge will be applied against the service connection charge.

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

Rates and Fees

June 30, 2016

**(e) Retail Service Rates**

The wastewater service charge shall be based on usage from a metered water source where available. For wastewater service on an unmetered water source, a meter sized equivalent shall be used, based upon an estimated charge.

*Metered Water Source*

Metered water usage shall be reduced by a metered reading from a landscaping meter or similar device if the landscaping meter or device is approved and utilized under operating regulations adopted by Hampton Roads Sanitation District (HRSD).

A copy of the deduction meter reading provided to HRSD must be received by the Authority within 20 days prior to the end of each billing period. In the event a meter reading is not received within this time, the Authority shall bill based on total water consumption and no refund or billing adjustment shall be made.

Fixed Charge: Each customer bill shall include a Fixed Charge based upon the size of the meter serving the customer. The Fixed Charge for each billing cycle shall be calculated based on the quarterly fixed charge chart below. This Fixed Charge is for expenses associated with operating and maintaining the wastewater collection system.

<u>Meter Size</u>	<u>Quarterly Fixed Charge</u>
5/8"	\$ 5.66
3/4"	\$ 8.49
1"	\$ 14.15
1-1/2"	\$ 28.30
2"	\$ 45.28
3"	\$ 90.56
4"	\$ 141.50
6"	\$ 283.00
8"	\$ 452.80
10"	\$ 650.90

Charge for all collection and treatment of wastewater:

<u>Volume</u>		<u>Collection</u>
Per 1,000 gallons of water consumed	\$	2.93
Per 100 cubic feet of water consumed		2.20

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

Rates and Fees

June 30, 2016

*Nonmetered Water Source*

Where no meter exists or where meter readings are not made available by the water supplier to the Authority, the estimated charges below shall be assessed.

<b>Activity, use</b>	<b>Unit</b>	<b>Charge</b>
Single-family residences	Each	\$ 42.00
Singe-family mobile homes	Each	42.00
Mobile homes in parks	Each lot	37.25
Duplex, apartments and townhouses	Each	37.25
Schools (with showers)	Student	4.25
Schools (without showers)	Student	2.65
Motels and hotels	Room	18.55 or minimum 186.70
Manufacturing	Msf	11.00 or minimum 35.85
Warehouses	Msf	7.45 or minimum 46.50
Service stations	Each	49.95
Camping facilities	Each space	16.22 or minimum 64.25
Restaurants	Seat	4.95 or minimum 55.85
Commercial	Msf	18.55 or minimum 55.85
Churches	Each	40.65
Swimming pools	Sfe	40.65
Laundromats	Sfe	40.65
Others to be established when needed		

The purpose of the retail service charge is to defray all other costs of providing wastewater collection, and in certain cases, treatment for domestic, commercial, and industrial uses including replacement, renewals, extensions, and repayment of moneys borrowed to acquire or construct the wastewater collection transmission system.

## 2) Water Charges

### *(a) System Facilities Charge*

A system facilities charge for water service to be furnished through each new separate service connection which is to be made to a public water main, regardless of who may have paid for the installation of the public water main to which the connection is to be made, shall be paid by each applicant for service prior to the installation of the water service connection, as follows.

Commercial, industrial, institutional, multifamily, and single-family residential:

<b>Meter size (inches)</b>	<b>Charge</b>
5/8 Residential	\$500 per bathroom fixture
5/8 Nonresidential	2,500
3/4	3,500
1	4,000
1 1/2	7,500
2	12,000
3	24,000
4	37,500
6	75,000



**JAMES CITY SERVICE AUTHORITY**  
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Rates and Fees

June 30, 2016

The purpose of this charge is to defray in part the cost of providing major supply, transmission main, booster pumping, and distribution storage facilities. The charge shall be paid prior to the issuance of a plumbing permit from Building Safety and Permits.

**(b) Local Facilities Charge**

A local facilities charge of \$1,300 for each separate connection to an existing water main shall be paid by each applicant who desires to secure water service therefrom, which charge shall be paid prior to the approval of the application for service; provided, however, in any instance where satisfactory evidence shows that an applicant for a connection has paid the cost of installation of the local facility to which the connection is to be made, whether by installing the local facility at his expense and then conveying the same to the Authority (or its predecessors) or by reimbursing the Authority (or its predecessors) for the cost of such local facility, the local facilities charge shall be waived.

The purpose of this charge is to defray, in part, the cost of installing mains, valves, and fire hydrants which are necessary to provide water service to abutting properties and which have been provided at the expense of the Authority or persons, firms, or corporations other than the applicant. The charge shall be paid prior to the issuance of a plumbing permit from Building Safety and Permits.

**(c) Service Connection Charge**

A service connection charge shall be paid by each applicant for each new service connection and meter installation prior to the approval of the application, as follows:

<u>Installation of connection by</u>	<u>Charge</u>
Developer	\$10 per meter inspection fee
Utility	Actual cost times 1.25, including overhead

The purpose of this charge is to defray the cost of installation or inspection of a service connection from the water main in the street to the curb or property line and the installation of a meter either at the curb or property line or within the premise.

**(d) Retail Service Charge**

Fixed Charge: Each customer bill shall include a Fixed Charge based upon the size of the meter serving the customer. The Fixed Charge for each billing cycle shall be calculated based on the quarterly fixed charge chart below. This Fixed Charge is for expenses associated with operating and maintaining the water distribution system.

<u>Meter Size</u>	<u>Quarterly Fixed Charge</u>
5/8"	\$ 7.22
3/4"	\$ 10.83
1"	\$ 18.05
1-1/2"	\$ 36.10
2"	\$ 57.76
3"	\$ 115.52
4"	\$ 180.50
6"	\$ 361.00
8"	\$ 577.60
10"	\$ 830.30

**JAMES CITY SERVICE AUTHORITY**  
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Rates and Fees

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Water service shall be based upon a commodity charge for all consumption, as follows:

<b>Single Family Residential</b>			
	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
<u><b>Meter Size</b></u>	<u><b>(quarterly use)</b></u>	<u><b>(quarterly use)</b></u>	<u><b>(quarterly use)</b></u>
5/8"	0-15,000	15,001-30,000	30,000+
3/4"	0-22,500	22,501-45,000	45,000+
1"	0-37,500	37,501-75,000	75,000+
1-1/2"	0-75,000	75,001-150,000	150,000+
2"	0-120,000	120,001-240,000	240,000+
3"	0-240,000	240,001-480,000	480,000+
4"	0-375,000	375,001-750,000	750,000+
6"	0-750,000	750,001-1,500,000	1,500,000+
8"	0-1,200,000	1,200,001-2,400,000	2,400,000+
10"	0-1,725,000	1,725,001-3,450,000	3,450,000+
<b>Rate Per 1,000 Gallons</b>	<b>\$ 2.47</b>	<b>\$ 4.93</b>	<b>\$ 11.59</b>

<b>Multi-Family Residential and Non-Residential</b>	
<u><b>All Meter Sizes</b></u>	<u><b>All Use</b></u>
<b>Rate Per 1,000 Gallons</b>	<b>\$ 3.65</b>

The purpose of the retail service charge is to defray all costs of providing water service for domestic, commercial, and industrial uses and for firefighting purposes, including repayment of moneys borrowed to acquire or construct the water system; operation and maintenance; and renewals, replacements and extensions.

### 3) Exceptions to Local System Facilities Charges

The provisions of Regulations Governing Utility Service, Section 29 above, shall be observed when there is a conflict between Section 29 and the provisions of Sections 32(b) and 32(c) above.

### 4) Billing and Account Charges

The charges on the following pages shall be assessed for any customer billed by the Authority.

#### *(a) Account Charges*

An account charge of \$10 (\$20 if the meter is read) shall be paid for each applicant for continuing service, whether for a new account or for a transfer of account, for water and/or wastewater service. The purpose of this charge is to defray the cost incurred in clerical and bookkeeping activities, the turning on of services, and/or meter reading required for each new account or transfer of account.

#### *(b) Transaction Charge for Late Payment*

A transaction charge for late payment of 1.5% will be assessed on the balance due once the bill is delinquent and then every 30 days thereafter. The late charge will be added to a bill in the event the bill is not paid within 30 days following the date thereof.

**JAMES CITY SERVICE AUTHORITY**  
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Rates and Fees

June 30, 2016

**(c) Interest Charge for Late Payments with a Lien**

An interest charge for late payment of 8% simple interest on the principal (delinquent amount) due, shall be added to any account when a lien has been placed upon real estate. Such lien on any real estate may be discharged by the payment to the Authority of the total lien amount, penalty, and the interest which has accrued to the date of the payment.

**(d) Restoration of Service Charge**

Where service has been terminated on account of the nonpayment of any bill, a restoration of service charge of \$30 (\$100 for a single service wastewater customer not on metered water service) shall be paid before service is restored, except as defined in Section 17(A)(2).

The purpose of this charge is to defray the expenses of terminating and restoring services, including clerical and bookkeeping activities.

**(e) Meter Test Deposit**

A test of a water meter shall be done at the request of a water customer upon payment of a meter test deposit as defined in Regulations Governing Utility Service Section I (1). If the meter is found to be 3% or more fast, then the deposit shall be refunded. If inoperable or 25% or more slow, the deposit shall be credited against a revised billing. The deposit shall be determined by meter size, as set out in the following:

<u>Meter Size</u>	<u>Deposit</u>
5/8" to 2"	\$ 30
3" and over	80

**(f) Fire Hydrant Charge**

For customer-requested hydrants installed under the provisions of Regulations Governing Utility Service Section 21, there shall be an installation cost of actual cost plus an allowance of 25% for overhead. The applicant shall deposit with the Authority an estimated fee prepared by the Authority, subsequently adjusted at the completion of the installation with costs exceeding the estimate billed or, in case the estimate exceeds the cost, refunded to the applicant.

The purpose of this charge is to assess to the user the cost of installing fire hydrants for the benefit of the applicant.

**(g) Temporary Water Service Charge**

Under the provisions of Section 22, an applicant for temporary service shall pay, upon application, for the estimated costs of installing, replacing, and removing the facilities which are required to furnish such services plus an allowance of 25% for overhead. The applicant shall receive a refund if the estimate exceeds the actual. The applicant shall also pay service charges and all charges caused by a late payment or nonpayment. The applicant may also be required to post a deposit as described in Regulations Governing Utility Service Section 6.

**(h) Fire Connection Detector Check Meter Charge**

Fire connection detector check meters shall be read and billed at least annually or on a more frequent basis, as determined by the Authority. Rates governing normal water usage shall be assessed.

**JAMES CITY SERVICE AUTHORITY**  
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Rates and Fees

June 30, 2016

Fire connection detector check meters monitor nonfire flow usage from a fire connection and there should be little or no water activity.

**5) Multiple Charges Bills**

All charges and fees above are in addition to charges and fees assessed and owed to Newport News Waterworks, HRSD, or any other private or municipal utility.

**6) No Free Service**

There shall be no utility service provided to any customer without the assessment of service charges.

**7) Plan Review Fee**

The following page indicates the charges that shall be assessed for the appropriate plan. The purpose of this charge is to defray cost incurred for time used to provide engineer technical review.

Table 16

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

Rates and Fees

June 30, 2016

Document	Collection
Rezoning:	
5 acres or less	\$ 100
Greater than 5; but less than 10 acres	150
Greater than 10 acres	200
Special use permits:	
General	200
Family subdivision	50
Wireless communication facilities	50
Other	50
Site plans:	
Administrative review:	
Residential structure (multi-family)	300 plus \$5 per unit
Nonresidential structure	300
Mixed use structure	200 plus \$5 per residential unit
Utility easement plat service	300
Planning commission review:	
Residential structure (multi-family)	300 plus \$5 per unit
Nonresidential structure	300
Mixed use structure	300 plus \$5 per residential unit
Utility easement plat service	300
Amendment to an approved plan:	
Residential structure (multi-family)	150 plus \$2 per unit
Nonresidential structure	150
Mixed use structure	150 plus \$2 per residential unit
Utility easement plat service	150
Each additional review after second resubmission	150
Master plan review:	
Initial review	600
Revision of plan	600
Conceptual plan for water and sewer:	
General	100
Master utility plans and modeling	300
Each additional review after second resubmission	150
Subdivision plan review:	
No public improvements required	75
Public improvements required	300 per plan plus \$5 per lot
Wastewater pumping station	2,000
Well facility	3,000
Each additional review after second resubmission	150

## 8) Inspection

There shall be an inspection fee of \$25 for the third and subsequent inspections for water and sewer service connections. These will include, but are not limited to, water meter box installations, water and sewer service line connections, and grinder pump installations. This charge will be paid prior to the third/or subsequent inspections. The purpose of this fee is to defray the expense of making multiple on-site inspections to correct previously identified deficiencies.

**JAMES CITY SERVICE AUTHORITY**  
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Rates and Fees

June 30, 2016

**9) Inspection Fee for Water and Sewer Lines**

There shall be a fee for the inspection of public water and sewer installations. Such fee shall be \$2.87 per foot for every foot of water main and sewer main constructed and shall be submitted at the time of filing an application for a land disturbance permit.

**10) Sub-Meter Account Charge**

An account charge of \$18 shall be paid annually by each customer who has established a sub-meter account. The payment for this charge will be prorated in equal amounts in the customer utility service charge billing.

## **COMPLIANCE SECTION**

## **Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Directors  
James City Service Authority  
Williamsburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of James City Service Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise James City Service Authority's basic financial statements, and have issued our report thereon dated November 29, 2016.

### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered James City Service Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of James City Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of James City Service Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether James City Service Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

*Dixon Hughes Goodman LLP*

**Newport News, Virginia  
November 29, 2016**

## **Independent Auditors' Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grants**

Board of Directors  
James City Service Authority  
Williamsburg, Virginia

We have audited the financial statements of the James City Service Authority, as of and for the year ended June 30, 2016, and have issued our report thereon November 29, 2016.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Boards, Commissions and Authorities*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the James City Service Authority, is the responsibility of the James City Service Authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the James City Service Authority's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts and grants for which we performed tests of compliance:

### Code of Virginia

- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Procurement
- Unclaimed Property

The results of our tests disclosed two instances of noncompliance with the provisions referred to in the preceding paragraph. These instances are discussed in the Schedule of Findings and Responses as Findings 16-1 and 16-2. With respect to items not tested, nothing came to our attention that caused us to believe that the James City Service Authority had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Board of Directors and management of James City Service Authority, and the Auditor of Public Accounts and all applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Dixon Hughes Goodman LLP*

**Newport News, Virginia**  
**November 29, 2016**

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

Schedule of Findings and Responses  
June 30, 2016

**1. Summary of Auditors' Results**

- a. An unmodified opinion was issued on the financial statements.
- b. There were no deficiencies noted in internal control to disclose.
- c. The audit disclosed no items of noncompliance material to the financial statements.

**2. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Government Auditing Standards**

None

**3. State Compliance Findings**

**Finding 16-1**

**Condition:** During fiscal year 2016, The State and Local Government Conflict of Interests Act contained in Chapter 31 of Title 2.2 of the Code of Virginia requires certain local government officials to file certain disclosure forms with the clerk of the governing body by December 15, 2015 and June 15, 2016.

**Criteria:** Three statements of economic interest forms were not filed timely.

**Effect:** The Authority was not in compliance with the State and Local Government Conflict of Interest Act.

**Recommendation:** The Authority should take steps to ensure that each local official files the required forms in a timely manner.

**Management's response:** Management will ensure compliance going forward.

**JAMES CITY SERVICE AUTHORITY**  
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Schedule of Findings and Responses  
June 30, 2016

**Finding 16-2**

**Condition:** Chapter 14 of Title 30 of the Code of Virginia requires audited entities to publish in a newspaper of general circulation in the locality of the entity, a summary statement of financial condition. This statement should include, at a minimum, total assets, liabilities and fund balances; total revenues, expenses, and other sources or uses; and the resulting net change in fund balances.

**Criteria:** A financial statement summary is not being published in a local newspaper.

**Effect:** The Authority was not in compliance with the Code of Virginia, Chapter 14 of Title 30.

**Recommendation:** The Authority should take steps to ensure that a summary statement of financial condition, that meets the minimum requirements, is published in a local newspaper.

**Management's response:** Management will ensure compliance going forward.

**4. Status of Prior Year State Compliance Findings**

None