



— photograph by Toano resident Shannon Schojan, one of the winners in the 2015 Rural Economic Development Photography Contest —

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016
PREPARED BY THE DEPARTMENT OF
FINANCIAL AND MANAGEMENT SERVICES**

**JAMES CITY COUNTY, VIRGINIA
JAMESCITYCOUNTYVA.GOV/JCSA**

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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, 2017 and 2016

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

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INTRODUCTORY SECTION

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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, 2017

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|---------------------------|
| Board of Directors |
|---------------------------|

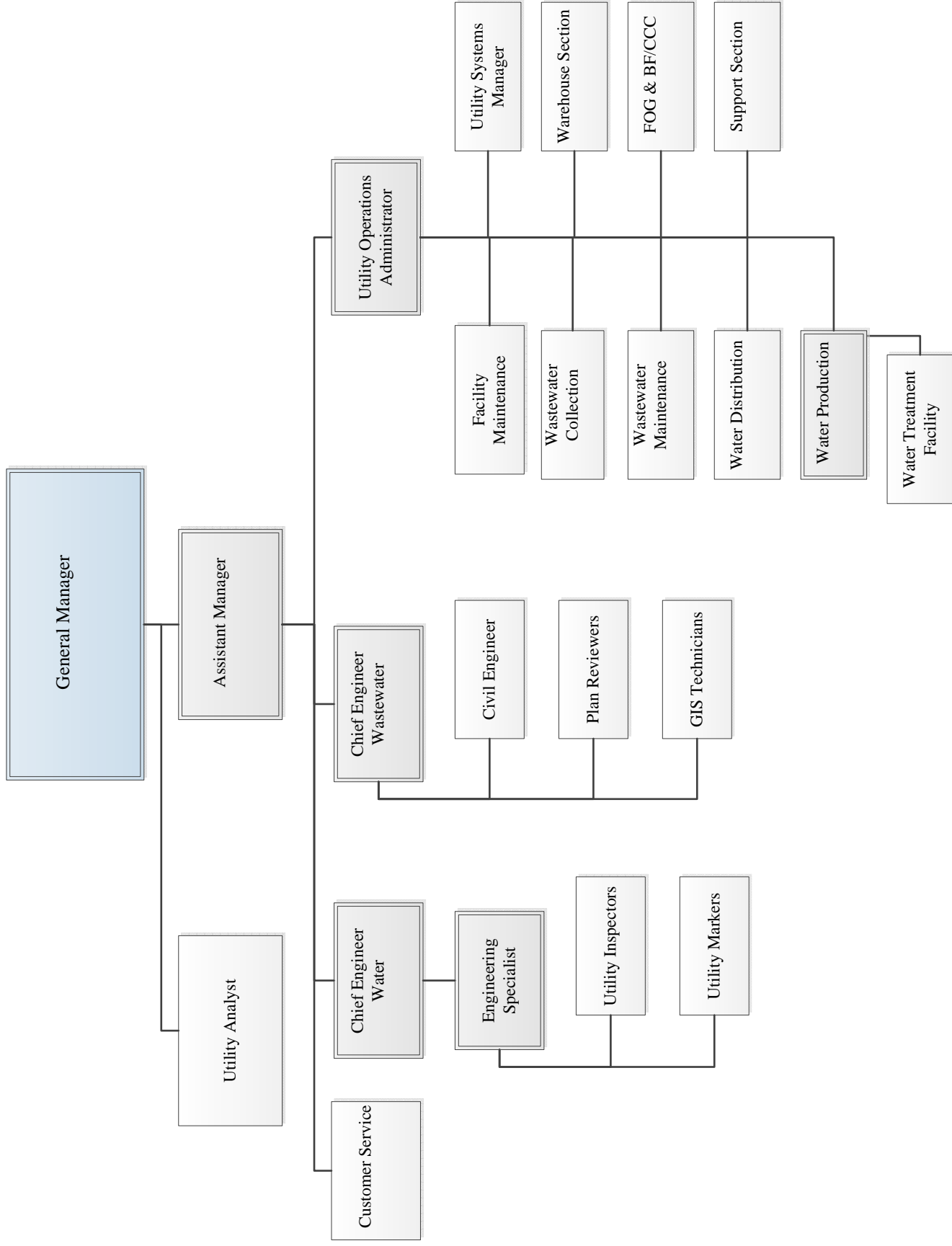
Ruth Larson, Chair
Sue Sadler, Vice-Chair
Michael J. Hipple
Kevin Onizuk
John J. McGlennon

| |
|------------------|
| Officials |
|------------------|

M. Douglas Powell
General Manager

Stephanie A. Luton
Assistant Manager/Treasurer

James City Service Authority Organization Chart





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jcsa@jamestownva.gov

November 3, 2017

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, 2017 and 2016, 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 3-7, 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 409 miles of water transmission and distribution lines throughout the entire system. The water system facilities supply approximately 5.0 million gallons of water per day to 22,133 water customers.



The JCSA's sewer system includes 76 pump stations with approximately 440 miles of sewer collection lines. The sewer system facilities collect and move approximately 5.4 million gallons of sewage per day for 23,872 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 (HRSD). As of June 30, 2017, 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.

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 9.9% from 2010 to 2016 while the Commonwealth of Virginia's population increased 5.1% 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

Rate Structure - As a result of a comprehensive water and sewer rate study in fiscal year 2015, the Board of Directors adopted a new rate structure in fiscal year 2016 that included a fixed charge for water and sewer service and proposed incremental service rate increases in subsequent fiscal years 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. Fixed charges and service rates increased in fiscal year 2017 in accordance with the plan.

The rationale behind the fixed charge is 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 2017, the quarterly water fixed charge was \$8.19 and the quarterly sewer fixed charge was \$5.77.

The first tier (0-15,000 gallons per quarter) water service rate for a typical single family residential customer increased from \$2.47 per 1,000 gallons to \$2.80. The second tier (15,001-30,000 gallons per quarter) rate increased from \$4.93 per 1,000 gallons to \$5.60, and the third tier (30,000+ gallons per quarter) rate increased from \$11.59 to \$13.15. The water service rate for non-residential and multi-family residential customers increased from \$3.65 per 1,000 gallons to \$4.14. The sewer service rate increased from \$2.93 to \$2.99 per 1,000 gallons of water consumed. The rate changes increased a typical 5,000 gallons per month residential customer's bill by \$2.30 per month from \$31.30 to \$33.60.

Capital Projects - Major multi-year projects continuing into 2017 are upgrading the existing Supervisory Control and Data Acquisition (SCADA) communication and control system for 107 remote sites, asset management program development, water meter replacement, future water source evaluations, preparation of the Joint Permit Application for the Chickahominy River surface water withdrawal, and replacement of a deep production well at the Five Forks Water Treatment Facility. Replacement of the reverse osmosis membranes at the Five Forks Water Treatment Facility was completed in fiscal year 2017. Wastewater projects completed in fiscal year 2017 include rehabilitation of three pump station concrete wet wells by lining the interior with an epoxy coating, manhole raising and rehabilitation, extensive easement inspection and clearing, closed circuit television (CCTV) pipeline inspections, and repairs to pipe defects identified during the CCTV inspections.

Water - The Authority currently has a groundwater permit for its central water system through 2027 to withdraw up to 8.4 million gallons per day (mgd) to support its residential and commercial customers. The permit is based on a tiered system with varying tiers starting at 6 mgd and increasing to 8.4 mgd based on residential and commercial growth. Facilities currently provide ample resources and treatment capacity through at least 2027. The Virginia

Department of Environmental Quality (DEQ) 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 after the current permit expires in 2027.

Wastewater - In 2007, the Board of Directors authorized the JCSA to enter into a Consent Agreement with the Virginia DEQ to address sanitary sewer overflows (SSOs). Thirteen other Hampton Roads localities entered into similar agreements during the same timeframe. In February 2014, Hampton Roads Sanitation District (HRSD) and 14 Hampton Roads localities, including the JCSA, entered into a Regional Hybrid Consolidation Plan for meeting Consent Agreement requirements. 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.

Under the Consolidation Plan, HRSD is responsible for preparing the Regional Wet Weather Management Plan (RWWMP) which details the major rehabilitation and capacity enhancement projects to be performed throughout the Hampton Roads region and reviewing the proposed improvements with JCSA and the 13 other localities. The RWWMP is on schedule to be officially submitted to the Environmental Protection Agency (EPA) and the Virginia DEQ by November 2017.

HRSD has introduced a new initiative known as SWIFT (Sustainable Water Initiative for Tomorrow) which may significantly delay the RWWMP rehabilitation and capacity enhancement work if it receives regulatory approval. HRSD is proposing to treat already highly treated wastewater effluent to drinking water standards and return it to the aquifer. SWIFT is expected to benefit the region by replenishing groundwater, reducing or eliminating land subsidence, mitigating salt water intrusion into the aquifer, and providing a cost effective way of addressing regional stormwater obligations. The EPA and DEQ are currently considering this proposal. If approved, HRSD proposes to fund SWIFT before the RWWMP to gain the greatest environmental benefit (reduction of nutrients to the Chesapeake Bay) before addressing SSOs. HRSD will have some funding available to address priority SSOs while SWIFT is under construction. The balance of the RWWMP will be constructed upon completion of SWIFT beyond 2030.

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, 2016. This was the 32nd consecutive 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. This report 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 that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program's 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 General 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, 2016

Executive Director/CEO

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FINANCIAL SECTION

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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, 2017 and 2016, 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, 2017 and 2016, 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 3-7 and 37-39 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 on pages 40-42 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 3, 2017, 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 3, 2017**

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Management's Discussion and Analysis
June 30, 2017 and 2016

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, 2017 and 2016. 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 2017 and 2016

- ◆ The Authority's total net position was \$178,818,258 and \$177,056,592 at June 30, 2017 and 2016, respectively.
- ◆ Capital assets decreased by 2.1% in 2017 from 2016, primarily attributable to the decrease in water and sewer dedications as well as current year depreciation expense. For fiscal year 2017, there was formal acceptance of 5 new water system dedications and 4 new sewer system dedications.

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.

- ◆ The Authority's total operating expenses before depreciation and amortization increased by 1.9% in 2017 from 2016. The increase was primarily attributable to higher fringe benefits expenses.

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.

- ◆ The Authority's total operating revenues increased by 12.7% in 2017 from 2016. The increase was primarily attributable to an increase in water and sewer rates.

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, 2017 and 2016, 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, 2017 and 2016

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 11.

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 37.

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

| | 6/30/2017 | 6/30/2016 | 6/30/2015 |
|--|-----------------------|-----------------------|-----------------------|
| Current and other assets | \$ 45,806,329 | \$ 40,940,536 | \$ 40,111,499 |
| Capital assets | 158,226,696 | 161,615,472 | 161,288,064 |
| Total assets | <u>204,033,025</u> | <u>202,556,008</u> | <u>201,399,563</u> |
| Deferred charge on refunding, net | 1,739,250 | 1,815,422 | - |
| Deferred pension outflows | 770,340 | 341,874 | 330,920 |
| Total assets and deferred outflows | <u>\$ 206,542,615</u> | <u>\$ 204,713,304</u> | <u>\$ 201,730,483</u> |
| Current liabilities | \$ 2,723,594 | \$ 2,443,765 | \$ 3,278,575 |
| Noncurrent liabilities | 24,918,332 | 24,750,261 | 24,855,247 |
| Total liabilities | <u>27,641,926</u> | <u>27,194,026</u> | <u>28,133,822</u> |
| Deferred pension inflows | 82,431 | 462,686 | 803,802 |
| Net position: | | | |
| Net investment in capital assets | 136,696,744 | 139,312,785 | 137,173,064 |
| Restricted for debt service | 677,614 | 729,605 | 2,716,277 |
| Unrestricted | <u>41,443,900</u> | <u>37,014,202</u> | <u>32,903,518</u> |
| Total net position | <u>178,818,258</u> | <u>177,056,592</u> | <u>172,792,859</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 206,542,615</u> | <u>\$ 204,713,304</u> | <u>\$ 201,730,483</u> |

The largest portion of the Authority's net position at June 30, 2017 (76.4%), reflects its investment in capital assets, less related outstanding debt used to acquire those assets. 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, 2017 (23.2%) 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, 2017 and 2016

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

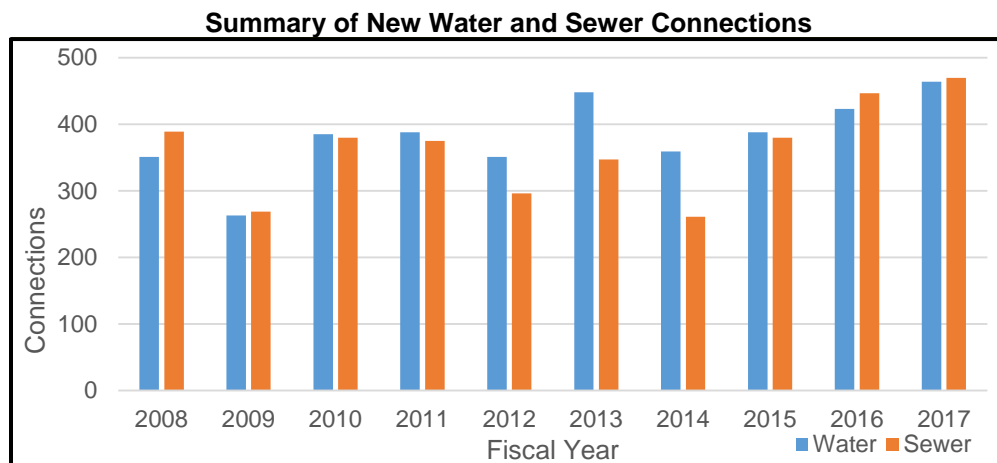
| | 6/30/2017 | 6/30/2016 | 6/30/2015 |
|---|-----------------------|-----------------------|-----------------------|
| Water and sewer services | \$ 14,400,361 | \$ 12,774,840 | \$ 12,588,470 |
| Other | 923,851 | 817,963 | 990,357 |
| Total operating revenues | 15,324,212 | 13,592,803 | 13,578,827 |
| Operating expenses | 10,904,086 | 10,701,704 | 10,982,443 |
| Depreciation and amortization | 8,194,083 | 7,930,632 | 7,810,808 |
| Total expenses | 19,098,169 | 18,632,336 | 18,793,251 |
| Facility charges | 4,664,316 | 3,243,535 | 3,863,650 |
| Other non-operating revenue (expenses), net | (637,907) | (805,615) | (823,980) |
| Total nonoperating revenues, net | 4,026,409 | 2,437,920 | 3,039,670 |
| Income (loss) before capital contributions | 252,452 | (2,601,613) | (2,174,754) |
| Capital contributions | 1,509,214 | 6,865,346 | 5,284,379 |
| Change in net position | 1,761,666 | 4,263,733 | 3,109,625 |
| Net position, beginning of year | 177,056,592 | 172,792,859 | 169,683,234 |
| Net position, end of year | <u>\$ 178,818,258</u> | <u>\$ 177,056,592</u> | <u>\$ 172,792,859</u> |

In fiscal year 2017, water and sewer service revenue increased by 12.7% over 2016, primarily a result of the water and sewer rate increase. The Authority received \$298,054 in proffers from developers to fund capital improvements, which was \$79,067 more than the amount received in 2016. There was also an increase in the facility charges collected during 2017, primarily due to a large master metered multi-use project and three assisted living facilities.

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.

The Authority's net position increased by \$1,761,666 in 2017 from 2016. This was primarily a result of increases in service revenue and facility charges.

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, 2017 and 2016

Capital Assets

The following table summarizes the Authority's capital assets at June 30, 2017, 2016 and 2015:

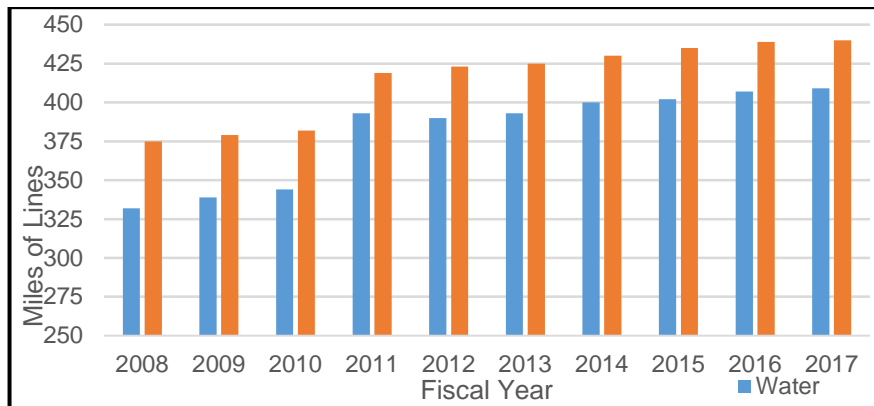
| Summary of Capital Assets, Net | | | |
|---|-----------------------|-----------------------|-----------------------|
| | 6/30/2017 | 6/30/2016 | 6/30/2015 |
| Utility plant | \$ 254,746,923 | \$ 252,024,248 | \$ 244,982,711 |
| Nonutility plant | 11,926,666 | 11,115,091 | 10,937,511 |
| Intangible assets | 25,004,570 | 25,004,570 | 25,004,570 |
| Construction in progress | 2,398,338 | 1,334,553 | 705,860 |
| Less accum. depreciation and amortization | 135,849,801 | 127,862,990 | 120,342,588 |
| Net capital assets | <u>\$ 158,226,696</u> | <u>\$ 161,615,472</u> | <u>\$ 161,288,064</u> |

At the end of fiscal year 2017, the Authority had invested \$158,226,696 (net of accumulated depreciation) in a broad range of capital assets. This was a decrease of \$3,388,776 from 2016, which was primarily the result of decreased water and sewer system dedications during fiscal year 2017 as well as current year depreciation expense.

At the end of fiscal year 2016, the Authority had invested \$161,615,472 (net of accumulated depreciation) in capital assets. This amount remained relatively consistent with 2015 (increase of \$327,408), which was primarily the result of increased water and sewer system dedications, offset by the current year depreciation expense.

Further information related to the Authority's capital assets can be found in Note 4 to these financial statements.

Water and Sewer Lines



Debt Administration

At the close of the fiscal years 2017 and 2016, the Authority's total outstanding bonded debt was \$21,810,000 (before premiums) and \$22,595,000, 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 was 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.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Management's Discussion and Analysis
June 30, 2017 and 2016

Economic Factors and Next Year Budgets and Rates

During the current fiscal year, the unrestricted net position increased by \$4,429,698 from 2016, to approximately \$41.4 million. The Authority appropriated \$2 million of this for spending as part of the fiscal year 2018 capital budget.

The JCSA's budget consists of five separate funds: Administration, Water, Sewer, Capital Improvements Program and Debt Service. The Administration fund is allocated 50% to the Water Fund and 50% 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.

In August 2016, the Board of Directors adopted a Financial Policy to protect JCSA's financial resources through sound financial management, balanced consideration of both short-term and long-term priorities and concerns and maintenance of its credit ratings. The fiscal year 2018 budget contains several new initiatives to comply with the Financial Policy. Twenty percent of the annual debt service payment will be made from Water Fund operating revenues to reduce reliance on facility charge revenue. Two reserve funds, Alternative Water Supply and Repair and Replacement, have been created in the Capital Improvements Program to build dedicated funding for future water sources, and infrastructure asset management.

These new initiatives contribute to an increase of 15.7% in the fiscal year 2018 operating budget consisting of the Administration, Water and Sewer Funds. Contributions to the Capital Improvements Program from the Water and Sewer Funds increase in fiscal year 2018 to \$1,928,449 from \$325,765 in fiscal year 2017 in order to further reduce reliance on facility charge revenue. Direct expenses and capital equipment outlay increase by 1.5%.

The fiscal year 2018 Capital Improvements Program budget increases to \$7,584,449 from \$3,972,765 in fiscal year 2017.

The fiscal year 2018 budget contains increases in the water and sewer fixed charges and service rates that reflect the multi-year plan from the 2015 comprehensive rate study. Incremental increases are required to successfully manage aging infrastructure, fixed costs and debt service coverage and prepare for substantial future water permitting and water sourcing challenges. The total monthly water and sewer bill for a typical 5,000 gallons per month residential user will increase by \$2.61 per month from \$33.60 to \$36.21.

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 increases to \$9.30 from \$8.19 and for sewer increases to \$5.89 from \$5.77.

The fiscal year 2018 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 \$2.80 per 1,000 gallons to \$3.18. The second tier (15,001 – 30,000 gallons per quarter) rate increases from \$5.60 per 1,000 gallons to \$6.36, and the third tier (30,000+ gallons per quarter) rate increases from \$13.15 to \$14.93. The water service rate for non-residential and multi-family residential customers increases from \$4.14 per 1,000 gallons to \$4.70. The sewer service rate increases from \$2.99 per 1,000 gallons to \$3.05.

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.

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BASIC FINANCIAL STATEMENTS

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Exhibit 1

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Statements of Net Position
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | \$ 540,016 | \$ 655,568 |
| Investments (Note 2) | 40,131,327 | 36,128,873 |
| Restricted investments (Note 2) | 677,614 | 729,605 |
| Accounts receivable, customers | 2,931,810 | 2,456,377 |
| Accounts receivable, other | 49,450 | 33,218 |
| Note receivable (Note 3) | 497,890 | 2,544 |
| Interest receivable | 134,824 | 125,238 |
| Inventories | 843,397 | 809,113 |
| Total current assets | <u>45,806,328</u> | <u>40,940,536</u> |
| Noncurrent assets: | | |
| Capital assets (Note 4): | | |
| Utility plant: | | |
| Land | 955,995 | 962,995 |
| Water and sewer systems | 253,790,928 | 251,061,253 |
| Total utility plant | <u>254,746,923</u> | <u>252,024,248</u> |
| Nonutility property: | | |
| Land | 1,739,491 | 1,739,491 |
| Central shop | 5,284,909 | 4,892,209 |
| Office fixtures and equipment | 2,049,369 | 1,840,746 |
| Land improvements | 13,183 | 13,183 |
| Automotive equipment | 2,839,714 | 2,629,462 |
| Total nonutility property | <u>11,926,666</u> | <u>11,115,091</u> |
| Intangible assets: | | |
| Easements | 4,570 | 4,570 |
| Water rights | 25,000,000 | 25,000,000 |
| Total intangible assets | <u>25,004,570</u> | <u>25,004,570</u> |
| Construction in progress (Note 11) | 2,398,338 | 1,334,553 |
| Less accumulated depreciation and amortization | <u>135,849,801</u> | <u>127,862,990</u> |
| Net capital assets | <u>158,226,696</u> | <u>161,615,472</u> |
| Total assets | <u>204,033,024</u> | <u>202,556,008</u> |
| Deferred Outflow of Resources | | |
| Deferred charge on refunding, net (Note 6) | 1,739,250 | 1,815,422 |
| Deferred pension contributions (Note 7) | 297,668 | 341,874 |
| Deferred pension investment experience (Note 7) | 372,758 | - |
| Deferred pension experience (Note 7) | 99,914 | - |
| Total deferred outflows | <u>2,509,590</u> | <u>2,157,296</u> |
| Total assets and deferred outflows | <u>\$ 206,542,614</u> | <u>\$ 204,713,304</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable, trade | \$ 316,668 | \$ 326,814 |
| Accrued salaries | 14,320 | 14,083 |
| Compensated absences, current portion (Note 6) | 308,913 | 287,104 |
| Due to James City County (Note 10) | 383,583 | 633,544 |
| Deposits | 190,732 | 180,490 |
| Unearned revenue | 496,800 | - |
| Interest payable | 343,670 | 152,823 |
| Bonds payable, current portion (Note 6) | 668,907 | 848,907 |
| Total current liabilities | <u>2,723,593</u> | <u>2,443,765</u> |
| Noncurrent liabilities: | | |
| Advances for construction (Note 5) | 32,902 | 32,902 |
| Other post-employment benefits (OPEB) (Note 8) | 313,509 | 277,509 |
| Compensated absences, net of current portion (Note 6) | 102,971 | 95,701 |
| Bonds payable, net of current portion (Note 6) | 22,600,295 | 23,269,202 |
| Net pension liability (Note 7) | 1,868,655 | 1,074,947 |
| Total noncurrent liabilities | <u>24,918,332</u> | <u>24,750,261</u> |
| Total liabilities | <u>27,641,925</u> | <u>27,194,026</u> |
| Deferred Inflow of Resources | | |
| Deferred pension experience (Note 7) | 82,431 | 114,381 |
| Deferred pension investment experience (Note 7) | - | 348,305 |
| Total deferred inflows | <u>82,431</u> | <u>462,686</u> |
| Net position | | |
| Net position: | | |
| Net investment in capital assets | 136,696,744 | 139,312,785 |
| Restricted for debt service | 677,614 | 729,605 |
| Unrestricted | 41,443,900 | 37,014,202 |
| Total net position | <u>178,818,258</u> | <u>177,056,592</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 206,542,614</u> | <u>\$ 204,713,304</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, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|
| Operating revenues: | | |
| Water and sewer services | \$ 14,400,361 | \$ 12,774,840 |
| Water supply proffers | 298,054 | 218,987 |
| Rental income (Note 10) | 377,880 | 326,377 |
| Other | 247,917 | 272,599 |
| Total operating revenues | <u>15,324,212</u> | <u>13,592,803</u> |
| Operating expenses: | | |
| Salaries (Note 6) | 4,384,445 | 4,347,283 |
| Fringe benefits (Note 6) | 1,799,798 | 1,583,480 |
| Operating supplies | 1,045,132 | 1,094,002 |
| Maintenance | 1,639,070 | 1,670,023 |
| Utilities | 899,294 | 870,220 |
| Contractual fees (Note 10) | 920,714 | 903,463 |
| Other | 215,633 | 233,233 |
| Total operating expenses | <u>10,904,086</u> | <u>10,701,704</u> |
| Operating income before depreciation and amortization | 4,420,126 | 2,891,099 |
| Depreciation and amortization | <u>8,194,083</u> | <u>7,930,632</u> |
| Operating loss | <u>(3,773,957)</u> | <u>(5,039,533)</u> |
| Nonoperating revenues (expenses): | | |
| Facility charges | 4,664,316 | 3,243,535 |
| Investment income | 90,148 | 519,767 |
| Gain (loss) on disposal of capital assets | 49,018 | (193,113) |
| Insurance recovery | 1,000 | 14,219 |
| Bond issuance costs | - | (402,364) |
| Interest expense | (778,073) | (744,124) |
| Net nonoperating revenues | <u>4,026,409</u> | <u>2,437,920</u> |
| Income (loss) before capital contributions | 252,452 | (2,601,612) |
| Capital asset contributions | <u>1,509,214</u> | <u>6,865,346</u> |
| Changes in net position | 1,761,666 | 4,263,733 |
| Net position, beginning of year | 177,056,592 | 172,792,859 |
| Net position, end of year | <u>\$ 178,818,258</u> | <u>\$ 177,056,592</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, 2017 and 2016

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 13,935,170 | \$ 12,876,543 |
| Other cash receipts | 910,163 | 852,252 |
| Cash payments to suppliers for goods and services | (5,014,233) | (5,533,320) |
| Cash payments for personnel services | (6,133,940) | (6,095,449) |
| Facility charges | 4,663,226 | 3,243,535 |
| Net cash provided by operating activities | <u>8,360,386</u> | <u>5,343,561</u> |
| Cash flows from capital and related financing activities: | | |
| Repayments of debt | (785,000) | (1,814,357) |
| Interest paid | (574,961) | (1,085,357) |
| Bond issuance costs | - | (402,364) |
| Insurance recovery | 1,000 | 14,219 |
| Acquisition and construction of capital assets | (3,303,093) | (1,615,979) |
| Proceeds from sale of capital assets | 56,018 | 30,172 |
| Net cash used in capital and related financing activities | <u>(4,606,036)</u> | <u>(4,873,666)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (33,976,952) | (60,367,516) |
| Proceeds from sale of investments | 30,026,488 | 59,232,798 |
| Interest received | 80,562 | 482,641 |
| Net cash used in investing activities | <u>(3,869,902)</u> | <u>(652,077)</u> |
| Decrease in cash and cash equivalents | <u>(115,552)</u> | <u>(182,182)</u> |
| Cash and cash equivalents, beginning of year | 655,568 | 837,750 |
| Cash and cash equivalents, end of year | <u>\$ 540,016</u> | <u>\$ 655,568</u> |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (3,773,957) | \$ (5,039,533) |
| Adjustments to reconcile operating loss to cash provided by operating activities: | | |
| Depreciation and amortization | 8,194,083 | 7,930,632 |
| Facility charges | 4,664,316 | 3,243,535 |
| Change in operating assets and liabilities: | | |
| Accounts receivable, customers and others | (491,665) | 123,319 |
| Notes receivable | (495,346) | 28,987 |
| Inventories | (34,284) | 8,319 |
| Accounts payable, trade | (10,146) | (58,238) |
| Accrued salaries | 237 | (7,522) |
| Compensated absences | 29,079 | 25,452 |
| Due to James City County | (249,960) | (712,460) |
| Deposits | 10,242 | (16,314) |
| Unearned revenue | 496,800 | - |
| OPEB liability | 36,000 | 34,000 |
| Net pension liability and related deferred inflow/outflows of resources | (15,013) | (216,616) |
| Total adjustments | <u>12,134,343</u> | <u>10,383,094</u> |
| Net cash provided by operating activities | <u>\$ 8,360,386</u> | <u>\$ 5,343,561</u> |
| Supplemental schedules: | | |
| Noncash capital activities: | | |
| Capital asset contributions | <u>\$ 1,509,214</u> | <u>\$ 6,865,346</u> |
| Noncash investing activity: | | |
| Unrealized gain (loss) from change in fair value of investments | <u>\$ (309,410)</u> | <u>\$ 99,188</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, 2017 and 2016

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, 2017 and 2016

1) Organization and Summary of Significant Accounting Policies, Continued

Investments

Investments are reported at fair value except for the position in Virginia's Local Government Investment Pool (LGIP) which in accordance with state law, is reported at amortized cost.

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 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 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 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 \$1,652,000 and \$1,106,000 at June 30, 2017 and 2016, respectively, and are included in Accounts receivable, customers on the statement of net position.

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, 2017 and 2016, there were \$4,500 and \$44,600, 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, 2017 and 2016

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, 2017 were as follows:

| | Deductibles | Liability Coverage Limits |
|---|--------------------|--|
| Property insurance: | \$ 10,000 | |
| 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 |
| Inland marine, computers/electronic data processing and boiler & machinery | 1,000 | Replacement cost/actual cash value |
| General liability | - | 2,000,000 |
| Public officials liability | - | 9,000,000 |
| Automobile liability | - | 2,000,000 |
| Automobile comprehensive/collision | 1,000 | 872,988 replacement cost |
| Crime | 250 | 500,000 |
| Environmental liability | 25,000 | 1,000,000 |
| Cyber risk | - | 500,000 |
| Worker's compensation | - | Statutory limits |

The Authority entered into a separate insurance policy on November 1, 2016 and consequently, there was no deductible for general liability and automobile liability insurance and the general liability and automobile liability coverage was reduced from \$9,000,000 in the prior year to \$2,000,000 for fiscal year 2017. 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, 2017 and 2016

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.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation.

Adoption of New Accounting Statement

The Authority adopted GASB Statement No. 72, Fair Value Measurement and Application effective for the fiscal year ended June 30, 2016. 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, 2017 and 2016, consisted of the following:

| | <u>6/30/2017</u> | <u>6/30/2016</u> |
|--|----------------------|----------------------|
| Bank deposits | \$ 539,411 | \$ 654,963 |
| Petty cash | 605 | 605 |
| Investments | 40,808,941 | 36,858,478 |
| Total | <u>\$ 41,348,957</u> | <u>\$ 37,514,046</u> |
| <u>Reconciliation to Statement of Net Position:</u> | | |
| Cash and cash equivalents | \$ 540,016 | \$ 655,568 |
| Investments | 40,131,327 | 36,128,873 |
| Restricted investments | 677,614 | 729,605 |
| Total | <u>\$ 41,348,957</u> | <u>\$ 37,514,046</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.

Restricted investments reflects funds held by a trustee in escrow for future debt service payments.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2017 and 2016

2) Cash and Investments, Continued

The Authority's investments at June 30, 2017 and 2016 were as follows:

| Investment Type | Cost | Fair Value | Level 1 | Level 2 | Level 3 |
|--------------------------------|---------------|-------------------|----------------|----------------|----------------|
| 6/30/2017: | | | | | |
| Investments: | | | | | |
| Money market | \$ 68,053 | \$ 68,053 | N/A | N/A | N/A |
| U.S. Treasury securities | 16,983,898 | 16,925,723 | - | 16,925,723 | - |
| Federal agency notes and bonds | 12,287,088 | 12,214,418 | - | 12,214,418 | - |
| Corporate notes and bonds | 5,837,933 | 5,775,711 | - | 5,775,711 | - |
| Commercial paper | 766,263 | 766,827 | - | 766,827 | - |
| Certificates of deposit | 2,724,034 | 2,725,111 | - | 2,725,111 | - |
| Fed. agency coll. mortgage ob. | 1,674,281 | 1,655,484 | - | 1,655,484 | - |
| Total | \$ 40,341,550 | \$ 40,131,327 | \$ - | \$ 40,063,274 | \$ - |
| Restricted Investments: | | | | | |
| Money market | \$ 677,614 | \$ 677,614 | N/A | N/A | N/A |
| 6/30/2016: | | | | | |
| Investments: | | | | | |
| 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 | - |
| Fed. agency coll. mortgage ob. | 1,952,505 | 1,949,535 | - | 1,949,535 | - |
| Total | \$ 36,029,685 | \$ 36,128,873 | \$ 16,328,592 | \$ 19,800,281 | \$ - |
| Restricted Investments: | | | | | |
| Money market | \$ 729,605 | \$ 729,605 | N/A | N/A | N/A |

| Investment Type | Amount | Weighted average maturity (in years) | | | |
|--------------------------------|---------------|--------------------------------------|---------------|---------------|--|
| | | Less than 1 | 1-2 | 2-7 | |
| 6/30/2017: | | | | | |
| Money market funds | \$ 745,667 | \$ 745,667 | \$ - | \$ - | |
| U.S. Treasury securities | 16,925,723 | - | 7,479,526 | 9,446,197 | |
| Federal agency notes and bonds | 12,214,418 | - | 5,881,742 | 6,332,676 | |
| Corporate notes and bonds | 5,775,711 | 882,983 | 2,545,081 | 2,347,647 | |
| Commercial paper | 766,827 | 766,827 | - | - | |
| Certificate of deposit | 2,725,111 | 1,952,216 | 772,895 | - | |
| Fed. agency coll. mortgage ob. | 1,655,484 | 493,388 | 730,029 | 432,067 | |
| Total | \$ 40,808,941 | \$ 4,841,081 | \$ 17,409,273 | \$ 18,558,587 | |
| 6/30/2016: | | | | | |
| 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 | - | |
| Fed. agency coll. mortgage ob. | 1,949,535 | - | 226,823 | 1,722,712 | |
| Total | \$ 36,858,478 | \$ 5,647,053 | \$ 13,361,371 | \$ 17,850,054 | |

JAMES CITY SERVICE AUTHORITY
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2) Cash and Investments, Continued

Investment Policy

The JCSA Board of Directors adopted an updated Investment Policy on August 9, 2016. 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, federal agency obligations, municipal obligations, prime quality commercial paper, bankers' acceptances, corporate notes, negotiable certificates of deposits and bank deposit notes, money market mutual funds, repurchase agreements and the LGIP, which measures its investments at amortized cost). 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. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

| | |
|---|--------------|
| U.S. Treasury obligations | 100% maximum |
| Federal agency obligations | 100% maximum |
| Money market mutual funds | 50% maximum |
| LGIP | 50% maximum |
| Repurchase agreements | 50% maximum |
| Bankers' acceptances | 35% maximum |
| Commercial paper | 35% maximum |
| Collateralized bank deposits | 35% maximum |
| Negotiable certificates of deposit/bank deposit notes | 25% maximum |
| Corporate notes | 25% maximum |
| Municipal obligations | 20% maximum |
| Federal agency mortgage-backed securities | 10% 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 Nationally Recognized Statistical Rating Organizations (NRSROs). Corporate notes must have a minimum rating of Aa by Moody's Investors Service and AA by Standard & Poor's. Negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a minimum rating of A-1 by Standard & Poor's and P-1 by Moody's Investors Service, and if maturing in over one year, the minimum rating must be 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.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
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2) Cash and Investments, Continued

As of June 30, 2017 and 2016, the Authority's investments rated by Standard & Poor's were as follows:

| | Unrated | AAA | AA+ | AA | AA- | A-1+ | A-1 |
|--------------------------------|------------|--------------|---------------|------------|--------------|--------------|--------------|
| 6/30/2017: | | | | | | | |
| Money market funds | \$ 677,614 | \$ 68,053 | \$ - | \$ - | \$ - | \$ - | \$ - |
| U.S. Treasury securities | - | - | 16,925,723 | - | - | - | - |
| Federal agency notes and bonds | - | - | 12,214,418 | - | - | - | - |
| Corporate notes and bonds | - | 831,554 | 1,347,587 | 254,112 | 3,342,458 | - | - |
| Commercial paper | - | - | - | - | - | - | 766,827 |
| Certificate of deposit | - | - | - | - | 2,074,634 | 650,477 | - |
| Fed. agency coll. mortgage ob. | - | - | 1,655,484 | - | - | - | - |
| Total | \$ 677,614 | \$ 899,607 | \$ 32,143,212 | \$ 254,112 | \$ 5,417,092 | \$ 650,477 | \$ 766,827 |
| 6/30/2016: | | | | | | | |
| 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 | \$ 729,605 | \$ 1,047,539 | \$ 26,333,029 | \$ 591,805 | \$ 4,141,558 | \$ 1,225,638 | \$ 2,789,304 |

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 obligations | 100% maximum |
| Money market mutual funds | 50% maximum |
| LGIP | 50% maximum |
| Federal agency obligations | 35% maximum |
| Collateralized bank deposits | 35% maximum |
| Repurchase agreements | 25% maximum |
| Federal agency mortgage-backed securities | 10% maximum |

At June 30, 2017 and 2016, the portions of the Authority's portfolio (excluding restricted investments) that exceeded 5% of the total were:

| Issuer | % of Portfolio | |
|--|----------------|-----------|
| | 6/30/2017 | 6/30/2016 |
| U.S. Treasury | 42.2% | 45.2% |
| Federal Home Loan Banks | 16.1% | 7.2% |
| Fannie Mae | 10.3% | - |
| Freddie Mac | 8.2% | - |
| Federal Home Loan Mortgage Corporation | - | 6.9% |

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.

JAMES CITY SERVICE AUTHORITY
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Notes to Financial Statements
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2) Cash and Investments, Continued

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, 2017 and 2016, all of the Authority's investments were held in a bank's trust department in the name of James City Service Authority.

3) Note Receivable

In September 2009, the Authority executed a promissory note for \$170,000 at 6% interest with Anderson-Hughes, LLC pursuant to the Sewer Modification Contract dated September 20, 2007 for the installation of grinder pumps. The monthly payments were \$2,508 through August 2016. At June 30, 2017 and 2016, the note receivable balance was \$0 and \$2,544, respectively.

In June 2017, the Authority entered into a deferred payment agreement with Franciscus at Promenade, LLC. During 2017, Franciscus made an initial payment of \$478,315 towards estimated system charges and fees and will pay the balance prior to applying for the building permit for the 91st residential unit. At June 30, 2017, the note receivable balance was \$497,890.

JAMES CITY SERVICE AUTHORITY
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Notes to Financial Statements
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4) Capital Assets

The following is a summary of changes in capital assets for the fiscal years ended June 30, 2017 and 2016:

| | <u>Balance July 1, 2016</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2017</u> |
|---|---------------------------------|-----------------------|---------------------|----------------------------------|
| Capital assets not being depreciated: | | | | |
| Utility plant: | | | | |
| Land | \$ 962,995 | \$ - | \$ 7,000 | \$ 955,995 |
| Nonutility plant: | | | | |
| Land | 1,739,491 | - | - | 1,739,491 |
| Land improvements | 13,183 | - | - | 13,183 |
| Construction in progress | 1,334,553 | 3,388,911 | 2,325,126 | 2,398,338 |
| Intangibles - easements | 4,570 | - | - | 4,570 |
| Total capital assets not being depreciated | <u>4,054,792</u> | <u>3,388,911</u> | <u>2,332,126</u> | <u>5,111,577</u> |
| Capital assets being depreciated: | | | | |
| Utility plant: | | | | |
| Water and sewer systems | 251,061,253 | 2,729,675 | - | 253,790,928 |
| Nonutility plant: | | | | |
| Central shop | 4,892,209 | 392,700 | - | 5,284,909 |
| Office fixtures and equipment | 1,840,746 | 230,090 | 21,467 | 2,049,369 |
| Automotive equipment | 2,629,462 | 396,057 | 185,805 | 2,839,714 |
| Intangible - water rights | 25,000,000 | - | - | 25,000,000 |
| Total capital assets being depreciated | <u>285,423,670</u> | <u>3,748,522</u> | <u>207,272</u> | <u>288,964,920</u> |
| Less accumulated depreciation/amortization: | | | | |
| Water and sewer systems | 118,583,791 | 6,958,996 | - | 125,542,787 |
| Central shop | 1,632,310 | 151,614 | - | 1,783,924 |
| Office fixtures and equipment | 1,177,444 | 148,948 | 21,467 | 1,304,925 |
| Automotive equipment | 2,021,592 | 321,028 | 185,805 | 2,156,815 |
| Intangibles - water rights | 4,447,853 | 613,497 | - | 5,061,350 |
| Total accumulated depreciation/amortization | <u>127,862,990</u> | <u>8,194,083</u> | <u>207,272</u> | <u>135,849,801</u> |
| Total capital assets being depr./amort, net | <u>157,560,680</u> | <u>(4,445,561)</u> | <u>-</u> | <u>153,115,119</u> |
| Total capital assets, net | <u>\$ 161,615,472</u> | <u>\$ (1,056,650)</u> | <u>\$ 2,332,126</u> | <u>\$ 158,226,696</u> |

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2017 and 2016

4) Capital Assets, Continued

| | 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> |

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, 2017 and 2016, advances for construction consisted of:

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

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2017 and 2016

6) Long-Term Debt

The Authority's long-term debt activity for the fiscal years ended June 30, 2017 and 2016 was as follows:

| | Balance 7/1/2016 | Increases | Decreases | Balance 6/30/2017 | Due within one year |
|----------------------------------|-----------------------------|-------------------|---------------------|------------------------------|--------------------------------|
| Refunding revenue bonds | \$ 22,595,000 | \$ - | \$ 785,000 | \$ 21,810,000 | \$ 605,000 |
| Premium, refunding revenue bonds | 1,523,109 | - | 63,907 | 1,459,202 | 63,907 |
| Compensated absences | 382,805 | 490,646 | 461,567 | 411,884 | 308,913 |
| Total | <u>\$ 24,500,914</u> | <u>\$ 490,646</u> | <u>\$ 1,310,474</u> | <u>\$ 23,681,086</u> | <u>\$ 977,820</u> |

| | 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> |

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 \$1,739,250 and \$1,815,422 at June 30, 2017 and 2016, respectively. 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 |
|---------------------------|----------------------|---------------------|
| 2018 | \$ 605,000 | \$ 749,450 |
| 2019 | 630,000 | 725,250 |
| 2020 | 655,000 | 700,050 |
| 2021 | 690,000 | 667,300 |
| 2022 | 720,000 | 632,800 |
| 2023-2027 | 4,100,000 | 2,680,900 |
| 2028-2032 | 4,895,000 | 1,876,350 |
| 2033-2037 | 5,680,000 | 1,096,650 |
| 2038-2040 | 3,835,000 | 232,200 |
| | <u>\$ 21,810,000</u> | <u>\$ 9,360,950</u> |

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016, compensated absences consisted of the following:

| | <u>6/30/2017</u> | <u>6/30/2016</u> |
|---------------|-------------------|-------------------|
| Vacation | \$ 311,861 | \$ 291,932 |
| Sick | 81,128 | 78,319 |
| Paid-time off | 18,895 | 12,554 |
| Total | <u>\$ 411,884</u> | <u>\$ 382,805</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.

Information about the VRS Political Subdivision Retirement Plan is available in the separately issued VRS 2016 comprehensive annual financial report (CAFR). A copy of the CAFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2016-annual-report.pdf> or by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

Plan Description

All full-time, salaried permanent 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.

| |
|---------------|
| PLAN 1 |
|---------------|

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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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%.

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.

JAMES CITY SERVICE AUTHORITY
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Notes to Financial Statements
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7) Pension Plan, Continued

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.

| |
|---------------|
| PLAN 2 |
|---------------|

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.

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7) Pension Plan, Continued

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.

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.

| |
|-------------------------------|
| Hybrid Retirement Plan |
|-------------------------------|

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.

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7) Pension Plan, Continued

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.

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.

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7) Pension Plan, Continued

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.

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.

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.

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7) Pension Plan, Continued

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, 2015 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>43</u> |
| Inactive members: | |
| Vested | 11 |
| Non-vested | 12 |
| Active elsewhere in VRS | <u>30</u> |
| Total inactive members | <u>53</u> |
| Active members | <u>84</u> |
| Total | <u><u>180</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.

The Authority's contractually required contribution rate for the year ended June 30, 2017 and 2016 was 7.29% and 8.49%, respectively, of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and 2013, respectively. 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 \$297,668 and \$341,874 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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7) Pension Plan, Continued

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, 2015, 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, 2016.

| | |
|---------------------------------------|--|
| 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 — Non-LEOS:

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 (Non 10 Largest) — Non-LEOS:

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.

The actuarial assumptions used in the June 30, 2015 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:

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7) Pension Plan, Continued

Largest 10 – Non-LEOS:

- ◆ 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) – Non-LEOS:

- ◆ 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 following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|-------------------------------|--------------------------|---|---|
| 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 | 100.00% | | 5.83% |
| | | Inflation | 2.50% |
| | | *Expected arithmetic nominal return | 8.33% |

*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%.

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7) Pension Plan, Continued

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.

Changes in Net Pension Liability

| | Total pension liability (a) | Plan fiduciary net pension (b) | Net pension liability (a) - (b) |
|--|--------------------------------|-----------------------------------|------------------------------------|
| <u>6/30/2017:</u> | | | |
| Balances at June 30, 2015 | \$ 15,026,681 | \$ 13,951,734 | \$ 1,074,947 |
| Changes for the year: | | | |
| Service cost | 404,294 | - | 404,294 |
| Interest | 1,032,165 | - | 1,032,165 |
| Difference between expected and actual experience | 128,139 | - | 128,139 |
| Contributions - employer | - | 336,720 | (336,720) |
| Contributions - employee | - | 197,261 | (197,261) |
| Net investment income | - | 245,617 | (245,617) |
| Benefit payments, including refunds of employee contributions | (562,945) | (562,945) | - |
| Administrative expense | - | (8,604) | 8,604 |
| Other changes | - | (104) | 104 |
| Net changes | 1,001,653 | 207,945 | 793,708 |
| Balances at June 30, 2016 | <u>\$ 16,028,334</u> | <u>\$ 14,159,679</u> | <u>\$ 1,868,655</u> |
| <u>6/30/2016:</u> | | | |
| 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 | <u>\$ 15,026,681</u> | <u>\$ 13,951,734</u> | <u>\$ 1,074,947</u> |

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7) Pension Plan, Continued

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 | \$ 4,071,742 | \$ 1,868,655 | \$ 39,904 |

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

For the years ending June 30, 2017 and 2016, the Authority recognized pension expense of \$277,501 and \$123,719, respectively. The Authority reported deferred outflows and deferred inflow of resources related to pensions as follows:

| | 6/30/2017 | | 6/30/2016 | |
|--|---|--|---|--|
| | Deferred outflows of resources | Deferred inflows of resources | Deferred outflows of resources | Deferred inflows of resources |
| Difference between expected and actual experience | \$ 99,914 | \$ 82,431 | \$ - | \$ 114,381 |
| Net difference between projected and actual earnings on plan investments | 372,758 | - | - | 348,305 |
| Employer contributions subsequent to the measurement date | 297,668 | - | 341,874 | - |
| Total | <u>\$ 770,340</u> | <u>\$ 82,431</u> | <u>\$ 341,874</u> | <u>\$ 462,686</u> |

At June 30, 2017, the \$297,668 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| | |
|---------------------|-------------------|
| Year Ended June 30: | |
| 2018 | \$ 4,897 |
| 2019 | 4,899 |
| 2020 | 219,265 |
| 2021 | 161,180 |
| | <u>\$ 390,241</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.

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

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

The net pension obligation was calculated as follows:

| | <u>6/30/2017</u> | <u>6/30/2016</u> |
|--|-------------------|-------------------|
| Annual required contribution | \$ 61,000 | \$ 57,000 |
| Amortization of net OPEB obligation | (14,000) | (12,000) |
| Interest on net OPEB obligation | 11,000 | 10,000 |
| Annual OPEB cost | 58,000 | 55,000 |
| Contributions made | (22,000) | (21,000) |
| Increase in net OPEB obligation | 36,000 | 34,000 |
| Net OPEB obligation, beginning of year | 277,509 | 243,509 |
| Net OPEB obligation, end of year | <u>\$ 313,509</u> | <u>\$ 277,509</u> |

Annual OPEB Cost

| <u>Year Ended June 30,</u> | <u>Annual OPEB cost</u> | <u>Actual contribution</u> | <u>Percentage of annual OPEB cost contributed</u> | <u>Net OPEB obligation</u> |
|------------------------------------|---------------------------------|--------------------------------|---|--------------------------------|
| 2017 | \$ 58,000 | \$ 22,000 | 37.9% | \$ 313,509 |
| 2016 | 55,000 | 21,000 | 38.2% | 277,509 |
| 2015 | 45,000 | 9,000 | 20.0% | 243,509 |

Actuarial Methods and Assumptions

For the actuarial valuation at July 1, 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 a closed 22 year period 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%.

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

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

| Actuarial valuation date July 1, | Actuarial value of assets | Actuarial accrued liability (AAL) project unit credit | Unfunded actuarial accrued liability (UAAL) | Funded ratio | Covered payroll | UAAL as a percentage of covered payroll |
|---|---------------------------------|---|---|-----------------|--------------------|---|
| 2016 | \$ - | \$ 559,000 | \$ 559,000 | 0.0% | \$ 4,083,082 | 13.7% |
| 2015 | - | 528,000 | 528,000 | 0.0% | 4,026,779 | 13.1% |
| 2014 | - | 423,000 | 423,000 | 0.0% | 3,897,762 | 10.9% |

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.

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 \$768,211 and \$770,378 for the years ended June 30, 2017 and 2016, respectively, and are included in the expenses under contractual fees. The Authority also owed the County \$383,584 and \$633,544 at June 30, 2017 and 2016, respectively, which primarily represents payroll expenses incurred by the Authority.

In addition, the County leases space in Authority buildings under long-term leases. Rent revenue was \$309,920 and \$299,338 for years ended June 30, 2017 and 2016, respectively; and is included in rental income.

11) Commitments and Contingencies

Construction in Progress

At June 30, 2017, the Authority had several major projects under construction which are presented in the accompanying financial statements as construction in progress.

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11) Commitments and Contingencies, Continued

Below are the details for each project:

| Project | Budget | Expenditures to date | Balance of contract | Budget balance |
|--------------------|----------------------|---------------------------------|--------------------------------|---------------------------|
| Sewer improvements | \$ 4,252,075 | \$ 187,763 | \$ 101,904 | \$ 3,962,408 |
| Water supply | 17,992,132 | 2,007,137 | 1,206,727 | 14,778,268 |
| Water distribution | 382,817 | - | - | 382,817 |
| Water transmission | 500,000 | 40,567 | 4,508 | 454,925 |
| Water storage | 185,620 | - | - | 185,620 |
| Other | 1,234,180 | 162,871 | 29,037 | 1,042,272 |
| | <u>\$ 24,546,824</u> | <u>\$ 2,398,338</u> | <u>\$ 1,342,176</u> | <u>\$ 20,806,310</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%.

The Authority did not receive any water from the City of Newport News for the years ended June 30, 2017 and 2016. Therefore, the Authority did not make a payment to the City of Newport News for the years ended June 30, 2017 and 2016, for these costs. Further, the Authority 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 \$1.26 and \$1.23 per 1,000 gallons for fiscal years ended June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, 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 term of the contract is October 26, 2016 through October 25, 2017, 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, 2017 and 2016, the Authority paid \$220,228 and \$223,783, respectively, for grinder pump maintenance.

Water Storage Tank Maintenance

The Authority entered into a contract with Superior Industrial Maintenance Company where they will provide water storage tank maintenance. The term of the contract is July 13, 2017 through July 12, 2018, with the option to renew for up to 5 additional years. For the years ended June 30, 2017 and 2016, the Authority paid \$133,573 and \$127,353, respectively, towards this contract.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2017 and 2016

11) Commitments and Contingencies, Continued

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 would have a material impact to the financial statements.

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

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Exhibit 4

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Schedule of Changes in the Net Pension Liability and Related Ratios
Required Supplementary Information (Unaudited)
Years Ended June 30, 2017 and 2016 (1)

| | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|----------------------|----------------------|----------------------|
| Total pension liability | | | |
| Service cost | \$ 417,066 | \$ 430,269 | \$ 404,294 |
| Interest | 913,818 | 978,647 | 1,032,165 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | - | (146,331) | 128,139 |
| Changes in assumptions | - | - | - |
| Benefit payments, including refunds of employee contributions | (376,365) | (433,146) | (562,945) |
| Net change in total pension liability | 954,519 | 829,439 | 1,001,653 |
| Total pension liability, beginning | 13,242,723 | 14,197,242 | 15,026,681 |
| Total pension liability, ending | <u>\$ 14,197,242</u> | <u>\$ 15,026,681</u> | <u>\$ 16,028,334</u> |
| Plan fiduciary net position | | | |
| Contributions - employer | \$ 308,820 | \$ 329,381 | \$ 336,720 |
| Contributions - employee | 197,188 | 193,349 | 197,261 |
| Net investment income | 1,802,418 | 612,704 | 245,617 |
| Benefit payments, including refunds of employee contributions | (376,365) | (433,146) | (562,945) |
| Administrative expense | (9,511) | (8,173) | (8,604) |
| Other | 95 | (130) | (104) |
| Net change in plan fiduciary net position | 1,922,645 | 693,985 | 207,945 |
| Plan fiduciary net position, beginning | 11,335,104 | 13,257,749 | 13,951,734 |
| Plan fiduciary net position, ending | <u>\$ 13,257,749</u> | <u>\$ 13,951,734</u> | <u>\$ 14,159,679</u> |
| Net pension liability | <u>\$ 939,493</u> | <u>\$ 1,074,947</u> | <u>\$ 1,868,655</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 93.38% | 92.85% | 88.34% |
| Covered-employee payroll | <u>\$ 3,943,666</u> | <u>\$ 3,897,762</u> | <u>\$ 4,026,779</u> |
| Net pension liability as a percentage of the total covered-employee payroll | 23.82% | 27.58% | 46.41% |

(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
(A Component Unit of the County of James City, Virginia)
Schedule of Employer Contributions
Required Supplementary Information (Unaudited)
Years Ended June 30, 2017 and 2016 (1)

| Fiscal year | Contributions in relation to | | Contribution deficiency (excess) | Employer's | | Contributions as a % of covered employee payroll |
|----------------|---|---|--|--------------------------------|--------------------------------|--|
| | Contractually required contribution | contractually required contribution | | covered employee payroll | covered employee payroll | |
| 2015 | \$ 330,920 | \$ 330,920 | \$ - | \$ 3,897,762 | | 8.49% |
| 2016 | 341,874 | 341,874 | - | 4,026,779 | | 8.49% |
| 2017 | 297,668 | 297,668 | - | 4,083,082 | | 7.29% |

(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, 2017 and 2016

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 is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 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 – Non-LEOs:

- ◆ 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) – Non-LEOs:

- ◆ 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

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SUPPLEMENTARY INFORMATION

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JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Schedules of Net Position – by Activity
June 30, 2017
(with comparative totals for 2016)

| | | | Totals | |
|--|---------------------|---------------------|----------------|----------------|
| | Water operations | Sewer operations | 2017 | 2016 |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 270,310 | \$ 269,706 | \$ 540,016 | \$ 655,568 |
| Investments | 15,758,695 | 24,372,632 | 40,131,327 | 36,128,873 |
| Restricted investments | 677,614 | - | 677,614 | 729,605 |
| Accounts receivable, customers | 1,482,837 | 1,448,973 | 2,931,810 | 2,456,377 |
| Accounts receivable, other | 49,450 | - | 49,450 | 33,218 |
| Note receivable | 259,426 | 238,464 | 497,890 | 2,544 |
| Interest receivable | 67,412 | 67,412 | 134,824 | 125,238 |
| Inventories | 791,237 | 52,160 | 843,397 | 809,113 |
| Total current assets | 19,356,981 | 26,449,347 | 45,806,328 | 40,940,536 |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Utility plant: | | | | |
| Land | - | 955,995 | 955,995 | 962,995 |
| Water and sewer systems | 129,358,983 | 124,431,945 | 253,790,928 | 251,061,253 |
| Total utility plant | 129,358,983 | 125,387,940 | 254,746,923 | 252,024,248 |
| Nonutility property: | | | | |
| Land | 1,739,491 | - | 1,739,491 | 1,739,491 |
| Central shop | 4,857,636 | 427,273 | 5,284,909 | 4,892,209 |
| Office fixtures and equipment | 1,530,944 | 518,425 | 2,049,369 | 1,840,746 |
| Land improvements | 13,183 | - | 13,183 | 13,183 |
| Automotive equipment | 2,267,127 | 572,587 | 2,839,714 | 2,629,462 |
| Total nonutility property | 10,408,381 | 1,518,285 | 11,926,666 | 11,115,091 |
| 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 | 2,210,575 | 187,763 | 2,398,338 | 1,334,553 |
| Less accumulated depreciation and amortization | 73,139,117 | 62,710,684 | 135,849,801 | 127,862,990 |
| Net capital assets | 93,843,392 | 64,383,304 | 158,226,696 | 161,615,472 |
| Total assets | 113,200,373 | 90,832,651 | 204,033,024 | 202,556,008 |
| Deferred Outflows of Resources | | | | |
| Deferred charge on refunding, net | 1,739,250 | - | 1,739,250 | 1,815,422 |
| Deferred pension contributions | 148,834 | 148,834 | 297,668 | 341,874 |
| Deferred pension investment experience | 186,379 | 186,379 | 372,758 | - |
| Deferred pension experience | 49,957 | 49,957 | 99,914 | - |
| Total deferred outflows | 2,124,420 | 385,170 | 2,509,590 | 2,157,296 |
| Total assets and deferred outflows | \$ 115,324,793 | \$ 91,217,821 | \$ 206,542,614 | \$ 204,713,304 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable, trade | \$ 280,805 | \$ 35,863 | \$ 316,668 | \$ 326,814 |
| Accrued salaries | 13,331 | 989 | 14,320 | 14,083 |
| Compensated absences, current portion | 308,913 | - | 308,913 | 287,104 |
| Due to James City County | 341,748 | 41,835 | 383,583 | 633,544 |
| Deposits | 190,732 | - | 190,732 | 180,490 |
| Unearned revenue | 258,336 | 238,464 | 496,800 | - |
| Interest payable | 343,670 | - | 343,670 | 152,823 |
| Bond payable, current portion | 668,907 | - | 668,907 | 848,907 |
| Total current liabilities | 2,406,442 | 317,151 | 2,723,593 | 2,443,765 |
| Noncurrent liabilities: | | | | |
| Advances for construction | 5,882 | 27,020 | 32,902 | 32,902 |
| Other post-employment benefits (OPEB) | 156,755 | 156,754 | 313,509 | 277,509 |
| Compensated absences, net of current portion | 102,971 | - | 102,971 | 95,701 |
| Bonds payable, net of current portion | 22,600,295 | - | 22,600,295 | 23,269,202 |
| Net pension liability | 934,327 | 934,328 | 1,868,655 | 1,074,947 |
| Total noncurrent liabilities | 23,800,230 | 1,118,102 | 24,918,332 | 24,750,261 |
| Total liabilities | 26,206,672 | 1,435,253 | 27,641,925 | 27,194,026 |
| Deferred Inflow of Resources | | | | |
| Deferred pension experience | 41,216 | 41,215 | 82,431 | 114,381 |
| Deferred pension investment experience | - | - | - | 348,305 |
| Total deferred inflows | 41,216 | 41,215 | 82,431 | 462,686 |
| Net Position | | | | |
| Net position: | | | | |
| Net investment in capital assets | 72,313,440 | 64,383,304 | 136,696,744 | 139,312,785 |
| Restricted for debt service | 677,614 | - | 677,614 | 729,605 |
| Unrestricted | 16,085,851 | 25,358,049 | 41,443,900 | 37,014,202 |
| Total net position | 89,076,905 | 89,741,353 | 178,818,258 | 177,056,592 |
| Total liabilities, deferred inflows and net position | \$ 115,324,793 | \$ 91,217,821 | \$ 206,542,614 | \$ 204,713,304 |

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, 2017
(with comparative totals for year ended June 30, 2016)

| | Water operations | Sewer operations | Totals | |
|--|-----------------------------|-----------------------------|-----------------------|-----------------------|
| | | | 2017 | 2016 |
| Operating revenues: | | | | |
| Water and sewer services | \$ 8,083,285 | \$ 6,317,076 | \$ 14,400,361 | \$ 12,774,840 |
| Other | 773,467 | 150,384 | 923,851 | 817,963 |
| Total operating revenues | <u>8,856,752</u> | <u>6,467,460</u> | <u>15,324,212</u> | <u>13,592,803</u> |
| Operating expenses: | | | | |
| Salaries | 2,324,175 | 2,060,270 | 4,384,445 | 4,347,283 |
| Fringe benefits | 977,945 | 821,853 | 1,799,798 | 1,583,480 |
| Operating supplies | 745,205 | 299,927 | 1,045,132 | 1,094,002 |
| Maintenance | 582,985 | 1,056,085 | 1,639,070 | 1,670,023 |
| Utilities | 661,647 | 237,647 | 899,294 | 870,220 |
| Contractual fees | 509,035 | 411,679 | 920,714 | 903,463 |
| Other | 122,560 | 93,073 | 215,633 | 233,233 |
| Total operating expenses | <u>5,923,552</u> | <u>4,980,534</u> | <u>10,904,086</u> | <u>10,701,704</u> |
| Operating income before depreciation and amortization | 2,933,200 | 1,486,926 | 4,420,126 | 2,891,099 |
| Depreciation and amortization | <u>5,096,640</u> | <u>3,097,443</u> | <u>8,194,083</u> | <u>7,930,632</u> |
| Operating loss | <u>(2,163,440)</u> | <u>(1,610,517)</u> | <u>(3,773,957)</u> | <u>(5,039,533)</u> |
| Nonoperating revenues (expenses): | | | | |
| Facility charges | 2,690,404 | 1,973,912 | 4,664,316 | 3,243,535 |
| Investment income | 45,308 | 44,840 | 90,148 | 519,767 |
| Gain (loss) on disposal of capital assets | 56,018 | (7,000) | 49,018 | (193,113) |
| Insurance recovery | 1,000 | - | 1,000 | 14,219 |
| Bond issuance costs | - | - | - | (402,364) |
| Interest expense | (778,073) | - | (778,073) | (744,124) |
| Net nonoperating revenues | <u>2,014,657</u> | <u>2,011,752</u> | <u>4,026,409</u> | <u>2,437,920</u> |
| Income (loss) before capital contributions | (148,783) | 401,235 | 252,452 | (2,601,613) |
| Capital asset contributions | <u>1,000,200</u> | <u>509,014</u> | <u>1,509,214</u> | <u>6,865,346</u> |
| Changes in net position | 851,417 | 910,249 | 1,761,666 | 4,263,733 |
| Net position, beginning of year | 88,225,488 | 88,831,104 | 177,056,592 | 172,792,859 |
| Net position, end of year | <u>\$ 89,076,905</u> | <u>\$ 89,741,353</u> | <u>\$ 178,818,258</u> | <u>\$ 177,056,592</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, 2017

| | Water operations | | Variance favorable (unfavorable) | Sewer operations | | Variance favorable (unfavorable) |
|--------------------------|---------------------|---------------------|--|---------------------|---------------------|--|
| | Actual | Budget | | Actual | Budget | |
| Operating revenues: | | | | | | |
| Water and sewer services | \$ 8,083,285 | \$ 6,863,000 | \$ 1,220,285 | \$ 6,317,076 | \$ 5,748,000 | \$ 569,076 |
| Other | 773,467 | 348,964 | 424,503 | 150,384 | 147,963 | 2,421 |
| Total operating revenues | <u>\$ 8,856,752</u> | <u>\$ 7,211,964</u> | <u>\$ 1,644,788</u> | <u>\$ 6,467,460</u> | <u>\$ 5,895,963</u> | <u>\$ 571,497</u> |
| Operating expenses: | | | | | | |
| Salaries | \$ 2,324,175 | \$ 2,463,616 | \$ 139,441 | \$ 2,060,270 | \$ 2,225,314 | \$ 165,044 |
| Fringe benefits | 977,945 | 1,025,467 | 47,522 | 821,853 | 882,367 | 60,514 |
| Operating supplies | 745,205 | 1,155,376 | 410,171 | 299,927 | 536,204 | 236,277 |
| Maintenance * | 582,985 | 802,688 | 219,703 | 1,056,085 | 1,613,092 | 557,007 |
| Utilities | 661,647 | 726,892 | 65,245 | 237,647 | 293,376 | 55,729 |
| Contractual fees | 509,035 | 614,991 | 105,956 | 411,679 | 488,882 | 77,203 |
| Other | 122,560 | 185,903 | 63,343 | 93,073 | 145,216 | 52,143 |
| Total operating expenses | <u>\$ 5,923,552</u> | <u>\$ 6,974,933</u> | <u>\$ 1,051,381</u> | <u>\$ 4,980,534</u> | <u>\$ 6,184,451</u> | <u>\$ 1,203,917</u> |

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

See accompanying independent auditors' report.

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STATISTICAL SECTION

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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

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Net Position | | | | | | | | | | |
| Net investment in capital assets | \$ 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 | \$ 136,696,744 |
| Restricted for debt service | - | - | - | - | - | - | - | - | 729,605 | 677,614 |
| Restricted for capital projects | 705,775 | 4,674,837 | 4,610,218 | 4,740,769 | 4,876,760 | 2,620,384 | 2,601,160 | 2,716,277 | - | - |
| Unrestricted | 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 | 41,443,900 |
| Total net position | <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> | <u>\$ 178,818,258</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

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|---------------------|---------------------|--------------------|-----------------------|--------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| Operating revenues: | | | | | | | | | | |
| Water and sewer services | \$ 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 | \$ 14,400,361 |
| Water supply proffers | 502,217 | 138,170 | 52,908 | 125,192 | 26,967 | 13,362 | 57,446 | 450,262 | 218,987 | 298,054 |
| Rental income | 181,256 | 135,234 | 144,441 | 171,401 | 144,381 | 164,875 | 160,914 | 325,991 | 326,377 | 377,880 |
| Other | 615,883 | 241,569 | 450,027 | 190,467 | 198,025 | 242,028 | 285,892 | 214,104 | 272,599 | 247,917 |
| Storm cost reimbursement | - | - | - | - | 349,541 | - | 900 | - | - | - |
| Total operating revenues | 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 | 15,324,212 |
| Operating expenses: | | | | | | | | | | |
| Salaries | 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 | 4,384,445 |
| Fringe benefits | 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 | 1,799,798 |
| Operating supplies | 775,892 | 1,014,351 | 866,624 | 888,559 | 899,095 | 822,882 | 882,253 | 836,288 | 1,094,002 | 1,045,132 |
| Maintenance | 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 | 1,639,070 |
| Utilities | 893,503 | 1,008,602 | 771,544 | 813,478 | 917,498 | 862,665 | 875,020 | 861,074 | 870,220 | 899,294 |
| Contractual fees | 640,618 | 735,132 | 889,869 | 873,110 | 882,505 | 910,491 | 836,634 | 915,365 | 903,463 | 920,714 |
| Other | 584,824 | 535,001 | 784,305 | 697,629 | 560,671 | 504,573 | 496,851 | 497,803 | 233,233 | 215,633 |
| Storm costs | - | - | - | - | 359,921 | - | - | - | - | - |
| Total operating expenses | 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 | 10,904,086 |
| Operating income before depreciation and amortization | 2,305,335 | 1,841,247 | 1,976,411 | 999,406 | 22,606 | 15,084 | 112,449 | 2,596,384 | 2,891,099 | 4,420,126 |
| Depreciation and amortization | 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 | 8,194,083 |
| Operating loss | (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) | (3,773,957) |
| Nonoperating revenues (expenses): | | | | | | | | | | |
| Facility charges | 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 | 4,664,316 |
| Investment income (loss) | 1,995,201 | 3,658,420 | 956,056 | 509,675 | 351,929 | (1,249,111) | 267,061 | 248,207 | 519,767 | 90,148 |
| Gain (loss) on disposal of capital assets | 181,615 | 74,226 | (251,710) | 34,324 | 21,285 | (44,507) | 15,352 | 23,497 | (193,113) | 49,018 |
| Insurance recovery | - | - | - | - | - | - | - | - | 14,219 | 1,000 |
| Bond issuance costs | - | - | - | - | - | - | - | - | (402,364) | - |
| Interest expense | (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) | (778,073) |
| Net nonoperating revenues | 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 | 4,026,409 |
| Income (loss) before contributions | 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) | 252,452 |
| Capital asset contributions | 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 | 1,509,214 |
| Changes in net position | \$ 4,718,926 | \$ 4,855,041 | \$ 532,019 | \$ (1,672,008) | \$ 9,436 | \$ (1,569,718) | \$ (695,231) | \$ 3,109,625 | \$ 4,263,733 | \$ 1,761,666 |

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

| Fiscal Year | Basic Charge | Rate per 1,000 gallons (1) | Quarterly Total (2) | % Change |
|--------------------|---------------------|-----------------------------------|----------------------------|-----------------|
| 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% |
| 2017 | 8.19 | 2.80 - 5.60 - 13.15 | 83.79 | 13.5% |

Quarterly Continuing Service Charges for Residential Sewer Service (1)

| Fiscal Year | Basic Charge | Rate per 1,000 gallons | Quarterly Total (2) | % Change |
|--------------------|---------------------|-------------------------------|----------------------------|-----------------|
| 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% |
| 2017 | 5.77 | 2.99 | 68.56 | 2.0% |

(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

| | 2017 | | | 2008 | | |
|---|----------------|-----------------|------|----------------|-----------------|------|
| | Gallons Billed | Service Charges | Rank | Gallons Billed | Service Charges | Rank |
| Owens-Illinois * | 18,913,121 | \$ 96,154 | 1 | 19,158,550 | \$ 57,476 | 2 |
| Williamsburg-James City County Public Schools * | 16,627,195 | 107,376 | 2 | 15,983,860 | 47,952 | 4 |
| Country Village Mobile Home Park (sewer only) | 15,355,692 | 45,868 | 3 | 13,500,652 | 40,502 | 5 |
| Eastern State Hospital * | 14,597,936 | 102,402 | 4 | 33,000,000 | 99,000 | 1 |
| Patriots Colony | 13,970,561 | 98,844 | 5 | 17,365,180 | 52,096 | 3 |
| Greystone * | 13,621,019 | 90,334 | 6 | N/A | N/A | N/A |
| Double Tree by Hilton (sewer only) | 12,023,352 | 35,900 | 7 | N/A | N/A | N/A |
| Virginia Peninsula Regional Jail* | 10,836,970 | 28,388 | 8 | N/A | N/A | N/A |
| Brookdale | 9,577,154 | 66,761 | 9 | N/A | N/A | N/A |
| Platinum Management | 9,398,545 | 66,575 | 10 | 10,496,000 | 31,488 | 7 |
| Windy Hill Trailer (sewer only) | - | - | | 12,232,792 | 36,698 | 6 |
| Oxford-James | - | - | | 10,400,750 | 31,202 | 8 |
| Rolling Meadows | - | - | | 9,526,100 | 28,578 | 9 |
| Williamsburg-Oxford | - | - | | 8,093,500 | 24,281 | 10 |
| Total | 134,921,545 | \$ 738,602 | | 149,757,384 | \$ 449,273 | |

* Subject to wastewater sub-meter adjustments

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

| Fiscal year | Revenue bonds | Number of water connections | Debt per water connection |
|------------------------|--------------------------|--|--|
| 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 |
| 2017 | 21,810,000 | 22,133 | 985.4 |

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

| Fiscal year | Gross revenue | Direct operating expenses | Net revenue available for debt service | | Principal | Interest | Total | Coverage |
|----------------|------------------|---------------------------------|---|------------|------------|--------------|-------|----------|
| | | | \$ | \$ | | | | |
| 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 | |
| 2017 | 20,128,694 | 10,904,086 | 9,224,608 | 605,000 | 749,450 | 1,354,450 | 6.81 | |

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

| Fiscal year | General obligation bonds | Capital leases | Lease revenue bonds | Total |
|------------------------|---|---------------------------|------------------------------------|----------------|
| 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 |
| 2017 | 44,155,482 | 4,195,266 | 119,855,768 | 168,206,516 |

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

| Calendar year | Population (1) | Personal income (2) | Per capita personal income (2) | Unemployment percentage (1) |
|--------------------------|-----------------------|--------------------------------|---|--|
| 2008 | 61,195 | \$ 4,175,375,000 | \$ 53,715 | 3.2% |
| 2009 | 63,135 | 4,078,729,000 | 51,109 | 5.4% |
| 2010 | 67,745 | 4,196,931,000 | 51,538 | 6.3% |
| 2011 | 68,500 | 4,474,583,000 | 54,224 | 6.1% |
| 2012 | 69,451 | 4,703,429,000 | 55,990 | 5.7% |
| 2013 | 70,376 | 4,745,679,000 | 55,550 | 5.3% |
| 2014 | 71,254 | 4,954,338,000 | 56,960 | 4.9% |
| 2015 | 72,682 | 5,160,028,000 | 58,504 | 4.3% |
| 2016 | 73,767 | ** | ** | 3.9% |
| 2017 | ** | ** | ** | ** |

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

| | 2017 | | | 2008 | | |
|--|-----------|------|---|-----------|------|---|
| | Employees | Rank | Percentage of total County employment | Employees | Rank | Percentage of total County employment |
| Busch Gardens | 1000+ | 1 | ** | 1000+ | 1 | 20.48% |
| Williamsburg-James City County Public Schools | 1000+ | 2 | 4.63% | 1000+ | 2 | 7.11% |
| Eastern State Hospital | 1000+ | 3 | 2.90% | 1000+ | 4 | 3.39% |
| James City County | 500-999 | 4 | 2.17% | 1000+ | 3 | 4.38% |
| Anheuser-Busch, Inc. | 500-999 | 5 | 1.74% | 500-999 | 6 | 2.83% |
| Riverside Regional Medical Center | 500-999 | 6 | 1.59% | - | - | - |
| Kingsmill Resort | 500-999 | 7 | 1.45% | - | - | - |
| Wal-Mart Distribution Center | 250-499 | 8 | 1.44% | 500-999 | 7 | 2.00% |
| Owens and Minor | 250-499 | 9 | 1.16% | - | - | - |
| Jamestown-Yorktown Foundation | 250-499 | 10 | 0.87% | 500-999 | 8 | 1.67% |
| Williamsburg Landing | - | | - | 250-499 | 10 | 1.04% |
| Busch Properties, Inc. | - | | - | 500-999 | 5 | 3.19% |
| Avid Medical | - | | - | 250-499 | 9 | 1.47% |
| Total | | | 17.95% | | | 47.56% |

** 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, 2017

| Insurer | Type of coverage | Policy number | Policy period from to | Annual Premium |
|---|-----------------------------|----------------------|------------------------------|-----------------------|
| Virginia Association of Counties Group Self-Insurance Risk Pool (VACoRP) | General liability | VA-JA-131-17 | 07/01/16 to 10/31/16 | \$ 31,469 |
| | Property | | | |
| | Automobile | | | |
| | Crime | | | |
| | Public officials' liability | | | |
| Virginia Association of Counties Group Self-Insurance Risk Pool (VACoRP) | General liability | VA-JA-131D-17 | 11/01/16 to 07/01/17 | \$ 59,076 |
| | Property | | | |
| | Automobile | | | |
| | Crime | | | |
| | Public officials' liability | | | |
| Virginia Association of Counties Group Self-Insurance Association (VACoGS/A) | Workers' compensation | VA-JA-131D-17 | 07/01/16 to 07/01/17 | \$ 64,855 |
| | | | | |

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

| Function | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Administration | 63 | 65 | 65 | 60 | 63 | 63 | 63 | 63 | 63 | 63 |
| Water | 14 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Sewer | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| Total | 88 | 91 | 91 | 86 | 89 | 89 | 89 | 89 | 89 | 89 |

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

| Function | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------|------|------|------|------|------|------|------|------|------|------|
| Water: | | | | | | | | | | |
| New connections | 351 | 263 | 385 | 388 | 351 | 448 | 359 | 388 | 423 | 464 |
| Water main breaks | 57 | 37 | 40 | 44 | 31 | 25 | 21 | 26 | 21 | 34 |
| Sewer: | | | | | | | | | | |
| New connections | 389 | 269 | 380 | 375 | 296 | 347 | 261 | 380 | 447 | 470 |

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 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Water: | | | | | | | | | | |
| Water lines (miles) | 332 | 339 | 344 | 393 | 390 | 393 | 400 | 402 | 407 | 409 |
| Water customers | 18,770 | 19,085 | 19,368 | 19,719 | 20,070 | 20,549 | 20,858 | 21,246 | 21,669 | 22,133 |
| Storage tanks (greater than 250,000 gallons) | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Average ERCs (1) | 20,400 | 25,753 | 20,200 | 20,866 | 19,200 | 18,597 | 18,937 | 19,415 | 18,921 | 20,025 |
| Sewer: | | | | | | | | | | |
| Sewer lines (miles) | 375 | 379 | 382 | 419 | 423 | 425 | 430 | 435 | 439 | 440 |
| Gallons collected (millions) | 1,727 | 1,765 | 1,833 | 1,598 | 1,771 | 1,739 | 1,862 | 1,897 | 1,863 | 1,971 |
| Sewer customers | 18,590 | 18,702 | 18,860 | 21,127 | 21,488 | 21,962 | 22,575 | 22,955 | 23,402 | 23,872 |

(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

| Function | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-----------------------|------|--------|------|------|------|------|------|------|--------|--------|
| Water: | | | | | | | | | | |
| Average Day | 4.9 | 4.8 | 5.0 | 5.1 | 4.8 | 4.7 | 4.7 | 4.7 | 4.7 | 5.0 |
| Average Day in Month | | | | | | | | | | |
| of Maximum Flow | 6.3 | 7.1 | 6.8 | 7.4 | 6.4 | 6.1 | 5.9 | 6.1 | 5.9 | 6.4 |
| Month of Maximum Flow | July | August | June | July | July | July | June | July | August | August |
| Sewer: | | | | | | | | | | |
| Average Day | 4.7 | 5.4 | 4.5 | 4.4 | 5.0 | 5.0 | 5.1 | 5.1 | 5.1 | 5.4 |

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 2017

| Virginia Jurisdiction | Water Service |
|------------------------------|----------------------|
| City of Williamsburg | \$ 318.00 |
| City of Norfolk | 450.00 |
| City of Newport News | 444.60 |
| City of Virginia Beach | 353.52 |
| James City Service Authority | 200.76 |

Source: James City Service Authority

Comparison of Area Sewer Bills
Annual Consumption 60,000 Gallons as of June 2017

| Virginia Jurisdiction | Sewer Service * |
|------------------------------|------------------------|
| City of Hampton | \$ 171.60 |
| City of Newport News | 318.36 |
| City of Virginia Beach | 369.72 |
| City of Norfolk | 318.48 |
| York County | 312.00 |
| James City Service Authority | 202.44 |

* Rates charged by the municipality. Residents of these municipalities pay a separate wastewater treatment fee to Hampton Roads Sanitation District of \$6.03 per 1,000 gallons.

Source: James City Service Authority

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

| Fiscal Year | Water | Sewer | Total |
|--------------------|--------------|--------------|--------------|
| 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 |
| 2017 | 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

| |
|---------------------------|
| 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:

| Meter Size (inches) | Charge |
|---------------------|----------------------------|
| 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:

| Activity, use | Unit | Charge |
|---------------------------------------|------------|----------------------------|
| Single-family residences | Each | \$300 per bathroom fixture |
| Singe-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 |

| Activity, use | Unit | Charge |
|---------------|----------------|--------|
| 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

| |
|---------------------------|
| Wastewater Charges |
|---------------------------|

(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) Services 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 x 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. 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

(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.

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.

| Meter Size | Quarterly Fixed Charge |
|-------------------|-------------------------------|
| 5/8" | \$ 5.77 |
| 3/4" | 8.66 |
| 1" | 14.43 |
| 1 1/2" | 28.85 |
| 2" | 46.16 |
| 3" | 92.32 |
| 4" | 144.25 |
| 6" | 288.50 |
| 8" | 461.60 |
| 10" | 663.55 |

Charge for all collection and treatment of wastewater:

| Volume | Collection |
|--------------------------------------|-------------------|
| Per 1,000 gallons of water consumed | \$ 2.99 |
| Per 100 cubic feet of water consumed | 2.24 |

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.

| Activity, Use | Unit | Charge |
|-----------------------------------|-------------|-------------------------|
| Single-family residences | Each | \$ 42.00 |
| Single-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 |

Commercial condensate discharge shall be billed annually at the current wastewater collection metered retail service rate. The bill shall be based on a condensate volume estimate prepared by the customer or customer's designated representative and approved by JCSA Engineering.

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.

Table 16, continued

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

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, multi-family residential and single-family residential:

| Meter Size | Charge |
|---------------------|----------------------------|
| 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" | 37,000 |
| 6" | 75,000 |

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:

| Installation of Connection by | Collection |
|--------------------------------------|--|
| Developer | \$10 per meter inspection fee |
| Utility | Actual cost x 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

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.

| Meter Size | Quarterly Fixed Charge |
|-------------------|-------------------------------|
| 5/8" | \$ 8.19 |
| 3/4" | 12.29 |
| 1" | 20.48 |
| 1 1/2" | 40.95 |
| 2" | 65.52 |
| 3" | 131.04 |
| 4" | 204.75 |
| 6" | 409.50 |
| 8" | 655.20 |
| 10" | 941.85 |

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

| Single Family Residential | Quarterly Use | | |
|----------------------------------|----------------------|---------------------|---------------|
| | Tier 1 | Tier 2 | Tier 3 |
| Meter Size | | | |
| 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+ |
| Rate Per 1,000 Gallons | \$ 2.80 | \$ 5.60 | \$ 13.15 |

Multi-Family Residential and Non-Residential

| All Meter Sizes | All Use |
|------------------------|----------------|
| Rate per 1,000 Gallons | \$ 4.14 |

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.

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

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.

Billing and Account Charges

The below charges 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.

(c) Interest Charge for Late Payment 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:

| Meter Size | Deposit |
|-----------------|----------|
| 5/8" to 1" | \$ 75.00 |
| Greater than 1" | 100.00 |

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

Table 16, continued

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

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.

No Free Service

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

Plan Review Fee

The following are 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.

| 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 |

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

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.

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.

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.

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COMPLIANCE SECTION

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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, 2017, 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 3, 2017.

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 3, 2017**

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, 2017, and have issued our report thereon November 3, 2017.

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 no instances of noncompliance with the provisions referred to in the preceding paragraph. 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 3, 2017**

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

Schedule of Findings and Responses
June 30, 2017

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

None

4. Status of Prior Year State Compliance Findings

Finding 16-1

Narrative: The State and Local Government Conflict of Interests Act contained in Chapter 31 of Title 2.2 of the Code of Virginia required certain local government officials to file certain disclosure forms with the clerk of the governing body by December 15, 2015 and June 15, 2016. Three statements of economic interest forms were not filed timely. As a result, the Authority was not in compliance with the State and Local Government Conflict of Interest Act.

Status: All required forms were filed timely for 2017.

Finding 16-2

Narrative: 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. Financial statement summaries were not being published in a local newspaper. As a result, the Authority was not in compliance with the Code of Virginia, Chapter 14 of Title 30.

Status: Financial statement summaries are now being published.

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