VIRGINIA PORT AUTHORITY

NORFOLK, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2000

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Port Authority for the year ended June 30, 2000, found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 2000, and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles;

- no material weaknesses in internal controls tested;

- no material instances of noncompliance with laws and regulations that are required to be reported; and

- adequate corrective action of prior audit findings.

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

October 27, 2000

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Commissioners
Virginia Port Authority

We have audited the accounts and records of the **Virginia Port Authority** as of and for the year ended June 30, 2000, and submit herewith our complete reports on the financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of the Virginia Port Authority as of June 30, 2000, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. The financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Virginia International Terminals, Inc., a component unit of the Virginia Port Authority discussed in Note 1(A), which statements reflect total assets of $63,512,677 as of June 30, 2000, and total revenues of $128,331,372 for the year then ended. The financial statements of this component unit were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for the component unit, is based solely upon the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Port Authority as of June 30, 2000, and the results of its operations and cash flows of its proprietary fund for the year then ended, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia Port Authority as of and for the year ended June 30, 2000, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Status of Prior Findings

The Authority has taken adequate corrective action with respect to audit findings reported in the prior year.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Commissioners and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 7, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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FINANCIAL STATEMENTS

VIRGINIA PORT AUTHORITY
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNIT
As of June 30, 2000

	Governmental Funds			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Cash and cash equivalents:				
In bank	$ -	$ 6,707,879	$ -	$ -
Restricted	-	-	-	-
With Treasurer of Virginia	-	165,311	-	14,126,254
Held by trustee	-	-	1	112
Investments:				
Short-term investments (Note 3)	-	-	19,300,623	24,611,091
Long-term investments (Note 3)	-	-	1,621,656	-
Collateral held for securites lending	-	-	-	1,155,041
Accounts receivable				
Trade receivables, less allowance for doubtful accounts	-	86,363	-	-
Trust fund taxes receivables	-	-	-	2,770,565
Receivable from Virginia Port Authority	-	-	-	-
Other receivables	-	-	-	-
Due from operating company	-	563,120	-	-
Reimbursable expenditures	-	227,374	-	-
Advance travel and other expenses	-	83,569	-	-
Deposit for rent	-	58,852	-	-
Inventories	-	-	-	-
Prepaid expenses and other	-	-	-	-
Prepaid interest	-	-	10,072	-
Intangible Pension Asset (Note 8)	-	217,541	-	-
Fixed assets (Note 4)	-	-	-	-
Other debits:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of long-term debt	-	-	-	-
Amount to be provided for compensated absences	-	14,236	-	-
Supplemental pension plan assets at market value (Note 8)	-	-	-	-
Total assets and other debits	$ -	$ 8,124,245	$ 20,932,352	$ 42,663,063
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES				
Accounts payable	$ -	$ 939,702	$ -	$ 3,652,404
Retainage payable	-	-	-	1,253,950
Payroll withholdings	-	-	-	-
Bonds payable - maturing July 1, 2000	-	-	5,730,000	-
Interest payable - maturing July 1, 2000	-	-	5,419,748	-
Obligations under securities lending	-	-	-	1,155,041
Due to Virginia Port Authority	-	-	-	-
Bonds payable (Note 5)	-	-	-	-
Installment purchases (Note 5)	-	-	-	-
Contracts payable (Note 5)	-	-	-	-
Accrued liabilities:				
Compensated absences (Notes 5 and 7)	-	14,236	-	-
Union benefits	-	-	-	-
Payroll	-	601,795	-	-
Worker's compensation claims (Note 11)	-	-	-	-
Employee health claims	-	-	-	-
Pension (Note 8)	-	260,672	-	-
Other liabilities:				
Workers' compensation claims, noncurrent portion (Note 11)	-	-	-	-
Supplemental pension plan accrued liabilities (Note 8)	-	-	-	-
Compensated absences noncurrent portion (Note 7)	-	-	-	-
Total liabilities	-	1,816,405	11,149,748	6,061,395
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings	-	-	-	-
Fund balance:				
Reserve for construction	-	-	-	36,601,668
Reserve for debt service	-	-	9,782,604	-
Unreserved:				
Designated	-	-	-	-
Undesignated	-	6,307,840	-	-
Total equity and other credits	-	6,307,840	9,782,604	36,601,668
Total liabilities, equity and other credits	$ -	$ 8,124,245	$ 20,932,352	$ 42,663,063

The accompanying notes to the financial statements are an integral part of this statement

Account Groups		Total Primary	Component Unit	Total Reporting
General Fixed Assets	General Long-Term Debt	Government (Memorandum Only)	Virginia International Terminals, Inc.	Entity (Memorandum Only)
$ -	$ -	$ 6,707,879	$ 1,794,569	$ 8,502,448
-	-	-	5,098,794	5,098,794
-	-	14,291,565	-	14,291,565
-	-	113	-	113
-	-	43,911,714	10,451,839	54,363,553
-	-	1,621,656	-	1,621,656
-	-	1,155,041	-	1,155,041
-	-	86,363	16,575,846	16,662,209
-	-	2,770,565	-	2,770,565
-	-	-	464,606	464,606
-	-	-	28,479	28,479
-	-	563,120	-	563,120
-	-	227,374	-	227,374
-	-	83,569	-	83,569
-	-	58,852	-	58,852
-	-	-	6,450,498	6,450,498
-	-	-	5,764,688	5,764,688
-	-	10,072	-	10,072
-	-	217,541	-	217,541
545,950,624	-	545,950,624	14,730,213	560,680,837
-	9,799,564	9,799,564	-	9,799,564
-	191,261,538	191,261,538	-	191,261,538
-	588,957	603,193	-	603,193
-	-	-	2,153,145	2,153,145
$545,950,624	$201,650,059	$819,320,343	$ 63,512,677	$882,833,020
$ -	$ -	$ 4,592,106	$ 2,440,607	$ 7,032,713
-	-	1,253,950	-	1,253,950
-	-	-	27,867	27,867
-	-	5,730,000	-	5,730,000
-	-	5,419,748	-	5,419,748
-	-	1,155,041	-	1,155,041
-	-	-	563,120	563,120
-	197,630,000	197,630,000	-	197,630,000
-	2,616,791	2,616,791	-	2,616,791
-	814,311	814,311	-	814,311
-	588,957	603,193	1,628,161	2,231,354
-	-	-	566,676	566,676
-	-	601,795	831,385	1,433,180
-	-	-	3,828,634	3,828,634
-	-	-	350,000	350,000
-	-	260,672	-	260,672
-	-	-	11,270,000	11,270,000
-	-	-	1,995,584	1,995,584
-	-	-	1,230,698	1,230,698
-	201,650,059	220,677,607	24,732,732	245,410,339
545,950,624	-	545,950,624	-	545,950,624
-	-	-	8,947,169	8,947,169
-	-	-	29,832,776	29,832,776
-	-	36,601,668	-	36,601,668
-	-	9,782,604	-	9,782,604
-	-	-	-	-
-	-	6,307,840	-	6,307,840
545,950,624	-	598,642,736	38,779,945	637,422,681
$545,950,624	$201,650,059	$819,320,343	$ 63,512,677	$882,833,020

VIRGINIA PORT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 2000

	General	Special Revenue	Debt Service	Capital Projects	Total (Memorandum Only)
Revenues:					
Rental income	$ -	$ 980,856	$ -	$ -	$ 980,856
Interest income	-	129,116	822,918	2,624,740	3,576,774
Miscellaneous income	-	140,770	-	-	140,770
Proceeds from securities lending transactions	-	-	-	36,221	36,221
Trust fund taxes	-	-	-	28,397,110	28,397,110
Total revenues	-	1,250,742	822,918	31,058,071	33,131,731
Expenditures:					
Commerce and agriculture markets					
Development and Improvements:					
Commerce advertising	-	793,246	-	-	793,246
National and international trade services	-	7,898,875	-	-	7,898,875
Port traffic rate management	-	149,661	-	-	149,661
Water transportation systems planning:					
Port facilities planning	-	318,947	-	-	318,947
Port and port facility management:					
Maintenance of ports and facilities	-	181,205	-	3,793,740	3,974,945
Port facility acquisition:					
Interest	-	140,337	10,881,133	-	11,021,470
Principal	-	745,670	5,801,994	-	6,547,664
Security services	-	3,575,126	-	-	3,575,126
Terminal administration	-	1,902,836	-	-	1,902,836
Financial assistance to local ports	-	316,188	-	-	316,188
Capital projects	-	-	-	30,122,240	30,122,240
Trustee fees	-	-	579	126	705
Payments for securities lending transactions	-	-	-	34,478	34,478
Indirect costs	-	-	-	43,600	43,600
Total expenditures	-	16,022,091	16,683,706	33,994,184	66,699,981
Excess (deficiency) of revenues over (under) expenditures	-	(14,771,349)	(15,860,788)	(2,936,113)	(33,568,250)
Other financing sources (uses):					
Operating transfers in	-	3,801,073	16,809,507	-	20,610,580
Operating transfers out	-	(6,936,789)	-	(13,673,791)	(20,610,580)
Transfers from operating company (Note 6)	-	20,426,559	-	-	20,426,559
Capital contributions - operating company	-	-	-	372,398	372,398
Transfers to operating company	-	(1,500,000)	-	-	(1,500,000)
Reversion to the General Fund of the Commonwealth	(325,000)	(26,103)	-	(166,269)	(517,372)
Total other financing sources/(uses)	(325,000)	15,764,740	16,809,507	(13,467,662)	18,781,585
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(325,000)	993,391	948,719	(16,403,775)	(14,786,665)
Fund balance July 1, 1999	325,000	5,314,449	8,833,885	53,005,443	67,478,777
Fund balance June 30, 2000	$ -	$ 6,307,840	$ 9,782,604	$ 36,601,668	$ 52,692,112

The accompanying notes to the financial statements are an integral part of this statement.

VIRGINIA PORT AUTHORITY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS - GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2000

	General Fund			Special Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Rental income	$ -	$ -	$ -	$ 973,036	$ 901,328	(71,708)
Interest income	-	-	-	60,000	129,116	69,116
Miscellaneous	-	-	-	130,000	141,112	11,112
Total revenues	-	-	-	1,163,036	1,171,556	8,520
Expenditures:						
Commerce and Agriculture Markets Developments and Improvements:						
Commerce advertising	-	-	-	750,000	749,406	594
National and international trade services	-	-	-	7,930,382	8,129,159	(198,777)
Port traffic rate management	-	-	-	150,973	145,006	5,967
Water Transportation System Planning:						
Port facilities planning	-	-	-	572,514	326,656	245,858
Port and port facility management:						
Maintenance of ports and facilities	-	-	-	1,807,650	166,654	1,640,996
Port facilities acquisition	-	-	-	886,008	886,008	-
Security services	-	-	-	3,655,044	3,650,895	4,149
Terminal administration	-	-	-	1,673,973	1,650,495	23,478
Financial assistance to local ports	-	-	-	2,050,265	484,884	1,565,381
Total expenditures	-	-	-	19,476,809	16,189,163	3,287,646
Excess (deficiency) of revenues over (under) expenditures	-	-	-	(18,313,773)	(15,017,607)	3,296,166
Other financing sources/(uses):						
Operating transfers in	-	-	-	7,271,520	3,801,074	(3,470,446)
Operating transfers out	-	-	-	(6,489,390)	(6,936,789)	(447,399)
Transfers from operating company	-	-	-	18,384,000	23,988,898	5,604,898
Transfers to operating company	-	-	-	-	(1,500,000)	(1,500,000)
Operating Transfers in from primary government	-	-	-	-	-	-
Reversion to the General Fund of the Commonwealth	-	(325,000)	(325,000)	-	(26,103)	(26,103)
Total other financing sources/(uses)	-	(325,000)	(325,000)	19,166,130	19,327,080	160,950
Excess (deficiency) of revenue and other sources over (under) expenditures and other uses	-	(325,000)	(325,000)	852,357	4,309,473	3,457,116
Fund balances as of July 1, 1999	-	325,000	325,000	2,563,717	2,563,717	-
Fund balances as of June 30, 2000	$ -	$ -	$ -	$ 3,416,074	$ 6,873,190	$ 3,457,116

The accompanying notes to the financial statements are an integral part of this statement.

VIRGINIA PORT AUTHORITY
COMPONENT UNIT (Virginia International Terminals, Inc.)
STATEMENT OF REVENUES, EXPENSES AND RETAINED EARNINGS
For the Year Ended June 30, 2000

Operating revenues	$ 128,331,372
Operating expenses	80,707,262
Net operating revenues after operating expenses	47,624,110
Maintenance expenses	22,009,426
Accounting, general and administrative expenses	11,727,017
Total other expenses	33,736,443
Excess of revenues over expenses before cumulative effect of change in accounting priciple and transfers to Virginia Port Authority	13,887,667
Cumulative effect of change in accounting principle (Note 10)	(7,802,000)
Excess of revenue over expenses before transfers to Virginia Port Authority	6,085,667
Transfers from Virginia Port Authority	1,500,000
Transfers to Virginia Port Authority:	
Operating	20,839,960
Improvements	372,398
Total transfers to Virginia Port Authority	21,212,358
Excess (Deficiency) of revenues over expenses after transfers to Virginia Port Authority	(13,626,691)
Retained earnings, July 1, 1999	43,459,467
Retained earnings, June 30, 2000	$ 29,832,776

The accompanying notes to the financial statements are an integral part of this statement.

VIRGINIA PORT AUTHORITY
COMPONENT UNIT (Virginia International Terminals, Inc.)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2000
Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:	
Cash received from customers	$ 128,610,174
Cash payments for goods and services	(49,127,922)
Cash payments to employees	(57,969,532)
Net cash provided by operating activities	21,512,720
Cash flows from noncapital financing activities:	
Cash transfers from VPA	1,500,000
Cash transfers to VPA	(24,402,299)
Net cash used in noncapital financing activities	(22,902,299)
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	297,360
Acquisition of capital assets	(2,691,248)
Construction of leasehold improvements transferred to VPA	(372,398)
Net cash used in capital and related financing activities	(2,766,286)
Cash flows from investing activities:	
Increase in receivable from Virginia Port Authority	(464,606)
Interest received	881,456
Increase in short-term investments, restricted	(6,822,478)
Net cash provided by (used in) investing activities	(6,405,628)
Net increase (decrease) in cash and cash equivalent (inculding restricted amounts)	(10,561,493)
Cash and cash equivalents at July 1, 1999	17,454,856
Cash and cash equivalents at July 30, 2000	$ 6,893,363
Reconciliation of excess of revenues over expenses before transfers to net cash provided by operating activities:	
Excess of revenue over expenses before transfers	$ 6,085,667
Adjustments to reconcile excess of revenues over expenses before transfers to net cash provided by operating activities:	
Cumulative effect of chane in accounting principle	7,802,000
Depreciation	4,403,888
Provision for losses on accounts receivable	355,846
Loss on disposal of assets	301,831
Proceeds from sale of capital assets	(297,360)
Interest income	(881,456)
Changes in assets and liabilities:	
Trade receivables	1,370,097
Other receivables	361,399
Inventories	165,777
Prepaid expenses and other	(422,892)
Supplemental pension plan assets	(786,766)
Accounts payable	497,907
Payroll withholdings	(2,441)
Accrued expenses	1,725,213
Accrued payroll	(630,037)
Noncurrent workers'compensation cost	1,468,000
Supplemental pension plan accrued liability	(3,953)
Net cash provided by operating activities	$ 21,512,720
Supplemental schedule of noncash investing and financing activity:	
Trade-ins of used equipment on new equipment	$ 25,650
Capital contribution of repair parts inventory	$ 843,704

The accompanying notes to tbe financial statements are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Port Authority, formerly a part of the Department of Conservation and Economic Development, became a separate agency in 1952 and assumed responsibility for supervising port operations. The Authority is managed by a Board of Commissioners composed of 12 members. The Authority's major activities are developing water transportation facilities; providing security services; maintaining ports, facilities and services; providing public relations and domestic and international advertising; and, with offices in five cities in the United States and six foreign countries, developing Virginia's ports through cargo solicitation and promotion throughout the world.

Virginia International Terminals, Inc., (VIT) was incorporated as a nonprofit corporation on June 30, 1981, for the purpose of operating all the marine terminals owned by the Authority. For financial reporting purposes, the Authority's reporting entity includes VIT as a component unit organization for which the Authority is financially accountable. The following criteria for financial accountability as described by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, are present in the relationship between the Authority and VIT: (1) the Authority appoints a voting majority of VIT's governing body; (2) the Authority has the ability to impose its will on VIT; and (3) VIT provides a specific financial benefit to the Authority. VIT is presented in the Authority's financial statements as a discrete component unit to emphasize that it is legally separate from the Authority, and that it serves or benefits those outside of the Authority.

Virginia Port Properties, Inc., (VPP) was incorporated as a nonprofit corporation on March 23, 1988, for the purpose of managing all foreign and domestic leases on behalf of the Authority. Because the operations of VPP are an integral part of the Authority, VPP has been included in the Authority's financial statements.

The Authority is a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Authority is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, all funds and account groups of the Authority are included in the financial statements of the Commonwealth as a part of the reporting entity.

B. Fund Accounting

The accounts of the Authority are organized in accordance with the Commonwealth Accounting and Reporting System, which has been established to account for specified financial activities of the Commonwealth. Resources are allocated to and accounted for in individual funds based upon the financing sources. Each fund is an independent fiscal and accounting entity with a self-balancing set of accounts. For the financial statements, similar individual funds are combined into fund types as follows:

Governmental Funds:

> General Fund - accounts for expenditures of the Authority, which are financed by appropriations from the General Fund of the Commonwealth.
>
> Special Revenue Fund - accounts for the ordinary operations of the Authority, which are financed from net revenues of Virginia International Terminals, Inc., and the proceeds of revenue sources that are legally restricted to expenditures for specific purposes.
>
> Debt Service Fund - accounts for the accumulation of resources for and the payment of general long-term debt, principal, interest and related costs.
>
> Capital Projects Fund - accounts for financial resources to be used for the acquisition, construction, or improvement of major capital facilities.

Proprietary Funds:

> The transactions of Virginia International Terminals, Inc., a component unit of the Authority, are accounted for as a proprietary fund. The Authority has no legal responsibility for the debt of VIT. In addition, the Authority does not hold title to any of VIT's assets nor does it have any right to its surpluses.

C. Account Groups

Account groups are used to establish accounting control over general fixed assets and long-term liabilities. Fixed assets do not provide current financial resources available for appropriation or expenditures nor are they assets of a particular fund. Long-term liabilities do not require an appropriation or expenditure during the current accounting period. Accordingly, fixed assets and long-term liabilities are accounted for in self-balancing account groups rather than governmental funds, which only account for sources and uses of current financial resources.

D. Basis of Accounting

All governmental funds are reported using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred through the receipt of goods or services, although payment may occur at a later date. The cash basis of accounting is used during the year and reports are prepared on the modified accrual basis at the end of the fiscal year.

The proprietary fund of Virginia International Terminals, Inc., is reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

E. General Fixed Assets

General fixed assets are valued at historical cost or estimated historical cost if actual cost is not available. The cost for the acquisition of general fixed assets is recorded as an expenditure in the governmental funds. Accordingly, no depreciation is provided on general fixed assets. General fixed assets are comprised of land, buildings, improvements, equipment, construction in progress, and leasehold improvements.

F. Compensated Absences

Compensated absences reflected in the General Long-Term Debt Account Group represent the amounts of vacation, sick, and compensatory leave earned by employees of the Authority, but not taken at June 30, 2000. The amount reflects all earned vacation, sick, and compensatory leave and related payroll taxes expected to be paid under the Authority's leave pay-out policy upon employment termination.

G. Budgets and Budgetary Accounting

The Authority's budget is established by the Appropriation Act as enacted by the General Assembly of Virginia for the biennium ending June 30, 2000. No payments can be made out of the state treasury except in pursuance of appropriations made by law.

The budget is prepared principally on the cash basis. Since the budgetary (cash) basis differs from Generally Accepted Accounting Principles (GAAP), a reconciliation of actual data reported on the budgetary (cash) basis to actual data reported on the GAAP (modified accrual) basis is presented in Note 2.

Budgeted amounts reported in the financial statements are amounts originally appropriated to the Authority as adjusted by subsequent appropriations authorized by the General Assembly.

H. Investments

All investments of the Authority are reported at fair value.

I. Inventories

VIT's inventories consist of supplies and equipment parts and are reported using the moving average unit cost method.

J. Total Columns

Total columns on the financial statements are captioned "Total - Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. RECONCILIATION OF BUDGETARY (CASH) AND GAAP BASIS

The accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis – General and Special Revenue Funds presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled with the actual data on the modified accrual basis as follows:

	Special Revenue Fund
Fund balance on budgetary (cash) basis - June 30, 2000	$6,873,190
Adjustments:	
Accrued revenues on GAAP basis	1,251,055
Accrued expenditures on GAAP basis	(1,816,405)
Fund balance on GAAP basis - June 30, 2000	$6,307,840

3. CASH AND INVESTMENTS

A. Cash With the Treasurer of Virginia

All state funds of the Authority are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash with the Treasurer of Virginia" on the accompanying financial statements.

B. Cash, Cash Equivalents, and Investments

Certain deposits and investments are held by the Authority or are represented by specific identifiable investment securities held by the Treasurer of Virginia for the Authority. Such deposits and investments are reported separately from cash with the Treasurer as cash and cash equivalents held by Trustee. Cash, cash equivalents, and short-term investments represent deposits and securities with maturities of one year or less. Long-term investments represent securities with maturities of greater than one year.

Deposits with banks and savings institutions are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act.

Statutes authorize the investment of funds held by the Authority in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the Authority may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's Incorporated, overnight term or open repurchase agreements, and money market funds comprised of investments which are otherwise legal investments of the Authority.

The Authority's investments are categorized below to give an indication of the level of credit risk assumed by the Authority at June 30, 2000. Credit risk is the risk that the Authority may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the Authority or its safekeeping agent in the Authority's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the Authority's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the Authority's name. The Authority had no investments in categories 2 and 3.

	Category 1	Fair Value
Short-Term Investments:		
Repurchase Agreements	$ 6,859,024	$ 6,859,024
U. S. Government Securities	2,093,724	2,093,724
Total Short-Term	$ 8,952,748	$ 8,952,748
Long-Term Investments:		
U. S. Government Securities	1,621,656	1,621,656
Total	$10,574,404	$10,574,404
Mutual, Money Market Funds		34,958,966
Total Investments		$45,533,370

As of June 30, 2000, Virginia International Terminals, Inc. held cash equivalents and investments comprised of money market instruments, U.S. Treasury and Agency Securities, and Corporate Bonds totaling $5,261,757, $8,793,172, and $3,140,982, respectively, which are in the credit risk category 3.

Collateral held for securities lending represent the Authority's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

4. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 1999	Additions	Deletions	Balance June 30, 2000
Land	$ 91,644,048	$ 100,971	$ -	$ 91,745,019
Buildings	55,378,961	1,989,398	4,229,585	53,138,774
Improvements other than buildings	212,983,382	7,921,836	26,166,049	194,739,169
Equipment	94,664,285	22,014,790	1,314,243	115,364,832
Construction in progress	85,177,917	29,511,057	25,338,401	89,350,573
Leasehold improvements	1,612,257	-	-	1,612,257
Total	$541,460,850	$61,538,052	$57,048,278	$545,950,624

The general fixed assets of Virginia International Terminals, Inc., a component unit of the Authority, is composed of the following equipment items.

Terminal gear and equipment	$33,627,669
Automobiles and trucks	4,525,070
Data processing equipment	6,864,278
Other furniture and fixtures	1,085,982
Total	$46,102,999
Less: Allowance for Depreciation	31,372,786
Net	$14,730,213

5. LONG-TERM DEBT

A. Changes in Long-Term Indebtedness

A summary of changes in long-term indebtedness follows:

	Balance July 1, 1999	Additions	Deletions	Balance June 30, 2000
Revenue bonds	$203,360,000	$ -	$5,730,000	$197,630,000
Installment purchases	3,434,455	-	817,664	2,616,791
Contracts	826,811	-	12,500	814,311
Compensated absences	597,137	-	8,180	588,957
Total	$208,218,403	$ -	$6,568,344	$201,650,059

B. Details of Long-Term Indebtedness

Revenue Bonds:

Virginia Port Authority:

	Balance as of June 30, 2000
On October 23, 1996, Commonwealth Port Fund Revenue Bonds, dated October 15, 1996, were issued in the principal amount of $38,300,000. Serial bonds issued in the principal amount of $26,710,000 are payable in annual installments varying from $1,395,000 to $2,515,000 with interest of 4.70 percent to 5.75 percent payable semiannually, the final installment due in 2012. Term bonds issued in the principal amount of $11,590,000 with interest of 5.90 percent are due in 2016. The bonds are payable primarily from the Commonwealth Port Fund to which the General Assembly has appropriated revenues for the 1999-2000 biennium. Such revenues currently consist of a portion of the additional revenues derived from certain increases in motor vehicle fuel taxes, sales and use taxes, and annual motor vehicle registration fees.	$ 34,455,000
On June 26, 1997, Port Facilities Revenue Bonds, dated June 1, 1997, were issued in the principal amount of $98,065,000. Serial bonds issued in the principal amount of $29,490,000 are payable in annual installments varying from $1,650,000 to $2,885,000 with interest of 4.50 percent to 6.00percent payable semiannually, the final installment due in 2012. Term bonds issued in the principal amounts of $17,025,000, $33,090,000, and $18,460,000 with interest of 5.65 percent, 5.50 percent, and 5.60 percent are due in 2017, 2024, and 2027, respectively. The bonds are payable from net revenues of the Authority.	94,975,000
On April 2, 1998, Commonwealth Port Fund Revenue Refunding Bonds, dated April 1, 1998, were issued in the principal amount of $71,015,000. The bonds are payable in annual installments varying from $7,200,000 to $10,085,000 with interest of 4.50 percent to 5.50 percent payable semiannually, the final installment due in 2008. These bonds were issued to refund the outstanding principal amount of the Series 1988 Bonds of the Authority and are payable on a parity with outstanding Series 1996 Bonds. The bonds are payable primarily from the Commonwealth Port Fund. Such revenues currently consist of a portion of the additional revenues derived from certain increases in motor vehicle fuel taxes, sales and use taxes, and annual motor vehicle registration fees.	68,200,000
Total revenue bonds	197,630,000

Installment Purchases:	
A 30-year lease dated November 4, 1975, between the Virginia Port Authority and the City of Portsmouth has been treated for accounting purposes as an installment purchase of property. Terms of the lease require quarterly rental payments totaling $112,280 annually, including interest at an imputed interest rate of approximately 7.9 percent.	465,265
A contract dated May 20, 1993, for the lease purchase of terminal equipment totaling $1,344,000 with initial payment of $24,239 and monthly payments of $19,074 for a period of seven years at an interest rate of 5.12 percent.	18,993
A contract dated December 20, 1996, for the lease purchase of terminal equipment totaling $3,810,000 with initial payment of $57,090 and monthly payments of $54,760 for a period of seven years at an interest rate of 5.51 percent.	2,132,533
Total installment purchases	2,616,791
Contracts:	
Department of the Army	
A contract dated May 15, 1986, for the construction of certain harbor projects to increase the depth of shipping channels at Hampton Roads totaling $928,077. The agreement requires annual payments for a period of 30 years including interest at the current Treasury rate, plus 1/8 of 1 percent for transaction costs beginning May 1997. Every 5 years the interest rate will be recalculated using the Treasury rate in effect at that time.	814,311
Compensated Absences:	
Salaried employees' attendance and leave regulations make provision for the granting of a specified number of days of leave each year. The amount of leave earned but not taken is recorded on the balance sheet. The amounts reflect, as of June 30, 2000, all earned vacation and compensatory leave not taken and the amount payable under the Commonwealth of Virginia's sick leave pay-out policy upon termination, which is the lesser of 25 percent of sick leave not taken or $5,000 per employee with five years or more of service. The liability is based on the probability that an employee with less than five years of service will eventually become vested and have a right to receive payment for sick leave benefits. Also, the liability includes related payroll taxes.	588,957
Total long-term indebtedness	$201,650,059

C. Annual Long-Term Debt Requirements

A summary of future principal (excluding compensated absences) and interest obligations under long-term debt as of June 30, 2000, follows:

Year Ending June 30,	Revenue Bonds	Installment Purchases	Contracts Payable
2001	$ 20,828,794	$ 788,472	$ 68,310
2002	20,829,979	769,398	68,310
2003	20,837,254	769,398	68,310
2004	20,834,200	495,599	68,310
2005	20,834,250	112,280	68,310
Later years	219,465,458	9,356	1,366,200
Total	$ 323,629,935	$ 2,944,503	$ 1,707,750
Less:			
Interest	125,999,935	327,712	893,439
Net	$ 197,630,000	$ 2,616,791	$ 814,311

6. RENT OF TERMINAL FACILITIES AND EQUIPMENT

Virginia International Terminals, Inc., (VIT) was incorporated as a nonprofit corporation on June 30, 1981, for the purpose of operating all marine terminals owned by the Authority. Lease agreements with Port Authority Terminals, Inc., and Portsmouth Terminals, Inc., to operate Newport News Marine Terminal, Norfolk International Terminals, and Portsmouth Marine Terminal, respectively, were assigned to VIT.

Effective June 1997, the service agreement with VIT was amended to comply with the 1997 Series Bond Resolution that restructured the payments. The payments are now based on the overall monthly cash flow of VIT operating results. These payments, as recorded by VIT, are reconciled with transfers from operating company as reported by the Authority as follows:

Transfers per VIT	$20,839,960
Adjustments:	
Payments recorded as expenditure reimbursements	(413,401)
Transfers from operating company	$20,426,559

7. COMMITMENTS

As of June 30, 2000, the Authority has commitments to construction contracts totaling $99,690,485 of which $79,189,903 has been incurred.

The Authority is committed under various operating lease agreements for office facilities and equipment. The commitments range from two months to five years and generally include renewal options and escalation clauses relating to property tax and cost of living increases. Operating leases to rent office space in Singapore, Brussels, Korea, Hong Kong, and Tokyo are subject to the currency exchange rate at the time of each rent payment. Rent expense under operating lease agreements amounted to $370,490 for the year. A summary of future obligations under lease agreements as of June 30, 2000, follows:

Year Ending June 30,	Amount
2001	$ 207,811
2002	15,890
2003	15,890
2004	14,566
Total	$ 254,157

At June 30, 2000, VIT has a letter of credit issued in the amount of $4,745,000 for workers' compensation claims.

VIT permits employees to accumulate unused sick leave and up to 25 days of vacation leave benefits that can be utilized in future periods or partially paid upon separation from employment. VIT has recorded a liability of $2,858,859 at June 30, 2000 to the extent of the benefits that are payable. VIT is also contingently liable for sick leave of $2,950,339 at June 30, 2000, representing amounts employees could utilize during their period of employment.

As of June 30, 2000, VIT is committed to payments totaling approximately $3,125,000 on outstanding purchase orders for fixed assets. These fixed assets include radios, light trucks, and computer equipment and related technologies.

8. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

The Authority maintains two defined benefit plans for its employees. Employees of record on July 1, 1997, had the option of continuing to maintain their status as a State employee, and their benefits maintained under the Virginia Retirement System (VRS), or elect to be covered under a newly created pension plan (the VPA Pension Plan). All employees hired after July 1, 1997, are covered by the VPA Pension Plan.

Employees of the Authority who elected to remain employees of the Commonwealth participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the Authority, has overall responsibility for contributions to these plans.

The VPA Pension Plan is a single employer, noncontributory defined benefit pension plan administered by the Authority. The plan provides retirement, disabilities, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the Board of Commissioners of the Authority.

In May 2000, the Board of Commissioners voted to amend the VPA Pension Plan to more closely resemble the retirement benefits provided to VRS employees, and to include an early retirement supplement to sworn police officers. The effect of those changes is included in the accompanying pension data.

The components of annual pension cost and net pension obligation are as follows:

	2000	1999
Service cost-benefits earned during the year	$ 54,916	$34,472
Interest on projected benefit obligation	4,848	1,992
Expected return on assets	(68)	(1,426)
Net amortization and deferral	(580)	506
Annual pension cost	59,116	35,544
Contributions made	(51,529)	-
Additional minimum liability	217,541	-
Increase in pension obligation	225,128	35,544
Pension obligation, beginning of year	35,544	-
Net pension obligation	$260,672	$35,544

The annual pension cost for the current year was determined as part of the September 2000, actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Actual value of assets was determined using market value. The discount rate used in determining the actuarial present value of the projected benefit obligations was 8 percent in 2000 and 7 percent in 1999. The estimated rate of increase in future compensation levels used was 5 percent. The expected long-term rate of return on assets used in determining net periodic pension cost was 8 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Company's balance sheets at June 30, 2000 and 1999.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
June 30, 2000	$ 59,116	87%	$ 260,672
June 30, 1999	$ 35,544	0%	$ 35,544

In addition, the Authority sponsors a VPA deferred compensation plan under Internal Revenue Code Section 457 that covers substantially all employees.

The Authority also adopted a matching savings plan under Internal Revenue Code Section 401(a) that covers substantially all employees. The matching savings plan requires the Authority to match contributions in an amount equal to 50 percent of the first 6 percent of the participant's base pay contributed to the plan. The Authority's total contributions to the matching savings plan were $28,892 and $15,533 for the years ended June 30, 2000 and 1999, respectively.

The Virginia International Terminals, Inc. Pension Plan is a single employer, noncontributory defined benefit pension plan administered by Virginia International Terminals, Inc. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the Board of Commissioners of Virginia International Terminals, Inc. The plan's financial report is audited annually and can be obtained through the Human Resource Department at VIT.

The components of annual pension cost and prepaid pension obligation are as follows:

	2000	1999	1998
Service cost – benefits earned during the year	$ 972,000	$ 986,000	$ 828,000
Interest cost on projected benefit obligation	1,596,000	1,484,000	1,321,000
Expected return on assets	(2,614,000)	(2,358,000)	(1,943,000)
Net amortization and deferral	(363,000)	(136,000)	(211,000)
Annual pension cost	(409,000)	(24,000)	(5,000)
Contributions made	(193,500)	(192,000)	(598,000)
Increase in prepaid pension obligation	(602,500)	(216,000)	(603,000)
Prepaid pension obligation, beginning of year	(3,962,000)	(3,746,000)	(3,143,000)
Prepaid pension obligation, end of year	$ (4,564,500)	$ (3,962,000)	$ (3,746,000)

The annual pension cost for the current year was determined as part of the October 1, 1998 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The discount rate used in determining the actuarial present value of the projected benefit obligation was 7.5 percent in 2000 and 7 percent in 1999 and 1998. The estimated rate of increase in future compensation levels used was 5 percent for all three years. The expected long-term rate of return on assets used in determining net periodic pension cost was 8.

The following table sets forth the plan's funded status and the related amounts recorded in the Company's balance sheets at June 30, 2000, 1999, and 1998.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
June 30, 2000	$ (409,000)	0%	$ (4,564,500)
June 30, 1999	$ (24,000)	0%	$ (3,962,000)
June 30, 1998	$ (5,000)	0%	$ (3,746,000)

VIT also sponsors two noncontributory supplemental plans covering certain key employees. The Company's current policy is to not fund the cost of these plans. Assets of $2,153,145 and $1,366,379 in 2000 and 1999, respectively, have been allocated for future benefit payments under the provisions of the supplemental plans. The accrued liability was $1,995,584 and $1,999,537 as of June 30, 2000 and 1999, respectively.

In addition, VIT sponsors a deferred compensation plan and a matching savings plan under Internal Revenue Code Sections 457 and 401(1), respectively, that cover substantially all nonunion employees with 90 days or more of service. The plans require VIT to match employee contributions in an amount equal to 50 percent of the first 3 percent of the participant's base pay contributed to the deferred compensation plan. VIT's total contribution to the matching savings plan was $233,163 and $219,518 for the years ended June 30, 2000 and 1999, respectively.

9. SURETY BOND

The employees of the Virginia Port Authority were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Service, Division of Risk Management with liability limits of $500,000 for each occurrence.

10. CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 1999, VIT adopted AICPA Statement of Position 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments." As a result of this change, VIT was required to accrue a liability for probable insurance-related assessments based upon its participation in the U. S. Department of Labor's Second Injury Fund.

The cumulative effect of this change in accounting on retained earnings at the beginning of the year is as follows:

Accrued Department of Labor assessment	$ 980,000
Accrued Department of Labor assessment, noncurrent portion	6,822,000
Decrease in retained earnings, beginning of year	$7,802,000

The effect of this change was to decrease operating expenses by $350,000 in the accompanying statement of revenues, expenses and retained earnings for the year ended June 30, 2000.

11. ACCRUED WORKERS' COMPENSATION COSTS

Included in accrued workers' compensation costs for VIT are a workers' compensation claims component and an accrued Department of Labor assessment component. The workers' compensation claims component consists of VIT's estimate of its continuing liability for injuries which occurred during periods of self-insurance. The balances at June 30, 2000 and 1999 are classified as follows:

	2000	1999
Workers' compensation claims	$2,848,634	$2,369,713
Workers' compensation claims, noncurrent portion	4,798,000	2,000,000
	$7,646,634	$4,369,713

The accrued Department of Labor (DOL) assessment component is VIT's estimate of the present value of its future liability to the Department of Labor for participation in the U. S. Department of Labor's Second Inquiry Fund (see Note 10). The total liability has been discounted using a rate of 8 percent. The undiscounted liability at June 30, 2000, totaled approximately $13,200,000. VIT expects to pay these assessments annually through 2034. The balances at June 30, 2000 and 1999 are classified as follows:

	2000	1999
Accrued DOL assessment	$ 980,000	$ -
Accrued DOL assessment, noncurrent portion	6,472,000	-
	$7,452,000	$ -

12. CHANGE IN ACCOUNTING ESTIMATE

During the year ended June 30, 2000, VIT changed its method of estimating its future liability for workers' compensation claims arising from injuries during its prior periods of self-insurance. Prior to July 1, 1999, these claims were handled by an outside administrator who provided an estimate of the Company's future liability. During the year ended June 30, 2000, the administration of these claims was brought in-house. Concurrent with the adoption of SOP 97-3 (see Note 10), VIT developed an estimate of the liability based upon each claimant's estimated future payment stream and expected longevity. The total liability was discounted using a rate of 8 percent. The undiscounted liability totaled approximately $8,370,000 at June 30, 2000. This change is accounting estimate resulted in a one-time charge to workers' compensation expense of an additional $3,548,000 for the year ended June 30, 2000.

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VIRGINIA PORT AUTHORITY
Norfolk, Virginia