VIRGINIA PORT AUTHORITY

NORFOLK, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 1999

AUDITOR OF
PUBLIC
ACCOUNTS

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the **Virginia Port Authority** for the year ended June 30, 1999, found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 1999, and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles;

- internal control matters listed below that we consider to be reportable conditions, however, we do not consider any of these to be material weaknesses;

    - Develop Payroll Policies and Procedures

    - Separate Payroll Duties

    - Reconcile Payroll to General Ledger Monthly

    - Develop Policies and Procedures for the Small Purchase Charge Card

- 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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December 1, 1999

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Richard J. Holland
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, 1999, 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, 1999, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. These 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 $69,001,312 as of June 30, 1999, and total revenues of $127,662,892, 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, 1999, 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Virginia Port Authority, taken as a whole. The supplementary information listed in the Table of Contents is presented for the purpose of additional analysis and unless specified is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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, 1999, 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section entitled, "Internal Control Findings and Recommendations."

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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 22, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

The Authority had the law changed so it could begin maintaining a personnel and payroll system independent of the Commonwealth. On July 1, 1998, the Authority began a separate payroll system by using a payroll processing service.

During the year, the Authority had four complete turnovers in payroll staff. Now there is only one employee, who is completely familiar with the payroll procedures. This turnover has led the Authority to have numerous payroll reruns because of errors that necessitated invalidating initial payroll runs. The Authority incurs a processing fee each time it reruns the payroll. Most errors arise from the lack of experienced personnel who understand either the process or the system.

The following three findings relate to the operation of the system during the past year.

Develop Payroll Policies and Procedures

The Authority does not have written policies and procedures for the operation of the payroll system. The lack of formal policies and procedures have left inexperienced payroll clerks without any source of reference on how to process payrolls, which has contributed to the high errors and in some cases failure to properly post entries.

Management should develop policies and procedures that document the operation of its payroll activity. Procedures should include all aspects of payroll processing including tax and benefit deductions, reconciliations, and check issuance.

Separate Payroll Duties

The payroll clerk enters payroll data, reviews the information, approves payroll for processing, and performs all payroll reconciliations. Giving all of these duties to one individual increases the possibility of fraud. The risk is even greater, when one considers that the Authority was not performing monthly reconciliations, which could detect errors or other irregularities.

The Finance Department needs to separate duties between the processing, reviewing, and reconciling of payroll information. Lack of duty separation increases the risk of problems.

Reconcile Payroll to General Ledger Monthly

The Authority did not reconcile payroll information to the general ledger until October 1999. Just before performing this reconciliation, the Finance Department discovered there was no record of payroll transactions in the general ledger since December 1998.

While performing the reconciliation, the Finance Department found differences including a retirement payment not recorded, special earnings not entered properly, as well as various other differences. There was also no reconciliation of information reported or paid to third parties such as the Internal Revenue Service, social security, and other withholdings.

The Authority needs to perform monthly payroll reconciliations to detect and correct errors. Reconciliations should include not only internal records such as the general ledger, but reports and payments to others, such as taxing authorities. Timely reconciliation ensures the accuracy of records by providing a means to detect and correct errors.

Develop Policies and Procedures for the Small Purchase Charge Card

The Commonwealth encourages agencies to use a small-purchase charge card to reduce the need to have petty cash and write checks for small amounts. The Authority has begun using the card, but does not have written policies and procedures governing its use. We found the following:

- Individuals are not using the charge cards for all qualifying small purchases.

- The Finance Department could not locate the documents supporting one month's charge card bill. For three other bills, we found missing documentation supporting various individual purchases. Missing documents included requests, receiving reports, and receipts. Also, the Director of Finance authorized payment of one month's bill despite the lack of support for some of the purchases.

- Cardholders received no training in the uses of the small-purchase charge card or their responsibilities for the proper use and control over the card.

Management should develop policies and procedures relating to the use of small-purchase charge cards and provide cardholders training in these guidelines. Management should especially inform cardholders what their responsibilities and liabilities are if they do not properly keep appropriate documentation of all purchases. Implementing these procedures should reduce the Authority's administrative time and costs and avoid unnecessary fees.

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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, 1999

	Governmental Funds				Account Groups		Total Primary Government (Memorandum Only)	Component Unit Virginia International Terminals, Inc.
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debt		
ASSETS AND OTHER DEBITS								
Assets:								
Cash and cash equivalents:								
In bank	$ 12,848	$ 2,030,441	$ -	$ -	$ -	$ -	$ 2,043,289	$ 5,026,076
Restricted	-	-	-	-	-	-	-	12,428,780
With Treasurer of Virginia	-	533,277	-	12,114,838	-	-	12,648,115	-
Held by trustee	-	-	4,387,572	994,068	-	-	5,381,640	-
Appropriation available (Note 9)	325,000	-	-	-	-	-	325,000	-
Investments:								
Short-term investments (Note 4)	-	-	11,034,185	45,831,154	-	-	56,865,339	3,629,360
Long-term investments (Note 4)	-	-	1,672,588	-	-	-	1,672,588	-
Collateral held for securites lending	-	-	-	940,015	-	-	940,015	-
Accounts receivable:								
Trade receivables, less allowance for doubtful accounts	-	7,176	-	-	-	-	7,176	18,301,789
Trust fund taxes receivables	-	-	-	2,690,421	-	-	2,690,421	-
Other receivables	-	-	-	-	-	-	-	389,878
Due from operating company	-	4,125,459	-	-	-	-	4,125,459	-
Due from other funds	-	24,907	-	-	-	-	24,907	-
Reimbursable expenditures	12,267	143,169	-	-	-	-	155,436	-
Advance travel and other expenses	98,559	-	-	-	-	-	98,559	-
Deposit for rent	59,181	-	-	-	-	-	59,181	-
Inventories	-	-	-	-	-	-	-	5,772,571
Prepaid expenses and other	-	-	-	-	-	-	-	5,341,796
Prepaid interest	-	-	11,424	-	-	-	11,424	-
Fixed assets (Note 5)	-	-	-	-	541,460,850	-	541,460,850	16,744,683
Other debits:								
Amount available in debt service fund	-	-	-	-	-	8,807,052	8,807,052	-
Amount to be provided for retirement of long-term debt	-	-	-	-	-	198,814,214	198,814,214	-
Amount to be provided for compensated absences	-	8,764	-	-	-	597,137	605,901	-
Supplemental pension plan assets at cost (Note 10)	-	-	-	-	-	-	-	1,366,379
Total assets and other debits	$ 507,855	$ 6,873,193	$ 17,105,769	$ 62,570,496	$541,460,850	$208,218,403	$ 836,736,566	$ 69,001,312
LIABILITIES, EQUITY AND OTHER CREDITS								
Liabilities:								
Accounts payable	$ -	$ 982,221	$ -	$ 6,919,693	$ -	$ -	$ 7,901,914	$ 1,942,700
Retainage payable	-	-	-	1,705,345	-	-	1,705,345	-
Payroll withholdings	-	-	-	-	-	-	-	30,306
Bonds payable - maturing July 1, 1999	-	-	2,790,000	-	-	-	2,790,000	-
Interest payable - maturing July 1, 1999	-	-	5,481,884	-	-	-	5,481,884	-
Obligations under securities lending	-	-	-	940,015	-	-	940,015	-
Due to Commonwealth of Virginia (Petty Cash)	157,948	-	-	-	-	-	157,948	-
Due to other funds	24,907	-	-	-	-	-	24,907	-
Due to Virginia Port Authority	-	-	-	-	-	-	-	4,125,459
Bonds payable (Note 6)	-	-	-	-	-	203,360,000	203,360,000	-
Installment purchases (Note 6)	-	-	-	-	-	3,434,455	3,434,455	-
Contracts payable (Note 6)	-	-	-	-	-	826,811	826,811	-
Accrued liabilities:								
Compensated absences (Notes 6 and 8)	-	8,764	-	-	-	597,137	605,901	1,544,806
Union benefits	-	-	-	-	-	-	-	427,116
Payroll	-	532,215	-	-	-	-	532,215	1,461,422
Worker's compensation claims	-	-	-	-	-	-	-	2,369,713
Employee health claims	-	-	-	-	-	-	-	350,000
Pension (Note 10)	-	35,544	-	-	-	-	35,544	-
Other liabilities:								
Workers' compensation claims, noncurrent portion	-	-	-	-	-	-	-	2,000,000
Supplemental pension plan accrued liabilities (Note 10)	-	-	-	-	-	-	-	1,999,537
Compensated absences noncurrent portion (Note 8)	-	-	-	-	-	-	-	1,187,321
Total liabilities	182,855	1,558,744	8,271,884	9,565,053	-	208,218,403	227,796,939	17,438,380
Equity and other credits:								
Investment in general fixed assets	-	-	-	-	541,460,850	-	541,460,850	-
Contributed capital	-	-	-	-	-	-	-	8,103,465
Retained earnings	-	-	-	-	-	-	-	43,459,467
Fund balance:								
Reserve for construction	-	-	-	53,005,443	-	-	53,005,443	-
Reserve for debt service	-	-	8,833,885	-	-	-	8,833,885	-
Unreserved:								
Designated	325,000	-	-	-	-	-	325,000	-
Undesignated	-	5,314,449	-	-	-	-	5,314,449	-
Total equity and other credits	325,000	5,314,449	8,833,885	53,005,443	541,460,850	-	608,939,627	51,562,932
Total liabilities, equity and other credits	$ 507,855	$ 6,873,193	$ 17,105,769	$ 62,570,496	$541,460,850	$208,218,403	$ 836,736,566	$ 69,001,312

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

Total Reporting Entity (Memorandum Only)
$ 7,069,365
12,428,780
12,648,115
5,381,640
325,000
60,494,699
1,672,588
940,015
18,308,965
2,690,421
389,878
4,125,459
24,907
155,436
98,559
59,181
5,772,571
5,341,796
11,424
558,205,533
8,807,052
198,814,214
605,901
1,366,379
$ 905,737,878
$ 9,844,614
1,705,345
30,306
2,790,000
5,481,884
940,015
157,948
24,907
4,125,459
203,360,000
3,434,455
826,811
2,150,707
427,116
1,993,637
2,369,713
350,000
35,544
2,000,000
1,999,537
1,187,321
245,235,319
541,460,850
8,103,465
43,459,467
53,005,443
8,833,885
325,000
5,314,449
660,502,559
$ 905,737,878

VIRGINIA PORT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 1999

	General	Special Revenue	Debt Service	Capital Projects	Total (Memorandum Only)
Revenues:					
State appropriations (Note 9)	$2,933,200	$ -	$ -	$ -	$ 2,933,200
Rental income	-	976,436	-	-	976,436
Interest income	-	67,586	904,187	3,667,330	4,639,103
Miscellaneous income	-	111,080	-	-	111,080
Proceeds from securities lending transactions	-	-	-	22,192	22,192
Trust fund taxes	-	-	-	26,495,208	26,495,208
Total revenues	2,933,200	1,155,102	904,187	30,184,730	35,177,219
Expenditures:					
Commerce and agriculture markets					
Development and improvements:					
Commerce advertising	-	786,228	-	-	786,228
National and international trade services	-	7,564,713	-	-	7,564,713
Port traffic rate management	-	153,448	-	-	153,448
Water transportation systems planning:					
Port facilities planning	-	371,619	-	-	371,619
Port and port facility management:					
Maintenance of ports and facilities	2,608,000	448,414	-	4,323,909	7,380,323
Port facility acquisition:					
Interest	-	179,392	11,891,347	-	12,070,739
Principal	-	706,615	2,856,584	-	3,563,199
Security services	-	3,629,591	-	-	3,629,591
Terminal administration	-	1,572,090	-	-	1,572,090
Financial assistance to local ports	-	3,415,040	-	-	3,415,040
Capital projects	-	-	-	41,785,997	41,785,997
Trustee fees	-	-	1,126	13,345	14,471
Payments for securities lending transactions	-	-	-	21,233	21,233
Indirect costs	-	-	-	37,700	37,700
Total expenditures	2,608,000	18,827,150	14,749,057	46,182,184	82,366,391
Excess (deficiency) of revenues over (under) expenditures	325,200	(17,672,048)	(13,844,870)	(15,997,454)	(47,189,172)
Other financing sources (uses):					
Operating transfers in	-	3,453,297	14,009,261	994,068	18,456,626
Operating transfers out	-	(1,622,279)	(998,276)	(15,836,071)	(18,456,626)
Transfers in from primary government	-	2,800,000	-	-	2,800,000
Transfers from operating company (Note 7)	-	22,531,781	-	-	22,531,781
Capital contributions - operating company	-	-	-	375,021	375,021
Transfers to operating company	-	(4,793,770)	-	-	(4,793,770)
Reversion to the General Fund of the Commonwealth (Note 9)	(200)	(12,681)	-	(194,311)	(207,192)
Total other financing sources (uses)	(200)	22,356,348	13,010,985	(14,661,293)	20,705,840
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	325,000	4,684,300	(833,885)	(30,658,747)	(26,483,332)
Fund balance July 1, 1998, as restated (Note 3)	-	630,149	9,667,770	83,664,190	93,962,109
Fund balance June 30, 1999	$ 325,000	$ 5,314,449	$ 8,833,885	$ 53,005,443	$ 67,478,777

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

VIRGINIA PORT AUTHORITY
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, 1999

	General Fund			Special Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
State appropriations	$ 2,933,200	$2,933,200	$ -	$ -	$ -	$ -
Rental income	-	-	-	18,700	976,436	957,736
Interest income	-	-	-	35,000	67,586	32,586
Miscellaneous	-	-	-	135,000	114,734	(20,266)
Total revenues	2,933,200	2,933,200	-	188,700	1,158,756	970,056
Expenditures:						
Commerce and agriculture markets						
Developments and improvements:						
Commerce advertising	-	-	-	950,000	867,944	82,056
National and international trade services	-	-	-	7,136,035	7,216,487	(80,452)
Port traffic rate management	-	-	-	162,222	154,839	7,383
Water transportation system planning:						
Port facilities planning	-	-	-	537,012	386,262	150,750
Port and port facility management:						
Maintenance of ports and facilities	2,933,200	2,608,000	325,200	2,342,938	462,683	1,880,255
Port facilities acquisition	-	-	-	886,008	886,008	-
Security services	-	-	-	3,600,508	3,561,488	39,020
Terminal administration	-	-	-	1,585,000	1,570,189	14,811
Financial assistance to local ports	-	-	-	4,499,811	3,249,546	1,250,265
Total expenditures	2,933,200	2,608,000	325,200	21,699,534	18,355,446	3,344,088
Excess (deficiency) of revenues over (under) expenditures	-	325,200	325,200	(21,510,834)	(17,196,690)	4,314,144
Other financing sources (uses):						
Operating transfers in	-	-	-	6,756,878	3,478,797	(3,278,081)
Operating transfers out	-	-	-	(1,622,279)	(1,622,279)	-
Transfers from operating company	-	-	-	18,569,632	18,406,322	(163,310)
Transfers to operating company	-	-	-	-	(4,793,770)	(4,793,770)
Transfers in from primary government	-	-	-	-	2,800,000	2,800,000
Reversion to the General Fund of the Commonwealth	-	(200)	(200)	-	(12,681)	(12,681)
Total other financing sources (uses)	-	(200)	(200)	23,704,231	18,256,389	(5,447,842)
Excess (deficiency) of revenue and other sources over (under) expenditures and other uses	-	325,000	325,000	2,193,397	1,059,699	(1,133,698)
Fund balances as of July 1, 1998	-	-	-	1,504,018	1,504,018	-
Fund balances as of June 30, 1999	$ -	$ 325,000	$ 325,000	$ 3,697,415	$ 2,563,717	$ (1,133,698)

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, 1999

Operating revenues	$ 127,662,892
Operating expenses	76,787,331
Net operating revenues after operating expenses	50,875,561
Maintenance expenses	20,385,018
Accounting, general and administrative expenses	11,233,238
Total other expenses	31,618,256
Excess of revenue over expenses before transfers to Virginia Port Authority	19,257,305
Transfers from Virginia Port Authority	4,793,770
Transfers to Virginia Port Authority:	
Operating	19,986,350
Improvements	375,020
Total transfers to Virginia Port Authority	20,361,370
Excess of revenues over expenses after transfers to Virginia Port Authority	3,689,705
Retained earnings, July 1, 1998	39,769,762
Retained earnings, June 30, 1999	$ 43,459,467

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, 1999
Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:	
Cash received from customers	$ 126,128,229
Cash payments for goods and services	(48,365,097)
Cash payments to employees	(55,527,895)
Net cash provided by operating activities	22,235,237
Cash flows from noncapital fianacing activities	
Cash transfers from VPA	4,793,770
Cash transfers to VPA	(18,896,163)
Net cash used in noncapital financing activities	(14,102,393)
Cash flows from capital and related financing activities	
Proceeds from sale of capital assets	107,056
Acquisition of capital assets	(2,137,269)
Construction of leasehold improvements transferred to VPA	(375,020)
Net cash used in capital and related financing activities	(2,405,233)
Cash flows from investing activities	
Decrease in receivable from Virginia Port Authority	4,649,472
Interest received	620,119
Increase in short-term investments	(2,874,965)
Net cash provided by (used in) investing activities	2,394,626
Net increase in cash and cash cash equivalents (including restricted amounts)	8,122,237
Cash and cash equivalents at July 1, 1998	9,332,619
Cash and cash equivalents at June 30, 1999	$ 17,454,856
Reconciliation of excess of revenues over expenses before transfers to net cash provided by operating activities:	
Excess of revenue over expenses before transfers	$ 19,257,305
Adjustments to reconcile excess of revenues over expenses before transfers to net cash provided by operating activities:	
Depreciation	4,585,626
Provision for losses on accounts receivable	442,429
Loss on disposal of assets	174,235
Proceeds from sale of capital assets	(107,056)
Interest income	(620,119)
Changes in assets and liabilities:	
Trade receivables	(739,270)
Other receivables	(25,179)
Inventories	256,897
Prepaid expenses and other	(974,854)
Supplemental pension plan assets	(120,801)
Accounts payable	(60,256)
Payroll withholdings	(386,758)
Accrued expenses	(354,826)
Accrued payroll	162,326
Supplemental pension plan accrued liability	745,538
Net cash provided by operating activities	$ 22,235,237
Supplemental schedule of noncash investing and financing activity:	
Trade-ins of used equipment on new equipment	$ 5,290

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

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NOTES TO FINANCIAL STATEMENTS

VIRGINIA PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1999

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 the United States and several 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, 1999. 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, 1999	$2,563,717
Adjustments:	
Accrued revenues on GAAP basis	4,309,476
Accrued expenditures on GAAP basis	(1,558,744)
Fund balance on GAAP basis - June 30, 1999	$5,314,449

3. RESTATEMENT OF FUND BALANCES

Fund balance has been restated in the Debt Service Fund to correct the overstatement of cost of issuance expenditure and the related payable for the 1998 bond issuance. Fund balance totals for June 30, 1998, have been adjusted as follows:

Debt Service Fund:

Fund balance at June 30, 1998, as originally reported	$9,663,969
Effect of restatement	3,801
Fund balance at July 1, 1998, as restated	$9,667,770

4. 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 less than one year. 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, 1999. 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	$ 7,119,110	$ 7,119,110
U. S. Government Securities	2,530,198	2,530,198
Total Short-Term	$ 9,649,308	$ 9,649,308
Long-Term Investments:		
U. S. Government Securities	1,672,588	1,672,588
Total	$11,321,896	$11,321,896
Mutual, Money Market Funds		47,216,031
Total Investments		$58,537,927

As of June 30, 1999, Virginia International Terminals, Inc. held cash equivalents comprised of money market instruments and investments in U.S. Treasury and Agency Securities and Corporate Bonds totaling $6,989,720, $7,805,995, and $1,262,425, 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.

5. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Land	$ 91,644,048	$ -	$ -	$ 91,644,048
Buildings	54,965,258	585,532	171,829	55,378,961
Improvements other than buildings	202,916,402	10,066,980	-	212,983,382
Equipment	94,175,739	514,800	26,254	94,664,285
Construction in progress	53,687,605	42,348,247	10,857,935	85,177,917
Leasehold improvements	1,612,257	-	-	1,612,257
Total	$499,001,309	$53,515,559	$11,056,018	$541,460,850

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	$33,683,352
Automobiles and trucks	4,261,010
Data processing equipment	6,201,583
Other furniture and fixtures	1,039,672
Total	45,185,617
Less: Allowance for Depreciation	28,440,934
Net	$16,744,683

6. LONG-TERM DEBT

A. Changes in Long-Term Indebtedness

A summary of changes in long-term indebtedness follows:

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Revenue bonds	$206,150,000	$ -	$2,790,000	$203,360,000
Installment purchases	4,207,654	-	773,199	3,434,455
Contracts	838,521	-	11,710	826,811
Compensated absences	637,260	-	40,123	597,137
Total	$211,833,435	$ -	$3,615,032	$208,218,403

B. Details of Long-Term Indebtedness

	Balance as of June 30, 1999
Revenue Bonds:	
Virginia Port Authority:	
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 $1,335,000 to $2,515,000 with interest of 4.55% to 5.75% payable semiannually, the final installment due in 2012. Term bonds issued in the principal amount of $11,590,000 with interest of 5.90% 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.	$ 35,790,000
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 $1,580,000 to $2,885,000 with interest of 4.50% to 6.00% 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%, 5.50%, and 5.60% are due in 2017, 2024, and 2027, respectively. The bonds are payable from net revenues of the Authority.	96,555,000

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 $2,815,000 to $10,085,000 with interest of 4.40% to 5.50% 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.	71,015,000
Total revenue bonds	203,360,000
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%.	537,259
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%.	240,708
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%	2,656,488
Total installment purchases	3,434,455
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% for transaction costs beginning May 1997. Every 5 years the interest rate will be recalculated using the Treasury rate in effect at that time.	826,811

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, 1999, all earned vacation and compensatory leave not taken and the amount payable under the Authority'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.	597,137
Total long-term indebtedness	$208,218,403

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, 1999, follows:

Year Ending June 30,	Revenue Bonds	Installment Purchases	Contracts Payable
2000	$ 16,569,497	$ 998,287	$ 68,310
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
Later years	240,299,708	121,636	1,434,510
Total	$ 340,199,432	$ 3,942,790	$ 1,776,060
Less:			
Interest	136,839,432	508,335	949,249
Net	$ 203,360,000	$ 3,434,455	$ 826,811

7. 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	$19,986,350
Adjustments:	
Payments recorded as expenditure reimbursements	(489,845)
Payments accrued by VIT in prior year	3,035,276
Transfers from operating company	$22,531,781

8. COMMITMENTS

As of June 30, 1999, the Authority has commitments to construction contracts totaling $87,678,111 of which $72,332,239 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 $234,573 for the year. A summary of future obligations under lease agreements as of June 30, 1999, follows:

Year Ending June 30,	Amount
2000	$235,142
2001	62,816
2002	15,890
2003	15,890
2004	14,566
Total	$344,304

At June 30, 1999, 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 $2,732,127 at June 30, 1999 to the extent of the benefits that are payable. VIT is also contingently liable for sick leave of $2,934,417 at June 30, 1999, representing amounts employees could utilize during their period of employment.

As of June 30, 1999, VIT is committed to payments totaling approximately $2,100,000 on outstanding purchase orders for leasehold improvements and fixed assets. Improvements in progress include design fees for water system modifications, grading work on the Area C container lot, and new software.

9. APPROPRIATIONS

The Appropriations Act specifies that unexpended appropriations from the General Fund of the Commonwealth shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor, become part of the General Fund of the Commonwealth and are, therefore, no longer available to the Authority for disbursement.

During the year ended June 30, 1999, the following changes were made to the Authority's original appropriation, including supplemental appropriations, received in accordance with Section 1-128 of the Appropriation Act of 1998, Chapter 464, Acts of Assembly:

Appropriation	$ 325,000
Supplemental appropriations:	
Additional appropriation per Chapter 464, Item 547, Paragraph G	2,608,200
Reversions to the General Fund of the Commonwealth	(200)
Adjusted Appropriations	$2,933,000

10. 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, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the Board of Directors of the Authority.

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

	1999
Service cost-benefits earned during the year	$34,472
Interest on projected benefit obligation	1,992
Expected return on assets	(1,426)
Net amortization and deferral	506
Annual pension cost	35,544
Contributions made	-
Net pension obligation	$35,544

The annual pension cost for the current year was determined as part of the October 1999 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 and estimated rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7 percent and 5 percent respectively. 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, 1999.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 1999	$35,544	0%	$35,544

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

VPA also adopted a matching savings plan under Internal Revenue Code Section 401(a) that covers substantially all employees. The new matching savings plan requires VPA 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. VPA's total contributions to the matching savings plan were $15,533 for the year ended June 30, 1999.

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 Directors 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:

	1999	1998	1997
Service cost – benefits earned during the year	$ 986,000	$ 828,000	$ 836,000
Interest cost on projected benefit obligation	1,484,000	1,321,000	1,230,000
Expected return on assets	(2,358,000)	(1,943,000)	(1,692,000)
Net amortization and deferral	(136,000)	(211,000)	(212,000)
Annual pension cost	(24,000)	(5,000)	162,000
Contributions made	(192,000)	(598,000)	(573,000)
Increase in prepaid pension obligation	(216,000)	(603,000)	(411,000)
Prepaid pension obligation, beginning of year	(3,746,000)	(3,143,000)	(2,732,000)
Prepaid pension obligation, end of year	$(3,962,000)	$(3,746,000)	$(3,143,000)

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 and estimated rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7 percent and 5 percent, respectively. 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, 1999, 1998, and 1997.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
June 30, 1999	$ (24,000)	800%	$(3,962,000)
June 30, 1998	$ (5,000)	11,960%	$(3,746,000)
June 30, 1997	$162,000	352%	$(3,143,000)

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 $1,366,379 and $1,245,578 in 1999 and 1998, respectively, have been allocated for future benefit payments under the provisions of the supplemental plans. The accrued liability was $1,999,537, and $1,253,999 as of June 30, 1999 and 1998, 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 plan. Effective January 1, 1998, VIT amended the deferred compensation plan to cease employer matching and non-matching discretionary contributions. VIT's total contribution to these plans was $219,518 and $201,592 for the years ended June 30, 1999 and 1998, respectively.

11. 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.

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SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 READINESS

The Virginia Port Authority recognizes the significance of the Century Date Change and the impact year 2000 may have on its information technology and business infrastructure. The Authority has established an Information Technology Committee (Committee) to work in conjunction with the Commonwealth's legislatively authorized Virginia Century Date Change Office to help address the year 2000 issue. The Committee has developed a project to identify and implement necessary changes to its various information systems, telecommunications facilities and embedded technology, supply chains, and data exchanges across their primary business functions that are dependent upon date-sensitive coding.

The Authority has identified its Marketing Information System as mission critical and has subjected that system and equipment to the following stages of work to address the year 2000 issues:

- Awareness stage – Establishing a budget and project plan for dealing with the year 2000 issue.
- Assessment stage – Identifying the systems and components for which year 2000 compliance work is needed.
- Remediation stage – Making changes to systems and equipment.
- Validation / testing stage – Validating and testing the changes that were made during the remediation stage.

At June 30, 1999, the Authority estimated costs for this project were $185,000 and the actual costs incurred were approximately $79,000. Components of the system are substantially complete.

The Authority's internal network including file servers, PC hardware, software, data, and peripheral equipment have been addressed. Other electronic devices, including telecommunications, technical, and office equipment containing computer chips that have date recognition features have been inventoried and assessed.

The State Comptroller maintains the Commonwealth's Accounting and Reporting System, which the Authority uses for its financial accounting system. Information relating to the Year 2000 readiness for the Commonwealth's systems is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

The Authority's reporting entity includes the Virginia International Terminals, Inc. (VIT), for which the Authority is financially accountable. VIT operates all marine terminals owned by the Authority. VIT has identified the stages under which the following computer systems and applications critical to conducting its operations fall, as of June 30, 1999. The stage identified for each system is the stage which was in the process of being completed at year-end. As of June 30, 1999, all of the following systems have completed the awareness and assessments stages.

Remediation Stage:

Operations Systems:	
Container Control	System tracks containerized cargo operations
Cargo Control	System tracks breakbulk cargo operations
NAVIS System	System provides user interface for yard vessel and rail operations
Purchasing/Inventory System	System provides for purchasing and inventory control functions
Communications System	System provides for terminal operations communications

Validation/Testing Stage:

Multiview Applications	Systems accomplish accounts payable and general ledger functions
HP 3000 Finance Systems	Systems accomplish billing and accounts receivable functions
J. D. Edwards Systems	Systems replace existing accounts payable, general ledger, purchasing, maintenance, fixed assets, and inventory control systems.
Payroll System	System accounts for union and non-union payroll
Electronic Document Storage	System accomplishes electronic storage of billing and accounts payable documentation

As of June 30, 1999, VIT had contractual commitments totaling $513,250 to make computer systems and other equipment Year 2000 compliant.

VIRGINIA PORT AUTHORITY
Norfolk, Virginia

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