# AUDIT SUMMARY

Our audit of the **Virginia Port Authority** for the year ended June 30, 1998, found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 1998, 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 Formal Personnel Policies and Procedures

  Properly Plan Implementation of Payroll System

  Revise Procurement Manual to Include Contract Administration

- no instances of noncompliance with applicable laws and regulations that are required to be reported.

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AGENCY OFFICIALS

November 9, 1998

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, 1998, and submit herewith our complete reports on the financial statements and on compliance and internal control over financial reporting.

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the financial statements of the Virginia Port Authority as of and for the year ended June 30, 1998, as listed in the Table of Contents. 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 $64,115,399 as of June 30, 1998, and total revenues of $128,259,779 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, 1998, 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 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, 1998, 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 and Compliance Findings and Recommendations."

We believe none of the reportable conditions described above is a material weakness. 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 over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is for the information of the Governor and General Assembly, Board of Commissioners, management, and the people of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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# INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

## INTRODUCTION

The 1997 General Assembly gave the Authority an exemption from the Virginia Personnel Act. The exemption requires the Authority to create and administer its compensation package for salaries, retirement, and other benefits. The Authority must develop and adopt its own personnel policies and procedures. This compensation package requires the Authority to obtain a payroll system to replace its use of the statewide system. The Authority obtained an independent payroll system on July 1, 1998.

We reviewed the Authority's process for developing the new compensation package and its personnel and payroll procedures and the implementation of the payroll system. The Authority's management needs to address two concerns relating to developing personnel policies and the new payroll system. Our final concern relates to the procurement of services and contract administration.

### Develop Formal Personnel Policies and Procedures

The Authority has not developed written personnel policies and procedures. With the exemption from the Virginia Personnel Act, State law required the Authority's Board of Commissioners to develop and adopt its own personnel rules, policies, and procedures. These rules must establish employees' grievance rights, ensure that employment decisions consider the merit and fitness of applicants, and prohibit discrimination of any kind, as well as address other important issues. Without formal personnel policies and procedures, the Authority places itself at risk to lawsuits challenging decisions made concerning employer and employee relationships.

The Authority is using a contractor to develop procedures. Management should complete the development of formal comprehensive personnel policies and procedures. These policies should document rules covering the administration of the new compensation package, as well as recruiting, performance management, training, and other human resources processes. The policies would also provide employees a source of reference concerning the Authority's personnel and payroll practices and any unique circumstances that may apply.

### Properly Plan Implementation of Payroll System

The Authority did not properly assess and plan the implementation of its new payroll system. As previously noted, the new compensation package required a conversion from the statewide payroll system to a system tailored to meet the Authority's needs. Management's decision to outsource its payroll function lacked the following key elements:

- Management did not perform a cost analysis before outsourcing the payroll function.
- Management did not have a complete understanding of the payroll process before contracting with the vendor. Without this knowledge, management could not provide the vendor with a complete set of needs relating to payroll information and types of reports.
- The vendor outlined a formal implementation schedule and also provided a Four Phase Issue Resolution; however, the Authority chose not to take advantage of these offers. As a result, the Authority could not make two trial payroll runs as intended and payrolls continue to have errors. These processes could also have identified problems before going live with data converted from the statewide system.

The Authority now believes they can perform the payroll function in-house by purchasing payroll software that would interface with their current human resources software. Before bringing the payroll function in-house, management should perform a detailed cost analysis that includes purchase of service, software, and personnel costs. In addition, management should develop a formal implementation schedule to ensure adequate time for trial runs, data conversion, and error reporting.

The Authority should also develop procedures to document how it will operate its payroll activity. These procedures should include all aspects of payroll processing including such issues as tax and benefit deductions, reconciliations, and check issuance. As with any automated system containing sensitive or confidential information, the Authority should also provide for security safeguards to include access controls and controls over system changes. These measures will provide essential controls over the payroll system.

Revise Procurement Manual to Include Contract Administration

The Virginia Port Authority Purchasing Policies and Procedures Manual does not include specific guidelines for contract administration. We reviewed a management consulting contract used in developing the new compensation package. The assigned contract administrator did not properly monitor this important project.

- The administrator did not verify services met the terms of contract before approving payments. Also, two other employees not familiar with the contract terms, approved payments.

- The administrator could not provide a list of completed deliverables nor of contract items outstanding.

- The administrator has not monitored and compared total costs to date with total contracted costs. The Authority requested additional services beyond the original contract increasing the cost of the contract. Without careful monitoring of costs, the Authority could overpay the contractor.

In each instance noted above, the Authority did not properly monitor and enforce the contract requirements. The Authority's purchasing manual does not address the duties of a contract administrator, nor does it require any formal communication of assignment to the employee. Without a documented list of responsibilities, the administrators cannot properly understand their duties in monitoring contracts. Also, the manual does not address the qualifications and experience personnel should have before their selection as contract administrators.

Management should revise the purchasing manual to include the criteria for selecting individuals as contract administrators. For important contracts, administrator assignments generally occur at the management level. Formal documentation of responsibilities will allow the contract administrator to understand all their duties and responsibilities including monitoring contracts and preventing cost overruns.

VIRGINIA PORT AUTHORITY
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNIT
As of June 30, 1998

| | Governmental Funds | | | | Account Groups | | Total Primary Government (Memorandum Only) | Component Unit Virginia International Terminals, Inc. | Total Reporting Entity (Memorandum Only) |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 26,539 | $ 1,043,312 | $ - | $ - | $ - | $ - | $ 1,069,851 | $ 2,072,253 | $ 3,142,104 |
| Restricted | - | - | - | - | - | - | - | 7,260,366 | 7,260,366 |
| With Treasurer of Virginia | - | 460,706 | - | 4,656,605 | - | - | 5,117,311 | - | 5,117,311 |
| Held by Trustee | - | - | 2,706,508 | - | - | - | 2,706,508 | - | 2,706,508 |
| Short-term investments (Note 4) | - | - | 12,055,872 | 85,226,187 | - | - | 97,282,059 | 754,395 | 98,036,454 |
| Accounts receivable | | | | | | | | | |
| Trade receivables, less allowance for doubtful accounts | - | 10,830 | - | - | - | - | 10,830 | 18,004,949 | 18,015,779 |
| Trust fund taxes receivables | - | - | - | 2,442,509 | - | - | 2,442,509 | - | 2,442,509 |
| Receivable from Virginia Port Authority | - | - | - | - | - | - | - | 4,649,472 | 4,649,472 |
| Other receivables | - | - | - | - | - | - | - | 364,699 | 364,699 |
| Reimbursable expenditures | 14,950 | 91,940 | - | - | - | - | 106,890 | - | 106,890 |
| Advance travel and other expenses | 74,049 | - | - | - | - | - | 74,049 | - | 74,049 |
| Deposit for rent | 45,003 | - | - | - | - | - | 45,003 | - | 45,003 |
| Inventories | - | - | - | - | - | - | - | 6,029,468 | 6,029,468 |
| Prepaid expenses and other | - | - | - | - | - | - | - | 4,366,942 | 4,366,942 |
| Prepaid interest | - | - | 12,675 | - | - | - | 12,675 | - | 12,675 |
| Fixed assets (Note 5) | - | - | - | - | 499,001,309 | - | 499,001,309 | 19,367,277 | 518,368,586 |
| Other debits: | | | | | | | | | |
| Amount available in debt service fund | - | - | - | - | - | 9,663,969 | 9,663,969 | - | 9,663,969 |
| Amount to be provided for retirement of long-term debt | - | - | - | - | - | 201,532,206 | 201,532,206 | - | 201,532,206 |
| Amount to be provided for compensated absences | - | - | - | - | - | 637,260 | 637,260 | - | 637,260 |
| Supplemental pension plan assets at cost (Note 10) | - | - | - | - | - | - | - | 1,245,578 | 1,245,578 |
| Total assets and other debits | $ 160,541 | $ 1,606,788 | $ 14,775,055 | $ 92,325,301 | $ 499,001,309 | $ 211,833,435 | $ 819,702,429 | $ 64,115,399 | $ 883,817,828 |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | | | | | | | |
| LIABILITIES | | | | | | | | | |
| Accounts payable | $ - | $ 494,503 | $ - | $ 2,594,380 | $ - | $ - | $ 3,088,883 | $ 2,002,956 | $ 5,091,839 |
| Retainage payable | - | - | - | 1,717,259 | - | - | 1,717,259 | - | 1,717,259 |
| Payroll withholdings | - | - | - | - | - | - | - | 417,063 | 417,063 |
| Bonds payable - maturing July 1, 1998 | - | - | 1,230,000 | - | - | - | 1,230,000 | - | 1,230,000 |
| Interest payable - maturing July 1, 1998 | - | - | 3,726,659 | - | - | - | 3,726,659 | - | 3,726,659 |
| Due to operating company | - | - | - | 4,349,472 | - | - | 4,349,472 | - | 4,349,472 |
| Due to Commonwealth of Virginia (Petty Cash) | 160,541 | - | - | - | - | - | 160,541 | - | 160,541 |
| Due to Virginia Port Authority | - | - | - | - | - | - | - | 3,035,276 | 3,035,276 |
| Bonds payable (Note 6) | - | - | - | - | - | 206,150,000 | 206,150,000 | - | 206,150,000 |
| Installment purchases (Note 6) | - | - | - | - | - | 4,207,654 | 4,207,654 | - | 4,207,654 |
| Contracts payable (Note 6) | - | - | - | - | - | 838,521 | 838,521 | - | 838,521 |
| Accrued liabilities: | | | | | | | | | |
| Interest expense | - | - | 9,895 | - | - | - | 9,895 | - | 9,895 |
| Bond expense | - | - | 144,532 | - | - | - | 144,532 | - | 144,532 |
| Compensated absences (Notes 6 and 9) | - | - | - | - | - | 637,260 | 637,260 | 1,457,627 | 2,094,887 |
| Union benefits | - | - | - | - | - | - | - | 1,096,541 | 1,096,541 |
| Payroll | - | 482,136 | - | - | - | - | 482,136 | 1,299,096 | 1,781,232 |
| Worker's compensation claims | - | - | - | - | - | - | - | 2,131,015 | 2,131,015 |
| Employee health claims | - | - | - | - | - | - | - | 350,000 | 350,000 |
| Other liabilities: | | | | | | | | | |
| Workers' compensation claims, noncurrent portion | - | - | - | - | - | - | - | 2,000,000 | 2,000,000 |
| Supplemental pension plan accrued liabilities (Note 10) | - | - | - | - | - | - | - | 1,253,999 | 1,253,999 |
| Compensated absences noncurrent portion (Note 9) | - | - | - | - | - | - | - | 1,198,599 | 1,198,599 |
| Total liabilities | 160,541 | 976,639 | 5,111,086 | 8,661,111 | - | 211,833,435 | 226,742,812 | 16,242,172 | 242,984,984 |
| Equity and other credits: | | | | | | | | | |
| Investment in general fixed assets | - | - | - | - | 499,001,309 | - | 499,001,309 | - | 499,001,309 |
| Contributed capital | - | - | - | - | - | - | - | 8,103,465 | 8,103,465 |
| Retained earnings | - | - | - | - | - | - | - | 39,769,762 | 39,769,762 |
| Fund balance: | | | | | | | | | |
| Reserve for construction | - | - | - | 83,664,190 | - | - | 83,664,190 | - | 83,664,190 |
| Reserve for debt service | - | - | 9,663,969 | - | - | - | 9,663,969 | - | 9,663,969 |
| Unreserved - undesignated | - | 630,149 | - | - | - | - | 630,149 | - | 630,149 |
| Total equity and other credits | - | 630,149 | 9,663,969 | 83,664,190 | 499,001,309 | - | 592,959,617 | 47,873,227 | 640,832,844 |
| Total liabilities, equity and other credits | $ 160,541 | $ 1,606,788 | $ 14,775,055 | $ 92,325,301 | $ 499,001,309 | $ 211,833,435 | $ 819,702,429 | $ 64,115,399 | $ 883,817,828 |

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
ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 1998

| | General | Special Revenue | Debt Service | Capital Projects | Total (Memorandum Only) |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Rental income | - | 973,036 | - | - | $ 973,036 |
| Interest income | - | 31,299 | 2,111,577 | 6,271,822 | 8,414,698 |
| Miscellaneous income | 44,098 | 140,368 | - | - | 184,466 |
| Trust fund taxes | - | - | - | 24,643,105 | 24,643,105 |
| Other | 3,376 | 12,660 | - | - | 16,036 |
| Total revenues | 47,474 | 1,157,363 | 2,111,577 | 30,914,927 | 34,231,341 |
| Expenditures: | | | | | |
| Commerce and Agriculture Markets | | | | | |
| Development and Improvements: | | | | | |
| Commerce advertising | - | 762,367 | - | - | 762,367 |
| National and international trade services | - | 6,757,170 | - | - | 6,757,170 |
| Port traffic rate management | - | 204,692 | - | - | 204,692 |
| Water Transportation Systems Planning: | | | | | |
| Port facilities planning | - | 312,210 | - | - | 312,210 |
| Port and Port Facility Management: | | | | | |
| Maintenance of ports and facilities | 2,972 | 1,115,386 | - | 1,555,384 | 2,673,742 |
| Port Facility Acquisition: | | | | | |
| Interest | - | 216,400 | 13,520,192 | - | 13,736,592 |
| Principal | - | 669,607 | 4,476,474 | - | 5,146,081 |
| Security services | 3,376 | 3,358,520 | - | - | 3,361,896 |
| Terminal administration | - | 120,935 | - | - | 120,935 |
| Financial assistance to local ports | - | 1,098,343 | - | - | 1,098,343 |
| Capital projects | - | - | - | 44,004,633 | 44,004,633 |
| Bond issuing expense | - | - | 1,959,015 | 388,733 | 2,347,748 |
| Trustee fees | - | - | 2,967 | 45,803 | 48,770 |
| Indirect costs | - | - | - | 40,100 | 40,100 |
| Total expenditures | 6,348 | 14,615,630 | 19,958,648 | 46,034,653 | 80,615,279 |
| Excess (deficiency) of revenues over (under) expenditures | 41,126 | (13,458,267) | (17,847,071) | (15,119,726) | (46,383,938) |
| Other financing sources (uses): | | | | | |
| Operating transfers in | - | 4,449,257 | 14,928,461 | 1,842,200 | 21,219,918 |
| Operating transfers out | - | (3,681,356) | (1,896,819) | (15,641,743) | (21,219,918) |
| Transfers from operating company (Note 8) | - | 13,076,011 | - | - | 13,076,011 |
| Transfers to operating company (Note 8) | - | - | - | (2,850,228) | (2,850,228) |
| Proceeds from sale of bonds | - | - | 72,082,922 | - | 72,082,922 |
| Payment to refunded bond escrow account | - | - | (72,540,107) | - | (72,540,107) |
| Reversion to the General Fund of the Commonwealth | (6,750) | (18,283) | - | (227,324) | (252,357) |
| Deposits to the Commonwealth | (44,098) | - | - | - | (44,098) |
| Total other financing sources/(uses) | (50,848) | 13,825,629 | 12,574,457 | (16,877,095) | 9,472,143 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses | (9,722) | 367,362 | (5,272,614) | (31,996,821) | (36,911,795) |
| Fund balance July 1, 1997, as restated (Note 3) | 9,722 | 262,787 | 14,936,583 | 115,661,011 | 130,870,103 |
| Fund balance June 30, 1998 | $ - | $ 630,149 | $ 9,663,969 | $ 83,664,190 | $ 93,958,308 |

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, 1998

| | General Fund | | | Special Fund | | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Rental income | $ - | $ - | $ - | $ 20,400 | $ 973,036 | $ 952,636 |
| Interest income | - | - | - | 75,000 | 31,299 | (43,701) |
| Miscellaneous | - | 44,098 | 44,098 | 115,000 | 141,311 | 26,311 |
| Other | 3,376 | 3,376 | - | 12,660 | 12,660 | - |
| Total revenues | 3,376 | 47,474 | 44,098 | 223,060 | 1,158,306 | 935,246 |
| Expenditures: | | | | | | |
| Commerce and Agriculture Markets | | | | | | |
| Developments and Improvements: | | | | | | |
| Commerce advertising | - | - | - | 1,171,780 | 721,046 | 450,734 |
| National and international trade services | - | - | - | 6,695,731 | 6,697,389 | (1,658) |
| Port traffic rate management | - | - | - | 198,699 | 198,156 | 543 |
| Water Transportation System Planning: | | | | | | |
| Port facilities planning | - | - | - | 790,340 | 301,061 | 489,279 |
| Port and Port Facility Management: | | | | | | |
| Maintenance of ports and facilities | 6,639 | 6,527 | 112 | 5,679,369 | 2,288,839 | 3,390,530 |
| Port facilities acquisition | - | - | - | 914,691 | 886,008 | 28,683 |
| Security services | 3,376 | 3,376 | - | 3,290,821 | 3,290,233 | 588 |
| Terminal administration | - | - | - | 585,460 | 100,315 | 485,145 |
| Financial assistance to local ports | - | - | - | 2,079,152 | 1,179,341 | 899,811 |
| Total expenditures | 10,015 | 9,903 | 112 | 21,406,043 | 15,662,388 | 5,743,655 |
| Excess (deficiency) of revenues over (under) expenditures | (6,639) | 37,571 | 44,210 | (21,182,983) | (14,504,082) | 6,678,901 |
| Other financing sources/(uses): | | | | | | |
| Operating transfers in | - | - | - | 9,134,662 | 5,439,430 | (3,695,232) |
| Operating transfers out | - | - | - | (4,126,771) | (3,681,355) | 445,416 |
| Transfers from operating company | - | - | - | 12,975,964 | 13,076,010 | 100,046 |
| Deposits to the Commonwealth of Virginia | - | (44,098) | (44,098) | - | - | - |
| Reversion to the General Fund of the Commonwealth | (6,638) | (6,750) | (112) | - | (18,283) | (18,283) |
| Total other financing sources/(uses) | (6,638) | (50,848) | (44,210) | 17,983,855 | 14,815,802 | (3,168,053) |
| Excess (deficiency) of revenue and other sources over (under) expenditures and other uses | (13,277) | (13,277) | - | (3,199,128) | 311,720 | 3,510,848 |
| Fund balances as of July 1, 1997 | 13,277 | 13,277 | - | 3,199,128 | 1,192,298 | (2,006,830) |
| Fund balances as of June 30, 1998 | $ - | $ - | $ - | $ - | $ 1,504,018 | $ 1,504,018 |

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, 1998

| | |
|---|---|
| Operating revenues | $128,259,779 |
| Operating expenses | 77,330,566 |
| Net operating revenues after operating expenses | 50,929,213 |
| Maintenance expenses | 22,384,827 |
| Accounting, general and administrative expenses | 10,106,309 |
| Total other expenses | 32,491,136 |
| Excess of revenue over expenses before transfers to Virginia Port Authority | 18,438,077 |
| Transfers to Virginia Port Authority: | |
| Cash | 12,944,208 |
| Total transfers to Virginia Port Authority | 12,944,208 |
| Excess (Deficiency) of revenues over expenses after transfers to Virginia Port Authority | 5,493,869 |
| Retained earnings, July 1, 1997 | 34,275,893 |
| Retained earnings, June 30, 1998 | $ 39,769,762 |

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, 1998
Increase (Decrease) in Cash and Cash Equivalents

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Cash received from customers | $ 127,160,332 |
| Cash payments for goods and services | (54,845,910) |
| Cash payments to employees | (54,852,302) |
| Net cash provided by operating activities | 17,462,120 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Cash transfers to VPA | (10,864,484) |
| Net cash used in noncapital financing activities | (10,864,484) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Proceeds from sale of capital assets | 9,900 |
| Acquisition of capital assets | (2,053,633) |
| Net cash used in capital and related financing activities | (2,043,733) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Increase in receivable from Virginia Port Authority | (4,481,872) |
| Interest received | 450,308 |
| Increase in short-term investments | (754,395) |
| Net cash provided by (used in) investing activities | (4,785,959) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED AMOUNTS) | (232,056) |
| CASH AND CASH EQUIVALENTS AT JULY 1, 1997 | 9,564,675 |
| CASH AND CASH EQUIVALENTS AT JUNE 30, 1998 | $ 9,332,619 |
| Reconciliation of excess of revenues over expenses before transfers to net cash provided by operating activities: | |
| Excess of revenue over expenses before transfers | $ 18,438,077 |
| Adjustments to reconcile excess of revenues over expenses before transfers to net cash provided by operating activities: | |
| Depreciation | 4,623,949 |
| Loss on disposal of assets | 16,428 |
| Proceeds from sale of capital assets | (9,900) |
| Interest income | (450,307) |
| Changes in assets and liabilities: | |
| Trade receivables | (630,531) |
| Other receivables | 122,068 |
| Inventories | (1,176,740) |
| Prepaid expenses and other | (783,602) |
| Supplemental pension plan assets | 7,734 |
| Accounts payable | 460,686 |
| Payroll withholdings | (30,864) |
| Accrued expenses | (3,281,722) |
| Accrued payroll | 197,177 |
| Supplemental pension plan accrued liability | (40,333) |
| Net cash provided by operating activities | $ 17,462,120 |
| Supplemental schedule of noncash investing and financing activity: | |
| Trade-ins of used equipment on new equipment | $ 7,542 |

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

VIRGINIA PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

## 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 developing Virginia's ports through cargo solicitation and promotion throughout the world, with offices in five cities in the United States and six foreign countries.

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, 1998. The amount reflects all earned vacation, sick, and compensatory leave and related payroll taxes expected to be paid under the Commonwealth of Virginia'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, 1998. 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, 1998 | $1,504,018 |
| Adjustments: | |
| Accrued revenues on GAAP basis | 102,770 |
| Accrued expenditures on GAAP basis | (976,639) |
| Fund balance on GAAP basis - June 30, 1998 | $ 630,149 |

## 3. RESTATEMENT OF FUND BALANCES

Fund balances have been restated in the Debt Service Fund and Capital Projects Fund to reclassify the accrued interest received from the 1996 and 1997 bond issuance. Fund balance totals for June 30, 1997, have been adjusted as follows:

| | |
|---|---|
| Debt Service Fund: | |
| Fund balance at June 30, 1997, as originally reported | $15,395,609 |
| Reclassification | (459,026) |
| Fund balance at July 1, 1997, as restated | $14,936,583 |
| Capital Project Fund: | |
| Fund balance at June 30, 1997, as originally reported | $115,201,985 |
| Reclassification | 459,026 |
| Fund balance at July 1, 1997, as restated | $115,661,011 |

## 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 Short-Term Investments

Certain deposits and short-term 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.

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 short-term investments are categorized below to give an indication of the level of credit risk assumed by the Authority at June 30, 1998. 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 | $ 8,233,074 | $ 8,233,074 |
| U.S. Government securities | 2,820,278 | 2,820,278 |
| Total | $ 11,053,352 | $ 11,053,352 |
| Mutual, Money Market funds | | 86,228,707 |
| Total investments | | $ 97,282,059 |

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, 1997 | Additions | Deletions | Balance June 30, 1998 |
|---|---|---|---|---|
| Land | $ 91,004,048 | $ 640,000 | $ - | $ 91,644,048 |
| Buildings | 42,300,920 | 14,473,807 | 1,809,469 | 54,965,258 |
| Improvements other than buildings | 196,993,316 | 5,923,086 | - | 202,916,402 |
| Equipment | 94,178,547 | 45,089 | 47,897 | 94,175,739 |
| Construction in progress | 36,581,612 | 38,142,886 | 21,036,893 | 53,687,605 |
| Leasehold improvements | 1,612,257 | - | - | 1,612,257 |
| Total | $462,670,700 | $59,224,868 | $22,894,259 | $499,001,309 |

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 | $34,260,612 |
| Automobiles and trucks | 3,739,044 |
| Data processing equipment | 6,065,398 |
| Other furniture and fixtures | 1,003,855 |
| Total | 45,068,909 |
| Less: Allowance for Depreciation | 25,701,632 |
| Net | $19,367,277 |

## 6. LONG-TERM DEBT

### A. Changes in Long-Term Indebtedness

A summary of changes in long-term indebtedness follows:

| | Balance July 1, 1997 | Additions | Deletions | Balance June 30, 1998 |
|---|---|---|---|---|
| Revenue bonds | $212,090,000 | $71,015,000 | $76,955,000 | $206,150,000 |
| Installment purchases | 4,938,842 | - | 731,188 | 4,207,654 |
| Contracts | 849,490 | - | 10,969 | 838,521 |
| Compensated absences | 722,687 | - | 85,427 | 637,260 |
| Total | $218,601,019 | $71,015,000 | $77,782,584 | $211,833,435 |

| | Balance as of June 30, 1998 |
|---|---|
| B. Details of Long-Term Indebtedness | |
| 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 $1,280,000 to $2,515,000 with interest of 4.20% 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 1996-1998 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. | $ 37,070,000 |
| 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 $1,510,000 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. | 98,065,000 |
| 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 | 206,150,000 |

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%. | 603,843 |
| 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%. | 451,372 |
| 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% | 3,152,439 |
| Total installment purchases | 4,207,654 |

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. | 838,521 |

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, 1998, 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. | 637,260 |
| Total long-term indebtedness | $211,833,435 |

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, 1998, follows:

| Year Ending June 30, | Revenue Bonds | Installment Purchases | Contracts Payable |
|---|---|---|---|
| 1999 | $ 14,644,295 | $ 998,287 | $ 68,310 |
| 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 |
| Later years | 261,133,908 | 617,235 | 1,502,820 |
| Total | $ 354,843,727 | $ 4,941,077 | $ 1,844,370 |
| Less: | | | |
| Interest | 148,693,727 | 733,423 | 1,005,849 |
| Net | $ 206,150,000 | $ 4,207,654 | $ 838,521 |

7. BOND DEFEASANCE

In April 1998, the Authority issued $71,015,000 in Commonwealth Port Fund Revenue Refunding Bonds, Series 1998 with interest rates ranging from 4.40 percent to 5.50 percent to refund $75,725,000 of Commonwealth Port Fund Revenue Bonds, Series 1988, with interest rates on the serial bond ranging from 7.05 percent to 7.88 percent and interest on a term bond of 8.20 percent. The net proceeds of $71,546,106 (including issuance premium of $1,067,922 and after payment of $536,816 in bond issuance costs), plus an additional $7,621,407 of 1988 Series sinking fund monies and $994,000 earned interest were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 Series bonds. As a result, the 1988 Series bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Debt Account Group. The Authority refunded the 1988 Series bonds to reduce its total debt service payments over the next 10 years by $13,152,013 and to obtain an economic gain of $9,696,180.

8. 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 | $12,944,208 |
| Adjustments: | |
| Payments recorded as expenditure reimbursements | (638,701) |
| Payments accrued by VIT in current year | (3,035,276) |
| Payments accrued by VIT in prior year | 955,552 |
| Reimbursement to VIT from Capital Projects Fund | 2,850,228 |
| Transfers from operating company | $13,076,011 |

9. COMMITMENTS

As of June 30, 1998, the Authority has commitments to construction contracts totaling $85,528,626 of which $43,960,659 has been incurred.

The Authority is committed under various operating lease agreements for office facilities and equipment. The commitments range from two months to six 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, 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 $219,914 for the year. A summary of future obligations under lease agreements as of June 30, 1998, follows:

| Year Ending June 30, | Amount |
|---|---|
| 1999 | $133,749 |
| 2000 | 97,110 |
| 2001 | 62,816 |
| 2002 | 15,890 |
| 2003 | 15,890 |
| Later years | 14,566 |
| Total | $340,021 |

At June 30, 1998, 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 benefits which can be utilized in future periods or partially paid upon separation from employment. VIT has recorded a liability of $1,726,546 at June 30, 1998 to the extent of the benefits that are payable. VIT is also contingently liable for sick leave of $2,497,000 at June 30, 1998, representing amounts employees could utilize during their period of employment.

As of June 30, 1998, VIT is committed to payments totaling approximately $1,302,000 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.

## 10. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Employees of the Authority are employees of the Commonwealth. The employees 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.

Virginia International Terminals, Inc., a component unit of the Authority, has a noncontributory defined benefit pension plan that covers substantially all nonunion employees with one month or more of service. Benefits are based on years of service and compensation during active employment. Net periodic pension costs are based on the provisions of Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions." The company's policy is to fund annually the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Information related to this plan is available in VIT's audited financial report dated August 7, 1998.

VIT also sponsors a noncontributory supplemental plan covering certain key employees. The company's current policy is not to fund the costs of that plan. Assets of $1,245,578 have been allocated for future benefit payments under the provisions of the supplemental plan and the accrued liability was $1,253,999 as of June 30, 1998.

## 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.

VIRGINIA PORT AUTHORITY
Norfolk, Virginia

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