VIRGINIA PORT AUTHORITY

NORFOLK, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2001

APA

Auditor of
Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Port Authority for the year ended June 30, 2001, found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 2001, 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;

  - ➢ Provide Adequate Oversight of Capital Projects and Mitigate Possible Conflict of Interest

  - ➢ Assign Appropriate Levels of Access

  - ➢ Update Disaster Recovery and Emergency Plans

  - ➢ Strengthen Controls Over Travel Reimbursements

  - ➢ Strengthen Controls Over Charge Card Program

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

- T A B L E O F C O N T E N T S -

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

December 3, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

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

Board of Commissioners
Virginia Port Authority

We have audited the accounts and records of the **Virginia Port Authority** as of and for the year ended June 30, 2001, 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, a component unit of the Commonwealth of Virginia, as of June 30, 2001, 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 $62,285,580 as of June 30, 2001, and total revenues of $134,569,051 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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, 2001, and the results of its operations and cash flows of its proprietary fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

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."

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.

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 January 8, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Provide Adequate Oversight of Capital Projects and Mitigate Possible Conflict of Interest

The Port Authority awarded two sole source contracts for project management and general capital project consulting to the same engineering firm that already had several on-going capital project contracts. Each contract totals $1.5 million and has a two-year term. We believe the project management contract may provide a situation that presents a possible conflict of interest on the part of the vendor since the vendor will be supervising and reviewing its own work.

Because of an increased construction workload, management decided to outsource the engineering department function. Since the engineering firm was familiar with the Port Authority's operations and needs, management sole-sourced the project management and general consulting on capital projects to this firm in July 2000. In the past two years, the engineering firm received work under eight sole source contracts totaling over $9 million.

The Port Authority staff does not have the expertise to oversee the contract and resolve any differences between the engineering firm acting as both the contractor and overseer of contracts. Compounding this problem is that management does not require detailed accounting of the hours the vendor charges to the various on-going capital projects.

We found where two vendor representatives charged hours to a harbor deepening project while at the same time charging hours as program managers for that same project. The lack of detailed billing information prevented us from determining the appropriateness of the bill.

Also, we noted that the Port Authority failed to document the reasons for increasing the price of three contracts with this same vendor. The increases ranged from $25,000 to $150,000 and effectively increased each contract by at least 100 percent without documenting adequate justification.

Management should implement effective oversight procedures to mitigate this contractual arrangement as soon as possible and should avoid similar situations in the future.

Assign Appropriate Levels of Access

Because the Port Authority grants access rights by operational area rather than by individual job responsibilities, several employees in the Human Resources and Finance sections can update payroll information in Dynamics, the agency's automated accounting system, even though their individual job responsibilities do not routinely involve payroll functions. The Port Authority should change the procedures for granting employees systems security access from the current blanket approach to a more appropriate individual employee as-needed basis.

Update Disaster Recovery and Emergency Plans

The Port Authority's Disaster Recovery Plan does not address the Dynamics automated system. The lack of a written plan that addresses all critical automated systems threatens the continuity of mission-essential functions during periods of disaster or other emergencies. The Port Authority should update the Disaster Recovery Plan to adequately address all critical automated systems including Dynamics.

We also noted that the Port Authority's back-up procedures do not provide for storing automated systems back-up tapes in a secure, fireproof, offsite location. Back-up tapes are currently stored onsite at the Port Authority's offices in an unsecured location that may be unnecessarily susceptible to unauthorized intrusion. The Port Authority should revise systems back-up procedures immediately to help enhance the safe and secure storage of data back-up tapes.

Strengthen Controls Over Travel Reimbursements

The Port Authority has exceptions to state travel regulations to provide agency personnel with maximum flexibility while on official business for marketing purposes that involve prospective clients. However, these exceptions do not alleviate the agency's responsibility for safeguarding against reimbursing unnecessary or disallowed travel expenses.

As indicated by the following, the Port Authority needs to strengthen controls on travel reimbursements.

- On three of the travel reimbursements tested, employees claimed meal per diem even though one individual paid for the meal and claimed the costs for reimbursement. We found that in a five-day period the Port Authority paid for 12 meals totaling $276 in this manner.
- Employees may claim, "entertainment expenses commonly borne by business" while dining with prospective clients. However, we found that employees incurred and then requested reimbursement for such expenses when not dining with prospective or actual clients.
- Employees receive a per-diem payment for incidental expenses and in certain circumstances may ask for direct reimbursement, however the employee cannot claim both reimbursements. We found that employee travel vouchers included reimbursement claims for both actual incidental expenses as well as the per diem for incidentals.
- On two vouchers, employees failed to subtract their normal commuting distance from the total mileage claimed while on non-routine business travel, which is a state requirement.

Management should review and strengthen procedures to ensure employees comply with travel regulations. Management should also develop a process to effectively track travel reimbursement claims to ensure that separate employees cannot concurrently seek reimbursement for the same expenses. Requiring compliance with travel regulations will significantly reduce the risk of fraudulent charges and ensure that reimbursed travel expenses are proper.

Strengthen Controls Over Charge Card Program

We found 12 instances where employees split orders to vendors for goods or services. The cumulative total of purchases ordered exceeded the employee's small purchase charge card maximum limits by up to $4,300. Order splitting negates the controls designed to limit an employee's maximum transaction amounts.

Management should adequately train employees in the proper use of small purchase charge cards as outlined in the Authority's Purchasing Policies and Procedures. Also, supervisors should carefully review cardholder purchases for any order splitting to circumvent transaction limits and take appropriate action when they detect such practices.

FINANCIAL STATEMENTS

VIRGINIA PORT AUTHORITY
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNIT
As of June 30, 2001

	Governmental Funds			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Cash and cash equivalents:				
In bank	$ -	$ 12,202,709	$ -	$ -
Restricted	-	-	-	-
With Treasurer of Virginia	-	196,448	-	18,012,818
Held by trustee	-	-	1	1
Investments:				
Short-term investments (Note 3)	-	-	22,355,031	11,517,377
Long-term investments (Note 3)	-	-	1,698,539	-
Collateral held for securites lending	-	-	-	2,819,964
Accounts receivable				
Trade receivables, less allowance for doubtful accounts	-	76,171	-	-
Trust fund taxes receivables	-	-	-	2,936,411
Other receivables	-	-	-	-
Accrued interest receivable	-	-	488,827	-
Due from operating company	-	2,120,761	-	-
Reimbursable expenditures	-	25,345	-	-
Advance travel and other expenses	-	61,077	-	-
Deposit for rent	-	52,311	-	-
Inventories	-	-	-	-
Prepaid expenses and other	-	-	-	-
Prepaid interest	-	-	8,617	-
Intangible pension asset (Note 8)	-	169,875	-	-
Fixed assets (Note 4)	-	-	-	-
Other debits:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of long-term debt	-	-	-	-
Amount to be provided for compensated absences	-	-	-	-
Supplemental pension plan assets at market value (Note 8)	-	-	-	-
Total assets and other debits	$ -	$ 14,904,697	$ 24,551,015	$ 35,286,571
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	$ -	$ 1,732,461	$ -	$ 3,778,699
Retainage payable	-	-	-	1,198,079
Payroll withholdings	-	45,319	-	-
Bonds payable - maturing July 1, 2001	-	-	10,245,000	-
Interest payable - maturing July 1, 2001	-	-	5,291,897	-
Obligations under securities lending	-	-	-	2,819,964
Due to Virginia Port Authority	-	-	-	-
Bonds payable (Note 5)	-	-	-	-
Installment purchases (Note 5)	-	-	-	-
Contracts payable (Note 5)	-	-	-	-
Accrued liabilities:				
Pension plan (Note 8)	-	193,239	-	-
Compensated absences (Notes 5 and 7)	-	-	-	-
Union benefits	-	-	-	-
Payroll and other	-	624,926	-	-
Worker's compensation claims (Note 9)	-	-	-	-
Employee health claims	-	-	-	-
Other liabilities:				
Workers' compensation claims, noncurrent portion (Note 9)	-	-	-	-
Supplemental pension plan accrued liabilities (Note 8)	-	-	-	-
Compensated absences noncurrent portion (Note 7)	-	-	-	-
Total liabilities	-	2,595,945	15,536,897	7,796,742
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings	-	-	-	-
Fund balance:				
Reserve for construction	-	-	-	27,489,829
Reserve for debt service	-	-	9,014,118	-
Unreserved:				
Undesignated	-	12,308,752	-	-
Total equity and other credits	-	12,308,752	9,014,118	27,489,829
Total liabilities, equity and other credits	$ -	$ 14,904,697	$ 24,551,015	$ 35,286,571

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

Account Groups		Total Primary	Component Unit	Total Reporting
General Fixed Assets	General Long-Term Debt	Government (Memorandum Only)	Virginia International Terminals, Inc.	Entity (Memorandum Only)
$ -	$ -	$ 12,202,709	$ 3,104,631	$ 15,307,340
-	-	-	5,885,504	5,885,504
-	-	18,209,266	-	18,209,266
-	-	2	-	2
-	-	33,872,408	9,581,094	43,453,502
-	-	1,698,539	-	1,698,539
-	-	2,819,964	-	2,819,964
-	-	76,171	14,254,036	14,330,207
-	-	2,936,411	-	2,936,411
-	-	-	46,415	46,415
-	-	488,827	-	488,827
-	-	2,120,761	-	2,120,761
-	-	25,345	-	25,345
-	-	61,077	-	61,077
-	-	52,311	-	52,311
-	-	-	7,250,276	7,250,276
-	-	-	6,955,298	6,955,298
-	-	8,617	-	8,617
-	-	169,875	-	169,875
569,620,767	-	569,620,767	13,432,404	583,053,171
-	9,014,118	9,014,118	-	9,014,118
-	185,851,314	185,851,314	-	185,851,314
-	553,777	553,777	-	553,777
-	-	-	1,775,922	1,775,922
$569,620,767	$195,419,209	$839,782,259	$ 62,285,580	$902,067,839
$ -	$ -	$ 5,511,160	$ 2,034,141	$ 7,545,301
-	-	1,198,079	-	1,198,079
-	-	45,319	138,227	183,546
-	-	10,245,000	-	10,245,000
-	-	5,291,897	-	5,291,897
-	-	2,819,964	-	2,819,964
-	-	-	2,120,761	2,120,761
-	187,385,000	187,385,000	-	187,385,000
-	6,679,465	6,679,465	-	6,679,465
-	800,967	800,967	-	800,967
-	-	193,239	-	193,239
-	553,777	553,777	1,803,841	2,357,618
-	-	-	607,772	607,772
-	-	624,926	794,499	1,419,425
-	-	-	3,898,000	3,898,000
-	-	-	350,000	350,000
-	-	-	11,270,000	11,270,000
-	-	-	2,003,963	2,003,963
-	-	-	1,040,533	1,040,533
-	195,419,209	221,348,793	26,061,737	247,410,530
569,620,767	-	569,620,767	-	569,620,767
-	-	-	9,971,748	9,971,748
-	-	-	26,252,095	26,252,095
-	-	27,489,829	-	27,489,829
-	-	9,014,118	-	9,014,118
-	-	12,308,752	-	12,308,752
569,620,767	-	618,433,466	36,223,843	654,657,309
$569,620,767	$195,419,209	$839,782,259	$ 62,285,580	$902,067,839

VIRGINIA PORT AUTHORITY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 2001

	General	Special Revenue	Debt Service	Capital Projects	Total (Memorandum Only)
Revenues:					
Revenue provided by the General Fund of the Commonwealth	2,000,000	-	-	-	2,000,000
Rental income	-	976,436	-	-	976,436
Interest income	-	363,575	1,365,154	2,064,064	3,792,793
Miscellaneous income	-	132,980	-	305,357	438,337
Proceeds from securities lending transactions	-	-	-	76,447	76,447
Proceeds from issuance of long term debt	-	-	-	4,963,000	4,963,000
Insurance proceeds	-	1,123,687	-	-	1,123,687
Trust fund taxes	-	-	-	29,447,966	29,447,966
Total revenues	2,000,000	2,596,678	1,365,154	36,856,834	42,818,666
Expenditures:					
Commerce and Agriculture Markets					
Development and Improvements:					
Commerce advertising	-	907,233	-	-	907,233
National and international trade services	-	8,007,887	-	-	8,007,887
Port traffic rate management	-	165,953	-	-	165,953
Water Transportation Systems Planning:					
Port facilities planning	-	167,999	-	-	167,999
Port and Port Facility Management:					
Maintenance of ports and facilities	500,000	197,028	-	5,893,694	6,590,722
Port Facility Acquisition:					
Interest	-	223,963	10,619,718	-	10,843,681
Principal	-	803,522	10,322,811	-	11,126,333
Security services	-	3,902,825	-	-	3,902,825
Terminal administration	-	3,091,098	-	-	3,091,098
Financial assistance to local ports	-	910,888	-	-	910,888
Capital projects	1,500,000	-	-	24,063,452	25,563,452
Trustee fees	-	-	1,190	-	1,190
Payments for securities lending transactions	-	-	-	73,165	73,165
Indirect costs	-	-	-	47,600	47,600
Total expenditures	2,000,000	18,378,396	20,943,719	30,077,911	71,400,026
Excess (Deficiency) of revenues over (under) expenditures	-	(15,781,718)	(19,578,565)	6,778,923	(28,581,360)
Other financing sources (uses):					
Operating transfers in	-	6,107,670	18,810,079	1,123,687	26,041,436
Operating transfers out	-	(7,249,799)	-	(18,791,637)	(26,041,436)
Transfers from operating company (Note 6)	-	24,538,914	-	-	24,538,914
Capital contributions - operating company	-	-	-	1,841,033	1,841,033
Transfers to operating company	-	(1,587,000)	-	-	(1,587,000)
Transfer to the General Fund of the Commonwealth	-	(27,155)	-	(63,845)	(91,000)
Total other financing sources/(uses)	-	21,782,630	18,810,079	(15,890,762)	24,701,947
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other uses	-	6,000,912	(768,486)	(9,111,839)	(3,879,413)
Fund balance July 1, 2000	-	6,307,840	9,782,604	36,601,668	52,692,112
Fund balance June 30, 2001	$ -	$ 12,308,752	$ 9,014,118	$ 27,489,829	$ 48,812,699

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, 2001

	General Fund			Special Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Rental income	$ -	$ -	$ -	$ 975,836	$ 1,055,964	80,128
Interest income	-	-	-	130,000	363,575	233,575
Miscellaneous income	-	-	-	130,000	136,864	6,864
State appropriations	2,000,000	2,000,000	-	-	-	-
Total revenues	2,000,000	2,000,000	-	1,235,836	1,556,403	320,567
Expenditures:						
Commerce and Agriculture Markets Developments and Improvements:						
Commerce advertising	-	-	-	950,000	831,127	118,873
National and international trade services	-	-	-	8,515,654	8,149,428	366,226
Port traffic rate management	-	-	-	176,168	174,178	1,990
Water Transportation System Planning:						
Port facilities planning	-	-	-	386,378	183,072	203,306
Port and Port Facility Management:						
Maintenance of ports and facilities	500,000	500,000	-	212,310	210,306	2,004
Port Facilities Acquisition:						
Principal and interest	-	-	-	1,027,486	1,027,485	1
Security services	-	-	-	3,882,264	3,880,999	1,265
Terminal administration	-	-	-	3,465,000	3,353,182	111,818
Financial assistance to local ports	-	-	-	2,365,382	934,363	1,431,019
Capital projects	1,500,000	1,500,000	-	-	-	-
Total expenditures	2,000,000	2,000,000	-	20,980,642	18,744,140	2,236,502
Excess (Deficiency) of revenues over (under) expenditures	-	-	-	(19,744,806)	(17,187,737)	2,557,069
Other financing sources/(uses):						
Operating transfers in	-	-	-	7,571,788	7,472,698	(99,090)
Operating transfers out	-	-	-	(6,968,179)	(6,126,112)	842,067
Transfers from operating company	-	-	-	18,960,000	22,981,273	4,021,273
Transfers to operating company	-	-	-	-	(1,587,000)	(1,587,000)
Transfer to the General Fund of the Commonwealth	-	-	-	-	(27,155)	(27,155)
Total other financing sources/(uses)	-	-	-	19,563,609	22,713,704	3,150,095
Excess (Deficiency) of revenue and other sources over (under) expenditures and other uses	-	-	-	(181,197)	5,525,967	5,707,164
Fund balance as of July 1, 2000	-	-	-	6,873,190	6,873,190	-
Fund balance as of June 30, 2001	$ -	$ -	$ -	$ 6,691,993	$ 12,399,157	$ 5,707,164

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, 2001

Operating revenues	$ 134,569,051
Operating expenses	76,125,487
Net operating revenues after operating expenses	58,443,564
Maintenance expenses	24,496,310
Accounting, general and administrative expenses	12,329,327
Total other expenses	36,825,637
Excess of revenue over expenses before transfers to Virginia Port Authority	21,617,927
Transfers from Virginia Port Authority	1,587,000
Transfers to Virginia Port Authority:	
Operating	25,195,575
Improvements	1,590,033
Total transfers to Virginia Port Authority	26,785,608
Excess (Deficiency) of revenues over expenses after transfers to Virginia Port Authority	(3,580,681)
Retained earnings, July 1, 2000	29,832,776
Retained earnings, June 30, 2001	$ 26,252,095

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, 2001
Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:	
Cash received from customers	$ 135,122,095
Cash payments for goods and services	(51,915,014)
Cash payments to employees	(57,148,142)
Net cash provided by operating activities	26,058,939
Cash flows from noncapital financing activities:	
Cash transfers from VPA	1,587,000
Cash transfers to VPA	(23,386,934)
Net cash used in noncapital financing activities	(21,799,934)
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	12,375
Acquisition of capital assets	(3,229,611)
Construction of leasehold improvements transferred to VPA	(1,590,033)
Net cash used in capital and related financing activities	(4,807,269)
Cash flows from investing activitites:	
Decrease in receivable from Virginia Port Authority	464,606
Interest received	1,309,686
Decrease in short-term investments, restricted	870,744
Net cash provided by (used in) investing activities	2,645,036
Net increase (decrease) in cash and cash equivalents (including restricted amounts)	2,096,772
Cash and cash equivalents at July 1, 2000	6,893,363
Cash and cash equivalents at June 30, 2001	$ 8,990,135
Reconciliation of excess of revenues over expenses before transfers to net cash provided by operating activities:	
Excess of revenue over expenses before transfers	$ 21,617,927
Adjustments to reconcile excess of revenues over expenses before transfers to net cash provided by operating activities:	
Depreciation	4,233,976
Provision for losses on accounts receivable	201,332
Loss on disposal of assets	42,445
Proceeds from sale of capital assets	(12,375)
Interest income	(1,309,686)
Changes in assets and liabilities:	
Trade receivables	2,120,479
Other receivables	(17,936)
Inventories	224,800
Prepaid expenses and other	(1,190,610)
Supplemental pension plan assets	377,223
Accounts payable	(402,195)
Payroll withholdings	110,358
Accrued expenses	95,978
Accrued payroll and other	(41,156)
Supplemental pension plan accrued liability	8,379
Net cash provided by operating activities	$ 26,058,939
Supplemental schedule of noncash investing and financing activity:	
Trade-ins of used equipment on new equipment	$ 7,458
Capital contribution of repair parts inventory	$ 1,024,579
Fixed assets transferred to Virginia Port Authority	$ 251,000

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, 2001

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, 2001. 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, 2002. 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, 2001	$12,399,157
Adjustments:	
Accrued revenues on GAAP basis	2,505,540
Accrued expenditures on GAAP basis	(2,595,945)
Fund balance on GAAP basis - June 30, 2001	$12,308,752

3. CASH AND INVESTMENTS

A. Cash With the Treasurer of Virginia

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

B. Cash, Cash Equivalents, and Investments

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

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

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

The Authority's investments are categorized below to give an indication of the level of credit risk assumed by the Authority at June 30, 2001. Credit risk is the risk that the Authority may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the Authority or its safekeeping agent in the Authority's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the Authority's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the Authority's name. The Authority had no investments in categories 2 and 3.

	Category 1	Fair Value
Short-Term Investments:		
Repurchase Agreements	$ 6,859,024	$ 6,859,024
Commercial Paper	3,301,921	3,301,921
U. S. Government Securities	11,363,114	11,363,114
Total Short-Term	$21,524,059	$21,524,059
Long-Term Investments:		
U. S. Government Securities	1,698,539	1,698,539
Total	$23,222,598	$23,222,598
Mutual, Money Market Funds		12,348,349
Total Investments		$35,570,947

As of June 30, 2001, Virginia International Terminals, Inc. held cash equivalents and investments comprised of money market instruments, U.S. Treasury and Agency Securities, and Corporate Bonds totaling $8,985,635, $7,084,877, and $2,496,217, respectively, which are in the credit risk category 3.

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

4. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	$ 91,745,019	$ -	$ -	$ 91,745,019
Buildings	53,138,774	1,537,695	-	54,676,469
Improvements other than buildings	194,739,169	7,862,677	-	202,601,846
Equipment	115,364,832	29,789,483	5,081,793	140,072,522
Construction in progress	89,350,573	27,394,774	37,832,693	78,912,654
Leasehold improvements	1,612,257	-	-	1,612,257
Total	$545,950,624	$66,584,629	$42,914,486	$569,620,767

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	$30,811,006
Automobiles and trucks	4,825,515
Data processing equipment	7,704,529
Other furniture and fixtures	1,141,828
Total	44,482,878
Less: Allowance for Depreciation	31,050,474
Net	$13,432,404

5. LONG-TERM DEBT

A. Changes in Long-Term Indebtedness

A summary of changes in long-term indebtedness follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Revenue bonds	$197,630,000	$ -	$10,245,000	$187,385,000
Installment purchases	2,616,791	4,963,000	900,326	6,679,465
Contracts	814,311	-	13,344	800,967
Compensated absences	588,957	-	35,180	553,777
Total	$201,650,059	$4,963,000	$11,193,850	$195,419,209

B. Details of Long-Term Indebtedness

	Balance as of June 30, 2001

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 $1,460,000 to $2,515,000 with interest of 5.25 percent to 5.75 percent payable semiannually, the final installment due in 2012. Term bonds issued in the principal amount of $11,590,000 with interest of 5.925 percent are due in 2016. The bonds are payable primarily from the Commonwealth Port Fund to which the General Assembly has appropriated revenues for the 2000-2002 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.	$ 33,060,000

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 $1,725,000 to $2,885,000 with interest of 4.50 percent to 6.00 percent payable semiannually, the final installment due in 2012. Term bonds issued in the principal amounts of $17,025,000, $33,090,000, and $18,460,000 with interest of 5.65 percent, 5.50 percent, and 5.60 percent are due in 2017, 2024, and

2027, respectively. The bonds are payable from net revenues of the Authority.	93,325,000
On April 2, 1998, Commonwealth Port Fund Revenue Refunding Bonds, dated April 1, 1998, were issued in the principal amount of $71,015,000. The bonds are payable in annual installments varying from $7,525,000 to $10,085,000 with interest of 4.60 percent to 5.50 percent payable semiannually, the final installment due in 2008. These bonds were issued to refund the outstanding principal amount of the Series 1988 Bonds of the Authority and are payable on a parity with outstanding Series 1996 Bonds. The bonds are payable primarily from the Commonwealth Port Fund. Such revenues currently consist of a portion of the additional revenues derived from certain increases in motor vehicle fuel taxes, sales and use taxes, and annual motor vehicle registration fees.	61,000,000
Total revenue bonds	187,385,000
Installment Purchases:	
A 30-year lease dated November 4, 1975, between the Virginia Port Authority and the City of Portsmouth has been treated for accounting purposes as an installment purchase of property. Terms of the lease require quarterly rental payments totaling $112,280 annually, including interest at an imputed interest rate of approximately 7.9 percent.	387,454
A contract dated December 20, 1996, for the lease purchase of terminal equipment totaling $3,810,000 with initial payment of $57,090 and monthly payments of $54,760 for a period of seven years at an interest rate of 5.51 percent.	1,578,993
A contract dated November 20, 2000, for the lease purchase of terminal equipment totaling $4,963,000 with initial payment of $90,398 and monthly payments of $69,992 for a period of seven years at an interest rate of 4.934 percent.	4,713,018
Total installment purchases	6,679,465
Contracts:	
Department of the Army	
A contract dated May 15, 1986, for the construction of certain harbor projects to increase the depth of shipping channels at Hampton Roads totaling $928,077. The agreement requires annual payments for a period of 30 years including interest at the current Treasury rate, plus 1/8 of 1 percent for transaction costs beginning May 1997. Every 5	

years the interest rate will be recalculated using the Treasury rate in effect at that time.	800,967

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, 2001, 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.	553,777
Total long-term indebtedness	$195,419,209

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, 2001, follows:

Year Ending June 30,	Revenue Bonds	Installment Purchases	Contracts Payable
2002	$ 20,829,979	$ 1,609,306	$ 68,310
2003	20,837,254	1,609,305	68,310
2004	20,834,200	1,335,507	68,310
2005	20,834,250	952,188	68,310
2006	20,838,200	849,265	68,310
Later years	198,627,258	1,329,853	1,297,890
Total	$ 302,801,141	$ 7,685,424	$ 1,639,440
Less:			
Interest	115,416,141	1,005,959	838,473
Net	$ 187,385,000	$ 6,679,465	$ 800,967

6. RENT OF TERMINAL FACILITIES AND EQUIPMENT

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

News Marine Terminal, Norfolk International Terminals, and Portsmouth Marine Terminal, respectively, were assigned to VIT.

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

Transfers per VIT	$25,195,575
Adjustments:	
Payments recorded as expenditure reimbursements	(405,661)
Equipment transferred	(251,000)
Transfers from operating company	$24,538,914
Improvements per VIT	$ 1,590,033
Adjustments:	
Equipment transferred	251,000
Capital contributions - operating company	$ 1,841,033

7. COMMITMENTS

As of June 30, 2001, the Authority has commitments to construction contracts totaling $65,177,358 of which $53,887,571 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 $307,098 for the year. A summary of future obligations under lease agreements as of June 30, 2001, follows:

Year Ending June 30,	Amount
2002	$152,549
2003	102,506
2004	100,911
2005	83,362
2006	55,734
Total	$495,062

At June 30, 2001, VIT has a letter of credit issued in the amount of $6,500,000 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 $2,844,374 at June 30, 2001 to the extent of the benefits that are payable. VIT is also contingently liable for sick leave of $5,708,232 at June 30, 2001, representing amounts employees could utilize during their period of employment.

As of June 30, 2001, VIT is committed to payments totaling approximately $1,845,000 on outstanding purchase orders for computer equipment and maintenance inventory and services.

8. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

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

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

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

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

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

	2001	2000	1999
Service cost-benefits earned during the year	$112,863	$ 54,916	$34,472
Interest on projected benefit obligation	33,107	4,848	1,992
Expected return on assets	3,256	(68)	(1,426)
Net amortization and deferral	17,030	(580)	506
Annual pension cost	166,256	59,116	35,544

Contributions made	(186,023)	(51,529)	-
Additional minimum liability	(47,666)	217,541	-
Increase (decrease) in pension obligation	(67,433)	225,128	35,544
Pension obligation, beginning of year	260,672	35,544	-
Net pension obligation	$193,239	$260,672	$35,544

The annual pension cost for the current year was determined as part of the September 2001, actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Actual value of assets was determined using market value. The discount rate used in determining the actuarial present value of the projected benefit obligations was 7.5 percent in 2001, 8 percent in 2000, and 7 percent in 1999. The estimated rate of increase in future compensation levels used was 5 percent. The expected long-term rate of return on assets used in determining net periodic pension cost was 8 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Company's balance sheets at June 30, 2001, 2000, and 1999.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
June 30, 2001	$ 166,256	112%	$ 193,239
June 30, 2000	$ 59,116	87%	$ 260,672
June 30, 1999	$ 35,544	0%	$ 35,544

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

The Authority also adopted a matching savings plan under Internal Revenue Code Section 401(a) that covers substantially all employees. The matching savings plan requires the Authority to match contributions in an amount equal to 50 percent of the first 6 percent of the participant's base pay contributed to the plan. The Authority's total contributions to the matching savings plan were $87,184 and $28,892 for the years ended June 30, 2001 and 2000, respectively.

The Virginia International Terminals, Inc. Pension Plan is a single employer, noncontributory defined benefit pension plan administered by Virginia International Terminals, Inc. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the Board of 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:

	2001	2000	1999
Service cost – benefits earned during the year	$ 935,000	$ 972,000	$ 986,000
Interest cost on projected benefit obligation	1,766,000	1,596,000	1,484,000
Expected return on assets	(2,898,000)	(2,614,000)	(2,358,000)
Net amortization and deferral	(496,000)	(363,000)	(136,000)
Annual pension cost (credit)	(693,000)	(409,000)	(24,000)
Contributions made	(249,000)	(193,500)	(192,000)
Increase in prepaid pension obligation	(942,000)	(602,500)	(216,000)
Prepaid pension obligation, beginning of year	(4,564,500)	(3,962,000)	(3,746,000)
Prepaid pension obligation, end of year	$ (5,506,500)	$ (4,564,500)	$ (3,962,000)

The annual pension cost for the current year was determined as part of the September 30, 2001 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The discount rate used in determining the actuarial present value of the projected benefit obligation was 8 percent in 2001, 7.5 percent in 2000, and 7 percent in 1999. The estimated rate of increase in future compensation levels used was 5 percent for all three years. The expected long-term rate of return on assets used in determining net periodic pension cost was 8 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, 2001, 2000, and 1999.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
June 30, 2001	$ (693,000)	0%	$ (5,506,500)
June 30, 2000	$ (409,000)	0%	$ (4,564,500)
June 30, 1999	$ (24,000)	0%	$ (3,962,000)

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 $1,775,922 and $2,153,145 in 2001 and 2000, respectively, have been allocated for future benefit payments under the provisions of the supplemental plans. The accrued liability was $2,003,963 and $1,995,584 as of June 30, 2001 and 2000, respectively.

In addition, VIT sponsors a deferred compensation plan and a matching savings plan under Internal Revenue Code Sections 457 and 401(a), respectively, that cover substantially all nonunion employees with 90 days or more of service. The matching savings plan requires VIT to match employee contributions in an amount equal to 50 percent of the first 3 percent of the participant's base pay contributed to the deferred compensation plan. VIT's total contribution to the matching savings plan was $236,456 and $233,163 for the years ended June 30, 2001 and 2000, respectively.

9. ACCRUED WORKERS' COMPENSATION COSTS

Included in accrued workers' compensation costs for VIT are a workers' compensation claims component and an accrued Department of Labor assessment component. The workers' compensation claims component consists of VIT's estimate of its continuing liability for injuries which occurred during periods of self-insurance. The balances at June 30, 2001 and 2000 are classified as follows:

	2001	2000
Workers' compensation claims	$3,020,000	$2,848,634
Workers' compensation claims, noncurrent portion	5,148,000	4,798,000
	$8,168,000	$7,646,634

The accrued Department of Labor (DOL) assessment component is VIT's estimate of the present value of its future liability to the Department of Labor for participation in the U. S. Department of Labor's Second Inquiry Fund. The total liability has been discounted using a rate of 8 percent. The undiscounted liability at June 30, 2001, totaled approximately $12,500,000. VIT expects to pay these assessments annually through 2034. The balances at June 30, 2001 and 2000 are classified as follows:

	2001	2000
Accrued DOL assessment	$ 878,000	$ 980,000
Accrued DOL assessment, noncurrent portion	6,122,000	6,472,000
	$7,000,000	$7,452,000

10. GASB 34 DISCLOSURE

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued June 1999, will be effective for the Virginia Port Authority for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. Management will be required to provide a management's discussion and analysis that gives readers an analysis of the agency's overall financial position and results of operations including a comparison of current year results with the prior year. Governmental units will continue to provide budgetary information in their reports; however, under this Statement, they will be required to provide the government's original budget as well as the final budget and actual results. The Virginia Port Authority has completed its assessment of the changes required by this Statement and is preparing for implementation.

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VIRGINIA PORT AUTHORITY
Norfolk, Virginia

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