VIRGINIA PORT AUTHORITY
NORFOLK, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2002

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

VIRGINIA PORT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2002

Our discussion and analysis of the Virginia Port Authority's (the Authority's) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the Authority's financial statements and notes to the financial statements. Virginia International Terminals, Inc. (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. The financial statements of VIT were audited by other auditors. VIT's Management Discussion and Analysis is included in those audited financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of fiscal year 2002 by $254.8 million. Of this amount, $216.3 is invested in capital assets net of related debt, $10.0 is restricted for debt service, and $28.4 million is unrestricted and may be used to meet the Authority's ongoing obligations to creditors.

- The Authority's net assets increased by $4.6 million. Governmental activity expenses exceeded program revenues by $28.4 million. However, an operating payment from the Commonwealth of Virginia's Transportation Trust Fund offset the difference.

- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of $54.7 million, an increase of $5.9 million in comparison with prior year. Approximately $9.7 million of this total amount is unrestricted and available to meet the Authority's ongoing obligations to creditors or for spending, subject to availability of appropriation.

- The Authority's total long-term debt decreased by $11.6 million, primarily as a result of principal payments on the Authority's long-term debt.

- The Authority received $9.0 million in settlement of a construction litigation dispute. The proceeds are being used to offset the additional costs incurred to complete the paving project.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The *fund financial statements* tell how the current operations of the Authority were financed in the short term as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide statements by providing information about the Authority's most significant funds.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the performance of the Authority's component unit, Virginia International Terminals, Inc. (VIT), and the physical condition of the assets to assess the overall health of the Authority.

In the Statement of Net Assets and the Statement of Activities, we divide the Authority into two kinds of activities:

- Governmental activities – The primary activities reported here include terminal operation and maintenance, resources and economic development, interest and charges on long-term debt, and securities lending transactions. Fees to customers, the operating payment from the Transportation Trust fund of the Commonwealth, and payments from VIT finance the majority of these activities.

- Component units – The Authority includes a separate legal entity in its report, Virginia International Terminals, Inc. (VIT). Although legally separate, VIT is important because the Authority receives a large portion of its financing from VIT and is financially accountable for its activities.

The Authority does not currently have any business-type activities.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not necessarily the Authority as a whole. The Authority has one primary type of fund - governmental. All of the Authority's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Authority's general operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations located at the Balance Sheet - Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1
Net Assets
(in Millions)

	Virginia Port Authority Primary Government(1)	
	2002	2001
Current and other assets	$ 78.9	$ 74.7
Capital assets	383.3	396.8
Total assets	462.2	471.5
Current Liabilities	24.9	27.0
Long-term liabilities	182.5	194.3
Total liabilities	207.4	221.3
Net assets:		
Invested in capital assets, net of debt	216.3	212.4
Restricted for debt service	10.1	9.8
Unrestricted	28.4	28.0
Total net assets	$ 254.8	$ 250.2

(1) All activities at the Virginia Port Authority are governmental activities.

Capital assets decreased $13.5 million, primarily due to depreciation expense of $16.8 million, less net capital asset additions. Fiscal year 2002 was a transition period for the Authority with regards to capital projects. A major renovation effort at Norfolk International Terminals (NIT)–North was substantially completed, and the planned renovation of NIT-South was in the design phase. Long-term liabilities decreased $11.8 million, primarily due to principal payments on the Authority's long-term debt.

Table 2
Changes in Net Assets
(in Millions)

	Virginia Port Authority Primary Government	
	2002	2001
Revenues:		
Program revenues:		
Charges for services	$ 20.7	$ 26.2
Capital grants and contributions	-	2.0
General revenues:		
Operating Payment from the Commonwealth	32.0	31.5
Investment Earnings	1.8	3.8
Total revenues	54.5	63.5
Program expenses		
Operations and maintenance	38.6	35.7
Interest and charges on long-term debt	10.4	10.8
Securities lending transactions	0.1	0.1
Total expenses	49.1	46.6
Capital payments to VIT	.8	1.0
Increase (decrease) in net assets	$ 4.6	$ 15.9

Charges for services primarily represent operating payments from VIT, which are based on net VIT revenues on a cash basis, and can fluctuate annually. Operating payments were negatively affected in 2002 as a result of VIT fully funding a debt covenant cash reserve and an early retirement offer accepted by certain employees.

In 2001, the Authority received a capital contribution from the General Fund of Virginia in the amount of $2.0 million to fund a Craney Island feasibility study and preliminary work on dredging the inbound channel of Hampton Roads to a depth of 50 ft. No such capital contribution was received in 2002.

General revenues consist of an operating payment from the Commonwealth's Transportation Trust Fund and interest earned on investments. General revenues were $33.8 million and $35.3 million in 2002 and 2001, respectively. General revenues were negatively affected in 2002 by the significant decrease in short-term interest rates nationally, and the use of cash and investments to pay debt service.

Operations and maintenance expenses were $38.6 million and $35.7 million in 2002 and 2001, respectively. The increase was primarily due to the shift in focus from capital projects to maintenance projects, which do not qualify for capitalization.

FUND FINANCIAL STATEMENT ANALYSIS

Major changes in individual fund activity and fund balances are summarized as follows:

In 2001 the Authority received funds from the General Fund of Virginia to fund certain capital projects. No such funds were received for 2002.

Interest income for all funds was $1.8 million and $3.8 million for the years ended June 30, 2002 and 2001, respectively. The decrease in interest income was due primarily to the substantial decrease in short-term interest rates, which comprise the majority of the Authority's financial holdings, the use of cash and investment funds for debt service, and lower revenues and contributions received from other sources.

In 2001 the Authority received $4.9 million from the issuance of long-term debt to finance the purchase of eight straddle carriers. In addition, in 2001 the Authority received insurance proceeds in the amount of $1.1 million as a result of accidents involving two straddle carriers. No such transactions took place in 2002.

In 2002, the Authority received $9.0 million in proceeds from the settlement of a pavement litigation lawsuit. No such transaction took place in 2001.

Capital project expenditures were $12.1 million and $25.6 million for the years ended June 30, 2002 and 2001, respectively. Fiscal year 2002 was a transition period for the Authority with regards to capital projects. A major renovation effort at Norfolk International Terminals (NIT)–North was substantially completed, and the renovation of NIT-South was in the design phase.

Payments from VIT were $20.5 million and $24.5 million, and payments to VIT were $4.6 million and $1.6 million, for the years ended June 30, 2002 and 2001, respectively. Operating payments were negatively affected in 2002 as a result of VIT fully funding a debt covenant cash reserve and an early retirement offer accepted by certain employees.

Table 3
Special Fund Budget vs Actual Analysis

	Original Budget	Final Appropriated Budget		Actual	Variance Favorable (Unfavorable)	
Expenditures:						
Commerce & Agriculture Markets:						
Developments & Improvements:						
Commerce Advertising	$ 950,000	$ 950,000		$ 915,299	$ 34,701	
National & Int'l Trade Services	7,301,476	8,547,924	[1,2]	8,181,970	365,954	[3]
Port Traffic Rate Management	177,028	177,028		144,191	32,837	
Water Transportation System Planning:						
Port Facilities Planning	588,760	388,760	[1,2]	126,003	262,757	[4]
Port & Port Facility Management:						
Maintenance of Ports & Facilities	1,002,000	152,000	[1]	98,915	53,085	
Port Facilities Acquisition	657,118	1,497,026	[1,2]	1,497,026	-	
Security Services	3,702,319	4,099,068	[1]	4,018,676	80,392	
Terminal Administration	365,000	1,980,000	[1,2]	1,753,459	226,541	[5]
Financial Assistance to Local Ports	800,000	2,231,018	[2]	1,113,242	1,117,776	[6]
Total Expenditures	$15,543,701	$20,022,824		$17,848,781	$2,174,043	

[1] - Final appropriated budget reflects appropriation transfers between programs.
[2] - Final appropriated budget reflects reappropriation of previous fiscal year unexpended funds available.
[3] - Decrease in National and International Trade Services expenditures from budget due to reduction in travel expenditures caused by the events of 9/11/01.
[4] - Decrease in Port Facilities Planning expenditures from budget due to temporary vacancies for three Engineering positions during FY 2002.
[5] - Decrease in Terminal Administration expenditures from budget due to reduction in the planned use of contracted management consultants.
[6] - Decrease in Financial Assistance to Local Ports due to grants awarded by VPA but not drawn down by localities.

There were no significant changes from original budget revenue estimates.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Authority's investment in capital assets as of June 30, 2002, amounts to $383.3 million (net of accumulated depreciation). This investment in capital assets primarily includes land, buildings, wharves, roads, drainage and lighting systems, and equipment. Major capital asset events during the current fiscal year included the following:

- The purchase and installation of a radio communications system in the amount of $2.4 million.
- Detail design work on renovations to NIT-South in the amount of $1.8 million.
- Dredging at the berth of Portsmouth Marine Terminal in the amount of $.8 million.

Long-term Debt. At the end of the current fiscal year, the Authority had $194.1 million in total long-term debt. Of this amount, $187.4 million is in the form of revenue bonds issued by the Authority. The 1996 and 1998 revenue bonds are backed by a sum sufficient appropriation from the Commonwealth of Virginia and carry a AA+ rating from Fitch Ratings, Inc. and Standard and Poor's, and a Aa1 rating from Moody's Investor Services. During the current fiscal year, Fitch raised the ratings on these bonds from AA to the current AA+. The 1997 revenue bonds are supported by terminal revenues and a MBIA insurance policy and carry a AAA rating from Fitch Ratings, Inc. and Standard and Poor's, and a AAa rating from Moody's Investor Services. No new debt was issued during the current fiscal year.

ECONOMIC FACTORS AND RECENT EVENTS

The Authority's capital projects, either directly or indirectly through bond issues, are primarily funded from the Commonwealth of Virginia's Transportation Trust Fund. The Authority receives 4.2 percent of Transportation Trust Fund collections, which are revenues generated primarily by state motor vehicle fuel and sales taxes. Trust Fund collections are subject to the economic conditions existing throughout the State, and are not controlled by the Authority.

In July 2002, the Authority issued $135 million in Commonwealth Port Fund Revenue Bonds. Proceeds from the sale of the bonds will be used to finance certain improvements to the southern portion of the Authority's Norfolk International Terminals, and to purchase security-related equipment.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money they receive. If you have any questions about this report or need additional financial information, contact the Authority's Finance Department at 600 World Trade Center, Norfolk, VA 23510.

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

November 7, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Commissioners
Virginia Port Authority

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Virginia Port Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2002, which collectively comprise the Port Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Port Authority's management. Our responsibility is to express opinions 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 $64,933,056 as of June 30, 2002, and total revenues of $130,177,148 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 opinions.

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 respective financial position of the governmental activities, the aggregate discretely presented component unit, and each major fund of the Virginia Port Authority as of June

30, 2002, the respective changes in financial position, and the respective budgetary comparison for the Special Revenue Fund thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the Port Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as of June 30, 2002.

The management's discussion and analysis on pages one through seven is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2002, on our consideration of the Port Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

DBC:whb
whb:52

FINANCIAL STATEMENTS

VIRGINIA PORT AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2002

	Primary Government	Component Unit
	Governmental Activities	Virginia International Terminals, Inc.
ASSETS		
Current assets:		
Cash in bank	$ 7,375,890	$ 3,192,479
Cash with Treasurer of Virginia	17,603,634	-
Restricted assets:		
Cash - restricted	-	10,058,312
Cash held by trustee	2,571,929	-
Investments (Note 3)	13,477,669	8,903,022
Investments held by Treasurer of Virginia	1,641,335	-
Accounts receivable, net	78,055	14,110,025
Trust fund taxes receivable	5,000,005	-
Other receivables	-	54,539
Due from operating company	2,386,115	-
Inventories	-	7,488,511
Prepaid expenses	5,404	7,195,102
Other current assets	107,254	488,500
Total current assets	50,247,290	51,490,490
Noncurrent Assets:		
Restricted assets:		
Cash in bank	1,437,520	-
Cash with Treasurer of Virginia	3,975	-
Cash held by trustee	2,007,889	-
Investments (Note 3)	24,273,819	-
Supplemental pension plan assets - market value (Note 9)	-	1,493,462
Intangible pension assets	859,547	-
Deposits for rent	52,173	-
Non-depreciable capital assets (Note 4)	166,108,003	-
Depreciable capital assets, net (Note 4)	217,202,799	11,949,104
Total noncurrent assets	411,945,725	13,442,566
Total assets	462,193,015	64,933,056
LIABILITIES		
Current liabilities:		
Bonds payable - maturing July 1, 2002 (Note 5)	10,710,000	-
Interest payable - maturing July 1, 2002	5,059,989	-
Accounts payable	4,773,840	3,167,440
Payroll withholdings	50,591	36,835
Obligations under securities lending	1,803,665	-
Due to Virginia Port Authority	-	2,386,115
Accrued expenses	664,856	1,550,719
Retainage payable	119,460	-
Current maturities of other long-term debt (Note 5)	1,762,341	4,227,989
Total current liabilities	24,944,742	11,369,098

	Primary Government	Component Unit
	Governmental Activities	Virginia International Terminals, Inc.
Noncurrent liabilities:		
Contracts payable (Note 5)	755,477	-
Installment purchases (Note 5)	4,028,192	-
Compensated absences (Notes 5 and 8)	151,949	1,139,141
Bonds payable (Note 5)	176,675,000	-
Workers compensation costs (Note 10)	-	9,090,802
Accrued pension obligation (Note 9)	867,180	1,838,332
Total noncurrent liabilities	182,477,798	12,068,275
Total liabilities	207,422,540	23,437,373
NET ASSETS		
Invested in capital assets, net of related debt	216,300,505	11,949,104
Restricted for debt service	10,045,282	18,961,334
Unrestricted	28,424,688	10,585,245
Total net assets	$ 254,770,475	$ 41,495,683

The accompanying Notes to the Financial Statements are an integral part of this statement.

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VIRGINIA PORT AUTHORITY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2002

			Net (Expense) Revenue and Changes in Net Assets	
		Program Revenues	Primary Government	Component Unit
Functions	Expenses	Charges for Services	Governmental Activities	Virginia International Terminals, Inc.
Primary government:				
Governmental activities				
Operations and maintenance	$ 38,591,802	$ 20,655,194	$ (17,936,608)	$ -
Interest and charges on long-term debt	10,442,365	-	(10,442,365)	-
Securities lending transactions	57,766	63,138	5,372	-
Total governmental activities	$ 49,091,933	$ 20,718,332	(28,373,601)	-
Component unit:				
Virginia International Terminals, Inc.	$125,718,217	$129,324,835	-	3,606,618
General revenues:				
Operating payment from the Commonwealth			31,986,627	-
Investment earnings			1,750,296	852,313
Capital payments			(812,909)	812,909
Total general revenues and transfers			32,924,014	1,665,222
Change in net assets			4,550,413	5,271,840
Net assets - beginning			250,220,062	36,223,843
Net assets - ending			$254,770,475	$ 41,495,683

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

VIRGINIA PORT AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2002

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents:				
In bank	$ 8,813,410	$ -	$ -	$ 8,813,410
With Treasurer of Virginia	733,334	-	16,874,275	17,607,609
Held by trustee	-	2,571,929	2,007,889	4,579,818
Investments:				
Held by Treasurer of Virginia	-	-	1,641,335	1,641,335
Short-term investments (Note 3)	-	13,477,669	15,666,057	29,143,726
Long-term investments (Note 3)	-	8,607,762	-	8,607,762
Accounts receivable:				
Trade receivables, less allowance for doubtful accounts	78,055	-	-	78,055
Trust fund taxes receivables	-	-	5,000,005	5,000,005
Due from operating company	2,386,115	-	-	2,386,115
Reimbursable expenditures	51,151	-	-	51,151
Advance travel and other expenses	56,103	-	-	56,103
Deposit for rent	52,173	-	-	52,173
Prepaid interest	-	5,404	-	5,404
Intangible pension asset	859,547	-	-	859,547
Total assets	$ 13,029,888	$ 24,662,764	$ 41,189,561	$ 78,882,213
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 1,738,075	$ -	$ 3,035,765	$ 4,773,840
Retainage payable	-	-	119,460	119,460
Payroll withholdings	50,591	-	-	50,591
Bonds payable - maturing July 1, 2002 (Note 5)	-	10,710,000	-	10,710,000
Interest payable - maturing July 1, 2002	-	5,059,989	-	5,059,989
Obligations under securities lending	-	-	1,803,665	1,803,665
Deferred revenue	-	-	150,484	150,484
Accrued liabilities:				
Pension plan (Note 9)	867,180	-	-	867,180
Compensated absences (Note 8)	8,664	-	-	8,664
Payroll and other	664,856	-	-	664,856
Total liabilities	3,329,366	15,769,989	5,109,374	24,208,729

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Fund balance:				
Reserve for construction	-	-	36,080,187	36,080,187
Reserve for debt service	-	8,892,775	-	8,892,775
Unreserved	9,700,522	-	-	9,700,522
Total fund balances	9,700,522	8,892,775	36,080,187	54,673,484
Total liabilities and fund balances	$ 13,029,888	$ 24,662,764	$ 41,189,561	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	383,310,802
Some liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(183,364,295)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	150,484
Net assets of governmental activities	$254,770,475

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
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2002

	Governmental Funds			
	Major Funds			Total
	Special Revenue	Debt Service	Capital Projects	Governmental Funds
Revenues:				
Rental income	$ 975,101	$ -	$ -	$ 975,101
Interest income	222,491	392,496	1,135,309	1,750,296
Miscellaneous income	275,374	-	-	275,374
Proceeds from securities lending transactions	-	-	63,138	63,138
Proceeds from pavement litigation	9,005,388	-	-	9,005,388
Trust fund taxes	-	-	31,836,143	31,836,143
Payments from Virginia International Terminals, Inc. (Note 7)	15,896,034	-	2,695,776	18,591,810
Total revenues	26,374,388	392,496	35,730,366	62,497,250
Expenditures:				
Commerce and Agriculture Markets				
Development and Improvements:				
Commerce advertising	795,355	-	-	795,355
National and international trade services	8,583,300	-	-	8,583,300
Port traffic rate management	147,976	-	-	147,976
Water Transportation Systems Planning:				
Port facilities planning	139,952	-	-	139,952
Port and Port Facility Management:				
Maintenance of ports and facilities	61,303	-	5,169,473	5,230,776
Port Facility Acquisition:				
Interest	290,928	10,151,437	-	10,442,365
Principal	1,206,097	10,794,035	-	12,000,132
Security services	4,013,648	-	-	4,013,648
Terminal administration	1,794,208	-	-	1,794,208
Financial assistance to local ports	1,112,117	-	-	1,112,117
Capital projects	-	-	12,108,810	12,108,810
Trustee fees	-	127	-	127
Payments for securities lending transactions	-	-	57,766	57,766
Indirect costs	-	-	48,765	48,765
Total expenditures	18,144,884	20,945,599	17,384,814	56,475,297
Excess (deficiency) of revenues over (under) expenditures	8,229,504	(20,553,103)	18,345,552	6,021,953

	Governmental Funds			
	Major Funds			Total
	Special Revenue	Debt Service	Capital Projects	Governmental Funds
Other financing sources (uses):				
Operating transfers in	4,795,982	20,431,760	9,009,363	34,237,105
Operating transfers out	(15,522,817)	-	(18,714,288)	(34,237,105)
Reversion to the General Fund of the Commonwealth	(110,899)	-	(50,269)	(161,168)
Total other financing sources/(uses)	(10,837,734)	20,431,760	(9,755,194)	(161,168)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(2,608,230)	(121,343)	8,590,358	5,860,785
Fund balance - July 1, 2001	12,308,752	9,014,118	27,489,829	
Fund balance - June 30, 2002	$ 9,700,522	$ 8,892,775	$ 36,080,187	

Amounts reported for governmental activities in the statement of activities are different because:	
Principal payments on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	12,054,914
Depreciation expense is not reported in the governmental funds, but is reported in the statement of activities.	(16,835,559)
Capital asset additions are reported as expenditures in the governmental funds, but have no affect on the statement of activities as these costs are reported as an increase in capital assets on the statement of net assets.	4,176,614
Only proceeds from gains/losses from capital asset disposals are reported in governmental funds, but the net gain or loss from disposal is reported in the statement of activities.	(856,825)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	150,484
Change in net assets of governmental activities	$ 4,550,413

The accompanying Notes to the Financial Statements are an integral part of this statement.

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VIRGINIA PORT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS - SPECIAL REVENUE FUND
For the Year Ended June 30, 2002

	Special Fund			
	Original Budget	Final Appropriated Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Rental income	$ 975,836	$ 975,836	$ 975,101	(735)
Interest income	250,000	250,000	222,491	(27,509)
Miscellaneous income	130,000	130,000	200,272	70,272
Payments from Virginia International Terminals, Inc.	18,871,000	15,896,014	15,430,851	(465,163)
Total revenues	20,226,836	17,251,850	16,828,715	(423,135)
Expenditures:				
Commerce and Agriculture Markets Developments and Improvements:				
Commerce advertising	950,000	950,000	915,299	34,701
National and international trade services	7,301,476	8,547,924	8,181,970	365,954
Port traffic rate management	177,028	177,028	144,191	32,837
Water Transportation System Planning:				
Port facilities planning	588,760	388,760	126,003	262,757
Port and Port Facility Management:				
Maintenance of ports and facilities	1,002,000	152,000	98,915	53,085
Port facilities acquisition	657,118	1,497,026	1,497,026	-
Security services	3,702,319	4,099,068	4,018,676	80,392
Terminal administration	365,000	1,980,000	1,753,459	226,541
Financial assistance to local ports	800,000	2,231,018	1,113,242	1,117,776
Total expenditures	15,543,701	20,022,824	17,848,781	2,174,043
Excess (deficiency) of revenues over (under) expenditures	4,683,135	(2,770,974)	(1,020,066)	1,750,908
Other financing sources/(uses):				
Operating transfers in	2,647,878	6,733,804	4,795,982	(1,937,822)
Operating transfers out	(6,968,929)	(6,968,929)	(6,517,429)	451,500
Reversion to the General Fund of the Commonwealth	(30,435)	(110,899)	(110,899)	-
Total other financing sources/(uses)	(4,351,486)	(346,024)	(1,832,346)	(1,486,322)
Excess (deficiency) of revenue and other sources sources over (under) expenditures and other uses	331,649	(3,116,998)	(2,852,412)	264,586
Fund balance - July 1, 2001	12,399,156	12,399,156	12,399,156	-
Fund balance - June 30, 2002	$ 12,730,805	$ 9,282,158	$ 9,546,744	$ 264,586

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, 2002

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. A Board of Commissioners composed of 12 members manages the Authority. 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 nonstock, 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. VIT is audited by the independent accounting firm Witt Mares and Company. VIT's audit report can be obtained by contacting VIT's Chief Financial Officer at 600 World Trade Center, Norfolk, VA 23510.

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. Basic Financial Statements

The Basic Financial Statements of the Authority consist of a group of Government-wide and Fund Financial Statements, as defined in Governmental Accounting Standards Board (GASB) Statement No. 34. The purpose of the Government-wide Financial Statements is to provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. For the most part, the effect of the interfund activity has been removed from these statements, which include the Statement of Net Assets and the Statement of Activities.

The purpose of the Fund Financial Statements is to account for resources allocated to individual funds based upon the financing sources. Fund Financial Statements also report the Authority's operations in more detail than the government-wide statements by providing information about the Authority's most significant funds, as defined in GASB Statement No. 34.

C. 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.

The Authority reports the following major governmental funds:

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.

D. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Expenditures are recognized when the related fund liability is incurred through the receipt of goods or services, although payment may occur at a later date. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. 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.

E. Investments

All investments of the Authority are reported at fair value.

F. Inventories

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

G. Capital Assets

Capital assets are generally assets with an initial cost of $5,000 or more and an estimated useful life in excess of two years. Capital assets are valued at historical cost or estimated historical cost if actual cost is not available. The cost for the acquisition of capital assets is recorded as an expenditure in the fund financial statements, but capitalized in the government-wide financial statements. As such, depreciation is provided in government-wide financial statements only. Capital assets are comprised of land, buildings, infrastructure, other improvements, equipment, and construction in progress. Infrastructure assets are considered long-lived capital assets that can be preserved for a significantly greater number of years than most capital assets. Examples include roads, wharves, dredging, and lighting and drainage systems. Depreciation on capital assets is computed on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	3 – 41 years
Improvements	5 – 50 years
Infrastructure	4 – 41 years
Equipment	3 – 30 years

The cost for maintenance and repairs is charged to operations as incurred. When items are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts and any resulting profit or loss on such dispositions is reflected in operations for the government-wide financial statements.

H. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In accordance with paragraph 146 of Governmental Accounting Standards Board Statement No. 34, the Authority elected to apply this policy prospectively beginning July 1, 2001.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

I. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by employees of the Authority, but not taken at June 30, 2002. 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.

J. 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.

K. Restricted Assets

Restricted assets are utilized in accordance to the restrictions placed upon the resources. When an expense is incurred for which both restricted and unrestricted net assets are available, management determines on an individual basis how resources are allocated.

L. Program Revenues

Program revenues are derived directly from the program itself or from parties outside the Authority and are categorized as charges for services, operating grants and contributions, and capital grants and contributions. Charges for services include payments from the Authority's component unit, Virginia International Terminals, Inc., rental and miscellaneous income.

M. Total Columns

Total columns on the financial statements are captioned "Total - Governmental Funds" 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 Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - Special Revenue Fund 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, 2002	$ 9,546,744
Adjustments:	
Accrued revenues on GAAP basis	3,483,144
Accrued expenditures on GAAP basis	(3,329,366)
Fund balance on GAAP basis - June 30, 2002	$ 9,700,522

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 2.2-1400, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash with the Treasurer of Virginia" on the accompanying financial statements.

B. Cash, Cash Equivalents, and Investments

Certain deposits and investments are held by the Authority or are represented by investment securities held by trustees for the Authority. Such deposits and investments are reported separately from cash and investments with the Treasurer as cash and cash equivalents held by Trustee and investments. 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, 2002. 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	$11,650,486	$11,650,486
U. S. Government Securities	10,102,822	10,102,822
Total Short-Term	$21,753,308	$21,753,308
Long-Term Investments:		
Repurchase Agreements	$ 6,859,024	$ 6,859,024
U. S. Government Securities	1,748,738	1,748,738
Total Long-Term	$ 8,607,762	$ 8,607,762
Total Short and Long-Term	$30,361,070	$30,361,070
Mutual, Money Market Funds		7,390,418
Total Investments		$37,751,488

As of June 30, 2002, Virginia International Terminals, Inc. held restricted cash equivalents and short-term restricted investments comprised of money market instruments, U.S. Treasury and Agency Securities, and Corporate Bonds totaling $10,058,312; $2,355,303; $6,045,541; and $502,178; respectively, which are in the credit risk category 3.

Investments held by the Treasurer of Virginia 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 CAPITAL ASSETS

A summary of changes in capital assets of the Port Authority follows:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 91,745,019	$ 294,982	$ -	$ 92,040,001
Construction in progress	78,912,654	10,514,347	15,358,999	74,068,002
Total capital assets not being depreciated	170,657,673	10,809,329	15,358,999	166,108,003
Other capital assets:				
Infrastructure	175,122,351	1,641,315	294,982	176,468,684
Buildings	54,676,469	532,577	330,450	54,878,596
Improvements other than buildings	29,091,752	3,005,255	1,615,759	30,481,248
Equipment	140,072,522	3,842,119	1,223,919	142,690,722
Total other capital assets at historical cost	398,963,094	9,021,266	3,465,110	404,519,250
Less accumulated depreciation for:				
Infrastructure	76,263,250	5,178,498	-	81,441,748
Buildings	27,073,995	2,761,892	330,450	29,505,437
Improvements other than buildings	13,116,629	1,314,937	1,003,747	13,427,819
Equipment	56,340,321	7,580,232	979,106	62,941,447
Total accumulated depreciation	172,794,195	16,835,559	2,313,303	187,316,451
Other capital assets, net	226,168,899	7,814,293	1,151,807	217,202,799
Total capital assets, net	$396,826,572	$ 2,995,036	$16,510,806	$383,310,802

All depreciation expense was charged to the “operations and maintenance” function on the Statements of Activities.

A summary of the changes in capital assets of Virginia International Terminals, Inc. follows:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Equipment	$44,482,878	$4,457,156	$3,794,244	$45,145,790
Less: Accumulated Depreciation	31,050,474	4,627,056	2,480,844	33,196,686
Total capital assets, net	$13,432,404	$ (169,900)	$1,313,400	$11,949,104

5. LONG-TERM DEBT

A. Changes in Long-Term Indebtedness

A summary of changes in long-term indebtedness (including current portion) follows:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002	Amounts Due within One Year
Revenue bonds	$197,630,000	$ -	$10,245,000	$187,385,000	$10,710,000
Installment purchases	6,679,465	-	1,290,133	5,389,332	1,361,140
Contracts	800,967	-	28,796	772,171	16,694
Compensated absences	553,777	-	17,321	536,456	384,507
Total	$205,664,209	$ -	$11,581,250	$194,082,959	$12,472,341

Balance as of June 30, 2002

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 $1,460,000 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 5.90 percent are due in 2016. The bonds are payable primarily from the Commonwealth Port Fund to which the General Assembly has appropriated revenues for the 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.	303,419
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.	994,197
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.	4,091,716
Total installment purchases	5,389,332

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. The last recalculation was performed May 2001.	772,171

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, 2002, 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.	536,456
Total long-term indebtedness	$194,082,959

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, 2002, follows:

Year Ending June 30,	Revenue Bonds	Installment Purchases	Contracts Payable
2003	$ 20,576,116	$ 1,609,305	$ 62,059
2004	20,568,227	1,335,507	62,059
2005	20,546,725	952,188	62,059
2006	20,498,725	849,265	62,059
2007	20,484,256	839,908	62,059
2008-2012	71,076,906	489,945	310,294

2013-2017	50,106,264	-	310,294
2018-2022	33,697,618	-	310,294
2023-2027	33,514,595	-	186,175
2028	6,671,720	-	-
Total	$ 297,741,152	$ 6,076,118	$ 1,427,352
Less:			
Interest	110,356,152	686,786	655,181
Net	$ 187,385,000	$ 5,389,332	$ 772,171

Payments on the revenue bonds and the City of Portsmouth installment purchase are made from the Debt Service Fund. Payments on all other installment purchases and the compensated absences liability are made from the Special Revenue Fund. Payments on the Department of the Army contract are made from the Capital Projects Fund.

6. DEFEASANCE OF DEBT – PRIOR YEARS

During fiscal year 1997, certain 1993 Port Facilities General Revenue Bonds were defeased by the Authority. A portion of the net proceeds from the sale of the 1997 bond was placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the Authority's financial statements. At June 30, 2002, $11,845,000 of the defeased bond was outstanding.

7. RENT OF TERMINAL FACILITIES AND EQUIPMENT

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

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

Special Revenue Fund:

Payments per VIT	$20,759,296
Adjustments:	
Equipment transferred	(223,700)
Payment from VPA to VIT	(3,851,971)
Cash payment considered capital payment by VIT	(787,591)
Payments from VIT	$15,896,034

Capital Projects Fund:

Improvements per VIT	$ 2,497,394
Adjustments:	
Equipment transferred	223,700
VPA capital payments to VIT	(812,909)
Cash payment considered capital payment by VIT	787,591
Capital payments from VIT	$ 2,695,776

8. COMMITMENTS

As of June 30, 2002, the Authority has commitments to construction contracts totaling $73,418,898 of which $17,229,328 has been incurred.

The Authority is committed under various operating lease agreements for office facilities and equipment. The commitments range from five months to four 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, and Hong Kong are subject to the currency exchange rate at the time of each rent payment. Rent expense under operating lease agreements amounted to $189,590 for the year. A summary of future obligations under lease agreements as of June 30, 2002, follows:

Year Ending June 30,	Amount
2003	$118,661
2004	69,331
2005	47,362
2006	23,681
Total	$259,035

At June 30, 2001, VIT has a letter of credit issued in the amount of $8,300,000 for workers' compensation claims. The letter of credit bears interest at prime and is set to expire at March 31, 2003. At June 30, 2002, there were no borrowings outstanding.

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 $2,867,130 at June 30, 2002 to the extent of the benefits that are payable. VIT is also contingently liable for sick leave of $5,887,825 at June 30, 2002, representing amounts employees could utilize during their period of employment.

As of June 30, 2002, VIT is committed to payments totaling approximately $462,000 on outstanding purchase orders for computer equipment and maintenance inventory and services.

9. PENSION PLANS 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 Defined Benefit Plan). The VPA Defined Benefit Plan covers all employees hired after July 1, 1997.

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 Defined Benefit 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. The latest actuarial report on the VPA Defined Benefit Plan may be obtained by contacting the Finance Department of the Authority.

As the plan sponsor for the VPA Defined Benefit Plan, the Authority sets a contribution rate annually based on recommendations provided by the plans' Actuary. The Authority elected to contribute 9 percent of base pay for employees receiving the basic retirement benefit from the plan in 2002, 2001, and 2000. The plan does not specify a minimum funding requirement.

In November 2001, the Board of Commissioners voted to amend the VPA Defined Benefit Plan to provide benefits to sworn police officers that more closely resemble the new retirement benefits provided to members of the Virginia Law Enforcement Officers Retirement System program. 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:

	2002	2001	2000
Service cost-benefits earned during the year	$142,820	$112,863	$ 54,916
Interest on projected benefit obligation	44,309	33,107	4,848
Expected return on assets	13,025	3,256	(68)
Net amortization and deferral	(6,465)	17,030	(580)
Annual pension cost	193,689	166,256	59,116
Contributions made	(209,420)	(186,023)	(51,529)
Additional minimum liability	689,672	(47,666)	217,541
Increase (decrease) in pension obligation	673,941	(67,433)	225,128
Pension obligation, beginning of year	193,239	260,672	35,544
Net pension obligation	$867,180	$193,239	$260,672

The annual pension cost for the current year was determined as part of the August 2002, 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 percent in 2002, 7.5 percent in 2001, and 8 percent in 2000. The estimated rate of increase in future compensation levels used was 4 percent for 2002 and 5 percent for 2001 and 2000. 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, 2002, 2001, and 2000.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
June 30, 2002	$ 193,689	108%	$ 867,180
June 30, 2001	$ 166,256	112%	$ 193,239
June 30, 2000	$ 59,116	87%	$ 260,672

In addition, the Authority maintains two deferred compensation plans and a matching savings plan under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under a deferred compensation plan administered by VRS. Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR).

The VPA Deferred Compensation Plan covers all employees hired after July 1, 1997, and those employees electing coverage under the Authority's deferred compensation plan. The Matching Savings Plan covers substantially all employees. The matching savings plan requires VPA to match contributions in an amount equal to 50 percent of the first six percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was $93,679 and $87,184 for the years ended June 30, 2002 and 2001, respectively.

The right to modify, alter, amend or terminate the Authority's Deferred Compensation Plan and the Matching Savings Plan vests with the Board of Commissioners of the Authority. Effective January 1, 2002, the plans were amended in order to comply with provisions in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA).

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.

On October 1, 2001, the Plan was amended and restated in order to comply with the GUST II requirements, brought about by the Uniformed Service Employments and Reemployment Rights Act of 1994, the Uruguay Round Agreements Act, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, and the Internal Revenue Service Restructuring and Reform Act of 1998.

On February 28, 2002, the Plan was amended to provide for a one-time Voluntary Retirement Opportunity Program (VROP). The program provided for early retirement for selected employees who were fifty-eight years of age and had at least ten years of credited service as of April 1, 2002. Of the twenty-nine eligible employees, seventeen accepted. The effect of the Plan amendment, an increase in the actuarial present value of accumulated plan benefits of $2,337,300, was accounted for and fully funded in the year ended June 30, 2002. The actuarial present value of accumulated plan benefits at June 30, 2001 does not reflect the effect of this Plan amendment.

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% in 2002 and 2001 and 7.5% in 2000. The estimated rate of increase in future compensation levels used was 5% for all three years. The expected long-term rate of return on assets used in determining net periodic pension cost was 7.5%.

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

	2002	2001	2000
Service cost – benefits earned during the year	$ 982,000	$ 935,000	$ 972,000
Interest cost on projected benefit obligation	1,910,000	1,766,000	1,596,000
Expected return on assets	(2,550,000)	(2,898,000)	(2,614,000)
Net amortization and deferral	42,700	(496,000)	(363,000)
One time recognition - VROP	2,337,300	-	-
Annual pension cost (credit)	2,722,000	(693,000)	(409,000)
Contributions made	(2,840,200)	(249,000)	(193,500)
Increase in prepaid pension obligation	(118,200)	(942,000)	(602,500)
Prepaid pension obligation, beginning of year	(5,506,500)	(4,564,500)	(3,962,000)
Prepaid pension obligation, end of year	$ (5,624,700)	$ (5,506,500)	$ (4,564,500)

The following table sets forth the plan's funded status and the related amounts recorded in the Company's balance sheets at June 30, 2002, 2001, and 2000.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
June 30, 2002	$ 2,722,000	104%	$ (5,624,700)
June 30, 2001	$ (693,000)	0%	$ (5,506,500)
June 30, 2000	$ (409,000)	0%	$ (4,564,500)

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 $1,493,462 and $1,775,922 in 2002 and 2001, respectively, have been allocated for future benefit payments under the provisions of the supplemental plans. The accrued liability was $1,838,332 and $2,003,963 as of June 30, 2002 and 2001, 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 $247,679 and $236,456 for the years ended June 30, 2002 and 2001, respectively.

10. 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, 2002 and 2001 are classified as follows:

	2002	2001
Workers' compensation claims	$1,602,180	$3,020,000
Workers' compensation claims, noncurrent portion	3,602,622	5,148,000
	$5,204,802	$8,168,000

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 7.5 percent. The undiscounted liability at June 30, 2002, totaled approximately $12,500,000. VIT expects to pay these assessments annually through 2034. The balances at June 30, 2002 and 2001 are classified as follows:

	2002	2001
Accrued DOL assessment	$ 897,820	$ 878,000
Accrued DOL assessment, noncurrent portion	5,488,180	6,122,000
	$6,386,000	$7,000,000

11. CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2001, the Authority adopted GASB 34, "Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments." The Statement establishes a new basis for accounting and financial reporting standards for general purpose external financial reporting by state and local governments. It also establishes specific standards for the basic financial statements, management's discussion and analysis, and certain required supplementary information.

Effective July 1, 2001, VIT implemented Governmental Accounting Standards Board (GASB) Statement 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. As a component unit of the Authority, VIT is considered a special-purpose government for financial reporting purposes. The statement specifies that the basic financial statements and required supplementary information (RSI) for special purpose governments engaged only in business-type activities should consist of Management Discussion and Analysis (MD&A); basic financial statements consisting of a balance sheet; statement of revenues, expenses and changes in net assets, and statement of cash flows; notes to financial statements; and required supplementary information other than MD&A, if applicable.

Additionally, effective July 1, 2001, VIT implemented Governmental Accounting Standards Board Statement 37, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments: Omnibus." This Statement amends GASB Statement 34 to clarify certain provisions and modify other provisions. The provisions clarified applicable to VIT pertains to MD&A requirements. Specifically, the statement stipulates entities should confine the topics discussed in MD&A to those listed in paragraph 11 of Statement 34.

12. FINANCIAL STATEMENT PRESENTATION

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on previously reported change in net assets.

13. SUBSEQUENT EVENT

In July 2002, the Authority issued $135,000,000 in Commonwealth Port Fund Revenue Bonds. Proceeds from the sale of the bonds will be used to finance certain improvements to the southern portion of the Authority's Norfolk International Terminals, and to purchase security-related equipment.

14. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The Authority is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Authority participates in a General/Law Enforcement Liability plan called "VaRisk 2" maintained by the Commonwealth of Virginia. Health care related benefits for employees hired prior to July 1, 1997 are covered by the state employee health care plan administered by the Department of Human Resource Management. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). Through its operating agreement, the Authority requires Virginia International Terminals, Inc. to maintain property insurance coverage on all plant and equipment located on the terminals. In addition, the Authority maintains its own insurance coverage for health, property, auto, workers compensation, and international liabilities, as well as an umbrella policy providing excess liability coverage over and above losses not covered in primary policies.

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