

VIRGINIA PORT AUTHORITY

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2004



- TABLE OF CONTENTS -

	<u>Pages</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	1 - 7
FINANCIAL STATEMENTS:	
Statement of Net Assets	10 - 11
Statement of Activities	12
Balance Sheet - Governmental Funds	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14 - 15
Notes to Financial Statements	17 – 36
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Cash Basis – Special Revenue Funds	38
Note to Required Supplementary Information	39
INDEPENDENT AUDITOR'S REPORT	41 – 42
AGENCY OFFICIALS	43

VIRGINIA PORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

(UNAUDITED)

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, 2004. Please read it in conjunction with the Authority's financial statements and notes to 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 the most recent fiscal year by \$286.7 million. Of this amount, \$21.0 million is unrestricted and may be used to meet the Authority's ongoing obligations to creditors.
- The Authority's net assets increased by \$4.8 million. The increase in net assets was primarily due to \$7.2 million in revenue from federal security grants for capital projects. Program revenues fell short of governmental activity expenses by \$15.5 million.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$122.8 million, a decrease of \$82.3 million in comparison with prior year. Approximately \$10.6 million of this total amount is undesignated and available for spending at the Authority's discretion, subject to availability of appropriation. The decrease in fund balance was primarily due to capital project expenditures of \$103.1 million, less proceeds from long-term debt of \$7.6 million and proceeds from federal security grants of \$7.2 million.
- The Authority's non-depreciable capital assets increased \$85.8 million, primarily as a result of the continuing renovations of the Authority's Norfolk International Terminals (NIT), progress billings on the acquisition of three new container cranes at Portsmouth Marine Terminal (PMT), and ongoing security improvements at all terminals. The NIT south renovation effort is expected to cost a total of \$279 million and, once completed, will result in a more modern, and efficient cargo terminal.

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, capital grants from the Commonwealth and federal government, and transfers 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 kind of fund - governmental. 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	
	<u>Primary Government</u>⁽¹⁾	
	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 179.1	\$ 237.0
Capital assets	519.6	439.3
Total assets	698.7	676.3
Current liabilities	55.7	30.8
Long-term liabilities	356.3	363.6
Total liabilities	412.0	394.4
Net assets:		
Invested in capital assets, net of debt	229.3	207.2
Restricted for debt service	36.4	33.1
Unrestricted	21.0	41.6
Total net assets	\$ 286.7	\$ 281.9

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

Current and other assets decreased \$57.9 million primarily due to the use of constructions funds for renovation efforts at NIT. Capital assets increased \$80.3 million primarily due to the NIT renovation efforts, the acquisition of three new container cranes at PMT, the acquisition of 14 new straddle carriers, and security improvements to all terminals. Current liabilities increased \$24.9 million primarily due to outstanding payables received just prior to year-end for the capital projects noted above. Long-term liabilities decreased \$7.3 million, primarily due to principal payments made during the year, offset by the issuance of \$7.6 million in new debt for the acquisition of ten straddle carriers and two reachstackers.

Table 2
Changes in Net Assets
(in Millions)

	Virginia Port Authority	
	<u>Primary Government</u>	
	<u>2004</u>	<u>2003</u>
Revenues		
Program revenues:		
Charges for services	\$ 42.9	\$ 34.7
Capital grants and contributions	7.2	18.5
General revenues:		
Operating payment from the Commonwealth	33.2	29.8
Investment Earnings	2.2	3.1
Total revenues	85.5	86.1
Program expenses		
Operations and maintenance	47.0	41.0
Interest and charges on long-term debt	18.7	16.3
Total expenses	65.7	57.3
Capital contributions to VIT	15.0	1.7
Increase (decrease) in net assets	4.8	27.1
Beginning net assets	281.9	254.8
Ending net assets	\$ 286.7	\$ 281.9

Charges for services primarily represent net payments from VIT. Payments from VIT are based on net VIT revenues on a cash basis, less amounts returned to VIT for operations and reserves, and therefore, can fluctuate annually. Payments were positively affected in 2004 from a transfer of capital assets from VIT totaling \$10.1 million.

Capital grants and contributions represent grants from the Commonwealth or federal government for capital projects. In 2004, the Authority received \$7.2 million in revenue from federal security grants. In 2003, the Authority received \$17.5 million from the Commonwealth's Priority Transportation Fund and \$.9 million from federal security grants.

Operating payment from the Commonwealth of \$33.2 million in 2004 was \$3.4 million higher in comparison to prior year primarily as a result of an 11.3% increase in sales and use tax

collections due to an increase in the number of vehicle transactions and an increase in average car prices.

Investment earnings were \$2.2 million and \$3.1 million in 2004 and 2003, respectively. The decrease in investment earnings was due primarily to the use of bond proceeds for capital outlay projects.

Operations and maintenance expenses were \$47.0 million and \$41.0 million in 2004 and 2003, respectively. The increase was primarily due to a \$3.5 million increase in depreciation expense and a \$.6 million loss on disposal of capital assets.

Interest and charges on long-term debt were \$18.7 million and \$16.3 million in 2004 and 2003, respectively. The increase was primarily due to interest expense on the June 2003 \$55.2 million bond issue.

FUND FINANCIAL STATEMENT ANALYSIS

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

Interest income for all funds was \$2.2 and \$3.1 million for the years ended June 30, 2004 and 2003, respectively. The decrease in interest income was due primarily to the use of bond proceeds for capital projects.

Proceeds from federal security grant was \$7.2 million and \$.9 million for the years ended June 30, 2004 and 2003, respectively. In 2004 and 2003, the Authority was awarded a total of \$9.3 million in federal security grants, for which funds are drawn down as the related capital projects progress. The majority of the federal grant work took place in 2004.

Trust fund taxes of \$33.3 million in 2004 were \$3.6 million higher in comparison to prior year primarily as a result of an 11.3% increase in sales and use tax collections due to an increase in the number of vehicle transactions and an increase in average car prices.

Payments from VIT are based on net VIT revenues on a cash basis, less amounts returned to VIT for operations and reserves, and therefore, can fluctuate annually. Payments were positively affected in 2004 from a transfer of capital assets from VIT totaling \$10.1 million.

Payments to VIT represent contributions to VIT for specific capital projects. VIT Capital projects funded by VPA in 2004 included funds for a crane maintenance building, empty container depots at PMT and NIT, and yard expansion at the Virginia Inland Port.

In 2003, the Authority received \$193.8 million from the issuance of long-term debt primarily to finance renovations to NIT South. Interest and principal expenditures increased in 2004 as a result of these debt issuances.

Capital project expenditures were \$103.1 million and \$74.4 million for the years ended June 30, 2004 and 2003, respectively. The increase in expenditures was due primarily to the acquisition of three new container cranes for PMT, 14 new straddle carriers, and security improvements.

Table 3
Special Fund Budget vs Actual Analysis – Cash Basis

	Original Budget	Final Appropriated Budget		Actual	Variance Favorable (Unfavorable)
Revenues:					
Rental Income	\$ 1,026,764	\$ 1,026,764		\$ 1,026,836	\$ 72
Interest Income	-	-		28,700	28,700
Miscellaneous Income	114,000	114,225		432,171	317,946
Payments from VIT	25,300,000	25,300,000		37,199,831	11,899,831 ²
Total Revenues	26,440,764	26,440,989		38,687,538	12,246,549
Expenditures:					
Commerce & Agriculture Markets					
Developments & Improvements:					
Commerce Advertising	678,503	678,503		669,581	8,922
National & International Trade Services	7,773,552	7,873,552 ³		7,872,919	633
Port Traffic Rate Management	179,593	179,593		178,537	1,056
Water Transportation System Planning:					
Port Facilities Planning	422,337	422,337		419,604	2,733
Port & Port Facility Management:					
Maintenance of Ports & Facilities	910,850	110,850 ³		109,456	1,394
Port Facilities Acquisition	1,223,227	1,237,066 ³		1,237,066	-
Security Services	4,269,183	4,569,183 ³		4,568,447	736
Terminal Administration	365,000	1,164,000 ³		1,162,867	1,133
Financial Assistance to Local Ports	580,000	580,000		515,288	64,712
Payments to VIT	-	6,781,000 ¹		6,781,000	-
Total Expenditures	\$ 16,402,245	\$ 23,596,084		\$ 23,514,765	\$ 81,319

1 - Final appropriated budget reflects operating and capital transfer payments back to VIT.

2 - Increase in payments from VIT due to positive effects of the West Coast labor strike in October 2002, increased volume from newly located regional distribution centers, and new Asian import patterns.

3 - Final appropriated budget reflects appropriation transfers between programs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Authority's investment in capital assets as of June 30, 2004, amounts to \$519.6 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:

- Expenditures of \$49.6 million on the renovation of NIT South, including the acquisition of eight Suez-class container cranes.
- Additional paving of NIT North at a cost of \$8.4 million.
- The acquisition of 14 new straddle carriers totaling \$9.5 million.
- The acquisition of 3 container cranes at PMT totaling \$9.5 million.
- Security improvements at all terminals totaling \$12.1 million, including the construction of security related facilities at NIT and PMT.

Long-term Debt. At the end of the current fiscal year, the Authority had \$356.3 million in long-term debt, excluding current maturities. Of this amount, \$346 million is in the form of revenue bonds issued by the Authority. The 1996, 1998, and 2002 Commonwealth Port Fund Revenue bonds are supported by the Authority's 4.2% allocation of the Commonwealth's Transportation Trust Fund. The bonds are also backed by a sum sufficient appropriation from the Commonwealth and carry a AA+ rating from Fitch Ratings, Inc. and Standard and Poor's, and a Aa1 rating from Moody's Investor Services. The 1997 and 2003 Port Facilities Revenue bonds are supported by terminal revenues and MBIA insurance policies and carry underlying ratings of A from Fitch Ratings, Inc. and Standard and Poor's, and a A1 underlying rating from Moody's Investor Services. With insurance from MBIA the ratings on the bonds are AAA from Fitch Ratings, Inc. and Standard and Poor's, and Aaa from Moody's Investor Services.

ECONOMIC FACTORS AND RECENT EVENTS

The Authority's capital projects, either directly or indirectly through bond issues, are primarily funded from an operating grant from the Commonwealth of Virginia's Transportation Trust Fund. The Authority receives 4.2% 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 Commonwealth, and are not controlled by the Authority.

On July 8, 2004, the Authority financed the purchase of three container cranes and four straddle carriers, with an acquisition cost of \$14.3 million, under its Master Lease Agreement with Banc of America Leasing and Capital, LLC.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide 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 we 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.

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FINANCIAL STATEMENTS

VIRGINIA PORT AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2004

	Primary Government	Component Unit Virginia International Terminals, Inc.
	Governmental Activities	
ASSETS		
Current assets:		
Cash in bank	\$ 7,245,118	\$ 8,603,914
Cash with Treasurer of Virginia	6,012,015	-
Restricted assets:		
Cash and cash equivalents - restricted (Note 2)	-	7,846,689
Cash held by trustee	4,653,616	-
Investments (Note 2)	18,064,363	12,031,946
Investments held by Treasurer of Virginia	1,429,296	-
Accounts receivable, net	5,032	17,716,686
Trust fund taxes receivable	4,186,442	-
Interest receivable	30,776	-
Federal grant receivable	1,296,229	-
Due from operating company	4,055,206	-
Inventories	-	7,661,126
Prepaid expenses	13,093	12,285,533
Other current assets	196,842	-
Total current assets	47,188,028	66,145,894
Noncurrent assets:		
Restricted assets:		
Cash in bank	6,898,566	-
Cash with Treasurer of Virginia	1,017,102	-
Cash held by trustee	2,133,323	-
Investments (Note 2)	118,856,110	-
Supplemental pension plan assets - market value (Note 8)	-	1,876,388
Intangible pension assets	582,981	-
Other assets	2,421,069	-
Non-depreciable capital assets (Note 3)	257,578,718	-
Depreciable capital assets, net (Note 3)	262,060,874	13,183,762
Total noncurrent assets	651,548,743	15,060,150
Total assets	698,736,771	81,206,044
LIABILITIES		
Current liabilities:		
Bonds payable - maturing July 1, 2004 (Note 4)	13,175,000	-
Interest payable - maturing July 1, 2004	9,327,646	-
Accounts payable	26,848,143	3,588,457
Payroll withholdings	3,941	57,024
Obligations under securities lending	1,429,296	-
Due to Virginia Port Authority	-	4,055,206
Accrued expenses	697,781	7,611,036
Retainage payable	2,287,380	-
Current maturities of other long-term debt (Note 4)	1,897,307	-
Total current liabilities	55,666,494	15,311,723

VIRGINIA PORT AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2004

	Primary Government	Component Unit Virginia
	Governmental Activities	International Terminals, Inc.
Noncurrent liabilities:		
Contracts payable (Note 4)	719,090	-
Installment purchases (Note 4)	8,947,688	-
Compensated absences (Notes 4 and 7)	163,846	1,241,366
Bonds payable (Note 4)	345,997,189	-
Workers compensation costs (Note 9)	-	5,949,365
Accrued pension obligation (Note 8)	502,017	2,125,712
Total noncurrent liabilities	356,329,830	9,316,443
 Total liabilities	 411,996,324	 24,628,166
 NET ASSETS		
Invested in capital assets, net of related debt	229,345,578	13,183,762
Restricted for:		
Debt service	36,386,020	19,878,635
Unrestricted	21,008,849	23,515,481
Total net assets	\$ 286,740,447	\$ 56,577,878

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

VIRGINIA PORT AUTHORITY
STATEMENT OF ACTIVITIES
As of June 30, 2004

				Net (Expense) Revenue and Changes in Net Assets	
		Program Revenues		Primary Government	Component Unit
Functions	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Virginia International Terminals, Inc.
Primary government:					
Governmental activities:					
Operations and maintenance	\$ 47,019,252	\$ 42,975,142	\$ 7,242,502	\$ 3,198,392	\$ -
Interest and charges on long-term debt	18,725,610	-	-	(18,725,610)	-
Securities lending transactions	4,751	4,751	-	-	-
Total governmental activities	<u>\$ 65,749,613</u>	<u>\$ 42,979,893</u>	<u>\$ 7,242,502</u>	<u>\$ (15,527,218)</u>	<u>\$ -</u>
Component unit:					
Virginia International Terminals, Inc.	<u>\$ 176,795,280</u>	<u>\$ 173,104,337</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,690,943)</u>
General revenues:					
Operating payments from the Commonwealth				33,188,055	-
Investment earnings				2,167,919	136,548
Capital payments				(15,035,601)	15,035,601
Total general revenues and transfers				20,320,373	15,172,149
Change in net assets				4,793,155	11,481,206
Net assets - beginning				281,947,292	45,096,672
Net assets - ending				\$ 286,740,447	\$ 56,577,878

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, 2004

	Special Revenue	Debt Service	Capital Projects	Total Government Funds
ASSETS				
Cash and cash equivalents:				
In bank	\$ 8,907,466	\$ -	\$ 5,236,218	\$ 14,143,684
With Treasurer of Virginia	625,503	-	6,403,614	7,029,117
Held by trustee	-	4,726,156	2,060,783	6,786,939
Investments:				
Held by Treasurer of Virginia	-	-	1,429,296	1,429,296
Short-term investments (Note 2)	-	18,064,363	106,922,957	124,987,320
Long-term investments (Note 2)	-	11,933,153	-	11,933,153
Accounts receivable:				
Trade	5,032	-	-	5,032
Trust fund taxes	-	-	4,186,442	4,186,442
Interest	-	-	30,776	30,776
Federal grant	-	-	1,296,229	1,296,229
Due from operating company	4,055,206	-	-	4,055,206
Prepaid expenses	11,921	1,172	-	13,093
Reimbursable expenditures	104,067	-	-	104,067
Advance travel and other expenses	46,000	-	-	46,000
Deposit for rent	52,332	-	-	52,332
Intangible pension asset	582,981	-	-	582,981
Total assets	\$ 14,390,508	\$ 34,724,844	\$ 127,566,315	\$ 176,681,667
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable	\$ 2,917,643	\$ -	\$ 23,930,500	\$ 26,848,143
Retainage payable	-	-	2,287,380	2,287,380
Payroll withholdings	3,941	-	-	3,941
Bonds payable - maturing July 1, 2004 (Note 4)	-	13,175,000	-	13,175,000
Interest payable - maturing July 1, 2004	128,736	9,198,910	-	9,327,646
Obligations under securities lending	-	-	1,429,296	1,429,296
Deferred revenue	-	-	118,969	118,969
Accrued liabilities:				
Compensated absences	2,669	-	-	2,669
Payroll and other	697,781	-	-	697,781
Total liabilities	3,750,770	22,373,910	27,766,145	53,890,825
Fund balances:				
Reserve for construction	-	-	99,800,170	99,800,170
Reserve for debt service	-	12,350,934	-	12,350,934
Unreserved:				
Undesignated	10,639,738	-	-	10,639,738
Total fund balances	10,639,738	12,350,934	99,800,170	122,790,842
Total liabilities and fund balances	\$ 14,390,508	\$ 34,724,844	\$ 127,566,315	

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.	519,639,592
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	2,415,513
Some liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(358,224,469)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	118,969

Net assets of governmental activities \$ 286,740,447

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, 2004

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Revenues:				
Rental income	\$ 1,026,836	\$ -	\$ -	\$ 1,026,836
Interest income	28,700	528,458	1,610,761	2,167,919
Miscellaneous income	432,171	-	308,503	740,674
Proceeds from securities lending transactions	-	-	4,751	4,751
Proceeds from federal security grant	-	-	7,242,502	7,242,502
Trust fund taxes	-	-	33,276,946	33,276,946
Payments from Virginia International Terminals, Inc. (Note 6)	37,935,241	-	10,053,391	47,988,632
Total revenues	39,422,948	528,458	52,496,854	92,448,260
Expenditures:				
Commerce and Agriculture Markets				
Development and Improvements:				
Commerce advertising	669,581	-	-	669,581
National and international trade services	8,513,984	-	-	8,513,984
Port traffic rate management	193,181	-	-	193,181
Water Transportation Systems Planning:				
Port facilities planning	479,862	-	-	479,862
Port and Port Facility Management:				
Maintenance of ports and facilities	190,909	-	6,270,145	6,461,054
Port Facility Acquisition:				
Interest	303,823	18,421,787	-	18,725,610
Principal	1,061,977	13,272,704	-	14,334,681
Security services	4,719,602	-	-	4,719,602
Terminal administration	1,238,644	-	-	1,238,644
Financial assistance to local ports	435,872	-	-	435,872
Capital projects	-	-	103,123,205	103,123,205
Payments for securities lending transactions	-	-	4,751	4,751
Payments to Virginia International Terminals, Inc. (Note 6)	6,781,000	-	15,035,601	21,816,601
Total expenditures	24,588,435	31,694,491	124,433,702	180,716,628
Excess (Deficiency) of revenues over (under) expenditures	14,834,513	(31,166,033)	(71,936,848)	(88,268,368)
Other financing sources (uses):				
Operating transfers in	2,706,101	31,267,672	22,980,550	56,954,323
Operating transfers out	(32,495,111)	-	(24,459,212)	(56,954,323)
Issuance of long term debt	7,552,269	-	-	7,552,269
Reversion to the General Fund of the Commonwealth	(693,813)	-	(850,812)	(1,544,625)
Total other financing sources/(uses)	(22,930,554)	31,267,672	(2,329,474)	6,007,644

VIRGINIA PORT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Net change in fund balances	(8,096,041)	101,639	(74,266,322)	(82,260,724)
Fund balance July 1	18,735,779	12,249,295	174,066,492	
Fund balance June 30	<u>\$ 10,639,738</u>	<u>\$ 12,350,934</u>	<u>\$ 99,800,170</u>	

Amounts reported for governmental activities in the statement of activities are different because:

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal payments on long-term debt is an expenditure in the governmental funds. Neither transaction, however, has any effect on net assets.	6,918,014
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities	(149,521)
Depreciation expense is not reported in the governmental funds, but is reported in the statement of activities.	(22,037,693)
Capital asset additions are reported as expenditures in the governmental funds, but have no effect on the statement of activities as these costs are reported as an increase in capital assets on the statement of net assets.	103,031,702
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.	(619,732)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(88,891)</u>

Change in net assets of governmental activities	<u>\$ 4,793,155</u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

VIRGINIA PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Port Authority 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 Eggleston Smith, PLC. 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 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 Port facilities.

D. Basis of Accounting

The government-wide 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. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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 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 – 36 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 GASB 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, 2004. 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 Appropriation Act as enacted by the General Assembly of Virginia established the Authority's budget for the biennium ending June 30, 2004. 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 the Note to Required Supplementary Information.

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. 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 2.2-1800, 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. These accounts are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia or covered by federal depository insurance. 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.

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, 2004. 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 Authority, or its safekeeping agent, in the Authority's name, holds the securities. Risk category 2 includes uninsured or unregistered investments for which the broker's or dealer's trust department or safekeeping agent in the Authority's name holds the securities. 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 category 2.

	<u>Category 1</u>	<u>Category 3</u>	<u>Fair Value</u>
Short-Term Investments:			
Repurchase Agreements	\$ -	\$ 16,385,766	\$ 16,385,766
U. S. Government Securities	<u>10,664,376</u>	<u>-</u>	<u>10,664,376</u>
Total Short-Term Investments	<u>10,664,376</u>	<u>16,385,766</u>	<u>27,050,142</u>
Long-Term Investments:			
Repurchase Agreements	6,859,024	-	6,859,024
U. S. Government Securities	<u>3,378,547</u>	<u>1,695,582</u>	<u>5,074,129</u>
Total Long-Term Investments	<u>10,237,571</u>	<u>1,695,582</u>	<u>11,933,153</u>
Total Short and Long-Term Investments	<u>\$ 20,901,947</u>	<u>\$ 18,081,348</u>	38,983,295
Mutual, Money Market Funds			<u>97,937,178</u>
Total Investments			<u>\$136,920,473</u>

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.

As of June 30, 2004, Virginia International Terminals, Inc. held the following restricted cash equivalents and short-term restricted investments:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Cash and Cash Equivalents, Restricted Money Market Instruments			<u>\$ 7,846,689</u>	<u>\$ 7,846,689</u>
Total Cash and Cash Equivalents, Restricted			<u><u>\$ 7,846,689</u></u>	<u><u>\$ 7,846,689</u></u>
Short-term Investments Restricted:				
Mutual funds	\$ 2,298,516	\$ -		\$ 2,298,516
U.S. Treasury and Agency	<u>-</u>	<u>9,733,430</u>		<u>9,733,430</u>
Total Short-Term Investments	<u><u>\$ 2,298,516</u></u>	<u><u>\$ 9,733,430</u></u>		<u><u>\$ 12,031,946</u></u>

3. CHANGES IN CAPITAL ASSETS

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

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 95,591,514	\$ 660,092	\$ -	\$ 96,251,606
Construction in progress	<u>76,167,834</u>	<u>101,225,429</u>	<u>16,066,151</u>	<u>161,327,112</u>
	<u>171,759,348</u>	<u>101,885,521</u>	<u>16,066,151</u>	<u>257,578,718</u>
Depreciable capital assets:				
Infrastructure	242,244,647	3,138,467	739,902	244,643,212
Buildings	53,489,102	378,905	58,612	53,809,395
Improvements other than buildings	31,105,890	1,164,797	5,434,126	26,836,561
Equipment	<u>141,474,147</u>	<u>12,530,387</u>	<u>4,653,339</u>	<u>149,351,195</u>
	<u>468,313,786</u>	<u>17,212,556</u>	<u>10,885,979</u>	<u>474,640,363</u>
Less accumulated depreciation for:				
Infrastructure	87,231,541	8,771,815	711,703	95,291,653
Buildings	28,519,974	3,106,766	55,626	31,571,114
Improvements other than buildings	15,063,409	1,696,212	5,373,391	11,386,230
Equipment	<u>69,992,895</u>	<u>8,462,900</u>	<u>4,125,303</u>	<u>74,330,492</u>
Total accumulated depreciation	<u>200,807,819</u>	<u>22,037,693</u>	<u>10,266,023</u>	<u>212,579,489</u>
Depreciable capital assets, net	<u>267,505,967</u>	<u>(4,825,137)</u>	<u>619,956</u>	<u>262,060,874</u>
Total capital assets, net	<u>\$ 439,265,315</u>	<u>\$ 97,060,384</u>	<u>\$ 16,686,107</u>	<u>\$ 519,639,592</u>

All depreciation expense was charged to the "operations and maintenance" function on the Statement of Activities.

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

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Property & Equipment	\$ 46,931,394	\$ 6,956,315	\$ 2,563,198	\$ 51,324,511
Less: Accumulated Depreciation	<u>35,757,647</u>	<u>4,918,119</u>	<u>2,535,017</u>	<u>38,140,749</u>
Net Property & Equipment	<u>\$ 11,173,747</u>	<u>\$ 2,038,196</u>	<u>\$ 28,181</u>	<u>\$ 13,183,762</u>

4. LONG-TERM DEBT

A. Changes in Long-Term Indebtedness

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

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amounts Due within one Year
Revenue bonds	\$366,830,000	\$ -	\$11,225,000	\$355,605,000	\$13,175,000
Issuance Premium	3,645,654	-	25,338	3,620,316	53,127
Total Revenue bonds	370,475,654	-	11,250,338	359,225,316	13,228,127
Installment purchases	4,028,192	7,552,269	1,159,680	10,420,781	1,473,093
Contracts	755,478	-	17,675	737,803	18,713
Compensated absences	531,057	353,448	368,285	516,220	352,374
Total	<u>\$375,790,381</u>	<u>\$7,905,717</u>	<u>\$12,795,978</u>	<u>\$370,900,120</u>	<u>\$15,072,307</u>

Balance as of
June 30, 2004

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 \$1,635,000 to \$2,515,000 with interest of 5.25% to 5.75% payable semiannually, the final installment due in 2012. Term bonds issued in the principal amount of \$11,590,000 with interest of 5.90% are due in 2016. The bonds are payable primarily from the Commonwealth Port

Fund. 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.	\$ 30,055,000
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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 \$1,885,000 to \$2,885,000 with interest of 4.75% to 6.00% payable semiannually, the final installment due in 2012. Term bonds issued in the principal amounts of \$17,025,000, \$33,090,000, and \$18,460,000 with interest of 5.65%, 5.50%, and 5.60% are due in 2017, 2024, and 2027, respectively. The bonds are payable from net revenues of the Authority.	89,795,000
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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 \$8,240,000 to \$10,085,000 with interest of 4.75% to 5.50% payable semiannually, the final installment due in 2008. These bonds were issued to refund the outstanding principal amount of the Series 1988 Bonds of the Authority and are payable on a parity with outstanding Series 1996 Bonds. The bonds are payable primarily from the Commonwealth Port Fund. Such revenues currently consist of a portion of the additional revenues derived from certain increases in motor vehicle fuel taxes, sales and use taxes, and annual motor vehicle registration fees.	45,600,000
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On July 23, 2002, Commonwealth Port Fund Revenue Bonds, dated July 11, 2002, were issued in the principal amount of \$135,000,000. Serial bonds issued in the principal amount of \$90,850,000 are payable in annual installments varying from \$1,000,000 to \$7,590,000 with interest of 2.25% to 5.5% payable semiannually, the final installment due 2022. Term bonds issued in the principal amounts of \$16,360,000 and \$27,790,000 with interest of 5.125% and 5.0% are due in 2024 and 2027, respectively. These 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.	135,000,000
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On June 26, 2003, Port Facilities Fund Revenue Bonds, dated June 18 2003, were issued in the principal amount of \$55,155,000. Serial bonds issued in the principal amount of \$18,880,000 are payable in annual installments varying from \$415,000 to \$2,210,000 with interest of 2.00% to 5.25% payable semiannually, the final installment due 2024. Term bonds issued in the principal amounts of \$4,945,000, \$6,090,000, \$4,945,000, \$5,000,000, \$15,295,000 with interest of 4.0%, 4.375% , 5.00%, 4.75% and 4.50% are due in 2013, 2023, 2028, 2028, and 2033, respectively. These bonds are payable from the net revenues of the Authority.	55,155,000
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Sub-total revenue bonds	\$355,605,000
Issuance Premium, Net	3,620,316
Total revenue bonds	\$359,225,316

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%.

115,051

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 4.93%.

2,753,461

A contract dated December 11, 2003, for the lease purchase of terminal equipment totaling \$6,750,000 with initial payment of \$13,838 and semi-annual payments of \$406,659 for a period of ten years at an interest rate of 3.69%.

6,750,000

A contract dated April 15, 2004 for the lease purchase of terminal equipment totaling \$802,269 with initial payment of \$4,199 and semi-annual payments of \$85,798 for a period of five years at an interest rate of 2.4795%.

802,269

Total installment purchases	\$10,420,781
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Contracts:

A contract dated May 15, 1986, for the construction of certain harbor projects to increase the depth of shipping channels at Hampton Roads totaling \$928,077. The agreement requires annual payments for a period of 30 years including interest at the current Treasury rate, plus 1/8 of 1% for transaction costs beginning May 1997. Every 5 years the interest rate will be recalculated using the Treasury rate in effect at that time. The last recalculation was performed as of May 2001.

737,803

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 Statement of Net Assets. At June 30, 2004, the amounts reflect all earned vacation and compensatory

leave not taken, and the amount payable under the Authority's sick leave pay-out policy upon termination, which is the lesser of 25 percent of sick leave not taken or \$5,000 per employee for employees hired prior to July 1, 1997. The compensated absence liability also includes related payroll taxes. 516,220

Total long-term indebtedness \$ 370,900,120

C. Annual Long-Term Debt Requirements

A summary of future principal and interest obligations under long-term debt as of June 30, 2004 (excluding compensated absences), is as follows:

Revenue Bonds

Year Ending June 30,	Principal	Interest	Unamortized Issuance Premium	Total
2005	\$ 13,175,000	\$ 18,092,150	\$ 53,127	\$ 31,320,277
2006	15,240,000	17,408,225	98,326	32,746,551
2007	16,470,000	16,602,999	140,244	33,213,243
2008	18,350,000	15,700,556	174,872	34,225,428
2009	19,290,000	14,713,901	197,279	34,201,180
2010-2014	53,530,000	64,532,543	1,184,936	119,247,479
2015-2019	62,460,000	48,548,478	1,059,684	112,068,162
2020-2024	69,485,000	31,453,606	486,426	101,425,032
2025-2029	72,310,000	11,483,143	205,074	83,998,217
2030-2034	15,295,000	1,781,438	20,348	17,096,786
Total	<u>\$ 355,605,000</u>	<u>\$ 240,317,039</u>	<u>\$ 3,620,316</u>	<u>\$ 599,542,355</u>

Installment Purchases

Year Ending June 30,	Principal	Interest	Total
2005	\$ 1,473,093	\$ 382,410	\$ 1,855,503
2006	1,509,194	324,986	1,834,180
2007	1,565,773	259,050	1,824,823
2008	1,279,796	195,063	1,474,859
2009	825,525	159,389	984,914
2010-2014	3,767,400	384,990	4,152,390
Total	<u>\$ 10,420,781</u>	<u>\$ 1,705,888</u>	<u>\$ 12,126,669</u>

Contracts Payable

Year Ending June 30,	Principal	Interest	Total
2005	\$ 18,713	\$ 43,346	\$ 62,059
2006	19,812	42,246	62,058
2007	20,976	41,083	62,059
2008	22,209	39,850	62,059
2009	23,513	38,545	62,058
2010-2014	139,984	170,309	310,293
2015-2019	186,230	124,065	310,295
2020-2024	247,751	62,543	310,294
2025-2029	58,615	3,444	62,059
Total	<u>\$ 737,803</u>	<u>\$ 565,431</u>	<u>\$ 1,303,234</u>

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.

5. 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, 2004, \$9,300,000 of defeased bond was outstanding.

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.

7. COMMITMENTS AND CONTINGENCIES

As of June 30, 2004, the Authority has commitments to construction contracts totaling \$220,905,112 of which \$139,564,905 has been incurred.

The Authority is involved in continuing claims related to the construction of terminal infrastructure, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Authority in respect to the various claims; however, it is believed that any ultimate liability resulting from these claims will not have a material, adverse effect on the financial condition of the Authority.

On October 15, 2003, the Authority received approval to enter into a \$45 million Master Lease Agreement with Banc of America Leasing and Capital, LLC for the installment financing of certain equipment over a three-year period. Equipment financed under each draw of the Master Lease serves as collateral for all debt outstanding under the Master Lease.

The Authority is committed under various operating lease agreements for office facilities and equipment. The commitments range from one month to 30 months 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 \$181,742 for the year. A summary of future obligations under lease agreements as of June 30, 2004, follows:

Year Ending June 30,	Amount
2005	\$ 123,230
2006	53,913
2007	28,930
2008	28,930
2009	28,930
Thereafter	113,307
Total	<u>\$ 377,240</u>

On April 23, 2003 the Authority, acting as agent for the Commonwealth, signed a Project Cooperation Agreement (PCA) with the Department of the Army for dredging the inbound channel of the Norfolk Harbor, and related channels, to a depth of 50 feet. In connection with the PCA, the Authority received \$17.475 million from the Priority Transportation Fund of the Commonwealth as matching funds required under the PCA. The Authority incurred \$2.4 million in expenditures for dredging the channel during fiscal year 2004. The matching funds were deposited into an escrow account in the name of the Authority. However, the Department of the Army has the sole and unrestricted right to draw upon all or any part of the principal funds deposited in the escrow account.

The Authority received a federal grant totaling \$5,293,140 in fiscal year 2003 and two federal grants totaling \$3,965,000 in fiscal year 2004 to improve security around the ports of Virginia in the wake of the terrorist attack on September 11, 2001. The grants are subject to review and audit under the "Office of Management and Budget Circular A-133." Entitlement to these resources is conditional upon compliance with the terms and conditions of the agreements, including the expenditure of resources for allowable purposes. The Authority is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowance of certain charges.

VIT is a defendant in various lawsuits generally incidental to its business. It is management's opinion that the financial position of the Company will not be materially affected by the ultimate resolution of litigation pending or threatened at June 30, 2004.

At June 30, 2004, VIT has a letter of credit issued in the amount of \$4,000,000 for workers' compensation claims. The letter of credit bears interest at prime and is set to expire at March 31, 2005. At June 30, 2004, there were no borrowings outstanding.

VIT permits employees to accumulate unused personal 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 \$2,911,959 at June 30, 2004 to the extent of the benefits that are payable. VIT is also contingently liable for personal and vacation leave of \$3,866,621 at June 30, 2004 representing amounts employees could use during their period of employment.

8. 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 plan's Actuary. The Authority elected to contribute 4% of

base pay in 2004, 23% of base pay in 2003 and 9% of base pay in 2002 for employees receiving the basic retirement benefit from the plan. 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:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Service cost-benefits earned during the year	\$ 348,524	\$ 197,071	\$ 142,820
Interest on projected benefit obligation	138,803	111,771	44,309
Expected return on assets	(167,011)	(36,821)	13,025
Net amortization and deferral	<u>183,283</u>	<u>87,904</u>	<u>(6,465)</u>
Annual pension cost	503,599	359,925	193,689
Contributions made	(149,822)	(802,299)	(209,420)
Additional minimum liability	<u>(435,518)</u>	<u>158,952</u>	<u>689,672</u>
Increase(Decrease) in pension obligation	(81,741)	(283,422)	673,941
Pension obligation, beginning of year	<u>583,758</u>	<u>867,180</u>	<u>193,239</u>
Pension obligation, end of year	<u>\$ 502,017</u>	<u>\$ 583,758</u>	<u>\$ 867,180</u>

The annual pension cost for the current year was determined as part of the August 2004, 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 obligation was 6.25% for 2004, 6% for 2003 and 7% for 2002. The estimated rate of increase in future compensation levels used was 4%. The expected long-term rate of return on assets used in determining net periodic pension cost was 8%.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's Statement of Net Assets at June 30, 2004, 2003 and 2002.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2004	\$ 503,599	30%	\$ 502,017
June 30, 2003	\$ 359,925	223%	\$ 583,758
June 30, 2002	\$ 193,689	108%	\$ 867,180

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% of the first 6% of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was \$101,019 and \$97,103 for the years ended June 30, 2004 and 2003, 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 & Tax 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 Employment 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 annual pension cost for the current year was determined as part of the September 30, 2003 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The discount rate used in determining the actuarial present value of the projected benefit obligation was 7.5% in 2004, and 8% in 2003 and 2002. 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:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Service cost – benefits earned	\$ 1,156,600	\$ 987,000	\$ 982,000
Interest cost of projected benefit obligation	2,260,700	2,144,000	1,910,000
Expected return on assets	(2,675,000)	(2,429,000)	(2,550,000)
Net amortization and deferral	151,300	76,400	42,700
One time recognition - VROP	<u>-</u>	<u>-</u>	<u>37,300</u>
Annual pension cost (credit)	893,600	778,400	2,722,000
Contributions made	<u>(1,299,000)</u>	<u>(2,916,100)</u>	<u>(2,840,200)</u>
Increase in prepaid pension obligation	<u>(405,400)</u>	<u>(2,137,700)</u>	<u>(118,200)</u>
Prepaid pension obligation, beginning of year	<u>(7,762,400)</u>	<u>(5,624,700)</u>	<u>(5,506,500)</u>
Prepaid pension obligation, end of year	<u>\$ (8,167,800)</u>	<u>\$ (7,762,400)</u>	<u>\$ (5,624,700)</u>

The following table sets forth the plan's funded status and the related amounts recorded in the Company's Statement of Net Assets at June 30, 2004, 2003 and 2002.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Prepaid Pension Obligation</u>
June 30, 2004	\$ 893,600	145%	\$ (8,167,800)
June 30, 2003	\$ 778,400	375%	\$ (7,762,400)
June 30, 2002	\$ 2,722,000	104%	\$ (5,624,700)

VIT also sponsors two noncontributory supplemental plans covering certain key employees. Assets of \$1,876,388 and \$1,827,788 in 2004 and 2003, respectively, have been allocated for future benefit payments under the provisions of the supplemental plans. The accrued liability was \$2,125,712, and \$1,876,091 as of June 30, 2004 and 2003, respectively. There were no contributions to the plans for 2004, and contributions to the plans totaled \$400,000 in 2003.

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% of the first 3% of the participant's base pay contributed to the deferred compensation plan. VIT's total contribution to the matching savings plan was \$312,269 and \$280,492 for the years ended June 30, 2004 and 2003, 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, 2004 and 2003 are classified as follows:

	<u>2004</u>	<u>2003</u>
Workers' compensation claims	\$1,687,337	\$1,582,731
Workers' compensation claims, noncurrent portion	<u>1,121,028</u>	<u>2,208,988</u>
	<u>\$2,808,365</u>	<u>\$3,791,719</u>

The accrued Department of Labor (DOL) assessment component is the 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 Injury Fund. The total liability has been discounted using a rate of 6.75% and 7.5% at June 30, 2004 and 2003, respectively. The undiscounted liability totaled approximately \$8,730,000 and \$10,400,000, at June 30, 2004 and 2003, respectively. VIT expects to pay these assessments annually through 2034. The balances at June 30, 2004 and 2003 are classified as follows:

	<u>2004</u>	<u>2003</u>
Accrued DOL assessment	\$ 812,663	\$ 917,269
Accrued DOL assessment, noncurrent portion	<u>4,828,337</u>	<u>4,762,731</u>
	<u>\$5,641,000</u>	<u>\$5,680,000</u>

10. 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.

11. SUBSEQUENT EVENT

On July 8, 2004, the Authority financed the purchase of three container cranes and four straddle carriers, with an acquisition cost of \$14.3 million, under its Master Lease Agreement with Banc of America Leasing and Capital, LLC.

REQUIRED SUPPLEMENTARY INFORMATION

VIRGINIA PORT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS - SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2004

	Original Budget	Final Appropriated BudgetSpecial Fund	Actual	Variance Favorable (Unfavorable)
Revenues:				
Rental income	\$ 1,026,764	\$ 1,026,764	\$ 1,026,836	\$ 72
Interest income	-	-	28,700	28,700
Miscellaneous income	114,000	114,225	432,171	317,946
Payments from Virginia International Terminals, Inc.	25,300,000	25,300,000	37,199,831	11,899,831
Total revenues	26,440,764	26,440,989	38,687,538	12,246,549
Expenditures:				
Commerce and Agriculture Markets Developments and Improvements:				
Commerce advertising	678,503	678,503	669,581	8,922
National and international trade services	7,773,552	7,873,552	7,872,919	633
Port traffic rate management	179,593	179,593	178,537	1,056
Water Transportation System Planning:				
Port facilities planning	422,337	422,337	419,604	2,733
Port and Port Facility Management:				
Maintenance of ports and facilities	910,850	110,850	109,456	1,394
Port facilities acquisition	1,223,227	1,237,066	1,237,066	-
Security services	4,269,183	4,569,183	4,568,447	736
Terminal administration	365,000	1,164,000	1,162,867	1,133
Financial assistance to local ports	580,000	580,000	515,288	64,712
Payments to Virginia International Terminals, Inc.	-	6,781,000	6,781,000	-
Total expenditures	16,402,245	23,596,084	23,514,765	81,319
Excess of revenues over expenditures	10,038,519	2,844,905	15,172,773	12,327,868
Other financing sources/(uses):				
Operating transfers in	2,714,077	2,714,077	2,706,101	(7,976)
Operating transfers out	(14,344,820)	(32,290,098)	(31,060,909)	1,229,189
Proceed from Lease Purchase	-	7,552,269	7,552,269	-
Reversion to the General Fund of the Commonwealth	(693,813)	(693,813)	(693,813)	-
Total other financing sources/(uses)	(12,324,556)	(22,717,565)	(21,496,352)	1,221,213
Net change in fund balance	(2,286,037)	(19,872,660)	(6,323,579)	13,549,081
Fund balance as of July 1, 2003	15,856,548	15,856,548	15,856,548	-
Fund balance as of June 30, 2004	\$ 13,570,511	\$ (4,016,112)	\$ 9,532,969	\$ 13,549,081

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

VIRGINIA PORT AUTHORITY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2004

1. RECONCILIATION OF BUDGETARY (CASH) AND GAAP BASIS

The accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - 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:

	<u>Special Revenue Fund</u>
Fund balance on budgetary (cash) basis – June 30, 2004	\$ 9,532,969
Adjustments:	
Accrued revenues on GAAP basis	4,857,539
Accrued expenditures on GAAP basis	<u>(3,750,770)</u>
Fund balance on GAAP basis - June 30, 2004	<u>\$10,639,738</u>

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 2, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

Board of Commissioners
Virginia Port Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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 then ended June 30, 2004, 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 the Virginia International Terminals, Inc., a component unit of the Port Authority, which is discussed in Note 1(A). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit of the Port Authority is based on the reports 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. The financial statements of Virginia International Terminals, Inc., a component unit of the Port Authority that were audited by other auditors upon whose reports we are relying, were audited 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. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the discretely presented component unit of the Virginia Port Authority as of June 30, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages one through seven and the budgetary comparison for the Special Revenue Fund on page 38 are not a required part of the basic financial statements, but are supplementary information required by accounting principles general accepted in the United States of America. 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 2, 2004 on our consideration of the Virginia Port Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

DBC:whb

VIRGINIA PORT AUTHORITY

Norfolk, Virginia

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Jodie L. Asbell, Deputy Clerk to the Board

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