The attached KPMG Operational Assessment Assistance Report is provided in part and withheld in part because the release of certain parts of the report is prohibited by law. The Virginia Port Authority is prohibited by law from disclosing proprietary information and data furnished to it in confidence. *See* Va. Code § 62.1-132.4; *see also* Va. Code § 2.2-3705.6(1).

All redactions to the report were made as required by § 62.1-132.4 of the Code of Virginia. The redacted information consists of proprietary information and data provided to the Virginia Port Authority in confidence. In addition to the redactions shown in the attached report, the following pages have been redacted in their entirety: 14-19, 35-45, 47, 50, 52-63, 66, 68, 70-72, 74-77, 79-92, 94-97, 104-106, 108-138, 140-145, 147, 155-160, 165-182.

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Project Norfolk

Operational Assessment Assistance Report

November 19, 2013

This report is provided to the Virginia Port Authority ("Client" or "you") pursuant to our amended and restated task order dated November 2013 and is subject in all respects to the terms and conditions of that task order, including restrictions on disclosure of this report to third parties.

If this report is received by anyone other than our client, the recipient is placed on notice that the attached report has been prepared solely for our client for its own internal use and this report and its contents may not be shared with or disclosed to anyone by the recipient without the express written consent of the Virginia Port Authority and KPMG LLP. KPMG LLP shall have no liability, and shall pursue all available legal and equitable remedies against recipient, for the unauthorized use or distribution of this report.

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November 19, 2013

PRIVATE
Virginia Port Authority
600 World Trade Center
Norfolk, VA 23510

We have completed our engagement to assist the Virginia Port Authority ("Client" or "you") in performing an operational assessment of Virginia International Terminals, Inc. ("VIT") in accordance with the terms of the amended and restated task order dated November 2013.

Objective

The objective of our engagement was to assist you with your assessment of certain VIT business activities and related financial data that you have identified as important to your planned restructuring activities. Our on-site work was conducted at VIT's offices and operating facilities located in Norfolk, VA. The primary scope of our engagement was to obtain, read, make inquires concerning, and comment on information that you and VIT provided to us, directed toward those business activities and related financial data that you identified as important.

Basis of information

The task order describes the procedures we were to perform. Those procedures were selected by you and were limited in nature and extent to those that you determined best fit your needs. We make no representation regarding the sufficiency for your purposes of the procedures you selected, and those procedures will not necessarily disclose all significant matters about VIT or reveal errors in the underlying information, instances of fraud, or illegal acts, if any.

The procedures we performed do not constitute an audit, examination or review in accordance with standards established by the American Institute of Certified Public Accountants ("AICPA"), and we have not otherwise verified the information we obtained or presented in this document. Also, any procedures we performed with respect to VIT's internal control over financial reporting were substantially less in scope than an examination of internal control conducted in accordance with Statements on Standards for Attestation Engagements issued by the AICPA. Therefore, we express no opinion or any other form of assurance on VIT's internal control over financial reporting or on the information presented in this document, and make no representations concerning its accuracy or completeness. Furthermore, we have not compiled, examined, or applied other procedures in accordance with Statements on Standards for Attestation Engagements issued by the AICPA to prospective information contained in this document and, accordingly, express no opinion or any other form of assurance or representations concerning the accuracy, completeness or presentation format of such prospective information. There will usually be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Our procedures concentrated on the following financial information:

Balance Sheets at June 30, 2010, 2011 and 2012 and Income Statements for the 12 months ended June 30, 2010, 2011 and 2012 audited by Witt Mares, PLC; unaudited monthly balance sheets and income statements for FY10, FY11, FY12 and for the 10 months ended April 30, 2013.

At your request, we did not retain information related to carrier contracts and container pricing and have not presented such information in this report.

Specific VIT officers and management interviewed included (such officer designations being those applicable prior to the conversion of VIT to a single member LLC): Joe Ruddy, President and CEO; Bob Nestor, Strategic Planning Manager; Regina Brayboy, Vice President, Administration & Financial Services; Tom Capozzi, Vice-President, Global Sales & Customer Service; Dan Allen, Controller; Shawn Tibbetts, Director, Operations & Maintenance; Mark Thorsen, Chief Information Officer; Beth Neville, Financial Information Systems Manager; Kevin Martin, General Accounting Manager; John Jackson, Manager, Billing & Customer Service; and Gene Ferguson, Manager N4 Development.

The data included in this document was obtained from you and VIT on or before November 19, 2013. We have no obligation to update this document or to revise the information contained herein to reflect events and transactions occurring subsequent to November 19, 2013. We have not reviewed a draft of this document with VIT's management for the purpose of confirming the factual accuracy of the information we presented.

Because of its special nature, this report is not suited for any purpose other than to assist you in your evaluation of VIT and, as such and as agreed in the task order, is restricted for your internal use only.

We look forward to continuing to provide service to Virginia Port Authority and Virginia Department of Transportation in the future.

KPMG LLP

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Contents

	Page
Executive Summary	5
Internal Control Environment	10
Procurement Process	27
Sales Operations, Revenue and Incentives	46
Labor Cost Structure and Control	69
Business Trends and Monitoring	103
Appendices	150

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Glossary of Terms

AP	Accounts payable
APBO	Accumulated post retirement benefit obligation
APMT	APM Terminal
AR	Accounts receivable
AWC	Adjusted working capital
CAGR	Compound annual growth rate
CAPEX	Capital expenditures
CE	Current expense reserve fund
CEMA	Capital expenditures and maintenance fund
CEO	Chief Executive Officer
CIO	Chief Information Office
COO	Chief Operating Officer
CPI	Consumer price index
CRY	Central rail yard
CY	Current year
D&O	Directors and officers
DOL	Department of Labor
DPO	Days payable outstanding
DSO	Days sales outstanding
EBITDA	Earnings before interest, tax, depreciation and amortization
ECY	Empty container yard
FTE	Full-time equivalent
FYXX	The 12 months ended June 30, 20XX
FYXXB	Budget for the 12 months ended June 30, 20XX
G&A	General and administrative expenses
HRCP	Hampton Roads Chassis Pool
HRMS	Hampton Roads Marine Services
IBNR	Incurred but not reported
ILA	International Longshoremen's Association
IT	Information technology
LTM Apr-13	The 12 months ended April 30, 2013
N.A. / n/a	Not available
N.Q.	Not quantifiable
NIT	Norfolk International Terminal
NNMT	Newport News Marine Terminal
OEM	Original equipment manufacturer
PBO	Projected benefit obligation
PMT	Portsmouth Marine Terminal
PO	Purchase order
PY	Prior year
RMG	Rail mounted gantry crane
RTG	Rubber tired gantry crane
SG&A	Selling, general and administrative
ST/OT/FT/DT	Straight time / overtime / flextime / double time
The Company	Virginia International Terminals, Inc., or VIT
TOS	Terminal operating system
VIM	Virginia Intermodal Management
VIP	Virginia Inland Port
VIT	Virginia International Terminals, Inc. or the Company
VPA	Virginia Port Authority
YTD Apr-13	The 10 months ended April 30, 2013

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Executive Summary

Findings and Recommendations (1)

Area	Findings	Recommendations
Internal control environment	▪ VIT's current mission may not always be consistent with certain stakeholders' expectations of maximizing earnings and cash transfers to the VPA. Operating management appears to require guidance as to the appropriate course of action when evaluating potential opportunities to improve financial performance. ▪ There are weaknesses and risks with respect to key aspects of VIT's internal control environment: ▪ Lack of an internal audit function - the VIT internal auditor position has been vacant since May 2012. Additionally, there was no formal approved audit work plan prior to this date. ▪ Systems changes – the Company is currently undertaking widespread IT systems changes. ▪ Process and control documentation – the Company does not document processes and controls related to key areas of the operations including, for example, customer billing and collection.	Business goals should be clearly communicated to operating management; these goals should be objective, measurable and approved by all stakeholders The internal auditor position should be re-established, reporting to the VPA board (or, as applicable, its audit committee or a designated sub-committee) Consider an independent evaluation of the status and processes related to the IT systems implementations Document key processes and controls
Board level performance monitoring	▪ Prior to VIT's conversion to a single member LLC, the company provided a broad range of financial and operating data to its board each month. Although the VPA executive director was, until the conversion, a VIT board member, we understand that the VPA board does not consider that communication about VIT's operations and commitments has always been adequate. ▪ The VPA/VIT restructuring will result in a direct line of communication to the VPA board. There are also opportunities to enhance the scope and structure of operational/financial reporting and other governance matters. ▪ VPA board review has resulted in increases to VIT's budgeted net income and VPA transfers in FY13 and FY14, respectively. VIT management has previously implemented cost-savings based initiatives in response to VPA input but expressed concern that VPA-approved budgets may not be achievable. The VPA board provided recommendations on areas where potential incremental cost savings may be achieved (particularly arising from benchmarking of discretionary and maintenance expenses) but these were not supplemented by specific implementation plans.	Establish and communicate a clear protocol for VIT operating decisions which require VPA Executive Director or board approval Establish a concise standard financial/operational board report covering key components of financial results and position, and sales/operating statistics Budget changes should be supported by specific action plans

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Findings and Recommendations (2)

Area	Findings	Recommendations
Procurement	▪ The vendor selection process does not include formal requirements to ensure competition. Long-standing vendors have been retained without competitive bidding at the time of initial contracting or in subsequent periods. We were informed that VIT is not subject to Virginia statutory procurement law. The VPA board issued a resolution in March 2012 requesting that VIT consider the implementation of procurement policies and procedures to better align with the VPA; we did not see evidence of the application of this resolution at VIT. ▪ There is a lack of formal processes and controls related to non-purchase order procurement (i.e. contracting). This increases the risk that contracts for goods and services may be entered into without appropriate review and approval. ▪ [redacted] ▪ We noted several instances where existing policies and procedures have not been enforced, for example with respect to authorization levels. Where authority above written limits has been delegated to certain individuals, such delegation has not been documented. ▪ Other potential areas for improvement in the procurement process include: vendor file management and reducing concentration of senior management approval authority.	Implement more formalized requirements for ensuring competition including subjecting incumbent vendors to re-bidding Establish a contract management process to ensure proper authorization, promote standardization in form and terms etc., and provide greater visibility to exceptions Consider increasing controls (including process documentation) governing the approval process for non-PO invoices Consider extending the responsibility of the purchasing group to cover oversight of all procurement Consider adjustment to purchase authorization limits to promote efficiency, control and oversight Re-establish the internal auditor position: the internal auditor has a significant role to play under the Fraud, Waste and Abuse policy in addition to day-to-day monitoring of major processes
Customer contracts and billing	▪ The Company has agreed to numerous carrier-specific variances to underlying alliance contracts as a result of market changes and in execution of its sales goals. There are shortcomings in the administration of these arrangements: for example, we were not provided with a single company-wide master list/summary of all the agreements. ▪ The increasing complexity and variability of the Company's revenue streams arising from the above have resulted in billing process requirements beyond core system capabilities. VIT's management has addressed these needs principally through additional manual processes covering for example, rail incentives, which are highly labor intensive. [redacted]	Review pricing structure and strategy, considering potential simplifications which would support a more streamlined billing process In conjunction with other ongoing system changes, consider automation of processing of discounts; incorporate separate reporting of all discounts and allowances

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Findings and Recommendations (3)

Area	Findings	Recommendations
Labor and personnel matters – Union Labor	[redacted] Volume growth and changes in the mix of business (e.g. rail versus gate) have resulted in significant increases in operating labor overtime and, in FY13, efficiency reductions. These trends together with significant hourly rate increases make it difficult to evaluate, at a high level, VIT management's effectiveness from a labor cost control perspective.	Establish consistent metrics for monitoring and reporting operating labor cost and efficiency, which correlate directly to financial performance/results Consider periodical monitoring and review of union labor practices to identify anomalies and opportunities for cost control; such monitoring should report directly to the VPA board (or its designated committee, as applicable)
Labor and personnel matters – Non-union Labor	The former VIT CEO was the only executive to have an employment agreement; other senior members of the VIT management team have severance agreements. These agreements were all approved by the VIT board. [redacted] In certain cases, the goals set to achieve incentive compensation awards appear to be routine responsibilities of the relevant positions, rather than a basis to incentivize/reward higher performance.	Update compensation studies as part of the VIT/VPA restructuring (the last was performed in FY10) Establish variable compensation plans which reward outstanding performance consistent with the organization's business objectives

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Findings and Recommendations (4)

Area	Findings	Recommendations
Business trends – financial performance	▪ Container volume grew 10% in FY13 [redacted] This reduction in margins and earnings per container has been driven by: ▪ Unusually high union labor rate increases in late FY12 [redacted] ▪ [redacted] ▪ [redacted] ▪ Although, as noted, rail volume is at lower margins than gate volume, it makes a positive contribution to total earnings; [redacted] in the absence of the contribution from the additional rail volume, earnings and cash flows would have decreased significantly in FY13. ▪ Free cash flow has also been negatively impact by a 3 day increase in DSO resulting partly from an increased time lag issuing invoices due to increasing volume and complexity of operations.	Review current pricing strategy with customers and seek to identify whether higher increases are achievable Review options for changing the port configuration which would allow increased volume to be served without reductions in efficiency Review billing and collection procedures to identify potential areas for improvement
Business trends – accounting matters	▪ VIT's reported balance sheet includes liabilities in respect of defined benefit pension plans, post retirement healthcare and workers' compensation [redacted] The valuation of these liabilities does not appear to be in accordance with GAAP. ▪ Post retirement liabilities have been recorded at the cumulative difference between income statement charges and cash funding; and ▪ Workers compensation liabilities are valued applying a general mortality assumption of 75. ▪ [redacted] ▪ VIT does not currently consolidate the chassis pool operator (HRCP), rather its net income is recorded as other income in VIM [redacted] VIM also records income from a facility fee charged to HRCP [redacted] resulting in a total contribution to reported earnings o [redacted]	Review the valuation of these liabilities with auditors and apply a methodology which is consistent with GAAP Consider the appropriate accounting for HRCP under GAAP and a more transparent presentation of HRCP's contribution to results

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Internal Control Environment

	Page
Internal Control Environment	
Summary Findings	10
Business Objectives	14
Rail and Gate Analyses	18
Culture and Communication	20
Governance and Oversight	21
Budget Analyses	23
Monitoring	24
Technology Environment	26

Summary Findings (1)

Area	Summary observations

Business Objectives
(page 14-19)
	VIT's mission
	- VIT's stated mission includes:
	  - Providing a safe workplace and operating environment;
	  - Rendering a productive and competitive service; and
	  - Enhancing the Port of Virginia as an economic engine for the Commonwealth.
	- This mission does not address explicitly the primary economic objectives of the operations. The VPA board considers that a key objective for the port operator is to maximize efficiency (from a cost and asset utilization perspective), regardless of the parameters placed around the operations. However, in some cases, VIT management perceives a potential conflict between (i) enhancing the port as an economic engine and (ii) maximizing profits and cash remittances to the VPA.
	- VIT management's perception may reduce transparency around certain business decisions and also result in management not pursuing all possible business opportunities:
	  - VIT did not typically compete with other operators which provide, for example, stevedoring, empty container yard management, and maintenance and repair services at the terminals; and
	  - VIT has certain operations that are not making a significant contribution to earnings (i.e. earnings of less than $1 million), for example, the Richmond barge, the Greensboro container yard and the Virginia Inland Port.
	Growth strategy and other opportunities
	- VIT has been focusing on growing the rail business as the most critical aspect of its commercial strategy to grow volumes. VIT management believes that the Virginia captive market is limited, and therefore the primary source of growth is rail cargo to the Midwest.
	  - [redacted]
	- [redacted]

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Internal Control Environment

Summary Findings (2)

Area	Summary observations
Culture & Communication (page 20)	▪ VIT's stated values include good corporate citizenship, and ethical and fair conduct in business affairs. A mission statement communicating VIT's vision, mission and values was rolled out during FY12 to the entire Company. ▪ The Company has published a policy manual (effective January 1, 2012) covering employment practices and relations, compensation, benefits and other areas. These policies are subject to annual review. ▪ There are specific policies covering Employment of Relatives, Conflict of Interest, and Fraud, Waste and Abuse. ▪ We were informed that VIT's values and policies in this regard were developed independently from VPA.
Governance & Oversight (page 21)	▪ VPA board's oversight of VIT is effectively limited to those areas prescribed under the Services Agreement, principally being: approval of the VIT budget, selection of the VIT board, and approval of the VIT President/CEO appointment. ▪ The VPA board receives certain VIT financial information, audited financial statements and other audit deliverables from VIT's external auditors. However, the VPA has no involvement in the VIT external audit process until it is finalized. ▪ VIT management acknowledged a need to provide greater transparency around certain operating decision-making (e.g. service pricing; rail incentives). The Company has hired an individual responsible for business analytics, which may begin to address this matter
Budgeting and Performance Monitoring (page 22)	▪ VIT's budget has historically been reviewed and approved by both the VIT and VPA boards. ▪ Although the budget process started with a "bottom-up" approach, bottom line (net income, VPA cash transfer, etc.) changes were made subsequently based upon VIT management, VIT board and VPA board reviews. VIT management considers that final budgets include stretch goals. Although the VPA board has provided suggestions on areas which should be considered for potential cost reduction, these suggestions have not been formalized into specific actions plans. ▪ Budget to actual reviews have been focused on VPA cash transfer amounts and income statement captions. We were informed that VIT management has not been held responsible for budget variances on a cost or revenue line item basis. Much of VIT's costs are volume-driven; analysis of certain direct/variable costs in absolute $ terms is not appropriate. ▪ VIT financial reporting does not include significant infrastructure-related costs specific to the terminals it operates, particularly the APMT lease costs and significant capital equipment costs which are reported within the VPA's financial information. As such, VIT's stand alone financial statements do not provide a complete presentation of the performance of the terminals.

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Internal Control Environment

Summary Findings (3)

Area	Summary observations
Monitoring – Internal Audit (page 24)	The VIT internal auditor position has been vacant since May 2012. Through May 2012 there was a single internal auditor who reported directly to the VIT board. The internal auditor's work was focused on documenting processes and supporting external audit work. We were informed that there was no approved internal audit work plan.
Monitoring – External Audit (page 25)	The external auditors (Witt Mares, now PB Mares) typically complete audit work in August and present the audited financial statements at the VIT August board meeting. • The auditors generally meet with the VIT audit committee twice per year. • Materials presented to the audit committee and the VIT board include a management letter, a PowerPoint presentation of key focus areas and findings, and other required communication including a representation letter and schedule of passed audit adjustments. • The auditors also meet with the VPA board, but the VPA board has not had direct oversight of the external audit activities (as noted such responsibility has resided with the VIT board). There were no material audit adjustments identified by the external auditors in FY12. The external auditor identified a significant deficiency in the Company's internal controls related to the Company's processes for modifying the billing system. According to the auditors, there is a lack of sufficient controls regarding access to the billing system's source code and formal documentation of system changes.
Technology environment (page 26)	VIT is undertaking widespread IT systems changes as follows: • The JD Edwards general ledger and the accounts receivable system was replaced with INFOR effective February 2013; • Payroll processing was transferred to ADP in FY12; • The NIT terminal operating system (TOS) is in the process of being replaced with Navis N4. The implementation is expected to be completed by the end of the 2013 calendar year; • NIT gate and equipment GPS systems are planned to be implemented in 2013 and 2014, respectively; • The APMT Navis system may be upgraded after NIT completes the Navis N4 project by the end of the 2013 calendar year; and • The Company is currently exploring options to replace the existing billing system. [redacted]

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Pages 14-19 have been redacted in their entirety. See Cover Page.

Culture and Communication

VIT and VPA each have their own vision and mission statements. Both missions include the port being an economic engine of Virginia.

Post reorganization, if you determine that VIT should focus on maximizing profit and cash flow to the VPA, you may want to consider revising VIT's stated mission.

Culture and Communication	
Company Vision and Mission	▪ VIT established a new vision, mission, and a set of values that govern all company operations. Its overall vision is: VIT will be recognized as a model for maritime terminal operations and as one of the best places to work in the region. ▪ The Company's mission is to provide a safe workplace and operating environment for their employees and customers and to enhance the Port of Virginia as an economic engine for the Commonwealth. ▪ The Company strives to be a good corporate citizen and engage in activities that support the quality of life of the surrounding communities and to be ethical and fair in their business affairs.
VPA	▪ VPA's mission statement, on behalf of the Commonwealth, is to foster and stimulate the commerce of the ports of the Commonwealth and related facilities and in general to perform any act or function which may be useful in developing, improving, or increasing the commerce. ▪ VPA's goal is to stimulate economic growth both at the Port and throughout the Commonwealth of Virginia.
Policy Manual	▪ The Company has published a policy manual (effective January 1, 2012) covering employment practices and relations, compensation, benefits and other areas. ▪ The Company is an equal employment opportunity employer. Discrimination in wages, benefits and all other privileges, terms and condition of employment is prohibited. The Company is dedicated to a policy of prohibiting harassment and discrimination in hiring and employment because of race, color, age, gender, religion, national origin, veteran's status, physical or mental disabilities. ▪ Employees are expected to represent the Company in a positive and ethical manner. Employees may not engage, directly or indirectly, on or off the job, in any conduct which is disloyal, disruptive, competitive, or damaging to the Company. ▪ The Company expects all supervisory employees to conduct themselves in a manner befitting their positions of responsibility, accountability, and entrustment. ▪ The Company does not tolerate any type of fraud, theft, waste, or abuse. The Company's policy is to promote consistent, legal, and ethical organizational behavior. Failure to comply with this policy subjects an employee to disciplinary action, including termination. ▪ The Company has established an open door policy to resolve employee complaints in a manner which there will be no retaliation against anyone for his/her part in the presentation of a complaint.

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Governance and Oversight

The Company is a component of the Virginia Port Authority (VPA) and operates under the terms of the Services Agreement, as amended on Sept 24, 2008. Prior to the conversion of VIT to a single member LLC, there was no clear guidance on what business decisions need to be approved by the VIT board and/or the VPA board.

Although two VPA board of commissioners and the executive director of VPA formerly sat on the VIT board, there appears to have been a lack of communication on VIT performance and key business decisions to the VPA board of commissioners.

Overview	
Operating Agreement	▪ VIT operates as an independent contractor for the VPA under the terms of the Services Agreement. ▪ The Services Agreement requires VIT to make monthly cash payments to VPA based on the terms of the agreement. VIT is required to transfer all revenue collected for the previous month less the sum of: (i) costs and expenses incurred in the operations for the prior month; (ii) replenishment of the CEMA fund for expenses to maintain and improve terminal facilities, and (iii) contributions to the CE fund. ▪ VPA is authorized under the Services Agreement to establish rates and charges concerning the use of the terminals and related services. VPA is authorized to delegate to VIT the responsibilities to fix, revise and enforce such rates. However, any such delegation shall not compromise the responsibility and authority of VPA to determine rates necessary to carry out its function.
VPA Board Approval	▪ The VPA board historically appointed the VIT board of directors and approved the annual VIT budget. ▪ The VPA board meets every other month, during which VIT's monthly presentational financial statements are presented to the board. ▪ Prior to the conversion to a single member LLC, VIT appointed its President and CEO with prior review and approval from the VPA board. ▪ VIT's external auditor presents the audited financial statements and management reports to the VPA board. The VPA board approves VIT's audited financial statements.
VIT Board Approval	▪ The VIT board formerly met on a monthly basis, typically a week after VIT published its monthly presentational financial statements. The board reviewed both the monthly presentational financial statements and a board package comprised of financial highlights, sales updates, and operational metrics. ▪ The executive director of VPA formerly sat on the VIT board. Starting in 2012, two VPA board of commissioners members also sat on the VIT board. ▪ There are three sub-committees: 1) Executive committee – approves hiring, termination and compensation of the CEO and governs other executive related issues; 2) Benefits committee – governs all employee benefits matters; and 3) Audit committee – appoints external auditor and approves the audited financial statements.
Reporting Documents	▪ Annual consolidated financial report – consists of consolidated VIT balance sheets, income statements, cash flow and related management discussions. ▪ Monthly presentational financial statements – comprised of financial statements, including monthly and YTD results by terminal, monthly VIT balance sheet, AR aging, actual to budget comparison, tonnage report and CAPEX summary. ▪ Other monthly documents consist of the following: 1) Sales dashboard – monthly sales update by major customer, and actual to budget volume; 2) VIT metrics – summary of operating and financial metrics; 3) VIT variance explanations – discussion of monthly actual to budget variances.

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FY13 and FY14 Budget Evolution

The Company starts the budgeting process using a "bottom-up" approach. However, once the original budget is compiled, various parties, including VIT management, the VPA, the VIT board and the VPA board, make requests to revise revenue, operating expenses, net income, and cash transfers to the VPA. These changes are incorporated into the budget and may not be supported by the underlying assumptions. For example, volume forecasts in the FY13 and FY14 budget remained consistent through the 7-8 revisions; however, net income increased $11.1 million in the FY13 budget and cash transfer to the VPA increased $4.3 million in the FY14 budget.

[redacted]

Budgeting process:

- The Company has a 'bottom-up" budgeting process. Each trial balance account is forecasted at the cost center level based on historical trends, economic projections and operational goals.
- The Company built its revenue forecast on a customer by customer basis based on historical volume and marketing department inputs [redacted]
- A preliminary budget is presented to the department directors, COO and CEO. The budget is revised based on management feedback and submitted to the VPA. The budget is further revised based on VPA feedback. The revised budget is submitted to the VIT and VPA boards for comments and approval and further revised accordingly.

Notes to schedule:

[redacted]

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Budget vs. Actual

The focus of the budget to actual review by VIT's senior management and the VIT and VPA board of directors is the cash transfer to VPA.

Management should consider defining fixed versus variable expenses during the budgeting process. Monthly budget to actual reviews should focus on large variances in fixed expenses. For variable expenses, volume-based metrics should be developed during the budgeting process, and budget to actual reviews should focus on variances from the budgeted metrics.

Source: Management provided schedules and discussions.

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Monitoring – Internal Audit

The Company had a single internal auditor who reported directly to the VIT audit committee. The VIT internal auditor position has been vacant since May 2012.

The table at right presents the internal auditor's work that was scheduled for FY12. In addition, the internal auditor drafted her risk assessment of activities at VIT. Highest risk rating activities included: (i) risk of abuse of vacation and personal leave policies; (ii) risk of staff & ILA's inability to rise to new technical challenges; (iii) risk of inefficiencies resulting from failure to reposition employees to their skills, experience and goals [redacted] risk of ILA strike.

Post the reorganization, the Company should consider re-establishing the internal auditor role.

[redacted]

Notes:

- The internal auditor's work was focused on supporting the external audit work, documenting processes and performing ad-hoc audit work as deemed necessary by the audit committee and senior management. We were informed that there was no approved formal internal audit work plan.
- In FY12, the internal auditor was tasked to perform approximately 49 audit tasks. Significant internal audit findings were presented to the audit committee in formal internal audit reports. The internal auditor completed approximately 6 audit reports and 6 topical reports prior to her departure. The last audit committee meeting attended by the internal auditor was on Jan 26, 2012. The significant findings from the meeting are noted below. The shaded items in the table at left represent audit tasks discussed during the Jan 26, 2012 meeting.

Significant internal audit findings during Jul-11 to Dec-11:

- [redacted]
- Credit card audit – The internal auditor performed an audit of the usage of company credit cards. More than 400 credit card purchases were examined for proper approval, existence of assets, purchases, receipts, and so forth. One purchased item selected for testing, an iPad, was discovered to be used solely for personal rather than business purpose. No other purchases selected for testing indicated any intentional misuse of a company credit card.
- Outsourcing and vendor policies – The internal auditor discovered that there were no written policies or guidelines for outsourcing and vendor contracting at the time. A preliminary list of policies has been presented to executive management for approval.
- APMT Container Counts – Audit of qualified containers for the APMT unit rate rent was completed. The number of containers reported for rent purchases was found to have a discrepancy of less than 1%.
- Inventory Management Analysis – Cost benefit analysis was performed on whether it's economic to store inventory at NIT as there were legitimate questions about the efficiency of storing parts in PMT to use at NIT. Although there may be $350,000 annual savings in inventory administration costs, it would cost $1 million to move the inventory to NIT and an additional $200,000 per year for warehouse rental at NIT.

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Monitoring – External Audit Function

VIT's annual financial statements, which are audited by PB Mares LLP, are included as a discretely presented component in the VPA's Comprehensive Annual Financial Report.

As you are aware, Clifton Larson Allen, another accounting firm, issues an audit opinion on the VPA's consolidated financial statements. Post-reorganization, you should consider the potential benefits (e.g., cost synergies, reporting efficiencies, comprehensive risk assessment) that the organizations could gain by consolidating the external audit function with one provider.

Overview

- PB Mares LLP currently provides two primary services to the Company:
  - **Financial Statement Audit and Pension Plan Audit** – During FY12, VIT incurred approximately $134,000 in expenses for the financial statement audit and pension plan audit.

    As is typical for companies of VIT's size, PB Mares compiled an audit plan that focused on substantive test work. Based on PB Mares' risk assessment, the key audit testing areas in FY12 were revenue recognition, inventory reserves, and accruals (especially pensions and workers' compensation). In association with the audit, PB Mares also issued a report on the Company's internal control over financial reporting.

Audit Findings

- In conjunction with an unqualified opinion on the Company's FY12 financial statements, PB Mares highlighted the following items in its communications with the Company and its Board of Directors (as further discussed at right):
  1. **Passed Adjustments** – While PB Mares did not identify any material audit adjustments, the audit team did identify three passed (i.e., un-booked) adjustments that would have resulted in additional net income of $71,000 (or additional EBITDA of $202,000).
  2. **Internal Controls** – PB Mares identified a significant deficiency in the internal controls related to the Company's processes for modifying the billing system. According to PB Mares, the Company lacked sufficient controls regarding : (i) access to the billing system's source code, especially by contracted employees; and (ii) formal documentation of system changes, especially for minor maintenance, and the requisite approvals.
  3. **Management Recommendations** – In addition to the significant deficiency, the auditor made two other internal control recommendations. First, PB Mares recommended that the Company establish a formal review process for the application of rail incentives, given the manual nature of the calculation process

Audit Findings (Continued)

and the increasing significance of discounts. The finding was in relation to an error that the auditors identified for one [redacted] Second, the audit team recomme[redacted]e Company improve the completeness and ongoing maintenance of employee personnel files. During the audit, PB Mares noted that several employee files did not contain the required VA4 or W4 forms.

Contribution to the Company's Overall Control Environment

- PB Mares contributes to the Company's broader framework of internal controls via a combination of formal documentation/communications and informal discussions with the Company. During FY12 the auditor issued three primary documents to the Company:
  1. **Consolidated Financial Report** – The Company's financial statement audit, which included both the audit opinion and report on internal controls.
  2. **Report to the Audit Committee, Board of Directors and Management** – A document, dated September, 2012, which contains the required auditor communications under AICPA guidance, a summary of passed adjustments and the detail of the FY11 and FY12 management recommendations.
  3. **Presentation to the Audit Committee and Board of Directors** – A 44-page PowerPoint presentation, which summarizes the results of the audit, provides an overview of the Company's financial performance via trend and ratio analysis, and discusses the aforementioned Report to the Audit Committee, Board of Directors and Management.
- PB Mares provided the key audit-related documents to the Company during two formal meetings with VIT's audit committee, a presentation to the VIT board of directors at the Aug-12 board meeting and a subsequent presentation to the full VIT/VPA board.
- In addition to the formal meetings, Tom Brooks, the audit Engagement Partner, indicated that the audit team has periodic conversations with the Company throughout the year, with respect to: (i) the more complex accounting areas, such as pensions and workers' compensation; and (ii) internal controls, especially to coordinate control testing and documentation during the period when the Company had a full-time internal auditor.

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Technology Environment

The Company is in the process of replacing NIT's in-house developed TOS system with Navis TOS 2.5. In conjunction with the new TOS implementation, the Company is also installing an automated gate system and GPS at NIT. It is critical for the Company's operation to have a smooth transition from the old TOS to the new TOS. Management should keep the VIT and VPA board informed of status of the N4 project including (i) current implementation schedule; (ii) identified risk areas; (iii) the Company's responses to the these identified risk areas; (iv) any delays; and (v) cost overruns.

Inventory of IT Systems

IT System	Vendor	Description	Part of N4 Project	Status of System Upgrade	[redacted]
Financial and Accounting Systems					
Sun Financials	INFOR	This replaced JD Edwards accounting system and the AR system in Feb-13. The old AR system was part of the billing system.	No	Completed	$ [redacted]
Enterprise Asset Management (EAM) system	INFOR	This is the asset management system including purchasing, work order management and inventory management functions. The Company has been using this system since 2007. The original vendor was DataStream, which was purchased by INFOR.	No	No upgrade is planned	
Billing system	N.A.	In house application. The Company is currently exploring options to replace the billing system.	No	*Navis N4 has a build-on Billing application. The Billing team will determine if the product is a good fit for VIT in Calendar year 2014.*	
Report writing application	Business Objects	In addition to the report writers within Sun Financial and EAM, the Company also uses Business Objects for report writing.	No	*No upgrade is planned although a small subgroup is investigating BI solutions*	
Payroll Systems					
Labor ordering system	N.A.	In house application, part of the legacy HP3000 system known as IKE. This system is used for union labor ordering, time tracking and time sheets approval. Work hours tracked in this system are transmitted to ADP through Timebank.	No	*This application is not being replaced as part of the TOS system replacement but another project sponsored by the HRSA will replace the legacy labor ordering system. This product is called Rostima*	[redacted]
ADP payroll system	APD	The Company switched to ADP for payroll processing in FY12.	No	N.A.	
Timebank	Timebank	This application sits between the labor ordering system and ADP. Timebank is APD's third party vendor for any customization payroll system needs. Given the complexity of the union rates structure, ADP uses Timebank to store pay rates and calculate gross pay before processing the payroll through its own system.	No	N.A.	
Operation Systems					
IKE	N.A.	In-house application developed in the 80's. The Company is in the process of replacing IKE with the Navis 2.5 TOS at all terminals except for APMT.	Yes	To be completed in FY14	[redacted]
Navis 3 TOS	Navis	APMT uses an older version of the Navis TOS. The Company may upgrade it to the most updated Navis version after it completes the N4 project.	No	*Considering upgrade to Navis 3.x (includes automated cranes) but decision has not been made*	[redacted]
New Systems					
NIT Automated Gate System	Navis	Per management, currently NIT gate has 13 lanes staffed with 2 ILA labor per lane. The automated gate system is intended to reduce the manual operation of the gate. APMT currently has an automated gate system.	Yes	To be completed in FY14	[redacted]
NIT GPS System	Navis	Per management, the GPS will accurately track worker location and container movements. APMT currently uses GPS in its operation.	Yes	To be completed in FY14	[redacted]
Total cost					[redacted]

Source: Management provided schedules and discussions.

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Procurement Process

	Page
Procurement Process	
■ Processes and Controls	28
■ VIT Vendor Testing	
– Key Findings	33
– Summary of VIT Disbursements and Reconciliation to Trial Balance	36
– VIT Top Vendors	38
– VIT Vendor Testing	39
■ HRSA and VMA Related Payments	45

Processes and Controls - Summary Findings (1)

Area	Summary observations
Policies and Procedures (page 30)	▪ VIT maintains a formal written procurement policy that describes detailed processes and related controls in place, and conveys the Company's expectation that procurement activities are carried out in a manner reflecting the organization's best interest while adequately controlling associated business risks. ▪ These policies do allow for documented exceptions, including authorization by selected members of senior management to delegate purchasing commitment authority to those outside of Purchasing, which has the primary responsibility under the policy for all procurement of goods and services. ▪ We note that the procurement policies in many regards are oriented towards the procurement of materials as opposed to services, and thus provide less specific direction, and potentially less control, over procurement of services. ▪ Ethical considerations in procurement are addressed separately through VIT's conflict of interest, gift and fraud, waste and abuse policies contained in the VIT Policy Manual. ▪ We identified exceptions from stated policies and procedures during our detailed testing, as described on the subsequent pages of this report.
Management and Oversight (page 30)	▪ The procurement process at VIT in practice is more decentralized than as proscribed in the Company's written policies. Purchasing is described in policy as a 'control group' with at least "functional" oversight on all procurement at VIT, but they have little to no involvement in purchasing activities related to certain contracted services, particularly for G&A expenditures. This may contribute to procurement practices that are ad-hoc and less than consistent with policy requirements.
Competition (page 31)	▪ Purchasing policies advocate for procurement at the lowest possible cost, but do not have enough formal requirements for ensuring competition to drive this objective. There are no formal or informal bidding requirements, and processes and controls for vendor selection and pricing considerations are considerably less formal and extensive in comparison to a state agency. ▪ The Purchasing policy acknowledges that VIT has many long standing vendors, and management represented that this is typically due to technical requirements limiting VIT's sourcing options, or due to a lack of capable local providers for certain services. In our detailed vendor testing, we noted the existence of an alternative local supplier for one product which has been consistently sole-sourced.
Authorization (page 31)	▪ Authority for approval of contracts and invoices is very concentrated at the senior management level, where only 4 employees can approve amounts greater than $3,500, and all amounts greater than $10,000 require CEO approval. While this structure provides for stricter control over expenditures, it may result in inefficiencies, and may also create opportunities for senior management to exert inordinate influence over day to day procurement activity.

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Processes and Controls - Summary Findings (2)

Area	Summary observations
Contracting (page 31)	While VIT maintains a standardized PO and associated terms and conditions, process and controls regarding contracting for non-PO procurement are informal and lacking. There is no contract management policy at VIT, nor a formal process to ensure that contracts for goods and services procured outside the PO process are appropriately in place, and are created, reviewed and approved in a manner sufficient to ensure consistency and afford proper legal protection.
Payments (page 32)	Segregation of duties is maintained in the payment process at VIT, to help ensure that the Company pays only for the goods and services that are actually requested, ordered and received. While not unique to VIT, this control is less strict for services, given the recipient of services is often also responsible for invoice approval. Weaknesses in this regard contributed to exceptions noted in our detailed vendor testing.

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Processes and Controls

VIT maintains documented policies and procedures governing its procurement process.

The purchasing department has a centralized responsibility for procurement per the Company's policy, but much of the procurement for contracted services, particularly for G&A expenses, occurs outside Purchasing.

Policies, Structure and Oversight

Procurement Standards

- The Company's Purchasing and Inventory and Management Policy Manual ("Purchasing Manual"), which was last updated in August 2012, is the primary policy governing the procurement process at VIT.
- Per the Manual, it is "VIT's policy to procure all goods and services "at the lowest possible cost" obtaining the "right" quality and quantity at the "right" time and place, and also advocates conducting business "...in VIT's best interest," promoting "open and fair competition," and to seek to minimize business risk in the process.
- Separately VIT maintains an Outsourcing Policy within the VIT Policy Manual, which is akin to an employee manual and primarily contains Company personnel policies and procedures. The Outsourcing Policy describes the process to be followed including key controls when VIT retains a third party to provide services relating to activities previously carried out internally by company personnel.
- The VIT Policy Manual also contains certain ethical standards of conduct that apply to the procurement process, including a conflict of interest and gift policy, and a policy addressing fraud, theft, waste and abuse where it may occur or be suspected involving a third party doing business with VIT.

Policies, Structure and Oversight (continued)

Purchasing Structure, Responsibility and Oversight

- According to the Purchasing Manual, functional responsibility and oversight for procurement activities are centralized within the "control group" Purchasing, within Financial Services.
  - While Purchasing has "commitment authority for procurement, responsibility for obligating the company and for making the final determination of supply sources, quantities purchased, delivery schedules and price negotiations," the policy allows for exceptions as authorized by senior management and acknowledges Company practice that purchasing decisions are often made in conjunction and consultation with other departments and functional areas.
  - The Purchasing Manager is stated to have the specific functional and oversight responsibility for procurement of all goods and services.
  - The Manual allows that personnel outside Purchasing with delegated authority may communicate with prospective suppliers regarding products, technical issues and pricing, and may handle negotiations under functional oversight provided by Purchasing. Purchasing has full authority, however, to question the type, quality and kind of material/service requested, in order to serve "the best interest of the Company."
  - In practice at VIT, while Purchasing is centrally responsible for the procurement of parts and materials, and certain types of equipment and recurring services, procurement for major contracted services, including identifying, selecting and negotiating with vendors, is handled by senior management and other operational and functional management personnel at the Company.

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Processes and Controls

The vendor selection process at VIT is lacking with respect to formal requirements to promote competition, in comparison to typical state agency practices.

Authorization controls are documented and concentrate all significant approval authority within a concentration of senior management.

VIT lacks a contract management policy or formalized contract management process.

Vendor set up is appropriately segregated from those with purchasing and payment responsibility.

Vendor Selection

General Requirements

- The vendor selection policy indicates VIT is to select vendors who provide the "best product, in a timely manner, for the best price."
- The policy details the circumstances and manner in which vendors may be assessed in the selection process. This could include assessment of financial stability, insurance coverage, ability to provide timely delivery, service level/reputation, material quality and pricing.
- Overall, vendor selection is an informal process at VIT, in that the policy does not reflect strict requirements for competition, and there are limited controls in place to ensure vendors under consideration are actually assessed in the areas described above.

Competition / Pricing Considerations

- There are no formal bidding requirements in the selection policy and no prohibitions on sole source vendors, or additional selection controls that would then apply. There is a formal quotation requirement for Parts Clerks in certain circumstances, as detailed below (please also note findings pertaining to this area in the Vendor Testing section).
  - Parts Clerks are required to obtain price quotes to fulfill requests for items that have not been purchased within the last 90 days. In this instance, the Clerk must obtain quotes from a minimum of three vendors.
  - While this formal requirement does not appear to apply to the purchase of contracted services, VIT personnel involved in procuring these services advised that price quotes are routinely obtained.

Vendor Selection (continued)

Competition / Pricing Considerations (continued)

- The Purchasing Manager advised that he often attempts to leverage state contract pricing for certain parts and materials, requesting that vendors honor these agreements for VIT as the non-profit operational arm of VPA.

Authorization

Contract and Payment Authorization

- A formal written Purchasing Authorization document is maintained and regularly updated, and details approval authority by position for more than 60 individual employees.
- Authority is tightly held, as only 4 positions can approve expenditures greater than $3,500.
- Please note findings pertaining to this area in the Vendor Testing section that follows.

Contracting

Contracting Requirements

- VIT uses a standard Purchase Order with terms and conditions that are reviewed and updated regularly. The Company also uses some standardized contract templates, but not all service vendors are under contract.
- The contracting process is informal and somewhat ad-hoc in practice. Apart from mentioning that Purchasing is responsible for contracts, and discussing the PO processing and requirements, the Purchasing Manual does not address contracts, relative to circumstances requiring a contract, use of a standard contract, legal review, etc.

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Processes and Controls

For purchases by PO, VIT maintains standard and appropriate controls (both manual and system) throughout the cycle, for requisitioning, purchase, receipt and payment.

Non-PO purchases are initiated and contracted for outside the DataStream system, and payments are processed through vouchering following manual approval of invoices.

Vendor Set Up

New Vendors /Segregation of Duties

- Responsibility for adding new vendors is segregated from those with procurement and payment responsibilities, and system controls are also in place which preclude access to setup by the latter group. New vendors are added to the system by an administrative resource in Risk Management.
- All new vendors receive a setup package detailing insurance requirements and PO terms and conditions, and are required to complete a W-9 and an acknowledgment form accepting the PO terms and conditions and disclosing SWAM status. The Risk Management resource identified above is responsible for tracking completion and following up with individual vendors.
- Please note findings pertaining to this area in the Vendor Testing section that follows.

Requisitioning, Purchase and Receipt

PO Purchases

- Requisitions are submitted within the DataStream system by Buyers in Purchasing and others at VIT with procurement responsibilities, and are routed for approval within the system to those with appropriate documented authority.
- On requisition approval, Purchasing issues a system generated PO that is automatically delivered to the vendor.
- All deliveries of materials are made to the central warehouse, other than large items which may be delivered directly. Materials are inspected and quantities are verified by purchasing personnel, who record receipts in DataStream and forward receiving documentation to Accounts Payable.

Requisitioning, Purchase and Receipt (continued)

Non-PO Purchases

- Non-PO purchases largely involve contracted services, and the procurement activity may be initiated through the creation and approval of a work order, or documented via email communication.
- As discussed above, services are typically agreed with vendors through formal contract, although VIT acknowledges that some are not under formal agreement to allow for price flexibility.

Payment

Segregation of Duties

- Accounts Payable maintains segregation of duties in the payment process, with responsibility separately assigned to receiving invoices in the mail, coding and review/routing of invoices for approval, and processing final payment approval.
- VIT has disbursement controls over check payments, with system controls in place requiring digital dual signatures and limiting printing to authorized individuals. Checks over $25,000 require dual signature by hand.

PO Purchases

- Accounts payable staff perform a three-way match manual review considering the quantity and cost on the vendor Invoice, VIT's purchase order, and receiving documentation. For discrepancies noted (other than for minor cost or freight differences), a PO change is required, and approvals are obtained as per for an original PO.

Non-PO Purchases

- Payments for items and services that do not utilize purchase orders are processed through "vouchering." Invoices are received in Accounts Payable and then routed for written approval based on VIT's purchasing authorization document.

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Vendor Testing - Summary Findings (1)

Area	Summary observations
Lack of Competition / Price Consideration (page 38-44)	In a judgmental sample of 25 vendors, we observed a lack of competition [redacted] with more than half of the samples reviewed lacking any indication that other vendors were considered at the time the vendor was initially retained (if within review period), or that there had been any attempt in the period under review to obtain competitive price quotes or consider other third parties: [redacted]
Approval of Contracts in Excess of Authority (page 38-44)	Two of the nine vendors with contracts in our sample population had individual agreements which were not properly authorized. These included: [redacted] The Brazilian contractor (sales and marketing representative, former employee): One annual contract executed in August 2010 authorized by an executive with a $10,000 limit. Contract amount approximately $118,000 plus expenses, with automatic renewal provisions.

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Vendor Testing - Summary Findings (2)

Area	Summary observations
Approval and Payment of Invoices in Excess of Authority (page 38-44)	We observed 11 instances relating to five vendors in our sample [redacted] Apart from the instances where a Terminal Manager is approving invoices for ECY services, these primarily involve approvals by accounting personnel. These included: - [redacted] - [redacted] - [redacted] In each of these cases we were informed that, as the payments are under approved contracts or in respect of recurring services, the relevant approvals had been delegated to the above individuals or that separate approval of the invoice was not required. However, we note that the relevant contracts do not quantify payment amounts. Furthermore the Company was not able to provide the documentation of the delegation.
Vendor File Documentation Partially Lacking (page 38-44)	As noted above, per the Purchasing Manual, all vendors are required to complete an acknowledgement form annually and, where applicable, provide proof of insurance and/or financial stability. Also, relative to new vendors, it is indicated that references should be obtained. In our sample review, we found that: - Proof of insurance requirements were met; - Only one acknowledgement form was in evidence; and - While it appeared there were only limited instances where proof of financial stability or references were required, we did not see evidence that either had been obtained for any vendors.

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Pages 35-45 have been redacted in their entirety. See Cover Page.

Sales Operations, Revenue and Incentives

	Page
Sales Operations, Revenue and Incentives	
Key Findings	47
Revenue Composition	50
Carrier Contracts and Pricing Structures	51
Top Customer Analysis – Comparison of Rates to Contracts	54
2012/2013 Unit Rate Increases Waived / Deferred	55
Discount Analysis	57
Ancillary Revenue	58
Key Revenue Processes and Controls	60
Revenue Recognition – Reconciliation from Billing System to Trial Balance	62
Sales Department Incentive Bonuses	67

Page 47 has been redacted in its entirety. See Cover Page.

Summary Findings (2)

Area	Summary observations
Revenue, rate and volume comparisons (page 54, 57, 60-66)	The scope of work included comparing reported revenues to amounts extracted from billing systems; and rates billed to those in customer contracts. The results of this work are summarized below

Area	Coverage of work performed	Results
1. Comparison of container volumes per the terminal operating system (TOS) to vessel loading / unloading documentation (prepared by VIT, ILA employees, stevedores, and carriers)	Total container volume (for both export and import containers) for one vessel.	Reconciled without exceptions. We traced the container count entered into the operating system to the related supporting documentation
2. Comparison of data from the billing system to: a. TOS (with respect to container volumes)	Total container volume for LTM Apr-13.	Able to reconcile within 0.1% differences.
b. Unique rates in customer agreements, side-letter incentives and VIT tariffs, whichever applicable	[redacted]	Confirmed 124, or 82.1%, of tested unique rates, which represents 96.0% of LTM Apr-13 top customer revenue.
c. Accrual-based revenue reported in the accounting system	Compared accrual-based revenue in the accounting system to service date- based revenues per the billing system for the twelve month periods ending Jun-11, Jun-12 and Apr-13.	[redacted]
3. Comparison of discounting agreements with carriers to discounts recorded in the Company's financial statements	Compared discounted rates in billing system for the top ten customers for LTM Apr-13 to those in the agreements. Compared management's calculation of 84% of side-letter discounts recorded in the accounting system in Apr-13 to the agreements and volumes moved.	We were able to confirm all discounts per unit to the signed side-letters with customers, as well as the associated discounted volumes to the in the Company's systems. We agreed to management's calculation of side-letter discounts in Apr-13.
4. Comparison of invoice cancellations (recorded as adjustments to revenue) to Company's documentation for such cancellations	Reviewed 96% of invoice cancellations for Apr-13. Compared amounts recorded as adjustments to revenue in the trial balance to: original cancelled invoices; operations/billings paperwork with reason for cancellation; and signed approval forms.	We confirmed that all cancellation adjustments reviewed were properly documented and approved. We observed that 81% of the cancelled amount was subsequently rebilled.

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Summary Findings (3)

Area	Summary observations
Revenue Processes and Controls (continued) (page 54, 57, 60-66)	**Month-end adjustments to revenue** [redacted] According to management, and our review of invoice cancellations for the month of Apr-13, cancellations are primarily related to disparities in container volume, and generally do not relate to pricing or billing concessions. The discrepancies principally occur around specific container types which are billed at non-standard rates (such as reefer, or those transported via a specific vessel service), and between containers billed and billable containers per customer contracts. The Company's practice is to cancel entire invoices and rebill the corrected amount rather than issue adjustments to such invoices. Therefore, adjustments related to cancelled invoices are high ($7.0 million and $11.5 million in FY12 and LTM Apr-13, respectively). We reviewed invoice cancellations for the month of Apr-13, and our review suggested that 81% of the cancelled amounts were subsequently rebilled, and that all cancellations were approved by the appropriate employees. [redacted] **Accuracy and completeness of Company's billings** – management indicated that billing for unit container rates is generally accurate, or corrected via invoice cancellations (above), however, invoicing for ancillary revenue is more complex and, therefore, may be less precise given the number of individual rates and actions/drivers that trigger a charge. We compared the Company's accrual-based revenue recorded in the Company's financial systems to service-date based revenues in the billing system. It appears the Company under accrued revenue by $2.2 million at Apr-12 and by $625,000 at Apr-13. [redacted]

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Carrier Contracts and Pricing Structures

VIT entered into agreements for terminal services with eight alliances (which represent 26 carriers). In addition, the Company has arrangements with eight other individual carriers.

[redacted]

Contractual Structure	Description	Avg. Term	Treatment in Financial Systems: Billing	Treatment in Financial Systems: Accounting
1. Alliance and Customer-Specific Unit Rate for Containers	Consistent with other industry participants, the Company has entered into agreements with alliances of multiple carriers, as carriers align with each other to maximize shipping efficiencies through economies of scale. As part of these contracts, the Company sets consistent pricing across carriers within an alliance [redacted] The basic unit rate per container is intended to represent an all-encompassing charge to load/unload a vessel, or the movement of a container from the vessel to the rail yard/gate (and vice versa for exports). The container may be moved more than once during the process, but the carrier will only be charged for one container lift, except in specific instances, such as movements within the terminal for customs examinations or due to specific carrier instructions. [redacted]	[redacted]	The billing system automatically assigns the applicable rate per container to the container count for each vessel based on the service. The billing system has the capability to identify automatically changes in pricing tier based on volume benchmarks for the alliance/carrier.	The accounting system records container revenue using billings and a month-end accrual process, both based on the billing and Terminal Operations System ("TOS").

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Revenue Recognition – Reconciliation from Billing System to Trial Balance (2)

The majority of the Company's discounts are recorded via month-end adjustments to revenue. The process of calculating these discounts is manual and cumbersome, and therefore prone to error.

However, we compared 83.8% of discounts in Apr-13 to the original side letters with customers and corresponding volumes to those in Company's systems, and agreed with management's calculation of such discounts without exception.

Notes to schedule (cont.)

Company's month-end adjustments:

C. **Side-letter discounts** – Customer discounts which are not granted through reduced unit rates per container (and thus recorded in billings), but are separately recorded on a monthly basis as adjustments to revenue. These are calculated via a combination of system and manual inputs (volume is obtained from the billing and "rail report" systems).

We compared management's calculation of side-letter discounts for Apr-13 to the discounts recorded in the Company's financial system. We tested 83.8% of total discounts for the month, and compared each individual discount calculation to (i) the corresponding side letters with the customers, and (ii) the related discounted volume to container counts in the Company's rail reports and billing systems. We were able the to reconcile each of the individual discount programs tested to the side letter agreements and volume in the Company's systems without exception.

Based on the complexity of the process experienced through testing, we recommend you consider working with management to automate the calculation of side-letter agreements through the billing system.

D. **Revenue recorded outside of billing system** – Represents customer revenue that does not run through the Company's billing system, and other non-customer specific revenue, such as scrap inventory sales and gain/loss from sales of fixed assets. Each revenue type is recorded into its appropriate revenue general ledger code in the revenue recognition process (for example, container examinations is recorded in container revenue).

[redacted]

i. [redacted]

ii. [redacted]

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Revenue Recognition – Reconciliation from Billing System to Trial Balance (3)

Cancelled invoices are the major individual component of month-end adjustments. Discrepancies in container count or type and billing clerical errors have a large impact in the month-end adjustments given that, instead of issuing a billing adjustment to the customer, the Company cancels the entire invoice (which is then reflected in the month-end adjustments as a reduction to revenue). Rebillings are captured in the billing system (included in the Billings amount per Revenue Recap; note A in page 63).

We received documentation for all invoice cancellations for Apr-13 which indicate that, of the population of invoices reviewed, 81% of the total cancelled amount was subsequently rebilled to the customers.

[redacted]

All invoice cancellations are processed by the Credit, Collection and Claims Division within the Company's accounting department, and only require the signature of the Billing Division Manager for approval if the cancellation is due to a clerical error. Any request for rate accommodations (customer requests for a minor one-time discounts on a type of charge) and billing adjustments greater than $1,000 require approval from the Customer Service Manager, and either the CEO, COO or VP of Financial Services.

We reviewed 96.0% of invoice cancellations for the month of Apr-13 (table on bottom left). Our review included conforming individual invoice cancellations recorded as reductions to revenue in the Company's accounting system to the following documentation: (i) internal billing department memos indicating reason for cancellation, cancelled and re-billed amounts, and appropriate approvals. [redacted]

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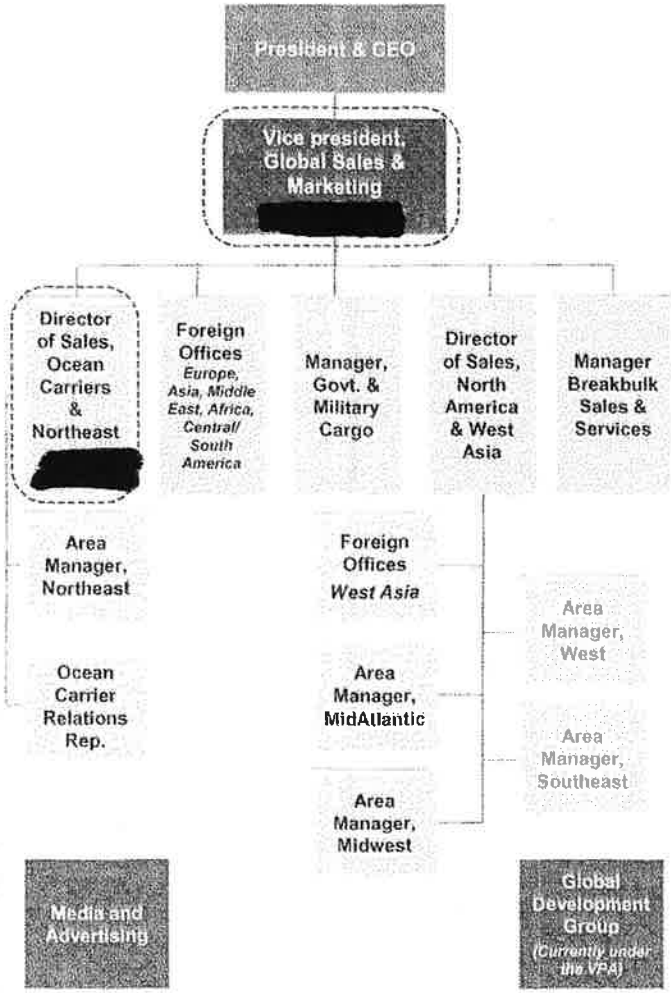
Page 66 has been redacted in its entirety. See Cover Page.

Sales Team - Structure, Organization and Responsibilities

Sales and day to day customer relations are shared between the Sales Department (illustrated at right) and the Operations Department. Support is also provided by the Media and Advertising group and the Global Development Group (which is currently under the VPA).

Contract and discounting arrangement negotiations are performed by the Vice President of Global Sales & Marketing and the Director of Sales, Ocean Carriers & Northeast. Most commercial decisions were approved by the former CEO.

Please see following page for the Sales Department compensation.



Key: [ ] Contract and discount arrangement negotiations.

- **Structure and responsibilities of the sales department** – the Company's sales team is organized into the three key roles below:
  i. **Sales and day to day customer relations** – the responsibility is shared between [redacted]
  ii. **Contract negotiations, including price setting and discount agreements** – are the responsibility of [redacted] and
  iii. **Media and advertising** – Four VIT employees which are not directly within the Sales and Marketing department, but provide support to the sales and customer relations teams.
- **Global Development Group** – In addition to the Company's sales team, the Global Development Group (seven employees), which currently operates under the VPA, is tasked with promoting business in the State of Virginia through the ports. Post-reorganization, the Company's sales groups will work together with the Global Development Group, which, according to management, will make the sales efforts more efficient.
- **Segregation of duties and approval processes** – The sales team operates separately from the billing and accounting departments (except when they interact for invoice cancellations). There is therefore a proper separation of duties such that sales employees cannot manipulate rates, container counts, offer credit memos etc.

  In addition, signed CEO approval is required for most commercial decisions, including: (i) new carrier/alliance contract awards and amendments to existing contracts; (ii) pricing incentive awards; (iii) adjustments to container rates (including waiving annual increases); (iv) invoice cancellations over $1,000; (v) customer pricing concessions on individual invoices; and (vi) tariff rates changes.

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Labor Cost Structure and Control

	Page
Labor Cost Structure and Control	
Key Findings	70
Union Labor Analyses	
– VIT Union Labor Overview	74
– ILA Labor Agreements	76
– Union Labor Process and Control	78
– NIT	79
– APMT	85
Non-union Labor Analyses	
– Non-union Employees Salary & Variable Compensation Summary	92
– Non-Union Labor Process and Control	93
– Employee Contracts	94
– Variable Compensation	96
– VIT – Employee Expense Reimbursements	98
Summary of Employee Benefits	99

Pages 70-72 have been redacted in their entirety. See Cover Page.

Summary Findings (4) – Non-union Labor

Area	Summary observations
Non-Union Labor Hiring and Compensation (page 92-93, 96-97)	▪ Planned employee headcount is included in the annual budget; however, the Company may not fill all the open positions included in the budget. Employee hiring must be approved by the CEO. We have not tested the controls related to employee hiring. ▪ Non-union employees' salary increases and bonuses are subject to CEO approval. CEO's salary and bonus are subject to VIT board approval. The FY14 budget includes a salary increase of 3%. Typically, the HR department recommends the annual salary increase based on: (i) salary data from consulting firms [redacted] and (ii) comparison to union labor rates. [redacted] ▪ There will be no variable compensation awards for FY13.
Non-Union Labor Contract (page 94-95)	▪ Only the ex-CEO had an employment contract with VIT, which was approved by the VIT board. [redacted] ▪ Six key employees have severance agreements with VIT, which were approved by the VIT board. These agreements provide these employees 18 months' of regular pay in case of certain change of control events. [redacted]
Employee Expenses Reimbursement (page 98)	▪ Employee expense reimbursements require supervisor and CEO approval per the VIT Policy Manual. The majority of the expense reimbursements during FY12 and LTM Apr-13 were related to travel expenses and education reimbursements. [redacted]

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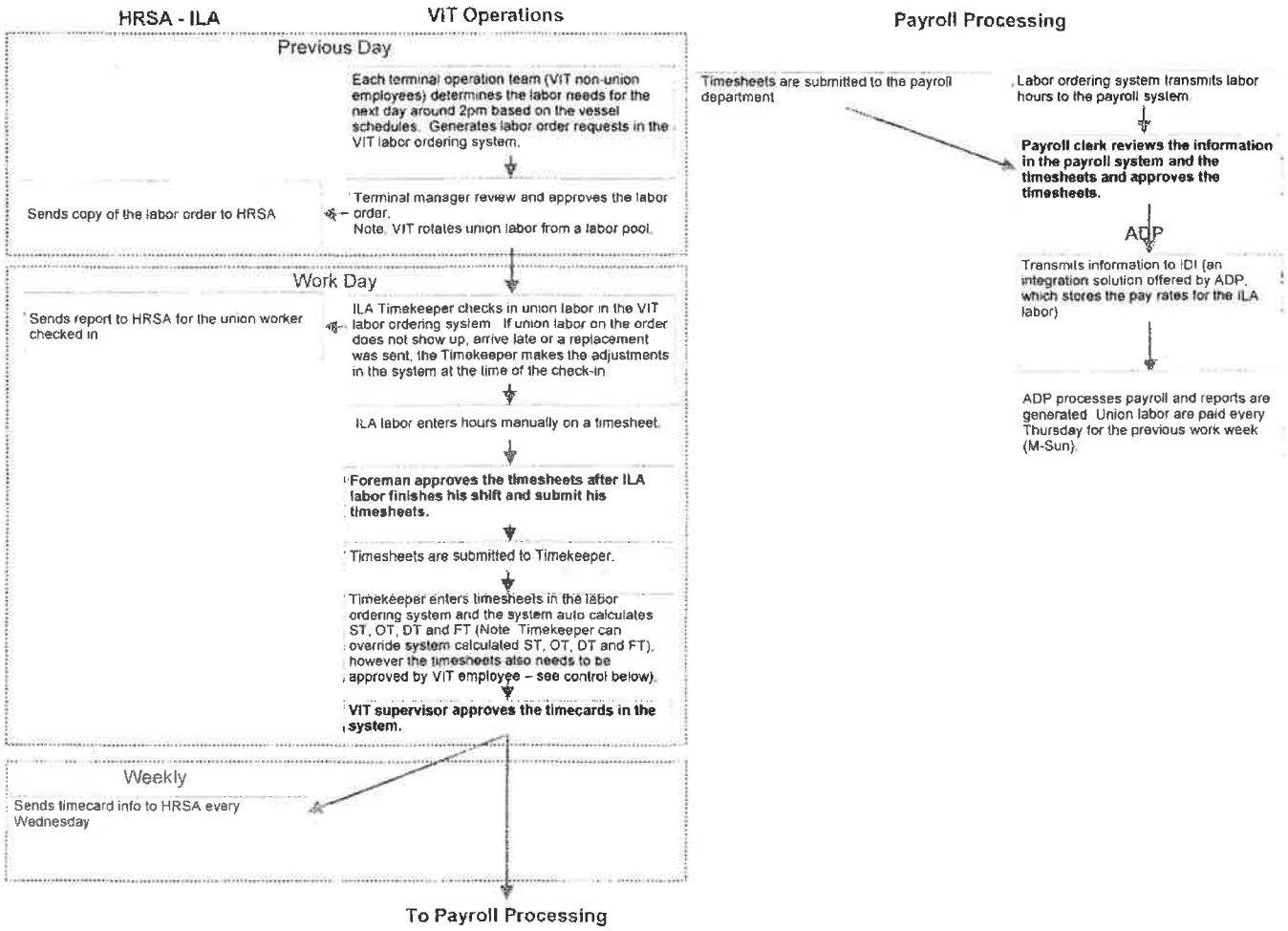
Pages 74-77 have been redacted in their entirety. See Cover Page.

Union Labor Processes and Controls

Key controls are bolded in the flow chart to the right; however, we have not performed any testing on the controls described.

There are multiple reviews of union labor time sheets before processing by ADP.



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Pages 79-92 have been redacted in their entirety. See Cover Page.

Non-Union Labor Processes and Controls

Key controls are bolded in the flow chart to the right.

Non-union employee salary increases are determined in conjunction with the annual budget, subject to CEO and VIT board approvals.

Variable compensation is only given to senior management, department heads and sales personnel, and is subjected to VIT board approval for the CEO and CEO approval for all others.

Hiring

The VIT annual budget sets the number of vacancies to be filled each fiscal year. VIT and VPA boards approve the annual budget. Prior to advertising the open positions, the HR director and the CEO have to approve the decision to hire (note that not all vacant positions included in the budget are filled).

Fixed Compensation

On an annual basis, the HR department recommends a salary increase % for the entire Company based on comparable market salary data and comparison to union labor rates. Note a salary study and an executive compensation study were done by Mercer in Jan-10 and Apr-10, respectively.

Salary increase is approved by CEO.

Salary increase % is incorporated into the annual budget and approved by VIT and VPA boards of directors. Note: salary increase of 3% for VIT is incorporated in the FY14 budget.

Annual performance evaluation is conducted after the end of the fiscal year. A three-tier rating system is used.

VIT salary increase approved via the annual budget process is allocated to individuals based on the performance rating (i.e. each employee will get a % increase, with the average of all employee salary increase at 3% per the FY14 budget). Salary increases are approved by senior management.

New salary level is sent to ADP

Variable Compensation

Only CEO, senior executives, directors and sales department personnel receive variable compensation (a % of base pay). Note: no employee will receive variable compensation for FY13.

VIT board of directors set goals for the CEO (e.g. financial metrics, volume goal etc.)
CEO then sets goals for other executives and department heads.
VP of marketing sets goals for the sales personnel.

Employee eligible for variable compensation is evaluated against the goals.

Variable compensation is approved by VIT board for the CEO, by CEO for the senior management team and by VP of marketing for the sales personnel.

Payroll Processing

Hourly Employee

Hourly employees enter time worked into ADP electronically at least weekly. Hourly employees are paid every two weeks.

Manager approves the time card in the system.

Payroll clerk performs reasonableness check (e.g. multiplying 40 hours by the number of active employees and compare to the payroll run; and compare the current payroll run to the previous run) and transmits the time cards to ADP

Salary Employee

Salaried employees are paid semi-monthly. Time sheets of 86.6 hours for each pay period are auto generated.

ADP

ADP processes payroll and generates payroll reports. Hourly employees are paid every two weeks on Friday for the payroll ran on the previous Thursday. Salary employees are paid on the 15th and the 30th/31st of each month.

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Pages 94-97 have been redacted in their entirety. See Cover Page.

VIT – Employee Expense Reimbursements

[redacted]

[redacted]

Notes

A. [redacted]

B. [redacted]

C. [redacted]

Notes (continued)

[redacted]

Expense approval process

- The Company will reimburse all business expenses incurred, which are not billed directly to the Company, upon submission of an accurate and approved expense report.
- Prior approval is required for travel expenses. Information such as date of the trip, designation and reason for the trip must be submitted to the CEO, or his designee, through department director, in advance of the trip, In emergency situations, business travel will be approved only when requested in writing.
- Employees must prepare and sign off on expense reports for all traveling and entertainment expenses, and must forward the report to their direct supervisor for approval no later than five days after incurrence or within a reasonable time after employees return from travelling.
- Approved expense reports will be forwarded to the Financial Services department for verification and record keeping. Final approval from the CEO is required for all expenses.
- Cash received in advance in excess of the amount expensed should be returned to the Controller within five days after incurring the expense or returning from the trip.
- Reimbursable expenses include transportation, lodging, travel insurance, telephone charges, business meals and meetings, and entertainment. Employees also receive a per diem for meals while traveling.

Source: Per VIT Policy Manual and management discussion.

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Summary of Employee Benefits

Type of Benefits	Summary of VIT Policy	Comparison to VPA Benefits
Health Benefit	▪ VIT provides medical, dental and vision benefits to all employees and their dependants after 90-days of employment. ▪ The current health care policy is with Blue Shield Blue Cross (Anthem). Participants can choose from 4 different health care plans, which are KeyCare10, KeyCare20 (base plan for KeyCare), HealthKeepers10 POS and HealthKeepers20 POS (base plan for HealthKeepers). ▪ Monthly premium rates vary from $558.34 to $1,790.57 depending on the plan and the number of participants (employee and number of dependents). ▪ Effective July-13, VIT changed the health benefit policy to require a participant contribution of 30% of the base plan premium (varies based on individual health evaluation). If the participant selects a heath care plan that is above the base plan, then the participant is responsible for the differential in premiums. Employees receive wellness credits towards the premium rates. These credits are based on the wellness points the employees and their spouses receive from their heath evaluation. ▪ Prior to Jul-13, VIT covered all health care benefit costs for employees and their dependents.	▪ The VPA provides similar health benefits to employees though Anthem and the plan features can generally be equated. ▪ The VPA offers a high deductible health plan (HDHP), which is limited to plans offered by the State. Management indicated that VIT may add a HDHP in Jan-14. ▪ A Health Savings Account, compatible with the HDHP, is also available to employees. VPA contributes $1000 for individual participants and $2250 for family participants.
Postretirement Health Benefit	▪ The Company provides medical benefits to retired employees. ▪ Individuals who are aged 55 with 20 years of service are eligible for plan benefits. ▪ Pre-62 years old: retirees and their spouses are eligible to participate in the plan and receive medical benefits but must pay the entire COBRA premium rate. ▪ Post-62: retirees with more than 30 years of service receive medical benefits until they reach the age of 65, when Medicare commences. Coverage of spouses may be continued at the employee's cost for 10 years until the spouse is 65, or remarries. Retirees pay the employee cost differential for medical coverage beyond the basic coverage. ▪ Early retirement program: retirees who accepted the terms of the early retirement program and retired at June 1, 2012 receive health care benefits at the active contribution rate for up to 3 years (not exceed age 65). Spouse will be covered 50%. After 3 years, the early retirees and spouses may continue at the COBRA rate until age 65. ▪ The postretirement health plan is administrated by BPSM.	▪ Not provided

Source: Management provided schedules and discussions

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Summary of Employee Benefits (2)

Type of Benefits	Summary of VIT Policy	Comparison to VPA Benefits
Retiree Health Care Savings Plan	▪ The Company provides a health care savings plan to allow employees to save money to pay for medical care expenses during retirement for themselves and their spouses. ▪ Individuals who are aged 40 or older are eligible to participate in the plan. ▪ All participating employees must contribute $50/month, and the contribution may not exceed $100/month. The Company will match the $50 contribution. ▪ The employee or his/her beneficiary receives the proceeds from the contribution account and forfeit the match account if (i) employment is terminated prior to retirement or (ii) employee dies, before completing 7 years in the plan.	▪ No specific retiree health care savings plan is available. However, the VPA offers Health Savings Account compatible with the HDHP. Please refer to the description on the previous page.
457 Savings Plan	▪ For employees hired before July 1, 2012, VIT will match 50% of an employee contribution up to 3% of base pay. For employees hired after July 1, 2012, VIT will match 50% of an employee contribution up to 6% of base pay. ▪ Employer matching contributions vest over a seven year period. ▪ The 457 plan is administrated by Great West.	▪ For current employees, the VPA will match 50% of an employee contribution up to 6% of base pay. For new employees, the same policy is adopted as that in VIT. ▪ The plan is also administered by Great West.
Pension Plans	▪ The Company has a defined benefit plan that covers employees (i) who work in excess of 1,000 hours per plan year, and (ii) were hired prior to July 1, 2012. ▪ Employees with 7 years of service are fully vested in the plan. ▪ The Company pays 100% of the defined benefit plan cost. ▪ VIT has two supplemental non-contributory pension plans that cover 13 former members of management. These plans are closed to new participants and there are only two active employees currently in the supplemental plans. Both of them have been employed by VIT since 1990.	▪ The VPA has a defined benefit plan for all employees. ▪ For employees hired before July 1, 2011, the plan benefit amount is calculated based on a 36 month average compensation, whereas for those hired after July 1, 2011, it is based on a 60 month average compensation. ▪ All employees are fully vested after 5 years of service.
Personal Leave	▪ Employees are entitled to accumulate sick leave of 8 hours per month. ▪ Personal leave days may be carried over into the next year and accumulated. ▪ Upon separation from the Company, employees will be paid for personal leave accrued before July 1, 2012 or a lump sum amount of $12,000, whichever is lower. Any personal leave accrued after July 1, 2012 will not be paid. ▪ New employees hired post July 1, 2012 will not receive payout for sick leave when he/she leaves the Company.	▪ Personal leave is included in employees' annual PTO days.

Source: Management provided schedules and discussions

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Summary of Employee Benefits (3)

Type of Benefits	Summary of VIT Policy	Comparison to VPA Benefits
Holidays	▪ Twelve and half paid holidays include: (i) restricted holidays: New Year's Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Eve and Christmas Day; and (ii) unrestricted holidays: Martin Luther King, Jr. Day; Washington's Birthday; Good Friday (1/2 day); Memorial Day, Columbus Day, and Election Day; Veterans Day. ▪ Hourly employees receive holiday pay after midpoint on Good Friday; 1.5 times the straight time rate on non-restricted holidays and 2 times the straight time rate on restricted holidays (1.5 time the straight time rate if the restricted holiday is observed on a day other than the actual date of the holiday). ▪ Salaried employees working on the following holidays will receive a vacation day: Martin Luther King, Jr. Day; Washington's Birthday; Memorial Day; Columbus Day; Election Day and Veterans Day.	▪ VPA observes 14 holidays per year. In addition, the Governor may schedule additional days off.
Vacation	▪ Employees are eligible for a certain number of vacation days depending on the years of services: – Employees with 0-4 years of service receive 5-10 vacation days. – Employees with 5-15 years of service receive 15 vacation days. – Employees with 16-25 years of service receive 16-24 vacation days. – Employees with 25> years of service receive 25 vacation days. ▪ Employees are allowed to carry over 25 vacation days to the following year on their anniversary date. ▪ Employees cannot take vacation that is not accrued.	▪ Employees are eligible for a certain number of personal time off (PTO) days depending on the years of services: – Employees with 0-4 years of service receive 22 PTO days. – Employees with 5-9 years of service receive 25 PTO days. – Employees with 10-19 years of service receive 28 PTO days. – Employees with 20> years of service receive 31 PTO days. ▪ Employees are allowed to carry over 30 PTO days to the following year and have a 160-hour maximum pay-out limit.
Severance Benefits	▪ Six key employees have severance agreements at VIT. Please refer to page 94 for more detailed discussion.	▪ VPA provides severance benefits for employees who are ineligible for early retirement. The benefit amount is calculated based on employees' years of service and weekly salary: – Employees with 2 years of service receive 6 weeks of salary; – Employees with 3-9 years of service receive 6 weeks of salary plus 1 week of salary for every year over 2; – Employees with 10-14 years of service receive 15 weeks of salary plus 2 weeks of salary for every year over 9; – Employees with 15> years of service receive the greater of (i) 2 weeks of salary per each service year and (ii) 48 weeks of salary.

Source: Management provided schedules and discussions

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Summary of Employee Benefits (4)

Type of Benefits	Summary of VIT Policy	Comparison to VPA Benefits
Workers' Compensation	▪ The Company pays 100% of the premiums on insurance as provided by the Workers' Compensation Act. ▪ VIT provides supplements to the Worker's Compensation (WC) Benefits as follow: – Employees with more than 90 days of service will receive (i) for the first 7 calendar days of disability, the greater of the 50% of estimated WC benefit or the WC benefit; and (ii) after 7 calendar days, the difference between WC and the regular net pay. VIT will cover the difference for up to 7 and 21 additional days of disability for employees with services less than 12 months, and less than 24 month but more than 12 months, respectively. – Employees with more than 2 years of service will receive (i) for the first 7 calendar days of disability, the greater of the estimated WC benefits (to be paid by VIT) or the WC benefits; and (ii) after 7 calendar days, the difference between WC and the regular net pay up to 35 additional days of disability. – Employees with disability over 20 days, who received both Company-paid benefits and WC for the first 7 days, shall reimburse VIT for the Company-paid benefits received.	▪ Not provided
Other Benefits	▪ The Company provides employees and their dependents core life and short-term and long-term disability insurance. The plan is self-insured by VIT. ▪ Employees who are summoned to serve on jury duty or subpoenaed to appear in court will be paid the difference between regular pay and any pay received for the time serviced in court plus an hour of travel time. ▪ 16 paid hours of time off for community services per calendar year. This time is refreshed at the beginning of each year and may not be carried forward if not taken. ▪ Employees are eligible for educational assistance after completing 1 year of regular employment. Reimbursable courses must be related to employee's present job and be able to enhance employee's performance. Employees request for educational benefits will be reimbursed up to the average cost of tuition in the Norfolk area. The cost may include tuition fees and textbook costs, which are 100% for undergraduate courses and 50% for graduate courses and additional courses other than a graduate degree program.	▪ VPA provides employees and their dependents short-term and long-term disability insurance through Lincoln Financial Group. ▪ VPA adopts the same policy towards court services as that in VIT. ▪ No formal education benefits are in place at VPA. However, VPA may reimburse all or part of the registration and tuition costs for undergraduate and graduate degrees under conditions to be determined on a case-by-case basis.

Source: Management provided schedules and discussions

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Business Trends and Monitoring

	Page
Business Trends and Monitoring	
Key Findings	104
VIT – Free Cash Flow	108
Income Statement Analyses	
– VIT – EBITDA Bridge	109
– NIT	112
– APMT	117
– Other Terminals	121
– G&A – Expense Detail	124
Balance Sheet Analyses	
– Balance Sheet Summary	125
– Adjusted Working Capital	126
– Accounts Receivable	129
– Inventory	131
– Prepaid and Claims Pending	132
– Accounts Payable	133
– Employee Related Accrual	134
– Postretirement Healthcare Plan	135
– Workers' Compensation	136
– Defined Benefit Pension Plan and Other Retirement Obligations	141
– Net Cash and Debt-Like Items	143
Other VIT Analyses	145
Internal Financial Reports	149

Pages 104-106 have been redacted in their entirety. See Cover Page.

Summary Findings (4)

Area	Summary observations
Internal financial reports (page 149)	※ The Company produces 6 key reports for the board of directors on a monthly basis. These reports and the monthly presentational financial statements are provided to the VPA, which in turn are compiled into a package that is provided to the VPA board. ※ In addition, the Company manages the business on a granular basis using weekly and daily reports, which include weekly flash reports, daily terminal operation reports, weekly terminal update reports, and monthly presentational financial statements. ※ The Company has 6+ separate information systems, which, according to management, drives the need for additional time and resources to ensure data integration and consistency. The addition of APMT exacerbated the inconsistency of operational metrics and financial reporting among terminals. As a result, the Company has spent significant efforts to integrate the reporting of operational metrics and financial results in recent years.

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Workers' Compensation – Current Signal Mutual Program

As a result of a relatively high number/cost of claims in the late 1990's, the Company elected to terminate the self-insurance program and revert to a third-party insurer, Signal Mutual Indemnity Association.

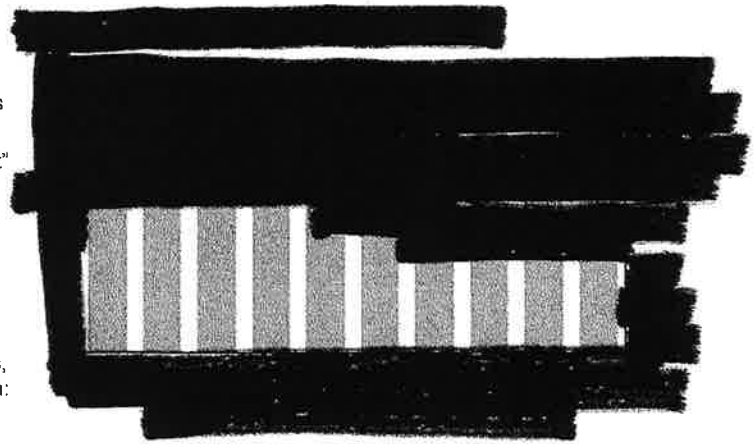
Relative to self-insurance, the Signal policy reduces the Company's exposure to workers' compensation claims, as the total costs of a policy year are largely determined in the first year and fully fixed after three years, via the Company's advance call and supplemental call premium structure.

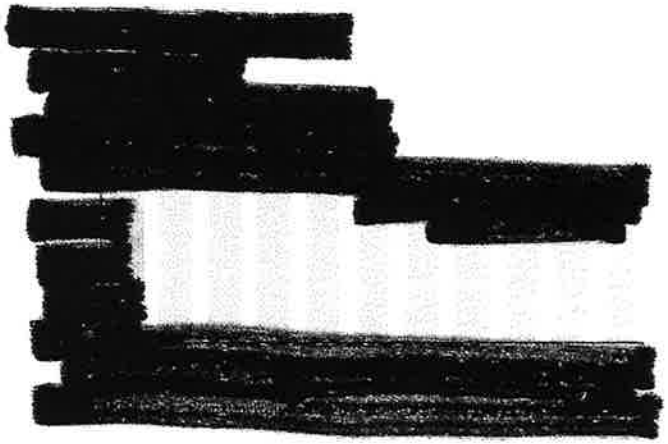
Program Overview

- Signal Mutual Indemnity Association ("Signal") is a non-profit mutual insurance company whereby all policyholders essentially insure one-another via participation in the program. As such, membership in Signal is restricted to financially sound entities with active safety programs.
- Signal only provides federal longshore coverage, but does place "state act" coverage for non-longshore exposures with commercial insurers. The premium for "state act" is a relatively minor portion of the total premiums paid by the Company, as it relates primarily to administrative (non-waterfront) personnel.

Premiums

- The Company's premiums for the federal policy are based on its covered payroll and a premium rate that is comprised of three primary components, an advance call, a supplemental call and a DOL assessment pass-through:
- Advance Call Rate – The Company's advance call is determined at the beginning of the policy year, based on the Company's history of claims frequency and severity. Similar to other insurance providers, Signal's pricing for large employers such as VIT is impacted by the entity's experience for the past three years compared to industry norms. The Company remits payments for the advance call portion of the premium on a monthly basis.
- Supplemental Call Rate – For each underwriting year (10/1 – 9/30), Signal charges a supplemental call rate that is intended to cover the difference between the total estimated cost of future claims and the amount that will be recovered via the advance call. The rate is based on Signal's experience across all of its policies and is adjusted on a three-year, look-back basis. As an example, the advance call rate/amount for the 2013 policy year will not be finalized and paid by the Company until 2016. As a result, the Company is required to maintain a liability on the balance sheet related to the expected future payment (as determined and provided by Signal), as well as investments at Signal as credit support for the obligation. Such investments are recorded as prepaid insurance.
- DOL Assessments – As a Longshore insurer, Signal pays annual DOL 8(f) assessments, based both on claims Signal has submitted to the Special Fund and also on the total of indemnity loss payments Signal has paid in the prior calendar year. These assessments are passed back to policyholders.





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Pages 140-145 have been redacted in their entirety. See Cover Page.

VPA Cash Transfer

According to the terms under the operating agreement, VIT is required to make monthly cash payments to VPA. It is required to transfer all revenue collected for the previous month less the sum of: (i) costs and expenses incurred in the operation for the prior month; (ii) replenishment of the CEMA fund for expenses to maintain and improve terminal facilities; and (iii) the contribution to the CE fund.

VIT's cash transfer to VPA did not meet the target in FY13. The shortfall was $3.2 million.

VPA Transfer Adjusted for CAPEX Shortfall

	FY11			FY12			FY13		
$'000	Actual	Budgeted	Variance	Actual	Budgeted	Variance	Actual	Budget	Variance
CAPEX	4,935	5,100	(165)	4,709	6,854	(2,145)	6,688	10,823	(4,135)
VPA Transfer									
VPA Cash Transfer	78,830			84,415			91,815		
Fixed Asset Proceeds on VPA Assets	78			386			220		
VPA Rent - Paid on behalf of VPA	526			684			718		
VPA Vehicle Maintenance Reimbursement	71			52			54		
Capital Contribution from VPA	(462)			-			-		
Total VPA Payment	79,042			85,537			92,807		
Accrued	2,307			2,922			(2,535)		
Total Transfer from Operations	81,349			88,459			90,272		
Leasehold Improvements	1,570			956			27		
Net Transfer to VPA	**82,919**	**87,200**	**(4,281)**	**89,415**	**87,100**	**2,315**	**90,299**	**93,500**	**(3,201)**

Source: Management provided schedules and discussions.

An Example Calculation of VPA Cash Transfer Apr-13

VPA Payment Calculation - April 2013

$'000	Total
Revenue - less interest income	26,903
Change in AR-Trade	2,588
Interest inflow	29
Cash inflow	29,517
Cash outflow to vendor and employees	(19,381)
VPA reimbursement	(65)
CEMA funding (1/12)	(392)
VPA payment - April 2013	**9,679**
Schedule of payment	
5/20/2013	8,679
5/23/2013	1,000
VPA payment	**9,679**

Source: Management provided schedules and discussions

Notes to schedule at above

- **Fixed assets proceeds** – Represents the proceeds from sale of VPA's fixed assets.
- **VPA reimbursement** – VPA reimbursement is related to expenses which VIT pays on the behalf of the VPA for rent and vehicle maintenance. The reimbursement reduces the payment to the VPA.
- **Capital contribution** – Represents contribution from VPA to VIT, which would be a decrease to the total VPA payment. There was no capital contribution for FY12 and FY13.

Notes to schedule at right

- **CEMA funding** – The Company withdraws from the CEMA account to fund its capital expenditures. The CEMA fund expenditures made by the Company are repaid evenly over the subsequent 12-month period . According to the terms of the service agreement, the Company has to replenish the CEMA fund prior to payment to VPA.

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Page 147 has been redacted in its entirety. See Cover Page.

Internal Financial Reports

During the past 3 years, and more notably after the start of the APMT contract, the Company has made efforts to improve the financial and operational information it produces. According to management, the Company has timely access to the granular data required to operate the business on a daily basis.

Key Operating and Financial Data:

- The VIT board of directors meets on a monthly basis, typically a week after the monthly presentational financial statements are published. A board package is prepared which contains financial highlights, sales updates, and operational metrics. These reports are compiled from the accounting systems, the terminal operating systems and the billing systems by the responsible departments.
- The operations department utilizes terminal operation reports for daily operations, which are compiled into weekly terminal update reports and flash reports. Weekly flash reports contain key operating metrics, including lift volumes with breakdown by gate, yard, rail and marine; labor hours and costs by function (i.e. vessel, yard, gate, rail, reefer, training, out of gauge etc.); labor cost per lift; and volume and cost by service. Management meets weekly (typically Monday morning) to review weekly results.
- See next page for a list of VIT reporting documents.

Limitations of Operating and Financial Data:

- The Company has more than six separate information systems, which makes data integration and consistency very complex. The Company invests a significant amount of resources in reconciling data.
- During the course of our work, we encountered difficulty in obtaining consistent volume data between FY09 and FY12. For example, operation tracks volume based on lifts/moves, which may not correspond to the units billed through the billing systems. Additionally, the Company revised its volume reporting in FY12 from gross lifts to container moves, which created inconsistencies between the historical periods. Similarly, the Company did not track volume by gate, rail, or vessel until FY12.
- The Company inherited the operating and financial reporting methodologies from the APMT terminal in FY11, which in many aspects differed from those at NIT, PMT, NNMT and VIP. The Company has spent significant amount of effort to integrate the operating and financial reporting of all terminals. For example, the Company adopted the flash reports at APMT and started producing similar reports at NIT during FY12. However, data integration is still a work in process and certain reports are only available at one terminal (such as the weekly container arrival & departure report which is only available at NIT).

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Internal Financial Reports – VIT Reporting Documents

VIT Reporting Documents

	Documents	Description	Frequency	Source
VIT Board				
	Financial dashboard	Summary of monthly and YTD financial results; Comparison of actual results to the budget; Bonds covenants calculation.	Monthly	Presentational financial statements and trial balances.
	Sales dashboard	Monthly sales update by major customer; Actual to budget volume comparisons (by VIP, Greensboro Rail, CKYH, First-in/Last-out, Midwest Rail, Transload, Vehicles, Breakbulk, Economic Development, and Vacant Tradelanes).	Monthly	Presentational financial statements, trial balances, TOS and the billing system
	Process improvements & cost savings	Cost saving projects monthly update including description and process of the projects.	Monthly	NA
	VIT operations and IT dashboard	Summary of monthly safety results; Summary of vessel volume and productivity by terminal, Summary of rail volume by terminal; Turn-Time and gate queue statistics; Crane operating metrics.	Monthly	Terminal operating systems (TOS)
	VIT metrics	Summary of operating and financial metrics including actual vs. budget and current YTD vs. prior YTD.	Monthly	Monthly internal financial statements and TOS
	VIT variance explanations	Discussion of monthly actual to budget variance	Monthly	NA
Financial				
	Annual consolidated financial report	Consolidated VIT balance sheets, income statements, cash flow and related management discussions.	Annually	Audited by Witt Mares PLC
	Presentational financial statements (by terminal)	Financial statements including monthly and YTD results by terminal; Monthly VIT balance sheet; Accounts receivable aging at month-end; Condensed actual to budget comparison; Tonnage report by terminal; CAPEX summary.	Monthly	Manually compiled from trial balances
	Trial balances	N.A.	NA	JD Edwards system/Sun System (starting Feb-13)
Operational				
	NIT and APMT weekly update	Weekly operations report includes: Safety highlights; Gate, rail and vessel operation summary (volume, moves, shifts, move per man hour etc.); Comparison of current week and YTD operating metrics to the budget and last week results; Discussion of terminal initiatives; Summary of maintenance and engineering metrics and discussion of overtime incurred.	Weekly	TOS (in-house developed systems for NIT and Navis for APMT)
	Flash report	By terminal operation metrics summary including: Lifts by gate, rail, yard, and vessel; Volume and revenue by service, Labor costs by department (vessel, stevedore, yard, gate, rail reefer, technician, staff, etc.); Labor cost per lift; Service measures.	Weekly	NIT and APMT TOS
	Daily terminal operation report	Daily by terminal operation summary used for scheduling the following day's activity	Daily	NIT and APMT TOS

Source: Management provided schedules and discussions

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Appendices

Page

Appendices

- Engagement Letter Procedures 151
- Internal Control Environment 154
- Procurement Process 165
- Labor Cost Structure and Control 168
- Business Trends and Monitoring 173

Appendix 1

Engagement Letter Procedures

Key work streams and descriptions

Unless otherwise noted, our work will concentrate on the last three fiscal years and most recent year-to-date financial information. Procedures not completed are bolded.

Internal Control Environment

1. Read the VIT/VPA operating agreement and discuss the impact of the restructuring on operating arrangements.
2. Inquire about other aspects of the internal control environment (in addition to those covered in other procedures herein) and discuss with management:
   - Scope of written documentation regarding processes and controls;
   - Undertake sample testing of key processes/controls (where items to be tested and samples to be agreed with VPA);
   - The internal audit function and other methods it uses to evaluate compliance with internal controls;
   - Areas of potential weakness identified and mitigating factors; and
   - Issues/incidents of non-compliance with internal controls reported to management; related inquiry or investigation (internal or external) undertaken; mitigating and/or disciplinary actions taken.
3. To the extent that the Company's auditor allows us to do so, read the most recently available audit work-papers and management letter, if any, of the Company's auditor, meet with the audit team, discuss and comment on the following:
   - Audit scope;
   - Major issues and audit risk areas;
   - Significant judgments or estimates;
   - Internal control weaknesses;
   - Related party transactions;
   - Disagreements with management; and
   - Unadjusted audit differences.

Key work streams and descriptions (cont.)

Procurement Process and Non-Labor Costs

1. Obtain transaction level detail of cash disbursements from VIT's purchase system and prepare listings of disbursements by vendor:
   - Discuss nature of relationships and tenure of significant vendors with management.
2. Obtain and read significant vendor contracts covering contract services, repairs and maintenance, fuel supply, capital purchases and G&A expenses (IT purchases and services, professional fees, miscellaneous expenses, etc.):
   - Summarize the principal terms of the contracts provided (e.g. vendor, term, price and volume commitments etc.); and
   - Summarize differences identified between contractual terms and reported costs (where applicable).
3. Summarize other non-labor expense accounts and trends therein including unit metrics (e.g. for fuel costs):
   - Inquire about significant components of costs and fluctuations therein.
4. Inquire about processes and controls related to purchases/vendor relationships:
   - Obtain and read policies and procedures relating to the retention, monitoring and termination of third-party vendors; and
   - Comment on alignment of documentation provided related to purchase/contract approval with management's stated controls for a sample of arrangements (sample to be agreed with VPA).
5. Obtain details of capital expenditures and compare to movements on the CEMA account; summarize and discuss differences with management:
   - Discuss expense/asset capitalization policy with management.
6. Read documents setting out terms and conditions related to CEMA funding and expenses, including discretionary power in respect of CEMA spending.

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Engagement Letter Procedures (2)

Key work streams and descriptions (cont.)

Sales Operations, Revenue and Incentives

1. Obtain transaction level details of revenues from VIT's billing systems for the period through Apr-13 ("revenue database"):
   - Compare amounts per the revenue database to revenues reported in VIT's trial balance (for each terminal) and inquire about significant differences identified;
   - Inquire about amounts included as "adjustments" reducing amounts billed; and
   - Summarize significant changes in pricing and discuss drivers of such with management.
2. Obtain and read contracts and side agreements with the largest 10 shipping lines (representing ~75% of net container revenue) and:
   - Summarize financial terms including future discount and incentive commitments; and
   - Compare contracted rates to those included in customer billing database and inquire about discrepancies identified.
3. Inquire about the sales team structure and responsibilities, and processes/controls related to customer contracting, pricing and billing arrangements including:
   - Sales strategy and performance monitoring;
   - Incentive compensation goals and payments;
   - Customer contract and side agreement reviews and approvals;
   - Price setting and discretion over price changes; and
   - Processes for monitoring compliance with contracts and pricing controls.
4. Inquire of management regarding the historical impact of pricing incentives on related sales volumes.
5. Summarize items included in miscellaneous revenue accounts and discuss the nature of related activities and growth prospects with management.

Key work streams and descriptions (cont.)

Labor Cost Structure and Control

1. Obtain transaction-level detail of ILA and non-union direct (i.e., maintenance and G&A) payroll costs from VIT's payroll systems for the period through Apr-13 ("payroll database"), discuss with management and comment on:
   - Variability of labor hours versus volumes by activity (depending on the availability of volume information) on a daily/weekly/monthly basis and management's actions to minimize costs;
   - Trends in straight/overtime/double/flex time and management's actions to improve mix;
   - Incidence of higher paid individuals by rate and number of hours worked; and
   - Trends in individual rates and seniority mix.
2. Obtain and read the ILA labor agreement, compare rates and other terms to the payroll database and related employee benefit/tax costs, and discuss differences with management.
3. Inquire about processes related to employee hiring and evaluation. Discuss the related cost structure, including variable compensation and other benefit plans.
4. Obtain and read employment agreements for senior executives and summarize the key terms. Read board minutes and other documents related to the approval of these contracts (including that for Joe Dorto, ex CEO) and comment on such.
5. Obtain and read summaries of expense reimbursements for senior employees:
   - Inquire about the nature of expenses and processes for approvals;
   - Request and read documentation provided for a sample of significant expenses (to be agreed with VDOT) and comment on compliance with stated processes; and

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Appendix 1

Engagement Letter Procedures (3)

Key work streams and descriptions (cont.)

- Compare expenses reimbursed by employee and inquire of management regarding annual amounts in excess of $25,000.

6. Prepare a listing of non-union employees (including general and administrative) and related compensation (fixed and variable) and inquire about the company's processes for identifying immediate family relationships between employees.
7. Obtain details of workers' compensation expenses and inquire about insurance arrangements and the basis of calculation of balance sheet liabilities and expenses.
8. **Obtain and read documentation related to ongoing and planned cost optimization initiatives:**
   - **Discuss with management and summarize targeted and actual savings achieved.**

Business Trends and Monitoring

1. Obtain monthly income statements by cost center ("trial balance database").
2. Based on the procedures performed herein comment on trends in key financial/operational metrics driving business performance and potential areas for additional analysis/investigation.
3. Obtain and read details of working capital accounts, discuss with management and comment on:
   - Billing and collections terms with key customers and suppliers;
   - Accounts receivable aging, write-offs and related reserves;
   - Trends in working capital metrics, including: (i) accounts receivable DSO; and (ii) accounts payable DPO;
   - Composition of and trends in other working capital accounts; and
   - Actions taken by management to maximize cash flow.

Key work streams and descriptions (cont.)

4. Obtain and read examples of internal reporting covering financial and operational performance and comment on:
   - Key operating and financial data that management utilizes to run the business on a daily, weekly and monthly basis;
   - Limitations on VIT's ability to obtain data or perform key analyses which may be required in performance monitoring;
   - Comparisons of the scope and relevance of performance monitoring metrics with industry standards; and
   - Ongoing or recently completed changes to VIT's financial reporting systems.
5. **Comment on the extent of publicly available financial/operational information for other port operators which may be used for benchmarking of the company's performance on an ongoing basis.**

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Appendix 2

VIT Container Volume Summary

VIT Container Volume Summary	FY10	FY11	FY12	LTM Apr-13
NIT				
Rail	171,439	192,653	227,851	253,259
Gate	400,171	399,662	410,346	422,109
Total NIT	**571,610**	**592,315**	**638,197**	**675,368**
APMT				
Rail	49	69,171	108,537	138,309
Gate	2,400	336,636	346,341	369,711
Total APM	**2,449**	**405,807**	**454,878**	**508,020**
Total PMT	213,676	51,977	-	-
Total VIT	**787,735**	**1,050,099**	**1,093,075**	**1,183,388**

Source: Management provided schedules and discussions

Example for Rail vs. Gate Volume Calculation per LTM Apr-13	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	LTM Apr-13
Per Operations (TOS)													
NIT													
Rail Volume Per Ops	21,139	18,177	19,726	20,496	20,527	22,635	22,950	22,851	21,473	21,204	26,080	23,608	260,866
% Of Total	*36.4%*	*33.8%*	*34.2%*	*34.8%*	*35.1%*	*37.9%*	*37.1%*	*37.0%*	*43.0%*	*37.9%*	*45.4%*	*38.1%*	*37.5%*
Gate Volume Per Calc.	36,974	35,631	37,923	38,481	38,023	37,122	38,982	38,875	28,482	34,808	31,329	38,368	434,996
% Of Total	*63.6%*	*66.2%*	*65.8%*	*65.2%*	*64.9%*	*62.1%*	*62.9%*	*63.0%*	*57.0%*	*62.1%*	*54.6%*	*61.9%*	*62.5%*
Container Volume Per Ops	58,113	53,808	57,649	58,977	58,550	59,757	61,932	61,726	49,955	56,010	57,409	61,976	695,862
APMT													
Rail Volume Per Ops	11,322	13,309	13,033	14,551	12,088	10,515	12,420	12,735	11,770	10,962	11,833	11,069	145,607
% Of Total	*25.2%*	*30.6%*	*27.9%*	*29.0%*	*26.4%*	*25.8%*	*24.2%*	*28.8%*	*28.7%*	*27.1%*	*26.2%*	*27.0%*	*27.2%*
Gate Volume Per Calc.	33,552	30,229	33,748	35,608	33,637	30,206	38,936	31,544	29,175	29,433	33,322	29,941	389,331
% Of Total	*74.8%*	*69.4%*	*72.1%*	*71.0%*	*73.6%*	*74.2%*	*75.8%*	*71.2%*	*71.3%*	*72.9%*	*73.8%*	*73.0%*	*72.8%*
Container Volume Per Ops	44,874	43,538	46,781	50,159	45,725	40,721	51,356	44,279	40,945	40,395	45,155	41,010	534,938
Per DB (Billing System) - Calculated Based On TOS Volume % Above													
NIT													
Rail Volume Per Calc.	20,479	17,642	19,171	19,623	19,863	22,068	22,194	22,075	20,782	20,616	25,611	23,135	253,183
Gate Volume Per Calc.	35,820	34,581	36,857	36,841	36,793	36,192	37,698	37,556	27,566	33,842	30,765	37,598	422,185
Container Volume Per DB	**56,299**	**52,223**	**56,028**	**56,464**	**56,656**	**58,260**	**59,892**	**59,631**	**48,348**	**54,458**	**56,376**	**60,733**	**675,368**
APMT													
Rail Volume Per Calc.	10,718	12,587	12,381	13,867	11,408	10,037	11,614	12,153	11,255	10,420	11,217	10,853	138,280
Gate Volume Per Calc.	31,762	28,589	32,060	33,933	31,744	28,832	36,411	30,101	27,898	27,977	31,587	28,816	369,740
Container Volume Per DB	**42,480**	**41,176**	**44,441**	**47,800**	**43,152**	**38,869**	**48,025**	**42,254**	**39,153**	**38,397**	**42,804**	**39,469**	**508,020**

Source: Management provided schedules and discussions

Notes

- The schedule at left summarizes annual container volume used in the analyses in this report.
- The VP of operations provided total container volume and rail volume from Jul-10 to Apr-13 from the TOS system. Gate volume is calculated as the difference of total container volume and rail volume.
- We understand that such rail volume represents a count for rail container lifts which is tracked in a rail-specific operating system. Although lifts are not equivalent to billed units, VIT uses the lift counts as an approximation to billed units. Rail versus gate volume cannot be stratified from the billing system.
- We calculated the percentages for rail and gate volume per TOS, and applied the same percentages to total NIT and APMT container volume per the billing system to arrive at the final rail and gate volume used in the report.
- We understand that there is an insignificant amount of containers classified as vessel and yard containers. For purpose of simplicity, we combined these containers into gate volume.
- FY10 information was not provided this year. FY10 rail and gate volume in the report are from the 2012 report, which was derived in a similar manner as how we calculated the FY11, FY12, and LTM Apr-13 volume split between rail and gate.

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Appendix 6

Board of Directors

- VIT is governed by two boards of directors: the VIT board and the VPA board.

VIT Board

- Historically, the VIT board of directors consisted of seven voting members (two from Portsmouth/Norfolk, two from Hampton/Newport News, two from Virginia Beach/Chesapeake and the executive director from VPA). In 2012, the board expanded to nine voting members with the addition of two VPA board members to the VIT board. Each member of the board serves a six-year term.
- The VIT board of directors meets on a monthly basis, typically a week after the monthly presentational financial statements are published. A board package is prepared which contains financial highlights, sales updates, and operational metrics. The monthly presentational financial statements are reviewed by the board of directors during the monthly meeting.
- There are three sub-committees, each of which is comprised of three members and the president of the VIT board (a non-voting member of the sub committee). These committees meet on an as-needed basis which typically results in quarterly meetings , typically hold quarterly meetings.
  - Executive committee – approves the hiring, termination, goals and compensation of the CEO and governs other executive related issues. The executive director of VPA sits on the executive committee.
  - Benefits committee – governs all employee benefits matters including approving investment mix and target returns of the defined benefits pension plan assets and assumptions (e.g. the discount rates) used in determining pension liability. Benefits committee holds discussions with the pension plan administrator and consultant New York Life and SHDR.
  - Audit committee – appoints the external auditor, approves the audit plan at the beginning of the audit and approves the audited financial statements. Once the audit committee approves the audited financial statements, it is sent to the full VIT board for approval in the August meeting.

VPA Board

- The VPA board is comprised of 12 commissioners appointed by the Governor, serving a five-year term (maximum of two terms).
- The VPA board appoints the VIT board of directors.
- The VPA board approves the annual VIT budget.
- The VPA board meets every other month and receives the VIT monthly presentational financial statements.
- VIT's external auditor presents the audited financial statements and management reports to the VPA board. The VPA board approves VIT's audited financial statements.
- Per discussions with Bob Nestor and Dan Allen, both the VIT and VPA boards have been actively engaged during the board meetings.
- No decision has been made regarding the VIT board post the reorganization. It has been discussed that the VIT board may become an advisory board, which would report to the VPA board, and the VPA board would assume the duties of the VIT board. Three of the VIT board members resigned during the May-13 board meeting.

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Appendix 7

CE & CEMA Funds and Cash Transfers to VPA Process

CE Funds

- Under the terms of the service agreement with VPA, VIT is to set aside a reserve for current expenses (CE) and a reserve for capital expenditures and maintenance (CEMA).
- The annual budget dictates the funding level of the CE fund. The targeted balance is determined based on a percentage (8.3% in FY13) of the estimated cash budget for maintenance/operations of that given year. Based on the Company's guideline, the CE fund should be invested in bonds with an average maturity not to exceed 4 years.
- The Company makes monthly contributions to the funds until the budgeted increase is reached. The General Accounting Manager, or Assistant Manager, draft a letter to the bank instructing the transfer of money. The letter is reviewed and signed by [redacted] Controller.
- Management views the CE fund as a "rainy day" fund and VIT does not draw on the account for day to day cash needs. The interest earned on the CE fund are swept into the operating fund on a monthly basis.

CEMA Funds

- The CEMA fund is intended to cover the Company's capital expenditures; therefore, all of the Company's CAPEX is funded from the CEMA proceeds.
- The annual budget dictates the funding level of the CEMA fund. The targeted balance is determined based on a percentage (6.0% in FY13) of the estimated cash budget for maintenance/operations of that given year. Based on the Company's guideline, approximately 1/3 of the portfolio will be invested in money markets, 1/3 of the portfolio will be invested in bonds with a maximum maturity of 18 months and the balance of the portfolio can be invested in bonds with a maximum maturity of 4 years.
- On a monthly basis, the Company withdraws from the CEMA account to fund its capital expenditures. These withdrawals are repaid over the next 12 months. The General Accounting Manager, or Assistant Manager draft a letter to the bank instructing the transfer of money. The letter is reviewed and signed by [redacted] Controller. The interest earned on the CEMA fund are swept into the operating fund on a monthly basis.
- On the 20th of each month, the Assistant Accounting Manager reviews the bank statement of funds and prepares a reconciliation that compares the bank statement to the internal fund rollforward schedule. The reconciliation is reviewed by [redacted]
- The Company has an internal schedule that tracks the monthly spending on CAPEX by project that are used in conjunction with the CEMA fund rollforward to monitor the cash needs to fund the Company's capital expenditure.

Transfers to VPA

- The service agreement also requires VIT to make monthly cash payments to VPA according to the terms of the agreement that establishes priority for the transfer payment. The Company is require to transfer all revenue collected for the previous month less the sum of the current expenses for the prior month and, subject to certain restrictions, to maintain and improve terminal facilities, CE and CEMA fund.
- The annual budget dictates the targeted transfer payment to VPA, which is reviewed and approved by VPA and VIT board of directors.
- The Company has a internal schedule, Weekly Cash Projection, that monitors the projected cash available for transfer to VPA for the next eight weeks. [redacted]ted the schedule is closely reviewed by [redacted] President, and [redacted] VP Administration & Financial Services, on a weekly basis.
- The General Accounting Manager or Assistant Accounting Manager drafts a letter to the bank instructing the transfer of money to VPA. The letter is reviewed and signed by [redacted]ontroller.

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Financial Reporting Process

Financial Reporting Process

- The timeline for the Company's financial close process is directed by the schedule for the monthly VIT board of directors meeting, typically the fourth Thursday of the month. A financial closeout schedule is issued to all the department managers for targeted completion dates for various financial reporting processes. The monthly close process typically takes 3-4 weeks. Management indicated year-end close typically takes one week longer; however, the process does not differ from a typical monthly close.
- Manual journal entries are posted to the general ledger by the Bookkeeper and Senior Bookkeeper, and is reviewed and approved by their supervisors, the General Accounting Manager, and [redacted], Controller.
- Reconciliations are performed on each general ledger account monthly by the Bookkeeper, Senior Bookkeeper, Assistant Manager, and General Accounting Manager. At the end of each month, once all reconciliations, entries and adjustments have been made, preliminary financial reports are printed out and reviewed. [redacted] the Controller and the General Accounting Manager review the budget versus preliminary results for unidentified variances, accuracy and completeness of the monthly results. Business unit reports, showing budget to actual cost comparisons, are run for department supervisors and managers to review each month. The supervisors and managers then inquire or propose adjustments to the statements based on their review.
- The internal financial statements are checked for mechanical accuracy and tied to appropriate supporting documentation as documented by the Checklist for Presentational Financial Statements. The Bookkeeper, Senior Bookkeeper, Assistant Manager, and General Accounting Manager document their review by a checkmarks under their initials for various items such as comparison of operation summary to trial balance.
- Following [redacted] approval, the financial statements are reviewed by [redacted] communicates his approval, [redacted] will release the financial statements to the Company's portal where authorized persons, the Company's senior management and VPA, will be able to access the financial statements.

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Appendix 9

Treasury Process

Cash Receipts

- Most of the payments are received either via wire transfer or bank lockbox, [redacted] The Company still [redacted]
- For payments received by mail, the Collection Supervisor opens and date stamps the payments. Then she verifies and highlights information on the payments such as check number, check amount, invoice number, etc. The account receivable staff posts the journal entry in the general ledger for cash receipts.
- For lockbox payments and wire transfers, the General Accounting Manager and Assistant Accounting Manager, download and print the activity from the [redacted] on a daily basis. Then the payments are posted in the same fashion as if they were received by regular mail.
- Access to the [redacted] is limited to the Assistant Accounting Manager, General Accounting Manager and the Controller. Their login is secured by an electronic token with a continuously changing numeric PIN number for each login. They must also enter their password prior to the token-assigned number.

Cash Disbursements

- On a weekly basis, the AP staff reviews the AP subledger for soon to be due invoices for processing. All of the invoices are matched with the PO noting the appropriate approval. There are only two computers that have check printing capability and access is limited to the Assistant Accounting Manager, General Accounting Manager and Controller. The checks are printed with electronic signature for amounts under $25,000. Checks over $25,000 require two signatures of either the Assistant Accounting Manager, General Accounting Manager or the Controller. A deposit pay file, which lists all of the approved checks, is sent from the Assistant Accounting Manager, General Accounting Manager or the Controller to the bank in order for the check to clear.

Cash Disbursements (continued)

- Disbursements are also made via wire transfer. The electronic payments follow the same process as a regular check as all invoices are matched with the PO noting the appropriate approval. Wire transfers are transmitted via [redacted] online through secured computer. The General Accounting Manager and Assistant Accounting Manager have dedicated computer in their office for online banking. These computer has no access to email or other internet sites and access is limited to the Controller, General Accounting Manager, and Assistant Accounting Manager. Wire transfers are only disburse to authorized vendor as a vendor template is created in the [redacted] banking website. Creating a new vendor template requires two approvals from either the Controller, General Accounting Manager, or Assistant Accounting Manager

Cash Monitoring Process

- On a daily basis, General Accounting Manager or Assistant Accounting Manager enters every cash receipt and cash disbursement (via wire, checks or ADP) into a spreadsheet, called "Bankall". At month end, "Bankall" schedule is reconciled to the cash balances on the general ledger and reconciled to the bank statement.
- On a weekly basis, a Weekly Cash Projection schedule is prepared. The schedule shows cash needs for the upcoming eight weeks and is reviewed by the controller, VP of Finance and the CEO.
- Monthly bank reconciliations are prepared by the Assistant Accounting Manager and are approved by the preparer's supervisor. Any discrepancies are researched and corrective actions or journal entries are made. The assistant accounting manager receives the monthly bank statement and reconciles it to the general ledger, ADP statements and the "Bankall" schedule (see description above). Any differences are investigated. Once the reconciliation is complete, a copy is given to the General Accounting Manager for his review.

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Pages 165-182 have been redacted in their entirety. See Cover Page.

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