Virginia's Center for Innovative Technology

INNOVATIVE TECHNOLOGY AUTHORITY
INCLUDING ITS BLENDED COMPONENT UNIT
CENTER FOR INNOVATIVE TECHNOLOGY

Herndon, Virginia

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2004

AUDIT SUMMARY

Our audit of the Innovative Technology Authority, including its blended component unit, the Center for Innovative Technology, for the year ended June 30, 2004, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance required to be reported under Government Auditing Standards.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The following is a discussion and analysis of Innovative Technology Authority's financial performance, including an overview of activities for the fiscal year ended June 30, 2004. The Authority is a political subdivision of the Commonwealth of Virginia. Its mission is to promote the economic development of the Commonwealth through technology. The Center for Innovative Technology (CIT) is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority and is a blended component unit of the Authority. Transactions are accounted for in enterprise funds and reports have been prepared on the accrual basis of accounting.

Financial Analysis

Net Assets as of June 30, 2004
(with comparative figures for June 30, 2003)

Assets	2004	2003	Change
Current assets	$ 7,353,780	$ 7,689,361	$(335,581)
Noncurrent assets	788,151	97,115	691,036
Property and equipment	25,829,772	26,668,416	(838,644)
Total assets	33,971,703	34,454,892	(483,189)
Liabilities			
Current liabilities	3,493,722	4,859,952	(1,366,230)
Long-term liabilities	8,635,000	9,347,939	(712,939)
Total liabilities	12,128,722	14,207,891	(2,079,169)
Net Assets			
Invested in capital assets, net of related debt	16,481,833	16,693,297	(211,464)
Unrestricted	5,361,148	3,553,704	1,807,444
Total net assets	$21,842,981	$20,247,001	$1,595,980

The total assets of the Authority and CIT changed by $483,189 from last year due to depreciation expense taken on property and equipment, converting cash to long-term investment and assets transferred to the Virginia Information Technologies Agency (VITA). The change in liabilities for a total of $2,079,169 was due to payment for the Authority's bond indenture and CIT's grants payable.

Although there was a reduction of appropriations from the Commonwealth, net assets rose by $1,595,980 due to an increase in federal contract revenue.

Revenue, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2004
(with comparative figures for June 30, 2003)

	2004	2003	Change
Operating revenues:			
Rental income	$ 3,015,268	$ 2,964,010	$ 51,258
Federal contracts	2,095,423	408,422	1,687,001
Program income	125,159	158,909	(33,750)
Intellectual property income	1,646	2,403	(757)
VA Initiatives - COVITS sponsorship	1,014,117	-	1,014,117
Other income	26,195	10	26,185
Total revenue	6,277,808	3,533,754	2,744,054
Expenses:			
Technology programs	4,951,225	4,054,723	896,502
Regional operation	2,069,336	2,042,581	26,755
Program communication	664,280	717,186	(52,906)
Salaries and related costs	1,110,067	1,194,669	(84,602)
Building expenses	1,480,416	1,374,273	106,143
Depreciation	927,871	1,041,846	(113,975)
Interest	738,770	782,305	(43,535)
Other	131,659	368	131,291
Total expenses	12,073,624	11,207,951	865,673
Nonoperating revenues:			
Appropriations from Commonwealth of Virginia	7,248,031	8,221,767	(973,736)
Interest income and net gain on investment	143,765	231,052	(87,287)
Total nonoperating revenue	7,391,796	8,452,819	(1,061,023)
Change in net assets	1,595,980	778,622	817,358
Net assets at July 1, 2003	20,247,001	19,468,379	778,622
Net assets at June 30, 2004	$21,842,981	$20,247,001	$ 1,598,980

Although the Authority's appropriation was reduced again from the Commonwealth by $973,736 million over last year, the Authority has made a concerted effort to increase funding from the federal government. This fiscal year, the Authority increased federal funding by $1,687,001 over last year. The Commonwealth of Virginia Information Technology Symposium (COVITS) sponsorship receipts were increased by over $1 million. Management anticipates some increase in federal funding in fiscal year 2005.

The increase of expenses of $865,763 was due to the increase of awards and subcontracts related to increase of federal contracts.

Captial Assets And Debt Administration

Capital Assets

Capital Assets as of June 30, 2004
(with comparative figures for June 30, 2003)

	2004	2003	Change
Land and land improvements	$ 7,944,997	$ 7,944,997	$ -
Building, Net of depreciation	17,769,024	18,338,160	(569,136)
Furniture, fixture, and equipment, Net of depreciation	115,751	385,259	(269,508)
Total capital assets	$25,829,772	$26,668,416	$(838,644)

There were no changes to the book value of land and land improvements for fiscal year 2004. The change of $569,136 for Building accounts is for depreciation expense taken during the year for $711,019 and capitalizable improvements of $141,883. The change in furniture, fixture, and equipment represents $71,886 of computer and other equipment acquired; $216,852 of depreciation expense taken; a $50 loss on assets disposal; and a $124,492 loss on computer assets transferred to VITA.

Debt

At year-end, the Authority had $9,345,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for $13.3 million to finance the construction of the Software Productivity Consortium's (SPC) portion of the Authority's building located in Herndon, Virginia. On May 1, 1997, Series 1997 Bonds were issued by the Authority to advance refund $11.2 million of the outstanding 1989 Series. More information about the outstanding principal and interest cost requirements of these bonds is detailed in Note H in the Notes to Financial Statements.

A lease between the Commonwealth of Virginia and the Authority secures the outstanding bonds. This lease calls for the Commonwealth to pay rent equal to the bond payments, insurance, and maintenance cost of the SPC portion of the building. In turn, the Commonwealth of Virginia has a sublease with SPC.

The Authority also had one lease outstanding at year-end that was used to obtain an office copier. This lease is detailed in Note G in the Notes to Financial Statements.

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
As of June 30, 2004

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	$ 3,743,459
Short-term investments, at cost (Note B)	2,983,556
Accounts receivable (net of allowance for doubtful accounts) (Note C)	545,162
Accrued interest receivable, prepaid expenses and deposits	81,603
Total current assets	7,353,780
Noncurrent assets:	
Unamortized expense of bond issue	88,151
Long-term investments (Note B)	700,000
Total noncurrent assets	788,151
Capital assets (Note D):	
Land and land improvements	7,944,997
Building	25,083,958
Less accumulated depreciation	(7,314,934)
Furniture, fixtures, and equipment	1,890,971
Less accumulated depreciation	(1,775,220)
Total building, property, and equipment	25,829,772
Total assets	33,971,703
LIABILITIES	
Current liabilities:	
Accrued interest payable	115,448
Compensated absences (Note E)	136,632
Accounts payable and and accrued expenses	666,455
Due to Commonwealth of Virginia	383,833
Grants payable (Note F)	1,421,533
Capital lease obligation - Short-term (Note G)	2,939
Bond payable - Short-term (Note H)	710,000
Security deposits	56,882
Total current liabilities	3,493,722
Long-term liabilities:	
Bonds payable (Note H)	8,635,000
Total liabilities	12,128,722
NET ASSETS	
Investment in property and equipment (Net of related debt)	16,481,833
Unrestricted net assets	5,361,148
Total net assets	$ 21,842,981

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

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2004

Operating revenues:	
Rental income - Lease revenue	$ 1,650,997
Rental income - Bonds	1,364,271
Federal contracts	2,095,423
Research investment	12,450
Entrepreneurism	57,419
Regional operation	16,790
Broadband matching funds	25,000
IDHS membership	13,500
Intellectual property income	1,646
VA Initiatives - COVITS sponsorship	1,014,117
Other income	26,195
Total operating revenue	6,277,808
Operating expenses:	
Program expenses:	
Grants and program costs	3,732,660
Salary and benefits	2,868,172
Administrative costs	853,553
Awards close out	(433,824)
Total program expenses	7,020,561
Management and administration:	
Communications:	
Grants and program costs	237,287
Salary and benefits	354,847
Administrative costs	72,146
Total communications	664,280
General and administrative:	
Salaries and related costs	875,567
Other administrative	241,003
Building expense	1,480,416
Interest expense	738,770
Depreciation and amortization	927,871
Bank fees on building account	614
Total general and administrative costs	4,264,241
Total operating expense	11,949,082
Operating loss	(5,671,274)
Nonoperating revenues (expenses):	
Appropriations from Commonwealth of Virginia	7,248,031
Interest income	87,403
Gain on investment	56,362
Loss on disposal of assets	(50)
Net value of computer assets transferred to VITA	(124,492)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2004

Total nonoperating revenues (expenses)	7,267,254
Change in net assets	1,595,980
Net assets at July 1, 2003	20,247,001
Net assets at June 30, 2004	$ 21,842,981

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

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

Cash flows from operating activities:	
Rental income received	$ 3,049,887
Security deposits money received	24,040
Intellectual property royalities received	1,646
Program money received	125,159
Federal contracts money received	1,820,532
Cash receipts from COVITS sponsorship	1,014,117
Other money received	34,661
Payments to vendors	(6,897,940)
Payments to grantees	(1,876,045)
Payments to employees	(3,033,569)
Payments for interest	(737,122)
Net cash provided by operating activities	(6,474,634)
Cash flows from noncapital financing activities:	
Appropriation received from the Commonwealth	7,248,031
Cash flows from investing activities:	
Disposition of short-term investments (net of fiscal year 2004 discount or premium)	4,496,658
Acquisition of short-term investments	(4,972,056)
Acquisition of long-term investments	(700,000)
Money received from sale of Anthem stock	435,862
Interest received	87,403
Net cash provided by investing activities	(652,133)
Cash flows from capital and related financing activities:	
Acquistion and construction of capital assets - CIT	(19,501)
Acquistion and construction of capital assets - ITA	(194,268)
Cash payments on capital leases	(7,180)
Cash payment to retire bond indenture	(620,000)
Net cash used for capital and related financing activities	(840,949)
Net decrease in cash and cash equivalents	(719,685)
Cash and cash equivalents at July 1, 2003	4,463,141
Cash and cash equivalents at June 30, 2004	$ 3,743,456

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

Indirect method:	
Cash flows from operating activities:	
Excess/(deficiency) of support and revenue over/(under) expenses and transfers	$ (5,671,274)
Reconciling items:	
Depreciation	927,871
Change in assets and liabilities:	
(Increase) in accounts receivable	(226,574)
(Increase) in accrued interest receivable, prepaids, and deposits	(61,630)
Decrease in unamortized expense of bond issue	8,964
Increase in accounts payable and accrued expenses	9,019
Increase in security deposits	24,040
(Decrease) in accrued interest payable	(7,316)
(Decrease) in grants payable	(1,527,311)
Increase in compensated absences	25,359
Increase in Due to Commonwealth of Virginia	24,218
Net cash provided by operating activities	$ (6,474,634)

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority (ITA) and its component unit, the Center for Innovative Technology (CIT). ITA is a political subdivision of the Commonwealth of Virginia. Its mission is to promote the economic development of the Commonwealth of Virginia through technology. The CIT is a non-stock, not-for-profit corporation, which acts as the operating arm of the ITA.

The financial statements of the ITA are intended to present the financial position and the changes in financial position and cash flows on only that portion of the financial reporting entity of the Commonwealth of Virginia that is attributable to the transactions of the ITA. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises oversight authority. The ITA is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

Basis of Accounting: The financial statements of the ITA have been prepared on the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when a liability is incurred. The activities of the ITA are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used when the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

Capital Assets: Property and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Depreciation is recorded on the straight-line basis over estimated useful lives of the assets ranging from two to forty years. The ITA uses a $3,000 cost value to determine the assets to capitalize.

Operating and Non-Operating Activity: Most of the financial activity of the ITA is related to operations. Operating activities are directly related to the ITA promoting the Commonwealth’s economic growth through technology by funding research and sponsoring programs. Currently, non-operating activity relates to appropriations from the Commonwealth of Virginia, investment activities such as interest income, and net gain on investments.

Income Taxes: The ITA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE B - CASH AND INVESTMENTS

Certain deposits and investments are maintained by the ITA or are represented by specific identifiable investment securities maintained by the Treasurer of Virginia, or are held by the Bank of New York or Bank of America. Cash and cash equivalents represent deposits and short-term investments with maturities of less than one year.

CIT held two short-term investments. One being discounted commercial paper from Maximillian Capital Corp. with a face value of $2 million and maturity date of September 27, 2004; the other being discounted commercial paper from GECC with face value of $1 million and maturity date of December 30, 2004. The 4,919 shares of common stock in Anthem, Inc., received as a result of the merge of Trigon Healthcare, Inc., and Anthem, Inc., in October 2002, was sold on May 19, 2004 at the market value of $88.66 per share for a total of $435,862.

The ITA is holding one long-term investment. It is collateral type notes from Fannie Mae with face value of $700,000 and a maturity date of July 7, 2005.

Deposits and investments held by the Bank of New York, as trustee, are accounted for in accordance with the provisions of the Master Indenture of Trust Agreement and the Supplemental Indenture of Trust Agreement between the ITA and the trustee.

Deposits with banks are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amount insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board.

The cash and cash equivalents of the ITA and CIT are categorized below to give an indication of the level of credit risk assumed by the ITA and CIT at June 30, 2004. Credit risk is the risk that the ITA or the CIT may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes cash and cash equivalents, which are insured or registered or for which the securities are held by the ITA or the CIT or their safekeeping agent in their respective names. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the brokers' or dealers' trust department or safekeeping department in their respective names. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping department, but not in either name. There were no investments in risk categories 2 and 3. Deposits and the Local Government Investment Pool are not categorized into one of these risk categories since equity in these accounts do not consist of identifiable securities.

	Category 1	Not Categorized	Market Value
Cash and cash equivalents:			
Cash in office	$ -	$ 1,050	$ 1,050
Deposits	-	122,835	122,835
Local Government Investment Pool	-	3,619,574	3,619,574
Total cash and cash equivalents	-	3,743,459	3,743,459
Short-term investments (less than one year):			
U.S. Government securities	2,983,556	-	2,983,556
Long-term investments:			
Investments in equity securities Fannie Mae collateral type notes	700,000	-	700,000
Total cash, cash equivalents, and investments	$3,683,556	$3,743,459	$7,427,015

NOTE C - ACCOUNTS RECEIVABLE

The ITA held accounts receivable totaling $66,942 for rental income less an allowance for doubtful accounts of $16,111. CIT held accounts receivable totaling $1,179,363 from federal grants and direct funding agreements with an allowance for doubtful accounts of $685,032.

In 1997 and 1998, CIT had a pilot program that provided funding directly to promising emerging companies. These companies signed an agreement with CIT to repay two-times the funding over a five- to ten-year repayment schedule. Funding to four companies totaled $750,000. To date, CIT has collected $60,300. It also relieved $30,000 from Oceana Sensors Technology, Inc., to use as matching funds to help Oceana get an ATP Award. Because of risk involved with an emerging company, CIT has elected to set-up an allowance equivalent to the outstanding balance of $659,700 included in the allowance above.

NOTE D - CAPITAL ASSETS

The ITA had the following capital asset activities during fiscal year 2004:

Account	Beginning Balance	Acquisitions or Additional Depreciation	Sales or Dispositions	Ending Balance
Land and land improvements	$ 7,944,997	$ -	$ -	$ 7,944,997
Building	24,942,075	141,883	-	25,083,958
Accumulated depreciation	(6,603,915)	(711,019)	-	(7,314,934)
Furniture, fixtures, and equipment	3,266,440	71,886	(1,447,355)	1,890,971
Accumulated depreciation	(2,881,181)	(223,460)	1,329,421	(1,775,220)
Total	$26,668,416	$ (720,710)	$ (117,934)	$25,829,772

NOTE E - COMPENSATED ABSENCES

It is the CIT's policy to permit employees to accumulate earned, but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the CIT does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred. Normally, each employee may carry 80 hours of annual leave forward to the following year; however, for fiscal year 2004, the President has decided to allow employees to carry over all annual leave regardless of the amount for this year only.

NOTE F - GRANTS PAYABLE

Grants are awarded to Virginia colleges and universities for scientific research and to Virginia-headquartered and operated companies to promote research and development. Cash is transmitted to the award recipients as needed to fund grant disbursements. The grants payable represents the balance of grant awards not paid at June 30, 2004.

NOTE G - CAPITAL LEASES

The ITA leases two copiers that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The historical cost for both copiers is $15,816. Through June 30, 2004, $13,412 of accumulated depreciation has been taken. The Minolta Copier located in the Danville office has been fully depreciated. CIT did not renew the lease due to the relocation of the regional office. Future minimum lease payments at June 30, 2004, are as follows:

Total minimum lease payments for 2005	$3,033
Less: Amount representing interest	(94)
Present value of future minimum lease payment	$2,939

The following schedule presents the changes in capital lease obligations:

Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
$10,119	$ -	$7,180	$2,939	$2,939

NOTE H - BONDS PAYABLE

The ITA issued $12,455,000 of Taxable Lease Revenue Refunding Bonds on May 1, 1997, pursuant to a Master Indenture of Trust and First Supplemental Indenture of Trust between the ITA and Signet Trust Company, Richmond, Virginia, as Trustee (since transferred to the Bank of New York). The Series 1997 Bonds were issued by the ITA to advance refund $11.2 million of outstanding 1989 Taxable Revenue Lease Bonds, Series 1989. The Commonwealth of Virginia leases facilities from the ITA. Lease payments received from the Department of Treasury are equal to the annual principal and interest costs on the bonds.

The following amortization schedule illustrates the ITA's principal and interest requirements for the Series 1997 Bonds.

Year Ending June 30,	Principal	Interest	Total
2005	$ 710,000	$ 692,691	$ 1,402,691
2006	700,000	641,855	1,341,855
2007	790,000	591,525	1,381,525
2008 - 2012	4,770,000	2,008,736	6,778,736
2013 - 2014	2,375,000	270,344	2,645,344
Total	$9,345,000	$4,205,151	$13,550,151

NOTE I - STATE APPROPRIATIONS

The ITA receives state appropriations from the General Fund of the Commonwealth of Virginia. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the ITA for disbursement.

During the fiscal year ended June 30, 2004, the ITA received the following supplemental appropriations and adjustments in accordance with the Appropriation Act:

Original legislative appropriation	$7,650,955
Adjustments:	
Return of information technology cut	89,303
Insurance rebate	7,773
Less: Holdback	(500,000)
Adjusted appropriation	$7,248,031

NOTE J - EQUITY POSITIONS

The CIT holds equity positions in several start-up organizations acquired through its Intellectual Property program. There were no new acquisitions in fiscal year 2004. Titles for technologies that were given to the start-up companies in return for stock position in the companies have been transferred to CIT from the universities without cost to CIT, therefore, there is no cost basis to assess the stock. None of the securities are traded on the open market and it is, therefore, difficult to determine a market value. Since there is no clear assessment of value either at cost or market, these equity positions have not been recorded as assets of CIT.

NOTE K - RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Fund. The Innovative Technology Foundation (ITF) is a non-stock, non-profit corporation. It was created in 1986 to promote and support economic and industrial development, encourage technological innovation, coordinate research and development capabilities of institutions with requirements of public and private sector of the economy, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent of the ITA and CIT. On June 30, 2004, ITF owed CIT $8,801 for legal and consultant’s fees paid on its behalf. At June 30, 2004, the Foundation’s unaudited assets totaled $320,805.

NOTE L – EMPLOYEE BENEFITS

CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Pension expense for the plan totaled $412,792 in 2004 for covered payroll of $3,033,568.

NOTE M - PROGRAM REVENUE

CIT started to charge nominal fees for programs and services provided by the regional offices to its customers. The fees received in fiscal year 2004 were $16,790. CIT has held very specific educational seminars and charged a nominal fee to avoid attendees registering for the seminar and not attending. Fees charged for these seminars were $69,869. CIT also received IDHS membership fees of $13,500.

NOTE N - RISK MANAGEMENT

CIT is exposed to various risks of loss related to: torts, theft or damage and destruction to assets, errors and omissions, non-performance of duty, injuries to employees, and natural disasters. Risk management insurance includes general liability, property, surety bond, errors, and omissions, and worker's compensation. CIT is insured for these risks through commercial insurance policies with Chubb Insurance Company. CIT's health care plan is administered by Anthem. CIT pays premiums to each of these companies for its insurance coverage.

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2004

	ITA	CIT	Eliminating Entry	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 965,660	$ 2,777,799	$ -	$ 3,743,459
Short-term investments	-	2,983,556	-	2,983,556
Accounts receivable (Net of allowance for doubtful accounts)	50,831	494,331	-	545,162
Accrued rent and interest receivable, prepaid travel, and deposits	5,232	76,371	-	81,603
Due from CIT	742,035	-	(742,035)	-
Total current assets	1,763,758	6,332,057	(742,035)	7,353,780
Noncurrent assets:				
Unamortized bond issuance expense	88,151	-	-	88,151
Long-term investments	700,000	-	-	700,000
Total noncurrent assets	788,151	-	-	788,151
Property and equipment:				
Land and land improvements	7,944,997	-	-	7,944,997
Building	25,083,958	-	-	25,083,958
Less accumulated depreciation	(7,314,934)	-	-	(7,314,934)
Furniture, fixtures, and equipment	1,890,971	-	-	1,890,971
Less accumulated depreciation	(1,775,220)	-	-	(1,775,220)
Total property and equipment	25,829,772	-	-	25,829,772
Total assets	28,381,681	6,332,057	(742,035)	33,971,703
LIABILITIES				
Current liabilities:				
Due to ITA	-	742,035	(742,035)	-
Accrued interest payable	115,448	-	-	115,448
Compensated absences	-	136,632	-	136,632
Accounts payable and accrued expenses	-	666,455	-	666,455
Due to Commonwealth of Virginia	383,833	-	-	383,833
Grants payable	-	1,421,533	-	1,421,533
Capital lease obligation - Short-term	2,939	-	-	2,939
Bonds payable - Short-term	710,000	-	-	710,000
Security deposits	56,882	-	-	56,882
Total current liabilities	1,269,102	2,966,655	(742,035)	3,493,722
Long-term liabilities:				
Bonds payable	8,635,000	-	-	8,635,000
Total liabilities	9,904,102	2,966,655	(742,035)	12,128,722
NET ASSETS				
Investment in property and equipment (net of related debt)	16,481,833	-	-	16,481,833
Unrestricted	1,995,746	3,365,402	-	5,361,148
Total net assets	$ 18,477,579	$ 3,365,402	$ -	$ 21,842,981

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2004

	ITA	CIT	Total
Operating revenue:			
Rental income - lease revenue	$ 1,650,997	$ -	$ 1,650,997
Rental income - bonds	1,364,271	-	1,364,271
Federal contracts	-	2,095,423	2,095,423
Research investment	-	12,450	12,450
Entrepreneurism	-	57,419	57,419
Regional operation	-	16,790	16,790
Broadband matching fund	-	25,000	25,000
IDHS Membership	-	13,500	13,500
Intellectual property income	-	1,646	1,646
VA Initiatives - COVITS sponsorship	-	1,014,117	1,014,117
Other income	-	26,195	26,195
Total operating revenue	3,015,268	3,262,540	6,277,808
Operating expenses:			
Program expenses:			
Research investment:			
Grants and program costs	-	377,073	377,073
Salary and benefits	-	388,751	388,751
Administrative costs	-	92,409	92,409
Awards close out	-	(433,824)	(433,824)
Total research investment	-	424,409	424,409
Develop entrepreneurial technology:			
Grants and pogram costs	-	399,818	399,818
Salary and benefits	-	508,894	508,894
Administrative costs	-	156,441	156,441
Total develop entrepreneurial technology	-	1,065,153	1,065,153
Regional operations:			
Grants and program costs	-	366,763	366,763
Salary and benefits	-	1,302,714	1,302,714
Administrative costs	-	399,859	399,859
Total regional operations	-	2,069,336	2,069,336
Broadband:			
Grants and program costs	-	267,737	267,737
Salary and benefits	-	126,787	126,787
Administrative costs	-	60,561	60,561
Total broadband	-	455,085	455,085
Federal programs:			
Grants and program costs	-	1,082,861	1,082,861
Salary and benefits	-	268,962	268,962
Administrative costs	-	81,299	81,299
Total federal programs	-	1,433,122	1,433,122
Business development:			
Grants and program costs	-	120,975	120,975
Salary and benefits	-	217,151	217,151
Administrative costs	-	51,597	51,597

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2004

	ITA	CIT	Total
Total business development	-	389,723	389,723
Mandated programs:			
Grants and program costs	-	1,117,433	1,117,433
Salary and benefits	-	54,913	54,913
Administrative costs	-	11,387	11,387
Total mandated programs	-	1,183,733	1,183,733
Total program expenses	-	7,020,561	7,020,561
Communications:			
Grants and program costs	-	237,287	237,287
Salary and benefits	-	354,847	354,847
Administrative costs	-	72,146	72,146
Total communications	-	664,280	664,280
General and administrative:			
Salaries and related costs	-	875,567	875,567
Other administrative	-	241,003	241,003
Building expenses	1,480,416	-	1,480,416
Interest expense	738,770	-	738,770
Depreciation	927,871	-	927,871
Bank fees on building account	614	-	614
Total general and administrative expenses	3,147,671	1,116,570	4,264,241
Total operating expenses	3,147,671	8,801,411	11,949,082
Operating income (loss)	(132,403)	(5,538,871)	(5,671,274)
Nonoperating revenues (expenses):			
Appropriations from the Commonwealth of Virginia	7,248,031	-	7,248,031
Interest income	20,624	66,779	87,403
Net gain on investments	-	56,362	56,362
Loss on disposal of assets	(50)	-	(50)
Net value of computer assets transferred to VITA	(124,492)	-	(124,492)
Total nonoperating revenues (expenses)	7,144,113	123,141	7,267,254
Income (loss) before transfers	7,011,710	(5,415,730)	1,595,980
Transfers and other changes:			
Operating transfers in	19,501	(19,501)	-
Operating transfers out	(7,174,606)	7,174,606	-
Net transfers and other changes	(7,155,105)	7,155,105	-
Change in net assets	(143,395)	1,739,375	1,595,980
Net assets at July 1, 2003	18,620,974	1,626,027	20,247,001
Net assets at June 30, 2004	$18,477,579	$3,365,402	$21,842,981

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

	ITA	CIT	Total
Cash flows from operating activities:			
Rental income received	$ 3,049,887	$ -	$ 3,049,887
Security deposits money received	24,040	-	24,040
Intellectual property royalities received	-	1,646	1,646
Program money received	-	125,159	125,159
Federal contracts money received	-	1,820,532	1,820,532
Cash receipts from COVITS sponsorship	-	1,014,117	1,014,117
Other money received	-	34,661	34,661
Payments to vendors	(1,704,128)	(5,193,812)	(6,897,940)
Payments to grantees	-	(1,876,045)	(1,876,045)
Payments to employees	-	(3,033,569)	(3,033,569)
Payments for interest	(737,122)	-	(737,122)
Net cash provided by operating activities	632,677	(7,107,311)	(6,474,634)
Cash flows from noncapital financing activities:			
Appropriation received from the Commonwealth	7,248,031	-	7,248,031
Operating transfers out	(7,174,606)	7,174,606	-
Transfers from CIT	19,501	(19,501)	-
Net cash provided by noncapital financing activities	92,926	7,155,105	7,248,031
Cash flows from investing activities:			
Disposition of short-term investments	-	4,496,658	4,496,658
Acquisition of short-term investments	-	(4,972,056)	(4,972,056)
Acquisition of long-term investments	(700,000)	-	(700,000)
Money received from sale of Anthem stock	-	435,862	435,862
Interest received	20,624	66,779	87,403
Net cash provided by investing activities	(679,376)	27,243	(652,133)
Cash flows from capital and related financing activities:			
Acquistion and construction of capital assets - CIT	(19,501)	-	(19,501)
Acquistion and construction of capital assets - ITA	(194,268)	-	(194,268)
Cash payments on capital leases	(7,180)	-	(7,180)
Cash payment to retire bond indenture	(620,000)	-	(620,000)
Net cash used for capital and related financing activities	(840,949)	-	(840,949)
Net increase (decrease) in cash and cash equivalents	(794,722)	75,037	(719,685)
Cash and cash equivalents at July 1, 2003	1,760,382	2,702,759	4,463,141
Cash and cash equivalents at June 30, 2004	$ 965,660	$ 2,777,796	$ 3,743,456

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

	ITA	CIT	Total
Cash flows from operating activities:			
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ (132,403)	$(5,538,871)	$ (5,671,274)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	927,871	-	927,871
Change in assets and liabilities:			
(Increase)/Decrease in account receivable	39,851	(266,425)	(226,574)
(Increase)/Decrease in due from CIT	(227,355)	227,355	-
Increase in accrued interest receivable, prepaids and deposits	(5,232)	(56,398)	(61,630)
Decrease in unamortized expense of bond issue	8,964	-	8,964
Increase/(Decrease) in accounts payable and accrued expenses	(19,961)	28,980	9,019
Increase in security deposits	24,040	-	24,040
Decrease in accrued interest payable	(7,316)	-	(7,316)
Decrease in grants payable	-	(1,527,311)	(1,527,311)
Increase in compensated absences	-	25,359	25,359
Increase in Due to Commonwealth of Virginia	24,218	-	24,218
Net cash provided by operating activities	$ 632,677	$(7,107,311)	$ (6,474,634)

INNOVATIVE TECHNOLOGY AUTHORITY
AND CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Year Ended June 30, 2004

	ITA	CIT	Total
Undesignated:			
Beginning balance	$ 56,541	$ 1,246,526	$ 1,303,067
Change in net assets	(143,395)	1,739,375	1,595,980
Depreciation	927,871	-	927,871
Assets acquired for operations	(19,501)	-	(19,501)
Loss on asset disposals	50	-	50
Proceeds from assets sold or traded for net book value or less	124,492	-	124,492
Interest income owed to bond holders (LGIP)	(9,621)	-	(9,621)
Transfer net profit from building operations to designated to building	(170,581)	-	(170,581)
Transfer to designated to building	(73,425)	-	(73,425)
Bond payment	(620,000)	-	(620,000)
Capital Lease payments	(7,180)	-	(7,180)
Bank fees on building reserve	614	-	614
Transfer back designated to Anthem stock	-	379,501	379,501
Designated to reserve for COVITS fiscal year 2005	-	(592,081)	(592,081)
Total undesignated	65,865	2,773,321	2,839,186
Designated to Reserve for COVITS fiscal year 2005:			
Beginning balance	-	592,081	592,081
Total designated to reserve for COVITS fiscal year 2005	-	592,081	592,081
Designated to reserve for Anthem stock:			
Beginning balance	-	379,501	379,501
Receipt from sale of Anthem stock	-	(379,501)	(379,501)
Total designated to reserve for Anthem stock	-	-	-
Investment in property and equipment:			
Beginning balance	16,693,297	-	16,693,297
Amortization of capital lease	-	-	-
Capital lease payments	7,180	-	7,180
Plus purchases for operations	19,501	-	19,501
Plus purchases for building/land improvements	194,268	-	194,268
Less depreciation	(927,871)	-	(927,871)
Less bond payment	620,000	-	620,000
Less assets sold or traded for NBV or less	(124,492)	-	(124,492)
Less loss on asset disposals	(50)	-	(50)
Total investment in property and equipment	16,481,833	-	16,481,833
Designated to building project:			
Beginning balance	1,871,136	-	1,871,136
Fiscal year 2004 appropriation designated to building project	73,425	-	73,425
Transfer of net profit from building operations to designated to building	170,581	-	170,581
Interest income owed to bond holders (IBJ)	9,621	-	9,621
Expenditures for the building	(194,268)	-	(194,268)
Bank fees on building reserve	(614)	-	(614)
Total designated to building project	1,929,881	-	1,929,881
Total fund balance	$ 18,477,579	$ 3,365,402	$ 21,842,981

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

September 23, 2004

The Honorable Mark R. Warner
Governor of Virginia

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

Board of Directors
Innovative Technology Authority and
Center for Innovative Technology

We have audited the accounts and records of the **Innovative Technology Authority** as of and for the year ended June 30, 2004, and submit herewith our complete reports on financial statements and compliance and internal controls over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Innovative Technology Authority, a component unit of the Commonwealth of Virginia, and its blended component unit, the Center for Innovative Technology, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Innovative Technology Authority as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 3 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements and the Schedule of Analysis of Fund Balances have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

In planning and performing our audit of the financial statements of the Innovative Technology Authority as of and for the year ended June 30, 2004, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grant agreements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, and the Innovative Technology Authority and Center for Innovative Technology Board and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 17, 2004.

AUDITOR OF PUBLIC ACCOUNTS

WHC/kva
kva:

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

Herndon, Virginia