ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2013

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350

AUDIT SUMMARY

Our audit of the Assistive Technology Loan Fund Authority (Authority) for the fiscal year ended June 30, 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Authority's financial system;

- no matters involving internal control and its operation necessary to bring to management's attention; and

- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

–TABLE OF CONTENTS–

AUTHORITY HIGHLIGHTS

The Assistive Technology Loan Fund Authority (Authority) was established by the Virginia General Assembly in 1995. The Authority provides loans to Virginians of all ages with disabilities for assistive technology devices, services, and telework related purposes. The goal of the program is to create affordable financing alternatives by which Virginians with disabilities can enhance their independence, achieve their employment goals, and remain active contributing members of their communities.

The Authority, through the management of a Revolving Loan Fund, helps eligible applicants obtain low-interest loans for a variety of assistive technologies. This includes loans for modified and adapted vehicles, motorized scooters and wheelchairs, Braille equipment, hearing aids, low vision aids, communication systems, environmental control devices, building and home modifications for accessibility, and telecommunication devices for the deaf.

The Revolving Loan Fund consists of federal funds awarded and passed through to the Authority in previous years in addition to a small percentage of donations and gifts. The General Assembly created the Board of Directors (Board) to ensure the Authority achieves its mission and manages the Fund into perpetuity, while maximizing the number of disabled Virginians served.

Historically, the Authority has partnered with SunTrust Banks Inc. (SunTrust) to accomplish its mission of affordable financing alternatives. Three loan options existed for eligible clients: SunTrust non-guaranteed loans with an interest rate buy down, SunTrust guaranteed loans with an interest rate buy down, and direct loans issued by the Authority. However, in August 2012 the Board raised the maximum value of the direct loans from $22,500 to $30,000; therefore, allowing the Authority to increase the number of direct loans offered to eligible clients and reducing the need for externally managed loans. As of December 31, 2013, the partnership agreement between the Authority and SunTrust was terminated. The Authority will not partner with another banking institution to issue loans for at least one year. For existing guaranteed SunTrust loans, the Authority must maintain defined required funds at SunTrust until all loans are paid in full, which is estimated to be July 2018.

<u>Direct Loans</u>

For its direct loans, the Authority charges an interest rate that historically is below normal market rates and is currently five percent. To further reduce the monthly payment due by the borrower, the Authority also provides a longer repayment term than is usually available from other financing sources. With the exception of vehicle loans, these extended loan terms typically mirror the life of the product.

During January 2013, the Board approved a motion to allow the Authority to index interest rates offered for newer vehicle loans, allowing the Authority to compete with financial institutions and automobile dealerships who offer lower rates than the Authority’s interest rate of five percent. This allows the Authority to assist Virginian’s in attaining loans with lower interest rates who could not otherwise obtain financing.

The Board's Loan Committee reviews all loan applications. Using criteria approved by the Board, the Loan Committee determines if the applicant qualifies for a direct loan from the Authority. In addition, both the Board and Loan Committee have the power to make exceptions to loan limits on a case-by-case basis.

Loan Program Statistics

The following tables provide details regarding the additions to each of the Authority's loan programs during the fiscal year as well their balances at the end of the fiscal year. Loan activity for fiscal year 2013 increased by 60 percent for direct loans as compared to fiscal year 2012. This difference can be attributed to the increase in the direct loan limit and the indexing of vehicle loan rates.

New Loans During Fiscal Year 2013

Loan Type	Count	Loan Value	Average Loan Amount
Non-guaranteed loans held by SunTrust	9	$321,622	$35,735
Guaranteed loans held by SunTrust	3	$73,435	$24,478
Direct loans by the Authority	98	$1,113,140	$11,358
Total New Loans	110	$1,508,197	$13,710

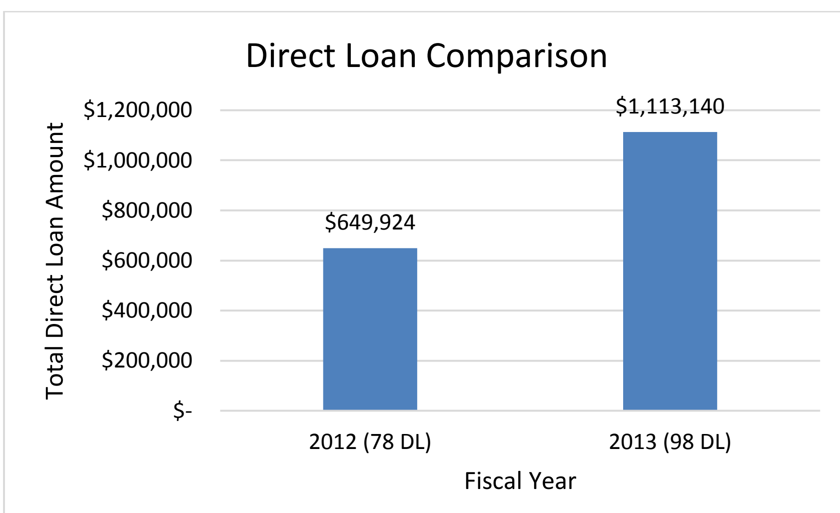
Source: Downhome Loans System

Total Loans Held by the Authority and SunTrust at June 30, 2013

Total Loan Portfolio	Count	Average Loan Value
$3,168,449	359	$8,825

Source: Downhome Loans System

Loan Activity Comparison



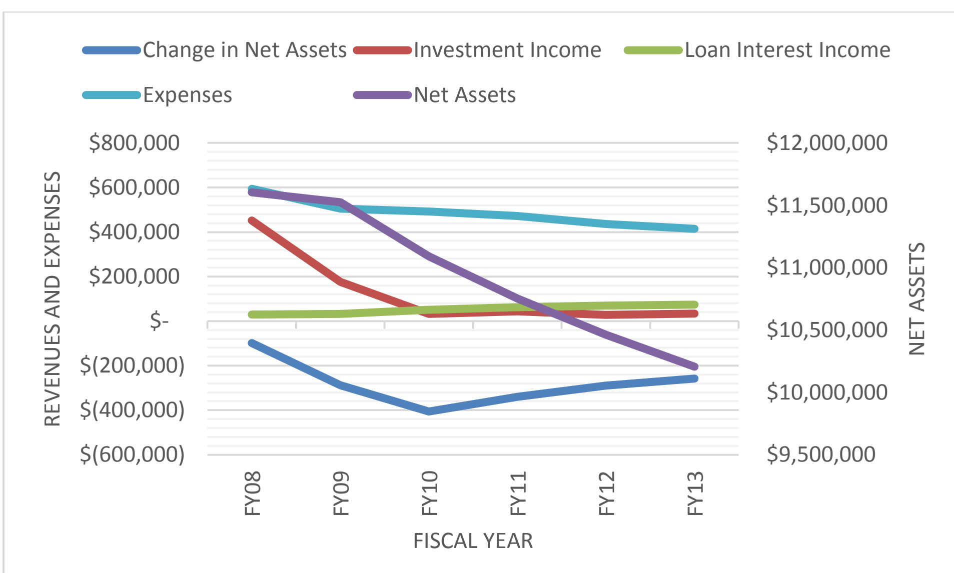
Loan Losses

Loan losses stem from defaults on the Authority's direct loans and the guaranteed loans through SunTrust. The Authority's policy requires write-off of loans when there have been no payments for more than 180 days. However, due to the mission of the organization, the Authority strives not to write-off loans and offers loan modifications to recipients where possible. The amount of Authority's loan write-offs as a result of credit loss or death of the loan recipient increased from $22,023 in fiscal year 2012 to $64,294 in fiscal year 2013. The amount of loans written off due to death was $26,440 or 41 percent of total write-offs for the fiscal year. At June 30, 2013, the loss allowance for the remaining direct loans was $91,297.

Financial Operations

The Authority uses the income and principal of the Fund to finance its direct loans and operations, including paying the interest rate buy down fees, posting the collateral required for guaranteed loans at SunTrust, and administrative expenses. The Fund's principal consists primarily of federal funds awarded or passed through to the Authority in prior years. Compliance with the federal awards requires the Authority to maintain the Fund program into perpetuity.

The Fund's sustainability relies heavily on the Authority's ability to maintain a balance between the interest it earns on its investments and loans, which remain its primary sources of income, its operational expenses, and its mission to serve Virginians with disabilities. Since its inception, the Authority has struggled to successfully realize this balance, and the significant decline in investment income since fiscal year 2009 has impacted the Authority's income and available net assets as reflected below.



Source: Authority's Financial System

The Authority relies heavily on the performance of its investments, which has declined significantly since 2009; therefore, reducing available net assets by $257,678 in fiscal year 2013. Although interest income from loans has slowly been increasing and expenses have decreased, this increase is not sufficient to make up for the lost investment income, leading to an annual deficit (decline of Change in Net Assets).

The Authority continues to implement goals and operational modifications to help improve performance and build on the fiscal policy changes implemented in recent years. They have indexed newer vehicle loans, raised the direct loan limit to $30,000, started accepting card based payment options, begun participating in the Commonwealth Virginia Campaign, and continue to develop performance metrics. The Board will need to remain vigilant in monitoring the Fund's balances to ensure they can sustain the Fund into perpetuity. In addition, the Board will need to continue to review the quality of their income projections and determine if alternative investment vehicles will provide higher returns.

The following schedule shows the Authority's budget and actual results for fiscal year 2013 with fiscal year 2012 actual results for comparison.

	2013 Budget	2013 Actual	2012 Actual
Revenues			
Contributions	$ 25,000	$ 50,000	$ 50,000
Loan Interest and Fees	74,000	73,370	69,279
Investment Income	33,000	33,194	27,707
Total Revenues	132,000	156,564	146,986
Expenses			
Grants and Awards	25,000	11,679	47,462
Loan Services	12,400	8,213	7,762
Payroll	217,500	193,931	221,622
Administrative Expenses	124,040	110,834	122,989
Marketing Expenses	32,000	9,441	10,649
Loan Losses and Write-offs	60,000	80,144	25,737
Total Expenses	470,940	414,242	436,221
Net Expenses over Revenues	($338,940)	($257,678)	($ 289,235)

Source: The Authority's financial system

The final schedule below reflects the Fund's year-end balances as of June 30, 2013, and 2012.

	2013	2012
Assets		
Cash		
Unrestricted	$ 8,275,325	$ 9,002,860
Restricted	222,096	162,637
Total Cash	8,497,421	9,165,497
Loans Receivable (net of allowance of $91,297 for FY13 and $74,889 for FY12)	1,710,341	1,300,607
Capital Assets (net)	-	2,814
Total Assets	10,207,762	10,468,918
Liabilities		
Accounts Payable and Accrued Expenses	2,171	5,649
Net Assets	$10,205,591	$10,463,269

Source: The Authority's financial system

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 14, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Assistive Technology Loan Fund Authority** (Authority) for the year ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Authority's accounting system and to review policies, procedures, and oversight of the loan portfolio including provisions for reviewing individual loan status and follow through. Additionally, our objectives were to determine the adequacy of the Authority's internal controls and to test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Authority's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Board oversight and strategic planning
Awarding of grants and loans
Cash receipting and collections of loan receivables
Write-off of loan receivables
Payroll expenses and other disbursements
Application controls

We performed audit tests to determine whether the Authority's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Authority's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in its financial system. The Authority records its financial transactions on the accrual basis of accounting, which is the basis of accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Authority's financial system.

We noted no matters involving internal control and its operation, including the policies, procedures, and oversight of the loan portfolio, that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on May 29, 2014.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

TAS/alh

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY