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, 2003

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, 2003, 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.

-TABLE OF CONTENTS-

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

October 27, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
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, 2003, 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 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, 2003, 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 respective financial position of the Innovative Technology Authority as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 5 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards

Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 statements 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 COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2003, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

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 grants, 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 that are required to be reported under 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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

The "Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting" 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 October 8, 2003.

AUDITOR OF PUBLIC ACCOUNTS

WHC/kva
kva: 42

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003. 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, 2003
(with comparative figures for June 30, 2002)

	June 30, 2003	June 30, 2002	Change
Assets			
Current assets	$ 7,689,361	$ 5,740,846	$ 1,948,515
Noncurrent assets	97,115	3,105,178	(3,008,063)
Property and equipment	26,668,416	27,648,180	(979,764)
Total assets	34,454,892	36,494,204	(2,039,312)
Liabilities			
Current liabilities	4,859,952	7,058,500	(2,198,548)
Long-term liabilities	9,347,939	9,967,325	(619,386)
Total liabilities	14,207,891	17,025,825	(2,817,934)
Net Assets			
Invested in capital assets, net of related debt	16,693,297	17,050,233	(356,936)
Unrestricted	3,553,704	2,418,146	1,135,558
Total net assets	$20,247,001	$19,468,379	$ 778,622

The total assets of the Authority decreased by $2 million from last year due to depreciation expense taken on property and equipment and from converting of long-term investments to cash and short-term investments. The change in liabilities was due to a cash payment to retire the Authority's bond indenture and CIT's grants payable.

Although there was a reduction in appropriations from the Commonwealth, net assets rose by $778,627 due to an increase in federal contract revenue and a reduction in expenses.

Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2003
(with comparative figures for June 30, 2002)

	June 30, 2003	June 30, 2002	Change
Revenues:			
Rental income	$ 2,964,010	$ 2,889,184	$ 74,826
Federal contracts	408,422	229,072	179,350
Sponsors and seminars	158,909	24,966	133,943
Intellectual property	2,403	33,254	(30,851)
Other	10	15,282	(15,272)
Total revenues	3,533,754	3,191,758	341,996
Expenses:			
Technology programs	4,054,723	4,334,098	(279,375)
Research and development partnerships	-	2,628,886	(2,628,886)
Regional operations	2,042,581	2,360,319	(317,738)
Program communications	717,186	857,728	(140,542)
Salaries and related costs	1,194,669	1,061,414	133,255
Building expenses	1,374,273	1,401,975	(27,702)
Depreciation	1,041,846	1,111,206	(69,360)
Interest	782,305	820,346	(38,041)
Other	368	272,258	(271,890)
Total expenses	11,207,951	14,848,230	(3,640,279)
Nonoperating revenues:			
Appropriations from the Commonwealth of Virginia	8,221,767	11,471,553	(3,249,786)
Interest income and net gain on investments	231,052	485,208	(254,156)
Total nonoperating revenues	8,452,819	11,956,761	(3,503,942)
Change in net assets	778,622	300,289	478,333
Net assets, July 1, 2002	19,468,379	19,168,090	300,289
Net assets, June 30, 2003	$20,247,001	$19,468,379	$ 778,622

Although the Authority's appropriation from the state was reduced by $3.2 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 $180 thousand over last year. Management anticipates a substantial increase in federal funding in fiscal year 2004.

In April 2002, the Authority was informed that an additional $3.2 and $3.4 million for fiscal years 2003 and 2004, respectively, would be reduced from the appropriation. These reductions were due to the economic outlook of the Commonwealth and all agencies of the state took additional reductions. To accommodate these reductions, the management of the Authority reduced expenses drastically over last year, which reflects the reduction of expenses this year over last year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital Assets as of June 30, 2003
(with comparative figures for June 30, 2002)

	June 30, 2003	June 30, 2002	Change
Land and land improvements	$ 7,944,997	$ 7,944,997	$ -
Building, net of depreciation	18,338,160	19,039,859	(701,699)
Furniture, fixture and equipment, net of depreciation	385,259	663,324	(278,065)
Total capital assets	$26,668,416	$27,648,180	$(979,764)

There were no changes to the book value of land and land improvements for fiscal year 2003. The change of $701,699 for building accounts for depreciation expense taken during the year. The change in furniture, fixture, and equipment represents $54,588 of computer equipment acquired; $8,403 of capital lease transactions; $340,147 of depreciation expense taken; and $910 of equipment disposal.

Debt

At year-end, the Authority had $9,965,000 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 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 two capital leases outstanding at year-end that were used to obtain office copiers. These leases are 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, 2003

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	$ 4,463,141
Short term investments (Note B)	2,508,158
Investments in equity securities (Note B)	379,501
Accounts receivable (Net of allowance for doubtful accounts) (Note C)	318,588
Accrued rent and interest receivable, prepaid travel, and deposits	19,973
Total current assets	7,689,361
Noncurrent assets:	
Unamortized bond issuance expense	97,115
Property and equipment (Note D):	
Land and land improvements	7,944,997
Building	24,942,075
Less accumulated depreciation	(6,603,915)
Furniture, fixtures, and equipment	3,266,440
Less accumulated depreciation	(2,881,181)
Total property and equipment	26,668,416
Total assets	34,454,892
LIABILITIES	
Current liabilities:	
Accrued interest payable	122,764
Compensated absences (Note E)	111,272
Accounts payable and accrued expenses	657,435
Due to Commonwealth of Virginia	359,615
Grants payable (Note F)	2,948,844
Capital lease obligation - short term (Note G)	7,180
Bonds payable - short term (Note H)	620,000
Security deposits	32,842
Total current liabilities	4,859,952
Long-term liabilities:	
Bonds payable (Note H)	9,345,000
Capital lease obligation - long term (Note G)	2,939
Total long-term liabilities	9,347,939
Total liabilities	14,207,891

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
As of June 30, 2003

NET ASSETS

Investment in property and equipment, Net of related debt	16,693,297
Unrestricted	3,553,704
Total net assets	$ 20,247,001

The accompanying Notes to Financial Statements are an intregal 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, 2003

Operating revenue:	
Rental income - lease revenue	$ 1,566,798
Rental income - bonds	1,397,212
Federal contracts	408,422
Program income - sponsors and seminars	158,909
Intellectual property income	2,403
Other income	10
Total operating revenue	3,533,754
Operating expenses:	
Program expenses:	
Technology programs:	
Grants and program costs	2,427,565
Salaries and benefits	1,302,009
Administrative costs	325,149
Total technology programs	4,054,723
Regional operations:	
Grants and program costs	355,382
Salaries and benefits	1,286,798
Administrative costs	400,401
Total regional operations	2,042,581
Program communications:	
Grants and program costs	334,239
Salaries and benefits	320,431
Administrative costs	62,516
Total program communications	717,186
Total program expenses	6,814,490
General and administrative expenses:	
Salaries and related costs	974,948
Other administrative	219,721
Administrative costs	368
Building expenses	1,374,273
Interest expense	782,305
Depreciation	1,041,846
Total general and administrative expenses	4,393,461
Total operating expenses	11,207,951
Operating income (loss)	(7,674,197)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

Nonoperating revenues (expenses):	
Appropriations from the Commonwealth of Virginia	8,221,767
Interest income	178,921
Net gain on investments	52,586
Gain (loss) on sale of fixed assets	(455)
Total nonoperating revenues	8,452,819
Change in net assets	778,622
Net assets at July 1, 2002	19,468,379
Net assets at June 30, 2003	$ 20,247,001

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
As of June 30, 2003

Cash flows from operating activities:	
Rental income received	$ 2,938,787
Security deposits money received	15,211
Intellectual property royalities received	2,403
Seminar income received	158,909
Federal contracts money received	315,482
Deposit money received	(130)
Payments to vendors	(4,842,113)
Payments to grantees	(3,774,769)
Payments to employees	(2,924,848)
Payments for interest	(780,633)
Net cash provided by operating activities	(8,891,701)
Cash flows from noncapital financing activities:	
Appropriation received from the Commonwealth	8,221,767
Cash flows from investing activities:	
Proceeds from sales of investments	138,973
Interest income	197,502
Acquisition of short-term investments	(2,524,475)
Proceeds from sales of short-term investments	1,750,000
Proceeds from sales of long-term investments in equity securities	2,999,098
Net cash provided by investing activities	2,561,098
Cash flows from capital and related financing activities:	
Acquistion and construction of capital assets - CIT	(62,992)
Proceeds from sales of capital assets	455
Capital lease obligation	8,403
Cash payments on capital leases	(6,232)
Cash payment to retire bond indenture	(625,000)
Net cash used for capital and related financing activities	(685,366)
Net increase in cash and cash equivalents	1,205,798
Cash and cash equivalents at July 1, 2002	3,257,343
Cash and cash equivalents at June 30, 2003	$ 4,463,141

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
As of June 30, 2003

Reconciliation of operating support and revenue to net cash provided (used) by operating activities:	
Operating income (loss)	$ (7,674,197)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,041,846
Amortization	30,552
Net change in assets and liabilities:	
Increase in accounts receivable	(122,439)
Decrease in due from CIT	1,932
Increase in due from ITA	(5,799)
Decrease in prepaids and deposits	18,679
Decrease in unamortized expense of bond issue	8,964
Increase in accounts payable and accrued expenses	205,436
Increase in security deposits	15,211
Increase in due to CIT	5,799
Decrease in due to ITA	(1,932)
Decrease in accrued interest payable	(7,292)
Decrease in grants payable	(2,408,461)
Net cash provided by operating activities	$ (8,891,701)

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

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority (ITA or the Authority) and its component unit, the Center for Innovative Technology (CIT). The Innovative Technology Authority 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 Center for Innovative Technology is a non-stock, not-for-profit corporation, which acts as the operating arm of the ITA.

The financial statements of the Authority 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 Authority. 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 Authority 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 Authority 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 Authority 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 the date of acquisition or fair market value at the 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 2 to 40 years. The Authority uses a $3,000 cost value to determine the assets to capitalize.

Operating and Non-Operating Activity: Most of the financial activity of the Authority is related to operations. Operating activities are directly related to the Authority's 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 Authority 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 of the Authority are held by The Bank of New York, as trustee for the Authority. This activity is in accordance with the provisions of the Master Indenture of Trust Agreement between the Authority and the trustee. Cash and cash equivalents represent deposits and short-term investments with maturities of 90 days or less.

CIT held an investment in a Fannie Mae non-callable Federal Home Loan Bank note with a face value of $2,500,000 and maturity date of November 14, 2003, and 4,919 shares of common stock in Anthem Inc. The stock was received as a result of the merger of Trigon Healthcare, Inc. and Anthem Inc. in October 2002. The fair market value of the stock at June 30, 2003, was $379,501.

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, 2003. 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	$ -	$ 1,150	$ 1,150
Deposits	-	(374,376)	(374,376)
Local Government Investment Pool	-	4,836,367	4,836,367
Total cash and cash equivalents	-	4,463,141	4,463,141
Short-term investments (less than one year):			
U.S. Government securities	2,508,158	-	2,508,158
Investments in equity securities	379,501	-	379,501
Total cash, cash equivalents, and investments	$2,887,659	$4,463,141	$7,350,800

NOTE C – ACCOUNTS RECEIVABLE

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. On April 3, 2003, CIT signed a similar contract with Old Dominion University Entrepreneur Center/Persys Tech for $30,000.

Because of the risk involved with an emerging company, CIT has elected to set up an allowance equivalent to the outstanding balance of $734,502.

NOTE D – CAPITAL ASSETS

The Authority had the following capital asset activity during fiscal year 2003:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	$ 7,944,997	$ -	$ -	$ 7,944,997
Capital assets, being depreciated:				
Building	24,942,075	-	-	24,942,075
Furniture, fixtures, and equipment	3,376,453	62,992	173,005	3,266,440
Total capital assets being depreciated	28,318,528	62,992	173,005	28,208,515
Less accumulated depreciation for:				
Building	(5,902,216)	(701,699)	-	(6,603,915)
Furniture, fixtures, and equipment	(2,713,129)	(340,147)	(172,095)	(2,881,181)
Total accumulated depreciation	(8,615,345)	(1,041,846)	(172,095)	(9,485,096)
Total capital assets being depreciated, net	19,703,183	(978,854)	910	18,723,419
Total capital assets, net	$27,648,180	$ (978,854)	$ 910	$26,668,416

NOTE E – COMPENSATED ABSENCES

It is 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 CIT does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred. Each employee may carry 80 hours of annual leave forward to the following year.

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. Grants payable represents the balance of grant awards not paid at June 30, 2003.

NOTE G – CAPITAL LEASES

The Authority leases two copiers that qualify as capital leases for accounting purpose 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, 2003, $6,232 of accumulated depreciation has been taken. Future minimum lease payments at June 30, 2003, are as follows:

Fiscal Year Ending June 30,	Amount
2004	$ 7,335
2005	3,411
Total minimum lease payments	10,746
Less: Amount representing interest	(627)
Present value of future minimum lease payment	$10,119

The following schedule presents the changes in capital lease obligations:

Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
$7,947	$8,403	$6,232	$10,118	$7,180

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 Authority and Signet Trust Company, Richmond, Virginia, as Trustee (since transferred to the Bank of New York). The Series 1997 Bonds were issued by the Authority to advance refund $11,200,000 of outstanding 1989 Taxable Revenue Lease Bonds, Series 1989. The Commonwealth of Virginia leases facilities from the Authority. 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 Authority's principal and interest requirements for the Series 1997 Bonds.

Year Ending June 30,	Principal	Interest	Total
2004	$ 620,000	$ 736,587	$ 1,356,587
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	$9,965,000	$4,941,738	$14,906,738

The following schedule presents the changes in bond payable:

Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
$10,590,000	$ -	$625,000	$9,965,000	$620,000

NOTE I – 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 2003. 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 are, therefore, it is 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 J – RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Foundation. 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, 2003, ITF owed CIT $8,576 for legal and consultant’s fees paid on its behalf. At June 30, 2003, the Foundation’s unaudited assets totaled $360,321.

NOTE K – PROGRAM REVENUE

The Center for Innovative Technology does not charge fees for programs and services provided to its customers. On occasion, 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 during fiscal year 2003 were $158,909.

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 $334,046 in 2003 for covered payroll of $2,226,973.

NOTE M – RISK MANAGEMENT

CIT is exposed to various risks of loss related to torts: theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. 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, 2003

	ITA	CIT	Eliminating Entry	Total
ASSETS				
Current assets:				
Cash and cash equivalents (Note B)	$ 1,760,382	$ 2,702,759	$ -	$ 4,463,141
Short term investments (Note B)	-	2,508,158	-	2,508,158
Investments in equity securities (Note B)	-	379,501	-	379,501
Accounts receivable (Net of allowance for doubtful accounts) (Note C)	90,682	227,906	-	318,588
Accrued rent and interest receivable, prepaid travel, and deposits	-	19,973	-	19,973
Due from CIT	514,680	-	(514,680)	-
Total current assets	2,365,744	5,838,297	(514,680)	7,689,361
Noncurrent assets:				
Unamortized bond issuance expense	97,115	-	-	97,115
Property and equipment (Note D):				
Land and land improvements	7,944,997	-	-	7,944,997
Building	24,942,075	-	-	24,942,075
Less accumulated depreciation	(6,603,915)	-	-	(6,603,915)
Furniture, fixtures, and equipment	3,266,440	-	-	3,266,440
Less accumulated depreciation	(2,881,181)	-	-	(2,881,181)
Total property and equipment	26,668,416	-	-	26,668,416
Total assets	29,131,275	5,838,297	(514,680)	34,454,892
LIABILITIES				
Current liabilities:				
Due to ITA	-	514,680	(514,680)	-
Accrued interest payable	122,764	-	-	122,764
Compensated absences (Note E)	-	111,272	-	111,272
Accounts payable and accrued expenses	19,961	637,474	-	657,435
Due to Commonwealth of Virginia	359,615	-	-	359,615
Grants payable (Note F)	-	2,948,844	-	2,948,844
Capital lease obligation - short term (Note G)	7,180	-	-	7,180
Bonds payable - short term (Note H)	620,000	-	-	620,000
Security deposits	32,842	-	-	32,842
Total current liabilities	1,162,362	4,212,270	(514,680)	4,859,952
Long-term liabilities:				
Bonds payable (Note H)	9,345,000	-	-	9,345,000
Capital lease obligation - long term (Note G)	2,939	-	-	2,939
Total long-term liabilities	9,347,939	-	-	9,347,939
Total liabilities	10,510,301	4,212,270	(514,680)	14,207,891

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2003

	ITA	CIT	Eliminating Entry	Total
NET ASSETS				
Investment in property and equipment, Net of related debt	16,693,297	-	-	16,693,297
Unrestricted	1,927,677	1,626,027	-	3,553,704
Total net assets	$ 18,620,974	$ 1,626,027	$ -	$ 20,247,001

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

	ITA	CIT	Total
Operating revenue:			
Rental income - lease revenue	$ 1,566,798	$ -	$ 1,566,798
Rental income - bonds	1,397,212	-	1,397,212
Federal contracts	-	408,422	408,422
Program income - sponsors and seminars	-	158,909	158,909
Intellectual property income	-	2,403	2,403
Other income	10	-	10
Total operating revenue	2,964,020	569,734	3,533,754
Operating expenses:			
Program expenses:			
Technology programs:			
Grants and program costs	-	2,427,565	2,427,565
Salaries and benefits	-	1,302,009	1,302,009
Administrative costs	-	325,149	325,149
Total technology programs	-	4,054,723	4,054,723
Regional operations:			
Grants and program costs	-	355,382	355,382
Salaries and benefits	-	1,286,798	1,286,798
Administrative costs	-	400,401	400,401
Total regional operations	-	2,042,581	2,042,581
Program communications:			
Grants and program costs	-	334,239	334,239
Salaries and benefits	-	320,431	320,431
Administrative costs	-	62,516	62,516
Total program communications	-	717,186	717,186
Total program expenses	-	6,814,490	6,814,490
General and administrative expenses:			
Salaries and related costs	-	974,948	974,948
Other administrative	-	219,721	219,721
Administrative costs	368	-	368
Building expenses	1,374,273	-	1,374,273
Interest expense	782,305	-	782,305
Depreciation	1,041,846	-	1,041,846
Total general and administrative expenses	3,198,792	1,194,669	4,393,461
Total operating expenses	3,198,792	8,009,159	11,207,951
Operating income (loss)	(234,772)	(7,439,425)	(7,674,197)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

	ITA	CIT	Total
Nonoperating revenues (expenses):			
Appropriations from the Commonwealth of Virginia	8,221,767	-	8,221,767
Interest income	23,962	154,959	178,921
Net gain on investments	-	52,586	52,586
Gain (loss) on sale of fixed assets	(455)	-	(455)
Total nonoperating revenues	8,245,274	207,545	8,452,819
Income before transfers	8,010,502	(7,231,880)	778,622
Transfers and other changes:			
Operating transfers in	54,588	(54,588)	-
Operating transfers out	(8,148,342)	8,148,342	-
Net transfers and other changes	(8,093,754)	8,093,754	-
Change in net assets	(83,252)	861,874	778,622
Net assets at July 1, 2002	18,704,226	764,153	19,468,379
Net assets at June 30, 2003	$ 18,620,974	$ 1,626,027	$ 20,247,001

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

	ITA	CIT	Total
Cash flows from operating activities:			
Rental income received	$ 2,938,787	$ -	$ 2,938,787
Security deposits money received	15,211	-	15,211
Intellectual property royalities received	-	2,403	2,403
Seminar income received	-	158,909	158,909
Federal contracts money received	-	315,482	315,482
Deposit money received	-	(130)	(130)
Payments to vendors	(1,285,841)	(3,556,272)	(4,842,113)
Payments to grantees	-	(3,774,769)	(3,774,769)
Payments to employees	-	(2,924,848)	(2,924,848)
Payments for interest	(780,633)	-	(780,633)
Net cash provided by operating activities	887,524	(9,779,225)	(8,891,701)
Cash flows from noncapital financing activities:			
Appropriation received from the Commonwealth	8,221,767	-	8,221,767
Operating transfers out	(8,148,342)	8,148,342	-
Transfers to CIT	(307,844)	307,844	-
Transfers from CIT	159,348	(159,348)	-
Net cash provided by nonoperating activities	(75,071)	8,296,838	8,221,767
Cash flows from investing activities:			
Proceeds from sales of equity securities	-	138,973	138,973
Interest income	23,962	173,540	197,502
Acquisition of short term investments	-	(2,524,475)	(2,524,475)
Proceeds from sales of short term investments	-	1,750,000	1,750,000
Proceeds from sales of short term investments	-	2,999,098	2,999,098
Net cash provided by investing activities	23,962	2,537,136	2,561,098
Cash flows from capital and related financing activities:			
Acquistion and construction of capital assets - CIT	(62,992)	-	(62,992)
Proceeds from sale of assets	455	-	455
Capital lease obligation	8,403	-	8,403
Cash payments on capital leases	(6,232)	-	(6,232)
Cash payment to retire bond indenture	(625,000)	-	(625,000)
Net cash used for capital and related financing activities	(685,366)	-	(685,366)
Net increase in cash and cash equivalents	151,049	1,054,749	1,205,798
Cash and cash equivalents at July 1, 2002	1,609,333	1,648,010	3,257,343
Cash and cash equivalents at June 30, 2003	$ 1,760,382	$ 2,702,759	$ 4,463,141

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

	ITA	CIT	Total
Reconciliation of operating income (loss) and to net cash provided (used) by operating activities:			
Operating income (loss)	$ (234,772)	$ (7,439,425)	$ (7,674,197)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,041,846	-	1,041,846
Amortization	-	30,552	30,552
Change in assets and liabilities:			
Increase in accounts receivable	(25,231)	(97,208)	(122,439)
Decrease in due from CIT	1,932	-	1,932
Increase in due from ITA	-	(5,799)	(5,799)
Decrease in prepaids and deposits	-	18,679	18,679
Decrease in unamortized expense of bond issue	8,964	-	8,964
Increase in accounts payable and accrued expenses	81,067	124,369	205,436
Increase in security deposits	15,211	-	15,211
Increase in due to CIT	5,799	-	5,799
Decrease in due to ITA	-	(1,932)	(1,932)
Decrease in accrued interest payable	(7,292)	-	(7,292)
Decrease in grants payable	-	(2,408,461)	(2,408,461)
Net cash provided by operating activities	$ 887,524	$ (9,779,225)	$ (8,891,701)

INNOVATIVE TECHNOLOGY AUTHORITY
AND
CENTER FOR INNOVATIVE TECHNOLOGY
Herndon, Virginia