INNOVATIVE TECHNOLOGY AUTHORITY
HERNDON, VIRGINIA

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Innovative Technology Authority for the year ended June 30, 2002, 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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Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

December 30, 2002

The Honorable Mark R. Warner
Governor of Virginia

Board of Directors
Innovative Technology Authority

We have audited the accounts and records of the **Innovative Technology Authority** as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal controls.

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, as of and for the year ended June 30, 2002, as listed in the Table of Contents. The financial statements are the responsibility of 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.

The financial statements referred to above include only the Innovative Technology Authority, which consists of all funds that comprise the Authority's legal entity. The financial statements do not include the financial data for the Authority's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Authority. As a result, the Authority's financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the Innovative Technology Authority as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note H, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2002.

The Management's Discussion and Analysis on pages 6 through 8 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 basic financial statements of the Innovative Technology Authority. The Schedule of Changes in Fund Balance is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule has 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, 2002, 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 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 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 February 12, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Innovative Technology Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2002, excluding the Center for Innovative Technology, which is a component unit of the Authority. 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 Authority's 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, 2002
(with comparative figures for June 30, 2001)

	June 30, 2002	June 30, 2001	Change
Current assets	$ 2,023,163	$ 1,917,824	$ 105,339
Noncurrent assets	106,080	115,044	(8,964)
Capital assets	27,648,180	28,555,672	(907,492)
Total assets	29,777,423	30,588,540	(811,117)
Current liabilities	1,105,872	1,131,960	(26,088)
Noncurrent liabilities	9,967,325	10,578,090	(610,765)
Total liabilities	11,073,197	11,710,050	(636,853)
Net assets:			
Invested in capital assets, Net of related debt	17,050,231	17,440,883	(390,652)
Unrestricted	1,653,995	1,437,607	216,388
Total net assets	$18,704,226	$18,878,490	$(174,264)

The total assets of the Authority changed by about $811,000 from last year due primarily to depreciation expense taken on property and equipment. The change in liabilities was due to a cash payment to retire the Authority's bond indenture.

Changes in Net Assets for the Fiscal Year Ended June 30, 2002
(with comparative figures for June 30, 2001)

	June 30, 2002	June 30, 2001	Change
Revenues:			
Rental income	$ 2,889,184	$ 2,792,899	$ 96,285
Other	309	125	184
Total revenue	2,889,493	2,793,024	96,469
Expenses:			
Building expenses	1,401,975	1,344,166	57,809
Depreciation	1,111,206	1,166,879	(55,673)
Interest	820,346	856,282	(35,936)
Other	2,236	59,604	(57,368)
Total expenses	3,335,763	3,426,931	(91,168)
Operating loss	(446,270)	(633,907)	187,637

Nonoperating revenues:			
Appropriations from the Commonwealth of Virginia	11,471,553	12,499,469	(1,027,916)
Interest income and net gain on investments	38,109	89,465	(51,356)
Operating transfers in	180,471	408,876	(228,405)
Operating transfers out	(11,398,127)	(12,853,886)	1,455,759
Change in net assets	(154,264)	(489,983)	335,719
Net assets, July 1	18,858,490	19,368,473	(509,983)
Net assets, June 30	$18,704,226	$18,878,490	$ (174,264)

The Authority, as well as other organizations supported by the Commonwealth of Virginia, received reductions in its appropriation during the fiscal year 2002. The Authority's appropriation began the year at a level of $13.8 million, was reduced several times during the fiscal year, and ended the year at $11.5 million.

In April 2002, the Authority was informed that an additional $3.2 and $3.4 million for fiscal years 2003 and 2004 would be reduced from the appropriation. These reductions, again, were due to the economic outlook of the Commonwealth and all agencies of the state took additional reductions.

Capital Assets and Debt Administration

Capital Assets as of June 30, 2002
(with comparative figures for June 30, 2001)

	June 30, 2002	June 30, 2001	Change
Land and land improvements	$ 7,944,997	$ 7,927,197	$ 17,800
Building, Net of depreciation	19,039,859	19,741,558	(701,699)
Furniture, fixtures and equipment, Net of depreciation	663,324	886,917	(223,593)
Total capital assets	$27,648,180	$28,555,672	$(907,492)

During fiscal year 2002, the Authority invested in an overflow parking lot to accommodate large seminars. The cost was $17,800 which accounts for the full change in land and land improvements. There were no additions to the cost of the building and the decrease of $701,699 in the building's value is the result of depreciation expense taken during the year. The change in furniture, fixture, and equipment represents $185,914 of computer equipment acquired, $114,568 disposed, and $294,939 depreciated.

Long-Term Debt

At year-end, the Authority had $10,590,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for $13,300,000 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 $11,200,000 of the outstanding 1989 Series. More information about the outstanding principal and interest cost requirements of these bonds are detailed in Note G 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 F in the Notes to Financial Statements.

INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2002

A S S E T S	
Current assets:	
Cash and cash equivalents (Note B)	$ 1,609,333
Accounts receivable (Net of allowance for doubtful accounts) (Note C)	65,450
Due from CIT (Note D)	348,380
Total current assets	2,023,163
Noncurrent assets:	
Unamortized bond issuance expense	106,080
Capital Assets (Note E):	
Land and land improvements	7,944,997
Building	24,942,075
Less accumulated depreciation	(5,902,216)
Furniture, fixtures and equipment	3,376,453
Less accumulated depreciation	(2,713,129)
Total noncurrent assets	27,754,260
Total assets	29,777,423
LIABILITIES	
Current liabilities:	
Due to CIT (Note D)	29,054
Accrued interest payable	130,056
Accounts payable and accrued expenses	145,067
Due to Commonwealth of Virginia	153,442
Capital lease obligation - short term (Note F)	5,622
Bonds payable - short term (Note G)	625,000
Security deposits	17,631
Total current liabilities	1,105,872
Noncurrent liabilities:	
Bonds payable (Note G)	9,965,000
Capital lease obligation - long term (Note F)	2,325
Total noncurrent liabilities	9,967,325
Total liabilities	11,073,197
NET ASSETS	
Investment in property and equipment, Net of related debt	17,050,231
Unrestricted	1,653,995
Total net assets	$18,704,226

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

INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
For the Year Ended June 30, 2002

Operating revenue:	
Rental income - lease revenue	$ 1,532,627
Rental income - bonds	1,356,557
Other income	309
Total operating revenue	2,889,493
Operating expenses:	
Administrative costs	2,236
Building expenses	1,401,975
Interest expense	820,346
Depreciation	1,111,206
Total operating expenses	3,335,763
Operating loss	(446,270)
Nonoperating revenues:	
Appropriations from the Commonwealth of Virginia	11,471,553
Interest income	38,109
Total nonoperating revenues	11,509,662
Income before transfers	11,063,392
Transfers in	180,471
Transfers out	(11,398,127)
Change in net assets	(154,264)
Net assets at July 1, 2001	18,858,490
Net assets at June 30, 2002	$ 18,704,226

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

INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2002

Cash flows from operating activities:	
Rental income received	$2,987,122
Security deposit money received	3,414
Payments to vendors	(1,408,668)
Payments for interest	(817,459)
Net cash provided by operating activities	764,409
Cash flows from noncapital financing activities:	
Appropriations received from the Commonwealth	11,471,553
Operating transfers out	(11,398,127)
Transfers to CIT	(363,140)
Transfers from CIT	110,538
Net cash used by noncapital financing activities	(179,176)
Cash flows from investing activities:	
Interest income (net of premium or discount)	38,109
Net cash provided by investing activities	38,109
Cash flows from capital and related financing activities:	
Acquistion and construction of capital assets - CIT	(180,471)
Acquistion and construction of capital assets - ITA	(23,243)
Cash payments on capital leases	(6,841)
Cash payment to retire bond indenture	(530,000)
Net cash used for capital and related financing activities	(740,555)
Net decrease in cash and cash equivalents	(117,213)
Cash and cash equivalents at July 1, 2001	1,726,546
Cash and cash equivalents at June 30, 2002	$1,609,333
Reconciliation of operating support and revenue to net cash provided by operating activities:	
Operating loss	$ (446,270)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,111,206
Increase in account receivable	(35,284)
Decrease in accrued interest payable	(6,077)
Decrease in accounts payable and accrued expenses	(4,759)
Increase in Due to Commonwealth	133,214
Increase in security deposits	3,415
Decrease in unamortized expense of bond issue	8,964
Net cash provided by operating activities	$ 764,409

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

INNOVATIVE TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority (Authority). The 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 financial statements do not include the Center for Innovative Technology (CIT), a component unit of the Authority.

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, exclusive of CIT. A separate report is prepared for the Authority that includes CIT. Also, a separate report is prepared for the Commonwealth 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 where 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 2 to 40 years.

Operating and Non-Operating Activity: Most financial activity of the Authority is related to operations. Operating activities are directly related to the Authority promoting the Commonwealth's economic growth through technology by funding research and sponsoring programs. Currently nonoperating activity relates to appropriations from the Commonwealth of Virginia and short-term investment activities such as interest income.

Income Taxes: The Authority is exempt from federal income tax.

NOTE B – CASH AND CASH EQUIVALENTS 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.

Deposits with banks are covered by federal depository insurance or collateralized in accordance with 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.

	June 30, 2002
Cash and cash equivalents:	
Deposits	$ 221,253
Local Government Investment Pool	1,388,080
Total cash and cash equivalents	$1,609,333

NOTE C – ACCOUNTS RECEIVABLE

The majority of the Authority's accounts receivable relates to rental income due from tenants in the Authority's building.

NOTE D – DUE FROM/TO CIT

The Center for Innovative Technology (CIT) is a non-stock corporation created by the Authority, as provided by Section 9-263 of the Code of Virginia, to carry out the purpose for which the Authority was created. The due from CIT represents expenditures paid by Authority on behalf of CIT. The Authority also has amounts due to CIT for expenditures paid by CIT on behalf of the Authority.

NOTE E – CAPITAL ASSETS

The Authority had the following capital assets activity during fiscal year 2002:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, Not depreciated:				
Land and land improvements	$ 7,927,197	$ 17,800	$ -	$ 7,944,997
Total capital assets, Not depreciated	7,927,197	17,800	-	7,944,997
Capital assets, Depreciated:				
Building	24,942,075	-	-	24,942,075
Furniture, fixtures, and equipment	3,305,107	185,914	114,568	3,376,453
Total capital assets, Depreciated	28,247,182	185,914	114,568	28,318,528
Less accumulated depreciation for:				
Building	(5,200,517)	(701,699)	-	(5,902,216)
Furniture, fixtures and equipment	(2,418,190)	(409,507)	(114,568)	(2,713,129
Total accumulated depreciation	(7,618,707)	(1,111,206)	(114,568)	(8,615,345)
Total capital assets, Depreciated, Net	20,628,475	(925,292)	-	19,703,183
Total capital assets, Net	$28,555,672	$ (907,492)	$ -	$27,648,180

NOTE F – CAPITAL LEASES

The Authority 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, 2002, $7,929 of accumulated depreciation has been taken. Future minimum lease payments at June 30, 2002 are as follows:

Fiscal Year Ending June 30,	Amount
2003	$5,984
2004	2,358
Total minimum lease payments	8,342
Less: Amount representing interest	(395)
Present value of future minimum lease payments	$7,947

The following schedule presents the changes in capital lease obligations:

Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
$14,789	$ -	$6,842	$7,947	$5,622

NOTE G - BONDS PAYABLE

The Authority 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
2003	$ 625,000	$ 780,337	$ 1,405,337
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	$10,590,000	$5,722,075	$16,312,075

The following schedule presents the changes in bonds payable:

Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
$11,120,000	$ -	$530,000	$10,590,000	$625,000

NOTE H - GASB STATEMENT NO. 34

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999, became effective for the Commonwealth for fiscal year ending June 30, 2002. This statement imposed new standards for financial reporting. The changes to the Authority's statements were minimal under this standard; however, since this is the first year of implementation, some of the information in the financial statements is not easily comparable to prior years.

NOTE I – RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Fund. The Innovative Technology Fund (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 from the Authority and CIT. On June 30, 2002, ITF owed CIT $7,692 for legal and consultant's fees paid on its behalf. At June 30, 2002, the ITF's unaudited assets totaled $608,908.

INNOVATIVE TECHNOLOGY AUTHORITY
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ending June 30, 2002

Undesignated:	
Fund balance at beginning of year	$ 68,268
Deficiency of revenue under expenses	(154,264)
Depreciation	1,111,206
Assets acquired for operations	(180,471)
Interest income owed to bond holders (LGIP)	(35,032)
Transfer net profit from building operations to designated to building	(130,652)
Transfer to designated to building	(73,425)
Bond payment	(530,000)
Capital lease payments	(6,842)
Bank fees on building reserve	2,236
Fund balance at end of year	71,024
Investment in capital assets:	
Fund balance at beginning of year	17,420,881
Amortization of capital lease	530,000
Capital lease payments	6,842
Purchases for operations	180,471
Purchases for building/land improvements	23,243
Depreciation	(1,111,206)
Fund balance at end of year	17,050,231
Designated to building project:	
Fund balance at beginning of year	1,369,341
Appropriation designated to building project	73,425
Transfer net profit from building operations to designated to building	130,652
Interest income owed to bond holders (IBJ)	35,032
Expenditures for the building	(23,243)
Bank fees on building reserve	(2,236)
Fund balance at end of year	1,582,971
Total fund balances	$ 18,704,226