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, 2006

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, 2006, 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 or other matters 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 the Innovative Technology Authority's (Authority) financial performance, including an overview of activities for the fiscal year ended June 30, 2006. The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth). Its mission is to accelerate Virginia's next generation of technology and technology companies. 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, 2006
(With comparative figures for June 30, 2005)

Assets:	2006	2005	Change
Current assets	$ 8,510,385	$ 7,981,243	$ 529,142
Non-current assets	70,222	79,186	(8,964)
Capital assets	25,175,510	25,804,450	(628,940)
Total assets	33,756,117	33,864,879	(108,762)
Liabilities:			
Current liabilities	2,942,586	2,611,836	330,750
Long-term liabilities	7,145,000	7,935,000	(790,000)
Total liabilities	10,087,586	10,546,836	$(459,250)
Net assets:			
Invested in capital assets, net of related debt	17,240,510	17,169,450	71,060
Unrestricted net assets	6,428,021	6,148,593	279,428
Total net assets	$23,668,531	$23,318,043	$ 350,488

The total combined current assets of the Authority and CIT increased by $529,142 from last year primarily due to a decrease in operating expenses.

The decrease in long-term liabilities of $790,000 reflects a principal payment of $700,000 and a $90,000 increase in the current portion of the outstanding bonds payable.

The increase in current liabilities is primarily attributable to approximately $507,000 in increases of amounts due to the Commonwealth, accrued expenses and the current portion of the outstanding bonds payable, offset by a $158,000 reduction in grants payable. Amounts due to the Commonwealth increased due to an increase in profits from the Authority's rental of a portion of the building that must be remitted to the Commonwealth. The increase in accrued expenses is related to COVITS and federal award expenses not outstanding at the end of fiscal year 2005.

Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2006
(With comparative figures for June 30, 2005)

	2006	2005	Change
Operating revenue:			
Rental income	$ 3,147,394	$ 3,168,458	$ (21,064)
Federal contracts	2,498,304	3,446,964	(948,660)
Program income	265,997	168,085	97,912
Royalty income - intellectual property	99,570	296	99,274
VA initiatives - COVITS sponsorships and registrations	701,566	970,685	(269,119)
Total operating revenue	6,712,831	7,754,488	(1,041,657)
Expenses:			
Program expenses	7,932,305	9,811,409	(1,879,104)
Program communications	615,451	515,173	100,278
General and administrative costs	1,461,495	1,217,499	243,996
Building expenses	1,507,871	1,559,836	(51,965)
Depreciation and amortization	870,098	805,845	64,253
Other	-	936	(936)
Total expenses	12,387,220	13,910,698	(1,523,478)
Non-operating revenue/(expenses):			
Appropriations from the Commonwealth of Virginia	6,087,085	7,748,153	(1,661,068)
Non-operating income	1,042	-	1,042
Interest income	321,193	147,163	174,030
Gain on investment	253,218	-	253,218
Unrealized gain on investment	-	420,269	(420,269)
Interest expense – bonds	(637,661)	(684,313)	46,652
Total non-operating revenue	6,024,877	7,631,272	(1,606,395)
Change in net assets	350,488	1,475,062	(1,124,574)
Net assets at July 1, beginning fiscal year	23,318,043	21,842,981	1,475,062
Net assets at June 30, ending fiscal year	$23,668,531	$23,318,043	$ 350,488

Federal revenue decreased by $948,660 over last year predominately because of the expiration of two awards with the National Oceanic and Atmospheric Administration (NOAA) and decreased billing on the remaining NOAA award due to less equipment purchased this year over last year. During fiscal year 2006, CIT obtained a $3.4 million multi-year award with the Air Force Research Laboratory, Wright Patterson Air Force Base. Billing under this award will increase in fiscal year 2007.

COVITS sponsorship and registration revenue decreased by $269,119 over last year due to the fiscal year 2006 conference being a smaller conference than the fiscal year 2005 conference. Lower sponsorship targets were set in fiscal year 2006.

Program expenses were down by $1,879,104 over last year due to the federal awards which ended in fiscal year 2005 and the reduced costs of the fiscal year 2006 COVITS conference. In addition, personnel expenses associated with business development activities, which were classified as a program expense in fiscal year 2005, were eliminated during fiscal year 2006.

General and administrative costs increased $243,996 over last year due to salary increases and an increase of personnel attributable to administrative function responsibilities associated with federal business and the development of a full cost accounting system.

The Authority's fiscal year 2006 appropriation was $1,661,068 lower than last year's appropriation because the appropriation was reduced by the General Assembly.

Interest income increased $174,030 over last year due to a change in CIT's investment policy to keep investments in short term investment vehicles while interest rates were climbing.

The gain on investment of $253,218 is attributed to CIT's sale of Stereotaxis, Inc. stock, which was obtained through CIT's former Intellectual Property program.

Capital Assets and Debt Administration

Capital Assets

Capital Assets as of June 30, 2006
(With comparative figures for June 30, 2005)

	2006	2005	Change
Land and land improvements	$ 7,944,997	$ 7,944,997	$ -
Building (net of depreciation)	17,228,431	17,770,431	(542,000)
Furniture, fixtures and equipment (net of depreciation)	2,082	89,022	(86,940)
Total capital assets	$25,175,510	$25,804,450	$ (628,940)

The Authority invested $232,193 in capital assets for the building during fiscal year 2006. The cost of the improvements was offset by $861,133 of depreciation. During fiscal year 2006, building improvements and building equipment previously classified in the furniture, fixtures, and equipment account was reclassified to the building account.

Debt Administration

At year-end, the Authority had $7,935,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for $13,300,000 to finance the construction of the System and Software Consortium, Inc. (SSC) 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 is detailed in Note I in the Notes to the Financial Statements.

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

FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2006

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	$ 7,546,518
Accrued interest receivable, prepaid expenses and deposits	170,286
Accounts and accrued receivables (Note C)	793,581
Notes receivable (Note D)	800,000
Less: allowance for bad debts (Note D)	(800,000)
Total current assets	8,510,385
Noncurrent assets:	
Unamortized expense of bond issue	70,222
Capital assets (Note E):	
Land and land improvements	7,944,997
Building	26,843,947
Less: accumulated depreciation	(9,615,516)
Furniture, fixtures and equipment	955,689
Less: accumulated depreciation	(953,607)
Total capital assets	25,175,510
Total assets	33,756,117
LIABILITIES	
Current liabilities:	
Accrued interest payable	102,781
Compensated absences (Note G)	122,033
Accounts payable, accrued expenses and prepaid rental income	873,994
Due to Commonwealth of Virginia	688,650
Grants payable (Note H)	306,651
Bonds payable - short-term (Note I)	790,000
Security deposits	58,477
Total current liabilities	2,942,586
Long-term liabilities:	
Bonds payable (Note I)	7,145,000
Total liabilities	10,087,586
NET ASSETS	
Investment in capital assets, net of related debt	17,240,510
Unrestricted net assets	6,428,021
Total net assets	$ 23,668,531

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, 2006

Operating revenue:	
Rental income - lease revenue	$ 1,802,233
Rental income - bonds	1,345,161
Federal contracts	2,298,425
Federal contracts - CIT connect	199,879
Entrepreneurism	148,628
IDHS membership	15,500
Broadband	22,549
VA initiatives-COVITS sponsorships and registrations	701,566
Direct funding paybackincome	79,320
Royalty income - intellectual property	99,570
Total operating revenue	6,712,831
Operating expenses:	
Program expenses:	
Programs	4,220,673
Salary and benefits	2,890,628
Administrative cost	933,313
Awards close-out	(112,309)
Total program expenses	7,932,305
Program communications:	
Programs	408,460
Salary and benefits	164,952
Administrative cost	42,039
Total program communications	615,451
General and administrative:	
Salary and benefits	1,095,337
Administrative	366,158
Building expense	1,507,871
Depreciation and amortization	870,098
Total general and admininstrative costs	3,839,464
Total operating expenses	12,387,220
Operating loss	(5,674,389)
Non-operating revenue/(expenses):	
Appropriations from Commonwealth	6,087,085
Non-operating income	1,042
Interest income	321,193
Gain on investment	253,218
Interest expense - bonds	(637,661)
Total non-operating revenue/(expenses)	6,024,877
Change in net assets	350,488
Net assets at July 1, 2005	23,318,043
Net assets at June 30, 2006	$ 23,668,531

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, 2006.

Cash flows from operating activities:	
Rental income received	$ 3,143,504
Intellectual property royalties received	99,570
Program money received	86,678
Federal contracts money received	2,572,138
Direct funding payback money received	79,320
GAP funding money received	200,000
Cash receipts from COVITS sponsorships and registrations	701,565
Payments to vendors	(7,589,480)
Payments to grantees	(614,813)
Payments to employees	(3,156,517)
Security deposits paid	(7,264)
Net cash used for operating activities	(4,485,299)
Cash flows from noncapital financing activities:	
Appropriation received from the Commonwealth of Virginia	6,087,085
Net cash provided by noncapital financing activities	6,087,085
Cash flows from investing activities:	
Sale of stock (net of commission)	673,487
Disposition of Fannie Mae note	700,000
Interest received	326,409
Net cash provided by investing activities	1,699,896
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - ITA	(232,193)
Cash payment to retire bond indenture	(700,000)
Payments for interest	(641,855)
Net cash used for capital and related financing activities	(1,574,048)
Net increase in cash and cash equivalents	1,727,634
Cash and cash equivalents at July 1, 2005	5,818,884
Cash and cash equivalents at June 30, 2006	$ 7,546,518

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006.

Cash flows from operating activities:		
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities		
Operating income/(loss)	$	(5,674,389)
Adjustments to reconcile operating income/(loss) to net cash		
Depreciation and amortization		870,098
Changes in assets and liabilities:		
(Increase)/decrease in accounts and accrued receivables		59,544
(Increase)/decrease in prepaid expenses and deposits		(81,321)
(Increase)/decrease in notes receivable		100,000
Increase/(decrease) in accounts payable and accrued expenses		237,068
Increase/(decrease) in security deposits		(7,264)
Increase/(decrease) in grants payable		(158,304)
Increase/(decrease) in compensated absences		(3,352)
Increase/(decrease) in due to Commonwealth		172,621
Net cash used by operating activities	$	(4,485,299)

NOTES TO FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority (the Authority) and its blended component unit, the Center for Innovative Technology (CIT). The Authority is a political subdivision of the Commonwealth, as authorized by the Innovative Technology Authority Act, Title 2.2, Chapter 22, Article 3 of the Code of Virginia. The Authority's mission is to accelerate the Commonwealth's next generation of technology and technology companies. The Innovative Authority Act provides for the Authority to form a non-stock corporation to carry out the mission of the Authority. CIT is the non-stock, not-for-profit corporation created for this purpose, and acts as the operating arm of the Authority. The Virginia General Assembly 2005 Session, Virginia Acts of Assembly Chapter 951, authorizes the Authority to transfer funds appropriated to it by the Commonwealth to CIT for use in realizing its mission.

The financial statements of the Authority, including its blended component unit CIT 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 that is attributable to the transactions of the Authority including its blended component unit CIT. Separate financial statements for the Authority and CIT can be found in the Supplementary Information section of the Annual Financial Statement report. 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 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 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 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 promoting the Commonwealth's economic growth through technology. Currently, non-operating activity relates to appropriations from the Commonwealth, investment activities such as interest income, and interest expense.

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

The Governmental Accounting Standards Board (GASB) issued Statement 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB 3, which modified previous disclosure requirements related to investment risk and became effective beginning for the fiscal year ended June 30, 2005. Required investment risk disclosures address credit risk, including custodial credit risk and concentrations of credit risk, interest rate risk and foreign currency risk. The Statement also requires disclosures of custodial credit risk and foreign currency risk for depository accounts.

The investment policy of the Authority and CIT is established and monitored by the Board of Directors. The investment policies of the Authority and CIT comply with the Investment of Public Funds Act, Code of Virginia Section 2.2 4500. The investment policy establishes guidelines for securities the Authority and CIT is to invest its money in, including quality of investment, maturity, and investment yields.

Certain deposits and investments are maintained by the Authority 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.

Deposits and investments held by 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 Authority and the trustee.

Custodial Credit Risk: All deposits of the Authority and CIT are maintained in accounts covered by federal depository insurance and collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia, as amended, which provides for an assessable multiple financial institution collateral pool.

GASB 40 amends the requirements set out in GASB 3, by only requiring disclosure of uncollateralized deposits, and uninsured and unregistered securities held by a counterparty, or its trust department or agent but not in the government's name. The Authority and CIT had no investments exposed to custodial credit risk.

Credit Rate Risk: Disclosure of the credit quality rating is required for investments exposed to the risk an issuer or other counterparty will not fulfill its obligations. At June 30, 2006, the Authority and CIT had investments and ratings as shown in the chart below.

Concentration of Credit Risk: Disclosure of any one issuer is required when it represents five percent or more of total investments. At June 30, 2006, the Authority and CIT held no investment greater than five percent.

Foreign Currency Risk: Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. The Authority and CIT have no foreign investments or deposits for 2006.

	Credit Rating	Fair Value
Cash equivalents		
Cash		$ 104,665
Federated Treasury Obligations Fund	AAAm	30,942
Local Government Investment Pool	AAAm	7,410,911
Total cash equivalents		$7,546,518

NOTE C - ACCOUNTS AND ACCRUED RECEIVABLES

The Authority held accounts receivable totaling $10,575 for rental income and $2,095 for miscellaneous receivables. CIT held accounts receivable totaling $547,608 for federal awards and miscellaneous receivables, $224,053 of accrued revenue for federal awards, and $9,250 of account receivable related to the Innovative Technology Foundation.

NOTE D - NOTES RECEIVABLE

During the last two fiscal years, CIT has entered into convertible note purchase agreements with 12 promising emerging companies under its Growth Acceleration Program (GAP). Promissory notes typically have a maturity date of one year or 18 months from issuance. As of June 30, 2006, CIT had granted extensions on three of the notes. Subsequent to June 30, 2006, CIT issued one additional extension. Payment due at maturity is principal plus eight percent; however, in one instance, CIT has written a note with a ten percent coupon. At CIT's option, CIT may convert the note into equity securities of the company, subject to the terms of the note. During fiscal year 2006, two companies paid CIT $100,000 each in repayment of the notes, and CIT converted the RollStream, Inc. note into equity (see Note J). At June 30, 2006, CIT had $800,000 in notes receivable. Because of the risk involved with an emerging company, CIT has elected to set up an allowance of $800,000.

NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2006:

Account	Beginning Balance	Acquisitions or Additional Depreciation	Sales or Dispositions	Reclassificatior	Ending Balance
Land and land improvements	$ 7,944,997	$ -	$ -	$ -	$ 7,944,997
Building	25,832,598	232,193	-	779,156	26,843,947
Accumulated depreciation	(8,062,167)	(800,054)	-	(753,295)	(9,615,516)
Furniture, fixtures, and equipment	1,841,189	-	(106,344)	(779,156)	955,689
Accumulated depreciation	(1,752,167)	(61,079)	106,344	753,295	(953,607)
Total	$25,804,450	$(628,940)	$ -	$ -	$25,175,510

During fiscal year 2006, building improvements and building equipment previously classified in the furniture, fixtures, and equipment account were reclassified to the building account.

NOTE F - CONTINGENT LIABILITIES

At June 30, 2006, CIT had contingent liabilities related to two term sheets (letters of intent) for Growth Acceleration Program investments totaling $200,000. The term sheets state CIT's intention to enter into a convertible note purchase agreement with the company, subject to certain conditions. The letters of intent expire 90 days after issuance. The term sheets expired with no action subsequent to year-end.

NOTE G - 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 H - 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, 2006.

NOTE I - 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 leases facilities from the Authority. The lease calls for the Commonwealth to pay rent equal to the bond payments, insurance, trustee fees, and maintenance costs of the System and Software Consortium (SSC) portion of the building. In turn, the Commonwealth has a sublease with SSC.

Balance July 1, 2005	Issuances	Retirements	Balance June 30, 2006	Amount Due Within One Year
$8,635,000	$ -	$ 700,000	$7,935,000	$ 790,000

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

Year Ending June 30,	Principal	Interest	Total
2007	$ 790,000	$ 591,525	$ 1,381,525
2008	875,000	534,013	1,409,013
2009	855,000	470,050	1,325,050
2010	935,000	407,208	1,342,208
2011	1,015,000	336,896	1,351,896
2012-2014	3,465,000	530,912	3,995,912
Total	$7,935,000	$2,870,604	$10,805,604

NOTE J - EQUITY POSITIONS

CIT holds equity positions in two start-up organizations, obtained through CIT programs.

The first program is the CIT Intellectual Property (IP) program which is no longer in existence. Under this program, CIT licensed titles for technologies to start-up organizations in exchange for stock. CIT initially received the titles to these technologies from universities without cost to CIT. In fiscal year 2006, CIT sold its shares of Stereotaxis, Inc. stock, which was obtained through this program, and was trading on the NASDAQ exchange. There were other shares of stock that CIT obtained through this program; however, all but one of these companies (Hemodyne, Inc.) has gone out of business. Currently, CIT holds 35,003 shares of common stock in Hemodyne, Inc. This security is not traded on the open market and there is no cost basis to CIT. The equity position of this stock, therefore, has not been recorded on CIT assets since there is no clear assessment of the value at either cost or market.

The second program under which CIT has obtained an equity position in a start-up company is GAP. Under this program, CIT acquired, during fiscal year 2006, 738,322 shares of preferred stock in Rollstream, Inc. This security is not traded on the open market and it is difficult to determine a market value without a full company valuation. Since there is no clear assessment of value of this equity position, CIT has not recorded it as an asset.

NOTE K - 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 public and private institutions, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent of the Authority and CIT. On June 30, 2006, ITF owed CIT $9,250 for legal and consulting fees paid on its behalf. At June 30, 2006, the ITF's unaudited net assets totaled $387,577.

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 the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Pension expense for the plan totaled $397,589 in 2006 for payroll of $2,650,595.

NOTE M - RISK MANAGEMENT

The Authority and CIT are exposed to various risks of loss related to: torts, theft, or damage and destruction to assets, injuries to employees, and natural disasters. Risk management insurance includes general liability, property, surety bond, and worker's compensation. The Authority is insured through the Commonwealth's Risk Management Program and CIT is insured through commercial insurance policies with Chubb Indemnity Insurance Company and Montgomery Mutual Insurance Company. CIT's health care plan is administered by Anthem. The Authority and CIT pay premiums to each of these companies for its insurance coverage.

SUPPLEMENTARY INFORMATION

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2006

	ITA	CIT	Eliminating Entry	Total
A S S E T S				
Current assets:				
Cash and cash equivalents	$ 750,258	$ 6,796,260	$ -	$ 7,546,518
Accrued interest receivable, prepaid expenses and deposits		170,286	-	170,286
Accounts and accrued receivables	12,670	780,911	-	793,581
Notes receivable	-	800,000	-	800,000
Less: allowance for bad debts	-	(800,000)	-	(800,000)
Due from CIT	1,636,181	-	(1,636,181)	-
Total current assets	2,399,109	7,747,457	(1,636,181)	8,510,385
Non-current assets:				
Unamortized expense of bond issue	70,222	-	-	70,222
Capital assets:				
Land and land improvements	7,944,997	-	-	7,944,997
Building	26,843,947	-	-	26,843,947
Less: accumulated depreciation	(9,615,516)	-	-	(9,615,516)
Furniture, fixtures and equipment	955,689	-	-	955,689
Less: accumulated depreciation	(953,607)	-	-	(953,607)
Total capital assets	25,175,510	-	-	25,175,510
Total assets	27,644,841	7,747,457	(1,636,181)	33,756,117
LIABILITIES				
Current liabilities:				
Due to ITA	-	1,636,181	(1,636,181)	-
Accrued interest payable	102,781	-	-	102,781
Compensated absences	-	122,033	-	122,033
Accounts payable, accrued expenses and prepaid rental income	79,585	794,409	-	873,994
Due to Commonwealth of Virginia	688,650	-	-	688,650
Grants payable	-	306,651	-	306,651
Bonds payable - short term	790,000	-	-	790,000
Security deposits	58,477	-	-	58,477
Total current liabilities	1,719,493	2,859,274	(1,636,181)	2,942,586
Long-term liabilities:				
Bonds payable	7,145,000	-	-	7,145,000
Total liabilities	8,864,493	2,859,274	(1,636,181)	10,087,586
NET ASSETS				
Investment in capital assets,net of related debt	17,240,510	-	-	17,240,510
Unrestricted net assets	1,539,838	4,888,183	-	6,428,021
Total net assets	$ 18,780,348	$ 4,888,183	$ -	$ 23,668,531

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

	ITA	CIT	Total
Operating revenue:			
Rental income - lease revenue	$ 1,802,233	$ -	1,802,233
Rental income - bonds	1,345,161	-	1,345,161
Federal contracts	-	2,298,425	2,298,425
Federal contracts - CIT Connect	-	199,879	199,879
Entrepreneurism	-	148,628	148,628
IDHS membership	-	15,500	15,500
Broadband	-	22,549	22,549
Virginia initiatives-COVITS sponsorships and registrations	-	701,566	701,566
Direct Funding Payback Income	-	79,320	79,320
Royalty income - Intellectual Property	-	99,570	99,570
Total operating revenue	3,147,394	3,565,437	6,712,831
Operating expenses:			
Program expenses:			
Develop industry clusters:			
Programs	-	11,431	11,431
Salary and benefits	-	157,017	157,017
Administrative cost	-	35,702	35,702
Awards close out	-	(112,309)	(112,309)
Total develop industry clusters	-	91,841	91,841
Develop entrepreneurial technology:			
Programs	-	1,102,885	1,102,885
Salary and benefits	-	1,241,103	1,241,103
Administrative cost	-	369,332	369,332
Total develop entrepreneurial technology	-	2,713,320	2,713,320
Virginia initiatives:			
Programs	-	829,144	829,144
Salary and benefits	-	57,728	57,728
Administrative cost	-	9,116	9,116
Total Virginia initiatives	-	895,988	895,988
World Class R&D Programs:			
Programs	-	2,272,479	2,272,479
Salary and benefits	-	890,272	890,272
Administrative cost	-	218,647	218,647
Total World Class R&D Programs	-	3,381,398	3,381,398

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

	ITA	CIT	Total
CIT Connect:			
Programs	-	4,734	4,734
Salary and benefits	-	544,508	544,508
Administrative cost	-	300,516	300,516
Total CIT Connect	-	849,758	849,758
Total program expenses	-	7,932,305	7,932,305
Program communications:			
Programs	-	408,460	408,460
Salary and benefits	-	164,952	164,952
Administrative cost	-	42,039	42,039
Total communications	-	615,451	615,451
General and administrative:			
Salary and benefits	-	1,095,337	1,095,337
Administrative	370	365,788	366,158
Building expense	1,507,871	-	1,507,871
Depreciation and amortization	870,098	-	870,098
Total general and administrative costs	2,378,339	1,461,125	3,839,464
Total operating expenses	2,378,339	10,008,881	12,387,220
Operating income/(loss)	769,055	(6,443,444)	(5,674,389)
Non-operating revenue/(expenses):			
Appropriations from the Commonwealth	6,087,085	-	6,087,085
Non-operating income	1,042	-	1,042
Interest income	29,083	292,110	321,193
Gain on investment	-	253,218	253,218
Interest expense - bonds	(637,661)	-	(637,661)
Total non-operating revenue/(expenses)	5,479,549	545,328	6,024,877
Income/(loss) before transfers	6,248,604	(5,898,116)	350,488
Transfers and other changes:			
Transfer in/(out)	(6,087,085)	6,087,085	-
Net transfers and other changes	(6,087,085)	6,087,085	-
Change in net assets	161,519	188,969	350,488
Net assets at July 1, 2005	18,618,829	4,699,214	23,318,043
Net assets at June 30, 2006	$ 18,780,348	$ 4,888,183	$ 23,668,531

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

	ITA	CIT	Total
Cash flows from operating activities:			
Rental income received	$ 3,143,504	-	$ 3,143,504
Intellectual property royalties received	-	99,570	99,570
Program money received	-	86,678	86,678
Federal contracts money received	-	2,572,138	2,572,138
Direct funding payback money received	-	79,320	79,320
GAP funding money received	-	200,000	200,000
Cash receipts from COVITS sponsorships and registrations	-	701,565	701,565
Payments to vendors	(1,895,772)	(5,693,708)	(7,589,480)
Payments to grantees	-	(614,813)	(614,813)
Payments to employees	-	(3,156,517)	(3,156,517)
Security deposits paid	(7,264)	-	(7,264)
Net cash provided/(used) by operating activities	1,240,468	(5,725,767)	(4,485,299)
Cash flows from noncapital financing activities:			
Appropriation received from the Commonwealth of Virginia	6,087,085	-	6,087,085
Operating transfers (out)/in	(6,087,085)	6,087,085	-
Net cash provided/(used) by non-capital financing activities	-	6,087,085	6,087,085
Cash flows from investing activities:			
Sale of stock (net of commission)	-	673,487	673,487
Disposition of Fannie Mae note	700,000	-	700,000
Interest received	34,300	292,109	326,409
Net cash provided by investing activities	734,300	965,596	1,699,896
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - ITA	(232,193)	-	(232,193)
Cash payment to retire bond indenture	(700,000)	-	(700,000)
Payments for interest	(641,855)	-	(641,855)
Net cash used for capital and related financing activities	(1,574,048)	-	(1,574,048)
Net increase in cash and cash equivalents	400,720	1,326,914	1,727,634
Cash and cash equivalents at July 1, 2005	349,538	5,469,346	5,818,884
Cash and cash equivalents at June 30, 2006	$ 750,258	$ 6,796,260	$ 7,546,518

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

	ITA	CIT	Total
Cash flows from operating activities:			
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	$ 769,055	$ (6,443,444)	$ (5,674,389)
Adjustments to reconcile operating income/(loss) to net cash:			
Depreciation and amortization	870,098	-	870,098
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	(3,880)	63,424	59,544
(Increase)/decrease in due from CIT	(541,052)	541,052	-
(Increase)/decrease in prepaid expenses and deposits	5,217	(86,538)	(81,321)
(Increase)/decrease in notes receivable	-	100,000	100,000
Increase/(decrease) in accounts payable and accrued expenses	(24,327)	261,395	237,068
Increase/(decrease) in security deposits	(7,264)		(7,264)
Increase/(decrease) in grants payable	-	(158,304)	(158,304)
Increase/(decrease) in compensated absences	-	(3,352)	(3,352)
Increase/(decrease) in due to Commonwealth of Virginia	172,621	-	172,621
Net cash provided/(used) by operating activities	$ 1,240,468	$ (5,725,767)	$ (4,485,299)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Year Ended June 30, 2006

	ITA	CIT	Total
Undesignated:			
Beginning balance	$ 27,412	$ 3,960,901	$ 3,988,313
Change in net assets	161,519	188,969	350,488
Depreciation	861,133	-	861,133
Reclassification of Fiscal year 2005 expenditure for building	19,349	-	19,349
Interest income designated to building	(28,875)	-	(28,875)
Transfer net profit from building operations to designated to building	(294,362)	-	(294,362)
Interest income received on $700,000 investment	(5,425)	-	(5,425)
Bond payment	(700,000)	-	(700,000)
Bank fees on building reserve	370	-	370
Gain on Stereotaxis stock	-	(253,218)	(253,218)
Transfer from designated to reserve for gain on Sterotaxis stock	-	673,487	673,487
Change in COVITS reserve during fiscal year 2006	-	245,176	245,176
Total undesignated	41,121	4,815,315	4,856,436
Designated to gain on Stereotaxis stock:			
Beginning balance	-	420,269	420,269
Gain on Stereotaxis stock	-	253,218	253,218
Transfer to undesignated fund	-	(673,487)	(673,487)
Total designated to gain on Stereotaxis stock	-	-	-
Designated to reserve for COVITS fiscal year 2006:			
Beginning balance	-	318,044	318,044
Fiscal year 2006 revenue	-	701,566	701,566
Fiscal year 2006 expenses	-	(946,742)	(946,742)
Total designated to reserve for COVITS fiscal year 2006	-	72,868	72,868
Investment in capital assets:			
Beginning balance	17,169,450	-	17,169,450
Purchases for building	232,193	-	232,193
Depreciation	(861,133)	-	(861,133)
Bond payment	700,000	-	700,000
Total	17,240,510	-	17,240,510
Designated to building:			
Beginning balance	1,421,967	-	1,421,967
Transfer net profit from building operations to designated to building	294,362	-	294,362
Interest income designated to building	28,875	-	28,875
Interest income received on $700,000 investment	5,425	-	5,425
Reclassification of fiscal year 2005 expense for building	(19,349)	-	(19,349)
Expenses for the building	(232,193)	-	(232,193)
Bank fees on building reserve	(370)	-	(370)
Total	1,498,717	-	1,498,717
Total fund balance	$ 18,780,348	$ 4,888,183	$ 23,668,531

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

October 12, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
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, 2006, 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 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, 2006, 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 Authority as of June 30, 2006, 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 the 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 combining statements and Schedule of Analysis of Fund Balances are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining statements and 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

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 on October 23, 2006.

AUDITOR OF PUBLIC ACCOUNTS

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INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY