

**INNOVATIVE TECHNOLOGY AUTHORITY
HERNDON, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

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August 18, 2000

The Honorable James S. Gilmore, III
Governor of Virginia

Board of Directors
Innovative Technology Authority

We have audited the accounts and records of the **Innovative Technology Authority** for the year ended June 30, 2000, and submit herewith our complete reports on financial statements and on compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of the Innovative Technology Authority as of June 30, 2000, and the related statements of support and revenue, expenses, and changes in fund balances and cash flows for the year then ended. These 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 generally accepted auditing standards 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.

As more fully described in Note A, the accompanying financial statements do not include the financial position and the results of operations and the cash flows of the Center for Innovative Technology, a component unit of the Innovative Technology Authority.

In our opinion, except for the omission of component unit financial data as described above, the financial statements referred to above present fairly, in all material respects, the financial position of the Innovative Technology Authority at June 30, 2000, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Authority. The information in this schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the 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 Innovative Technology Authority as of and for the year ended June 30, 2000, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, and contracts in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Authority 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 controls over financial reporting would not necessarily disclose all matters in the internal controls 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 promptly by employees in the normal course of performing their duties. We noted no matters involving the internal controls 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, 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.

AUDITOR OF PUBLIC ACCOUNTS

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FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY
BALANCE SHEET
As of June 30, 2000

A S S E T S

Current assets:

| | |
|---|----------------|
| Cash and cash equivalents (Note B) | \$ 1,305,730 |
| Accounts receivable (Net of allowance for doubtful accounts of \$4,840) | 107,110 |
| Accrued rent and interest receivable and deposits | 178,198 |
| Due from non-profit organization (Note D) | <u>275,133</u> |

| | |
|----------------------|------------------|
| Total current assets | <u>1,866,171</u> |
|----------------------|------------------|

Non-current assets:

| | |
|-----------------------------------|----------------|
| Unamortized bond issuance expense | <u>124,009</u> |
|-----------------------------------|----------------|

Property and equipment:

| | |
|-----------------------------------|--------------------|
| Land | 7,300,000 |
| Land improvements | 627,197 |
| Building | 24,942,075 |
| Less accumulated depreciation | (4,498,818) |
| Furniture, fixtures and equipment | 3,113,934 |
| Less accumulated depreciation | <u>(2,193,872)</u> |

| | |
|------------------------------|-------------------|
| Total property and equipment | <u>29,290,516</u> |
|------------------------------|-------------------|

| | |
|--------------|-----------------------------|
| Total assets | <u><u>\$ 31,280,696</u></u> |
|--------------|-----------------------------|

LIABILITIES AND FUND BALANCES

Current liabilities:

| | |
|---------------------------------------|---------------|
| Accrued interest payable | \$ 142,215 |
| Accounts payable and accrued expenses | 121,391 |
| Security deposits | <u>13,617</u> |

| | |
|---------------------------|---------|
| Total current liabilities | 277,223 |
|---------------------------|---------|

Long-term liabilities:

| | |
|------------------------|-------------------|
| Bonds payable (Note C) | <u>11,655,000</u> |
|------------------------|-------------------|

| | |
|-------------------|-------------------|
| Total liabilities | <u>11,932,223</u> |
|-------------------|-------------------|

| | |
|--------------|-------------------|
| Fund balance | <u>19,348,473</u> |
|--------------|-------------------|

| | |
|-------------------------------------|-----------------------------|
| Total liabilities and fund balances | <u><u>\$ 31,280,696</u></u> |
|-------------------------------------|-----------------------------|

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

INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF SUPPORT AND REVENUE, EXPENSES,
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2000

SUPPORT AND REVENUE

| | |
|--|----------------|
| Appropriations from the Commonwealth of Virginia | \$13,255,662 |
| Interest income | 73,298 |
| Lease revenue | 1,298,709 |
| Rental income - bonds | 1,422,560 |
| Transfer from non-profit organization | 396,391 |
| Other income | <u>100,925</u> |

| | |
|---|-------------------|
| Total support and revenue from operations | <u>16,547,545</u> |
|---|-------------------|

EXPENSES

Operating:

| | |
|--|--------------|
| Distribution to non-profit organization (Note D) | 13,182,237 |
| Building operating costs | 1,202,306 |
| Other administration | 32,790 |
| Interest | 892,485 |
| Depreciation | 1,168,518 |
| Net loss on disposal of fixed assets | <u>5,732</u> |

| | |
|--------------------------|-------------------|
| Total operating expenses | <u>16,484,068</u> |
|--------------------------|-------------------|

| | |
|---|--------|
| Excess of support and revenue over operating expenses | 63,477 |
|---|--------|

| | |
|----------------------------|-------------------|
| Fund balance, July 1, 1999 | <u>19,284,996</u> |
|----------------------------|-------------------|

| | |
|-------------------------------|----------------------------|
| Fund balance at June 30, 2000 | <u><u>\$19,348,473</u></u> |
|-------------------------------|----------------------------|

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, 2000

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Excess of support and revenue over expenses | \$ 63,477 |
| Reconciling items: | |
| Depreciation and amortization | 1,168,518 |
| Loss on disposal of fixed assets | 5,732 |
| Change in assets and liabilities: | |
| (Increase) in accounts receivable | (71,106) |
| Decrease in accrued interest receivable | 22,008 |
| Decrease in unamortized bond issuance expense | 11,480 |
| (Decrease) in accounts payable and accrued expenses | (60,908) |
| (Decrease) in due to non-profit organization | (362,320) |
| (Decrease) in accrued interest payable | (6,021) |
| (Decrease) in security deposits | (4,562) |
| Net cash provided by operating activities | <u>766,298</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets - CIT | (386,731) |
| Acquisition and construction of capital assets - ITA | (62,692) |
| Cash payment to retire bond indenture | (540,000) |
| Proceeds from the sale of fixed assets | <u>1,232</u> |
| Net cash provided by capital and related financing activities | <u>(988,191)</u> |
| Net decrease in cash and cash equivalents | (221,893) |
| Cash and cash equivalents at July 1, 1999 | <u>1,527,623</u> |
| Cash and cash equivalents at June 30, 2000 | <u><u>\$ 1,305,730</u></u> |

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

NOTES TO FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2000

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Innovative Technology Authority (Authority), which was created by the General Assembly in 1984, 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 of the Authority have been prepared on the accrual basis of accounting.

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 component unit of the Authority. These financial statements do not include the financial position and results of operations and cash flows of CIT. Inclusion of this data is necessary for reporting in conformity with generally accepted accounting principles. Financial statements for CIT may be obtained from CIT.

A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Authority is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

Property and Equipment: 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 3 to 40 years.

NOTE B – CASH, 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 less than one year.

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.

Credit risk is the risk that the Authority may not be able to obtain possession of its investment instrument or collateral at maturity. The Authority had no investments which qualifies for risk categorization. Deposits and the Local Government Investment Pool are not categorized into one of these risk categories since the Authority's equity in these accounts do not consist of identifiable securities.

NOTE C - 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.

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------|--------------------|---------------------|
| 2001 | \$ 535,000 | \$ 853,288 | \$ 1,388,288 |
| 2002 | 530,000 | 816,801 | 1,346,801 |
| 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 |
| 2008-2014 | <u>7,145,000</u> | <u>2,279,080</u> | <u>9,424,080</u> |
| Total | <u>\$11,655,000</u> | <u>\$7,392,164</u> | <u>\$19,047,164</u> |

NOTE D – DISTRIBUTION TO A NON-PROFIT ORGANIZATION

The distribution to non-profit organization represents appropriations transferred to the Center for Innovative Technology (CIT). CIT is a nonstock 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.

SUPPLEMENTARY INFORMATION

INNOVATIVE TECHNOLOGY AUTHORITY
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2000

INVESTMENT IN PROPERTY AND EQUIPMENT

| | |
|---|--------------------|
| Fund balance at beginning of year | \$ 17,821,572 |
| Transfer from undesignated - debt retirement | 540,000 |
| Transfer from undesignated - equipment purchases | 449,333 |
| Transfer from undesignated -building additions | 90 |
| Transfer to undesignated - loss on asset disposal | (5,732) |
| Transfer to undesignated - proceeds from the sale of assets | (1,232) |
| Depreciation and amortization | <u>(1,168,518)</u> |

| | |
|-----------------------------|-------------------|
| Fund balance at end of year | <u>17,635,513</u> |
|-----------------------------|-------------------|

DESIGNATED TO BUILDING PROJECT

| | |
|--|-----------------|
| Fund balance at beginning of year | 590,104 |
| Transfer from undesignated fund - Appropriations from the Commonwealth | 73,425 |
| Transfer from undesignated fund - investment earnings | 66,478 |
| Transfer to undesignated for expenditures | <u>(62,735)</u> |

| | |
|-----------------------------|----------------|
| Fund balance at end of year | <u>667,272</u> |
|-----------------------------|----------------|

DESIGNATED TO LAND PROJECT

| | |
|-----------------------------------|----------------|
| Fund balance at beginning of year | <u>562,274</u> |
|-----------------------------------|----------------|

| | |
|-----------------------------|----------------|
| Fund balance at end of year | <u>562,274</u> |
|-----------------------------|----------------|

UNDESIGNATED

| | |
|---|-----------------|
| Fund balance at beginning of year | 311,046 |
| Excess of support and revenue over expenses | 63,477 |
| Depreciation and amortization | 1,168,518 |
| Transfer to investment in property and equipment - equipment purchases | (449,333) |
| Transfer to investment in property and equipment - building additions | (90) |
| Transfer to investment in property and equipment - debt retirement | (540,000) |
| Transfer from investment in property and equipment - loss on asset disposal | 5,732 |
| Transfer from investment in property and equipment - proceeds from the sale of assets | 1,232 |
| Transfers from building project for expenditures | 62,735 |
| Transfers to building project - investment earnings | (66,478) |
| Transfers to building project - Appropriations from the Commonwealth | <u>(73,425)</u> |

| | |
|-----------------------------|----------------|
| Fund balance at end of year | <u>483,414</u> |
|-----------------------------|----------------|

| | |
|---------------------|-----------------------------|
| Total fund balances | <u><u>\$ 19,348,473</u></u> |
|---------------------|-----------------------------|

INNOVATIVE TECHNOLOGY AUTHORITY

Herndon, Virginia

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