

**INNOVATIVE TECHNOLOGY AUTHORITY
HERNDON, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



- TABLE OF CONTENTS -

INDEPENDENT AUDITOR'S REPORT:

Auditor's Report on Financial Statements

Auditor's Report on Compliance and on Internal Control Over Financial Reporting

FINANCIAL STATEMENTS:

Balance Sheet

Statement of Support and Revenue, Expenses, and Changes in Fund Balances

Statement of Cash Flows

Notes to Financial Statements

SUPPLEMENTARY INFORMATION:

Schedule of Changes in Fund Balances

AGENCY OFFICIALS

September 7, 2001

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** as of and for the year ended June 30, 2001 and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Innovative Technology Authority as of June 30, 2001, 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 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.

As more fully described in Note A, the accompanying financial statements do not include the financial position and the results of operations and 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 as of June 30, 2001, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule of changes in fund balances is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information has been audited in connection with the audit of the basic financial statements and, in our opinion, such information is fairly stated 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, 2001, 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, 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 September 28, 2001.

AUDITOR OF PUBLIC ACCOUNTS

KKH/kva
kva:40

INNOVATIVE TECHNOLOGY AUTHORITY
BALANCE SHEET
As of June 30, 2001

A S S E T S

| | |
|---|-----------------------------|
| Current assets: | |
| Cash and cash equivalents (Note B) | \$ 1,726,546 |
| Accounts receivable (Net of allowance for doubtful accounts of \$9,882) | 30,165 |
| Accrued rental income | <u>161,113</u> |
| Total current assets | <u>1,917,824</u> |
| Non-current assets: | |
| Unamortized bond issuance expense | <u>115,044</u> |
| Property and equipment: | |
| Land and land improvements | 7,927,197 |
| Building | 24,942,075 |
| Less accumulated depreciation | (5,200,517) |
| Furniture, fixtures and equipment | 3,305,107 |
| Less accumulated depreciation | <u>(2,418,190)</u> |
| Total property and equipment | <u>28,555,672</u> |
| Total assets | <u><u>\$ 30,588,540</u></u> |

LIABILITIES AND FUND BALANCES

| | |
|--|-----------------------------|
| Current liabilities: | |
| Accrued interest payable | \$ 136,133 |
| Accounts payable and accrued expenses | 331,169 |
| Security deposits | 14,217 |
| Due to non-profit organization (Note D) | 113,742 |
| Bonds payable - short term (Note C) | 530,000 |
| Capital lease obligation - short term (Note E) | <u>6,699</u> |
| Total current liabilities | 1,131,960 |
| Long-term liabilities: | |
| Bonds payable (Note C) | 10,570,000 |
| Capital lease obligation - long term (Note E) | <u>8,090</u> |
| Total liabilities | <u>11,710,050</u> |
| Fund balance | <u>18,878,490</u> |
| Total liabilities and fund balance | <u><u>\$ 30,588,540</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, 2001

SUPPORT AND REVENUE

| | |
|--|-----------------------|
| Appropriations from the Commonwealth of Virginia | \$ 12,499,469 |
| Interest income | 78,710 |
| Lease revenue | 1,411,525 |
| Rental income - bonds | 1,381,374 |
| Transfer for assets | 408,876 |
| Other income | 125 |
| Gain on sale of fixed assets | <u>10,755</u> |
| Total support and revenue from operations | <u>15,790,834</u> |

EXPENSES

Operating:

| | |
|--|---------------|
| Distribution to non-profit organization (Note D) | 12,426,044 |
| Administrative costs | 20,515 |
| Building expense | 1,344,166 |
| Transfer building operating profit | 427,842 |
| Interest | 856,282 |
| Depreciation | 1,166,879 |
| Net loss on disposal of fixed assets | <u>39,089</u> |

| | |
|--------------------------|-------------------|
| Total operating expenses | <u>16,280,817</u> |
|--------------------------|-------------------|

| | |
|--|-----------|
| Deficiency of support and revenue under operating expenses | (489,983) |
|--|-----------|

| | |
|------------------------------|-------------------|
| Fund balance at July 1, 2000 | <u>19,348,473</u> |
|------------------------------|-------------------|

| | |
|-------------------------------|-----------------------------|
| Fund balance at June 30, 2001 | <u><u>\$ 18,858,490</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, 2001

| | |
|--|----------------------------|
| Cash flows from operating activities: | |
| Deficiency of support and revenue under operating expenses | \$ (489,983) |
| Reconciling items: | |
| Depreciation | 1,166,879 |
| Loss on disposal of fixed assets | 39,089 |
| Change in assets and liabilities: | |
| Decrease in accounts receivable | 76,945 |
| Decrease in due from CIT | 275,133 |
| Decrease in accrued interest receivable | 17,085 |
| Decrease in unamortized bond issuance expense | 8,965 |
| Increase in accounts payable and accrued expenses | 209,779 |
| Increase in security deposits | 600 |
| Increase in due to CIT | 113,742 |
| Decrease in accrued interest payable | (6,082) |
| Net cash provided by operating activities | <u>1,412,152</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets - CIT | (408,877) |
| Acquisition and construction of capital assets - ITA | (74,000) |
| Sale/trade of fixed assets | 11,752 |
| Capital lease obligations - new | 15,816 |
| Cash payments on capital leases | (1,027) |
| Cash payment to retire bond indenture | <u>(535,000)</u> |
| Net cash used for capital and related financing activities | <u>(991,336)</u> |
| Net increase in cash and cash equivalents | 420,816 |
| Cash and cash equivalents at July 1, 2000 | <u>1,305,730</u> |
| Cash and cash equivalents at June 30, 2001 | <u><u>\$ 1,726,546</u></u> |

The accompanying notes to financial statements are an integral part of this statement.

INNOVATIVE TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

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 accounting principles generally accepted in the United States of America. 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 two to forty 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</u> <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------------|---------------------|--------------------|---------------------|
| 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 | 875,000 | 534,013 | 1,409,013 |
| 2009-2014 | <u>6,270,000</u> | <u>1,745,067</u> | <u>8,015,067</u> |
| Total | <u>\$11,120,000</u> | <u>\$6,538,876</u> | <u>\$17,658,876</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.

NOTE E – CAPITAL LEASES

The Authority entered into lease agreements as lessee for financing the acquisition of office equipment for the Portsmouth and Danville offices with down payments of \$417 and \$263 respectively. These lease agreements 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 following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2001.

| Fiscal Year Ending <u>June 30,</u> | |
|--|------------------------|
| 2002 | \$ 7,335 |
| 2003 | 5,984 |
| 2004 | <u>2,358</u> |
| Total minimum lease payments | 15,677 |
| Less: Amount representing interest | <u>888</u> |
| Present value of future minimum lease payments | <u><u>\$14,789</u></u> |

NOTE F – PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, issued June 1999, will be effective for the Authority for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. The Authority’s management will be required to provide a management’s discussion and analysis that gives readers an analysis of the Authority’s overall financial position and results of operations including a comparison of current year results with the prior year. The Authority has begun its assessment of the changes required and is preparing to implement this Statement.

INNOVATIVE TECHNOLOGY AUTHORITY
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2001

INVESTMENT IN PROPERTY AND EQUIPMENT

| | |
|---|--------------------|
| Fund balance at beginning of year | \$ 17,635,514 |
| Transfer from undesignated -debt retirement | 535,000 |
| Transfer to undesignated - capital lease | (14,789) |
| Transfer from undesignated - equipment purchases | 408,876 |
| Transfer from building project - purchases | 74,000 |
| Transfer to undesignated - loss on asset disposal | (39,089) |
| Transfer to undesignated - proceeds from sale of assets | (11,752) |
| Depreciation | <u>(1,166,879)</u> |
| Fund balance at end of year | <u>17,420,881</u> |

DESIGNATED TO BUILDING PROJECT

| | |
|---|------------------|
| Fund balance at beginning of year | 667,272 |
| Transfer from undesignated - Appropriations from the Commonwealth | 73,425 |
| Transfer from undesignated - net profits | 67,644 |
| Transfer from undesignated - investment earnings | 72,927 |
| Transfer to investment in property and equipment - purchases | (74,000) |
| Transfer from land project | 562,274 |
| Transfer to undesignated - bank fees | <u>(201)</u> |
| Fund balance at end of year | <u>1,369,341</u> |

DESIGNATED TO LAND PROJECT

| | |
|-----------------------------------|------------------|
| Fund balance at beginning of year | 562,274 |
| Transfer to building project | <u>(562,274)</u> |
| Fund balance at end of year | <u>-</u> |

UNDESIGNATED

| | |
|--|---------------|
| Fund balance at beginning of year | 483,414 |
| Deficiency of support and revenue under expenses | (489,983) |
| Depreciation | 1,166,879 |
| Transfer to investment in property and equipment - equipment purchases | (408,876) |
| Transfer from investment in property and equipment - loss on asset disposal | 39,089 |
| Transfer from investment in property and equipment - proceeds from sale of asset | 11,752 |
| Transfer to building project - investment earning | (72,927) |
| Transfer to building project - net profit | (67,645) |
| Transfer to building project - Appropriations from the Commonwealth | (73,425) |
| Transfer to investment in property and equipment - debt retirement | (535,000) |
| Transfer from investment in property and equipment - capital lease | 14,789 |
| Transfer from building project - bank fees | <u>201</u> |
| Fund balance at end of year | <u>68,268</u> |

| | |
|---------------------|-----------------------------|
| Total fund balances | <u><u>\$ 18,858,490</u></u> |
|---------------------|-----------------------------|

INNOVATIVE TECHNOLOGY AUTHORITY
Herndon, Virginia

BOARD OF DIRECTORS

Sudhakar V. Shenoy, Chairman

| | |
|---------------------|-------------------------|
| Dennis W. Barnes | Glen N. Jones |
| Paul R. Brubaker | Alan G. Merten |
| Wilbert Bryant | Phyllis Palmiero |
| Richard T. Cheng | Eugene P. Trani |
| Barry E. DuVal | Donald Upson |
| Jerry L. Hill | Erich A. Windmuller, II |
| Patricia M. Woolsey | |

OFFICERS

Anne A. Armstrong, President

Linda E. Gentry, Treasurer and Secretary