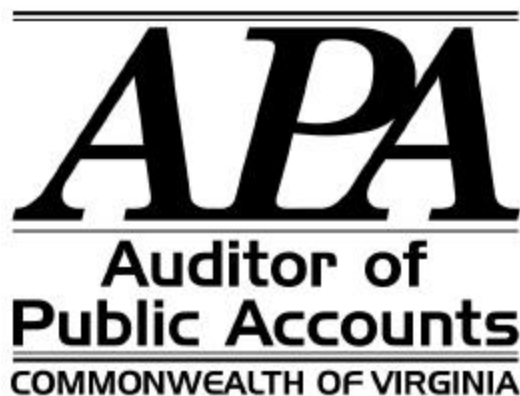


**INNOVATIVE TECHNOLOGY AUTHORITY  
INCLUDING ITS BLENDED COMPONENT UNIT  
CENTER FOR INNOVATIVE TECHNOLOGY  
HERNDON, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2002**



## **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.

- TABLE OF CONTENTS -

AUDIT SUMMARY

INDEPENDENT AUDITOR'S REPORT:

Auditor's Report on Financial Statements

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to Financial Statements

SUPPLEMENTARY INFORMATION:

Combining Statement of Net Assets

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Combining Statement of Cash Flows

Schedule of Changes in Fund Balances

AGENCY OFFICIALS

December 30, 2002

The Honorable Mark R. Warner  
Governor of Virginia

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, 2002, and submit herewith our complete reports on financial statements and compliance and internal controls over financial reporting.

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic statements of the Innovative Technology Authority, a component unit of the Commonwealth of Virginia and its blended component unit, the Center for Innovative Technology, as of and for the year ended June 30, 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 basic 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 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 L, 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 5 through 7 are not a required part of the basic financial statements, but are 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information as listed in the Table of Contents is presented for the purpose of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 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 and Center for Innovative Technology Board and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on February 12, 2003.

AUDITOR OF PUBLIC ACCOUNTS

KKH:kva

kva:

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Innovative Technology Authority's financial performance, including an overview of activities for the fiscal year ended June 30, 2002. The Authority is a political subdivision of the Commonwealth of Virginia. Its mission is to promote the economic development of the Commonwealth through technology. The Center for Innovative Technology 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, 2002 (with comparative figures for June 30, 2001)

	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>Change</u>
Current assets	\$ 5,740,846	\$ 7,061,792	\$(1,320,946)
Noncurrent assets	3,105,178	2,073,389	1,031,789
Capital assets	<u>27,648,180</u>	<u>28,555,672</u>	<u>(907,492)</u>
 Total assets	 <u>36,494,204</u>	 <u>37,690,853</u>	 <u>(1,196,649)</u>
 Current liabilities	 7,058,500	 7,748,542	 (690,042)
Noncurrent liabilities	<u>9,967,325</u>	<u>10,774,221</u>	<u>(786,896)</u>
 Total liabilities	 <u>17,025,825</u>	 <u>18,522,763</u>	 <u>(1,476,938)</u>
 Net assets:			
Invested in capital assets, Net of related debt	17,050,231	17,420,883	(390,652)
Unrestricted	<u>2,418,148</u>	<u>1,747,207</u>	<u>670,941</u>
 Total net assets	 <u>\$ 19,468,379</u>	 <u>\$19,168,090</u>	 <u>\$ 300,289</u>

The total assets of the Authority decreased by about \$1 million dollars from last year due to depreciation expense taken on property and equipment. Also, there was some movement between current and noncurrent assets due to extending investments from short-term to long-term.

The decrease in liabilities was due to a cash payment to retire the Authority's bond indenture and grants payable. Although there was a reduction in appropriations from the Commonwealth, net assets rose by \$300,289 due predominately to the unrealized gain of Trigon stock.

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

	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>Change</u>
Revenues:			
Rental income	\$ 2,889,184	\$ 2,792,899	\$ 96,285
Federal contracts	229,072	86,250	142,822
Sponsors and seminars	24,966	19,420	5,546
Intellectual property	33,254	2,052	31,202
Other	<u>15,282</u>	<u>146,157</u>	<u>(130,875)</u>
Total revenue	<u>3,191,758</u>	<u>3,046,778</u>	<u>144,980</u>
Expenses:			
Technology programs	4,334,098	5,695,420	(1,361,322)
Research and development partnerships	2,628,886	3,183,293	(554,407)
Regional operations	2,360,319	2,277,971	82,348
Program communications	857,728	916,860	(59,132)
Salaries and related costs	1,061,414	955,953	105,461
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)
Transfer to the Innovative Technology Foundation	-	864,156	(864,156)
Other	<u>272,258</u>	<u>385,000</u>	<u>(112,742)</u>
Total expenses	<u>14,848,230</u>	<u>17,645,980</u>	<u>(2,797,750)</u>
Operating loss	<u>(11,656,472)</u>	<u>(14,599,202)</u>	<u>2,942,730</u>
Nonoperating revenues:			
Appropriations from the Commonwealth of Virginia	11,471,553	12,499,469	(1,027,916)
Interest income and net gain on investments	<u>485,208</u>	<u>844,600</u>	<u>(359,392)</u>
Change in net assets	300,289	(1,255,133)	1,555,422
Net assets, July 1	<u>19,168,090</u>	<u>20,423,223</u>	<u>(1,275,133)</u>
Net assets, June 30	<u>\$19,468,379</u>	<u>\$ 19,168,090</u>	<u>\$ 300,289</u>

The Authority received reductions in its appropriation during 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 at \$11.5 million. As the appropriation was reduced, management took action to reduce expenses. These reductions are reflected in the level of expenses this year over last year.

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. To accommodate these reductions, the management of the Authority eliminated or laid off 14.5 employees and positions.



## Capital Assets and Debt Administration

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

	<u>June 30, 2003</u>	<u>June 30, 2001</u>	<u>Change</u>
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	<u>663,324</u>	<u>886,917</u>	<u>(223,593)</u>
Total capital assets	<u>\$27,648,180</u>	<u>\$28,555,672</u>	<u>\$(907,492)</u>

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's 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 H in the Notes to Financial Statements.

A lease between the Commonwealth of Virginia and the Authority secures the outstanding bonds. This lease obligates the Commonwealth to pay rent equal to the bond payments, insurance, and maintenance cost of the SPC portion of the building. In turn, the Commonwealth of Virginia has a sublease with SPC.

The Authority also had two capital leases outstanding at year-end that were used to obtain office copiers. These leases are detailed in Note G in the Notes to Financial Statements.

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

ASSETS

Current assets:	
Cash and cash equivalents (Note B)	\$ 3,257,343
Short-term investments (Note B)	1,764,235
Investments in equity securities (Note B)	465,887
Accounts receivable (Net of allowance for doubtful accounts) (Note C)	196,149
Accrued rent and interest receivable, prepaid travel, and deposits	<u>57,232</u>
Total current assets	<u>5,740,846</u>
Noncurrent assets:	
Unamortized bond issuance expense	106,080
Long-term investments (Note B)	2,999,098
Capital Assets: (Note D)	
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	<u>(2,713,129)</u>
Total noncurrent assets	<u>30,753,358</u>
Total assets	<u>36,494,204</u>

LIABILITIES

Current liabilities:	
Accrued interest payable	130,056
Compensated absences (Note E)	112,420
Accounts payable and accrued expenses	657,024
Due to Commonwealth of Virginia	153,442
Grants payable (Note F)	5,357,305
Capital lease obligation - short term (Note G)	5,622
Bonds payable - short term (Note H)	625,000
Security deposits	<u>17,631</u>
Total current liabilities	<u>7,058,500</u>
Noncurrent liabilities:	
Bonds payable (Note H)	9,965,000
Capital lease obligation - long term (Note G)	<u>2,325</u>
Total noncurrent liabilities	<u>9,967,325</u>
Total liabilities	<u>17,025,825</u>

NET ASSETS

Investment in property and equipment, Net of related debt	17,050,231
Unrestricted	<u>2,418,148</u>
Total net assets	<u>\$ 19,468,379</u>

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
Federal contracts	229,072
Program income - sponsors and seminars	24,966
Intellectual property income	33,254
Other income	15,282
	<u>3,191,758</u>
Total operating revenue	
Operating Expenses:	
Technology programs:	
Grants and program costs	2,814,970
Salaries and benefits	1,168,565
Administrative costs	350,563
	<u>4,334,098</u>
Total technology programs	
Research and development partnerships:	
Grants and program costs	1,819,507
Salaries and benefits	654,775
Administrative costs	154,604
	<u>2,628,886</u>
Total research and development partnerships	
Regional operations:	
Grants and program costs	460,978
Salaries and benefits	1,431,169
Administrative costs	468,172
	<u>2,360,319</u>
Total regional operations	
Program communications:	
Grants and program costs	473,243
Salaries and benefits	301,618
Administrative costs	82,867
	<u>857,728</u>
Total program communications	
Total program expenses	<u>10,181,031</u>
General and administrative expenses:	
Salaries and related costs	1,061,414
Other administrative	270,022
Administrative costs	2,236
Building expenses	1,401,975
Interest expense	820,346
Depreciation	1,111,206
	<u>4,667,199</u>
Total general and administrative expenses	
Total operating expenses	<u>14,848,230</u>
Operating loss	<u>(11,656,472)</u>

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

---

Nonoperating Revenues	
Appropriations from the Commonwealth of Virginia	11,471,553
Interest income	319,704
Net gain on investments	<u>165,504</u>
Total nonoperating revenues	<u>11,956,761</u>
Change in net assets	300,289
Net assets at July 1, 2001	<u>19,168,090</u>
Net assets at June 30, 2002	<u>\$ 19,468,379</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, 2002

Cash flows from operating activities:	
Rental income received	\$ 2,987,122
Security deposits money received	3,414
Intellectual property royalties received	33,254
Seminar income received	24,966
Federal contracts money received	133,500
Other money received	26,410
Deposit money received	59
Payments to vendors	(6,090,483)
Payments to grantees	(4,163,203)
Payments to employees	(3,421,248)
Payments for interest	(817,459)
Net cash used by operating activities	<u>(11,283,668)</u>
Cash flows from noncapital financing activities:	
Appropriations received from the Commonwealth	<u>11,471,553</u>
Net cash provided by noncapital financing activities	<u>11,471,553</u>
Cash flows from investing activities:	
Disposition of short-term investments	1,750,000
Acquisition of long-term investments	(2,999,063)
Interest income (net of premium or discount)	<u>359,093</u>
Net cash used by investing activities	<u>(889,970)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - CIT	(180,471)
Acquisition and construction of capital assets - ITA	(23,243)
Cash payments on capital leases	(6,841)
Cash payment to retire bond indenture	<u>(530,000)</u>
Net cash used for capital and related financing activities	<u>(740,555)</u>
Net decrease in cash and cash equivalents	(1,442,640)
Cash and cash equivalents at July 1, 2001	<u>4,699,983</u>
Cash and cash equivalents at June 30, 2002	<u>\$ 3,257,343</u>
Reconciliation of operating support and revenue to net cash provided (used) by operating activities:	
Operating loss	\$ (11,656,472)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	1,111,206
Increase in account receivable	(119,421)
Decrease in prepaids and deposits	(5,096)
Decrease in accrued interest payable	(6,077)
Decrease in accounts payable and accrued expenses	(29,016)
Increase in Due to Commonwealth	133,214
Decrease in grants payable	(724,385)
Increase in security deposits	3,415
Decrease in unamortized expense of bond issue	<u>8,964</u>
Net cash used by operating activities	<u>\$ (11,283,668)</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, 2002

### NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority (ITA) and its component unit, the Center for Innovative Technology (CIT). The Innovative Technology Authority is a political subdivision of the Commonwealth of Virginia. Its mission is to promote the economic development of the Commonwealth of Virginia through technology. The Center for Innovative Technology is a non-stock, not-for-profit corporation, which acts as the operating arm of the ITA.

The financial statements of the Authority are intended to present the financial position and the changes in financial position and cash flows on only that portion of the financial reporting entity of the Commonwealth of Virginia that is attributable to the transactions of the Authority. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises oversight authority. The Authority is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

Basis of Accounting: The financial statements of the Authority have been prepared on the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when a liability is incurred. The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used 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. The Authority uses a \$3,000 cost value to determine the assets to capitalize.

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, non-operating activity relates to appropriations from the Commonwealth of Virginia, investment activities such as interest income, and net gain on investments.

Income Taxes: The Authority is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

## NOTE B – CASH AND 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.

CIT holds an investment in a Fannie Mae non-callable Federal Home Loan Bank note with a face value of \$1,750,000 and maturity date of April 15, 2003; an investment in a Federal Home Loan Bank bond with a face value of \$3,000,000 and maturity date of December 10, 2003; and 4,632 shares of common stock in Trigon Healthcare, Inc. The stock was received as a result of their demutualization in 1997. The fair market value of the stock at June 28, 2002, was \$465,887.

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.

The cash and cash equivalents of the ITA and CIT are categorized below to give an indication of the level of credit risk assumed by the ITA and CIT at June 30, 2002. Credit risk is the risk that the ITA or the CIT may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes cash and cash equivalents, which are insured or registered or for which the securities are held by the ITA or the CIT or their safekeeping agent in their respective names. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the brokers' or dealers' trust department or safekeeping department in their respective names. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping department, but not in either name. There were no investments in risk categories 2 and 3. Deposits and the Local Government Investment Pool are not categorized into one of these risk categories since equity in these accounts do not consist of identifiable securities.

	<u>Category 1</u>	<u>Not Categorized</u>	<u>Market Value</u>
Cash and cash equivalents:			
Cash in office	\$ -	\$ 1,250	\$ 1,250
Deposits	-	324,747	324,747
Local Government Investment Pool	-	<u>2,931,346</u>	<u>2,931,346</u>
Total cash and cash equivalents	-	<u>3,257,343</u>	<u>3,257,343</u>
Short-term investments (less than 1 year):			
U.S. Government securities	1,764,235	-	1,764,235
Investments in equity securities	465,887	-	465,887
Long-term investments (1 – 5 years):			
U.S. Government securities	<u>2,999,098</u>	-	<u>2,999,098</u>
Total cash, cash equivalents, and investments	<u>\$5,229,220</u>	<u>\$3,257,343</u>	<u>\$8,486,563</u>

#### NOTE C – ACCOUNTS RECEIVABLE

In 1997 and 1998, CIT had a pilot program that provided funding directly to promising emerging companies. These companies signed an agreement with CIT to repay two-times the funding over a five to ten year repayment schedule. Funding to four companies totaled \$750,000. To date, CIT has collected \$60,500.

Because of risk involved with an emerging company, CIT has elected to set up an allowance equivalent to the outstanding balance of \$689,500.

#### NOTE D – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease s</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and land improvements	<u>\$ 7,927,197</u>	<u>\$ 17,800</u>	<u>\$ -</u>	<u>\$ 7,944,997</u>
Total capital assets, Not being depreciated	<u>7,927,197</u>	<u>17,800</u>	<u>-</u>	<u>\$ 7,944,997</u>
Capital assets, being depreciated:				
Building	<u>24,942,075</u>	<u>-</u>	<u>-</u>	<u>24,942,075</u>
Furniture, fixtures and equipment	<u>3,305,107</u>	<u>185,914</u>	<u>114,568</u>	<u>3,376,453</u>
Total capital assets, being depreciated	<u>28,247,182</u>	<u>185,914</u>	<u>114,568</u>	<u>28,318,528</u>
Less accumulated depreciation for:				
Building	<u>(5,200,517)</u>	<u>(701,699)</u>	<u>-</u>	<u>(5,902,216)</u>
Furniture, fixtures and equipment	<u>(2,418,190)</u>	<u>(409,507)</u>	<u>114,568</u>	<u>(2,713,129)</u>
Total accumulated depreciation	<u>(7,618,707)</u>	<u>(1,111,206)</u>	<u>114,568</u>	<u>(8,615,345)</u>
Total capital assets, Being depreciated, Net	<u>20,628,475</u>	<u>(925,292)</u>	<u>-</u>	<u>19,703,183</u>
Total capital assets, Net	<u>\$28,555,672</u>	<u>\$ (910,492)</u>	<u>\$ -</u>	<u>\$27,648,180</u>

#### NOTE E – COMPENSATED ABSENCES

It is the 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 the CIT does not have a policy to pay any



amounts when employees separate from service. All vacation pay is accrued when incurred. Each employee may carry 80 hours of annual leave forward to the following year.

#### NOTE F – GRANTS PAYABLE

Grants are awarded to Virginia colleges and universities for scientific research and to Virginia headquartered and operated companies to promote research and development. Cash is transmitted to the award recipients as needed to fund grant disbursements. The grants payable represents the balance of grant awards not paid at June 30, 2002.

#### NOTE G – 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 <u>June 30,</u>	<u>Amount</u>
	2003	\$5,984
	2004	<u>2,358</u>
Total minimum lease payments		8,342
Less: Amount representing interest		<u>(395)</u>
Present value of future minimum lease payments		<u>\$7,947</u>

The following schedule presents the changes in capital lease obligations:

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

#### NOTE H - 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	<u>2,375,000</u>	<u>270,344</u>	<u>2,645,344</u>
Total	<u>\$10,590,000</u>	<u>\$5,722,075</u>	<u>\$16,312,075</u>

The following schedule presents the changes in bond payable:

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

#### NOTE I – EQUITY POSITIONS

The CIT holds equity positions in several start-up organizations acquired through its Intellectual Property program. There were no new acquisitions in fiscal year 2002. Titles for technologies that were given to the start-up companies in return for stock position in the companies have been transferred to CIT from the universities without cost to CIT, therefore, there is no cost basis to assess the stock. None of the securities are traded on the open market and are, therefore, difficult to determine a market value. Since there is no clear assessment of value either at cost or market, these equity positions have not been recorded as assets of CIT.

#### NOTE J – RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Fund. The Innovative Technology Foundation (ITF) is a non-stock, non-profit corporation. It was created in 1986 to promote and support economic and industrial development, encourage technological innovation, coordinate research and development capabilities of institutions with requirements of public and private sector of the economy, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent from the ITA 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 Foundation's unaudited assets totaled \$608,908.

#### NOTE K – EMPLOYEE BENEFITS

CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Pension expense for the plan totaled \$453,528 in 2002 for covered payroll of \$3,023,518.

#### NOTE L - 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 M – RISK MANAGEMENT

CIT is exposed to various risks of loss related to torts: theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. Risk management insurance includes general liability, property, surety bond, errors and omissions, and worker's compensation. CIT is insured for these risks through commercial insurance policies with Chubb Insurance Company. CIT's health care plan is administered by Anthem. CIT pays premiums to each of these companies for its insurance coverage.

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

	ITA	CIT	Eliminating Entry	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,609,333	\$ 1,648,010	\$ -	\$ 3,257,343
Short-term investments	-	1,764,235	-	1,764,235
Investments in equity securities	-	465,887	-	465,887
Accounts receivable (Net of allowance for doubtful accounts)	65,450	130,699	-	196,149
Accrued rent and interest receivable, prepaid travel, and deposits	-	57,232	-	57,232
Due from CIT	348,380	-	(348,380)	-
Due from ITA	-	29,054	(29,054)	-
Total current assets	2,023,163	4,095,117	(377,434)	5,740,846
Noncurrent assets:				
Unamortized bond issuance expense	106,080	-	-	106,080
Long-term investments	-	2,999,098	-	2,999,098
Capital assets:				
Land and land improvements	7,944,997	-	-	7,944,997
Building	24,942,075	-	-	24,942,075
Less accumulated depreciation	(5,902,216)	-	-	(5,902,216)
Furniture, fixtures and equipment	3,376,453	-	-	3,376,453
Less accumulated depreciation	(2,713,129)	-	-	(2,713,129)
Total noncurrent assets	27,754,260	2,999,098	-	30,753,358
Total assets	29,777,423	7,094,215	(377,434)	36,494,204
<b>LIABILITIES</b>				
Current liabilities:				
Due to ITA	-	348,380	(348,380)	-
Due to CIT	29,054	-	(29,054)	-
Accrued interest payable	130,056	-	-	130,056
Compensated absences	-	112,420	-	112,420
Accounts payable and accrued expenses	145,067	511,957	-	657,024
Due to Commonwealth of Virginia	153,442	-	-	153,442
Grants payable	-	5,357,305	-	5,357,305
Capital lease obligation - short term	5,622	-	-	5,622
Bonds payable - short term	625,000	-	-	625,000
Security deposits	17,631	-	-	17,631
Total current liabilities	1,105,872	6,330,062	(377,434)	7,058,500
Noncurrent liabilities:				
Bonds payable	9,965,000	-	-	9,965,000
Capital lease obligation - long term	2,325	-	-	2,325
Total noncurrent liabilities	9,967,325	-	-	9,967,325
Total liabilities	11,073,197	6,330,062	-	17,025,825
<b>NET ASSETS</b>				
Investment in property and equipment, Net of related debt	17,050,231	-	-	17,050,231
Unrestricted	1,653,995	764,153	-	2,418,148
Total net assets	\$ 18,704,226	\$ 764,153	\$ -	\$ 19,468,379

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

	ITA	CIT	Total
Operating revenue:			
Rental income - lease revenue	\$ 1,532,627	\$ -	\$ 1,532,627
Rental income - bonds	1,356,557	-	1,356,557
Federal contracts	-	229,072	229,072
Program income - sponsors and seminars	-	24,966	24,966
Intellectual property income	-	33,254	33,254
Other income	309	14,973	15,282
Total operating revenue	2,889,493	302,265	3,191,758
Operating expenses:			
Technology programs:			
Grants and program costs	-	2,814,970	2,814,970
Salaries and benefits	-	1,168,565	1,168,565
Administrative costs	-	350,563	350,563
Total technology programs	-	4,334,098	4,334,098
Research and development partnerships:			
Grants and program costs	-	1,819,507	1,819,507
Salaries and benefits	-	654,775	654,775
Administrative costs	-	154,604	154,604
Total research and development partnerships	-	2,628,886	2,628,886
Regional operations:			
Grants and program costs	-	460,978	460,978
Salaries and benefits	-	1,431,169	1,431,169
Administrative costs	-	468,172	468,172
Total regional operations	-	2,360,319	2,360,319
Program communications:			
Grants and program costs	-	473,243	473,243
Salaries and benefits	-	301,618	301,618
Administrative costs	-	82,867	82,867
Total program communications	-	857,728	857,728
Total program expenses	-	10,181,031	10,181,031
General and administrative expenses:			
Salaries and related costs	-	1,061,414	1,061,414
Other administrative	-	270,022	270,022
Administrative costs	2,236	-	2,236
Building expenses	1,401,975	-	1,401,975
Interest expense	820,346	-	820,346
Depreciation	1,111,206	-	1,111,206
Total general and administrative expenses	3,335,763	1,331,436	4,667,199
Total operating expenses	3,335,763	11,512,467	14,848,230
Operating loss	(446,270)	(11,210,202)	(11,656,472)

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

	ITA	CIT	Total
Nonoperating revenues:			
Appropriations from the Commonwealth of Virginia	11,471,553	-	11,471,553
Interest income	38,109	281,595	319,704
Net gain on investments	-	165,504	165,504
Total nonoperating revenues	11,509,662	447,099	11,956,761
Income/(loss) before transfers	11,063,392	(10,763,103)	300,289
Transfers in	180,471	11,398,127	11,578,598
Transfers out	(11,398,127)	(180,471)	(11,578,598)
Change in net assets	(154,264)	454,553	300,289
Net assets at July 1, 2001	18,858,490	309,600	19,168,090
Net assets at June 30, 2002	\$ 18,704,226	\$ 764,153	\$ 19,468,379

INNOVATIVE TECHNOLOGY AUTHORITY  
COMBINING STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2002

	ITA	CIT	Total
Cash flows from operating activities:			
Rental income received	\$ 2,987,122	\$ -	\$ 2,987,122
Security deposits money received	3,414	-	3,414
Intellectual property royalties received	-	33,254	33,254
Seminar income received	-	24,966	24,966
Federal contracts money received	-	133,500	133,500
Other money received	-	26,410	26,410
Deposit money received	-	59	59
Payments to vendors	(1,408,668)	(4,681,815)	(6,090,483)
Payments to grantees	-	(4,163,203)	(4,163,203)
Payments to employees	-	(3,421,248)	(3,421,248)
Payments for interest	(817,459)	-	(817,459)
Net cash provided (used) by operating activities	764,409	(12,048,077)	(11,283,668)
Cash flows from noncapital financing activities:			
Appropriations received from the Commonwealth	11,471,553	-	11,471,553
Transfers to CIT/from ITA	(11,761,267)	11,761,267	-
Transfers from CIT/to ITA	110,538	(110,538)	-
Net cash provided (used) by noncapital financing activities	(179,176)	11,650,729	11,471,553
Cash flows from investing activities:			
Disposition of short-term investments	-	1,750,000	1,750,000
Acquisition of long-term investments	-	(2,999,063)	(2,999,063)
Interest income (net of premium or discount)	38,109	320,984	359,093
Net cash provided (used) by investing activities	38,109	(928,079)	(889,970)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - CIT	(180,471)	-	(180,471)
Acquisition and construction of capital assets - ITA	(23,243)	-	(23,243)
Cash payments on capital leases	(6,841)	-	(6,841)
Cash payment to retire bond indenture	(530,000)	-	(530,000)
Net cash used for capital and related financing activities	(740,555)	-	(740,555)
Net decrease in cash and cash equivalents	(117,213)	(1,325,427)	(1,442,640)
Cash and cash equivalents at July 1, 2001	1,726,546	2,973,437	4,699,983
Cash and cash equivalents at June 30, 2002	\$ 1,609,333	\$ 1,648,010	\$ 3,257,343
Reconciliation of operating support and revenue to net cash provided (used) by operating activities:			
Operating loss	\$ (446,270)	\$ (11,210,202)	\$ (11,656,472)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	1,111,206	-	1,111,206
Increase in account receivable	(35,284)	(84,137)	(119,421)
Decrease in prepaids and deposits	-	(5,096)	(5,096)
Decrease in accrued interest payable	(6,077)	-	(6,077)
Decrease in accounts payable and accrued expenses	(4,759)	(24,257)	(29,016)
Increase in Due to Commonwealth	133,214	-	133,214
Decrease in grants payable	-	(724,385)	(724,385)
Increase in security deposits	3,415	-	3,415
Decrease in unamortized expense of bond issue	8,964	-	8,964
Net cash provided (used) by operating activities	\$ 764,409	\$ (12,048,077)	\$ (11,283,668)

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

	ITA	CIT
Undesignated:		
Fund balance at beginning of year	\$ 68,268	\$ 20,855
Excess/(deficiency) of support and revenue over/(under) expenses	(154,264)	454,553
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	-
Transfer to reserve for Trigon stock	-	(465,886)
Fund balance at end of year	71,024	9,522
Designated to reserve for Trigon stock:		
Fund balance at beginning of year	-	-
Transfer from undesignated fund	-	465,886
Fund balance at end of year	-	465,886
Designated to ATCC project		
Fund balance at beginning of year	-	288,745
Fund balance at end of year	-	288,745
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	\$ 764,153



INNOVATIVE TECHNOLOGY AUTHORITY  
Herndon, Virginia

BOARD OF DIRECTORS

Paul Brubaker, Chairman

Paula Gulak	Holli Ploog
Jerry Hill	Michael Schewel
Stan Maupin	Sudhakar Shenoy
Alan Merten	Charles Steger
Edward Moore	Thomas Stroup
George Newstrom	Alexander Thomas
Phyllis Palmiero	Belle Wheelan

Erich Windmuller

OFFICERS

Anne A. Armstrong, President

Linda E. Gentry, Treasurer and Secretary