Virginia's Center for Innovative Technology

INNOVATIVE TECHNOLOGY AUTHORITY

Herndon, Virginia

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2004

AUDIT SUMMARY

Our audit of the Innovative Technology Authority for the year ended June 30, 2004, 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.

- T A B L E O F C O N T E N T S -

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion and analysis of the Authority's financial performance provides an overview of activities for the fiscal year ended June 30, 2004, excluding the Center for Innovative Technology, which is a component unit of the Authority. The Authority is a political subdivision of the Commonwealth of Virginia. Its mission is to promote the economic development of the Commonwealth through technology. The Authority's transactions are accounted for in enterprise funds and financial statements have been prepared on the accrual basis of accounting.

Financial Analysis

Net Assets as of June 30, 2004
(with comparative figures for June, 2003)

ASSETS	2004	2003	Change
Current assets	$ 1,763,758	$ 2,365,744	$ (601,986)
Noncurrent assets	788,151	97,115	691,036
Property and equipment	25,829,772	26,668,416	(838,644)
Total assets	28,381,681	29,131,275	(749,594)
LIABILITIES			
Current liabilities	1,269,102	1,162,362	106,740
Long-term liabilities	8,635,000	9,347,939	(712,939)
Total liabilities	9,904,102	10,510,301	(606,199)
NET ASSETS			
Invested in capital assets, Net of related debt	16,481,833	16,693,297	(211,464)
Unrestricted	1,995,746	1,927,677	68,069
Total net assets	$18,477,579	$18,620,974	$ (143,395)

The total assets of the Authority changed by approximately $750,000 from last year due primarily to depreciation expense taken on property and equipment plus the transfer of computer assets to the Virginia Information Technologies Agency (VITA). The change in liabilities was due to a cash payment to retire the Authority's bond indenture.

Changes in Net Assets for the Year Ended June 30, 2004
(with comparative figures for June 30, 2003)

	2004	2003	Change
Revenues:			
Rental income	$ 3,015,268	$ 2,964,010	$ 51,258
Other	-	10	(10)
Total revenues	3,015,268	2,964,020	51,248
Expenses:			
Building expenses	1,480,416	1,374,273	106,143
Interest	738,770	782,305	(43,535)
Depreciation	927,871	1,041,846	(113,975)
Other	614	368	246
Total expenses	3,147,671	3,198,792	(51,121)
Operating loss	(132,403)	(234,772)	102,369
Nonoperating revenues:			
Appropriations from the Commonwealth of Virginia	7,248,031	8,221,767	(973,736)
Interest income and net gain on investments	20,624	23,507	(2,883)
Transfer in	19,501	54,588	(35,087)
Transfer out	(7,174,606)	(8,148,342)	973,736
Loss on Assets disposal	(50)	-	(50)
Loss on computer assets transferred to VITA	(124,492)	-	(124,492)
Change in net assets	(143,395)	(83,252)	(60,143)
Net assets, July 1	18,620,974	18,704,226	(83,252)
Net assets, June 30	$18,477,579	$18,620,974	$(143,395)

The Authority, as well as other organizations supported by the Commonwealth of Virginia, received reductions in its appropriation during fiscal year 2004 again. The Authority's appropriation for fiscal year 2002 was $11.5 million, fiscal year 2003 was $8.2 million, and fiscal year 2004 was $7.2 million.

These reductions 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 reduced expenses again over last year, which reflects the reduction of expenses this year over last year.

Capital Assets And Debt Administration

Capital Assets

Capital Assets as of June 30, 2004
(with comparative figures for June 30, 2003)

	2004	2003	Change
Land and land improvements	$ 7,944,997	$ 7,944,997	$ -
Building (net of depreciation)	17,769,024	18,338,160	(569,136)
Furniture, fixture, and equipment (net of depreciation)	115,751	385,259	(269,508)
Total capital assets	$25,829,772	$26,668,416	$(838,644)

There were no changes to the book value of land and land improvements for fiscal year 2004. The change of $569,136 for Building is for depreciation expense taken during the year for $711,019 and capitalizable improvements of $141,883. The change in furniture, fixture, and equipment represents $71,886 of computer and other equipment acquired; $216,852 of depreciation expense taken; a $50 loss on assets disposal; and a $124,492 loss on assets transferred to VITA.

Long-term Debt

At year-end, the Authority had $9,345,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for $13.3 million 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 $11.2 million of the outstanding 1989 Series. More information about the outstanding principle and interest cost requirements of these bonds is 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 calls for the Commonwealth to pay rent equal to the bond payments, insurance, and maintenance cost of the SPC portion of the building. In turn, the Commonwealth of Virginia has a sublease with SPC.

The Authority also had one lease outstanding at year-end that was used to obtain an office copier. This lease is detailed in Note G in the Notes to Financial Statements.

INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2004

A S S E T S	
Current assets:	
Cash and cash equivalents (Note B)	$ 965,660
Accounts receivable (Net of allowance for doubtful accounts) (Note C)	50,831
Accrued rent and interest receivable, prepaid travel, and deposits	5,232
Due from CIT (Note D)	742,035
Total current assets	1,763,758
Noncurrent assets:	
Unamortized bond issuance expense	88,151
Long-term investments (Note B)	700,000
Total noncurrent assets	788,151
Property and equipment: (Note E)	
Land and land improvements	7,944,997
Building	25,083,958
Less accumulated depreciation	(7,314,934)
Furniture, fixtures and equipment	1,890,971
Less accumulated depreciation	(1,775,220)
Total property and equipment	25,829,772
Total assets	28,381,681
LIABILITIES	
Current liabilities:	
Accrued interest payable	115,448
Due to Commonwealth of Virginia	383,833
Capital lease obligation - short-term (Note F)	2,939
Bonds payable - short term (Note G)	710,000
Security deposits	56,882
Total current liabilities	1,269,102
Long-term liabilities:	
Bonds payable (Note G)	8,635,000
Total liabilities	9,904,102
NET ASSETS	
Investment in Property and Equipment, net of related debt	16,481,833
Unrestricted	1,995,746
Total net assets	$ 18,477,579

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

INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2004

Operating revenues:	
Rental income - lease revenue	$ 1,650,997
Rental income - bonds	1,364,271
Total operating revenues	3,015,268
Operating expenses:	
Building expenses	1,480,416
Interest expense	738,770
Depreciation	927,871
Bank fees on building account	614
Total operating expenses	3,147,671
Operating income (loss)	(132,403)
Nonoperating revenues (expenses):	
Appropriations from the Commonwealth of Virginia	7,248,031
Interest income	20,624
Loss on disposal of assets	(50)
Net value of computer assets transferred to VITA	(124,492)
Total nonoperating revenues (expenses)	7,144,113
Income (loss) before transfers	7,011,710
Transfers and other changes:	
Operating transfers from Center for Innovative Technology	19,501
Operating transfers to Center for Innovative Technology	(7,174,606)
Net transfers and other changes	(7,155,105)
Change in net assets	(143,395)
Net assets at July 1, 2003	18,620,974
Net assets at June 30, 2004	$18,477,579

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

INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF CASH FLOWS
As of June 30, 2004

Cash flows from operating activities:	
Rental income received	$ 3,049,887
Security deposits money received	24,040
Payments to vendors	(1,704,128)
Payments for interest	(737,122)
Net cash provided by operating activities	632,677
Cash flows from noncapital financing activities:	
Appropriation received from the Commonwealth	7,248,031
Operating transfers out	(7,174,606)
Transfers from CIT	19,501
Net cash provided by noncapital financing activities	92,926
Cash flows from investing activities:	
Acquisition of long-term investments	(700,000)
Interest received	20,624
Net cash used by investing activities	(679,376)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - CIT	(19,501)
Acquisition and construction of capital assets - ITA	(194,268)
Cash payments on capital leases	(7,180)
Cash payment to retire bond indenture	(620,000)
Net cash used for capital and related financing activities	(840,949)
Net decrease in cash and cash equivalents	(794,722)
Cash and cash equivalents at July 1, 2003	1,760,382
Cash and cash equivalents at June 30, 2004	$ 965,660
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating loss	$ (132,403)
Adjustments to reconcile operating income (loss) to net cash porovided (used) by operating activities:	
Depreciation	927,871
Change in assets and liabilities:	
Decrease in account receivable	39,851
Increase in due from CIT	(227,355)
Increase in accrued interest receivable, prepaid, and deposits	(5,232)
Decrease in unamortized expense of bond issue	8,964
Decrease in accounts payable and accrued expenses	(19,961)
Increase in security deposits	24,040
Increase in accrued interest payable	(7,316)
Increase in Due to Commonwealth of Virginia	24,218
Net cash provided by operating activities	$ 632,677

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

INNOVATIVE TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority, a political subdivision of the Commonwealth of Virginia. Its mission is to promote the economic development of the Commonwealth of Virginia through technology. The financial statements do not include the Center for Innovative Technology (CIT), a component unit of the Authority.

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

Basis of Accounting: The financial statements of the Authority have been prepared on the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when a liability is incurred. The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

Capital Assets: Property and equipment are stated at cost at the date of acquisition or fair market value at the 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 2-40 years. The Authority uses a $3,000 cost value to determine the assets to capitalize.

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

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

NOTE B – CASH AND INVESTMENTS

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 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 Authority is holding one long-term investment. It is collateral type notes from Fannie Mae with face value of $700,000 and maturity date of July 7, 2005.

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.

The cash and cash equivalents of the Authority are categorized below to give an indication of the level of credit risk assumed by the Authority at June 30, 2004. Credit risk is the risk that the Authority 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 Authority 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.

	Category 1	Not Categorized	Market Value
Cash and cash equivalents:			
Deposits		99,511	99,511
Local Government Investment Pool		866,149	866,149
Total cash and cash equivalents		965,660	965,660
Investments in equity securities Fannie Mae collateral type notes	700,000	-	700,000
Total cash, cash equivalents, and investments	$ 700,000	$ 965,660	$1,665,660

NOTE C – ACCOUNTS RECEIVABLE.

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

NOTE D – DUE FROM CIT

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

NOTE E – CAPITAL ASSETS

The Authority had the following capital assets activity during fiscal year 2004:

Account	Beginning Balance	Acquisitions or Additional Depreciation	Sales or Dispositions	End-of-year Balance
Land and land improvements	$ 7,944,997	$ -	$ -	$ 7,944,997
Building	24,942,075	141,833	-	25,083,958
Accumulated depreciation	(6,603,915)	(711,019)	-	(7,314,934)
Furniture, fixtures, and equipment	3,266,440	71,886	(1,447,355)	1,890,971
Accumulated depreciation	(2,881,181)	(223,459)	1,329,420	(1,775,220)
Totals	$26,668,416	$(720,759)	$(117,935)	$25,829,772

NOTE F – CAPITAL LEASES

The Authority leases two copiers that qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The historical cost for both copiers is $15,816. Through June 30, 2004, $13,412 of accumulated depreciation has been taken. The Minolta Copier located in the Danville office has been fully amortized. The Authority did not renew the lease due to the relocation of the regional office. Future minimum lease payments at June 30, 2004, are as follows:

Total minimum lease payments for 2005	$3,033
Less: Amount representing interest	(94)
Present value of future minimum lease payment	$2,939

The following schedule presents the changes in capital lease obligations:

Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
$10,119	$ -	$7,180	$2,939	$2,939

NOTE G - BONDS PAYABLE

The Authority issued $12,455,000 of Taxable Lease Revenue Refunding Bonds on May 1, 1997, pursuant to a Master Indenture of Trust and First Supplemental Indenture of Trust between the Authority and Signet Trust Company, Richmond, Virginia, as Trustee (since transferred to the Bank of New York). The Series 1997 Bonds were issued by the Authority to advance refund $11.2 million 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
2005	$ 710,000	$ 692,691	$ 1,402,691
2006	700,000	641,855	1,341,855
2007	790,000	591,525	1,381,525
2008 - 2012	4,770,000	2,008,736	6,778,736
2013 - 2014	2,375,000	270,344	2,645,344
Total	$9,345,000	$4,205,151	$13,550,151

NOTE H – RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Foundation. The Foundation 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, 2004, the Foundaion owed CIT $8,801 for legal and consultant's fees paid on its behalf. At June 30, 2004, the Foundation's unaudited assets totaled $320,805.

INNOVATIVE TECHNOLOGY AUTHORITY
SCHEDULE OF ANALYSIS OF FUND BALANCES
As of June 30, 2004

Undesignated:	
Beginning balance	$ 56,541
Change in net assets	(143,395)
Depreciation	927,871
Assets acquired for operations	(19,501)
Loss on asset disposals	50
Loss on computer assets transferred to VITA	124,492
Interest income owed to bond holders (LGIP)	(9,621)
Transfer net profit from building operations to designated to building	(170,581)
Transfer to designated to building	(73,425)
Bond Payment	(620,000)
Capital lease payments	(7,180)
Bank fees on building reserve	614
Total undeisgnated	65,865
Investment in Property and Equipment:	
Beginning Balance	16,693,297
Capital lease payments	7,180
Plus Purchases for operations	19,501
Plus Purchases for building/land improvements	194,268
Less Depreciation	(927,871)
Less Bond payment	620,000
Less Loss on computer assets transferred to VITA	(124,492)
Less Loss on asset disposals	(50)
Total investment in property and equipment	16,481,833
Designated to Building Project:	
Beginning balance	1,871,136
Fiscal year 04 appropriation designated to building project	73,425
Transfer net profit from building operations to designated to building	170,581
Interest income owed to bond holders (IBJ)	9,621
Expenditures for the building	(194,268)
New capital lease	-
Bank fees on building reserve	(614)
Total designated to building project	1,929,881
Total fund balance	$ 18,477,579

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

September 23, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

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, 2004, 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, as of and for the year ended June 30, 2004, 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.

The financial statements referred to above include only the Authority, which consists of all funds that comprise the Authority’s legal entity. The financial statements do not include the financial data for the Authority’s legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Authority. As a result, the Authority’s financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the Authority as of June 30, 3004, and the changes in its financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Innovative Technology Authority as of June 30, 2004, 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.

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 Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 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 is not a required part of the basic financial statements. The Schedule of Analysis of Fund Balance has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is 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

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2004, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.

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

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 Compliance and on Internal Control over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, and the Innovative Technology Authority Board and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 17, 2004.

AUDITOR OF PUBLIC ACCOUNTS

WHC/kva
kva:

INNOVATIVE TECHNOLOGY AUTHORITY
Herndon, Virginia