



Virginia's Center for Innovative Technology

INNOVATIVE TECHNOLOGY AUTHORITY
Herndon, Virginia

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Innovative Technology Authority for the year ended June 30, 2005, 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.

- TABLE OF CONTENTS -

AUDIT SUMMARY

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:

Schedule of Analysis of Fund Balance

INDEPENDENT AUDITOR'S REPORTS:

Auditor's Report on Financial Statements

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

AGENCY OFFICIALS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion and analysis of the Innovative Technology Authority's financial performance provides an overview of activities for the fiscal year ended June 30, 2005, excluding the Center for Innovative Technology (CIT), which is a component unit of the Innovative Technology Authority (the Authority). The Authority is a political subdivision of the Commonwealth of Virginia. Its mission is to accelerate Virginia's next generation of technology and technology companies. 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, 2005
(with comparative figures for June, 2004)

ASSETS	<u>2005</u>	<u>2004</u>	<u>Change</u>
Current assets	\$ 2,158,674	\$ 1,763,758	\$ 394,916
Noncurrent assets	79,186	788,151	(708,965)
Property and equipment	<u>25,804,450</u>	<u>25,829,772</u>	<u>(25,322)</u>
Total assets	<u>28,042,310</u>	<u>28,381,681</u>	<u>(339,371)</u>
 LIABILITIES			
Current liabilities	1,488,481	1,269,102	219,379
Long-term liabilities	<u>7,935,000</u>	<u>8,635,000</u>	<u>(700,000)</u>
Total liabilities	<u>9,423,481</u>	<u>9,904,102</u>	<u>(480,621)</u>
 NET ASSETS			
Invested in capital assets, Net of related debt	17,169,450	16,481,833	687,617
Unrestricted	<u>1,449,379</u>	<u>1,995,746</u>	<u>(546,367)</u>
Total net assets	<u>\$18,618,829</u>	<u>\$18,477,579</u>	<u>\$ 141,250</u>

Noncurrent assets decreased by \$708,965 primarily because of a \$700,000 investment, which was reclassified into Current assets. An additional \$700,000 principal payment was made on outstanding bonds payable which accounts for the reduction in Long-term liabilities. And finally, a \$700,000 investment was made in improvements in the System and Software Consortium portion of the building. This accounts for the majority of the change of \$687,617 in Invested in capital assets.

Changes in Net Assets for the Year Ended June 30, 2005
(with comparative figures for June 30, 2004)

Revenues:	<u>2005</u>	<u>2004</u>	<u>Change</u>
Rental income	\$ 3,168,458	\$ 3,015,268	\$ 153,190
 Total revenues	 <u>3,168,458</u>	 <u>3,015,268</u>	 <u>153,190</u>
 Expenses:			
Building expenses	1,559,836	1,480,416	79,420
Depreciation and amortization	805,845	927,871	(122,026)
Other	<u>495</u>	<u>614</u>	<u>(119)</u>
 Total expenses	 <u>2,366,176</u>	 <u>2,408,901</u>	 <u>(42,725)</u>
 Operating income/(loss)	 802,282	 606,367	 195,915
 Nonoperating revenues/(expenses) and transfers:			
Appropriations from the Commonwealth of Virginia	7,748,153	7,248,031	500,122
Interest income	19,711	20,624	(913)
Interest expense	(684,313)	(738,770)	54,457
Transfer in	3,570	19,501	(15,931)
Transfer out	(7,748,153)	(7,174,606)	(573,547)
Loss on assets disposal	-	(50)	50
Loss on computer assets transferred to VITA	<u>-</u>	<u>(124,492)</u>	<u>124,492</u>
 Total nonoperating revenue/(expenses) and transfers	 <u>(661,032)</u>	 <u>(749,762)</u>	 <u>88,730</u>
 Change in net assets	 141,250	 (143,395)	 284,645
 Net assets, July 1	 <u>18,477,579</u>	 <u>18,620,974</u>	 <u>(143,395)</u>
 Net assets, June 30	 <u>\$18,618,829</u>	 <u>\$18,477,579</u>	 <u>\$ 141,250</u>

The rental income of the Authority increased in fiscal year 2005 due to management improving additional rental space to accommodate needs of tenants. At the same time, depreciation was down by \$130,991 over last year because of the transfer of computer assets to Virginia Information Technology Agency (VITA), which resulted in reduced asset values to depreciate this year. The Authority's fiscal year 2005 appropriation was \$500,000 higher than the fiscal year 2004 appropriation because the original fiscal year appropriation was reduced by \$500,000 by the General Assembly and then reinstated in fiscal year 2005.

Capital Assets and Debt Administration

Capital Assets

Capital Assets as of June 30, 2005
(with comparative figures for June 30, 2004)

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Land and land improvements	\$ 7,944,997	\$ 7,944,997	\$ -
Building (net of depreciation)	17,770,431	17,769,024	1,407
Furniture, fixture and equipment (net of depreciation)	<u>89,022</u>	<u>115,751</u>	<u>(26,729)</u>
 Total capital assets	 <u>\$25,804,450</u>	 <u>\$25,829,772</u>	 <u>\$ 25,322</u>

The Authority invested \$771,558 in capital assets during fiscal year 2005. The major purchase of \$700,000 was associated with improvements with the portion of the building that is leased to the System and Software Consortium* (SSC). The cost of these improvements was offset by \$796,880 of depreciation.

Debt

At year-end, the Authority had \$8,635,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for \$13,300,000 to finance the construction of the SSC portion of the ITA building located in Herndon, Virginia. On May 1, 1997, the \$12,455,000 Series 1997 Bonds were issued by the Authority to advance refund \$11,200,000 of the outstanding 1989 Series. More information about the outstanding principal and interest cost requirements of these bonds is detailed in Note F in the Notes to the Financial Statements.

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

* Formerly known as the Software Productivity Consortium (SPC)

FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2005

A S S E T S	
Current assets:	
Cash and cash equivalents (Note B)	\$ 349,538
Short-term investments (Note B)	700,000
Accrued interest receivable, prepaid expenses and deposits	5,217
Accounts and accrued receivables (Note C)	12,447
Less: Allowance for bad debts	(3,657)
Due from CIT (Note D)	<u>1,095,129</u>
Total current assets	<u>2,158,674</u>
Noncurrent assets:	
Unamortized bond issuance expense	<u>79,186</u>
Property and equipment: (Note E)	
Land and land improvements	7,944,997
Building	25,832,598
Less accumulated depreciation	(8,062,167)
Furniture, fixtures and equipment	1,841,189
Less accumulated depreciation	<u>(1,752,167)</u>
Total property and equipment	<u>25,804,450</u>
Total assets	<u><u>\$ 28,042,310</u></u>
LIABILITIES	
Current liabilities:	
Accrued interest payable	\$ 106,976
Accounts payable and accrued expenses	99,735
Due to Commonwealth of Virginia	516,029
Bonds payable - short term (Note F)	700,000
Security deposits	<u>65,741</u>
Total current liabilities	<u>1,488,481</u>
Long-term liabilities:	
Bonds payable (Note F)	<u>7,935,000</u>
Total liabilities	<u>9,423,481</u>
NET ASSETS	
Investment in property and equipment, net of related debt	17,169,450
Unrestricted	<u>1,449,379</u>
Total net assets	<u><u>\$ 18,618,829</u></u>

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, 2005

Operating revenue:	
Rental income - Lease revenue	\$ 1,775,906
Rental income - Bonds	<u>1,392,552</u>
Total operating revenue	<u>3,168,458</u>
Operating expenses:	
Building expense	1,559,836
Bank fees and bad debt expense	495
Depreciation and amortization	<u>805,845</u>
Total operating expense	<u>2,366,176</u>
Operating Income/(loss)	<u>802,282</u>
Nonoperating revenue/(expenses):	
Appropriations from the Commonwealth of Virginia	7,748,153
Interest income	19,711
Interest expense	<u>(684,313)</u>
Total nonoperating revenue/(expenses)	<u>7,083,551</u>
Income/(loss) before transfers	<u>7,885,833</u>
Transfers and other changes:	
Transfer out	(7,748,153)
Transfer in	<u>3,570</u>
Net transfers and other changes	<u>(7,744,583)</u>
Change in net assets	141,250
Net assets at July 1, 2004	<u>18,477,579</u>
Net assets at June 30, 2005	<u><u>\$ 18,618,829</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, 2005

Cash flows from operating activities:

Rental income received	\$ 3,210,499
Security deposits money received	8,859
Payments to vendors	<u>(1,681,494)</u>
Net cash provided by operating activities	<u>1,537,864</u>

Cash flows from noncapital financing activities:

Appropriation received from the Commonwealth of Virginia	7,748,153
Operating transfers out	<u>(7,748,153)</u>
Transfers from CIT	<u>3,570</u>
Net cash provided by noncapital financing activities	<u>3,570</u>

Cash flows from investing activities:

Reclassification of long-term investments to short-term	(700,000)
Reclassification of long-term investments to short-term	700,000
Interest received	<u>19,726</u>
Net cash provided by investing activities	<u>19,726</u>

Cash flows from capital and related financing activities:

Acquisition and construction of capital assets - CIT	(3,570)
Acquisition and construction of capital assets - ITA	<u>(767,989)</u>
Cash payments on capital leases	(2,939)
Payments for interest	(692,784)
Cash payment to retire bond indenture	<u>(710,000)</u>

Net cash used for capital and related financing activities	<u>(2,177,282)</u>
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Net decrease in cash and cash equivalents	(616,122)
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Cash and cash equivalents at July 1, 2004	<u>965,660</u>
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Cash and cash equivalents at June 30, 2005	<u><u>\$ 349,538</u></u>
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INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:

Operating income/(loss)	802,282
Adjustments to reconcile operating income/(loss) to net cash	
Depreciation	796,880
Change in assets and liabilities:	
(Increase)/Decrease in account receivable	42,040
(Increase)/Decrease in due from CIT	(353,094)
(Increase)/Decrease in unamortized expense of bond issue	8,965
Increase/(Decrease) in accounts payable and accrued expenses	99,736
Increase/(Decrease) in security deposits	8,859
Increase/(Decrease) in due to Commonwealth of Virginia	132,196
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Net cash provided by operating activities	<u><u>\$ 1,537,864</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, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority (the Authority), a political subdivision of the Commonwealth of Virginia. Its mission is to accelerate Virginia's next generation of technology and technology companies. 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 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 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 two to forty years. The Authority uses a \$3,000 cost value to determine the assets to capitalize.

Operating and Non-Operating Activity: Most of the Authority's financial activity is related to operations. Operating activities are directly related to the Authority promoting the Commonwealth of Virginia'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 interest expense.

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

NOTE B - CASH AND INVESTMENTS

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

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

Certain deposits and investments are maintained by the Authority or are represented by specific identifiable investment securities maintained by the Treasurer of Virginia, or are held by the Bank of New York or Bank of America. Cash and cash equivalents represent deposits and short-term investments with maturities of less than one year.

Deposits: 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.

All deposits of the Authority are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Amounts on deposit and covered by the Virginia Security of Public Deposits Act totaled \$208,513 at June 30, 2005. Such deposits are not subject to foreign currency risk.

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

Credit Rate Risk: Disclosure of the credit quality rating is required for investments exposed to the risk an issuer or other counterparty will not fulfill its obligations. LGIP is rated AAA by Standard and Poor's.

Foreign Currency Risk: Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. The Authority has no foreign investments or deposits for 2005.

Credit Quality and Interest Rate Risk:

	<u>Fair Value</u>	<u>Credit Rating</u>	Investment Maturities (in years) <u>Less Than One Year</u>
Cash equivalents			
Deposits	\$208,513		\$ -
Local Government Investment Pool	<u>141,025</u>	AAA	<u>-</u>
Total cash equivalents	<u>\$349,538</u>		<u>\$ -</u>
Investments subject to interest rate risk			
Fannie Mae note	<u>\$700,000</u>	Unrated	<u>\$700,000</u>
Total investments subject to interest rate risk	<u>\$700,000</u>		<u>\$700,000</u>

NOTE C - ACCOUNTS RECEIVABLE.

The majority of the 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 2005:

<u>Account</u>	<u>Beginning Balance</u>	<u>Acquisitions or Additional Depreciation</u>	<u>Sales or Dispositions</u>	<u>Ending Balance</u>
Land and land improvements	\$ 7,944,997	\$ -	\$ -	\$ 7,944,997
Building	25,083,958	748,640	-	25,832,598
Accumulated depreciation	(7,314,934)	(747,233)	-	(8,062,167)
Furniture, fixtures, and equipment	1,890,971	22,918	(72,700)	1,841,189
Accumulated depreciation	<u>(1,775,220)</u>	<u>(49,647)</u>	<u>72,700</u>	<u>(1,752,167)</u>
Total	<u>\$25,829,772</u>	<u>\$ (25,322)</u>	<u>\$ -</u>	<u>\$25,804,450</u>

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

<u>Balance July 1, 2004</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2005</u>	<u>Amount Due Within One Year</u>
<u>\$9,345,000</u>	<u>\$ -</u>	<u>\$710,000</u>	<u>\$8,635,000</u>	<u>\$700,000</u>

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>
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	855,000	470,050	1,325,050
2010	935,000	407,208	1,342,208
2011-2014	<u>4,480,000</u>	<u>867,808</u>	<u>5,347,808</u>
Total	<u>\$8,635,000</u>	<u>\$3,512,459</u>	<u>\$12,147,459</u>

NOTE G - RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Foundation. The Innovative Technology Foundation (ITF) is a non-stock, non-profit corporation. It was created in 1986 to promote and support economic and industrial development, encourage technological innovation, coordinate research and development capabilities of public and private institutions, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent from the ITA and CIT. On June 30, 2005, ITF owed CIT \$9,026 for legal and consultant's fees paid on its behalf. At June 30, 2005, the Foundation's unaudited net assets totaled \$322,535.

SUPPLEMENTARY INFORMATION

INNOVATIVE TECHNOLOGY AUTHORITY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Year Ended June 30, 2005

Undesignated:

Beginning balance	\$ 65,865
Change in net assets	141,250
Depreciation	796,880
Assets acquired for operations	(22,918)
Interest income designated to building	(8,876)
Transfer net profit from building operations to designated to building	(216,070)
Interest income received on \$700,000 investment	(16,275)
Bond payment	(710,000)
Capital lease payments	(2,939)
Bank fees on building reserve	495
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Total undesignated	27,412
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Investment in property and equipment:

Beginning balance	16,481,833
Capital lease payments	2,939
Purchases for operations	22,918
Purchases for building/land improvements	748,640
Depreciation	(796,880)
Bond payment	710,000
	<hr/>
Total investment in property and equipment	17,169,450
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Designated to building project:

Beginning balance	1,929,881
Transfer net profit from building operations to designated to building	216,070
Interest income designated to building	8,876
Interest income received on \$700,000 investment	16,275
Expenditures for the building	(748,640)
Bank fees on building reserve	(495)
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Total designated to building project	1,421,967
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Total fund balance	<u><u>\$ 18,618,829</u></u>
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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 7, 2005

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 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, 2005, 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 financial statements of the Innovative Technology Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2005, 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, 2005, 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 Authority as of June 30, 2005, 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 one through three is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Analysis of Fund Balances 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 Balances has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2005, 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 and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, and the Innovative Technology Authority 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, 2005.

AUDITOR OF PUBLIC ACCOUNTS

DC:sks
sks: 47

INNOVATIVE TECHNOLOGY AUTHORITY
BOARD OF DIRECTORS
As of June 30, 2005

Paula Gulak, Chairman

Rakesh C. Gupta	Eddie Moore
Eugene J. Huang	Roderick Powell
Maloy I. Jones	Michael J. Schewel
Suzanne H. King	Sudhakar V. Shenoy
Daniel LaVista	Charles W. Steger
Stan Maupin	Alexander Thomas
Gerald S. McGowan	Belle Wheelan

Alan Merten

OFFICERS

Peter J. Jobse, President, CIT

Linda E. Gentry, Treasurer and Secretary