

**VIRGINIA INFORMATION PROVIDERS
NETWORK AUTHORITY
RICHMOND, VIRGINIA**

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



AUDIT SUMMARY

Our audit of the Virginia Information Providers Network Authority for the year ended June 30, 2002, found:

- the accompanying financial statements present fairly, in all material respects, VIPNet's financial position as of June 30, 2002, and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles;
- no material weaknesses in the internal control over financial reporting;
- no instances of noncompliance with material laws and regulations tested; and
- adequate corrective action of prior audit findings.

- TABLE OF CONTENTS -

AUDIT SUMMARY

INDEPENDENT AUDITOR'S REPORT:

Report on Financial Statements

Report on Compliance and on Internal Control over Financial Reporting

FINANCIAL STATEMENTS:

Statement of Net Assets

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

Statement of Cash Flows

Notes to Financial Statements

BOARD MEMBERS

November 1, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

The Board of Directors
Virginia Information Providers Network Authority

We have audited the accounts and records of the **Virginia Information Providers Network Authority** as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Virginia Information Providers Network Authority (VIPNet), as of and for the year then ended June 30, 2002, as listed in the Table of Contents. These financial statements are the responsibility of VIPNet'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Information Providers Network 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 10, VIPNet 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 Virginia Information Providers Network Authority has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

In planning and performing our audit of the financial statements of Virginia Information Providers Network 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 VIPNet'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 VIPNet's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Status of Prior Findings

VIPNet has taken adequate corrective action with respect to audit findings reported in the prior year.

The Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting is intended solely for the information and use of the Governor and General Assembly of Virginia, (the appropriate local governing body, e.g. Board of Visitors) 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 on October 30, 2002.

AUDITOR OF PUBLIC ACCOUNTS

KJS/kva
kva:30

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2002

ASSETS

Cash with Treasurer of Virginia (Note 2)	\$ 418,827
Accounts receivable (Note 3)	<u>2,752,917</u>
Total assets	<u><u>\$3,171,744</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable (Note 4)	\$ 806,255
Accrued compensated absences	1,106
Due to state agencies (Note 5)	<u>2,232,014</u>
Total current liabilities	<u>3,039,375</u>
Noncurrent liabilities:	
Accrued compensated absences	<u>7,378</u>
Total liabilities	<u>3,046,753</u>
Net assets:	
Unrestricted	<u>124,991</u>
Total liabilities and net assets	<u><u>\$3,171,744</u></u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2002

Operating revenues:	
Charges for services	<u>\$ 27,485,712</u>
Operating expenses:	
Payments to state agencies (Note 7)	21,589,260
Personal expenses	143,539
Telecom expense	155,892
Travel and training	2,875
Fiscal services	4,009
Rent, insurance, and other related charges	9,978
Expendable equipment/improvements	19
Other expenses	<u>119,935</u>
Total operating expenses	<u>22,025,507</u>
Operating income	<u>5,460,205</u>
Transfers:	
Transfer to the General Fund of the Commonwealth	(2,312)
Transfer to Virginia Interactive (Note 8)	<u>(5,340,892)</u>
Changes in net assets	117,001
Total net assets, July 1, 2001	<u>7,990</u>
Total net assets, June 30, 2002	<u><u>\$ 124,991</u></u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

Cash flows from operating activities:	
Cash receipts from access and subscription fees	\$ 26,814,151
Cash payments to state agencies	(21,008,575)
Cash payments for contractual services	(168,604)
Cash payments for miscellaneous expense	(119,780)
Cash payments to employees	(136,206)
Cash payments to suppliers for goods and services	<u>(10,622)</u>
Net cash provided by operating activities	<u>5,370,364</u>
Cash flows from noncapital financing activities:	
Cash transfer out for contractual services	(5,320,356)
Cash transfer out to the General Fund of the Commonwealth	<u>(2,312)</u>
Net cash used in noncapital financing activities	<u>(5,322,668)</u>
Net increase in cash	47,696
Cash, July 1, 2001	<u>371,131</u>
Cash, June 30, 2002	<u><u>\$ 418,827</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 5,460,205
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
(Increase) in accounts receivable	(681,829)
Increase in due to state agencies	570,418
Increase in accounts payable	13,086
Increase in accrued compensated absences	<u>8,484</u>
Net cash provided by operating activities	<u><u>\$ 5,370,364</u></u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

The Virginia Information Providers Network Authority (VIPNet) was created by the General Assembly to help the Commonwealth streamline and enhance the ways in which citizens and businesses access government information and services via the Internet's World Wide Web. The vision of VIPNet is to establish a single, electronic gateway to government information that will improve access to free information while, at the same time, build value-added services for commercially viable information that is needed by the business community. The accompanying financial statements include all funds over which VIPNet exercises or has the ability to exercise oversight authority. VIPNet has no component units and is a related organization of the Commonwealth and as such is not included in the Comprehensive Annual Financial Report.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides governments two options for reporting their proprietary fund activities. All Proprietary Funds reported herein apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, VIPNet has elected not to apply FASB pronouncements issued after November 30, 1989.

D. Budgets and Budgetary Accounting

VIPNet's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. No payments can be made out of the state treasury, except in pursuance of appropriations made by law.

2. CASH WITH THE TREASURER OF VIRGINIA

All state funds of VIPNet are held by the Treasurer of Virginia, pursuant to Section 2.2 - 1802, et. seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. The fund's equity in pooled state funds is reported as "Cash with Treasurer of Virginia" on the Statement of Net Assets and is not categorized as to credit risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of the accrual of fees associated with driver's records accessed by insurance companies during the month of June.

4. ACCOUNTS PAYABLE

Accounts payable consist primarily of net profits owed to Virginia Interactive for services received prior to year-end. Virginia Interactive serves as VIPNet's Network Manager.

5. DUE TO STATE AGENCIES

Due to state agencies are amounts owed by VIPNet to specific state agencies for collection of access and subscription fees. The majority of these collections are due to the Department of Motor Vehicles for driver's records accessed during the month of June.

6. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due within One Year</u>
Compensated Absences	\$ -	\$8,484	\$ -	\$8,484	\$1,106

7. PAYMENTS TO STATE AGENCIES

VIPNet collects access and subscription fees on behalf of various state agencies and nonstate entities. The largest customer, by far, is the Department of Motor Vehicles. Payments to state agencies reflect these amounts.

8. RELATED PARTY TRANSACTIONS

Through a public solicitation process in 1997, VIPNet's Board entered into a public/private partnership with Virginia Interactive, LLC, to serve as VIPNet's Network Manager. Since no tax dollars are used to fund the network, Virginia Interactive provided all the investment capital to develop the network and fund its operations for the first year. Based on the partnership contract, Virginia Interactive retains all net profits. Net profits consist of all revenue left over after paying other state agencies for their services and withholding amounts for the reasonable and necessary expenses of the Board. Net profits transferred to Virginia Interactive for the year ending June 30, 2002, totaled \$5,340,892.

9. RETAINED EARNINGS

The Board is allowed to withhold amounts for reasonable and necessary expenses of the Board. In order to have cash available when expenses are incurred, withholding for the Board is a set dollar amount for each month. Any amount withheld and not spent as of June 30, 2002, is classified as Net Assets.

10. GASB STATEMENT 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 VIPNet's statements were minimal under this standard.

11. SURETY BOND

The employees of VIPNet were covered by a Faithful Performance Duty Bond administered by the Commonwealth's Department of General Services, Division of Risk Management, with liability limits of \$1,000,000 for each occurrence. Information relating to the Commonwealth's self-insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY
Richmond, Virginia

BOARD MEMBERS

As of June 30, 2002

Jerry Simonoff, Chairman

Nelson Worley, Vice Chairman

Richard Byrd
Cheryl Clark
Rob Jones
Chuck Mills

George C. Newstrom
Dolly Oberoi
Ab Quillian
Scott Walker

Carol Dois Woodward