

**THE ASSISTIVE TECHNOLOGY
LOAN FUND AUTHORITY**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006**

APA

**Auditor of
Public Accounts**
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Assistive Technology Loan Fund Authority for the year ended June 30, 2006 found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider reportable conditions; however, we do not consider any of these to be material weaknesses; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

The Board and management have improved the control environment, “the tone at the top,” at the Assistive Technology Loan Fund Authority (Authority) since our December 2005 Special Review. However, there are still improvements that management and the Board need to address.

Develop a Strategic Plan

Make Use of Federal Funds

Develop a Board Governance Manual

We report these internal control matters more fully in the section of the report entitled “Internal Control Findings and Recommendations.”

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

The Board and management have improved the control environment, “the tone at the top,” at the Assistive Technology Loan Fund Authority (Authority) since our December 2005 Special Review. However, there are still improvements that management and the Board need to address.

Develop a Strategic Plan

Finding:

The Authority has experienced significant changes in personnel and operations over the past two years. As the Board and management work to stabilize operations, setting a long-term direction for the Authority becomes essential. This need for a long-term direction is necessary considering the limited amount of staffing available to ensure the Authority maintains a clear direction as turnover occurs and to address the commitment of asset usage in accordance with its Federal funding.

The Authority is currently operating without a long-term strategic plan. This increases the risk that short-term decisions by the Board or management may not support the Authority’s objectives over the long-term. Also, the strategic plan will serve, as a guide should the Authority experience the loss of key staff in the future.

Recommendation:

We understand that the Board and management will begin working on a long-term strategic plan sometime this spring. The Board and management should have the plan address the long-term vision for the Authority that extends beyond one Board or a single executive director. We commend the Board and management for beginning the strategic plan process.

Make Use of Federal Funds

Finding:

If calculated, the average cost loans originated during fiscal 2006 would be approximately \$6,000; the Technology Loan Fund’s (Fund) total operating expenses of \$760,857 divided by the 128 new loans. During fiscal year 2006, the Authority awarded 75 new direct loans and provided guarantees for an additional 53 new loans held by its banking partner, SunTrust.

As of year-end, the Authority had uncommitted or idle assets of \$10,124,966 or 91.2% of its total holdings. Authority had assets of \$11,096,589; of this amount, \$971,623 was committed either as direct loans or as collateral for guarantee loans at SunTrust.

During fiscal years 2004 and 2005, the Authority received Federal funding totaling approximately \$7.2 million, which is most of the Fund’s assets on hand. The Federal program provided these resources for either direct loans or as use as collateral for guaranteed loans. If the Authority does not develop and implement a program to use these funds in accordance with their intended purpose, there is a risk of having to return the Federal funding.

Recommendation:

In addition to its strategic plan, the Authority needs to develop short-term objectives and processes to begin making direct loans or improving the use of these funds as collateral. We believe the short-term objectives should not forego the prudent use of these funds just to increase their utilization.

Develop a Board Governance Manual

Finding:

The Board is operating without any documented governance guidance. Typically, boards, which have supervisory duty and responsibilities, establish documented guidelines for both the Board's conduct and the delegation of authority to the Executive Director and staff. The Board's bylaws and the Code of Virginia provide general guidance and direction. Neither of these sources provide the Board with operational policies and procedures describing how they should go about fulfilling their supervisory and fiduciary responsibilities. Currently, board members are accepting greater personal risk because there is no documented guidance on how the Board will provide governance and oversight.

Recommendation:

The Board should develop governance documentation which further defines its supervisory and fiduciary responsibilities for critical areas, such as: risk management; investment policy and cash management; conflicts of interest; orientation education for new board members; committee and Board Chair roles; management performance reviews; relationships with the public; media communications and budget approval. The continued lack of a governance manual increases the risk of the Board being ineffective in its role of providing oversight to the Authority.

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The discussion and analysis of the Assistive Technology Loan Fund Authority's (Authority) financial performance provides an overview of the financial activities for the year ended June 30, 2006. It should be read in conjunction with the financial statements.

AUTHORITY ACTIVITIES AND FINANCIAL HIGHLIGHTS

The Authority was created by the General Assembly in 1995 to fulfill "a need to provide assistance with loans and in the purchase of assistive technology, or other equipment, which is designed to enable Virginians with disabilities to become more independent or more productive members of the community, with an improved quality of life".

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) combined fund financial statements and government-wide financial statements and 2) notes to the financial statements.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Technology Loan Fund, a special revenue fund, accounts for resources that are used to support the Authority's operations and the administration of its loan fund program.

The Special Revenue fund accounts for resources received from the Department of Rehabilitation Services for the administration of the Consumer Service Program and other resources not associated with the Authority's loan fund program.

The Authority adopts an annual budget in compliance with its grant award requirements for its Alternative Financing Program and its Teleworks Program. A budgetary comparison statement has been provided to demonstrate compliance with this budget. The Authority approved several transfers and redistributions of funds from prior year balances for designated purposes during the year.

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the Authority's Governmental Funds

The focus of the Authority's governmental funds is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Government-wide Financial Analysis

As noted earlier, net asset may serve over time as a useful indicator of the Authority's financial position. Assets for the Authority exceeded liabilities by \$11.7 million.

At June 30, 2006, the Authority's net assets were \$11.7 million, a decrease of \$282,359 over the prior year. Of the total net assets, about \$10.6 million is unrestricted. Excluding \$181,262 in Board-designated assets, \$415,359 outstanding in receivables, and \$48,273 in fixed assets and prepaid expenses, \$569,764 in cash held for loan guarantees, and \$453,671 held for federal fund matching, about \$10.4 million is available for spending at the Authority's discretion.

Most of the Authority's net assets are unrestricted and held in Local Government Investment Pool (LGIP) accounts for future loans or grants. The Authority's unrestricted net assets may be used to meet the Authority's ongoing obligations to citizens and creditors. A small portion of the Authority's net assets reflects investment in fixed assets. The Authority uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending.

Summary Statement of Net Assets

The following condensed statement of net assets shows the financial position of the Authority at June 30, 2006 and June 30, 2005.

	<u>2006</u>	<u>2005</u>
Assets:		
Cash	\$11,355,777	\$12,386,911
Receivables (net of allowances)	415,359	301,126
Prepaid expenses	6,680	3,835
Furniture and equipment (net of depreciation)	<u>41,593</u>	<u>77,366</u>
Total assets	<u>11,819,409</u>	<u>2,769,238</u>
Liabilities:		
Trade accounts payable	36,927	65,477
Other accrued liabilities	92,668	231,588
Long term note payable	<u>-</u>	<u>500,000</u>
Total liabilities	<u>129,595</u>	<u>797,065</u>
Net Assets:		
Invested in capital assets-net of related debt	41,593	77,366
Restricted net assets	1,023,435	613,116
Unrestricted net assets	<u>11,281,691</u>	<u>10,624,786</u>
Total net assets	<u>\$11,689,814</u>	<u>\$11,972,173</u>

At the close of the last fiscal year, the Authority showed in its Statement of Net Assets and Governmental Fund Balance Sheet a non-interest-bearing promissory note with Virginia Housing Development Authority in the amount of \$500,000. On June 27, 2006, this note was repaid in full. The Authority has no long-term debt at June 30, 2006.

Summary Statement of Activities

The condensed statement of activities for fiscal years 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Program revenues:		
Grants, gifts, and transfers	\$ 479,773	\$ 5,042,750
Interest and dividends	<u>496,014</u>	<u>258,435</u>
Total revenues	<u>975,787</u>	<u>5,301,185</u>
Expenses:		
Program and operating expenses	971,245	866,513
Salary and benefits	242,292	258,295
Marketing	13,775	247,304
Other	10,935	11,240
Non-operating expenditures	<u>19,989</u>	<u>-</u>
Total expenditures	<u>1,258,146</u>	<u>1,383,352</u>
Net increase/(decrease) in net assets	(282,359)	3,917,833
Net assets, July 1	<u>11,972,173</u>	<u>8,054,340</u>
Net assets, June 30	<u>\$11,689,814</u>	<u>\$11,972,173</u>

From inception through the fiscal year ended June 30, 2006, the Authority has been granted a total of \$10,991,797 in federal grants. From this grant amount, certain administrative fees and indirect cost recovery were retained by the Virginia Department of Rehabilitative Services (DRS) for their collaborative efforts in obtaining the grants. During this fiscal year, a final residual installment in the amount of \$6,379 was received relating to the last Alternative Financing Program federal grant awarded to the Authority in September 2003. There is no outstanding grant money to be received as of June 30, 2006.

It is largely through the receipt of these grant funds, which are to be administered in perpetuity in the service of our mandated purpose, that the Authority reports a balance of \$11,355,777 in cash at June 30, 2006.

As in prior years, the Authority maintains its cash in “safe” investments in money market funds and the Local Government Investment Pool (LGIP). The LGIP is a short-term investment pool offered to public entities of the Commonwealth; it is managed by the Virginia Department of the Treasury. The investments of the LGIP include U.S. government obligations, certificates of deposit, and banker’s acceptances, among others. With an average monthly yield earned by funds in the LGIP during this fiscal year of 4.14 percent, the Authority is cognizant of a responsibility to avoid any excessive risk with its monetary holdings. The LGIP has a stated top investment objective of safety, which mirrors the Authority’s foremost investment goal as well. With the upward trend in interest rates over the past 18 months, the Authority expects to have higher earnings, and therefore a reduced invasion of “principal”, in the future.

At June 30, 2006, the Authority is the guarantor of \$1,064,527 in loans granted by our financial partner, SunTrust Bank. The Authority can, at the direction of our loan committee and in compliance with our loan procedures, make such guarantees to enable disabled Virginians to purchase assistive technology through financing that would otherwise be denied to them. This total is the combined balance of loans made to ninety-eight individuals. These loans are established through a combination of fees paid by the Authority on behalf of these individuals, and the maintenance of a certain level of funds owned by the Authority in accounts with our financial partner, SunTrust. During this fiscal year, the Authority facilitated over \$1,100,000 in loans with SunTrust.

At June 30, 2006, \$770,284 in loans has been provided to eligible Virginians directly from the Authority out of our grant revenues. The current net balance of these loans, as reported in the Statement of Net Assets, is \$401,859. In fiscal year 2006, the Authority increased the number of new direct loans granted by the Authority by 70 percent as compared to the previous fiscal year.

Like all entities involved in lending, the Authority realizes some losses as a result of granting or guaranteeing loans. Pursuant to our mission, the Authority guarantees loans granted by SunTrust that do not always meet the more stringent credit standards of other lending institutions. When it becomes necessary as per our agreement with SunTrust, the Authority will make rescue payments to bring a loan current, or purchase a note when the loan holder stops making payments altogether. While the Authority will try to restructure these note purchases and therefore attempt to recoup the money owed to SunTrust, it can be difficult to yield much of a return on these rescue payment and note purchase outlays. Also like other lending institutions, the Authority realizes some credit losses on the direct loans it grants as well. The Authority reports this year a total loan loss of \$90,916, an amount that is reflective of our population of loan holders, whose credit rating and stability of income level is more volatile than the general population as a whole.

At fiscal year end, the Authority had over \$36,000 in trade accounts payable. Over \$20,000 was related to audit and consulting fees.

This fiscal year there was a \$16,000 decrease in salaries and benefits due to the elimination of the position of Marketing Specialist. This year also saw a change in leadership with the hiring of a new Executive Director. The Authority will, where practical, mirror the state in its hiring activities and benefit offerings. Since the Authority is not part of the state retirement program a Simplified Employee Pension IRA (SEP/IRA) program has been put into place.

Due to the personnel changes the Authority stepped back with regard to its marketing efforts with the intention to revamp its logo, develop a tag line, and create a new approach to marketing during the coming fiscal year. This resulted in a reduction in marketing costs as compared to the previous fiscal year of over 90 percent.

The Consumer Service Fund (CSF), or “fund of last resort”, is an additional safety net funded by the Commonwealth for eligible persons to acquire the assistive technology they need when all other means have been exhausted. The Assistive Technology Loan Fund Authority began to fully administrate this fund on July 1, 2003, a function previously performed by Virginia’s Department of Rehabilitative Services. In these financial statements, the Authority reports the awarding of \$412,179 in Consumer Service Fund grants within the Special Revenue Fund.

A one-time, one-year pilot program between the Authority and the Department of Housing and Community Development (DHCD) began on November 1, 2004. The Home Accessibility and Modification Improvements Grant Pilot Program was established to assist with home modifications that could not be funded through other existing programs in order to increase the likelihood that persons with disabilities will remain independent and injury-free in their homes. DHCD transferred \$350,000 to the Authority by DHCD in November 2005 in order to administer the awarding of these grants. It was to be serviced much like the Consumer Service Fund described above. While this program was tremendously successful, in that many more people wished to avail themselves of this service than those for whom funding was available, the program did come to a close on October 31, 2005. The final four months' results of this program are shown in these financial statements, with \$143,676 in DHCD Grants being reported in fiscal year 2006.

Economic Outlook

As a result of the state appropriations, transfers from state agencies, and the success the Authority has achieved in obtaining the previously mentioned federal grant awards, the Authority is fortunate to be one of the largest programs of its type in the United States, presiding over the largest Alternative Financing Program (AFP) and Telework loan funds of the thirty-five federally funded AFP, and 20 Telework programs. While the Authority reports a net decrease in net assets for the fiscal year ended June 30, 2006, due to the fact that there were no large grants awarded or drawn down in the fiscal year, our financial position remains positive. The Authority's net assets are again budgeted to decrease in fiscal year 2007, as the Authority is only expecting to receive investments earnings in fiscal year 2007 to fund Authority's operations and programs.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Assistive Technology Loan Fund Authority, 1602 Rolling Hills Drive, Suite 107, Richmond, Virginia 23229 or by email to Authority@Authority.org.

FINANCIAL STATEMENTS

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET AND STATEMENT OF NET ASSETS
As of June 30, 2006

	Technology Loan Fund	Special Revenue	Adjustments	Statement of Net Assets
ASSETS				
Cash held by the Treasurer of Virginia (Note 2)	\$ 9,788,454	\$ 534,018	\$ -	\$ 10,322,472
Cash held in Commercial Banks (Note 2)	906,276	127,029	-	1,033,305
Prepaid expenses	-	-	6,680	6,680
Other receivables (Note 3)	-	-	13,500	13,500
Loans receivable - net of allowance (Note 3)	401,859	-	-	401,859
Capital assets - net of depreciation (Note 4)	-	-	41,593	41,593
Total assets	11,096,589	661,047	61,773	11,819,409
LIABILITIES				
Grants payable (Note 5)	-	-	88,917	88,917
Accounts payable (Note 5)	-	-	36,927	36,927
Compensated absences (Note 6)	-	-	3,751	3,751
Total liabilities	-	-	129,595	129,595
FUND BALANCES				
Unreserved	11,096,589	661,047	(11,757,636)	-
Total liabilities and fund balances	\$ 11,096,589	\$ 661,047	(11,757,636)	-
NET ASSETS				
Invested in capital assets - net of related debt			41,593	41,593
Restricted net assets - nonexpendable (Note 13)			569,764	569,764
Restricted net assets - expendable (Note 2)			453,671	453,671
Unrestricted net assets (Note 14)			10,624,786	10,624,786
Total net assets			\$ 11,689,814	\$ 11,689,814

The accompanying notes are an integral part of the financial statements

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

	Technology Loan Fund	Special Revenue	Adjustments	Statement of Activities
Program Revenues:				
Operating grants and contributions (Note 7)	\$ 6,379	\$ 473,394	\$ -	\$ 479,773
Interest income on loans	14,160	-	-	14,160
Interest earnings	466,256	15,598	-	481,854
Total Revenue	486,795	488,992	-	975,787
Expenditures/expenses				
Consumer service fund and DHCD grants (Note 8)	-	563,571	(7,716)	555,855
Rehabilitation engineering costs	-	11,419	(3,502)	7,917
Loan services (Note 3)	73,944	-	(4,511)	69,433
Contractual obligations (Note 8)	229,298	-	(98,868)	130,430
Personnel expenditures (Note 8)	177,038	63,864	1,390	242,292
Administrative and office expense	49,185	135	(3,057)	46,263
Depreciation of capitalized assets (Note 4)	-	-	12,032	12,032
Marketing	29,788	-	(16,013)	13,775
Professional fees	56,001	-	(26,120)	29,881
Loan loss (Note 8)	90,916	-	-	90,916
Rent (Note 13)	46,029	-	(6,576)	39,453
Capital outlay (Note 4)	8,658	-	(8,658)	-
Total expenditures/expenses	760,857	638,989	(161,599)	1,238,247
Revenues over/(under) expenditures/expenses	(274,062)	(149,997)	161,599	(262,460)
Non-operating revenue/(expenditures/expenses):				
Loss on disposal of equipment (notes 3, 4, and 8)	-	-	(19,899)	(19,899)
Repayment of note payable (Note 16)	(500,000)	-	500,000	-
Total non-operating revenues (expenditures/expenses)	(500,000)	-	480,101	(19,899)
Changes in fund balance/net assets	(774,062)	(149,997)	641,700	(282,359)
Fund balance, net assets, July 1, 2005	12,593,159	88,536	(709,522)	11,972,173
Fund balance, net assets, June 30, 2006	\$11,819,097	\$ (61,461)	\$ (67,822)	\$ 11,689,814

The accompanying notes are an integral part of the financial statements

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
TECHNOLOGY LOAN FUND - BUDGETARY COMPARISON - ACCRUAL BASIS
For the Year Ending June 30, 2006

	Original Budget	Final Budget	Actual	Final/Actual Variance Positive/ (Negative)
Revenues:				
Operating grants and contributions (Note 7)	\$ -	\$ 6,379	\$ 6,379	\$ -
Interest Income on Loans	4,000	11,562	14,160	2,598
Investment earnings	320,000	455,000	466,256	11,256
Total revenue	324,000	472,941	486,795	13,854
Expenses:				
Loan services (Note 3)	161,792	107,500	69,433	38,067
Contractual obligations (Note 8)	145,836	135,393	130,430	4,963
Personnel expenditures (Note 8)	232,000	194,000	178,274	15,726
Administrative and office expense	71,685	66,305	46,128	20,177
Depreciation of capitalized assets (Note 4)	11,788	12,440	12,032	408
Marketing	60,000	25,000	13,775	11,225
Professional fees	19,800	21,000	29,881	(8,881)
Loan loss (Note 8)	8,000	100,000	90,916	9,084
Rent (Note 13)	38,800	39,455	39,453	2
Loss on disposal of equipment (Notes 3, 4, and 8)	-	-	19,899	(19,899)
Total expenditures	749,701	701,093	630,221	70,872
Revenues over/(under) expenses	(425,701)	(228,152)	(143,426)	(57,018)
Net assets, July 1, 2005	11,883,637	11,883,637	11,883,637	-
Net assets, June 30, 2006 (Note 11)	\$ 11,457,936	\$ 11,655,485	\$ 11,740,211	\$ (57,018)

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES JUNE 30, 2006

1. REPORTING ENTITY

The Assistive Technology Loan Fund Authority (Authority) was created by the Virginia General Assembly in 1995 pursuant to Sections 51.5-53 to 51.5-59 of the Code of Virginia Act. The Authority was created to provide assistance to individuals in the Commonwealth of Virginia with loans and in the purchase of assistive technology equipment, or other equipment, which is designed to enable persons with disabilities to become more independent or more productive members of the community with an improved quality of life. As provided in the Act, the Authority is governed by a Board consisting of 12 members as follows: the Secretary of Health and Human Services, or his designee, an employee of Woodrow Wilson Rehabilitation Center and ten citizen members appointed by the Governor and confirmed by the General Assembly. A separate report is prepared for the Commonwealth, which includes all agencies over which the Commonwealth exercises oversight authority. The Authority is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth.

Accounting Principles

The financial statements of the Authority have been prepared in accordance with statements of the Governmental Accounting Standards Board (GASB) whose statements are recognized to represent generally accepted accounting principles applicable to governmental units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority's financial statements include both government-wide and the governmental fund financial statements.

The government-wide statement of net assets column reflects a full accrual basis of accounting incorporating long-term assets as well as long-term debt and other obligations. The government-wide statement of activities column is reported using the economic resources measurement focus and the accrual basis of accounting, which reflects both the gross and net cost per expenditure category.

The governmental fund types are those through which all governmental functions of the Authority are financed. The acquisition, use, and balances of the Authority's expendable financial resources and the related liabilities are accounted for through governmental funds. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they both measurable and available. Revenues are considered to be available when they are collectable within the current period. There are two funds, the Technology Loan Fund and the Special Revenue Fund. The Technology Loan Fund is the general operating fund of the Authority, which encompasses the Alternative Financing Program (AFP) and the Telework resources and activities. It is used to account for all financial resources except those specifically required to be accounted for in the special revenue fund. A majority of the monies in the Technology Loan Fund originate with various grants from the federal government. The activity of the Consumer Services Fund (CSF), and the final four months of

a pilot program created under a one-time grant through the Department of Housing and Community Development (DHCD) are reported under the Special Revenue Fund. All monies in the Special Revenue Fund originate with the Commonwealth of Virginia.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt which is recorded when due, are recorded when the liability is incurred.

Budgets and Budgetary Accounting

The Authority prepares a yearly budget for the coming fiscal year, which is reviewed and ratified by the Authority's Board of Directors at the last meeting prior to the beginning of the fiscal year beginning July 1. The budget includes the Alternative Funding Plan, Teleworks, and the Consumer Service Fund. The first two programs are mainly federally funded; however, the Consumer Service Fund (CSF) is 100 percent state-funded through the General Assembly. The Authority operates the CSF under an agreement with the Virginia Department of Rehabilitative Services as a "fund of last resort" that may be accessed by consumers and advocates for assistive technology devices and services.

The budget is prepared principally on an accrual basis. Since the Authority was established to operate the Technology Loan Fund, the budgetary schedule presented in the financial statement does not include the Consumer Service Fund. A reconciliation between the budgetary schedule and the Government-wide statement is presented in note 11.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

The Authority has no formal investment policy that limits its investment choices other than the limitation of the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400, of the Code of Virginia.

Cash held by the Treasurer of Virginia is held the Commonwealth's Local Government Investment Pool (LGIP). LGIP enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the SEC as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7. The LGIP is rated AAAM by Standard and Poor's.

Cash held in a Commercial Bank is held in SunTrust Bank checking (\$264,309) and money market (\$768,996) accounts. At year end, \$35,462 of the Authority's balance deposited in checking accounts was exposed to custodial credit risk, which is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it, as two checking accounts had deposits greater than Federal depository insurance. The Authority holds funds in SunTrust Bank's money market accounts as part of the Authority's agreement to guarantee certain loans held by SunTrust Bank, see note 13 Commitments and Contingencies for more information on Guarantees.

As of June 30, 2006, the Authority also holds \$453,671 in an LGIP account for matching purposes pursuant to its agreement with the federal government. This cash is current not available for operations and is thus classified as restricted net assets – expendable in the statement of net assets. Pursuant to its arrangement with the federal government, the balance will continue to accrue interest until the aggregate balance reaches \$500,000, which will be deemed replacement funding for the \$500,000, which was returned to the Virginia Development Housing Authority during the current fiscal year.

3. RECEIVABLES

The following schedule details the loans and other receivables for the Technology Loan Fund and Special Revenue as of June 30, 2006

	Loans <u>Receivable</u>	Other <u>Receivables</u>	Allowance for Doubtful <u>Accounts</u>	Unamortized <u>Discount</u>	Net <u>Receivables</u>	Amounts to be Collected Greater <u>than One Year</u>
Technology loan fund	\$537,563	\$ -	\$103,782	\$31,922	\$401,859	\$272,147
Special revenue	<u>-</u>	<u>13,500</u>	<u>-</u>	<u>-</u>	<u>13,500</u>	<u>-</u>
Total	<u>\$537,563</u>	<u>\$13,500</u>	<u>\$103,782</u>	<u>\$31,922</u>	<u>\$415,539</u>	<u>\$272,147</u>

Loan receivables are recognized when checks are approved and mailed to eligible applicants. Other receivables of \$13,500, is the amount owed to the Authority from the sale of their capital asset, which occurred during year.

For financial reporting purposes, the Authority applies an unamortized discount of five percent against interest free loans receivable to reflect the present value of the future repayments and the opportunity cost of providing interest free loans.

4. CAPITAL ASSETS

General capital assets are not capitalized in the funds used to acquire them. Instead, capital acquisitions are reflected as expenditures in governmental funds, while the related assets are reported in the government-wide statement of net assets. The Authority has adopted a capitalization policy whereby additions greater than \$2,500 will be capitalized. All capital assets are stated at cost and depreciated using the straight-line method over their useful lives in accordance with the Commonwealth Accounting Policies and Procedures (CAPP) manual. The useful lives range between five and ten years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

	Beginning Balance as of <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance as of <u>June 30, 2006</u>
Furniture and equipment	\$83,211	\$ 8,658	\$(38,877)	\$52,992
Less: Accumulated depreciation	<u>5,845</u>	<u>12,032</u>	<u>(6,478)</u>	<u>11,399</u>
Ending balance	<u>\$77,366</u>	<u>\$(3,374)</u>	<u>\$(32,399)</u>	<u>\$41,593</u>

5. GRANTS AND ACCOUNTS PAYABLE

Grants payable consist of unpaid consumer service fund awards to recipients of \$88,917 at year-end. Accounts payable of \$36,927 at year-end consisted of accrued contractual obligations of \$30,020 and \$6,907 of accrued expenditures to vendors and an accrued benefit payable, respectively.

6. COMPENSATED ABSENCES

The Authority has an established policy in regard to vacation and sick pay for all full-time employees. Earned but unpaid vacation pay is recorded as a liability in the government-wide statement of net assets. The liability is not recorded in the governmental fund since it will not be liquidated with expendable available financial resources. The expenditures for vacation pay are recorded in the governmental funds when the obligation is paid.

Accumulated sick leave earned but unpaid at the end of the fiscal year is also recorded as expenditure when payment is actually made, but unlike vacation pay, accumulated sick leave is not paid to employees upon termination of employment. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick leave benefits in the government-wide statement of net assets.

For the year ended June 30, 2006, the Authority has \$3,751 accrued for compensated absences.

7. PROGRAM REVENUES

There were no significant receipts of federal grants in fiscal year 2006; however, the Authority received \$473,394 to operate the Consumer Service Fund program in accordance with its agreement with the Virginia Department of Rehabilitative Services. This revenue appears in the Special Revenue fund. The other major source of revenue is the earnings on Authority's checking and LGIP accounts.

8. OPERATING AND NON-OPERATING EXPENDITURES

The Authority's main operating expenditures in the current fiscal year were its consumer service grants, which enable consumers to achieve specific planned goals through the purchase of assistive technology. Since the consumer service fund is "the fund of last resort", these consumers have been turned down for assistive technology loans. The consumer demand for these awards exceeds available funding. Consumer Service Fund activity was about \$412,179. The Authority also incurred expenditures of about \$143,676 related to the Department of Housing and Community Development (DHCD), which phased out in the current year. Contractual expenditures to Virginia's Centers for Independent Living and the Children's Hospital for assistive technology-related activities totaled \$130,430. Salary and benefits for the Authority director and three staff personnel totaled \$242,292 as well as some salary, benefits and severance pay to the former Authority director and one staff person who had been performed marketing for the Authority. Loan service pertains mainly to interest-rate buy downs and discounting in order to provide lower-than-market-rate loans to consumers in addition to credit report, assessment, consumer counseling and collection expenses. Loan losses of \$90,916 were incurred during the current year for the recognition of doubtful accounts and losses on repossessed vehicles, which had been modified with assistive technology devices. The Authority expenses the cost of advertising as incurred.

A non-operating expenditure of \$19,899 related to a loss on the sale of video-conferencing equipment during the year. The loss is the net between the removal of related asset, accumulated depreciation, and the recording of the related other receivable.

9. RETIREMENT PLAN

The Authority follows GASB No. 27 - *Accounting for Pensions by State and Local Government Employees*. This statement establishes standards for the measurement, recognition, and display of pension expenditures and related liabilities, assets and note disclosures.

The Authority sponsors a voluntary 403(b) employee annuity benefit plan. Employees have the option to participate in the plan whereby the Authority purchases authorized investments on behalf of the participants. Employees are fully vested in their accounts. In addition, the Authority sponsors a Simplified Employee Pension (SEP) plan, which provides for an employer contribution in the amount of five percent of annual salary for all full-time employees. Authority contributions to the SEP plan totaled \$8,418 for the year ended June 30, 2006. Both plans are administered and managed by American Bank and Trust.

10. ADJUSTMENTS FROM GOVERNMENTAL FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Governmental Fund Statements are prepared on the modified accrual basis of accounting, whereas the Government-wide Statements are prepared on the accrual basis. The following reconcile the differences between these statements.

Amounts reported in the Balance Sheet are different from amounts reported in the Statement of Net Sets for the following reasons:

Total fund balance for governmental funds	\$11,757,636
Some assets, including prepaid expenses, are not financial resources and therefore are not reported in the funds.	6,680
Some assets, including receivables from employees, are not financial resources and therefore are not reported in the funds.	1,000
Some assets, including other receivables, are not financial resources and therefore are not reported in the funds.	12,500
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	41,593
Some liabilities, including accounts payable, are not payable with current financial resources and therefore are not reported in the funds.	(40,678)
Some liabilities, including Consumer Service Fund commitments are not payable with current financial resources and therefore are not reported in the funds.	<u>(88,917)</u>
Net assets of governmental activities	<u>\$11,689,814</u>

Amounts reported in the statement of Revenues, Expenditures, and Changes in Fund Balance are different from amounts reported in the Statement of Activities for the following reasons:

Net change in Fund Balance - governmental funds	\$(924,059)
Governmental funds report prepaid expenses as expenditures. However, in the statement of activities these outlays are allocated over their period of service and reported as expense in the following year. This amount is the net effect of the difference in treatment of prepaid expenses.	2,845
Governmental funds do not report amounts of unpaid expenses or commitments for current year services as expenditures. However, in the statement of activities, this is recorded as an expense. This amount is the net effect of the difference in the treatment of unpaid expenses.	167,470
Governmental funds do not report amounts of uncollected revenue as revenue in the current year. However, in the statement of activities, this is recorded as revenue in the current year. This amount is the net effect of the difference in the treatment of uncollected revenue	7,158
Governmental funds report repayments of note payable as an expenditure because paying the long-term debt uses current financial resources. However, the statement of activities does not record it as an expense because it viewed as an exchange of economic resources on the statement net assets.	500,000
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of net capital inflow due to disposal of an asset (\$30,221) combined with depreciation expense (\$5,552)	<u>(35,773)</u>
Change in net assets - government-wide activities	<u>\$(282,359)</u>

11. RECONCILIATION OF BUDGETARY FUND BALANCE TO STATEMENT OF ACTIVITIES FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Comparison presents a comparison of the legally adopted budget for the Technology Loan Fund. The fund balance in the budgetary comparison differs from that reported in the Revenues, Expenditures, and Change in Fund Balance for the Technology Loan Fund for the following reason:

Net assets, budgetary basis, June 30, 2006	\$11,740,211
Deduct: financing uses included in the statement of activities, not included in the budgetary comparison	(500,000)
Deduct: accrued expenses, technology loan fund	(130,636)
Add: accumulated statement of activities fund balance adjustments	<u>709,522</u>
Fund balance, technology loan fund, June 30, 2006	<u>\$11,819,097</u>

12. LITIGATION

Management is not aware of any pending or threatened litigation against the Authority that would not be covered by its insurance.

13. COMMITMENTS AND CONTINGENCIES

Federal Grants

The Authority participates in federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Management of the Authority does not expect the results of any governmental agencies program audits to have a material impact on the financial condition of the Authority.

Guarantees, Restricted Net Assets – Nonexpendable

As of June 30, 2006, the Authority, as a participating entity under the Alternative Financing Program grant, is the guarantor of approximately \$1,065,000 of loans issued by their financial partner, SunTrust Bank, to Virginians with disabilities. Pursuant to the Loan Fund Agreement with the bank, the bank requires that the Authority maintain a business money market account (Loan Fund) in the amount of \$.50 for every dollar of guarantee plus \$37,500. At June 30, 2006, in accordance with this agreement, the required amount of collateral for guaranteed loans was \$569,764, is classified as restricted net assets – nonexpendable on statement of net of assets. Authority had about \$769,000 in the related business money market accounts.

Pursuant to the agreement between the Authority and SunTrust Bank, should any loan become 90 days delinquent, the bank automatically informs the Authority of the need for a draft to the Loan Fund to make the past due payment or payments necessary to bring the loan current. If any loan becomes more than 90 days delinquent after having already been brought current on two separate occasions before, the bank automatically informs the Authority that a draft to the Loan Fund in the amount necessary for the Authority to purchase the loan from the bank is required. When informed of these events, the Authority will acknowledge and authorize said drafts, and will direct the bank from which account to draw the funds.

Operating Leases

The Authority entered into an operating lease agreement for office space effective April 30, 2004 for a term of 62 months, beginning upon the substantial completion of tenant improvements (commencement date). The Authority was granted the right to rent temporary space during renovation. The commencement date of the lease was October 3, 2004 and will terminate on December 2, 2009. The lease calls for monthly installments in the amount of \$3,198, which will increase at a rate of three percent per year. The lease contains a one-time option for termination of the lease by the Authority at the end of the thirty-eighth month with 12 months prior written notice and a termination penalty payment of \$11,996.

Estimated future minimum lease payments are as follows:

for Year Ended <u>June 30,</u>	
2007	\$ 40,221
2008	41,428
2009	42,671
2010	<u>17,998</u>
Total	<u>\$142,318</u>

The Authority has no other operating leases at June 30, 2006.

14. CHILDREN’S HOSPITAL

On October 1, 2003, the Authority entered into an agreement with Children’s Hospital (Hospital) in which the Authority agreed to reimburse the Hospital a total of \$375,000 towards expenditures incurred by the Hospital, in accordance with the budget of the Authority’s federal funding under the Assistive Technology Act of 1998, for the construction, purchase of equipment and services for an assistive technology laboratory by the Hospital. The Hospital has no time limit in which it must expend the funds therefore the Authority has unrestricted net assets in the amount of \$181,262 designated for future payments to the Hospital. At June 30, 2006, the Authority had paid \$193,738 to the Hospital in accordance with this agreement.

15. RISK MANAGEMENT

The Authority 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. The Authority has Worker's Compensation insurance through the Guard. The Virginia Local Government Risk Management Plan provides general liability insurance coverage to the Authority. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Authority pays premiums for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

16. SUBSEQUENT EVENT

Upon being awarded a \$4,941,575 federal grant under the Alternative Financing Program in September 2003, the Authority was required to obtain over \$1,640,000 in matching funds. As part of this requirement, the Authority obtained a loan in the amount \$500,000 from the Virginia Housing Development Authority. According to a resolution of the Authority's Board of Directors passed on May 1, 2006, this loan was repaid in full in June 2006. This action left the Authority with the need to replace the related matching funds. The Authority determined that it still held over \$450,000 in unencumbered dollars that originated with the Commonwealth that was eligible for use as matching funds. The propriety of usage of these funds for the match was corroborated by the overseeing federal agency. By resolution of the Authority's Board of Directors on October 5, 2006, these eligible dollars are set aside in a separate account to exist as the necessary matching funds.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 17, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Assistive Technology Loan Fund Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the governmental activities of the **Assistive Technology Loan Fund Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the Technology Loan Fund and the Special Revenue Fund, of the Authority as of June 30, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the Technology Loan Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by 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.

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2007 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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(s) on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled "Develop a Strategic Plan," "Make Use of Federal Funds," and "Develop a Board Governance Manual" are described in the section titled "Internal Control Findings and Recommendations."

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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, the Authority's 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 January 30, 2007.

AUDITOR OF PUBLIC ACCOUNTS

GDS:sks
sks:48



COMMONWEALTH of VIRGINIA

Assistive Technology Loan Fund Authority

1602 ROLLING HILLS DRIVE, SUITE 107
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January 30, 2007

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Mr. Walter J. Kurcharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Mr. Kurcharski:

The Assistive Technology Loan Fund Authority (the Authority) appreciates the opportunity to respond to the recommendations contained in the audit report issued by your office for our fiscal year ended June 30, 2006.

Each of the three recommendations, Usage of Federal Funds, Development of a Strategic Plan, and the Development of a Board Governance Manual relate to a comprehensive plan and renewed assessment of mission for the Authority. After major change in management and significant board member turnover, the Authority is now in a position to develop a new marketing initiative and broad based strategic plan to carry out the basic goal of the Authority and the grants it has received. In short, while it has always been the Authority's mission to serve as many disabled Virginians as possible through the provision of low interest loans, facilitation of consumer counseling and, since 2003, the administration and issuance of Consumer Service Awards, we have now put in place the needed management and fiscal procedures that were previously lacking that will allow us to increase our focus on reaching more of our target group of constituents.

It is the intention of the management, staff and Board of the Assistive Technology Loan Fund Authority to develop the short and long term objectives, strategies and written policies to ensure that the recommendations of the Auditor of Public accounts referenced herein are adopted within the next fiscal year.

Respectfully Submitted,

A handwritten signature in cursive script that reads 'Joseph F. Wallace'.

Joseph F. Wallace, PhD
Executive Director

The ATLFA mission is to facilitate favorable credit financing of assistive technology for Virginians with disabilities.

AGENCY OFFICIALS AND BOARD MEMBERS

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

Joey Wallace, PhD
Acting Executive Director

BOARD MEMBERS

Amy Odner
Chair

Robin L. Jefferson, C.P.A.
Treasurer

Dean Bonney	Susan Klein
Linda Harris	Richard Luck, Ed.D, WWRC
Mike Haydon	Juan Martinez
Thomas Hock	Norman Walker

Ronald Lanier
Director, Dept of Deaf and Hard of Hearing

Marilyn Tavenner
Secretary, Health and Human Services