



# ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## AUDIT SUMMARY

Our audit of the Assistive Technology Loan Fund Authority for the fiscal year ended June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Authority's financial system;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

-TABLE OF CONTENTS-

	<u>Pages</u>
AUDIT SUMMARY	
AUTHORITY HIGHLIGHTS	1-4
INDEPENDENT AUDITOR'S REPORT	5-6
AUTHORITY OFFICIALS	7

## AUTHORITY HIGHLIGHTS

The Assistive Technology Loan Fund Authority (Authority) provides alternative funding resources for Virginians with disabilities to acquire assistive technology that can enhance their independence and improve their quality of life.

The Authority, through the management of a Revolving Loan Fund and grant funding, helps eligible applicants obtain low-interest loans and grants for a variety of assistive technologies. This includes modified and adapted vehicles, motorized scooters and wheelchairs, hearing and vision aids, augmentative communication devices, home modifications and ramps, recreational equipment (directly related to disability), prosthetics and orthodontics. The Authority issues and manages direct loans for all eligible clients.

Historically, the Authority partnered with SunTrust Banks Inc. (SunTrust) to accomplish its mission of affordable financing alternatives through the issuance of guaranteed and non-guaranteed loans. However, in August 2012 the Board raised the maximum value of direct loans from \$22,500 to \$30,000; therefore, allowing the Authority to increase the number of direct loans offered to eligible clients and reducing the need for externally managed loans. As of December 31, 2013, the Authority terminated the partnership agreement with SunTrust, and decided to not partner with another bank for at least a year. During the October 2014 Board meeting, the Board approved a motion to remove the limit on the amount of direct loans, after which, the Authority determined to not collaborate with another banking institution in the issuance of loans. The Authority must maintain defined required funds at SunTrust until all guaranteed loans balances are paid in full, which is estimated to be July 2018. As of June 30, 2014, there were 257 direct loans outstanding with the Authority, and 16 guaranteed and 41 non-guaranteed loans outstanding with SunTrust.

The Board's Loan Committee reviews all loan applications. Using criteria approved by the Board, the Loan Committee determines if the applicant qualifies for a direct loan from the Authority. In addition, prior to the removal of loan limits in fiscal year 2015, both the Board and Loan Committee had the power to make exceptions to loan limits on a case-by-case basis.

### **Loan Losses**

Loan losses stem from defaults on the Authority's direct loans and the guaranteed loans still held by SunTrust. The Authority's policy requires write-off of loans when there have been no payments for more than 180 days. However, due to the mission of the organization, the Authority strives to not write-off loans and offers loan modifications to recipients where possible. The amount of the Authority's loan write-offs increased from \$47,762 in fiscal year 2013 to \$69,766 in fiscal year 2014. This increase is mostly due to two larger than usual loans written off in fiscal year 2014. The amount of loans written off due to death was \$3,248 or 5 percent of total write-offs for the current fiscal year.

The chart below shows total loan balances and default rates for the last three fiscal years. The outstanding loan balances have increased continuously, as have the default rates. Though default rates have increased in recent years, the levels of default are still in close proximity to the Authority's performance metrics goal of loan default of 2 percent.

Fiscal Year	Total Loans Outstanding at June 30	Default Rate
2012	1,375,496	1.05%
2013	1,801,637	1.93%
2014	2,177,435	2.35%

Source: Authority Financial System

### **Financial Operations**

The Authority primarily uses the principal of the Revolving Loan Fund (Fund) to finance its direct loans and operations. The Fund's principal consists chiefly of federal funds awarded or passed through to the Authority in prior years. Compliance with the federal awards requires the Authority to maintain the Fund program into perpetuity.

The Authority's primary income source is interest and fees accrued on direct loans. This source has increased by 39 percent between fiscal years 2013 and 2014, primarily due to the Authority raising the direct loan limit in fiscal year 2013. The increase in this income source is expected to continue as the limit on direct loans was fully eliminated in fiscal year 2015. The Fund also earns investment income on its principal. This source of income has steadily declined, decreasing by 27 percent between fiscal years 2013 and 2014 due to low investment interest rates. Prior to fiscal year 2014, the Authority also received grant revenue from private organizations with similar missions and objectives. In fiscal year 2013, the Authority decided to stop requesting grant funding from these organizations due to the limitation of allowable localities able to receive funding. The Authority awarded final grant revenue balances in fiscal year 2014. For expenses, payroll accounts for almost half of the Authority's costs, with administrative expenses accounting for almost a quarter of total expenses.

The schedule below reflects the Fund's year-end balances as of June 30, 2014, and 2013.

	2014	2013
<b>Assets</b>		
Cash		
Unrestricted	\$ 7,593,160	\$ 8,275,325
Restricted	192,112	222,096
Total Cash	7,785,272	8,497,421
Loans Receivable*	2,066,133	1,710,341
Total Assets	9,851,405	10,207,762
<b>Liabilities</b>		
Accounts Payable and Accrued Expenses	4,810	2,171
<b>Net Assets</b>	<b>\$ 9,846,595</b>	<b>\$ 10,205,591</b>

Source: Authority Financial System

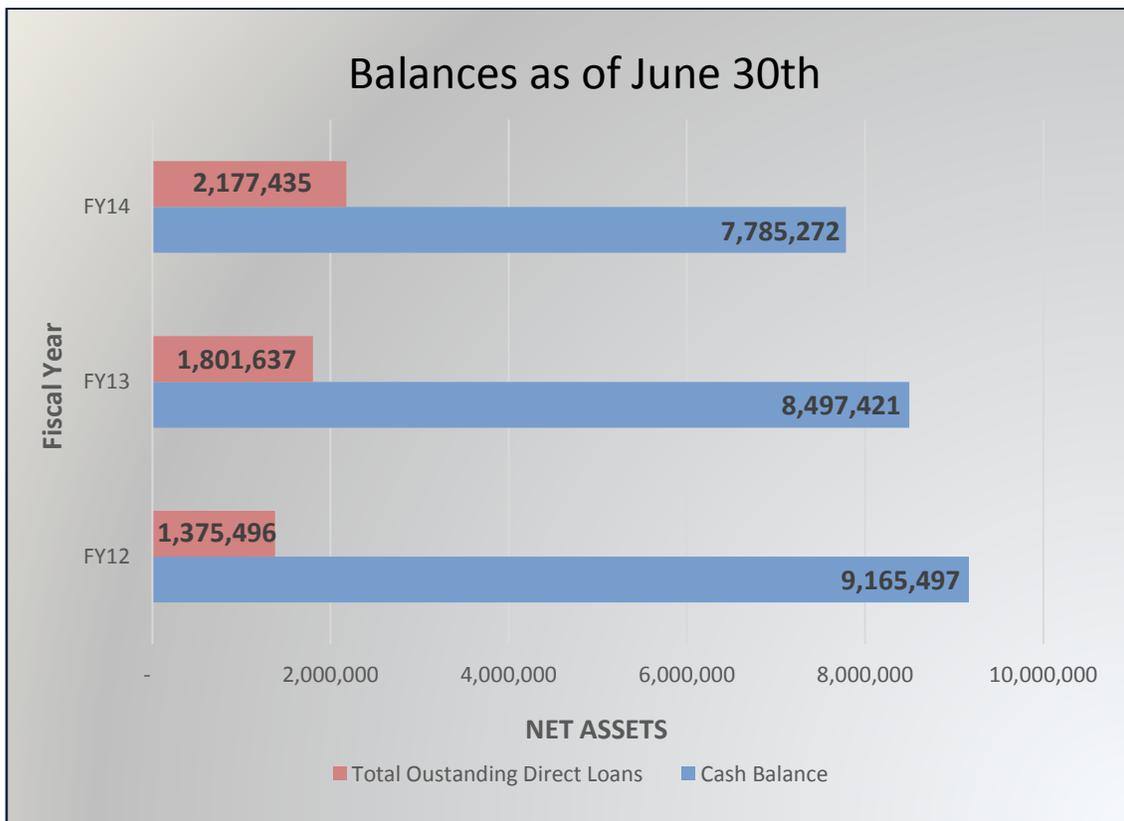
\* Net allowance of \$111,302 for FY14, \$91,297 for FY13

The following schedule shows the Authority's revenue and expenses as of June 30, 2014, and 2013.

	2014	2013
Contributions	\$ 375	\$ 50,000
Loan Interest and Fees	102,323	73,370
Investment Income	24,343	33,194
Total Revenues	127,041	156,564
Grants and Awards	44,178	11,678
Loan Services	4,603	8,213
Payroll	228,795	193,931
Administrative Expenses	107,125	110,834
Marketing Expenses	4,447	9,441
Loan Losses and Write-offs	96,917	80,144
Total Expenses	486,065	414,241
<b>Net Expenses over Revenues</b>	<b>\$ (359,024)</b>	<b>\$ (257,677)</b>

Source: Authority Financial System

The Fund’s sustainability relies heavily on the Authority’s ability to maintain a balance between the interest it earns on its investments and loans, its operational expenses, and its mission to serve Virginians with disabilities. Since its inception, the Authority has struggled to successfully attain this balance. As such, the Authority experienced losses of \$257,677 in fiscal year 2013 and \$359,024 in fiscal year 2014. Without new capitalization, the Authority projects to have financial difficulties operating beyond 2033. At that point, the Authority will have operated for nearly thirty-seven years on its initial capitalization. The chart below shows total outstanding direct loans and cash balances for the past three fiscal years. As the chart depicts, as the amount of loans outstanding increases, cash balances correspondingly decreases.



Source: Authority Financial System



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

June 25, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Assistive Technology Loan Fund Authority (Authority)** for the year ended June 30, 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objective was to evaluate the accuracy of recorded financial transactions in the Authority's accounting system and to review policies, procedures, and oversight of the loan portfolio including provisions for reviewing individual loan status and follow through. Additionally, our objectives were to determine the adequacy of the Authority's internal controls and to test compliance with applicable laws, regulations, contracts and grant agreements.

## **Audit Scope and Methodology**

The Authority's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Awarding of grants and loans
- Cash receipting and collections of loan receivables
- Write-off of loan receivables
- Payroll expenses and other disbursements
- Application controls

We performed audit tests to determine whether the Authority's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Authority's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### **Conclusions**

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in its financial system. The Authority records its financial transactions on the accrual basis of accounting, which is the basis of accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Authority's financial system.

We noted no matters involving internal control and its operations, including the policies, procedures, and oversight of the loan portfolio, that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **Exit Conference and Report Distribution**

We discussed this report with management on June 22, 2015.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

LDJ/alh

## AUTHORITY OFFICIALS

### ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

BOARD MEMBERS  
(As of June 30, 2014)

David Axelle  
Chairperson

Rose Ann Janis  
Treasurer

Keri Hughes  
Vice-Chairperson

Dean Bonney  
Jay McLaughlin  
Joyce Viscomi

Brian Taylor  
Michael VanDyke

Dr. William Hazel, Jr.  
Secretary of Health and Human Resources

Ronald L. Lanier  
Director for the Deaf and Hard of Hearing

Barbara Ostrander  
Representative of Woodrow Wilson Rehabilitation Center

Sandra Prince  
Executive Director