



Virginia's Center for Innovative Technology

INNOVATIVE TECHNOLOGY AUTHORITY
Herndon, Virginia

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2003



AUDIT SUMMARY

Our audit of the Innovative Technology Authority for the year ended June 30, 2003, 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 required to be reported under Government Auditing Standards.

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AGENCY OFFICIALS



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 27, 2003

The Honorable Mark R. Warner
Governor of Virginia

Board of Directors
Innovative Technology Authority

We have audited the accounts and records of the **Innovative Technology Authority** as of and for the year ended June 30, 2003, and submit herewith our complete reports on financial statements and compliance and internal controls.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic statements of the Innovative Technology Authority, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2003, as listed in the Table of Contents. The financial statements are the responsibility of 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 Innovative Technology 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 Innovative Technology Authority as of June 30, 2003, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Innovative Technology Authority as of June 30, 2003, 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 4 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2003, 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 the Authority'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 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 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 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.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia,

and the Innovative Technology Authority Board and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on October 8, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Innovative Technology Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2003, excluding the Center for Innovative Technology, which is a component unit of the Authority. The Authority is a political subdivision of the Commonwealth of Virginia. Its mission is to promote the economic development of the Commonwealth through technology. The Authority's transactions are accounted for in enterprise funds and the financial statements have been prepared on the accrual basis of accounting.

Financial Analysis

Net Assets as of June 30, 2003
(with comparative figures for June 30, 2002)

ASSETS	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>Change</u>
Current assets	\$ 2,365,744	\$ 2,023,163	\$ 342,581
Noncurrent assets	97,115	106,080	(8,965)
Capital assets	<u>26,668,416</u>	<u>27,648,180</u>	<u>(979,764)</u>
Total assets	<u>29,131,275</u>	<u>29,777,423</u>	<u>(646,148)</u>
LIABILITIES			
Current liabilities	1,162,362	1,105,872	56,490
Noncurrent liabilities	<u>9,347,939</u>	<u>9,967,325</u>	<u>(619,386)</u>
Total liabilities	<u>10,510,301</u>	<u>11,073,197</u>	<u>(562,896)</u>
NET ASSETS			
Invested in capital assets, Net of related debt	16,693,297	17,050,231	(356,934)
Unrestricted	<u>1,927,677</u>	<u>1,653,995</u>	<u>273,682</u>
Total net assets	<u>\$18,620,974</u>	<u>\$18,704,226</u>	<u>\$ (83,252)</u>

The total assets of the Authority changed by approximately \$646,000 from last year due primarily to depreciation expense taken on property and equipment. The change in liabilities was primarily due to a cash payment to retire the Authority's bond indenture.

Changes in Net Assets for the Fiscal Year Ended June 30, 2003
(with comparative figures for June 30, 2002)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>Change</u>
Revenues:			
Rental income	\$ 2,964,010	\$ 2,889,184	\$ 74,826
Other	<u>10</u>	<u>309</u>	<u>(299)</u>
Total revenue	<u>2,964,020</u>	<u>2,889,493</u>	<u>74,527</u>
Expenses:			
Building expenses	1,374,273	1,401,975	(27,702)
Depreciation	1,041,846	1,111,206	(69,360)
Interest	782,305	820,346	(38,041)
Other	<u>368</u>	<u>2,236</u>	<u>(1,868)</u>
Total expenses	<u>3,198,792</u>	<u>3,335,763</u>	<u>(136,971)</u>
Operating loss	(234,772)	(446,270)	211,498
Nonoperating revenues:			
Appropriations from the Commonwealth of Virginia	8,221,767	11,471,553	(3,249,786)
Interest income and net loss on fixed assets	23,507	38,109	(14,602)
Operating transfers from CIT	54,588	180,471	(125,883)
Operating transfers to CIT	<u>(8,148,342)</u>	<u>(11,398,127)</u>	<u>3,249,785</u>
Change in net assets	(83,252)	(154,264)	71,012
Net assets, July 1	<u>18,704,226</u>	<u>18,858,490</u>	<u>(154,264)</u>
Net assets, June 30	<u>\$18,620,974</u>	<u>\$ 18,704,226</u>	<u>\$ 83,254</u>

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

These reductions were due to the economic outlook of the Commonwealth and all agencies of the state took additional reductions. To accommodate these reductions, the management of the Authority reduced transfers to the Center for Innovative Technology (CIT), which in turn drastically expenses over last year.

Capital Assets and Debt Administration

Capital Assets as of June 30, 2003
(with comparative figures for June 30, 2002)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>Change</u>
Land and land improvements	\$ 7,944,997	\$ 7,944,997	\$ -
Building, net of depreciation	18,338,160	19,039,859	(701,699)
Furniture, fixtures, and equipment, Net of depreciation	<u>385,259</u>	<u>663,324</u>	<u>(278,065)</u>
Total capital assets	<u>\$26,668,416</u>	<u>\$27,648,180</u>	<u>\$(979,764)</u>

There were no changes to the book value of land and land improvements for fiscal year 2003. There were no additions to the cost of the building and the decrease of \$701,699 in the building's value is the result of depreciation expense taken during the year. The change in furniture, fixture, and equipment represents \$54,588 of computer equipment acquired; \$8,403 of capital lease transactions; \$340,147 of depreciation expense taken; and \$910 from disposal of fixed assets.

Long-Term Debt

At year-end, the Authority had \$9,965,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for \$13,300,000 to finance the construction of the Software Productivity Consortium's (SPC) portion of the Authority building located in Herndon, Virginia. On May 1, 1997, 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 are detailed in Note G in the Notes to the Financial Statements.

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

The Authority also had two capital leases outstanding at year-end that were used to obtain office copiers. These leases are detailed in Note F in the Notes to Financial Statements.

INNOVATIVE TECHNOLOGY AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2003

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	\$ 1,760,382
Accounts receivable (Net of allowance for doubtful accounts) (Note C)	90,682
Due from CIT	514,680
Total current assets	<u>2,365,744</u>
Noncurrent assets:	
Unamortized bond issuance expense	<u>97,115</u>
Property and equipment (Note E):	
Land and land improvements	7,944,997
Building	24,942,075
Less accumulated depreciation	(6,603,915)
Furniture, fixtures, and equipment	3,266,440
Less accumulated depreciation	<u>(2,881,181)</u>
Total property and equipment	<u>26,668,416</u>
Total assets	<u>29,131,275</u>
LIABILITIES	
Current liabilities:	
Accrued interest payable	122,764
Accounts payable and accrued expenses	19,961
Due to Commonwealth of Virginia	359,615
Capital lease obligation - short term (Note F)	7,180
Bonds payable - short term (Note G)	620,000
Security deposits	<u>32,842</u>
Total current liabilities	<u>1,162,362</u>
Long-term liabilities:	
Bonds payable (Note G)	9,345,000
Capital lease obligation - long term (Note F)	<u>2,939</u>
Total long-term liabilities	<u>9,347,939</u>
Total liabilities	<u>10,510,301</u>
NET ASSETS	
Investment in property and equipment, Net of related debt	16,693,297
Unrestricted	<u>1,927,677</u>
Total net assets	<u>\$ 18,620,974</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, 2003

Operating revenue:	
Rental income - lease revenue	\$ 1,566,798
Rental income - bonds	1,397,212
Other income	<u>10</u>
Total operating revenue	<u>2,964,020</u>
Operating expenses:	
Administrative costs	368
Building expenses	1,374,273
Interest expense	782,305
Depreciation	<u>1,041,846</u>
Total operating expenses	<u>3,198,792</u>
Operating income (loss)	<u>(234,772)</u>
Nonoperating revenues (expenses):	
Appropriations from the Commonwealth of Virginia	8,221,767
Interest income	23,962
Gain (loss) on sale of fixed assets	<u>(455)</u>
Total nonoperating revenues	<u>8,245,274</u>
Income before transfers	<u>8,010,502</u>
Transfers and other changes:	
Operating transfers from Center for Innovative Technology	54,588
Operating transfers to Center for Innovative Technology	<u>(8,148,342)</u>
Net transfers and other changes	<u>(8,093,754)</u>
Change in net assets	(83,252)
Net assets at July 1, 2002	<u>18,704,226</u>
Net assets at June 30, 2003	<u><u>\$ 18,620,974</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, 2003

Cash flows from operating activities:	
Rental income received	\$ 2,938,787
Security deposits money received	15,211
Payments to vendors	(1,285,841)
Payments for interest	(780,633)
	<u>887,524</u>
Net cash provided by operating activities	<u>887,524</u>
Cash flows from noncapital financing activities:	
Appropriation received from the Commonwealth	8,221,767
Operating transfers out	(8,148,342)
Transfers to CIT	(307,844)
Transfers from CIT	159,348
	<u>(75,071)</u>
Net cash provided by nonoperating activities	<u>(75,071)</u>
Cash flows from investing activities:	
Interest income	<u>23,962</u>
Net cash provided by investing activities	<u>23,962</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - CIT	(62,992)
Proceeds from sale of assets	455
Capital lease obligation	8,403
Cash payments on capital leases	(6,232)
Cash payment to retire bond indenture	(625,000)
	<u>(685,366)</u>
Net cash used for capital and related financing activities	<u>(685,366)</u>
Net increase in cash and cash equivalents	151,049
Cash and cash equivalents at July 1, 2002	<u>1,609,333</u>
Cash and cash equivalents at June 30, 2003	<u><u>\$ 1,760,382</u></u>
Reconciliation of operating income and to net cash provided (used) by operating activities:	
Operating income	\$ (234,772)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	1,041,846
Change in assets and liabilities:	
Increase in accounts receivable	(25,231)
Decrease in due from CIT	1,932
Decrease in unamortized expense of bond issue	8,964
Increase in accounts payable and accrued expenses	81,067
Increase in security deposits	15,211
Increase in due to CIT	5,799
Decrease in accrued interest payable	(7,292)
	<u>887,524</u>
Net cash provided by operating activities	<u>\$ 887,524</u>

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

INNOVATIVE TECHNOLOGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements of the Authority are intended to present the financial position and the 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 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 2 to 40 years. The Authority uses a \$3,000 cost value to determine the assets to capitalize.

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

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

NOTE B – CASH AND INVESTMENTS

Certain deposits and investments of the Authority are held by The Bank of New York, as trustee for the Authority. This activity is in accordance with the provisions of the Master Indenture of Trust Agreement between the Authority and the trustee. Cash and cash equivalents represent deposits and short-term investments with maturities of 90 days or less.

Deposits with banks are covered by federal depository insurance or collateralized in accordance with Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amount

insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board.

	<u>As of June 30, 2003</u>
Cash and cash equivalents:	
Deposits	\$ 82,998
Local Government Investment Pool	<u>1,677,384</u>
Total cash and cash equivalents	<u>\$1,760,382</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 2003:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 7,944,997	\$ -	\$ -	\$ 7,944,997
Capital assets, being depreciated:				
Building	24,942,075	-	-	24,942,075
Furniture, fixtures, and equipment	<u>3,376,453</u>	<u>62,992</u>	<u>173,005</u>	<u>3,266,440</u>
Total capital assets being depreciated	<u>28,318,528</u>	<u>62,992</u>	<u>173,005</u>	<u>28,208,515</u>
Less accumulated depreciation for:				
Building	(5,902,216)	(701,699)	-	(6,603,915)
Furniture, fixtures, and equipment	<u>(2,713,129)</u>	<u>(340,147)</u>	<u>(172,095)</u>	<u>(2,881,181)</u>
Total accumulated depreciation	<u>(8,615,345)</u>	<u>(1,041,846)</u>	<u>(172,095)</u>	<u>(9,485,096)</u>
Total capital assets being depreciated, net	<u>19,703,183</u>	<u>(978,854)</u>	<u>910</u>	<u>18,723,419</u>
Total capital assets, net	<u>\$27,648,180</u>	<u>\$ (978,854)</u>	<u>\$ 910</u>	<u>\$26,668,416</u>

NOTE F – CAPITAL LEASES

The Authority leases two copiers that qualify as capital leases for accounting purpose and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The historical cost for both copiers is \$15,816. Through June 30, 2003, \$6,232 of accumulated depreciation has been taken. Future minimum lease payments at June 30, 2003, are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2004	\$ 7,335
2005	<u>3,411</u>
Total minimum lease payments	<u>10,746</u>
Less: Amount representing interest	<u>(627)</u>
Present value of future minimum lease payment	<u>\$10,119</u>

The following schedule presents the changes in capital lease obligations.

<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<u>\$7,947</u>	<u>\$8,403</u>	<u>\$6,232</u>	<u>\$10,118</u>	<u>\$7,180</u>

NOTE G - BONDS PAYABLE

The Authority issued \$12,455,000 of Taxable Lease Revenue Refunding Bonds on May 1, 1997, pursuant to a Master Indenture of Trust and First Supplemental Indenture of Trust between the Authority and Signet Trust Company, Richmond, Virginia, as Trustee (since transferred to the Bank of New York). The Series 1997 Bonds were issued by the Authority to advance refund \$11,200,000 of outstanding 1989 Taxable Revenue Lease Bonds, Series 1989. The Commonwealth of Virginia leases facilities from the Authority. Lease payments received from the Department of Treasury are equal to the annual principal and interest costs on the bonds.

The following amortization schedule illustrates the ITA's principal and interest requirements for the Series 1997 Bonds.

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 620,000	\$ 736,587	\$ 1,356,587
2005	710,000	692,691	1,402,691
2006	700,000	641,855	1,341,855
2007	790,000	591,525	1,381,525
2008-2012	4,770,000	2,008,736	6,778,736
2013-2014	<u>2,375,000</u>	<u>270,344</u>	<u>2,645,344</u>
Total	<u>\$9,965,000</u>	<u>\$4,941,738</u>	<u>\$14,906,738</u>

The following schedule presents the changes in bond payable:

<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<u>\$10,590,000</u>	<u>\$ -</u>	<u>\$625,000</u>	<u>\$9,965,000</u>	<u>\$620,000</u>

NOTE I – 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 institutions with requirements of public and private sector of the economy, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent of the ITA and CIT. On June 30, 2003, ITF owed CIT \$8,576 for legal and consultant's fees paid on its behalf. At June 30, 2003, the Foundation's unaudited assets totaled \$360,321.

INNOVATIVE TECHNOLOGY AUTHORITY
Herndon, Virginia

BOARD OF DIRECTORS

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