THE INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

INCLUDING ITS BLENDED COMPONENT UNIT

CENTER FOR INNOVATIVE TECHNOLOGY

Herndon, Virginia

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2011

CIT

CENTER FOR INNOVATIVE TECHNOLOGY

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The management of the Innovation and Entrepreneurship Investment Authority (Authority), offers readers of the Authority's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

During the Virginia Acts of Assembly – 2009 Reconvened Session, the Code of Virginia was changed to rename the Innovative Technology Authority to the Innovation and Entrepreneurship Investment Authority, effective July 1, 2009. The new legislation gives the Authority additional responsibilities, and changes the appointment process and structure of the Board of Directors. The Innovation and Entrepreneurship Investment Authority is the successor in interest to the Innovation Technology Authority. Without limitation, title and interest in and to any real or tangible personal property vested in the Innovative Technology Authority is transferred to and taken as standing in the name of the Innovation and Entrepreneurship Investment Authority.

The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth). Its mission of "accelerating the next generation of technology and technology companies" coupled with the objective to "achieve national recognition as the premier services provider engaged in technology company creation and company growth" will place special emphasis on job creation initiatives that will make the Commonwealth the next innovation hub in the United States. The Center for Innovative Technology (CIT) is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority and is a blended component unit of the Authority. Transactions are accounted for in enterprise funds and reports have been prepared on the accrual basis of accounting.

The Statement of Net Assets presents information on all of the Authority and CIT'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 and CIT is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority and CIT'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 the related cash flow. Thus, revenues and expenses are reported in this statement for some items that are related to cash flows in prior or future fiscal periods.

Financial Analysis
Net Assets as of June 30, 2011
(With comparative figures for June 30, 2010)

	2011	2010	Change
Assets:			
Current assets	$ 7,695,438	$ 5,746,232	$ 1,949,206
Noncurrent assets:	42,619	34,364	8,255
Capital assets	18,842,002	22,062,233	(3,220,231)
Total assets	26,580,059	27,842,829	(1,262,770)
Liabilities:			
Current liabilities	3,605,172	2,030,145	1,575,027
Long-term liabilities	2,379,070	3,471,157	(1,092,087)
Total liabilities	5,984,242	5,501,302	482,940
Net Assets:			
Investment in capital assets, net of related debt	15,396,245	17,608,508	(2,212,263)
Unrestricted net assets	4,594,572	4,063,019	531,553
Restricted net assets, expendable	605,000	670,000	(65,000)
Total net assets	$ 20,595,817	$ 22,341,527	$ (1,745,710)

The current assets increased by $1,949,206 due predominately to a contract advance received under our Entrepreneur Program. Capital assets decreased by $3,220,231 over last year. This reduction was due in large part to the dedication for public street purposes of 8.5 acres of land known as Innovation Avenue to Virginia Department of Transportation in accordance with the requirements of the original Deed of easement. The value associated with this land dedication was $2,315,499. The remaining $904,732 reduction in the value of capital assets is primarily attributable to depreciation expense for the year.

The current liabilities increased by $1,575,027 due predominately to deferred revenue associated with the contract advance received under the Entrepreneur program, and an increase in the current portion of bonds payable. The decrease in long-term liabilities of $1,092,087 reflects the principal payment of the outstanding bonds payable and capital lease payments.

The restricted net assets represent the GAP BioLife Fund, a seed stage venture fund, started in fiscal year 2007, and funded equally by Johnson & Johnson Services, Inc. and CIT. The June 30, 2011 balance of $605,000 reflects activity in the fund from inception through fiscal 2011 of $1,200,000 in total funding and $595,000 in investments made to support emerging life science companies in Virginia.

Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2011
(With comparative figures for June 30, 2010)

	2011	2010	Change
Operating revenues:			
Rental income	$ 3,154,455	$ 2,805,592	$ 348,863
Contracts and grants	3,580,172	2,932,176	647,996
Growth Acceleration Program (GAP)	-	207,315	(207,315)
Donations	17,000	107,947	(90,947)
Miscellaneous	79,737	144,215	(64,478)
Total operating revenues	6,831,364	6,197,245	634,119
Operating expenses:			
Program	4,035,454	3,338,612	696,842
Indirect	3,387,131	3,132,336	254,795
Communications and marketing	253,847	170,006	83,841
Business development	236,739	260,711	(23,972)
Advocacy	130,515	227,537	(97,022)
Other unallowable expenses	73,806	-	73,806
Building and IEIA administrative	1,514,720	1,354,981	159,739
Depreciation and amortization	919,075	952,216	(33,141)
Total operating expenses	10,551,287	9,436,399	1,114,888
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	4,580,956	4,062,836	518,120
Interest income	33,497	41,895	(8,398)
Interest expense	(324,741)	(396,200)	71,459
Donations expense	(2,315,499)	-	(2,315,499)
Gain on investment	-	78,870	(78,870)
Loss on disposal of capital assets	-	(652)	652
Total non-operating revenues/(expenses)	1,974,213	3,786,749	(1,812,536)
Change in net assets	(1,745,710)	547,595	(2,293,305)
Net assets at July 1, beginning fiscal year	22,341,527	21,793,932	547,595
Net assets at June 30, ending fiscal year	$ 20,595,817	$ 22,341,527	$ (1,745,710)

Operating Revenues

Rental income increased by $348,863, primarily due to a $350,000 settlement between the Commonwealth and a tenant who had defaulted on their lease.

Contracts and grants revenue reflects a $647,996 net increase in business outside of Commonwealth appropriations during fiscal year 2011. Project engagements include: a vessel detection project with the Navy, a five year grant with the National Telecommunications and Information Administration for Commonwealth broadband mapping and planning activities, and a variety of projects with the Virginia Department of Education, such as the development of the technology architectural design for the Statewide Longitudinal Data Systems.

GAP Revenue was reduced during fiscal year 2011 by $207,315. During fiscal year 2010, one of the GAP portfolio companies, Verical, Inc. merged with Arrow Electronics, Inc. As a result of our investment in Verical, CIT received a return of $207,315 plus a gain of $78,870 reflected in the Non-operating revenue section of the statement.

Operating Expenses

Program direct expenses increased by $696,842 during fiscal year 2011 due to increased costs associated with new federal and state contracts and grants.

Indirect expenses increased by $254,795 due predominately to increases in VITA hardware and software costs and employee benefits costs. Employee benefits costs were increased because of the addition of new personnel to accommodate increased new business activities. The majority of new personnel were added to the GAP program.

Building and IEIA administrative expenses increased by $159,739 due to recording bad debts expense of $313,880 to reflect the risk of collecting the settlement between the Commonwealth and a defaulting tenant. This bad debt expense was offset with savings predominately realized in staff, utilities and management fee areas.

Non-operating revenues

The Authority's fiscal year 2011 appropriation was $518,120 higher than last year's appropriation because the appropriation included an additional $500,000 designated for the CIT GAP program.

Donations expense of $2,315,499 was recorded in 2011 to reflect the dedication for public street purposes of 8.5 acres of land known as Innovation Avenue to Virginia Department of Transportation in accordance to the requirements of the original Deed of easement.

Capital Assets and Debt Administration

Capital Assets as of June 30, 2011
(With comparative figures for June 30, 2010)

	2011	2010	Change
Land and land improvements	$ 5,629,498	$ 7,944,997	$ (2,315,499)
Building and improvements (net of depreciation)	13,202,500	14,103,554	(901,054)
Furniture, fixtures and equipment (net of depreciation)	10,004	13,682	(3,678)
Total capital assets	$ 18,842,002	$ 22,062,233	$ (3,220,231)

Land and land improvements was reduced by $2,315,499 in fiscal 2011 to reflect the dedication for public street purposes of 8.5 acres of land known as Innovation Avenue to Virginia Department of Transportation in accordance to the requirements of the original Deed of easement.

Reductions in the value of building and improvements, and furniture, fixture and equipment reflect depreciation of $910,111 offset by $5,379 of capital asset purchases.

Debt Administration

At year-end, the Authority had $3,465,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for $13,300,000 to finance the construction of the midrise 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 is detailed in Note H in the Notes to the Financial Statements.

Significant variations between budget and actual results

Program	Budgeted Cost	Actual Cost	Variance
Research and development	$ 932,858	$ 1,437,348	$ 504,490

The only area of significant variance between budget and actual results during 2011 was under the Research and Development program. Additional costs of $504,490 were incurred due to two new awards received that were not anticipated in the budget. All costs for these awards were reimbursed by the federal agencies under the contractual engagements.

FINANCIAL STATEMENTS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
As of June 30, 2011

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	$ 7,030,992
Prepaid expenses and deposits	45,910
Accounts and accrued receivables (Note C)	577,661
Less: allowance for doubtful accounts	(120,483)
Notes receivable (Note D)	1,864,035
Less: allowance for doubtful accounts (Note D)	(1,864,035)
Due from Commonwealth of Virginia	161,358
Total current assets	7,695,438
Noncurrent assets:	
Unamortized expense of bond issue	25,399
Unamortized leasing commissions	17,220
Total noncurrent assets	42,619
Capital assets (Note E):	
Land and land improvements	5,629,498
Building and improvements	27,189,394
Less: accumulated depreciation	(13,986,894)
Furniture, fixtures and equipment	760,520
Less: accumulated depreciation	(750,516)
Total capital assets	18,842,002
Total assets	26,580,059
LIABILITIES	
Current liabilities:	
Accrued interest payable	43,427
Compensated absences (Note F)	126,156
Deferred revenue	1,846,430
Accounts payable	297,007
Accrued expenses	57,402
Prepaid rental income	77,417
Capital lease obligations - short term (Note G)	2,087
Bonds payable - short term (Note H)	1,090,000
Security deposits	65,246
Total current liabilities	3,605,172
Long term liabilities:	
Capital lease obligations (Note G)	4,070
Bonds payable (Note H)	2,375,000
Total long term liabilities	2,379,070
Total liabilities	5,984,242

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
As of June 30, 2011

NET ASSETS	
Investment in capital assets, net of related debt	15,396,245
Unrestricted net assets	4,594,572
Restricted net assets, expendable	605,000
Total net assets	$ 20,595,817

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

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2011

	Direct Expenses	Indirect Expenses	Total
Operating revenues:			
Rental income - lease revenue			$ 1,802,780
Rental income - bonds			1,351,675
Contracts and grants revenue			3,580,172
Donations revenue			17,000
Miscellaneous revenue			79,737
Total operating revenues			6,831,364
Operating expenses:			
Program expenses:			
Research and development	$ 962,852	$ 474,496	1,437,348
Entrepreneur	1,192,393	845,549	2,037,942
Connect	607,579	617,347	1,224,926
Broadband	1,014,789	296,089	1,310,878
Commonwealth support	84,864	161,933	246,797
Innovation Center	172,977	53,519	226,496
Total program expenses	4,035,454	2,448,933	6,484,387
Other expenses:			
Communications and marketing	253,847	165,504	419,351
Business development	236,739	442,502	679,241
Advocacy	130,515	144,354	274,869
Other unallowable expenses	73,806	22,836	96,642
Indirects unapplied to projects	-	163,002	163,002
Administrative	-	688	688
Building	1,514,032	-	1,514,032
Depreciation and amortization	-	919,075	919,075
Total other expenses	2,208,939	1,857,961	4,066,900
Total operating expenses	6,244,393	4,306,894	10,551,287
Operating loss			(3,719,923)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia			4,580,956
Interest income			33,497
Interest expense - bonds			(324,175)
Interest expense - capital lease			(566)
Donations Expense			(2,315,499)
Total non-operating revenues/(expenses)			1,974,213
Change in net assets			(1,745,710)
Net assets at July 1, 2010			22,341,527
Net assets at June 30, 2011			$ 20,595,817

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

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

Cash flows from operating activities:	
Rental income received	$ 2,776,922
Security deposits received	26,149
Contracts and grants income received	5,538,425
Growth Acceleration Program income received	27,488
Donations received	17,000
Miscellaneous income received	79,938
Payments to Growth Acceleration Program recipients	(465,000)
Payments to vendors	(6,054,974)
Security deposits paid	(5,514)
Payments to employees	(3,220,009)
Net cash used by operating activities	(1,279,575)
Cash flows from non-capital financing activities:	
Appropriations received from the Commonwealth of Virginia	4,580,956
Net cash provided by non-capital financing activities	4,580,956
Cash flows from investing activities:	
Interest received	12,262
Net cash provided by investing activities	12,262
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - IEIA	(5,379)
Cash payments on capital lease	(1,930)
Cash payment to retire bond indenture	(1,015,000)
Payments for interest	(337,462)
Net cash used by capital and related financing activities	(1,359,771)
Net increase in cash and cash equivalents	1,953,872
Cash and cash equivalents at July 1, 2010	5,077,120
Cash and cash equivalents at June 30, 2011	$ 7,030,992

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (3,719,923)
Adjustments to reconcile operating loss to net cash:	
Depreciation and amortization	919,074
Noncash item - note receivable interest applied to equity conversion	21,235
Changes in assets and liabilities:	
Decrease in accounts and accrued receivables	133,096
Decrease in prepaid expenses	32,927
Increase in unamortized leasing commissions	(17,220)
Decrease in accounts payable	(6,823)
Decrease in accrued expenses	(18,178)
Increase in prepaid rental income	53,432
Increase in deferred revenue	1,846,430
Increase in security deposits	20,635
Increase in compensated absences	7,384
Decrease in due to Commonwealth of Virginia	(551,644)
Net cash used by operating activities	$ (1,279,575)

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

NOTES TO FINANCIAL STATEMENTS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2011

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovation and Entrepreneurship Investment Authority (Authority) and its blended component unit, the Center for Innovative Technology (CIT). The Authority is a political subdivision of the Commonwealth, as authorized by the Innovation and Entrepreneurship Investment Authority Act of 2009, as amended, Title 2.2, Chapter 22, Article 3 of the Code of Virginia. The Authority's mission is to accelerate the next generation of technology and technology companies to make Virginia an attractive business location. The Innovation and Entrepreneurship Investment Authority Act provides for the Authority to form a non-stock corporation to carry out the mission of the Authority. CIT is the non-stock, not-for-profit corporation created for this purpose, and acts as the operating arm of the Authority. The Virginia General Assembly 2010 Session, Virginia Acts of Assembly Chapter 874 authorizes the Authority to transfer funds appropriated to it by the Commonwealth to CIT for use in realizing its mission.

During the Virginia Acts of Assembly – 2009 Reconvened Session, the Code of Virginia was changed to rename the Innovative Technology Authority to the Innovation and Entrepreneurship Investment Authority, effective July 1, 2009. The new legislation gives the Authority additional responsibilities, and changes the appointment process and structure of the Board of Directors. The Innovation and Entrepreneurship Investment Authority is the successor in interest to the Innovation Technology Authority. Without limitation, title and interest in and to any real or tangible personal property vested in the Innovative Technology Authority is transferred to and taken as standing in the name of the Innovation and Entrepreneurship Investment Authority.

The financial statements of the Authority, including its blended component unit CIT, 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 that is attributable to the transactions of the Authority including its blended component unit CIT. 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 and is included in the basic financial statements of the Commonwealth. Separate financial statements for the Authority and CIT can be found in the Supplementary Information section of the Annual Financial Statement report.

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 when the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

Allocation Method: CIT uses the full-cost allocation approach to allocate indirect costs among functions. CIT allocates indirect costs based on three rates: fringe, overhead, and general and administrative. The fringe and overhead are applied to functions based upon direct labor cost and general and administrative is applied to functions based upon total cost.

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 three to forty years. The Authority uses a $3,000 cost value to determine the assets to capitalize.

Operating and Non-Operating Activity: Most of the 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. Currently, non-operating activity relates to appropriations from the Commonwealth, investment activities such as interest income, and interest expense.

Income Taxes: The Authority is a political subdivision of the Commonwealth and therefore is exempt from federal income tax. CIT is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE B - CASH AND INVESTMENTS

The investment policy of the Authority and CIT is established and monitored by the Board of Directors. The investment policies of the Authority and CIT comply with the Investment of Public Funds Act, Code of Virginia Section 2.2-4500 - 4517. The investment policy establishes guidelines for the quality of investments, maturities, and investment yields.

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

Deposits and investments held by the Bank of New York Mellon, as trustee, are accounted for in accordance with the provisions of the Master Indenture of Trust Agreement and the Supplemental Indenture of Trust Agreement between the Authority and the Trustee.

Custodial Credit Risk: All deposits of the Authority and CIT, with the exception of the Bank of New York Mellon account, are maintained in accounts covered by federal depository insurance and collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia, as amended, which provides for an assessable multiple financial institution collateral pool. The Bank of New York Mellon (Trust Department) account is a portfolio of U.S. Treasury and repurchase agreements that are collateralized by U.S. Treasury securities.

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

Concentration of Credit Risk: Disclosure of any one issuer is required when it represents five percent or more of total investments. At June 30, 2011, the Authority and CIT had no investments greater than five percent.

Foreign Currency Risk: Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. The Authority and CIT had no foreign investments or deposits for fiscal year 2011.

Credit Risk: Disclosure of the credit quality rating is required for investments exposed to the risk an issuer or other counterparty will not fulfill its obligations. At June 30, 2011, the Authority and CIT had investments and ratings as shown in the chart below.

	Credit Rating	Fair Value
Cash and cash equivalents:		
Cash		$ 80,727
Federated Treasury Obligations Fund	AAAm	95
Local Government Investment Pool	AAAm	6,950,170
Total cash and cash equivalents		$ 7,030,992

NOTE C - ACCOUNTS AND ACCRUED RECEIVABLES

The Authority held accounts receivable totaling $75,737 for rental income and contracts and grants. CIT held accounts receivable totaling $491,814 for contracts, grants, and miscellaneous receivables, and $10,111 of accounts receivable related to the Innovative Technology Foundation (see Note K).

NOTE D - NOTES RECEIVABLE

Notes Receivable of $1,864,035 is comprised of $1,550,155 in notes held by CIT and $313,880 in notes held by the Authority.

During the last seven fiscal years, CIT has entered into convertible note purchase agreements with 39 promising emerging companies under its Growth Acceleration Program (GAP). The promissory notes typically have maturity dates of 12 months to 20 months from issuance. Payment due at maturity is principal plus eight percent or ten percent. In some cases, CIT has granted extensions as the notes have become due. At CIT's option, CIT may convert the note into equity of the company, subject to the terms of the note.

At June 30, 2011, CIT had $1,550,155 in notes receivable. Due to the risk involved with emerging companies, CIT has elected to set up an allowance of $1,550,155.

During fiscal year 2011, the Authority, on behalf of the Commonwealth of Virginia, settled with a former tenant who had defaulted on their lease of approximately 33 thousand square feet. The settlement is in the form of a note receivable of $350,000 which was recognized as rental income in fiscal year 2011. After making a few payments on the note, the tenant defaulted again. An allowance has been set up for the unpaid note balance of $313,880.

NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2011:

	Beginnning Balance	Acquisitions and Depreciation	Sales and Dispositions	Ending Balance
Land and land improvements	$ 7,944,997	$ -	$ (2,315,499)	$ 5,629,498
Building and improvements	27,203,227	5,379	(19,212)	27,189,394
Accumulated Depreciation	(13,099,673)	(906,433)	19,212	(13,986,894)
Furniture, fixtures and equipment	906,389	-	(145,869)	760,520
Accumulated Depreciation	(892,707)	(3,678)	145,869	(750,516)
Total	$ 22,062,233	$ (904,732)	$ (2,315,499)	$ 18,842,002

NOTE F - COMPENSATED ABSENCES

It is CIT's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since CIT does not have a policy to pay any amounts when employees separate from service. All vacation pay is

accrued when incurred. Each employee may carry the equivalent of two weeks of annual leave forward to the following year.

NOTE G - CAPITAL LEASES

The Authority leases a copier that qualifies as a capital lease for accounting purposes and has been recorded at $10,298, the present value of the future minimum lease payments as of the date of its inception. Through June 30, 2011, $4,634 of accumulated depreciation has been taken.

Future minimum lease payments at June 30, 2011, are as follows:

Year ending June 30,	Amount
2012	$ 2,496
2013	2,496
2014	1,873
Total minimum lease payments	6,865
Less amounts representing interest	(708)
Present value of future minimum lease payments	$ 6,157

The following schedule presents the changes in capital lease obligations:

Beginnning Balance	Decreases	Ending Balance	Amount Due Within One Year
$ 8,088	$ 1,931	$ 6,157	$ 2,087

NOTE H - 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 Mellon). 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 leases facilities from the Authority, in the midrise portion of the building. The lease calls for the Commonwealth to pay rent equal to the bond payments, insurance, trustee fees, and maintenance costs of the midrise portion of the building. In turn, the Commonwealth subleases the leased space to other tenants.

The following schedule presents the changes in bonds payable obligations:

Beginning Balance	Retirements	Ending Balance	Amount Due Within One Year
$ 4,480,000	$ 1,015,000	$ 3,465,000	$ 1,090,000

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

Year ending June 30,	Principal	Interest	Total
2012	$ 1,090,000	$ 260,568	$ 1,350,568
2013	1,155,000	178,600	$ 1,333,600
2014	1,220,000	91,744	1,311,744
Total	$ 3,465,000	$ 530,912	$ 3,995,912

NOTE I - COMMITMENTS

CIT has entered into several operating lease agreements. The Authority does not have any operating leases as of June 30, 2011. Rental expense for CIT's operating leases for the year ended June 30, 2011, was $11,307. As of June 30, 2011, CIT has the following minimum rental payments due under several equipment leases.

Year ending June 30,	Amount
2012	$ 11,307
2013	10,794
2014	7,082
Total	$ 29,183

NOTE J - EQUITY POSITIONS

CIT holds equity positions in twenty start-up organizations obtained through CIT programs.

The first program is the CIT Intellectual Property program which is no longer in existence. Under this program, CIT licensed titles for technologies to start-up organizations in exchange for stock. CIT initially received the titles to these technologies from universities without cost to CIT. CIT obtained stock from several companies through this program; however, all but one of these companies (Hemodyne, Inc.) has gone out of business. This security is not traded on the open market and there is no cost basis to CIT. The equity position of this stock, therefore, has not been recorded on CIT assets since there is no clear assessment of the value at either cost or market.

The second program under which CIT has obtained equity positions in start-up companies is the Growth Acceleration Program (GAP). The equity was obtained by exercising conversion options in the GAP note purchase agreements and through additional cash purchases. As none of these companies are traded on the open market, it is difficult to determine a market value for these equity positions without full company valuations. Since there is no clear assessment of value, CIT has not recorded these equity positions as assets. CIT's equity portfolio, as of June 30, 2011, is detailed below.

Company Name	Number of Shares or % ownership	Type of Equity
Canvas Solutions, Inc.	3,491 shares	Series A Convertible Preferred
ClearEdge3D, Inc.	752,400 shares	Preferred
Engineered Products of Virginia, LLC	6.41% ownership interest	Ownership interest
Global Cell Solutions, Inc.	35,150 shares	Series A Preferred
Hemodyne, Inc.	35,003 shares	Common
Invincea, Inc.	53,850 shares	Series A Preferred
KZO Innovations, Inc.	81,953 shares	Series A Preferred
Latista Technologies, Inc.	57,428 shares	Series A Preferred
Mpowerplayer, Inc.	128,804 shares	Series A Preferred
OnDialog, Inc.	27,121 shares	Series A Convertible Preferred
Phthisis Diagnostic, Inc.	750 shares	Series A Preferred
Piedmont BioProducts, LLC	6% ownership interest	Ownership interest
Rollstream, Inc.	738,322 shares	Series A Preferred
Senior-Living.com, Inc.	101,740 shares	Series A Preferred
Sitscape, Inc.	37 shares	Common
Soft Tissue Regeneration, Inc.	33,038 shares	Series A-1 Preferred
South49 Solutions, Inc.	250,000 shares	Series A Preferred
Squareloop, Inc.	1,161,827 shares	Series A Convertible Preferred
Tau Therapeutics, LLC	482,986 shares	Ownership interest
Visure Corp.	8,054 shares	Series A Preferred

NOTE K - RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Foundation (ITF). The ITF is a non-stock, non-profit corporation. It was created in 1986 to promote and support economic and industrial development, encourage technological innovation, coordinate research and development capabilities of public and

private institutions, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent of the Authority and CIT.

As of June 30, 2011, ITF owed CIT $10,011 for legal, administrative and consulting fees paid on ITF's behalf. At June 30, 2011, ITF's unaudited net assets totaled $194,618.

NOTE L - EMPLOYEE BENEFITS

CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Pension expense for the plan totaled $399,812 in fiscal year 2011 for payroll of $2,665,413.

NOTE M - RISK MANAGEMENT

The Authority and CIT are exposed to various risks of loss related to: torts, theft, or damage and destruction to assets, injuries to employees, and natural disasters. Risk management insurance includes general liability, property, directors and officers, and worker's compensation. The Authority is insured through the Commonwealth's Risk Management Program. CIT is insured through commercial insurance policies with Philadelphia Indemnity Insurance Company and Ohio Casualty Insurance Company. CIT's health care plan is administered by Anthem.

SUPPLEMENTARY INFORMATION

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2011

	IEIA	CIT	Eliminating Entry	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,174,089	$ 4,856,903		$ 7,030,992
Prepaid expenses and deposits	7,407	38,503		45,910
Accounts and accrued receivables	75,736	501,925		577,661
Less: allowance for doubtful accounts	-	(120,483)		(120,483)
Notes receivable	313,880	1,550,155		1,864,035
Less: allowance for doubtful accounts	(313,880)	(1,550,155)		(1,864,035)
Due from IEIA		97,300	(97,300)	-
Due from Commonwealth of Virginia	161,358	-	-	161,358
Total current assets	2,418,590	5,374,148	(97,300)	7,695,438
Noncurrent assets:				
Unamortized expense of bond issue	25,399	-	-	25,399
Unamortized leasing commissions	17,220	-	-	17,220
Total noncurrent assets	42,619	-	-	42,619
Capital assets:				
Land and land improvements	5,629,498	-	-	5,629,498
Building and improvements	27,189,394	-	-	27,189,394
Less: accumulated depreciation	(13,986,894)	-	-	(13,986,894)
Furniture, fixtures and equipment	760,520	-	-	760,520
Less: accumulated depreciation	(750,516)	-	-	(750,516)
Total capital assets	18,842,002	-	-	18,842,002
Total assets	21,303,211	5,374,148	(97,300)	26,580,059
LIABILITIES				
Current liabilities:				
Accrued interest payable	43,427	-	-	43,427
Compensated absences	-	126,156	-	126,156
Deferred revenue	-	1,846,430	-	1,846,430
Accounts payable	4,445	292,562	-	297,007
Accrued expenses	-	57,402	-	57,402
Prepaid rental income	77,417	-		77,417
Due to CIT	97,300	-	(97,300)	-
Capital lease obligations - short term	2,087	-	-	2,087
Bonds payable - short term	1,090,000	-	-	1,090,000
Security deposits	65,246	-	-	65,246
Total current liabilities	1,379,922	2,322,550	(97,300)	3,605,172
Long-term liabilities:				
Capital lease obligations	4,070			4,070
Bonds payable	2,375,000	-	-	2,375,000
Total long term liabilities	2,379,070	-	-	2,379,070
Total liabilities	3,758,992	2,322,550	(97,300)	5,984,242

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2011

	IEIA	CIT	Eliminating Entry	Total
NET ASSETS				
Investment in capital assets, net of related debt	15,396,245	-	-	15,396,245
Unrestricted net assets	2,147,975	2,446,597	-	4,594,572
Restricted net assets, expendable	-	605,000	-	605,000
Total net assets	$ 17,544,220	$ 3,051,597	$ -	$ 20,595,817

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2011

	IEIA	CIT	Total
Operating revenues:			
Rental income - lease revenue	$ 1,802,780	$ -	$ 1,802,780
Rental income - bonds	1,351,675	-	1,351,675
Contracts and grants	877,742	2,702,430	3,580,172
Donations	-	17,000	17,000
Miscellaneous	-	79,737	79,737
Total operating revenues	4,032,197	2,799,167	6,831,364
Operating expenses:			
Program expenses:			
Research and development	-	1,437,348	1,437,348
Entrepreneur	-	2,037,942	2,037,942
Connect	-	1,224,926	1,224,926
Broadband	-	1,310,878	1,310,878
Commonwealth support	-	246,797	246,797
Innovation Center	-	226,496	226,496
Total program expenses	-	6,484,387	6,484,387
Other expenses:			
Communications and marketing	-	419,351	419,351
Business development	-	679,241	679,241
Advocacy	-	274,869	274,869
Other unallowable expenses	-	96,642	96,642
Indirects unapplied to projects	-	163,002	163,002
Administrative	688	-	688
Building	1,514,032	-	1,514,032
Depreciation and amortization	919,075	-	919,075
Total other expenses	2,433,795	1,633,105	4,066,900
Total operating expenses	2,433,795	8,117,492	10,551,287
Operating income/(loss)	1,598,402	(5,318,325)	(3,719,923)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	4,580,956	-	4,580,956
Interest income	4,593	28,904	33,497
Interest expense - bonds	(324,175)	-	(324,175)
Interest expense - capital lease	(566)	-	(566)
Donations Expense	(2,315,499)	-	(2,315,499)
Total non-operating revenues/(expenses)	1,945,309	28,904	1,974,213
Income/(loss) before transfers	3,543,711	(5,289,421)	(1,745,710)

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2011

	IEIA	CIT	Total
Transfers in/(out) - Appropriation	(4,580,956)	4,580,956	-
Transfers in/(out) - IEIA contracts and grants	(877,742)	877,742	-
Total transfers in/(out)	(5,458,698)	5,458,698	-
Change in net assets	(1,914,987)	169,277	(1,745,710)
Net assets at July 1, 2010	19,459,207	2,882,320	22,341,527
Net assets at June 30, 2011	$ 17,544,220	$ 3,051,597	$ 20,595,817

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

	IEIA	CIT	Total
Cash flows from operating activities:			
Rental income received	$ 2,776,922	$ -	$ 2,776,922
Security deposits received	26,149	-	26,149
Contracts and grants income received	810,364	4,728,061	5,538,425
Growth Acceleration Program income received	-	27,488	27,488
Donations received	-	17,000	17,000
Miscellaneous income received	-	79,938	79,938
Payments to Growth Acceleration Program recipients	-	(465,000)	(465,000)
Payments to vendors	(1,742,008)	(4,312,966)	(6,054,974)
Security deposits paid	(5,514)		(5,514)
Payments to employees	-	(3,220,009)	(3,220,009)
Net cash provided/(used) by operating activities	1,865,913	(3,145,488)	(1,279,575)
Cash flows from non-capital financing activities:			
Appropriations received from the Commonwealth of Virginia	4,580,956	-	4,580,956
Transfers (out)/in - Appropriations	(4,580,956)	4,580,956	-
Transfers (out)/in - IEIA contracts and grants	(780,442)	780,442	-
Net cash provided/(used) by non-capital financing activities	(780,442)	5,361,398	4,580,956
Cash flows from investing activities:			
Interest received	4,593	7,669	12,262
Net cash provided/(used) by investing activities	4,593	7,669	12,262
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - IEIA	(5,379)	-	(5,379)
Cash payments on capital lease	(1,930)	-	(1,930)
Cash payment to retire bond indenture	(1,015,000)	-	(1,015,000)
Payments for interest	(337,462)	-	(337,462)
Net cash provided/(used) by capital and related financing activities	(1,359,771)	-	(1,359,771)
Net increase/(decrease) in cash and cash equivalents	(269,707)	2,223,579	1,953,872
Cash and cash equivalents at July 1, 2010	2,443,796	2,633,324	5,077,120
Cash and cash equivalents at June 30, 2011	$ 2,174,089	$ 4,856,903	$ 7,030,992

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

	IEIA	CIT	Total
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	$ 1,598,402	$ (5,318,325)	$ (3,719,923)
Adjustments to reconcile operating income/(loss) to net cash:			
Depreciation and amortization	919,074	-	919,074
Noncash item - note receivable interest applied to equity conversion	-	21,235	21,235
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	(72,844)	205,940	133,096
(Increase)/decrease in prepaid expenses	(7,407)	40,334	32,927
(Increase)/decrease in unamortized leasing commissions	(17,220)	-	(17,220)
Increase/(decrease) in accounts payable	(65,087)	58,264	(6,823)
Increase/(decrease) in accrued expenses	(11,428)	(6,750)	(18,178)
Increase/(decrease) in prepaid rental income	53,432		53,432
Increase/(decrease) in deferred revenue	-	1,846,430	1,846,430
Increase/(decrease) in security deposits	20,635	-	20,635
Increase/(decrease) in compensated absences	-	7,384	7,384
Increase/(decrease) in due to Commonwealth of Virginia	(551,644)	-	(551,644)
Net cash provided/(used) by operating activities	$ 1,865,913	$ (3,145,488)	$ (1,279,575)

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Fiscal Year Ended June 30, 2011

	IEIA	CIT	Total
Undesignated:			
Beginning balance	$ 79,528	$ 2,212,320	$ 2,291,848
Change in net assets	(1,914,987)	169,277	(1,745,710)
Depreciation	910,110	-	910,110
Land transfer to Virginia Department of Transportation	2,315,499	-	2,315,499
Interest income designated to building	(3,625)	-	(3,625)
Transfer net profit from building operations to designated to building	(288,749)	-	(288,749)
Change in restricted - GAP BioLife Fund	-	65,000	65,000
Capital lease interest payments	566	-	566
Bond issuance expense	8,964	-	8,964
Bond payment	(1,015,000)	-	(1,015,000)
Bank fees on building reserve	688	-	688
Total undesignated	92,994	2,446,597	2,539,591
Restricted - GAP BioLife Fund:			
Beginning balance	-	670,000	670,000
Fiscal year 2011 expenses	-	(65,000)	(65,000)
Total restricted for GAP BioLife Fund	-	605,000	605,000
Investment in capital assets:			
Beginning balance	17,608,508	-	17,608,508
Purchases for building	5,379	-	5,379
Depreciation	(910,110)	-	(910,110)
Land transfer to Virginia Department of Transportation	(2,315,499)	-	(2,315,499)
Capital lease principal payments	1,931	-	1,931
Bond issuance expense	(8,964)	-	(8,964)
Bond payment	1,015,000	-	1,015,000
Total investment in capital assets	15,396,245	-	15,396,245
Designated to building:			
Beginning balance	1,771,171	-	1,771,171
Transfer net profit from building operations to designated to building	288,749	-	288,749
Interest income designated to building	3,625	-	3,625
Capital lease principal payments	(1,931)	-	(1,931)
Capital lease interest payments	(566)	-	(566)
Purchases for building	(5,379)	-	(5,379)
Bank fees on building reserve	(688)	-	(688)
Total designated to building	2,054,981	-	2,054,981
Total fund balance	$ 17,544,220	$ 3,051,597	$ 20,595,817

APPENDIX A

Independent Auditor's Report on Financial Statements

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 9, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Boards of Directors
Innovation and Entrepreneurship Investment Authority and
Center for Innovative Technology

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Innovation and Entrepreneurship Investment Authority, a component unit of the Commonwealth of Virginia, and its blended component unit, the Center for Innovative Technology**, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011, 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 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Innovation and Entrepreneurship Investment Authority, a component unit of the Commonwealth of Virginia, and its blended component unit, the Center for Innovative Technology. The Combining Statements and Schedule of Analysis of Fund Balances are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Combining Statements and Schedule of Analysis of Fund Balances have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2011 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.

AUDITOR OF PUBLIC ACCOUNTS

APPENDIX B

AGENCY OFFICIALS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

BOARD OF DIRECTORS
As of June 30, 2011

Charles W. Steger, Vice Chairman

Ted Cahall
Jim Cheng
Jim Duffey
Eric Hansen
Wayne Hunter
Ray O. Johnson
Hooks Johnston
Rick Kapani
Suzanne H. King
Alan G. Merten
Gerard Robinson
Linwood H. Rose
Lydia W. Thomas

OFFICERS

Peter J. Jobse, President and Chief Executive Officer, CIT

Linwood H. Rose, Treasurer and Secretary, IEIA

Linda E. Gentry, Treasurer and Secretary, CIT