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, 2012

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, 2012. 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 is "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". 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, 2012
(With comparative figures for June 30, 2011)

	2012	2011	Change
Assets:			
Current assets	$ 9,122,459	$ 7,695,438	$ 1,427,021
Noncurrent assets	101,316	42,619	58,697
Capital assets	18,036,527	18,842,002	(805,475)
Total assets	27,260,302	26,580,059	680,243
Liabilities:			
Current liabilities	2,415,291	3,605,172	(1,189,881)
Long-term liabilities	1,221,813	2,379,070	(1,157,257)
Total liabilities	3,637,104	5,984,242	(2,347,138)
Net Assets:			
Investment in capital assets, net of related debt	15,673,892	15,396,245	277,647
Unrestricted net assets	7,519,306	4,594,572	2,924,734
Restricted net assets, expendable	430,000	605,000	(175,000)
Total net assets	$ 23,623,198	$ 20,595,817	$ 3,027,381

The current assets increased by $1,427,021 due predominately to a higher appropriation from the Commonwealth of Virginia and a contract advance received under our Entrepreneur program.

The reduction of $1,189,881 in current liabilities is due to deferred revenue becoming earned revenue. The decrease in long-term liabilities of $1,157,257 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, 2012 balance of $430,000 reflects activity in the fund from inception through fiscal 2012 of $1,200,000 in total funding and $770,000 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, 2012
(With comparative figures for June 30, 2011)

	2012	2011	Change
Operating revenues:			
Rental income	$ 2,846,631	$ 3,154,455	$ (307,824)
Contracts and grants	4,621,362	3,580,172	1,041,190
Growth Acceleration Program (GAP)	47,449	-	47,449
Donations	194,758	17,000	177,758
Miscellaneous	53,016	79,737	(26,721)
Total operating revenues	7,763,216	6,831,364	931,852
Operating expenses:			
CIT expenses	11,543,477	8,117,492	3,425,985
Building and IEIA administrative	1,291,438	1,514,720	(223,282)
Depreciation and amortization	904,145	919,075	(14,930)
Total operating expenses	13,739,060	10,551,287	3,187,773
Operating Loss	(5,975,844)	(3,719,923)	(2,255,921)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	9,224,565	4,580,956	4,643,609
Interest income	25,976	33,497	(7,521)
Interest expense	(247,316)	(324,741)	77,425
Donations expense	-	(2,315,499)	2,315,499
Total non-operating revenues/(expenses)	9,003,225	1,974,213	7,029,012
Change in net assets	3,027,381	(1,745,710)	4,773,091
Net assets at July 1, beginning fiscal year	20,595,817	22,341,527	(1,745,710)
Net assets at June 30, ending fiscal year	$ 23,623,198	$20,595,817	$ 3,027,381

Operating Revenues

Rental Income is lower by $307,824 in fiscal year 2012, due in large part to two non-cash items. The first is the recording in fiscal year 2011 of the $313,880 balance of a setttlement between the Commonwealth and a defaulting tenant. The second is the recording in fiscal year 2012 of an $81,000 adjustment for a generator accepted in lieu of rent from the defaulting tenant. Activity other than these non-cash items reflects that rental revenue increased by approximately $87,000, due to increased occupancy.

Contracts and grants revenue reflects a $1,041,190 net increase in business outside of Commonwealth appropriations during fiscal year 2012. The increase is due primarily to revenue earned on the Commonwealth Energy Fund (CEF) contract with the Virginia Department of Mines, Minerals, and Energy (DMME).

Operating Expenses

CIT operating expenses increased by $3,425,985 during fiscal year 2012. Direct expenses increased by $3,017,477 due to increased costs associated with Growth Acceleration Program (GAP) investments and increased activity on the CEF contract with DMME. Indirect expenses increased by $408,508 due to the addition of staff and the associated employee benefits costs. The majority of new personnel were added to the GAP program during the last quarter of fiscal year 2011.

Building and IEIA administrative expenses are lower in fiscal year 2012 by $223,282, due to the fiscal year 2011 recording of $313,880 of bad debts expense to reflect the risk of collecting the settlement between the Commonwealth and a defaulting tenant, offset by approximately $91,000 in higher fiscal year 2012 costs associated with increased occupancy.

Non-operating revenues and expenses

The Authority's fiscal year 2012 appropriation is $4,643,609 higher than last year's appropriation because the appropriation includes an additional $4,500,000 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, 2012
(With comparative figures for June 30, 2011)

	2012	2011	Change
Land and land improvements	$ 5,629,498	$ 5,629,498	$ -
Building and improvements (net of depreciation)	12,400,703	13,202,500	$ 801,797
Furniture, fixtures and equipment (net of depreciation)	6,326	10,004	3,678
Total capital assets	$ 18,036,527	$ 18,842,002	$ 805,475

Reductions in the value of building and improvements, and furniture, fixture and equipment reflect depreciation expense of $895,181, offset by $97,971 of capital asset additions less Commonwealth of Virginia's depreciation of $8,265.

Debt Administration

At year-end, the Authority had $2,375,000 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 I in the Notes to the Financial Statements.

Significant variations between budget and actual results

Program	Budgeted Cost	Actual Cost	Variance
Entrepreneur	$ 10,297,421	$ 7,084,563	$ (3,212,858)

The only area of significant variance between budget and actual results during 2012 was under the Entrepreneur program. The $3,212,858 under-run includes $1,901,999 designated for follow on GAP Fund investments to be made in fiscal year 2013. The remainder of the under-spending is due to GAP staff which were budgeted but not hired, and lower outside consulting and indirect costs.

FINANCIAL STATEMENTS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
As of June 30, 2012

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	$ 7,971,630
Prepaid expenses and deposits	67,961
Accounts and accrued receivables (Note C)	654,920
Less: allowance for doubtful accounts	(120,448)
Notes receivable (Note D)	4,373,151
Less: allowance for doubtful accounts (Note D)	(4,373,151)
Due from Commonwealth of Virginia	548,396
Total current assets	9,122,459
Noncurrent assets:	
Unamortized expense of bond issue	16,435
Unamortized leasing commissions	84,881
Total noncurrent assets	101,316
Capital assets (Note E):	
Land and land improvements	5,629,498
Building and improvements	27,287,365
Less: accumulated depreciation	(14,886,662)
Furniture, fixtures and equipment	760,520
Less: accumulated depreciation	(754,194)
Total capital assets	18,036,527
Total assets	27,260,302
LIABILITIES	
Current liabilities:	
Accrued interest payable	29,766
Compensated absences (Note G)	163,537
Deferred revenue	592,770
Accounts payable	332,045
Accrued expenses	46,974
Prepaid rental income	8,650
Capital lease obligations - short term (Note H)	2,257
Bonds payable - short term (Note I)	1,155,000
Security deposits	84,292
Total current liabilities	2,415,291
Long term liabilities:	
Capital lease obligations (Note H)	1,813
Bonds payable (Note I)	1,220,000
Total long term liabilities	1,221,813
Total liabilities	3,637,104

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
As of June 30, 2012

NET ASSETS	
Investment in capital assets, net of related debt	15,673,892
Unrestricted net assets	7,519,306
Restricted net assets, expendable	430,000
Total net assets	$ 23,623,198

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, 2012

Operating revenues:	
Rental income - lease revenue	$ 1,498,891
Rental income - bonds	1,347,740
Contracts and grants revenue	4,621,362
GAP Revenue	47,449
Donations revenue	194,758
Miscellaneous revenue	53,016
Total operating revenues	7,763,216
Operating expenses:	
Program expenses:	
Research and development	1,126,675
Entrepreneur	7,084,563
Connect	764,350
Broadband	1,460,041
Commonwealth support	369,847
Other activities	74,623
Total program expenses	10,880,099
Other expenses:	
Communications and marketing	483,013
Business development	811,844
Advocacy and other unallowable expenses	171,900
Indirects overapplied to projects	(803,379)
Building and IEIA administrative	1,291,438
Depreciation and amortization	904,145
Total other expenses	2,858,961
Total operating expenses	13,739,060
Operating loss	(5,975,844)
Non-operating revenues/(expenses):	
Appropriations from the Commonwealth of Virginia	9,224,565
Interest income	25,976
Interest expense - bonds	(246,907)
Interest expense - capital lease	(409)
Total non-operating revenues/(expenses)	9,003,225
Change in net assets	3,027,381
Net assets at July 1, 2011	20,595,817
Net assets at June 30, 2012	$ 23,623,198

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, 2012

Cash flows from operating activities:	
Rental income received	$ 2,803,274
Security deposits received	26,983
Contracts and grants income received	3,326,727
Growth Acceleration Program income received	47,449
Donations received	194,758
Miscellaneous income received	32,211
Payments to Growth Acceleration Program recipients	(2,273,001)
Payments to vendors	(7,262,334)
Security deposits paid	(7,937)
Payments to employees	(3,771,912)
Net cash used by operating activities	(6,883,782)
Cash flows from non-capital financing activities:	
Appropriations received from the Commonwealth of Virginia	9,224,565
Net cash provided by non-capital financing activities	9,224,565
Cash flows from investing activities:	
Interest received	10,390
Net cash provided by investing activities	10,390
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - CIT	(14,842)
Acquisition and construction of capital assets - IEIA	(42,629)
Cash payments on capital lease	(2,087)
Cash payment to retire bond indenture	(1,090,000)
Payments for interest	(260,977)
Net cash used by capital and related financing activities	(1,410,535)
Net increase in cash and cash equivalents	940,638
Cash and cash equivalents at July 1, 2011	7,030,992
Cash and cash equivalents at June 30, 2012	$ 7,971,630

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (5,975,844)
Adjustments to reconcile operating loss to net cash:	
Non-cash item - Depreciation and amortization	904,145
Non-cash item - note receivable interest applied to new note or equity conversion	15,586
Non-cash item - generator accepted from tenant in lieu of rent to Commonwealth of Virginia (net of depreciation)	(32,234)
Changes in assets and liabilities:	
Increase in accounts and accrued receivables	(77,295)
Increase in prepaid expenses	(22,051)
Increase in due from Commonwealth of Virginia	(387,037)
Increase in unamortized leasing commissions	(67,661)
Increase in accounts payable	35,038
Decrease in accrued expenses	(10,428)
Decrease in prepaid rental income	(68,768)
Decrease in deferred revenue	(1,253,660)
Increase in security deposits	19,046
Increase in compensated absences	37,381
Net cash used by operating activities	$ (6,883,782)

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, 2012

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 of Virginia (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 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. Its mission is "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". 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.

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. Combining 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, 2012, 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 2012.

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, 2012, the Authority and CIT had investments and ratings as shown in the chart below.

	Credit Rating	Fair Value
Cash and cash equivalents:		
Cash		$ 52,898
Federated Treasury Obligations Fund	AAAm	98
Local Government Investment Pool	AAAm	7,918,634
Total cash and cash equivalents		$ 7,971,630

NOTE C - ACCOUNTS AND ACCRUED RECEIVABLES

The Authority held accounts receivable totaling $220,725 for rental income and contracts and grants. CIT held accounts receivable totaling $434,195 for contracts, grants, and miscellaneous receivables.

NOTE D - NOTES RECEIVABLE

Notes Receivable of $4,373,151 is comprised of $4,059,271 in notes held by CIT and $313,880 in notes held by the Authority.

During the last eight fiscal years, CIT has entered into convertible note purchase agreements with 61 promising emerging companies under its Growth Acceleration Program (GAP) and the Commonwealth Energy Fund (CEF) contract with the Virginia Department of Mines, Minerals, and Energy (DMME). The promissory notes have maturity dates of 12

months to 36 months from issuance. Payment due at maturity is principal plus interest, which ranges from six percent to 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, 2012, CIT had $4,059,271 in notes receivable. Due to the risk involved with emerging companies, CIT has elected to set up an allowance of $4,059,271.

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 was set up during fiscal year 2011 for $313,880 for the unpaid value of the note.

NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2012:

	Beginnning Balance	Acquisitions and Depreciation	Sales and Dispositions	Ending Balance
Land and land improvements	$ 5,629,498	$ -	$ -	$ 5,629,498
Building and improvements	27,189,394	97,971	-	27,287,365
Accumulated Depreciation	(13,986,894)	(899,768)	-	(14,886,662)
Furniture, fixtures and equipment	760,520	-	-	760,520
Accumulated Depreciation	(750,516)	(3,678)	-	(754,194)
Total	$ 18,842,002	$ (805,475)	$ -	$ 18,036,527

NOTE F - CONTINGENT LIABILITIES

At June 30, 2012, CIT had contingent liabilities related to two term sheets (letters of intent) for GAP investments totaling $200,000. The term sheets state CIT's intention to enter into a convertible note purchase agreement with the company, subject to certain conditions. The letters of intent expire 90 days after issuance. Both term sheets expired with no action subsequent to year-end.

NOTE G - 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 H - 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, 2012, $6,694 of accumulated depreciation has been taken.

Future minimum lease payments at June 30, 2012, are as follows:

Year ending June 30,	Amount
2013	$ 2,496
2014	1,873
Total minimum lease payments	4,369
Less amounts representing interest	(299)
Present value of future minimum lease payments	$ 4,070

The following schedule presents the changes in capital lease obligations:

Beginnning Balance	Decreases	Ending Balance	Amount Due Within One Year
$ 6,157	$ 2,087	$ 4,070	$ 2,257

NOTE I- 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
$ 3,465,000	$ 1,090,000	$ 2,375,000	$ 1,155,000

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

Year ending June 30,	Principal	Interest	Total
2013	$ 1,155,000	$ 178,600	$ 1,333,600
2014	1,220,000	91,744	1,311,744
Total	$ 2,375,000	$ 270,344	$ 2,645,344

NOTE J - COMMITMENTS

The Authority does not have any operating leases as of June 30, 2012. CIT has entered into several operating lease agreements. Rental expense for CIT's operating leases for the year ended June 30, 2012, was $12,603. As of June 30, 2012, CIT has the following minimum rental payments due under several equipment leases.

Year ending June 30,	Amount
2013	$ 10,794
2014	7,082
Total	$ 17,876

NOTE K - EQUITY POSITIONS

CIT holds equity positions in twenty-seven 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, 2012, is detailed below.

Company Name	Number of Shares or % ownership	Type of Equity
BrightContext Corporation	238,271 shares	Preferred
Canvas Solutions, Inc.	490,396 shares	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	Preferred
Hemodyne, Inc.	35,003 shares	Common
Introhive, Inc.	322,580 shares	Preferred
Invincea, Inc.	64,533 shares	Preferred
iTi Health, Inc.	39,185 shares	Preferred
KZO Innovations, Inc.	81,953 shares	Preferred
Latista Technologies, Inc.	81,700 shares	Preferred
Mpowerplayer, Inc.	128,804 shares	Preferred
OnDialog, Inc.	27,121 shares	Preferred
Phthisis Diagnostic, Inc.	750 shares	Preferred
Piedmont BioProducts, LLC	6% ownership interest	Ownership interest
PublicRelay, Inc.	985,027 shares	Preferred
ROI2, Inc.	84,792 shares	Preferred
Rollstream, Inc.	738,322 shares	Preferred
Sitscape, Inc.	37 shares	Common
Soft Tissue Regeneration, Inc.	33,038 shares	Preferred
South49 Solutions, Inc.	250,000 shares	Preferred
Squareloop, Inc.	1,161,827 shares	Preferred
Tau Therapeutics, LLC	482,986 shares	Ownership interest
Troopswap, Inc.	3,125 shares	Preferred
Vangogh Imaging, Inc.	100,000 shares	Preferred
Vangogh Imaging, Inc.	40,000 shares	Common
Visure Corp.	8,054 shares	Preferred
Xdynia, LLC	482,986 shares	Ownership interest

NOTE L - RELATED PARTY TRANSACTIONS

The Innovative Technology Foundation (ITF), a non-stock, non-profit corporation, 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 were independent of the Authority and CIT.

ITF was terminated as of January 31, 2012. The net assets of $194,758 were liquidated and transferred to the Center for Innovative Technology as required by the Articles of Incorporation of the ITF dated June 25, 2001.

NOTE M - 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 $476,745 in fiscal year 2012 for payroll of $3,178,300.

NOTE N - 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 Excelsior Insurance Company, Peerless Insurance Company, and Philadelphia Indemnity 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, 2012

	IEIA	CIT	Eliminating Entry	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,852,814	$ 6,118,816	$ -	$ 7,971,630
Prepaid expenses and deposits	15,500	52,461	-	67,961
Accounts and accrued receivables	220,725	434,195	-	654,920
Less: allowance for doubtful accounts	(2,500)	(117,948)	-	(120,448)
Notes receivable	313,880	4,059,271	-	4,373,151
Less: allowance for doubtful accounts	(313,880)	(4,059,271)	-	(4,373,151)
Due from IEIA	-	190,741	(190,741)	-
Due from Commonwealth of Virginia	548,396	-	-	548,396
Total current assets	2,634,935	6,678,265	(190,741)	9,122,459
Noncurrent assets:				
Unamortized expense of bond issue	16,435	-	-	16,435
Unamortized leasing commissions	84,881	-	-	84,881
Total noncurrent assets	101,316	-	-	101,316
Capital assets:				
Land and land improvements	5,629,498	-	-	5,629,498
Building and improvements	27,287,365	-	-	27,287,365
Less: accumulated depreciation	(14,886,662)	-	-	(14,886,662)
Furniture, fixtures and equipment	760,520	-	-	760,520
Less: accumulated depreciation	(754,194)	-	-	(754,194)
Total capital assets	18,036,527	-	-	18,036,527
Total assets	20,772,778	6,678,265	(190,741)	27,260,302
LIABILITIES				
Current liabilities:				
Accrued interest payable	29,766	-	-	29,766
Compensated absences	-	163,537	-	163,537
Deferred revenue	-	592,770	-	592,770
Accounts payable	111,066	220,979	-	332,045
Accrued expenses	3,500	43,474	-	46,974
Prepaid rental income	8,650	-	-	8,650
Due to CIT	190,741	-	(190,741)	-
Capital lease obligations - short term	2,257	-	-	2,257
Bonds payable - short term	1,155,000	-	-	1,155,000
Security deposits	84,292	-	-	84,292
Total current liabilities	1,585,272	1,020,760	(190,741)	2,415,291
Long-term liabilities:				
Capital lease obligations	1,813	-	-	1,813
Bonds payable	1,220,000	-	-	1,220,000
Total long term liabilities	1,221,813	-	-	1,221,813
Total liabilities	2,807,085	1,020,760	(190,741)	3,637,104

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2012

	IEIA	CIT	Eliminating Entry	Total
NET ASSETS				
Investment in capital assets, net of related debt	15,673,892	-	-	15,673,892
Unrestricted net assets	2,291,801	5,227,505	-	7,519,306
Restricted net assets, expendable	-	430,000	-	430,000
Total net assets	$ 17,965,693	$ 5,657,505	$ -	$ 23,623,198

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, 2012

	IEIA	CIT	Total
Operating revenues:			
Rental income - lease revenue	$ 1,498,891	$ -	$ 1,498,891
Rental income - bonds	1,347,740	-	1,347,740
Contracts and grants	595,225	4,026,137	4,621,362
GAP Revenue	-	47,449	47,449
Donations	-	194,758	194,758
Miscellaneous	-	53,016	53,016
Total operating revenues	3,441,856	4,321,360	7,763,216
Operating expenses:			
Program expenses:			
Research and development	-	1,126,675	1,126,675
Entrepreneur	-	7,084,563	7,084,563
Connect	-	764,350	764,350
Broadband	-	1,460,041	1,460,041
Commonwealth support	-	369,847	369,847
Other activities	-	74,623	74,623
Total program expenses	-	10,880,099	10,880,099
Other expenses:			
Communications and marketing	-	483,013	483,013
Business development	-	811,844	811,844
Advocacy and other unallowable expenses	-	171,900	171,900
Indirects overapplied to projects	-	(803,379)	(803,379)
Building and IEIA administratvie	1,291,438	-	1,291,438
Depreciation and amortization	904,145	-	904,145
Total other expenses	2,195,583	663,378	2,858,961
Total operating expenses	2,195,583	11,543,477	13,739,060
Operating income/(loss)	1,246,273	(7,222,117)	(5,975,844)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	9,224,565	-	9,224,565
Interest income	2,899	23,077	25,976
Interest expense - bonds	(246,907)	-	(246,907)
Interest expense - capital lease	(409)	-	(409)
Total non-operating revenues/(expenses)	8,980,148	23,077	9,003,225
Income/(loss) before transfers	10,226,421	(7,199,040)	3,027,381
Transfers (out)/in - Appropriations	(9,224,565)	9,224,565	-
Transfers (out)/in - IEIA contracts and grants	(595,225)	595,225	-
Transfers in/(out) - Capital asset purchases for CIT	14,842	(14,842)	-

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, 2012

	IEIA	CIT	Total
Total transfers (out)/in	(9,804,948)	9,804,948	-
Change in net assets	421,473	2,605,908	3,027,381
Net assets at July 1, 2011	17,544,220	3,051,597	20,595,817
Net assets at June 30, 2012	$ 17,965,693	$ 5,657,505	$ 23,623,198

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	IEIA	CIT	Total
Cash flows from operating activities:			
Rental income received	$ 2,803,274	$ -	$ 2,803,274
Security deposits received	26,983	-	26,983
Contracts and grants income received	475,827	2,850,900	3,326,727
Growth Acceleration Program income received	-	47,449	47,449
Donations received	-	194,758	194,758
Miscellaneous income received	-	32,211	32,211
Payments to Growth Acceleration Program recipients	-	(2,273,001)	(2,273,001)
Payments to vendors	(1,724,844)	(5,537,490)	(7,262,334)
Security deposits paid	(7,937)	-	(7,937)
Payments to employees	-	(3,771,912)	(3,771,912)
Net cash provided/(used) by operating activities	1,573,303	(8,457,085)	(6,883,782)
Cash flows from non-capital financing activities:			
Appropriations received from the Commonwealth of Virginia	9,224,565	-	9,224,565
Transfers (out)/in - Appropriations	(9,224,565)	9,224,565	-
Transfers (out)/in - IEIA contracts and grants	(501,784)	501,784	-
Transfers in/(out) - Capital asset purchases for CIT	14,842	(14,842)	-
Net cash provided/(used) by non-capital financing activities	(486,942)	9,711,507	9,224,565
Cash flows from investing activities:			
Interest received	2,899	7,491	10,390
Net cash provided/(used) by investing activities	2,899	7,491	10,390
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - CIT	(14,842)	-	(14,842)
Acquisition and construction of capital assets - IEIA	(42,629)	-	(42,629)
Cash payments on capital lease	(2,087)	-	(2,087)
Cash payment to retire bond indenture	(1,090,000)	-	(1,090,000)
Payments for interest	(260,977)	-	(260,977)
Net cash provided/(used) by capital and related financing activities	(1,410,535)	-	(1,410,535)
Net increase/(decrease) in cash and cash equivalents	(321,275)	1,261,913	940,638
Cash and cash equivalents at July 1, 2011	2,174,089	4,856,903	7,030,992
Cash and cash equivalents at June 30, 2012	$ 1,852,814	$ 6,118,816	$ 7,971,630

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	IEIA	CIT	Total
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	$ 1,246,273	$ (7,222,117)	$ (5,975,844)
Adjustments to reconcile operating income/(loss) to net cash:			
Non-cash item - Depreciation and amortization	904,145	-	904,145
Non-cash item - note receivable interest applied to new note or equity conversion	-	15,586	15,586
Non-cash item - generator accepted from tenant in lieu of rent to Commonwealth of Virginia (net of depreciation)	(32,234)	-	(32,234)
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	(142,489)	65,194	(77,295)
(Increase)/decrease in prepaid expenses	(8,093)	(13,958)	(22,051)
(Increase)/decrease in due from Commonwealth of Virginia	(387,037)	-	(387,037)
(Increase)/decrease in unamortized leasing commissions	(67,661)	-	(67,661)
Increase/(decrease) in accounts payable	106,621	(71,583)	35,038
Increase/(decrease) in accrued expenses	3,500	(13,928)	(10,428)
Increase/(decrease) in prepaid rental income	(68,768)	-	(68,768)
Increase/(decrease) in deferred revenue	-	(1,253,660)	(1,253,660)
Increase/(decrease) in security deposits	19,046	-	19,046
Increase/(decrease) in compensated absences	-	37,381	37,381
Net cash provided/(used) by operating activities	$ 1,573,303	$ (8,457,085)	$ (6,883,782)

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Fiscal Year Ended June 30, 2012

	IEIA	CIT	Total
Undesignated:			
Beginning balance	$ 92,994	$ 2,446,597	$ 2,539,591
Change in net assets	421,473	2,605,908	3,027,381
Depreciation	895,181	-	895,181
Capital assets acquired for CIT	(14,842)	-	(14,842)
Interest income designated to building	(2,655)	-	(2,655)
Transfer net profit from building operations to designated to building	(208,102)	-	(208,102)
Change in designated for GAP Fund	-	(1,901,999)	(1,901,999)
Change in restricted for GAP BioLife Fund	-	175,000	175,000
Generator accepted from SSCI in lieu of rent (net of depreciation)	(32,234)	-	(32,234)
Capital lease interest payments	409	-	409
Bond issuance expense	8,964	-	8,964
Bond payment	(1,090,000)	-	(1,090,000)
Bank fees on building reserve	649	-	649
Total undesignated	71,837	3,325,506	3,397,343
Designated for GAP Fund:			
Beginning balance	-	-	-
Additions to designated for GAP Fund		4,000,000	4,000,000
Fiscal year 2012 expenses	-	(2,098,001)	(2,098,001)
Total designated for GAP Fund	-	1,901,999	1,901,999
Restricted for GAP BioLife Fund:			
Beginning balance	-	605,000	605,000
Fiscal year 2012 expenses	-	(175,000)	(175,000)
Total restricted for GAP BioLife Fund	-	430,000	430,000
Investment in capital assets:			
Beginning balance	15,396,245	-	15,396,245
Purchases for building	42,629	-	42,629
Generator accepted from SSCI in lieu of rent (net of depreciation)	32,234	-	32,234
Depreciation	(895,181)	-	(895,181)
Purchases for CIT	14,842	-	14,842
Capital lease principal payments	2,087	-	2,087
Bond issuance expense	(8,964)	-	(8,964)
Bond payment	1,090,000	-	1,090,000
Total investment in capital assets	15,673,892	-	15,673,892
Designated to building:			
Beginning balance	2,054,981	-	2,054,981
Transfer net profit from building operations to designated to building	208,102	-	208,102
Interest income designated to building	2,655	-	2,655
Capital lease principal payments	(2,087)	-	(2,087)
Capital lease interest payments	(409)	-	(409)
Purchases for building	(42,629)	-	(42,629)
Bank fees on building reserve	(649)	-	(649)
Total designated to building	2,219,964	-	2,219,964
Total fund balance	$ 17,965,693	$ 5,657,505	$ 23,623,198

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

November 15, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Innovative 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 Innovative 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, 2012, 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 previously present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements,

and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Innovative 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statements and Schedule of Analysis of Fund Balances are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2012 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, 2012

David C. Lucien, Chairman
Joseph P. Doherty, Jr., Vice Chairman

Ted Cahall
Jim Cheng
Jim Duffey
Laura Fornash
Eric J. Hansen
Terry Hsiao
Wayne Hunter
Ray O. Johnson
Hooks Johnston
Suzanne H. King
Alan G. Merten
Michael Rao
Charles W. Steger

OFFICERS

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

Hooks Johnston, Treasurer and Secretary, IEIA

Linda E. Gentry, Treasurer and Secretary, CIT