

**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, 2015**



- TABLE OF CONTENTS -

	<u>Pages</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-5
FINANCIAL STATEMENTS:	
Statement of Net Position	6
Statement of Revenues, Expenses, and Changes in Net Position	7
Statement of Cash Flows	8-9
Notes to Financial Statements	10-16
SUPPLEMENTARY INFORMATION:	
Combining Statement of Net Position	17
Combining Statement of Revenues, Expenses, and Changes in Net Position	18-19
Combining Statement of Cash Flows	20-21
Schedule of Analysis of Fund Balances	22
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	Appendix A
AGENCY OFFICIALS	Appendix B

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, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

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 Position presents information on all of the Authority and CIT’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Position presents information showing how the Authority and CIT’s net position changed during the most recent fiscal year. All changes in net position 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.

Net Position as of June 30, 2015
(With comparative figures for June 30, 2014)

	2015	2014	Change
Assets:			
Current assets	\$ 8,555,964	\$ 11,049,075	\$ (2,493,111)
Noncurrent assets	75,969	29,518	46,451
Capital assets	15,855,135	16,735,027	(879,892)
Total assets	24,487,068	27,813,620	(3,326,552)
Liabilities:			
Current liabilities	1,420,487	1,350,980	69,507
Total liabilities	1,420,487	1,350,980	69,507
Net Position:			
Net investment in capital assets	15,855,135	16,735,027	(879,892)
Unrestricted	7,211,446	8,643,302	(1,431,856)
Restricted, expendable	-	1,084,311	(1,084,311)
Total net position	\$ 23,066,581	\$ 26,462,640	\$ (3,396,059)

The current assets decreased by \$2,493,111, primarily due to a reduction in the appropriation from the Commonwealth of Virginia.

The change in the restricted net position balance of \$1,084,311 represents activity in the MACH37 Cyber Security Accelerator (Accelerator). The Accelerator, started in fiscal year 2014 with \$2,500,000 in funding from the Commonwealth of Virginia, is focused on creating new product companies that will deliver the next generation of cybersecurity solutions. The restricted balance of \$0 as of June 30, 2015, reflects full expenditure of the restricted funds over the course of fiscal year 2014 and fiscal year 2015.

Revenues, Expenses, and Changes in Net Position for the Fiscal Year Ended June 30, 2015
(With comparative figures for June 30, 2014)

	2015	2014	Change
Operating revenues:			
Lease and bonds	\$ 1,882,044	\$ 2,830,367	\$ (948,323)
Contracts and grants	6,392,205	4,028,712	2,363,493
Miscellaneous	424,100	656,847	(232,747)
Total operating revenues	<u>8,698,349</u>	<u>7,515,926</u>	<u>1,182,423</u>
Operating expenses:			
CIT expenses	15,441,536	15,846,464	(404,928)
Building and IEIA administrative	1,683,511	1,604,619	78,892
Depreciation	898,268	931,819	(33,551)
Total operating expenses	<u>18,023,315</u>	<u>18,382,902</u>	<u>(359,587)</u>
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	5,746,460	11,523,907	(5,777,447)
Interest revenue and gain on investment	182,447	801,401	(618,954)
Interest expense	-	(76,513)	76,513
Total non-operating revenues/(expenses)	<u>5,928,907</u>	<u>12,248,795</u>	<u>(6,319,888)</u>
Change in net position	(3,396,059)	1,381,819	(4,777,878)
Net position at July 1, beginning fiscal year	<u>26,462,640</u>	<u>25,080,821</u>	<u>1,381,819</u>
Net position at June 30, ending fiscal year	<u>\$ 23,066,581</u>	<u>\$ 26,462,640</u>	<u>\$ (3,396,059)</u>

Operating revenues

During fiscal year 2014, the Authority made the final principal and interest payment on the \$12,455,000 of Taxable Lease Revenue Refunding Bonds which were issued on May 1, 1997. The \$948,323 decrease in fiscal year 2015 lease and bonds revenue is due to a \$1,102,559 reduction in bonds revenue offset by a \$154,236 increase in tenant lease revenue. Contracts and Grants revenue increased by \$2,363,493 over the prior fiscal year, primarily attributable to three large awards. CIT recognized \$1,977,532 of revenue received from the Virginia Small Business Financing Authority to make Growth Acceleration Program (GAP) investments and \$1,384,068 on a contract with the state of Nevada to implement the State Longitudinal Data System. These increases were offset by a reduction of \$1,199,489 when the Broadband grant with the National Telecommunications Information Administration ended during fiscal year 2015.

Operating expenses

CIT operating expenses decreased by \$404,928, mainly due to reductions in contractual costs associated with federal awards that ended.

Non-operating revenues

The reduction of \$5,777,447 in Appropriations Revenue in fiscal year 2015 is due to a one-time \$2.5M Appropriation in fiscal year 2014 to fund the MACH37 Cyber Security Accelerator and to Commonwealth of Virginia budget cuts. The change of \$618,954 in interest income and gain on investment primarily reflects gains earned on GAP Fund investments in fiscal year 2014.

Net position at July 1, 2013

During fiscal year 2014, the Authority implemented GASB 65, *Items Previously Reported as Assets and Liabilities*, which required a restatement of the beginning net position for fiscal year 2014. Under GASB 65, debt issuance costs should be recognized as an expense in the period incurred. The beginning net position was reduced for the previously unamortized bond issuance costs of \$7,470.

Capital Assets

Capital Assets as of June 30, 2015

(With comparative figures for June 30, 2014)

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Land and land improvements	\$ 5,629,498	\$ 5,629,498	\$ -
Building and improvements (net of depreciation)	10,192,275	11,061,769	(869,494)
Furniture, fixtures and equipment (net of depreciation)	<u>33,362</u>	<u>43,760</u>	<u>(10,398)</u>
Total capital assets	<u>\$ 15,855,135</u>	<u>\$ 16,735,027</u>	<u>\$ (879,892)</u>

Reductions in the value of building and improvements, and furniture, fixture and equipment reflect depreciation expense of \$898,268, offset by \$23,336 of capital asset additions less Commonwealth of Virginia's depreciation of \$4,960.

Significant variations between budget and actual results

Service Line	Budgeted Cost	Actual Cost	Variance
Entrepreneur	\$ 8,315,589	\$ 6,685,680	\$ (1,629,909)

Under Entrepreneur, the costs incurred were lower than budgeted predominately due to GAP funds designated for follow-on investments in fiscal year 2016.

FINANCIAL STATEMENTS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 STATEMENT OF NET POSITION
 For the Fiscal Year Ended June 30, 2015

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	\$ 7,300,958
Prepaid expenses and deposits	106,557
Accounts and accrued receivables (Note C)	618,418
Less: allowance for doubtful accounts	(79,532)
Notes receivable (Note D)	6,436,732
Less: allowance for doubtful accounts (Note D)	(6,436,732)
Due from Commonwealth of Virginia	<u>609,563</u>
 Total current assets	 <u>8,555,964</u>
Noncurrent assets:	
Unamortized leasing commissions	<u>75,969</u>
 Total noncurrent assets	 <u>75,969</u>
Capital assets (Note E):	
Land and land improvements	5,629,498
Building and improvements	27,743,806
Less: accumulated depreciation	(17,551,531)
Furniture, fixtures and equipment	719,786
Less: accumulated depreciation	<u>(686,424)</u>
 Total capital assets	 <u>15,855,135</u>
 Total assets	 <u>24,487,068</u>
LIABILITIES	
Current liabilities:	
Compensated absences (Note G)	238,664
Unearned revenue	384,129
Accounts payable	528,238
Accrued expenses	151,062
Security deposits	<u>118,394</u>
 Total current liabilities	 <u>1,420,487</u>
 Total liabilities	 <u>1,420,487</u>
NET POSITION	
Net investment in capital assets	15,855,135
Unrestricted	<u>7,211,446</u>
 Total net position	 <u>\$ 23,066,581</u>

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 POSITION
 For the Fiscal Year Ended June 30, 2015

Operating revenues:	
Lease	\$ 1,882,044
Contracts and grants	6,392,205
Growth Acceleration Program	355,790
Miscellaneous	<u>68,310</u>
Total operating revenues	<u>8,698,349</u>
Operating expenses:	
Program expenses:	
Research and development	465,511
Entrepreneur	6,685,680
Connect	3,026,279
Broadband	1,250,128
Commonwealth support	2,586,751
Other activities	<u>114,089</u>
Total program expenses	<u>14,128,438</u>
Other expenses:	
Communications and marketing	600,389
Business development	588,223
Advocacy and other unallowable expenses	340,543
Fundraising	53,089
Indirects overapplied to projects	(269,146)
Building and IEIA administrative	1,683,511
Depreciation	<u>898,268</u>
Total other expenses	<u>3,894,877</u>
Total operating expenses	<u>18,023,315</u>
Operating loss	(9,324,966)
Non-operating revenues/(expenses):	
Appropriations from the Commonwealth of Virginia	5,746,460
Interest revenue	98,339
Gain on investment	<u>84,108</u>
Total non-operating revenues/(expenses)	<u>5,928,907</u>
Change in net position	(3,396,059)
Net position at July 1, 2014	<u>26,462,640</u>
Net position at June 30, 2015	<u>\$ 23,066,581</u>

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, 2015

Cash flows from operating activities:	
Leases	\$ 1,963,735
Security deposits received	10,773
Contracts and grants revenue received	6,363,928
Growth Acceleration Program revenue received	355,790
Miscellaneous receipts	75,794
Payments to Growth Acceleration Program recipients	(3,592,583)
Payments to vendors	(7,699,657)
Security deposits paid	(15,704)
Payments to employees	<u>(5,442,120)</u>
Net cash used by operating activities	<u>(7,980,044)</u>
Cash flows from non-capital financing activities:	
Appropriations received from the Commonwealth of Virginia	<u>5,680,833</u>
Net cash provided by non-capital financing activities	<u>5,680,833</u>
Cash flows from investing activities:	
Gain on investment	84,108
Interest received	<u>77,390</u>
Net cash provided by investing activities	<u>161,498</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - IEIA	<u>(23,336)</u>
Net cash used by capital and related financing activities	<u>(23,336)</u>
Net decrease in cash and cash equivalents	(2,161,049)
Cash and cash equivalents at July 1, 2014	<u>9,462,007</u>
Cash and cash equivalents at June 30, 2015	<u>\$ 7,300,958</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2015

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (9,324,966)
Adjustments to reconcile operating loss to net cash:	
Non-cash item - Depreciation	898,268
Non-cash item - note receivable interest applied to new note or equity conversion	49,465
Non-cash item - Depreciation on generator accepted from tenant in lieu of rent to Commonwealth of Virginia in prior fiscal year	4,960
Changes in assets and liabilities:	
Decrease in accounts and accrued receivables	161,335
Increase in prepaid expenses and deposits	(15,165)
Decrease in due from Commonwealth of Virginia	218,003
Increase in unamortized leasing commissions and rent abatement	(41,451)
Increase in accounts payable	85,257
Increase in accrued expenses	49,502
Decrease in unearned revenue	(57,799)
Decrease in security deposits	(4,931)
Decrease in compensated absences	(2,522)
	<hr/>
Net cash used by operating activities	<u>\$ (7,980,044)</u>

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, 2015

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, 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 2015 Session, Virginia Acts of Assembly Chapter 665 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. As of July 1, 2015, the Authority increased the cost value from \$3,000 to \$5,000 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 - 4518. 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 America. Cash and cash equivalents represent deposits and short-term investments with maturities of less than one year.

Custodial Credit Risk: All deposits of the Authority and CIT 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.

Disclosure is required for risk associated with uncollateralized cash 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, 2015, 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 2015.

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, 2015, the Authority and CIT had investments and ratings as shown in the chart below.

	<u>Credit Rating</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Cash		\$ 121,199
Local Government Investment Pool	AAAm	<u>7,179,759</u>
Total cash and cash equivalents		<u>\$ 7,300,958</u>

NOTE C - ACCOUNTS AND ACCRUED RECEIVABLES

At June 30, 2015, the Authority held accounts receivable totaling \$242,976 for tenant leases, contracts and grants. At June 30, 2015, CIT held accounts receivable totaling \$375,442 for contracts, grants, and miscellaneous receivables.

NOTE D - NOTES RECEIVABLE

During the last eleven fiscal years, CIT has entered into convertible note purchase agreements with 104 promising emerging companies under its Growth Acceleration Program (GAP), the Commonwealth Energy Fund (CEF) contract with the Virginia Department of Mines, Minerals, and Energy (DMME), and the State Small Business Credit Initiative (SSBCI) program with the Virginia Small Business Financing Authority (VSBFA). The promissory notes have maturity dates of twelve months to sixty months from issuance. Payment due at maturity is principal plus interest, which ranges from six percent to twelve 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, 2015, CIT had \$6,436,732 in notes receivable. Due to the risk involved with emerging companies, CIT has elected to set up an allowance of \$6,436,732.

NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2015:

	Beginning Balance	Additions	Reductions	Ending Balance
Land and land improvements	\$ 5,629,498	\$ -	\$ -	\$ 5,629,498
Building and improvements	27,720,470	23,336		27,743,806
Accumulated Depreciation	(16,658,701)	(892,830)		(17,551,531)
Furniture, fixtures and equipment	730,579	-	(10,793)	719,786
Accumulated Depreciation	<u>(686,819)</u>	<u>(10,398)</u>	<u>10,793</u>	<u>(686,424)</u>
Total	<u>\$ 16,735,027</u>	<u>\$ (879,892)</u>	<u>\$ -</u>	<u>\$ 15,855,135</u>

NOTE F - CONTINGENT LIABILITIES

At June 30, 2015, CIT had contingent liabilities related to 12 term sheets (letters of intent) for GAP investments of \$1,200,000. The term sheets state CIT's intention to purchase equity or enter into convertible note purchase agreements with the companies, subject to certain conditions. The letters of intent expire 30 - 120 days after issuance. CIT invested a total of \$500,000 in four of the companies 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 - COMMITMENTS

The Authority and CIT have entered into several operating lease agreements. Rental expense for operating leases for the year ended June 30, 2015 was \$2,703 for the Authority and \$10,753 for CIT. The Authority does not have any minimum rental payments due under operating leases, as of June 30, 2015. CIT has the following minimum rental payments due under operating leases, as of June 30, 2015:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	9,424
2017	<u>5,054</u>
Total	<u>\$ 14,478</u>

NOTE I - EQUITY POSITIONS

CIT holds equity positions in 70 start-up organizations, obtained through CIT's GAP Fund. The equity was obtained by exercising conversion options in the GAP note purchase agreements and through cash purchases. As the companies are not traded on the open market, it is difficult to determine a market value for the equity positions without full company valuations. Since there is no clear assessment of value, CIT has not recorded the equity positions as assets. CIT's equity portfolio, as of June 30, 2015, is detailed below.

Company Name	Number of Shares or % ownership	Type of Equity
Anatrope, Inc.	80,000 shares	Common
Atomic Corporate Industries, Inc.	4,000 shares	Common
Axon Ghost Sentinel, Inc.	80,000 shares	Common
Bijoti, Inc.	609,756 shares	Common
Brazen Technologies, Inc.	477,981 shares	Preferred
Canvas Solutions, Inc.	589,193 shares	Preferred
Cardkill, Inc.	585,366 shares	Common
Cavion LLC	1,053,692 shares	Ownership interest
Cirrusworks, Inc.	163,040 shares	Preferred
Cirrusworks, Inc.	205,210 shares	Common
ClearEdge3D, Inc.	930,045 shares	Preferred
Cont3nt.com, Inc.	133,262 shares	Preferred
Cyph, Inc.	487,804 shares	Common
DataRPM Corporation	196,344 shares	Preferred
Disrupt6, Inc.	497,561 shares	Common
Distil, Inc.	1,139,840 shares	Preferred
Encore HQ, Inc.	196,781 shares	Preferred
Engineered Products of Virginia, LLC	6.41% ownership interest	Ownership interest
Eunomic, Inc.	80,000 shares	Common
Fast Orientation, Inc.	111,111 shares	Common
Fitnet Corporation	965 shares	Preferred
Global Cell Solutions, Inc.	35,150 shares	Preferred
Gryphn Corporation	24,621 shares	Common
iAspire, LLC	97,561 shares	Common
ID.ME, Inc.	61,954 shares	Preferred

Company Name	Number of Shares or % ownership	Type of Equity
Identia, Inc.	80,000 shares	Common
Introhive, Inc.	322,580 shares	Preferred
Invincea, Inc.	82,729 shares	Preferred
iTi Health, Inc.	39,185 shares	Preferred
JeKuDo Privacy Company	731,707 shares	Common
Key CyberSecurity, Inc.	487,805 shares	Common
LiveSafe, Inc.	101,153 shares	Preferred
Loop88, Inc.	43,450 shares	Preferred
Lujure Media, Inc.	2,741 shares	Preferred
Maternity Neighborhood, Inc.	200,000 shares	Preferred
Mobile System 7, Inc.	211,438 shares	Preferred
Mpowerplayer, Inc.	128,804 shares	Preferred
MSB Associates, Inc.	800 shares	Common
Neoantigenicis, Inc.	79,101 shares	Preferred
NexVortex, Inc.	23,654 shares	Common
OnDialog, Inc.	27,121 shares	Preferred
Oppleo Security, Inc.	240,974 shares	Common
Ovastasis, LLC	12,500 units	Ownership interest
Perform Yard, Inc.	347,830 shares	Preferred
Phthisis Diagnostic, Inc.	750 shares	Preferred
Piedmont BioProducts, LLC	6% ownership interest	Ownership interest
Pierce Global Threat Intelligence, Inc.	672,994 shares	Common
Power Fingerprinting, Inc.	21,672 shares	Preferred
PublicRelay, Inc.	985,027 shares	Preferred
ROI2, Inc.	84,792 shares	Preferred
SecureDB, Inc.	975,609 shares	Common
Shevirah, Inc.	519,481 shares	Common
Sitscape, Inc.	37 shares	Common
Soft Tissue Regeneration, Inc.	33,038 shares	Preferred
South49 Solutions, Inc.	250,000 shares	Preferred
Speak, Inc.	863,206 shares	Preferred
Squareloop, Inc.	1,161,827 shares	Preferred
Sunnovations, Inc.	2,255,657 shares	Preferred
Syncurity Corporation	8,000 shares	Common
ThreatQuotient, Inc.	284,496 shares	Preferred
Triblio, Inc.	89,526 shares	Preferred
Urgent.ly, Inc.	106,945 shares	Preferred
Vangogh Imaging, Inc.	200,000 shares	Preferred
Vangogh Imaging, Inc.	80,000 shares	Common
Virgil Security, Inc.	4,390 shares	Common
VividCortex, Inc	212,359 shares	Preferred
vThreat, Inc.	128,182 shares	Preferred
Wealth Engine, Inc.	42,302 shares	Preferred
WealthForge, LLC	33,422 shares	Preferred
YaSabe, Inc.	2,295,923 shares	Preferred
Zoobean, Inc.	1,256,982 shares	Preferred
Zoomdata, Inc.	218,872 shares	Preferred

NOTE J - 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). Plan contributions are fully and immediately vested and amounts are non-forfeitable. Additional tax-deferred contribution, subject to certain limitations, may be made by the employees through a salary reduction program. Pension expense for the plan totaled \$695,471 in fiscal year 2015 for payroll of \$4,636,473.

NOTE K - 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, errors and omissions, commercial inland marine, crime, equipment, and worker's compensation. The Authority is insured through the Commonwealth's Risk Management Program. CIT is insured through commercial insurance policies with Liberty Mutual Insurance, Philadelphia Indemnity Insurance Company, Hanover Insurance Group and Lloyds of London. 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 POSITION
 As of June 30, 2015

	IEIA	CIT	Eliminating Entry	Total
A S S E T S				
Current assets:				
Cash and cash equivalents	\$ 2,471,957	\$ 4,829,001	\$ -	\$ 7,300,958
Prepaid expenses and deposits	6,778	99,779	-	106,557
Accounts and accrued receivables	242,976	375,442	-	618,418
Less: allowance for doubtful accounts	(79,532)	-	-	(79,532)
Notes receivable	-	6,436,732	-	6,436,732
Less: allowance for doubtful accounts	-	(6,436,732)	-	(6,436,732)
Due from IEIA	-	417,402	(417,402)	-
Due from Commonwealth of Virginia	609,563	-	-	609,563
Total current assets	3,251,742	5,721,624	(417,402)	8,555,964
Noncurrent assets:				
Unamortized leasing commissions	75,969	-	-	75,969
Total noncurrent assets	75,969	-	-	75,969
Capital assets:				
Land and land improvements	5,629,498	-	-	5,629,498
Building and improvements	27,743,806	-	-	27,743,806
Less: accumulated depreciation	(17,551,531)	-	-	(17,551,531)
Furniture, fixtures and equipment	719,786	-	-	719,786
Less: accumulated depreciation	(686,424)	-	-	(686,424)
Total capital assets	15,855,135	-	-	15,855,135
Total assets	19,182,846	5,721,624	(417,402)	24,487,068
LIABILITIES				
Current liabilities:				
Compensated absences	-	238,664	-	238,664
Unearned revenue	57,418	326,711	-	384,129
Accounts payable	17,060	511,178	-	528,238
Accrued expenses	-	151,062	-	151,062
Due to CIT	417,402	-	(417,402)	-
Security deposits	118,394	-	-	118,394
Total current liabilities	610,274	1,227,615	(417,402)	1,420,487
Total liabilities	610,274	1,227,615	(417,402)	1,420,487
NET POSITION				
Net investment in capital assets	15,855,135	-	-	15,855,135
Unrestricted	2,717,437	4,494,009	-	7,211,446
Total net position	\$ 18,572,572	\$ 4,494,009	\$ -	\$ 23,066,581

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2015

	IEIA	CIT	Eliminating Entry	Total
Operating revenues:				
Lease	\$ 1,997,044	\$ -	\$ (115,000)	\$ 1,882,044
Contracts and grants	730,656	5,661,549		6,392,205
Growth Acceleration Program	-	355,790		355,790
Miscellaneous	-	68,310	-	68,310
	<u>2,727,700</u>	<u>6,085,649</u>	<u>(115,000)</u>	<u>8,698,349</u>
Total operating revenues				
Operating expenses:				
Program expenses:				
Research and development	-	465,511		465,511
Entrepreneur	-	6,685,680		6,685,680
Connect	-	3,026,279		3,026,279
Broadband	-	1,250,128		1,250,128
Commonwealth support	-	2,701,751	(115,000)	2,586,751
Other activities	-	114,089	-	114,089
	<u>-</u>	<u>14,243,438</u>	<u>(115,000)</u>	<u>14,128,438</u>
Total program expenses				
Other expenses:				
Communications and marketing	-	600,389		600,389
Business development	-	588,223		588,223
Advocacy and other unallowable expenses	-	340,543		340,543
Fundraising	-	53,089		53,089
Indirects overapplied to projects	-	(269,146)		(269,146)
Building and IEIA administrative	1,683,511	-		1,683,511
Depreciation	898,268	-	-	898,268
	<u>2,581,779</u>	<u>1,313,098</u>	<u>-</u>	<u>3,894,877</u>
Total other expenses				
Total operating expenses	<u>2,581,779</u>	<u>15,556,536</u>	<u>(115,000)</u>	<u>18,023,315</u>
Operating income/(loss)	145,921	(9,470,887)	-	(9,324,966)
Non-operating revenues/(expenses):				
Appropriations from the Commonwealth of Virginia	5,746,460	-		5,746,460
Interest revenue	2,210	96,129		98,339
Gain on investment	-	84,108		84,108
	<u>5,748,670</u>	<u>180,237</u>	<u>-</u>	<u>5,928,907</u>
Total non-operating revenues/(expenses)				
Income/(loss) before transfers	<u>5,894,591</u>	<u>(9,290,650)</u>	<u>-</u>	<u>(3,396,059)</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2015

	<u>IEIA</u>	<u>CIT</u>	<u>Eliminating Entry</u>	<u>Total</u>
Transfers (out)/in - Assets	-			-
Transfers (out)/in - Appropriations	(5,746,460)	5,746,460		-
Transfers (out)/in - IEIA contracts and grants	(730,656)	730,656	-	-
Total transfers (out)/in	<u>(6,477,116)</u>	<u>6,477,116</u>	-	-
Change in net position	(582,525)	(2,813,534)	-	(3,396,059)
Net position at July 1, 2014	<u>19,155,097</u>	<u>7,307,543</u>	-	<u>26,462,640</u>
Net position at June 30, 2015	<u>\$ 18,572,572</u>	<u>\$ 4,494,009</u>	<u>\$ -</u>	<u>\$ 23,066,581</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 COMBINING STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2015

	IEIA	CIT	Total
Cash flows from operating activities:			
Leases	\$ 1,963,735	\$ -	\$ 1,963,735
Security deposits received	10,773	-	10,773
Contracts and grants revenue received	837,713	5,526,215	6,363,928
Growth Acceleration Program revenue received	-	355,790	355,790
Miscellaneous receipts	-	75,794	75,794
Payments to Growth Acceleration Program recipients	-	(3,592,583)	(3,592,583)
Payments to vendors	(1,451,499)	(6,248,158)	(7,699,657)
Security deposits paid	(15,704)	-	(15,704)
Payments to employees	-	(5,442,120)	(5,442,120)
Intercompany receipts/(payments)	(6,099)	6,099	-
Net cash provided/(used) by operating activities	<u>1,338,919</u>	<u>(9,318,963)</u>	<u>(7,980,044)</u>
Cash flows from non-capital financing activities:			
Appropriations received from the Commonwealth of Virginia	5,680,833	-	5,680,833
Transfers (out)/in - Appropriations	(5,680,833)	5,680,833	-
Transfers (out)/in - IEIA contracts and grants	(837,713)	837,713	-
Net cash provided/(used) by non-capital financing activities	<u>(837,713)</u>	<u>6,518,546</u>	<u>5,680,833</u>
Cash flows from investing activities:			
Gain on investment	-	84,108	84,108
Interest received	2,210	75,180	77,390
Net cash provided/(used) by investing activities	<u>2,210</u>	<u>159,288</u>	<u>161,498</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - IEIA	(23,336)	-	(23,336)
Net cash provided/(used) by capital and related financing activities	<u>(23,336)</u>	<u>-</u>	<u>(23,336)</u>
Net increase/(decrease) in cash and cash equivalents	480,080	(2,641,129)	(2,161,049)
Cash and cash equivalents at July 1, 2014	1,991,877	7,470,130	9,462,007
Cash and cash equivalents at June 30, 2015	<u>\$ 2,471,957</u>	<u>\$ 4,829,001</u>	<u>\$ 7,300,958</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 COMBINING STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2015

	IEIA	CIT	Total
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	\$ 145,921	\$ (9,470,887)	\$ (9,324,966)
Adjustments to reconcile operating income/(loss) to net cash:			
Non-cash item - Depreciation	898,268	-	898,268
Non-cash item - note receivable interest applied to new note or equity conversion	-	49,465	49,465
Non-cash item - Depreciation on generator accepted from tenant in lieu of rent to Commonwealth of Virginia in prior fiscal year	4,960	-	4,960
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	123,582	37,753	161,335
(Decrease) in due to CIT and Decrease in Due from IEIA, respectively	(11,099)	11,099	-
(Increase)/decrease in prepaid expenses and deposits	-	(15,165)	(15,165)
(Increase)/decrease in due from Commonwealth of Virginia	218,003	-	218,003
(Increase)/decrease in unamortized leasing commissions and rent abatement	(41,451)	-	(41,451)
Increase/(decrease) in accounts payable	(50,882)	136,139	85,257
Increase/(decrease) in accrued expenses	-	49,502	49,502
Increase/(decrease) in unearned revenue	56,548	(114,347)	(57,799)
Increase/(decrease) in security deposits	(4,931)	-	(4,931)
Increase/(decrease) in compensated absences	-	(2,522)	(2,522)
	<u>\$ 1,338,919</u>	<u>\$ (9,318,963)</u>	<u>\$ (7,980,044)</u>
Net cash provided/(used) by operating activities			

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 SCHEDULE OF ANALYSIS OF FUND BALANCES
 For the Fiscal Year Ended June 30, 2015

	IEIA	CIT	Total
Operating:			
Beginning balance	\$ 49,168	\$ 2,520,135	\$ 2,569,303
FY 15 revenue	5,850	7,865,427	7,871,277
FY 15 expenses	-	(8,489,832)	(8,489,832)
Transfer to designated for GAP Fund	-	(2,000,000)	(2,000,000)
Transfer of DMME CEF beginning balance from designated for GAP Fund	-	336,000	336,000
Total operating	<u>55,018</u>	<u>231,730</u>	<u>286,748</u>
Designated for Broadband Planning and Assistance:			
Beginning balance	-	-	-
FY 15 revenue	-	500,000	500,000
FY 15 expenses	-	(230,492)	(230,492)
Total designated for Broadband Planning and Assistance	<u>-</u>	<u>269,508</u>	<u>269,508</u>
Designated for Cyber Security:			
Beginning balance	-	248,343	248,343
FY 15 revenue	-	560,000	560,000
FY 15 expenses	-	(552,431)	(552,431)
Total designated for Cyber Security	<u>-</u>	<u>255,912</u>	<u>255,912</u>
Designated for Modeling and Simulation:			
Beginning balance	-	561,346	561,346
FY 15 revenue	-	-	-
FY 15 expenses	-	(177,950)	(177,950)
Total designated for Modeling and Simulation	<u>-</u>	<u>383,396</u>	<u>383,396</u>
Restricted for MACH37 Cyber Security Accelerator			
Beginning balance	-	1,084,311	1,084,311
FY 15 revenue	-	-	-
FY 15 expenses	-	(1,084,311)	(1,084,311)
Total restricted for MACH37 Cyber Security Accelerator	<u>-</u>	<u>-</u>	<u>-</u>
Designated for GAP			
Beginning balance	-	2,893,408	2,893,408
FY 15 revenue	-	1,664,824	1,664,824
FY 15 expenses	-	(2,860,476)	(2,860,476)
Transfer from Operating Fund	-	2,000,000	2,000,000
Transfer of DMME CEF beginning balance to Operating Fund	-	(336,000)	(336,000)
Transfer to designated for SSBCI - GAP Fund	-	(8,293)	(8,293)
Total designated for GAP	<u>-</u>	<u>3,353,463</u>	<u>3,353,463</u>
Designated for SSBCI - GAP:			
Beginning balance	-	-	-
FY 15 revenue	-	1,977,532	1,977,532
FY 15 expenses	-	(1,985,825)	(1,985,825)
Transfer from designated for GAP Fund	-	8,293	8,293
Total designated for SSBCI GAP	<u>-</u>	<u>-</u>	<u>-</u>
Designated for DMME CEF - GAP			
Beginning balance	-	-	-
FY 15 revenue	-	175,219	175,219
FY 15 expenses	-	(175,219)	(175,219)
Total designated for DMME CEF - GAP	<u>-</u>	<u>-</u>	<u>-</u>
Investment in capital assets:			
Beginning balance	16,735,027	-	16,735,027
FY 15 additions	23,336	-	23,336
FY 15 reductions	(903,228)	-	(903,228)
Total investment in capital assets	<u>15,855,135</u>	<u>-</u>	<u>15,855,135</u>
Designated to building:			
Beginning balance	2,370,902	-	2,370,902
FY 15 additions	1,998,364	-	1,998,364
FY 15 reductions	(1,706,847)	-	(1,706,847)
Total designated to building	<u>2,662,419</u>	<u>-</u>	<u>2,662,419</u>
Total fund balance	<u>\$ 18,572,572</u>	<u>\$ 4,494,009</u>	<u>\$ 23,066,581</u>

APPENDIX A

Independent Auditor's Report on Financial Statements



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 24, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice-Chairman, Joint Legislative Audit
And Review Commission

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

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying 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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing

Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Innovation and Entrepreneurship Investment Authority and its blended component unit, the Center for Innovative Technology, as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages one through five 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2016, 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 in considering the Authority's internal control over financial reporting and compliance.



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, 2015

David C. Lucien, Chairman

Hooks Johnston, Vice Chairman

Karen Booth Adams	Maurice Jones
Eric J. Hansen	Don Rainey
Anne Holton	Michael Rao
Terry Hsiao	Timothy D. Sands
Karen Jackson	Michael Steed
Ray O. Johnson	Teresa A. Sullivan

OFFICERS

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

Don Rainey, Treasurer and Secretary, IEIA

Linda E. Gentry, Treasurer and Secretary, CIT