

**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, 2013**



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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, 2013. 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.

Financial Analysis  
Net Position as of June 30, 2013  
(With comparative figures for June 30, 2012)

	2013	2012	Change
Assets:			
Current assets	\$ 10,500,780	\$ 9,122,459	\$ 1,378,321
Noncurrent assets	54,801	101,316	(46,515)
Capital assets	<u>17,187,797</u>	<u>18,036,527</u>	<u>(848,730)</u>
Total assets	<u>27,743,378</u>	<u>27,260,302</u>	<u>483,076</u>
Liabilities:			
Current liabilities	2,655,087	2,415,291	239,796
Long-term liabilities	<u>-</u>	<u>1,221,813</u>	<u>(1,221,813)</u>
Total liabilities	<u>2,655,087</u>	<u>3,637,104</u>	<u>(982,017)</u>
Net Position:			
Net investment in capital assets	15,973,454	15,673,892	299,562
Unrestricted	9,084,837	7,519,306	1,565,531
Restricted, expendable	<u>30,000</u>	<u>430,000</u>	<u>(400,000)</u>
Total net position	<u>\$ 25,088,291</u>	<u>\$ 23,623,198</u>	<u>\$ 1,465,093</u>

The current assets increased by \$1,378,321. The major components of this change are cash and amounts due from the Commonwealth of Virginia. Cash was higher by \$549,673 over the prior year end, due to an increase in accounts payable, and the amount due from the Commonwealth increased by \$489,120, primarily related to the midrise portion of the building which is leased to the Commonwealth.

The decrease in long-term liabilities of \$1,221,813 reflects the principal payment of the outstanding bonds payable, which will be fully paid in fiscal year 2014.

The restricted net position represents 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, 2013 balance of \$30,000 reflects activity in the fund from inception through fiscal year 2013 of \$1,200,000 in total funding and \$1,170,000 in investments made to support emerging life science companies in Virginia.

Revenues, Expenses, and Changes in Net Position for the Fiscal Year Ended June 30, 2013  
(With comparative figures for June 30, 2012)

	2013	2012	Change
Operating revenues:			
Lease and bonds	\$ 3,050,313	\$ 2,846,631	\$ 203,682
Contracts and grants	3,786,842	4,621,362	(834,520)
Miscellaneous	174,766	295,223	(120,457)
Total operating revenues	<u>7,011,921</u>	<u>7,763,216</u>	<u>(751,295)</u>
Operating expenses:			
CIT expenses	12,608,230	11,543,477	1,064,753
Building and IEIA administrative	1,405,179	1,291,438	113,741
Depreciation and amortization	904,504	904,145	359
Total operating expenses	<u>14,917,913</u>	<u>13,739,060</u>	<u>1,178,853</u>
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	9,225,649	9,224,565	1,084
Interest revenue and gain on investment	309,799	25,976	283,823
Interest expense	(164,363)	(247,316)	82,953
Total non-operating revenues/(expenses)	<u>9,371,085</u>	<u>9,003,225</u>	<u>367,860</u>
Change in net position	1,465,093	3,027,381	(1,562,288)
Net position at July 1, beginning fiscal year	<u>23,623,198</u>	<u>20,595,817</u>	<u>3,027,381</u>
Net position at June 30, ending fiscal year	<u>\$ 25,088,291</u>	<u>\$ 23,623,198</u>	<u>\$ 1,465,093</u>

### Operating Revenues

Contracts and grants revenue reflects a \$834,520 net decrease in business outside of Commonwealth appropriations during fiscal year 2013. The decrease is due primarily to an approximate \$2.2 million reduction of the Virginia Department of Mines, Minerals, and Energy (DMME) grant and Research and Development federal work, offset with new business of approximately \$1.4 million in the Connect and Broadband service lines.

### Operating Expenses

CIT operating expenses increased by \$1,064,753 during fiscal year 2013. Direct expenses increased by \$659,124 due to subcontractor costs associated with new business and costs related to two Commonwealth Support projects – Modeling and Simulation, and Cybersecurity Assessment. Indirect costs increased by \$405,629 due to IT costs associated with the implementation of new accounting software as well as the addition of staff and the associated employee benefits costs.

### Non-operating revenues

The change of \$283,823 in interest income and gain on investment consists primarily of amounts earned on Growth Acceleration Program (GAP) Fund investments.

### Capital Assets and Debt Administration

#### Capital Assets as of June 30, 2013

(With comparative figures for June 30, 2012)

	2013	2012	Change
Land and land improvements	\$ 5,629,498	\$ 5,629,498	\$ -
Building and improvements (net of depreciation)	11,554,949	12,400,703	(845,754)
Furniture, fixtures and equipment (net of depreciation)	<u>3,350</u>	<u>6,326</u>	<u>(2,976)</u>
Total capital assets	<u>\$ 17,187,797</u>	<u>\$ 18,036,527</u>	<u>\$ (848,730)</u>

Reductions in the value of building and improvements, and furniture, fixture and equipment reflect depreciation expense of \$895,540, offset by \$51,769 of capital asset additions less Commonwealth of Virginia's depreciation of \$4,959.

### Debt Administration

At year-end, the Authority had \$1,220,000 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

<b>Service Line</b>	<b>Budgeted Cost</b>	<b>Actual Cost</b>	<b>Variance</b>
Connect	\$ 438,715	\$ 1,453,813	\$ 1,015,098
Entrepreneur	\$ 8,669,088	\$ 5,735,906	\$ (2,933,182)
Commonwealth Support	\$ 317,923	\$ 1,070,527	\$ 752,604

Under Connect, costs incurred were higher than budgeted due to a new federal award, as well as increases in the scope of work on existing contracts and four new contracts with the Virginia Department of Education.

Under Entrepreneur, the costs were lower than budgeted predominately due to GAP funds designated for follow-on investments in fiscal year 2014.

The Commonwealth Support service line was over budget because of spending on the Cybersecurity Assessment and Modeling and Simulation projects that was not built into the budget. The funding for these projects was received after the development of the fiscal year 2014 budget.

## **FINANCIAL STATEMENTS**



INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 STATEMENT OF NET POSITION  
 As of June 30, 2013

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	\$ 8,521,303
Investment in equity securities	36,240
Prepaid expenses and deposits	92,120
Accounts and accrued receivables (Note C)	926,579
Less: allowance for doubtful accounts	(120,448)
Notes receivable (Note D)	5,607,246
Less: allowance for doubtful accounts (Note D)	(5,607,246)
Unamortized expense of bond issue	7,470
Due from Commonwealth of Virginia	<u>1,037,516</u>
Total current assets	<u>10,500,780</u>
Noncurrent assets:	
Unamortized leasing commissions	<u>54,801</u>
Total noncurrent assets	<u>54,801</u>
Capital assets (Note E):	
Land and land improvements	5,629,498
Building and improvements	27,338,198
Less: accumulated depreciation	(15,783,249)
Furniture, fixtures and equipment	761,456
Less: accumulated depreciation	<u>(758,106)</u>
Total capital assets	<u>17,187,797</u>
Total assets	<u>27,743,378</u>
LIABILITIES	
Current liabilities:	
Accrued interest payable	15,290
Compensated absences (Note G)	196,701
Deferred revenue	436,948
Accounts payable	663,579
Accrued expenses	23,539
Capital lease obligations - short term (Note H)	1,813
Bonds payable - short term (Note I)	1,220,000
Security deposits	<u>97,217</u>
Total current liabilities	<u>2,655,087</u>
Total liabilities	<u>2,655,087</u>
NET POSITION	
Net investment in capital assets	15,973,454
Unrestricted	9,084,837
Restricted, expendable	<u>30,000</u>
Total net position	<u>\$ 25,088,291</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, 2013

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Operating revenues:	
Lease	\$ 1,720,356
Bonds	1,329,957
Contracts and grants	3,786,842
Growth Acceleration Program	62,064
Donations	40,550
Miscellaneous	<u>72,152</u>
Total operating revenues	<u>7,011,921</u>
Operating expenses:	
Program expenses:	
Research and development	354,434
Entrepreneur	5,735,906
Connect	1,453,813
Broadband	2,138,439
Commonwealth support	1,070,527
Other activities	<u>83,566</u>
Total program expenses	<u>10,836,685</u>
Other expenses:	
Communications and marketing	548,263
Business development	723,562
Advocacy and other unallowable expenses	261,195
Indirects unapplied to projects	238,525
Building and IEIA administrative	1,405,179
Depreciation and amortization	<u>904,504</u>
Total other expenses	<u>4,081,228</u>
Total operating expenses	<u>14,917,913</u>
Operating loss	(7,905,992)
Non-operating revenues/(expenses):	
Appropriations from the Commonwealth of Virginia	9,225,649
Interest revenue	230,694
Gain on investment	79,105
Interest expense	<u>(164,363)</u>
Total non-operating revenues/(expenses)	<u>9,371,085</u>
Change in net position	1,465,093
Net position at July 1, 2012	<u>23,623,198</u>
Net position at June 30, 2013	<u>\$ 25,088,291</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, 2013

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Cash flows from operating activities:	
Lease and bonds	\$ 3,033,660
Security deposits received	21,926
Contracts and grants revenue received	3,390,665
Growth Acceleration Program revenue received	12,064
Donations received	40,550
Miscellaneous receipts	96,197
Payments to Growth Acceleration Program recipients	(2,480,968)
Payments to vendors	(7,132,564)
Security deposits paid	(9,000)
Payments to employees	<u>(4,133,181)</u>
Net cash used by operating activities	<u>(7,160,651)</u>
Cash flows from non-capital financing activities:	
Appropriations received from the Commonwealth of Virginia	<u>9,050,542</u>
Net cash provided by non-capital financing activities	<u>9,050,542</u>
Cash flows from investing activities:	
Gain on investment	36,404
Interest received	<u>11,243</u>
Net cash provided by investing activities	<u>47,647</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - IEIA	(51,769)
Cash payments on capital lease	(2,257)
Cash payment to retire bond indenture	(1,155,000)
Payments for interest	<u>(178,839)</u>
Net cash used by capital and related financing activities	<u>(1,387,865)</u>
Net increase in cash and cash equivalents	549,673
Cash and cash equivalents at July 1, 2012	<u>7,971,630</u>
Cash and cash equivalents at June 30, 2013	<u>\$ 8,521,303</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 STATEMENT OF CASH FLOWS  
 For the Fiscal Year Ended June 30, 2013

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Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (7,905,992)
Adjustments to reconcile operating loss to net cash:	
Non-cash item - Depreciation and amortization	904,504
Non-cash item - note receivable interest applied to new note or equity conversion	219,451
Non-cash item - generator accepted from tenant in lieu of rent to Commonwealth of Virginia (net of depreciation)	4,959
Changes in assets and liabilities:	
Increase in accounts and accrued receivables	(265,197)
Increase in prepaid expenses and deposits	(24,158)
Increase in due from Commonwealth of Virginia	(314,015)
Decrease in unamortized leasing commissions	30,080
Increase in accounts payable	331,534
Decrease in accrued expenses	(23,435)
Decrease in prepaid rental income	(8,650)
Decrease in deferred revenue	(155,822)
Increase in security deposits	12,926
Increase in compensated absences	33,164
Net cash used by operating activities	<u><u>\$ (7,160,651)</u></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, 2013

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 2012 Session, Virginia Acts of Assembly Chapter 3 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 - 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 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, 2013, 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 2013.

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, 2013, 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		\$ 30,033
Federated Treasury Obligations Fund	AAAm	99
Local Government Investment Pool	AAAm	<u>8,491,171</u>
Total cash and cash equivalents		<u>\$ 8,521,303</u>

#### NOTE C - ACCOUNTS AND ACCRUED RECEIVABLES

The Authority held accounts receivable totaling \$278,672 for tenant leases and contracts and grants. CIT held accounts receivable totaling \$647,907 for contracts, grants, and miscellaneous receivables.

#### NOTE D - NOTES RECEIVABLE

During the last nine fiscal years, CIT has entered into convertible note purchase agreements with 74 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, 2013, CIT had \$5,607,246 in notes receivable. Due to the risk involved with emerging companies, CIT has elected to set up an allowance of \$5,607,246.

#### NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2013:

	Beginning Balance	Acquisitions and Depreciation	Sales and Dispositions	Ending Balance
Land and land improvements	\$ 5,629,498	\$ -	\$ -	\$ 5,629,498
Building and improvements	27,287,365	50,833	-	27,338,198
Accumulated Depreciation	(14,886,662)	(896,587)	-	(15,783,249)
Furniture, fixtures and equipment	760,520	936	-	761,456
Accumulated Depreciation	<u>(754,194)</u>	<u>(3,912)</u>	<u>-</u>	<u>(758,106)</u>
Total	<u>\$ 18,036,527</u>	<u>\$ (848,730)</u>	<u>\$ -</u>	<u>\$ 17,187,797</u>

#### NOTE F - CONTINGENT LIABILITIES

At June 30, 2013, CIT had contingent liabilities related to one term sheet (letter of intent) for a Growth Acceleration Program investment of \$200,000. The term sheet states 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. The term sheet 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, 2013, \$8,753 of accumulated depreciation has been taken.

Future minimum lease payments at June 30, 2014, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2014	<u>\$ 1,873</u>
Total minimum lease payments	1,873
Less amounts representing interest	<u>(60)</u>
Present value of future minimum lease payments	<u><u>\$ 1,813</u></u>

The following schedule presents the changes in capital lease obligations:

<u>Beginning</u>		<u>Ending</u>	<u>Amount Due</u>
<u>Balance</u>	<u>Decreases</u>	<u>Balance</u>	<u>Within</u>
			<u>One Year</u>
<u>\$ 4,070</u>	<u>\$ 2,257</u>	<u>\$ 1,813</u>	<u>\$ 1,813</u>

#### 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
<u>\$ 2,375,000</u>	<u>\$ 1,155,000</u>	<u>\$ 1,220,000</u>	<u>\$ 1,220,000</u>

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	<u>\$ 1,220,000</u>	<u>\$ 91,744</u>	<u>\$ 1,311,744</u>

#### NOTE J - COMMITMENTS

The Authority does not have any operating leases as of June 30, 2013. CIT has entered into several operating lease agreements. Rental expense for CIT's operating leases for the year ended June 30, 2013, was \$12,713. As of June 30, 2013, CIT has the following minimum rental payments due under equipment leases.

<u>Year ending June 30,</u>	<u>Amount</u>
2014	<u>\$ 7,709</u>

#### NOTE K - EQUITY POSITIONS

CIT holds equity positions in thirty-two 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 as a CIT asset 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. The equity of one of the companies, RealPage, Inc. is traded on the open market, and has been recorded at fair market value as of June 30, 2013. As the rest of 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, other than RealPage, Inc., as assets. CIT's equity portfolio, as of June 30, 2013, is detailed below.

Company Name	Number of Shares or % ownership	Type of Equity
BrightContext Corporation	238,271 shares	Preferred
Canvas Solutions, Inc.	589,194 shares	Preferred
ClearEdge3D, Inc.	752,400 shares	Preferred
Cont3nt.com, Inc.	133,262 shares	Preferred
Distil, Inc.	113,984 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.	73,894 shares	Preferred
iTi Health, Inc.	39,185 shares	Preferred
Latista Technologies, Inc.	81,700 shares	Preferred
Mobile System 7, Inc.	211,438 shares	Preferred
Mpowerplayer, Inc.	128,804 shares	Preferred
NexVortex, Inc.	17,520 shares	Common
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
RealPage, Inc.	1,976 shares	Preferred
ROI2, Inc.	84,792 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
Uppidy, Inc.	78,715 shares	Preferred
Vangogh Imaging, Inc.	100,000 shares	Preferred
Vangogh Imaging, Inc.	40,000 shares	Common
Xdynia, LLC	482,986 shares	Ownership interest
YaSabe, Inc.	2,295,923 shares	Preferred
Zoomdata, Inc.	218,872 shares	Preferred

#### NOTE L - EMPLOYEE BENEFITS

CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Pension expense for the plan totaled \$527,149 in fiscal year 2013 for payroll of \$3,514,327.

#### NOTE M - RISK MANAGEMENT

The Authority and CIT are exposed to various risks of loss related to: torts, theft, or damage and destruction to assets, injuries to employees, and natural disasters. Risk management insurance includes general liability, property, directors and officers, and worker's compensation. The Authority is insured through the Commonwealth's Risk Management Program. CIT is insured through commercial insurance policies with Excelsior Insurance Company, Peerless Insurance Company, Netherlands 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 POSITION  
As of June 30, 2013

	IEIA	CIT	Eliminating Entry	Total
<b>A S S E T S</b>				
Current assets:				
Cash and cash equivalents	\$ 1,767,058	\$ 6,754,245	\$ -	\$ 8,521,303
Investment in equity securities	-	36,240	-	36,240
Prepaid expenses and deposits	72,446	19,674	-	92,120
Accounts and accrued receivables	278,672	647,907	-	926,579
Less: allowance for doubtful accounts	(2,500)	(117,948)	-	(120,448)
Notes receivable	-	5,607,246	-	5,607,246
Less: allowance for doubtful accounts	-	(5,607,246)	-	(5,607,246)
Unamortized expense of bond issue	7,470	-	-	7,470
Due from IEIA	-	470,044	(470,044)	-
Due from Commonwealth of Virginia	1,037,516	-	-	1,037,516
Total current assets	3,160,662	7,810,162	(470,044)	10,500,780
Noncurrent assets:				
Unamortized leasing commissions	54,801	-	-	54,801
Total noncurrent assets	54,801	-	-	54,801
Capital assets:				
Land and land improvements	5,629,498	-	-	5,629,498
Building and improvements	27,338,198	-	-	27,338,198
Less: accumulated depreciation	(15,783,249)	-	-	(15,783,249)
Furniture, fixtures and equipment	761,456	-	-	761,456
Less: accumulated depreciation	(758,106)	-	-	(758,106)
Total capital assets	17,187,797	-	-	17,187,797
Total assets	20,403,260	7,810,162	(470,044)	27,743,378
<b>LIABILITIES</b>				
Current liabilities:				
Accrued interest payable	15,290	-	-	15,290
Compensated absences	-	196,701	-	196,701
Deferred revenue	-	436,948	-	436,948
Accounts payable	54,348	609,231	-	663,579
Accrued expenses	-	23,539	-	23,539
Due to CIT	470,044	-	(470,044)	-
Capital lease obligations - short term	1,813	-	-	1,813
Bonds payable - short term	1,220,000	-	-	1,220,000
Security deposits	97,217	-	-	97,217
Total current liabilities	1,858,712	1,266,419	(470,044)	2,655,087
Total liabilities	1,858,712	1,266,419	(470,044)	2,655,087

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 COMBINING STATEMENT OF NET POSITION  
 As of June 30, 2013

	IEIA	CIT	Eliminating Entry	Total
NET POSITION				
Net investment in capital assets	15,973,454	-	-	15,973,454
Unrestricted	2,571,094	6,513,743	-	9,084,837
Restricted, expendable	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total net position	<u>\$ 18,544,548</u>	<u>\$ 6,543,743</u>	<u>\$ -</u>	<u>\$ 25,088,291</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, 2013

	IEIA	CIT	Total
Operating revenues:			
Lease	\$ 1,720,356	\$ -	\$ 1,720,356
Bonds	1,329,957	-	1,329,957
Contracts and grants	1,036,709	2,750,133	3,786,842
Growth Acceleration Program	-	62,064	62,064
Donations	-	40,550	40,550
Miscellaneous	-	72,152	72,152
Total operating revenues	4,087,022	2,924,899	7,011,921
Operating expenses:			
Program expenses:			
Research and development	-	354,434	354,434
Entrepreneur	-	5,735,906	5,735,906
Connect	-	1,453,813	1,453,813
Broadband	-	2,138,439	2,138,439
Commonwealth support	-	1,070,527	1,070,527
Other activities	-	83,566	83,566
Total program expenses	-	10,836,685	10,836,685
Other expenses:			
Communications and marketing	-	548,263	548,263
Business development	-	723,562	723,562
Advocacy and other unallowable expenses	-	261,195	261,195
Indirects unapplied to projects	-	238,525	238,525
Building and IEIA administrative	1,405,179	-	1,405,179
Depreciation and amortization	904,504	-	904,504
Total other expenses	2,309,683	1,771,545	4,081,228
Total operating expenses	2,309,683	12,608,230	14,917,913
Operating income/(loss)	1,777,339	(9,683,331)	(7,905,992)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	9,225,649	-	9,225,649
Interest revenue	2,588	228,106	230,694
Gain on investment	-	79,105	79,105
Interest expense	(164,363)	-	(164,363)
Total non-operating revenues/(expenses)	9,063,874	307,211	9,371,085
Income/(loss) before transfers	10,841,213	(9,376,120)	1,465,093

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, 2013

	<u>IEIA</u>	<u>CIT</u>	<u>Total</u>
Transfers (out)/in - Appropriations	(9,225,649)	9,225,649	-
Transfers (out)/in - IEIA contracts and grants	<u>(1,036,709)</u>	<u>1,036,709</u>	<u>-</u>
Total transfers (out)/in	<u>(10,262,358)</u>	<u>10,262,358</u>	<u>-</u>
Change in net position	578,855	886,238	1,465,093
Net position at July 1, 2012	<u>17,965,693</u>	<u>5,657,505</u>	<u>23,623,198</u>
Net position at June 30, 2013	<u>\$ 18,544,548</u>	<u>\$ 6,543,743</u>	<u>\$ 25,088,291</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
CENTER FOR INNOVATIVE TECHNOLOGY  
COMBINING STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2013

	IEIA	CIT	Total
Cash flows from operating activities:			
Lease and bonds	\$ 3,033,660	\$ -	\$ 3,033,660
Security deposits received	21,926	-	21,926
Contracts and grants revenue received	977,649	2,413,016	3,390,665
Growth Acceleration Program revenue received	-	12,064	12,064
Donations received	-	40,550	40,550
Miscellaneous receipts	-	96,197	96,197
Payments to Growth Acceleration Program recipients	-	(2,480,968)	(2,480,968)
Payments to vendors	(1,804,201)	(5,328,363)	(7,132,564)
Security deposits paid	(9,000)	-	(9,000)
Payments to employees	-	(4,133,181)	(4,133,181)
Intercompany receipts/(payments)	57,136	(57,136)	-
Net cash provided/(used) by operating activities	2,277,170	(9,437,821)	(7,160,651)
Cash flows from non-capital financing activities:			
Appropriations received from the Commonwealth of Virginia	9,050,542	-	9,050,542
Transfers (out)/in - Appropriations	(9,050,542)	9,050,542	-
Transfers (out)/in - IEIA contracts and grants	(977,649)	977,649	-
Net cash provided/(used) by non-capital financing activities	(977,649)	10,028,191	9,050,542
Cash flows from investing activities:			
Gain on investment	-	36,404	36,404
Interest received	2,588	8,655	11,243
Net cash provided/(used) by investing activities	2,588	45,059	47,647
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - IEIA	(51,769)	-	(51,769)
Cash payments on capital lease	(2,257)	-	(2,257)
Cash payment to retire bond indenture	(1,155,000)	-	(1,155,000)
Payments for interest	(178,839)	-	(178,839)
Net cash provided/(used) by capital and related financing activities	(1,387,865)	-	(1,387,865)
Net increase/(decrease) in cash and cash equivalents	(85,756)	635,429	549,673
Cash and cash equivalents at July 1, 2012	1,852,814	6,118,816	7,971,630
Cash and cash equivalents at June 30, 2013	\$ 1,767,058	\$ 6,754,245	\$ 8,521,303

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
CENTER FOR INNOVATIVE TECHNOLOGY  
COMBINING STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2013

	IEIA	CIT	Total
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	\$ 1,777,339	\$ (9,683,331)	\$ (7,905,992)
Adjustments to reconcile operating income/(loss) to net cash:			
Non-cash item - Depreciation and amortization	904,504	-	904,504
Non-cash item - note receivable interest applied to new note or equity conversion	-	219,451	219,451
Non-cash item - fiscal year 2013 depreciation on generator accepted from tenant in lieu of rent to Commonwealth of Virginia in prior fiscal year	4,959	-	4,959
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	(57,947)	(207,250)	(265,197)
Increase in due to CIT and (Increase) in Due from IEIA, respectively	45,136	(45,136)	-
(Increase)/decrease in prepaid expenses and deposits	(56,945)	32,787	(24,158)
(Increase)/decrease in due from Commonwealth of Virginia	(314,015)	-	(314,015)
(Increase)/decrease in unamortized leasing commissions	30,080	-	30,080
Increase/(decrease) in accounts payable	(56,717)	388,251	331,534
Increase/(decrease) in accrued expenses	(3,500)	(19,935)	(23,435)
Increase/(decrease) in prepaid rental income	(8,650)	-	(8,650)
Increase/(decrease) in deferred revenue	-	(155,822)	(155,822)
Increase/(decrease) in security deposits	12,926	-	12,926
Increase/(decrease) in compensated absences	-	33,164	33,164
Net cash provided/(used) by operating activities	<u>\$ 2,277,170</u>	<u>\$ (9,437,821)</u>	<u>\$ (7,160,651)</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 SCHEDULE OF ANALYSIS OF FUND BALANCES  
 For the Fiscal Year Ended June 30, 2013

	IEIA	CIT	Total
Undesignated:			
Beginning balance	\$ 71,837	\$ 3,325,506	\$ 3,397,343
Change in net position	578,855	886,238	1,465,093
Change in designated for GAP Fund	-	(1,897,333)	(1,897,333)
Change in restricted for GAP BioLife Fund	-	400,000	400,000
Change in investment in capital assets	(299,562)	-	(299,562)
Change in designated to building	(263,370)	-	(263,370)
Total undesignated	87,760	2,714,411	2,802,171
Designated for GAP Fund:			
Beginning balance	-	1,901,999	1,901,999
FY 13 revenue	-	3,391,123	3,391,123
FY 13 expenses	-	(2,146,002)	(2,146,002)
Prior years additions	-	652,212	652,212
Total designated for GAP Fund	-	3,799,332	3,799,332
Restricted for GAP BioLife Fund:			
Beginning balance	-	430,000	430,000
FY 13 revenue	-	8,358	8,358
FY 13 expenses	-	(408,358)	(408,358)
Total restricted for GAP BioLife Fund	-	30,000	30,000
Investment in capital assets:			
Beginning balance	15,673,892	-	15,673,892
FY13 increases	1,209,026	-	1,209,026
FY13 decreases	(909,464)	-	(909,464)
Total investment in capital assets	15,973,454	-	15,973,454
Designated to building:			
Beginning balance	2,219,964	-	2,219,964
FY13 increases	317,881	-	317,881
FY13 decreases	(54,511)	-	(54,511)
Total designated to building	2,483,334	-	2,483,334
Total fund balance	\$ 18,544,548	\$ 6,543,743	\$ 25,088,291

## **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

November 20, 2013

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the Innovative and Entrepreneurship and 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, 2013, 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 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 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Innovation and Entrepreneurship Investment Authority and its blended component unit, the Center for Innovative Technology, as of June 30, 2013, and the changes in its financial position and its 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 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.

#### ***Supplementary 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 November 20, 2013, 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.

A handwritten signature in black ink, reading "Nathan S. Mansueto". The signature is written in a cursive, flowing style.

AUDITOR OF PUBLIC ACCOUNTS

JMR/clj

## **APPENDIX B**

### **AGENCY OFFICIALS**

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

BOARD OF DIRECTORS

As of June 30, 2013

David C. Lucien, Chairman

Joseph P. Doherty, Jr., Vice Chairman

Karen Booth Adams	Ray O. Johnson
Jim Cheng	Hooks Johnston
Jim Duffey	Don Rainey
Laura Fornash	Michael Rao
Eric J. Hansen	Charles W. Steger
Terry Hsiao	Teresa Sullivan
Wayne Hunter	

OFFICERS

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

Hooks Johnston, Treasurer and Secretary, IEIA

Linda E. Gentry, Treasurer and Secretary, CIT