THE INNOVATIVE TECHNOLOGY AUTHORITY
INCLUDING ITS BLENDED COMPONENT UNIT
CENTER FOR INNOVATIVE TECHNOLOGY

Herndon, Virginia

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2008

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Innovative Technology Authority, including its blended component unit, the Center for Innovative Technology, for the year ended June 30, 2008, found:

- the financial statements are presented fairly, in all material respects;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance or other matters required to be reported.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The following is a discussion and analysis of the Innovative Technology Authority's (Authority) financial performance, including an overview of activities for the fiscal year ended June 30, 2008. The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth). Its mission is to accelerate Virginia's next generation of technology and technology companies. 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.

Financial Analysis

Net Assets as of June 30, 2008
(With comparative figures for June 30, 2007)

	2008	2007	Change
Assets:			
Current assets	$ 5,487,068	$ 7,452,900	$(1,965,832)
Noncurrent assets	113,433	61,257	52,176
Capital assets	23,956,248	24,609,488	(653,240)
Total assets	29,556,749	32,123,645	(2,566,896)
Liabilities:			
Current liabilities	2,827,583	2,897,103	(69,520)
Long-term liabilities	5,415,000	6,270,000	(855,000)
Total liabilities	8,242,583	9,167,103	(924,520)
Net assets:			
Invested in capital assets, net of related debt	17,738,540	17,525,745	212,795
Unrestricted net assets	3,275,626	4,930,797	(1,655,171)
Restricted net assets, expendable	300,000	500,000	(200,000)
Total net assets	$21,314,166	$22,956,542	$(1,642,376)

The total combined current assets of the Authority and CIT decreased by $1,965,832 from last year, primarily due to the use of unrestricted net assets to supplement operating funds during fiscal year 2008. This use of funds was articulated in the fiscal year 2008 operating plan that was approved by the Board of Directors.

The capital assets decreased by $653,240 predominately because of depreciation of $927,063, offset by tenant leasehold improvements of $195,915 and purchases of assets of $77,908.

The decrease in long-term liabilities of $855,000 reflects a principal payment of $875,000 and a $20,000 decrease in the current portion of the outstanding bonds payable.

The restricted net assets represents the Growth Acceleration Program (GAP) BioLife Fund, a seed stage venture fund funded equally by Johnson & Johnson Services, Inc., and CIT. During fiscal year 2008, Johnson & Johnson added $150,000 to the fund which was matched by CIT for a total addition of $300,000; increasing total funding for this program to $800,000. Also during fiscal year 2008, CIT made $500,000 in investments from this fund to support emerging life science companies in Virginia.

Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2008
(With comparative figures for June 30, 2007)

	2008	2007	Change
Operating revenue:			
Rental income	$ 3,201,156	$ 3,206,539	$ (5,383)
Federal awards	2,919,922	3,767,405	(847,483)
Other business	526,607	479,993	46,614
VA initiatives - COVITS sponsorships and registration	383,795	600,685	(216,890)
Total revenue	7,031,480	8,054,622	(1,023,142)
Expenses:			
Program direct expenses	6,506,634	7,252,885	(746,251)
Indirect expenses	4,378,634	4,065,990	312,644
Communications and marketing	287,985	326,215	(38,230)
Business development	349,944	488,779	(138,835)
Advocacy	404,136	344,948	59,188
Entertainment	1,152	3,394	(2,242)
Building and ITA administrative expenses	1,599,374	1,524,663	74,711
Depreciation and amortization	936,027	886,536	49,491
Total expenses	14,463,886	14,893,410	(429,524)
Non-operating revenue/(expenses):			
Appropriations from the Commonwealth of Virginia	6,048,498	6,280,998	(232,500)
Interest income	264,884	373,546	(108,662)
Gain on investment	-	50,000	(50,000)
Interest expense – bonds	(523,352)	(577,745)	54,393
Total non-operating revenue/(expenses)	5,790,030	6,126,799	(336,769)
Change in net assets	(1,642,376)	(711,989)	(930,387)
Net assets at July 1, beginning fiscal year	22,956,542	23,668,531	(711,989)
Net assets at June 30, ending fiscal year	$21,314,166	$22,956,542	$(1,642,376)

Operating Revenue

Federal awards revenue decreased by $847,483 because of the winding down of several projects with the federal government.

The decrease of $216,890 in COVITS revenue is attributable to CIT not administering the September 2008 conference.

Expenses

Program direct expenses decreased by $746,251 during fiscal year 2008 due predominately to the winding down of several projects with the federal government.

Indirect expenses increased by $312,644 due to personnel, accounting fees, and bad debts expense.

With the departure of two employees from CIT's Connect business line, less time was applied to the function of business development, resulting in a decrease in cost of $138,835.

Non-operating revenue

The Authority's fiscal year 2008 appropriation was $232,500 lower than last year's appropriation because the appropriation was reduced by the General Assembly.

Capital Assets and Debt Administration

Capital Assets

Capital Assets as of June 30, 2008
(With comparative figures for June 30, 2007)

	2008	2007	Change
Land and land improvements	$ 7,944,997	$ 7,944,997	$ -
Construction in progress – leasehold improvements	195,915	-	195,915
Building and improvements (net of depreciation)	15,795,585	16,640,449	(844,864)
Furniture, fixtures and equipment (net of depreciation)	19,751	24,042	(4,291)
Total capital assets	$23,956,248	$24,609,488	$(653,240)

Construction in progress of $195,915 represents tenant improvements that are in the process of being built in the System and Software Consortium, Inc. (SSC) portion of the building. The Authority invested an additional $73,408 in capital assets for the building and $4,500 for CIT operations during fiscal year 2008. The cost was offset by $927,063 of depreciation.

Debt Administration

At year-end, the Authority had $6,270,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for $13,300,000 to finance the construction of the System and Software Consortium, Inc. (SSC) portion of the Authority building located in Herndon, Virginia. On May 1, 1997, Series 1997 Bonds were issued by the Authority to advance refund $11,200,000 of the outstanding 1989 Series. More information about the outstanding principal and interest cost requirements of these bonds is detailed in Note H in the Notes to the Financial Statements.

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

FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
As of June 30, 2008

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	$ 5,116,358
Cash and cash equivalents held by Treasurer of Virginia (Note B)	3,002
Investments held by Treasurer of Virginia (Note B)	619
Prepaid expenses	36,661
Accounts and accrued receivables (Note C)	398,934
Less: allowance for doubtful accounts	(68,506)
Notes receivable (Note D)	1,664,055
Less: allowance for doubtful accounts (Note D)	(1,664,055)
Total current assets	5,487,068
Noncurrent assets:	
Unamortized expense of bond issue	52,293
Incentive to lessee	61,140
Total noncurrent assets	113,433
Capital assets (Note E):	
Land and land improvements	7,944,997
Construction in progress - leasehold improvements	195,915
Building and improvements	27,203,074
Less: accumulated depreciation	(11,407,489)
Furniture, fixtures and equipment	903,731
Less: accumulated depreciation	(883,980)
Total capital assets	23,956,248
Total assets	29,556,749
LIABILITIES	
Current liabilities:	
Accrued interest payable	78,342
Compensated absences (Note F)	136,588
Accounts payable, accrued expenses and prepaid rental income	739,118
Deferred revenue	1,300
Due to Commonwealth of Virginia	898,115
Grants payable (Note G)	23,906
Bonds payable - short term (Note H)	855,000
Security deposits	95,214
Total current liabilities	2,827,583
Long-term liabilities:	
Bonds payable (Note H)	5,415,000
Total liabilities	8,242,583

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
As of June 30, 2008

NET ASSETS	
Investment in capital assets, net of related debt	17,738,540
Unrestricted net assets	3,275,626
Restricted net assets, expendable	300,000
Total net assets	$ 21,314,166

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

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2008

	Direct Expenses	Indirect Expenses	Total
Operating revenue:			
Rental income - lease revenue			$ 1,806,137
Rental income - bonds			1,395,019
Federal awards			2,919,922
Other business			526,607
Virginia initiatives-COVITS sponsorships and registrations			383,795
Total operating revenue			7,031,480
Operating expenses:			
Program expenses:			
Research and development	$ 2,996,176	$ 679,876	3,676,052
Entrepreneur	2,185,387	1,166,650	3,352,037
Connect	520,376	541,296	1,061,672
Broadband	404,482	234,274	638,756
Commonwealth support	400,213	141,900	542,113
Total program expenses	6,506,634	2,763,996	9,270,630
Other expenses:			
Communications and marketing	287,985	154,836	442,821
Business development	349,944	550,396	900,340
Advocacy	404,136	215,011	619,147
Entertainment	1,152	294	1,446
Unapplied indirect	-	694,101	694,101
Administrative	-	559	559
Building expense	1,598,815	-	1,598,815
Depreciation and amortization	-	936,027	936,027
Total other expenses	2,642,032	2,551,224	5,193,256
Total operating expenses	9,148,666	5,315,220	14,463,886
Operating loss			(7,432,406)
Non-operating revenue/(expenses):			
Appropriations from the Commonwealth of Virginia			6,048,498
Interest income			264,884
Interest expense - bonds			(523,352)
Total non-operating revenue/(expenses)			5,790,030
Change in net assets			(1,642,376)
Net assets at July 1, 2007			22,956,542
Net assets at June 30, 2008			$ 21,314,166

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

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

Cash flows from operating activities:	
Rental income received	$ 3,195,781
Security deposits received	43,173
Program money received	310,935
Federal awards money received	3,625,333
GAP funding money received	250,000
Cash receipts from COVITS sponsorships and registrations	383,795
Other money received- regional office sublease	1,033
Payments to GAP recipients	(1,260,000)
Payments to vendors	(8,129,110)
Payments to grantees	(414,355)
Payments to employees	(3,972,539)
Net cash used by operating activities	(5,965,954)
Cash flows from non-capital financing activities:	
Appropriation received from the Commonwealth of Virginia	6,048,498
Net cash provided by non-capital financing activities	6,048,498
Cash flows from investing activities:	
Disposition of short-term investment	3,000,000
Interest received	327,694
Net cash provided by investing activities	3,327,694
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - CIT	(4,500)
Acquisition and construction of capital assets - ITA	(69,474)
Cash payment to retire bond indenture	(875,000)
Payments for interest	(534,013)
Net cash used by capital and related financing activities	(1,482,987)
Net increase in cash and cash equivalents	1,927,251
Cash and cash equivalents at July 1, 2007	3,189,107
Cash and cash equivalents at June 30, 2008	$ 5,116,358
Reconciliation of cash and cash equivalents:	
Per Statement of Net Assets	
Cash and cash equivalents including amounts held by Treasurer of Virginia	$ 5,119,360
Less:	
Securities Lending Cash Equivalents	(3,002)
Cash and cash equivalents per Statement of Cash Flows	$ 5,116,358

Noncash operating, investing and capital activities:
Incentive to lessee included in accrued expenses - $61,140
Accrued interest on security deposit - $594
Amortized bond discount - $784
Capital asset additions included in accrued expenses - $195,915

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

Cash flows from operating activities:	
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (7,432,406)
Adjustments to reconcile operating loss to net cash:	
Depreciation and amortization	936,027
Noncash items - note receivable interest applied to new note receivable ($4,055), security lending transaction fees ($22)	4,077
Changes in assets and liabilities:	
Decrease in accounts and accrued receivables	711,982
Increase in incentive to lessee	(61,140)
Decrease in prepaid expenses	111,066
Decrease in accounts payable, accrued expenses and prepaid rental income	(294,825)
Increase in deferred revenue	1,300
Increase in security deposits	43,767
Decrease in grants payable	(39,335)
Decrease in compensated absences	(13,430)
Increase in due to Commonwealth of Virginia	66,963
Net cash used by operating activities	$ (5,965,954)

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

NOTES TO FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority (Authority) and its blended component unit, the Center for Innovative Technology (CIT). The Authority is a political subdivision of the Commonwealth, as authorized by the Innovative Technology Authority Act, Title 2.2, Chapter 22, Article 3 of the Code of Virginia. The Authority's mission is to accelerate the Commonwealth's next generation of technology and technology companies. The Innovative Authority Act provides for the Authority to form a non-stock corporation to carry out the mission of the Authority. CIT is the non-stock, not-for-profit corporation created for this purpose, and acts as the operating arm of the Authority. The Virginia General Assembly 2007 Session, Virginia Acts of Assembly Chapter 847 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. Separate financial statements for the Authority and CIT can be found in the Supplementary Information section of the Annual Financial Statement report. 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.

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: During fiscal year 2007, CIT adopted 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 two 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 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. The investment policy establishes guidelines for securities the Authority and CIT invests its money in, including quality of investment, maturity, 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.

Credit Rate 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, 2008, the Authority and CIT had investments and ratings as shown in the chart below.

Concentration of Credit Risk: Disclosure of any one issuer is required when it represents five percent or more of total investments. At June 30, 2008, 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 2008.

Securities Lending Transactions: Investments and cash equivalents held by the Treasurer of Virginia represent CIT's allocated share of cash collateral received and reinvested, and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains and losses are realized, the actual gains and losses are recorded by the affected agencies.

	Credit Rating	Carrying Amount	Fair Value
Cash and cash equivalents:			
Cash		$ 96,380	$ 96,380
Federated Treasury Obligations Fund	AAAm	30,941	30,941
Local Government Investment Pool	AAAm	4,989,037	4,989,037
Cash and cash equivalents Held by Treasurer of Virginia		3,002	3,002
Total cash and cash equivalents		$5,119,360	$5,119,360
Investment held by Treasurer of Virginia		$ 619	$ 619

NOTE C - ACCOUNTS AND ACCRUED RECEIVABLES

The Authority held accounts receivable totaling $21,363. CIT held accounts receivable totaling $318,257 for federal awards and miscellaneous receivables, $49,567 of accrued revenue for federal awards, and $9,747 of accounts receivable related to the Innovative Technology Foundation (see Note K).

NOTE D - NOTES RECEIVABLE

During the last four fiscal years, CIT has entered into convertible note purchase agreements with 28 promising emerging companies under its Growth Acceleration Program (GAP). During fiscal year 2007, CIT piloted a similar program, Virginia South Technology Acceleration Pilot Program (TAP), focusing on technology companies in Southside and Southwest Virginia, and entered into convertible note purchase agreements with two companies. Under the GAP and TAP programs, promissory notes have a maturity date of 12 months or 24 months from issuance. Payment due at maturity is principal plus eight 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 securities of the company, subject to the terms of the note.

During fiscal year 2008, one company paid CIT $100,000 in repayment of its note, prior to the maturity date, and $7,322 in interest. During fiscal year 2008, CIT converted the notes of the following companies into equity: Verical, Inc., Tau Therapeutics LLC, SquareLoop Inc., and Global Cell Solutions Inc. (see Note J). At June 30, 2008, CIT had $1,664,055 in notes receivable. Due to the risk involved with an emerging company, CIT has elected to set up an allowance of $1,664,055.

NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2008:

Account	Beginning Balance	Acquisitions and Additional Depreciation	Sales and Dispositions	Ending Balance
Land and land improvements	$ 7,944,997	$ -	$ -	$ 7,944,997
Construction in progress - leasehold improvements	-	195,915	-	195,915
Building and improvements	27,129,666	73,408	-	27,203,074
Accumulated depreciation	(10,489,217)	(918,272)	-	(11,407,489)
Furniture, fixtures, and equipment	903,827	4,500	(4,596)	903,731
Accumulated depreciation	(879,785)	(8,791)	4,596	(883,980)
Total	$24,609,488	$(653,240)	$ -	$23,956,248

NOTE F - COMPENSATED ABSENCES

It is CIT's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since CIT does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred. Each employee may carry 80 hours of annual leave forward to the following year.

NOTE G - GRANTS PAYABLE

Grants are awarded to Virginia colleges and universities for scientific research and to Virginia headquartered and operated companies to promote research and development. Cash is transmitted to the award recipients as needed to fund grant disbursements. The grants payable represents the balance of grant awards not paid at June 30, 2008.

NOTE H- BONDS PAYABLE

The Authority issued $12,455,000 of Taxable Lease Revenue Refunding Bonds on May 1, 1997, pursuant to a Master Indenture of Trust and First Supplemental Indenture of Trust between the Authority and Signet Trust Company, Richmond, Virginia, as Trustee (since transferred to the Bank of New York Mellon). The Series 1997 Bonds were issued by the Authority to advance refund $11,200,000 of outstanding 1989 Taxable Revenue Lease Bonds, Series 1989. The Commonwealth leases facilities from the Authority. The lease calls for the Commonwealth to pay rent equal to the bond payments, insurance, trustee fees, and maintenance costs of the System and Software Consortium (SSC) portion of the building. In turn, the Commonwealth has a sublease with SSC.

Balance July 1, 2007	Retirements	Balance June 30, 2008	Amount Due Within One Year
$7,145,000	$875,000	$6,270,000	$855,000

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

Year Ending June 30,	Principal	Interest	Total
2009	$ 855,000	$ 470,050	$1,325,050
2010	935,000	407,208	1,342,208
2011	1,015,000	336,896	1,351,896
2012	1,090,000	260,568	1,350,568
2013	1,155,000	178,600	1,333,600
2014	1,220,000	91,744	1,311,744
Total	$6,270,000	$1,745,066	$8,015,066

NOTE I – COMMITMENTS

The Authority and CIT have entered into several operating lease agreements. Rental expense for operating leases for the year ended June 30, 2008 was $2,646 for the Authority and $74,438 for CIT. The Authority does not have any minimum rental payments due under operating leases as of June 30, 2008. As of June 30, 2008, CIT has the following minimum rental payments due under several equipment leases.

Year Ending June 30,	
2009	$11,658
2010	11,307
2011	1,941
Total	$24,906

NOTE J - EQUITY POSITIONS

CIT holds equity positions in eight 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. Currently, CIT holds 35,003 shares of common stock in Hemodyne, Inc. This security is not traded on the open market and there is no cost basis to CIT. The equity position of this stock, therefore, has not been recorded on CIT assets since there is no clear assessment of the value at either cost or market.

The second program under which CIT has obtained equity positions in start-up companies is the Growth Acceleration Program (GAP). The equity securities were obtained by exercising conversion options in the GAP note purchase agreements and through additional cash purchases. CIT acquired 415,949 shares of preferred stock in Rollstream, Inc. during fiscal year 2006 and an additional 322,373 shares of Rollstream, Inc. preferred stock in fiscal year 2007. During fiscal year 2007, CIT acquired 8,054 shares of preferred stock in Visure Corp, and 27,121 shares of preferred stock in OnDialog, Inc. (formerly iNeoMarketing, Inc). During fiscal year 2008, CIT acquired 282,624 shares of preferred stock in Verical, Inc., 482,986 shares of preferred stock in Tau Therapeutics LLC, 1,161,827 shares of preferred stock in SquareLoop, Inc., and 35,150 shares of preferred stock in Global Cell Solutions, Inc. These securities are not traded on the open market, and it is difficult to determine a market value without full company valuations. Since there is no clear assessment of value of these equity positions, CIT has not recorded the equity position of these stocks as assets.

NOTE K - RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Foundation (ITF). The ITF is a non-stock, non-profit corporation. It was created in 1986 to promote and support economic and industrial development, encourage technological innovation, coordinate research and development capabilities of public and private institutions, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent of the Authority and CIT. On June 30, 2008, ITF owed CIT $9,747 for legal and consulting fees paid on its behalf. At June 30, 2008, the ITF's unaudited net assets totaled $554,413**.**

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 $511,594 in 2008 for payroll of $3,410,627.

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, and worker's compensation. The Authority is insured through the Commonwealth's Risk Management Program and CIT is insured through commercial insurance policies with Chubb Indemnity Insurance Company and Montgomery Mutual Insurance Company. CIT's health care plan is administered by Anthem.

SUPPLEMENTARY INFORMATION

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2008

	ITA	CIT	Eliminating Entry	Total
A S S E T S				
Current assets:				
Cash and cash equivalents	$ 422,763	$ 4,693,595	$ -	$ 5,116,358
Cash and cash equivalents held by Treasurer of Virginia	-	3,002	-	3,002
Investments held by the Treasurer of Virginia	-	619	-	619
Prepaid expenses	-	36,661	-	36,661
Accounts and accrued receivables	21,363	377,571	-	398,934
Less: allowance for doubtful accounts	-	(68,506)	-	(68,506)
Notes receivable	-	1,664,055	-	1,664,055
Less: allowance for doubtful accounts	-	(1,664,055)	-	(1,664,055)
Due from CIT	2,486,181	-	(2,486,181)	-
Total current assets	2,930,307	5,042,942	(2,486,181)	5,487,068
Noncurrent assets:				
Unamortized expense of bond issue	52,293	-	-	52,293
Incentive to lessee	61,140	-	-	61,140
Total noncurrent assets	113,433	-	-	113,433
Capital assets:				
Land and land improvements	7,944,997	-	-	7,944,997
Construction in progress - leasehold improvements	195,915	-	-	195,915
Building and improvements	27,203,074	-	-	27,203,074
Less: accumulated depreciation	(11,407,489)	-	-	(11,407,489)
Furniture, fixtures and equipment	903,731	-	-	903,731
Less: accumulated depreciation	(883,980)	-	-	(883,980)
Total capital assets	23,956,248	-	-	23,956,248
Total assets	26,999,988	5,042,942	(2,486,181)	29,556,749
LIABILITIES				
Current liabilities:				
Due to ITA	-	2,486,181	(2,486,181)	-
Accrued interest payable	78,342	-	-	78,342
Compensated absences	-	136,588	-	136,588
Accounts payable, accrued expenses and prepaid rental income	394,659	344,459	-	739,118
Deferred revenue	-	1,300	-	1,300
Due to Commonwealth of Virginia	898,115	-	-	898,115
Grants payable	-	23,906	-	23,906
Bonds payable - short term	855,000	-	-	855,000
Security deposits	95,214	-	-	95,214
Total current liabilities	2,321,330	2,992,434	(2,486,181)	2,827,583
Long-term liabilities:				
Bonds payable	5,415,000	-	-	5,415,000
Total liabilities	7,736,330	2,992,434	(2,486,181)	8,242,583

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2008

	ITA	CIT	Eliminating Entry	Total
NET ASSETS				
Investment in capital assets, net of related debt	17,738,540	-	-	17,738,540
Unrestricted net assets	1,525,118	1,750,508	-	3,275,626
Restricted net assets, expendable	-	300,000	-	300,000
Total net assets	$ 19,263,658	$ 2,050,508	$ -	$ 21,314,166

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2008

	ITA	CIT	Total
Operating revenue:			
Rental income - lease revenue	$ 1,806,137	$ -	$ 1,806,137
Rental income - bonds	1,395,019	-	1,395,019
Federal awards	-	2,919,922	2,919,922
Other business	-	526,607	526,607
Virginia initiatives-COVITS sponsorships and registrations	-	383,795	383,795
Total operating revenue	3,201,156	3,830,324	7,031,480
Operating expenses:			
Program expenses:			
Research and development	-	3,676,052	3,676,052
Entrepreneur	-	3,352,037	3,352,037
Connect	-	1,061,672	1,061,672
Broadband	-	638,756	638,756
Commonwealth support	-	542,113	542,113
Total program expenses	-	9,270,630	9,270,630
Other expenses:			
Communications and marketing	-	442,821	442,821
Business development	-	900,340	900,340
Advocacy	-	619,147	619,147
Entertainment	-	1,446	1,446
Unapplied indirect	-	694,101	694,101
Administrative	559	-	559
Building expense	1,598,815	-	1,598,815
Depreciation and amortization	936,027	-	936,027
Total other expenses	2,535,401	2,657,855	5,193,256
Total operating expenses	2,535,401	11,928,485	14,463,886
Operating income/(loss)	665,755	(8,098,161)	(7,432,406)
Non-operating revenue/(expenses):			
Appropriations from the Commonwealth of Virginia	6,048,498	-	6,048,498
Interest income	14,208	250,676	264,884
Interest expense - bonds	(523,352)	-	(523,352)
Total non-operating revenue/(expenses)	5,539,354	250,676	5,790,030
Income/(loss) before transfers	6,205,109	(7,847,485)	(1,642,376)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2008

	ITA	CIT	Total
Transfers and other changes:			
Transfer in/(out)	(5,988,498)	5,988,498	-
Transfer in/(out)	4,500	(4,500)	-
Net transfers and other changes	(5,983,998)	5,983,998	-
Change in net assets	221,111	(1,863,487)	(1,642,376)
Net assets at July 1, 2007	19,042,547	3,913,995	22,956,542
Net assets at June 30, 2008	$ 19,263,658	$ 2,050,508	$ 21,314,166

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

	ITA	CIT	Total
Cash flows from operating activities:			
Rental income received	$3,195,781	$ -	$ 3,195,781
Security deposits received	43,173	-	43,173
Program money received	-	310,935	310,935
Federal awards money received	-	3,625,333	3,625,333
GAP funding money received	-	250,000	250,000
Cash receipts from COVITS sponsorships and registrations	-	383,795	383,795
Other money received - regional office sublease	-	1,033	1,033
Payments to GAP recipients	-	(1,260,000)	(1,260,000)
Payments to vendors	(1,921,680)	(6,207,430)	(8,129,110)
Payments to grantees	-	(414,355)	(414,355)
Payments to employees	-	(3,972,539)	(3,972,539)
Net cash provided/(used) by operating activities	1,317,274	(7,283,228)	(5,965,954)
Cash flows from non-capital financing activities:			
Appropriation received from the Commonwealth of Virginia	6,048,498	-	6,048,498
Operating transfers (out)/in	(5,988,498)	5,988,498	-
Operating transfers (out)/in	4,500	(4,500)	-
Net cash provided/(used) by non-capital financing activities	64,500	5,983,998	6,048,498
Cash flows from investing activities:			
Disposition of short term investment	-	3,000,000	3,000,000
Interest received	14,208	313,486	327,694
Net cash provided/(used) by investing activities	14,208	3,313,486	3,327,694
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - CIT	(4,500)	-	(4,500)
Acquisition and construction of capital assets - ITA	(69,474)	-	(69,474)
Cash payment to retire bond indenture	(875,000)	-	(875,000)
Payments for interest	(534,013)	-	(534,013)
Net cash provided/(used) by capital and related financing activities	(1,482,987)	-	(1,482,987)
Net increase/(decrease) in cash and cash equivalents	(87,005)	2,014,256	1,927,251
Cash and cash equivalents at July 1, 2007	509,768	2,679,339	3,189,107
Cash and cash equivalents at June 30, 2008	$ 422,763	$ 4,693,595	$ 5,116,358

Reconciliation of cash and cash equivalents:	
Per Statement of Net Assets	
Cash and cash equivalents including amounts held by Treasurer of Virginia	$ 5,119,360
Less:	
Securities Lending Cash Equivalents	(3,002)
Cash and cash equivalents per Statement of Cash Flows	$ 5,116,358

Noncash operating, investing and capital activities:
Incentive to lessee included in accrued expenses - $61,140
Accrued interest on security deposit - $594
Amortized bond discount - $784
Capital asset additions included in accrued expenses - $195,915

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

	ITA	CIT	Total
Cash flows from operating activities:			
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	$ 665,755	$ (8,098,161)	$ (7,432,406)
Adjustments to reconcile operating income/(loss) to net cash:			
Depreciation and amortization	936,027	-	936,027
Noncash items - note receivable interest applied to new note receivable ($4,055), security lending transaction fees ($22)	-	4,077	4,077
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	(5,375)	717,357	711,982
(Increase)/decrease in due from CIT	(470,000)	470,000	-
(Increase)/decrease in incentive to lessee	(61,140)	-	(61,140)
(Increase)/decrease in prepaid expenses	-	111,066	111,066
Increase/(decrease) in accounts payable, accrued expenses and prepaid rental income	141,277	(436,102)	(294,825)
Increase/(decrease) in deferred revenue	-	1,300	1,300
Increase/(decrease) in security deposits	43,767	-	43,767
Increase/(decrease) in grants payable	-	(39,335)	(39,335)
Increase/(decrease) in compensated absences	-	(13,430)	(13,430)
Increase/(decrease) in due to Commonwealth of Virginia	66,963	-	66,963
Net cash provided/(used) by operating activities	$ 1,317,274	$ (7,283,228)	$ (5,965,954)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Fiscal Year Ended June 30, 2008

	ITA	CIT	Total
Undesignated:			
Beginning balance	$ (7,434)	$ 3,413,995	$ 3,406,561
Change in net assets	221,111	(1,863,487)	(1,642,376)
Depreciation	927,063	-	927,063
Assets acquired for CIT operations	(4,500)	-	(4,500)
Interest income designated to building	(14,208)	-	(14,208)
Transfer net profit from building operations to designated to building	(207,322)	-	(207,322)
Change in restricted - GAP BioLife Fund	-	200,000	200,000
Bond issuance expense	8,964	-	8,964
Bond payment	(875,000)	-	(875,000)
Bank fees on building reserve	559	-	559
Total undesignated	49,233	1,750,508	1,799,741
Restricted - GAP BioLife Fund:			
Beginning balance	-	500,000	500,000
Grant from Johnson & Johnson Services, Inc.	-	150,000	150,000
Matching funds from CIT	-	150,000	150,000
Fiscal year 2008 expenses	-	(500,000)	(500,000)
Total restricted for GAP BioLife Fund	-	300,000	300,000
Investment in capital assets:			
Beginning balance	17,525,745	-	17,525,745
Purchases for CIT operations	4,500	-	4,500
Purchases for building	269,322	-	269,322
Depreciation	(927,063)	-	(927,063)
Bond issuance expense	(8,964)	-	(8,964)
Bond payment	875,000	-	875,000
Total investment in capital assets	17,738,540	-	17,738,540
Designated to building:			
Beginning balance	1,524,236	-	1,524,236
Transfer net profit from building operations to designated to building	207,322	-	207,322
Interest income designated to building	14,208	-	14,208
Expenses for the building	(269,322)	-	(269,322)
Bank fees on building reserve	(559)	-	(559)
Total designated to building	1,475,885	-	1,475,885
Total fund balance	$ 19,263,658	$ 2,050,508	$ 21,314,166

Commonwealth of Virginia

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

October 10, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Boards of Directors
Innovative Technology Authority and
Center for Innovative Technology

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Innovative Technology 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, 2008, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages one through four, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Innovative Technology Authority. The combining statements and Schedule of Analysis of Fund Balances are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining statements and Schedule of Analysis of Fund Balances have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, and the Innovative Technology Authority and Center for Innovative Technology Board, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on October 10, 2008.

AUDITOR OF PUBLIC ACCOUNTS

JHS/wdh

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

BOARDS OF DIRECTORS
As of June 30, 2008

Maloy I. Jones, Chairman ITA
Daniel Bannister, Chairman CIT

Kimberly B. Chapman	Suzanne H. King
Aneesh P. Chopra	Daniel LaVista
Evan L. Curbeam	Alan Merten
Patrick O. Gottschalk	Carolyn Meyers
Rakesh C. Gupta	Thomas R. Morris
Rodney P. Hunt	Roderick Powell
Rick Kapani	Charles W. Steger

OFFICERS

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

Evan L. Curbeam, Treasurer and Secretary, ITA

Linda E. Gentry, Chief Financial Officer and Secretary, CIT