

THE INNOVATION AND ENTREPRENEURSHIP

INVESTMENT AUTHORITY

INCLUDING ITS BLENDED COMPONENT UNIT

CENTER FOR INNOVATIVE TECHNOLOGY

and SUBSIDIARIES

Herndon, Virginia

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2017



-TABLE OF CONTENTS-

MANAGEMENT'S DISCUSSION AND ANALYSIS	<u>Pages</u> 1-4
FINANCIAL STATEMENTS:	
Consolidated Statement of Net Position	5
Consolidated Statement of Revenues, Expenses and Changes in Net Position	6
Consolidated Statement of Cash Flows	7-8
Notes to Consolidated Financial Statements	9-18
SUPPLEMENTARY INFORMATION:	
Consolidating Statement of Net Position – Authority and CIT with Subsidiaries	19
Consolidating Statement of Revenues, Expenses, and Changes in Net Position – Authority and CIT with Subsidiaries	20
Consolidating Statement of Net Position – CIT and Subsidiaries	21
Consolidating Statement of Revenues, Expenses, and Changes in Net Position – CIT and Subsidiaries	22
INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS	Appendix A
AGENCY OFFICIALS	Appendix B

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The management of the Innovation and Entrepreneurship Investment Authority (the Authority) offers readers of the Authority's consolidated financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the consolidated financial statements and accompanying notes.

Reporting Entity

For financial reporting purposes, the Authority's reporting entity consists of the Authority and its component unit organization, the Center for Innovative Technology (CIT), together with CIT's subsidiaries, for which the Authority is financially accountable (blended component unit). The subsidiaries' relationship with CIT is of the nature and significance that exclusion would cause the Authority's financial statements to be misleading or incomplete. The funds and accounts of all entities that have been identified as part of the Authority or CIT have been included. Further information can be found in Note A to the Consolidated Financial Statements.

The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth). Its mission is to grow and diversify Virginia's economy by investing in and accelerating innovation commercialization, entrepreneurship and broadband availability. 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.

Subsidiaries of CIT include MACH37 LLC (MACH37); M37 Equity Pool, LLC (M37 EP); and M37 Carried Interest, LLC (M37 CI). MACH37 is a wholly-owned subsidiary of CIT, formed during the fiscal year ended June 30, 2016, for the purpose of operating the MACH37 Cybersecurity Accelerator. M37 EP is a majority-owned subsidiary of CIT, formed during the fiscal year ended June 30, 2016, for the purpose of holding qualified investments and participation interests, according to compensation policies of MACH37 Cybersecurity Accelerator's management. M37 CI is a majority-owned subsidiary of CIT, formed during the fiscal year ended June 30, 2017, for the purpose of making and holding qualified investments, in accordance with the compensation policies of MACH37 Cybersecurity Accelerator's management.

The Consolidated Statement of Net Position presents information on all of the Authority, CIT, and CIT's subsidiaries, collectively "the Organization", 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, including subsidiaries, is improving or deteriorating. The information presented for June 30, 2016 noncurrent assets, current liabilities, expenses, interest revenue and gain on investment, capital contributions and net position balance has been restated for a change in the method of accounting for cohort investments.

The Consolidated Statement of Revenues, Expenses and Changes in Net Position presents information showing how the net position of the Authority and CIT, including subsidiaries, 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.

Consolidated Net Position as of June 30, 2017
(With comparative figures for June 30, 2016)

	2017	2016	Change
Assets:			
Current assets	\$ 10,542,730	\$ 9,683,738	\$ 858,992
Noncurrent assets	25,463	46,522	(21,059)
Capital assets	<u>14,156,364</u>	<u>14,914,577</u>	<u>(758,213)</u>
Total assets	<u>24,724,557</u>	<u>24,644,837</u>	<u>79,720</u>
Liabilities:			
Current liabilities	<u>1,037,085</u>	<u>1,317,304</u>	<u>(280,219)</u>
Total liabilities	<u>1,037,085</u>	<u>1,317,304</u>	<u>(280,219)</u>
Net Position:			
Net investment in capital assets	14,156,364	14,914,577	(758,213)
Unrestricted, (2016 restated)	<u>9,531,108</u>	<u>8,412,956</u>	<u>1,118,152</u>
Total net position	<u>\$ 23,687,472</u>	<u>\$ 23,327,533</u>	<u>\$ 359,939</u>

Management Analysis

The largest portion of the Organization's consolidated net position reflects the Authority's investment in capital assets (e.g., land, building and improvements, and furniture, fixtures and equipment), followed by unrestricted net position, primarily related to CIT's designated program operations. The increase in consolidated net position of \$360k from June 30, 2016 to 2017 is due, in large part, to CIT Growth Acceleration Program (GAP) and investment revenue recognized during fiscal 2017, offset by depreciation on the Authority's capital assets.

Consolidated current assets, comprised primarily of cash and cash equivalents, prepaid expenses, and receivables, increased by \$859k from June 30, 2016 to 2017, a result of CIT GAP and investment proceeds received.

The \$280k decrease in consolidated current liabilities is attributable to the fiscal year 2017 payment of expenses accrued as of June 30, 2016, as well as the recognition of MACH37 Cybersecurity Accelerator program sponsorship revenue that had been deferred as of June 30, 2016.

Consolidated Revenues, Expenses, and Changes in Net Position for the Fiscal Year Ended June 30, 2017
(With comparative figures for the fiscal year ended June 30, 2016)

	2017	2016	Change
Operating revenues:			
Lease	\$ 1,470,768	\$ 1,691,530	\$ (220,762)
Contracts and grants	3,082,822	4,433,484	(1,350,662)
Miscellaneous	697,243	515,418	181,825
Total operating revenues	5,250,833	6,640,432	(1,389,599)
Operating expenses:			
CIT expenses	14,164,476	14,105,670	58,806
Building and Authority administrative	1,500,660	1,649,023	(148,363)
Depreciation	810,368	808,825	1,543
Subsidiary expenses	4,705	-	4,705
Total operating expenses	16,480,209	16,563,518	(83,309)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	11,400,921	9,948,407	1,452,514
Interest revenue and gain on investment	228,893	386,580	(157,687)
Donations expense	(1,250)	(243,697)	242,447
Gain on disposal of assets	-	92,748	(92,748)
Total non-operating revenues/(expenses)	11,628,564	10,184,038	1,444,526
Total income before member contributions (draws)	399,188	260,952	138,236
Capital contributions	11,000	-	11,000
Member draws	(50,249)	-	(50,249)
Change in net position	359,939	260,952	98,987
Net position at July 1, beginning fiscal year	23,327,533	23,066,581	260,952
Net position at June 30, ending fiscal year (2016 restated)	<u>\$ 23,687,472</u>	<u>\$ 23,327,533</u>	<u>\$ 359,939</u>

Management Analysis

Approximately 67% of the Organization's consolidated revenue comes from Commonwealth of Virginia appropriations. The remainder is from the Authority's building tenant leasing revenue, CIT contracts and grants revenue with federal and state entities, GAP investment proceeds and investment revenue. The \$1.5M increase in appropriation revenue from fiscal 2016 to fiscal 2017 is due to the inclusion of \$2.6M Commonwealth Research Commercialization Fund to the Authority's budget, offset by approximately \$1.1M in net appropriation reductions to operating and designated fund projects.

Several CIT contracts and grants ended as of June 30, 2016, resulting in a \$1.4M reduction in contracts and grants revenue in fiscal 2017 as compared to fiscal 2016. The minimal change in CIT operating expenses is due, in part, to the lower expenses associated with the lower level of contracts and grants. Additionally, CIT executed a reduction in force and a decrease in employee benefits during the fiscal year ended June 30, 2017.

Capital Assets as of June 30, 2017
(With comparative figures for June 30, 2016)

	2017	2016	Change
Land and land improvements	\$ 5,385,802	\$ 5,385,802	\$ -
Building and improvements (net of depreciation)	8,694,873	9,425,685	(730,812)
Furniture, fixtures and equipment (net of depreciation)	60,689	88,090	(27,401)
Trademark	15,000	15,000	-
Total capital assets	<u>\$ 14,156,364</u>	<u>\$ 14,914,577</u>	<u>\$ (758,213)</u>

Management Analysis

Net reductions in the value of consolidated capital assets from June 30, 2016 to June 30, 2017 is due to normal depreciation recognized on existing capital assets. Consolidated depreciation expense of \$810,368 was recognized and purchases of capital assets in the amount of \$57,113 were made during the fiscal year ended June 30, 2017.

Significant Variations between Budget and Actual Results

For the fiscal year ended June 30, 2017, actual total expenses were consistent with budgeted total expenses, with a result of actual costs approximately \$205,000 over budgeted costs.

Within the total expense budget variance, the following segmental variances were significant:

Service Line	Budgeted Cost	Actual Cost	Variance
Connect	\$ 2,195,000	\$ 1,379,205	\$ (815,795)
Entrepreneur	\$ 5,437,000	\$ 4,926,929	\$ (510,071)
Commonwealth Support Programs	\$ 1,811,000	\$ 3,012,030	\$ 1,201,030

Connect segment costs fell under budget due primarily to budgeted new business that was not realized in fiscal year 2017.

Entrepreneur segment costs varied from budget due to timing differences related to grants and investments made through the investment programs of CIT.

Commonwealth Support Programs segment costs were greater than budgeted due to increased initiatives directed at cybersecurity and unmanned systems.

CONSOLIDATED FINANCIAL STATEMENTS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY with
CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES

CONSOLIDATED STATEMENT OF NET POSITION

As of June 30, 2017

ASSETS

Current assets:

Cash and cash equivalents (Note D)	\$	10,031,146
Prepaid expenses and deposits (Note B)		183,551
Accounts and accrued receivables (Note E)		347,488
Less: allowance for doubtful accounts		(172,318)
Notes receivable (Note F)		5,612,646
Less: allowance for doubtful accounts (Note F)		(5,459,783)
Total current assets		10,542,730

Noncurrent assets:

Unamortized leasing commissions		25,463
Total noncurrent assets		25,463

Capital assets (Note G):

Land and land improvements		5,385,802
Building and improvements		27,771,341
Less: accumulated depreciation		(19,076,468)
Furniture, fixtures and equipment		795,010
Less: accumulated depreciation		(734,321)
Trademark		15,000
Total capital assets		14,156,364
Total assets		24,724,557

LIABILITIES

Current liabilities:

Compensated absences (Note I)		212,415
Unearned revenue (Note B)		131,544
Accounts payable (Note B)		240,362
Accrued expenses (Note B)		228,628
Due to Commonwealth of Virginia (Note B)		114,641
Security deposits		109,495
Total current liabilities		1,037,085
Total liabilities		1,037,085

NET POSITION

Net investment in capital assets		14,156,364
Unrestricted		9,531,108
Total net position	\$	23,687,472

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

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY with
 CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, and CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2017

Operating revenues:	
Lease	\$ 1,470,768
Contracts and grants	1,899,943
Growth Acceleration Program	1,182,879
Sponsorships and donations	695,173
Miscellaneous	2,070
Total operating revenues	5,250,833
Operating expenses:	
Program expenses:	
Research and development	3,819,052
Entrepreneur	4,926,929
Connect	1,379,205
Broadband	702,198
Subsidiary operating expenses	4,705
Commonwealth support	3,012,030
Total program expenses	13,844,119
Other expenses:	
Communications and marketing	266,695
Business development	1,360
Building management	40,920
Advocacy and other unallowable expenses	17,116
Indirects overapplied to projects	(1,029)
Building and Authority administrative	1,500,660
Depreciation	810,368
Total other expenses	2,636,090
Total operating expenses	16,480,209
Operating loss	(11,229,376)
Non-operating revenues/(expenses):	
Appropriations from the Commonwealth of Virginia	11,400,921
Interest revenue	135,520
Gain on investment	93,373
Donation expense	(1,250)
Total non-operating revenues/(expenses)	11,628,564
Change in net position before member contributions (draws)	399,188
Member distributions, net of member contributions of \$11,000	(39,249)
Change in net position	359,939
Net position at July 1, 2016, restated (Note C)	23,327,533
Net position at June 30, 2017	\$ 23,687,472

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

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY with
 CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2017

Cash flows from (used by) operating activities:	
Leases	\$ 1,684,911
Contracts and grants revenue received	2,674,567
Growth Acceleration Program revenue received	1,057,879
Sponsorship revenue	516,660
Miscellaneous receipts	168,139
Payments to CRCF recipients	(2,812,630)
Payments to Growth Acceleration Program recipients	(1,840,002)
Payments to vendors	(7,811,574)
Security deposits paid (net of receipts)	(6,478)
Payments to employees	(4,070,026)
Net cash used by operating activities	(10,438,554)
Cash flows from non-capital financing activities:	
Appropriations received from the Commonwealth of Virginia	11,109,523
Net cash provided by non-capital financing activities	11,109,523
Cash flows from investing activities:	
Proceeds from disposal of investments	216,529
Distributions of proceeds	(13,086)
Purchase of cohort company equity	(11,000)
Interest received	101,761
Net cash used by investing activities	294,204
Cash flows from capital and related financing activities:	
Member contributions received	11,000
Acquisition and construction of capital assets - Authority	(57,113)
Net cash provided by capital and related financing activities	(46,113)
Net increase in cash and cash equivalents	919,060
Cash and cash equivalents at July 1, 2016	9,112,086
Cash and cash equivalents at June 30, 2017	\$ 10,031,146

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY with
 CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
 For the Fiscal Year Ended June 30, 2017

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (11,229,376)
Adjustments to reconcile operating loss to net cash:	
Non-cash item - Depreciation	810,368
Non-cash item - Depreciation on generator accepted from tenant in lieu of rent to Commonwealth of Virginia in prior fiscal year	4,959
Donations made	(1,250)
Changes in assets and liabilities:	
Decrease in accounts and accrued receivables, net of allowance	142,177
Increase in notes receivable, net of allowance	(125,000)
Increase in prepaid expenses and deposits	(74,498)
Decrease in due from Commonwealth of Virginia	282,098
Decrease in unamortized leasing commissions and rent abatement	21,059
Increase in accounts payable	61,541
Decrease in accrued expenses	(139,285)
Decrease in unearned revenue	(197,595)
Decrease in security deposits	(6,478)
Increase in compensated absences	12,726
	<hr/>
Net cash used by operating activities	\$ (10,438,554)
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – DESCRIPTION OF ORGANIZATION

The consolidated financial statements include the accounts of the Innovation and Entrepreneurship Investment Authority (the Authority) and its blended component unit, the Center for Innovative Technology (CIT) and subsidiaries, collectively “the Organization”. The Authority is a political subdivision of the Commonwealth of Virginia (the Commonwealth), as authorized by the Innovation and Entrepreneurship Investment Authority Acts 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 it acts as the operating arm of the Authority. The mission of CIT is to grow and diversify Virginia’s economy by investing in and accelerating innovation commercialization, entrepreneurship and broadband availability. The Virginia General Assembly 2017 Session, Virginia Acts of Assembly Chapter 836 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, with subsidiaries, 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 Organization. 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. Consolidating financial statements for the Authority and CIT and its subsidiaries can be found in the Supplementary Information section of the Annual Financial Statement report.

Subsidiaries of CIT include MACH37 LLC (MACH37); M37 Equity Pool, LLC (M37 EP); and M37 Carried Interest, LLC (M37 CI). MACH37 is a wholly-owned subsidiary of CIT, formed during the fiscal year ended June 30, 2016, for the purpose of operating the MACH37 Cybersecurity Accelerator. M37 EP is a majority-owned subsidiary of CIT, formed during the fiscal year ended June 30, 2016, for the purpose of holding qualified investments and participation interests, according to compensation policies of MACH37 Cybersecurity Accelerator’s management. M37 CI is a majority-owned subsidiary of CIT, formed during the fiscal year ended June 30, 2017, for the purpose of making and holding qualified investments, in accordance with the compensation policies of MACH37 Cybersecurity Accelerator’s management.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The consolidated financial statements of the Organization have been prepared using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of cash flows.

Basis of Consolidation – The consolidated financial statements incorporate the financial statements of the Authority and CIT and its subsidiaries. Significant inter-organizational transactions, comprised of inter-company rent and other operating costs and gains and losses in investments in related companies, have been eliminated.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates – Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of consolidated assets and liabilities at the date of the consolidated financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

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

Consolidated Net Position – The net position of the Organization and changes therein are classified and reported as follows:

Net Investment in Capital Assets – Component of net position consisting of capital assets, net of accumulated depreciation, reduced by outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted Net Position – Component of net position available for use in general operations and not subject to restrictions.

Restricted Net Position – Component of net position consisting of restricted assets reduced by liabilities related to those assets. Net position is reported as restricted when constraints placed on net position use are either (1) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

As of June 30, 2017, net position of the Organization was classified as either net investment in capital assets or unrestricted net position.

Revenue Recognition – Revenue is recognized when earned. Payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred. Contributions are recognized when cash, securities or other assets, or notification of a beneficial interest is received.

Accounts Receivable – Accounts receivable are primarily unsecured non-interest-bearing amounts due from tenant leases, contracts and grants. The Organization provides an allowance for doubtful collections, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal accounts receivable are due 30 days after issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer/grantor. At June 30, 2017, the Organization had designated an allowance for doubtful accounts of \$172,318 in relation to delinquent accounts.

Capital Assets – Property and equipment are stated at cost at the date of acquisition or, in the case of gifts, at fair market value at the date of donation. Capital assets are recorded for items with a cost of \$5,000 or more and a useful life of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expenses as incurred. Depreciation is recognized using the straight-line method over the useful lives of the assets – 5 to 40 years for the building and related improvements and 3 to 10 years for furniture, fixtures and equipment.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Land, buildings and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the consolidated financial statement for the fiscal year ended June 30, 2017.

Accounts payable and accrued expenses – Accounts payable and accrued expenses represent amounts owed for goods and services received but not paid prior to year-end.

Compensated Absences – Compensated absences account for the Organization's liability for compensated time off earned by employees but not taken as of June 30, 2017.

Unearned Revenue – Unearned revenue represents monies received but not earned as of June 30, 2017.

Due to Commonwealth of Virginia – Amounts due to the Commonwealth consist of profits and prepaid rents associated with the Commonwealth lease of the midrise portion of the Authority's building, offset by appropriations receivable related to the Commonwealth Research Commercialization Fund administration expenses.

Security deposits – Tenant security deposits are collected by the Authority. The deposits are held until lease termination, at which time the condition of the leased area is assessed for potential return of the security deposit.

Operating and Non-Operating Activity – Most of the financial activity of the Organization is a result of operations. Operating activities are directly related to the Organization's promotion of the Commonwealth's economic growth.

Currently, non-operating activity relates to appropriations from the Commonwealth and investment activities.

Income Taxes – The Authority is a political subdivision of the Commonwealth; and, therefore, is exempt from federal income tax.

CIT and MACH37 are exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though tax can be levied on income unrelated to the exempt purpose of CIT (unless that income is otherwise excluded by the IRC). Contributions to CIT are tax deductible to donors under Section 170 of the IRC. The organization is not classified as a private foundation.

M37 EP and M37 CI have elected to be taxed as partnerships. The taxable year for M37 EP and M37 CI is the calendar year. Each member is responsible for the tax liability, if any, related to its proportionate share of the taxable income of M37 EP and M37 CI. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

For all open tax years for all major taxing jurisdictions, management of the Organization has concluded that there are no uncertain tax positions that would require recognition in the financial statements. Management does not expect that its assessment regarding unrecognized tax positions will materially change over the next 12 months.

Generally, tax returns of the Organization's entities remain open to inspection by federal, state and local authorities for three years from the date of filing. Returns for fiscal years ended June 30, 2014 and later (CIT and MACH37) and calendar years ended December 31, 2015 (the first taxable year for M37 EP) and later remain subject to examination.

NOTE C – RESTATEMENT OF NET POSITION

	IEIA	CIT	MACH37 LLC	M37 Equity Pool, LLC	Elimination	Total
Net position as previously reported at June 30, 2016	\$ 17,698,398	\$ 6,973,390	\$ 304,359	\$ 2,086,850	\$ (1,995,629)	\$ 25,067,368
Change in method of accounting for cohort investments	-	(1,549,910)	-	(2,086,850)	1,896,925	(1,739,835)
Net position at July 1, 2016	\$ 17,698,398	\$ 5,423,480	\$ 304,359	\$ -	\$ (98,704)	\$ 23,327,533

See Note K for additional information on valuation of investments.

NOTE D – CASH AND INVESTMENTS

The investment policy of the Organization, established and monitored by the Board of Directors, complies 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.

Cash and cash equivalents represent deposits and short-term investments with original maturity dates of up to 90 days.

Custodial Credit Risk - All deposits of the Organization are maintained in accounts covered by federal depository insurance and collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia, as amended, which provides for an assessable multiple financial institution collateral pool.

Disclosure is required for risk associated with uncollateralized cash deposits and uninsured and unregistered securities held by a counterparty, or its trust department or agent, but not in the Organization's name. As of June 30, 2017, the Organization had no deposits or 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, 2017, the Organization had no investments greater than five percent.

Foreign Currency Risk – Disclosure is required for investments exposed to changes in exchange rates that could adversely affect the fair value of an investment or deposit. The Organization had no foreign investment or deposits during the fiscal year ended June 30, 2017.

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, 2017, the Organization had cash and cash equivalents as shown in the chart below:

	Credit Rating	Amount
Cash, cash equivalents and investments:		
Cash		\$ 78,553
Local Government Investment Pool	AAAm	<u>9,952,593</u>
Total cash and cash equivalents		<u>\$ 10,031,146</u>

The Local Government Investment Pool (LGIP) enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management.

NOTE D – CASH AND INVESTMENTS (continued)

The LGIP is managed in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 79. The LGIP is in compliance with all of the standards of GASB Statement No. 79 and elects to report its investments for financial reporting at amortized cost. Participants in the LGIP should also report their investments in the LGIP at amortized cost. The LGIP is rated AAAM by Standard & Poor's rating service.

NOTE E – ACCOUNTS and ACCRUED RECEIVABLES

At June 30, 2017, the Authority held accounts receivable, related to tenant leases, of \$10,089 net of an allowance of \$5,651. At June 30, 2017, CIT held accounts receivable, related to contracts and grants, of \$165,081 net of an allowance of \$166,667.

NOTE F – NOTES RECEIVABLE

As of June 30, 2017, CIT had convertible note purchase agreements with 45 emerging companies under its Growth Acceleration Program (GAP), the Commonwealth Energy Fund (CEF) contract with the Department of Mines, Minerals and Energy (DMME), and the State Small Business Credit Initiative (SSBCI) program with the Virginia Small Business Financing Authority (VSBFA).

The promissory notes have maturity dates of 12 to 60 months from issuance. Payment due at maturity includes principal plus interest, at rates ranging from 2% to 15%.

In some cases, CIT has granted extensions as the notes have become due. At CIT's option, CIT may convert certain notes into company equity, subject to terms of the related note.

At June 30, 2017, CIT held \$5,612,646 in notes receivable. Due to the risk involved with emerging-stage companies, CIT has elected to set up an allowance of \$5,459,783. The balance of \$152,863 in notes receivable at June 30, 2017 is for a note and accrued interest collected by CIT in August 2017.

NOTE G – CAPITAL ASSETS

The Organization had the following capital asset activities as of and during the year ended June 30, 2017:

	Beginning Balance	Acquisitions and Additions	Sales and Dispositions	Ending Balance
Land and land improvements	\$ 5,385,802	\$ -	\$ -	\$ 5,385,802
Building and improvements	27,714,227	57,115	-	27,771,342
Accumulated Depreciation	(18,288,542)	(787,927)	-	(19,076,469)
Furniture, fixtures and equipment	795,010	-	-	795,010
Accumulated Depreciation	(706,920)	(27,401)	-	(734,321)
Trademark	15,000	-	-	15,000
Total	<u>\$ 14,914,577</u>	<u>\$ (758,213)</u>	<u>\$ -</u>	<u>\$ 14,156,364</u>

NOTE H – CONCENTRATION OF REVENUE

For the fiscal year ended June 30, 2017, approximately 67% of the Organization's non-investment revenue was from appropriations received from the Commonwealth of Virginia.

NOTE I – COMPENSATED ABSENCES AND ACCRUED SEVERANCE

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 calendar year.

On the occasion of an involuntary reduction in force executed by CIT, it is CIT's policy to provide severance in the amount of two weeks of pay for approximately every year of service. At June 30, 2017, CIT had accrued severance payments and related employer payroll taxes of \$140,650 for payments made to five employees who were part of a reduction in force executed on June 30, 2017. The accrued severance payments and the related employer payroll taxes were paid in July and August 2017.

NOTE J – COMMITMENTS

As the date of this report, CIT has entered into two operating leases. Rental expense for operating leases for the year ended June 30, 2017 was \$10,443 for CIT. CIT has the following minimum rental payments due under operating leases, as of June 30, 2017:

2018	\$	4,712
Thereafter		-
Total	\$	<u>4,712</u>

NOTE K – EQUITY POSITIONS

At June 30, 2017, CIT; M37 Equity Pool, LLC; and M37 Carried Interest, LLC held 94 equity positions in start-up organizations, obtained through CIT's GAP Fund. The equity was obtained by exercising conversion options in the GAP Fund note purchase agreements and through cash purchases.

As the companies are not traded on the open market, it is difficult to determine a market value for the equity positions without full company valuations. Because there is no clear assessment of value, the Organization has not recorded the equity positions as assets. CIT received an offer of \$1.6M, from a third party, for 90% of its share of the M37 Equity Pool, LLC equity holdings and 100% of its share of the M37 Carried Interest, LLC equity holdings.

CIT's GAP Fund equity portfolio, as of June 30, 2017, is detailed below:

Company Name	Number of Shares/ Units	Equity Type
Atomic Corporate Industries, Inc.	20,455	Common
Brazen Careerist, Inc.	477,981	Preferred
Canvas Solutions, Inc.	589,193	Preferred
CargoSense, Inc.	321,395	Preferred

NOTE K – EQUITY POSITIONS (continued)

CIT's GAP Fund equity portfolio, as of June 30, 2017 (continued):

Company Name	Number of Shares/ Units	Equity Type
Cavion LLC	968,907	Units
Cirrusworks, Inc.	205,210	Common
Cirrusworks, Inc.	163,040	Preferred
ClearEdge3D, Inc.	930,045	Preferred
Cont3nt.com, Inc.	133,262	Preferred
Contraline, Inc.	N/A	SAFE*
Dark3, Inc.	22,222	Preferred
Distil, Inc.	1,139,840	Preferred
Fitnet Corporation	965	Preferred
Global Cell Solutions, Inc.	35,150	Preferred
GovTribe, Inc.	4,037	Preferred
Uppidy, Inc.	24,621	Common
ID.ME, Inc.	203,206	Preferred
INF Robotics Inc.	N/A	SAFE*
Introhive, Inc.	322,580	Preferred
iTi Health, Inc.	62,696	Preferred
LiveSafe, Inc.	101,153	Preferred
Loop88, Inc.	43,450	Preferred
Mobile System 7, Inc.	211,438	Preferred
MomentSnap, Inc.	321,015	Preferred
NexVortex Inc.	23,654	Common
Ostendio, Inc.	75,266	Preferred
Ovastasis, LLC	12,500	Units
PerformYard, Inc.	347,830	Preferred
Phthisis Diagnostic, Inc.	750	Preferred
Piedmont BioProducts, LLC	300	Units
Pierce Global Threat Intelligence Incorporated	286,624	Common
Power Fingerprinting, Inc.	21,672	Preferred
Power Supply Collective, Inc.	69,422	Common
Power Supply Collective, Inc.	217,108	Preferred
Private Practice, Inc.	200,000	Preferred
PublicRelay, Inc.	985,027	Preferred
Riogin, LLC	1,507	Units
Senseware, Inc.	723,788	Preferred
Sitscape Inc.	37	Common
Soft Tissue Regeneration, Inc.	33,038	Preferred
South49 Solutions, Inc.	250,000	Preferred
Sunnovations Inc.	2,255,657	Preferred
TearSolutions, Inc.	50,000	Units
ThreatQuotient, Inc.	440,691	Preferred
Triblio, Inc.	231,490	Preferred

*Simple Agreement for Future Equity

NOTE K – EQUITY POSITIONS (continued)

CIT's GAP Fund equity portfolio, as of June 30, 2017 (continued):

Company Name	Number of Shares/ Units	Equity Type
Urgent.ly Inc.	106,945	Preferred
Vangogh Imaging, Inc.	80,000	Common
Vangogh Imaging, Inc.	200,000	Preferred
VividCortex, Inc.	212,359	Preferred
vThreat, Inc.	48,182	Preferred
Wealthengine, Inc.	42,302	Preferred
WealthForge, LLC	33,422	Preferred
YaSabe, Inc.	2,295,923	Preferred
Zoobean, Inc.	1,256,982	Preferred
Zoomdata, Inc.	218,872	Preferred
Zoomph, Inc.	133,333	Preferred

M37 Equity Pool, LLC's equity portfolio, as of June 30, 2017:

Company Name	Number of Shares/ Units	Equity Type
418 Intelligence Corporation	84,890	Common
Anatrope, Inc.	80,000	Common
Atomic Corporate Industries, Inc.	80,000	Common
Axon Ghost Sentinel, Inc.	80,000	Common
Cyber 20/20, Inc.	100,578	Common
Cyph, Inc.	487,804	Common
Disrupt6, Inc.	497,561	Common
Eunomic, Inc.	80,000	Common
Fast Orientation, Inc.	111,111	Common
Gyomo, Inc.	32,000	Common
Hill Top Security, Inc.	244	Common
Huntress Labs Incorporated	800,000	Common
iAspire, LLC	97,561	Common
Identia, Inc.	80,000	Common
Locurity, Inc.	80,000	Common
MSB Associates, Inc.	800	Common
Normshield, Inc.	80,000	Common
Oppleo Security, Inc.	240,974	Common
PCPersuit, Inc.	195,122	Common
Pierce Global Threat Intelligence, Inc.	386,370	Common

NOTE K – EQUITY POSITIONS (continued)

M37 Equity Pool, LLC's equity portfolio, as of June 30, 2017 (continued):

Company Name	Number of Shares/ Units	Equity Type
Provenance Cyber Security Solutions, Inc.	720,000	Common
Shevirah, Inc.	519,481	Common
Syncurity Corporation	8,000	Common
TensorWrench, Inc.	853	Common
Unblinkr, Inc.	43,902	Common
Virgil Security, Inc.	439,000	Common
vThreat, Inc.	80,000	Preferred

M37 Carried Interest, LLC's equity portfolio, as of June 30, 2017:

Company Name	Number of Shares/ Units	Equity Type
Adlumin, Inc.	731,707	Common
AutomatedDL, Inc.	8,000	Common
BroadBridge Networks, Inc.	80,000	Common
Ekran Systems, Inc.	80,000	Common
Intelligence Framework, Inc.	80,000	Common
NeoEyed, Inc.	80,000	Common
NS8, Inc.	486,956	Common
SecureHome, Inc.	800,000	Common
Steel Mountain Systems Corporation	195,122	Common
ThreatSwitch, Inc.	97,570	Common
Trovolone, Inc.	80,000	Common

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). Plan contributions are fully and immediately vested and amounts are non-forfeitable. Additional tax-deferred contribution, subject to certain limitations, may be made by the employees through a salary reduction program. Pension expense for the plan totaled \$449,894 for the fiscal year ended June 30, 2017.

NOTE M - CONTINGENT LIABILITIES

At June 30, 2017, CIT had contingent liabilities of \$150,000 related to two term sheets (letters of intent) for GAP investments. The term sheets state CIT's intention to enter into convertible note purchase agreements with the investees, subject to certain conditions. The letters of intent expire 30 - 120 days after issuance. CIT purchased respective convertible promissory notes in each company subsequent to year-end.

NOTE N - RISK MANAGEMENT

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

NOTE O – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 21, 2018, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

The Virginia General Assembly 2017 Session, Virginia Acts of Assembly, Chapter 836, designates the Authority's real property and improvements, located in Herndon, Virginia, as surplus property. In August 2017, the building was listed for sale by the Commonwealth. As of the date of this report, a sales contract was not in effect.

SUPPLEMENTARY INFORMATION

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY with
CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
CONSOLIDATING STATEMENT OF NET POSITION
As of June 30, 2017

	Authority	CIT and Subsidiaries	Eliminating Entry	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,149,918	\$ 6,881,228	\$ -	\$ 10,031,146
Prepaid expenses and deposits	98,394	85,157	-	183,551
Accounts and accrued receivables	15,740	331,748	-	347,488
Less: allowance for doubtful accounts	(5,651)	(166,667)	-	(172,318)
Notes receivable	-	5,612,646	-	5,612,646
Less: allowance for doubtful accounts	-	(5,459,783)	-	(5,459,783)
Due from IEIA	-	101,561	(101,561)	-
Total current assets	3,258,401	7,385,890	(101,561)	10,542,730
Noncurrent assets:				
Unamortized leasing commissions	25,463	-	-	25,463
Total noncurrent assets	25,463	-	-	25,463
Capital assets:				
Land and land improvements	5,385,802	-	-	5,385,802
Building and improvements	27,771,341	-	-	27,771,341
Less: accumulated depreciation	(19,076,468)	-	-	(19,076,468)
Furniture, fixtures and equipment	711,306	83,704	-	795,010
Less: accumulated depreciation	(702,238)	(32,083)	-	(734,321)
Trademark	-	15,000	-	15,000
Total capital assets	14,089,743	66,621	-	14,156,364
Total assets	17,373,607	7,452,511	(101,561)	24,724,557
LIABILITIES				
Current liabilities:				
Compensated absences	-	212,415	-	212,415
Unearned revenue	29,462	102,082	-	131,544
Accounts payable	8,029	232,333	-	240,362
Accrued expenses	-	228,628	-	228,628
Due to CIT	101,561	-	(101,561)	-
Due to COV	114,641	-	-	114,641
Security deposits	109,495	-	-	109,495
Total current liabilities	363,188	775,458	(101,561)	1,037,085
Total liabilities	363,188	775,458	(101,561)	1,037,085
NET POSITION				
Net investment in capital assets	14,089,743	66,621	-	14,156,364
Unrestricted	2,920,676	6,610,432	-	9,531,108
Total net position	\$ 17,010,419	\$ 6,677,053	\$ -	\$ 23,687,472

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY with
CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2017

	Authority	CIT and Subsidiaries	Eliminating Entry	Total
Operating revenues:				
Lease	\$ 1,582,968	\$ -	\$ (112,200)	\$ 1,470,768
Contracts and grants	600	1,899,343	-	1,899,943
Growth Acceleration Program	-	1,182,879	-	1,182,879
Sponsorships and donations	-	695,173	-	695,173
Miscellaneous	-	2,070	-	2,070
Total operating revenues	1,583,568	3,779,465	(112,200)	5,250,833
Operating expenses:				
Program expenses:				
Research and development	-	3,819,052	-	3,819,052
Entrepreneur	-	4,926,929	-	4,926,929
Connect	-	1,379,205	-	1,379,205
Broadband	-	702,198	-	702,198
Subsidiary operating expenses	-	4,705	-	4,705
Commonwealth support	-	3,124,230	(112,200)	3,012,030
Total program expenses	-	13,956,319	(112,200)	13,844,119
Other expenses:				
Communications and marketing	-	266,695	-	266,695
Business development	-	1,360	-	1,360
Building management	-	40,920	-	40,920
Advocacy and other unallowable expenses	-	17,116	-	17,116
Indirects (overapplied) underapplied to projects	-	(1,029)	-	(1,029)
Building and Authority administrative	1,500,660	-	-	1,500,660
Depreciation	792,035	18,333	-	810,368
Total other expenses	2,292,695	343,395	-	2,636,090
Total operating expenses	2,292,695	14,299,714	(112,200)	16,480,209
Operating loss	(709,127)	(10,520,249)	-	(11,229,376)
Non-operating revenues/(expenses):				
Appropriations from the Commonwealth of Virginia	11,400,921	-	-	11,400,921
Interest revenue	21,748	113,772	-	135,520
Gain (Loss) on investment	-	93,373	-	93,373
Donations expense	-	(1,250)	-	(1,250)
Total non-operating revenues/(expenses)	11,422,669	205,895	-	11,628,564
Income/(loss) before transfers	10,713,542	(10,314,354)	-	399,188
Transfers (out)/in - Appropriations	(11,400,921)	11,400,921	-	-
Transfers (out)/in - Authority contracts and grants	(600)	600	-	-
Change in net position before member contributions (draws)	(687,979)	1,087,167	-	399,188
Member contributions (draws)	-	(39,249)	-	(39,249)
Change in net position	(687,979)	1,047,918	-	359,939
Net position at July 1, 2016, restated (Note C)	17,698,398	5,629,135	-	23,327,533
Net position at June 30, 2017	\$ 17,010,419	\$ 6,677,053	\$ -	\$ 23,687,472

CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
CONSOLIDATING STATEMENT OF NET POSITION
As of June 30, 2017

	CIT	MACH37 LLC	M37 Equity Pool, LLC	M37 Carried Interest, LLC	Eliminating Entry	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 6,867,188	\$ 3,000	\$ 40	\$ 11,000	\$ -	\$ 6,881,228
Prepaid expenses and deposits	81,087	-	-	4,070	-	85,157
Accounts and accrued receivables	331,748	-	-	-	-	331,748
Less: allowance for doubtful accounts	(166,667)	-	-	-	-	(166,667)
Notes receivable	5,612,646	-	-	-	-	5,612,646
Less: allowance for doubtful accounts	(5,459,783)	-	-	-	-	(5,459,783)
Due from IEIA	101,561	-	-	-	-	101,561
Due from M37 Equity Pool, LLC	100	-	-	-	(100)	-
Due from M37 Carried Interest, LLC	19,685	-	-	-	(19,685)	-
Due from CIT	-	130,857	-	-	(130,857)	-
Total current assets	7,387,565	133,857	40	15,070	(150,642)	7,385,890
Noncurrent assets:						
Interest in M37 Equity Pool, LLC	(60)	-	-	-	60	-
Interest in MACH37, LLC	98,704	-	-	-	(98,704)	-
Interest in M37 Carried Interest, LLC	(4,523)	-	-	-	4,523	-
Total noncurrent assets	94,121	-	-	-	(94,121)	-
Capital assets:						
Furniture, fixtures and equipment	-	83,704	-	-	-	83,704
Less: accumulated depreciation	-	(32,083)	-	-	-	(32,083)
Trademark	-	15,000	-	-	-	15,000
Total capital assets	-	66,621	-	-	-	66,621
Total assets	7,481,686	200,478	40	15,070	(244,763)	7,452,511
LIABILITIES						
Current liabilities:						
Compensated absences	212,415	-	-	-	-	212,415
Unearned revenue	-	102,082	-	-	-	102,082
Accounts payable	232,333	-	-	-	-	232,333
Accrued expenses	228,628	-	-	-	-	228,628
Due to MACH37, LLC	130,857	-	-	-	(130,857)	-
Due to CIT	-	-	100	19,685	(19,785)	-
Total current liabilities	804,233	102,082	100	19,685	(150,642)	775,458
Total liabilities	804,233	102,082	100	19,685	(150,642)	775,458
NET POSITION						
Net investment in capital assets	-	66,621	-	-	-	66,621
Unrestricted	6,677,453	31,775	(60)	(4,615)	(94,121)	6,610,432
Total net position	\$ 6,677,453	\$ 98,396	\$ (60)	\$ (4,615)	\$ (94,121)	\$ 6,677,053

CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Fiscal Year Ended June 30, 2017

	CIT	MACH37 LLC	M37 Equity Pool, LLC	M37 Carried Interest, LLC	Eliminating Entry	Total
Operating revenues:						
Contracts and grants	\$ 1,899,343	\$ -	\$ -	\$ -	\$ -	\$ 1,899,343
Growth Acceleration Program	1,182,879	-	-	-	-	1,182,879
Cyber Accelerator	892,023	-	-	-	(892,023)	-
Sponsorships and donations	-	695,173	-	-	-	695,173
Miscellaneous	2,070	-	-	-	-	2,070
Total operating revenues	3,976,315	695,173	-	-	(892,023)	3,779,465
Operating expenses:						
Program expenses:						
Research and development	3,819,052	-	-	-	-	3,819,052
Entrepreneur	4,926,929	-	-	-	-	4,926,929
Connect	1,379,205	-	-	-	-	1,379,205
Broadband	702,198	-	-	-	-	702,198
Subsidiary operating expenses	-	892,053	60	4,615	(892,023)	4,705
Commonwealth support	3,124,230	-	-	-	-	3,124,230
Total program expenses	13,951,614	892,053	60	4,615	(892,023)	13,956,319
Other expenses:						
Communications and marketing	266,695	-	-	-	-	266,695
Business development	1,360	-	-	-	-	1,360
Building management	40,920	-	-	-	-	40,920
Advocacy and other unallowable expenses	17,116	-	-	-	-	17,116
Indirects (overapplied) underapplied to projects	(1,029)	-	-	-	-	(1,029)
Depreciation	-	18,333	-	-	-	18,333
Total other expenses	325,062	18,333	-	-	-	343,395
Total operating expenses	14,276,676	910,386	60	4,615	(892,023)	14,299,714
Operating loss	(10,300,361)	(215,213)	(60)	(4,615)	-	(10,520,249)
Non-operating revenues/(expenses):						
Interest revenue	113,772	-	-	-	-	113,772
Gain (Loss) on investment	40,291	9,250	50,249	(11,000)	4,583	93,373
Donations expense	(1,250)	-	-	-	-	(1,250)
Total non-operating revenues/(expenses)	152,813	9,250	50,249	(11,000)	4,583	205,895
Income/(loss) before transfers	(10,147,548)	(205,963)	50,189	(15,615)	4,583	(10,314,354)
Transfers (out)/in - Appropriations	11,400,921	-	-	-	-	11,400,921
Transfers (out)/in - Authority contracts and grants	600	-	-	-	-	600
Change in net position before member contributions (draws)	1,253,973	(205,963)	50,189	(15,615)	4,583	1,087,167
Member contributions (draws)	-	-	(50,249)	11,000	-	(39,249)
Change in net position	1,253,973	(205,963)	(60)	(4,615)	4,583	1,047,918
Net position at July 1, 2016, restated (Note C)	5,423,480	304,359	-	-	(98,704)	5,629,135
Net position at June 30, 2017	\$ 6,677,453	\$ 98,396	\$ (60)	\$ (4,615)	\$ (94,121)	\$ 6,677,053

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

June 21, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

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

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the Innovation and Entrepreneurship Investment Authority, a component unit of the Commonwealth of Virginia, including its blended component unit, the Center for Innovative Technology, as of and for the year ended June 30, 2017, 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, as of June 30, 2017, 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.

Emphasis of Matter

As discussed in Note C of the accompanying financial statements, the Authority has elected to change its method of accounting for cohort investments for the fiscal year ended June 30, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Consolidating Statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Consolidating Statements 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 Consolidating Statements 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 June 21, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.


AUDITOR OF PUBLIC ACCOUNTS

KKH/clj

APPENDIX B
Agency Official

INNOVATION and ENTREPRENEURSHIP INVESTMENT AUTHORITY
And
CENTER FOR INNOVATIVE TECHNOLOGY

BOARD OF DIRECTORS
As of June 30, 2017

Michael Steed, Chairman
Walter Mazan, Vice Chairman

Jonathan Aberman	Bernard Mustafa
Marilyn Crouther	Rob Quartel
Todd Haymore	Michael Rao
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