

**THE INNOVATIVE TECHNOLOGY AUTHORITY
INCLUDING ITS BLENDED COMPONENT UNIT
CENTER FOR INNOVATIVE TECHNOLOGY
Herndon, Virginia**

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2009



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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The management of the Innovative Technology Authority (Authority), offers readers of the Authority's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

The Innovative Technology 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.

The Statement of Net Assets presents information on all of the Authority and CIT's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority and CIT is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority and CIT's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for some items that are related to cash flows in prior or future fiscal periods.

Financial Analysis

Net Assets as of June 30, 2009 (With comparative figures for June 30, 2008)

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Assets:			
Current assets	\$ 5,207,013	\$ 5,487,068	\$(280,055)
Noncurrent assets	380,171	113,433	266,738
Capital assets	<u>22,987,891</u>	<u>23,956,248</u>	<u>(968,357)</u>
Total assets	<u>28,575,075</u>	<u>29,556,749</u>	<u>(981,674)</u>
Liabilities:			
Current liabilities	2,293,055	2,827,583	(534,528)
Long term liabilities	<u>4,488,088</u>	<u>5,415,000</u>	<u>(926,912)</u>
Total liabilities	<u>6,781,143</u>	<u>8,242,583</u>	<u>(1,461,440)</u>

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Net assets:			
Investment in capital assets, net of related debt	17,606,061	17,738,540	(132,479)
Unrestricted net assets	3,487,871	3,275,626	212,245
Restricted net assets, expendable	<u>700,000</u>	<u>300,000</u>	<u>400,000</u>
Total net assets	<u>\$21,793,932</u>	<u>\$21,314,166</u>	<u>\$479,766</u>

The total combined current assets decrease of \$280,055 and noncurrent assets increase of \$266,738 is primarily due to a rent abatement given to one of the midrise building tenants which decreased cash receipts and increased noncurrent assets. The rent abatement occurred when the lease was renegotiated to compensate the tenant for a tenant allowance in the form of a rent abatement instead of tenant improvements, as previously stated in the lease. Tenant improvements, which were comprised of leasehold improvements and an incentive to lessee, had been accrued at June 30, 2008. In fiscal year 2009, those accruals were reversed and the rent abatement and amortization recorded over the remaining lease term of 57 months.

The capital assets decreased by \$968,357 due to depreciation of \$933,094 and the reversal of \$195,915 in leasehold improvements as described in the prior paragraph. In addition, a \$10,298 asset acquired under capital lease was added and \$150,354 of capital assets were purchased.

The \$534,528 decrease in current liabilities is attributable in part to the reversal of \$257,000 of accrued tenant improvements for the renegotiated midrise tenant lease. The amount due to the Treasurer of Virginia decreased by \$71,761 during the year due to operating losses of the midrise portion of the building. In addition, several projects with the federal government ended early in fiscal year 2009, which resulted in a \$139,128 reduction in CIT's accounts payable and accrued expenses.

The decrease in long-term liabilities of \$926,912 reflects a principal payment of \$855,000 and an \$80,000 increase in the current portion of the outstanding bonds payable, offset by an \$8,088 increase in capital lease obligations.

The restricted net assets represents the Growth Acceleration Program (GAP) BioLife Fund, a seed stage venture fund, started in fiscal year 2007, and funded equally by Johnson & Johnson Services, Inc. and CIT. During fiscal year 2009, Johnson & Johnson added \$200,000 to the fund which was matched by CIT for a total addition of \$400,000, increasing total funding for this program to \$1,200,000. From inception of the fund through June 30, 2009, CIT has 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, 2009
(With comparative figures for June 30, 2008)

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Operating revenues:			
Rental income	\$ 2,973,127	\$ 3,201,156	\$ (228,029)
Federal awards	514,566	2,919,922	(2,405,356)
Other business	1,087,740	526,607	561,133
VA initiatives - COVITS sponsorships and registration	-	383,795	(383,795)
Other income	<u>2,723</u>	<u>-</u>	<u>2,723</u>
Total operating revenues	<u>4,578,156</u>	<u>7,031,480</u>	<u>(2,453,324)</u>
Operating expenses:			
Program direct expenses	2,604,643	6,506,634	(3,901,991)
Indirect expenses	3,150,182	4,378,634	(1,228,452)
Communications and marketing	190,294	287,985	(97,691)
Business development	322,779	349,944	(27,165)
Advocacy	307,285	404,136	(96,851)
Other unallowable expenses	31,654	1,152	30,502
Building and ITA administrative expenses	1,484,353	1,599,374	(115,021)
Depreciation and amortization	<u>942,059</u>	<u>936,027</u>	<u>6,032</u>
Total operating expenses	<u>9,033,249</u>	<u>14,463,886</u>	<u>(5,430,637)</u>
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	5,308,802	6,048,498	(739,696)
Interest income	85,832	264,884	(179,052)
Interest expense	<u>(459,775)</u>	<u>(523,352)</u>	<u>63,577</u>
Total non-operating revenues/(expenses)	<u>4,934,859</u>	<u>5,790,030</u>	<u>(855,171)</u>
Change in net assets	479,766	(1,642,376)	2,122,142
Net assets at July 1, beginning fiscal year	<u>21,314,166</u>	<u>22,956,542</u>	<u>(1,642,376)</u>
Net assets at June 30, ending fiscal year	<u>\$21,793,932</u>	<u>\$21,314,166</u>	<u>\$479,766</u>

Operating Revenues

Federal awards revenue decreased by \$2,405,356 because of the winding down of several projects with the federal government.

The increase of \$561,133 in other business is due to new awards with Virginia agencies as well as support from the Innovative Technology Foundation.

The decrease of \$383,795 in COVITS revenue is attributable to CIT not administering the September 2008 or September 2009 conferences.

Operating Expenses

Program direct expenses decreased by \$3,901,991 during fiscal year 2009 due predominately to the winding down of several projects with the federal government and fewer investments made under the Growth Acceleration Program (GAP). Fewer investments in GAP were made due to cuts in the Commonwealth of Virginia's appropriation to the Authority.

Indirect expenses decreased by \$1,228,452 due to personnel and administrative expense reductions, also due to Virginia's appropriation cuts.

Non-operating revenues

The Authority's fiscal year 2009 appropriation was \$739,696 lower than last year's appropriation because the appropriation was reduced by the General Assembly.

Capital Assets and Debt Administration

Capital Assets as of June 30, 2009 (With comparative figures for June 30, 2008)

	<u>2009</u>	<u>2008</u>	<u>Change</u>
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)	15,021,311	15,795,585	(774,274)
Furniture, fixtures and equipment (net of depreciation)	<u>21,583</u>	<u>19,751</u>	<u>1,832</u>
Total capital assets	<u>\$22,987,891</u>	<u>\$23,956,248</u>	<u>\$(968,357)</u>

Construction in progress of \$195,915 represents tenant improvements in the midrise portion of the building. The amount was reversed in fiscal year 2009 when the midrise tenant lease was renegotiated. The Authority invested an additional \$160,652 in capital assets for the building during fiscal year 2009. The cost was offset by \$933,094 of depreciation.

Debt Administration

At year-end, the Authority had \$5,415,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for \$13,300,000 to finance the construction of the midrise portion of the Authority building located in Herndon, Virginia. On May 1, 1997, Series 1997 Bonds were issued by the Authority to advance refund \$11,200,000 of the outstanding 1989 Series. More

information about the outstanding principal and interest cost requirements of these bonds is detailed in Note 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 midrise portion of the building. In turn, the Commonwealth has a sublease with the midrise tenant.

Significant variations between budget and actual results

Programs	Budgeted Cost	Actual Cost	Variance
Entrepreneur	\$2,958,914	\$2,196,088	\$762,826
Connect	\$2,043,103	\$629,367	\$1,413,736
Innovation Center	\$0	\$335,583	\$(335,583)

Under the Entrepreneur program, there was a variance for two reasons. The Commonwealth of Virginia appropriation reductions resulted in fewer investments in high potential emerging technology companies through the Growth Acceleration Program (GAP). Additionally, the conditions of the credit markets slowed third-party-follow-on investments which affected the flow of the GAP investments.

Under the Connect program, appropriation cuts led to reduction in subscriptions used for research purposes to support the Connect business line. In addition, the economic downturn along with the change in federal government administration led to delays in obtaining federal awards.

Under the Innovation Center program, land development costs were incurred which were not anticipated in the budget. These costs were covered by non-appropriated funds obtained from the Innovative Technology Foundation.

FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 STATEMENT OF NET ASSETS
 As of June 30, 2009

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	\$ 4,852,155
Prepaid expenses	68,671
Accounts and accrued receivables (Note C)	357,357
Less: allowance for doubtful accounts	(71,170)
Notes receivable (Note D)	1,464,055
Less: allowance for doubtful accounts (Note D)	<u>(1,464,055)</u>
Total current assets	<u>5,207,013</u>
Noncurrent assets:	
Unamortized expense of bond issue	43,329
Unamortized rent abatement	<u>336,842</u>
Total noncurrent assets	<u>380,171</u>
Capital assets (Note E):	
Land and land improvements	7,944,997
Building and improvements	27,353,428
Less: accumulated depreciation	(12,332,117)
Furniture, fixtures and equipment	908,568
Less: accumulated depreciation	<u>(886,985)</u>
Total capital assets	<u>22,987,891</u>
Total assets	<u>28,575,075</u>
LIABILITIES	
Current liabilities:	
Accrued interest payable	67,999
Compensated absences (Note F)	126,172
Accounts payable, accrued expenses and prepaid rental income	304,833
Deferred revenue	705
Due to Commonwealth of Virginia	826,354
Capital lease obligations - short term (Note G)	2,070
Bonds payable - short term (Note H)	935,000
Security deposits	<u>29,922</u>
Total current liabilities	<u>2,293,055</u>
Long term liabilities:	
Capital lease obligations (Note G)	8,088
Bonds payable (Note H)	<u>4,480,000</u>
Total long term liabilities	<u>4,488,088</u>
Total liabilities	<u>6,781,143</u>

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS

As of June 30, 2009

NET ASSETS	
Investment in capital assets, net of related debt	17,606,061
Unrestricted net assets	3,487,871
Restricted net assets, expendable	<u>700,000</u>
Total net assets	<u>\$ 21,793,932</u>

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, 2009

	Direct Expenses	Indirect Expenses	Total
Operating revenues:			
Rental income - lease revenue			\$ 1,645,217
Rental income - bonds			1,327,910
Federal awards			514,566
Other business			1,087,740
Other income			<u>2,723</u>
Total operating revenues			<u>4,578,156</u>
Operating expenses:			
Program expenses:			
Research and development	\$ 508,816	\$ 326,504	835,320
Entrepreneur	1,254,715	941,373	2,196,088
Connect	270,836	358,531	629,367
Broadband	255,155	232,591	487,746
Commonwealth support	14,322	24,647	38,969
Innovative Institutes	43,746	13,365	57,111
Innovation Center	<u>257,053</u>	<u>78,530</u>	<u>335,583</u>
Total program expenses	<u>2,604,643</u>	<u>1,975,541</u>	<u>4,580,184</u>
Other expenses:			
Communications and marketing	190,294	129,477	319,771
Business development	322,779	615,752	938,531
Advocacy	307,285	218,736	526,021
Other unallowable expenses	31,654	9,670	41,324
Unapplied indirect	-	201,006	201,006
Administrative	-	648	648
Building expense	1,483,705	-	1,483,705
Depreciation and amortization	<u>-</u>	<u>942,059</u>	<u>942,059</u>
Total other expenses	<u>2,335,717</u>	<u>2,117,348</u>	<u>4,453,065</u>
Total operating expenses	<u>4,940,360</u>	<u>4,092,889</u>	<u>9,033,249</u>
Operating loss			(4,455,093)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia			5,308,802
Interest income			85,832
Interest expense - bonds			(459,576)
Interest expense - capital lease			<u>(199)</u>
Total non-operating revenues/(expenses)			<u>4,934,859</u>
Change in net assets			479,766
Net assets at July 1, 2008			<u>21,314,166</u>
Net assets at June 30, 2009			<u>\$ 21,793,932</u>

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, 2009

Cash flows from operating activities:	
Rental income received	\$ 2,596,018
Security deposits paid	(41,411)
Program income received	678,186
Federal awards income received	680,377
Growth Acceleration Program funding income received	250,000
Other income received	2,723
Payments to Growth Acceleration Program recipients	(550,000)
Payments to vendors	(4,751,804)
Payments to grantees	(114,327)
Payments to employees	(2,935,825)
Net cash used by operating activities	<u>(4,186,063)</u>
Cash flows from non-capital financing activities:	
Appropriations received from the Commonwealth of Virginia	<u>5,308,802</u>
Net cash provided by non-capital financing activities	<u>5,308,802</u>
Cash flows from investing activities:	
Interest received	<u>88,670</u>
Net cash provided by investing activities	<u>88,670</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - ITA	(150,354)
Cash payments on capital lease	(141)
Cash payment to retire bond indenture	(855,000)
Payments for interest	<u>(470,117)</u>
Net cash used by capital and related financing activities	<u>(1,475,612)</u>
Net decrease in cash and cash equivalents	(264,203)
Cash and cash equivalents at July 1, 2008	<u>5,116,358</u>
Cash and cash equivalents at June 30, 2009	<u>\$ 4,852,155</u>

INNOVATIVE TECHNOLOGY AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2009

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (4,455,093)
Adjustments to reconcile operating loss to net cash:	
Depreciation and amortization	942,059
Changes in assets and liabilities:	
Decrease in accounts and accrued receivables	44,240
Decrease in incentive to lessee	61,140
Increase in prepaid expenses	(32,010)
Increase in unamortized rent abatement	(336,842)
Decrease in accounts payable, accrued expenses	
and prepaid rental income	(237,587)
Decrease in deferred revenue	(595)
Decrease in security deposits	(65,292)
Decrease in grants payable	(23,906)
Decrease in compensated absences	(10,416)
Decrease in due to Commonwealth of Virginia	(71,761)
Net cash used by operating activities	<u>\$ (4,186,063)</u>

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, 2009

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 2008 Session, Virginia Acts of Assembly Chapter 879 authorizes the Authority to transfer funds appropriated to it by the Commonwealth to CIT for use in realizing its mission.

The financial statements of the Authority, including its blended component unit CIT, are intended to present the financial position and the changes in financial position and cash flows on only that portion of the financial reporting entity of the Commonwealth that is attributable to the transactions of the Authority including its blended component unit CIT. A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises oversight authority. The Authority is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth. Separate financial statements for the Authority and CIT can be found in the Supplementary Information section of the Annual Financial Statement report.

Basis of Accounting: The financial statements of the Authority have been prepared on the economic resources measurement focus and the accrual basis of accounting; whereby, revenues are recognized when earned and expenses are recognized when a liability is incurred. The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used when the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

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

Capital Assets: Property and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Depreciation is recorded on the straight-line basis over estimated useful lives of the assets ranging from three to forty years. The Authority uses a \$3,000 cost value to determine the assets to capitalize.

Operating and Non-Operating Activity: Most of the financial activity of the Authority is related to operations. Operating activities are directly related to the Authority promoting the Commonwealth's economic growth through technology. Currently, non-operating activity relates to appropriations from the Commonwealth, investment activities such as interest income, and interest expense.

Income Taxes: The Authority is a government agency and therefore is exempt from federal income tax. CIT is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE B - CASH AND INVESTMENTS

The investment policy of the Authority and CIT is established and monitored by the Board of Directors. The investment policies of the Authority and CIT comply with the Investment of Public Funds Act, Code of Virginia Section 2.2-4500. The investment policy establishes guidelines for the quality of investments, maturities, and investment yields.

Certain deposits and investments are maintained by the Authority and CIT or are represented by specific identifiable investment securities maintained by the Treasurer of Virginia, or are held by the Bank of New York Mellon or Bank of America. Cash and cash equivalents represent deposits and short-term investments with maturities of less than one year.

Deposits and investments held by the Bank of New York Mellon, as trustee, are accounted for in accordance with the provisions of the Master Indenture of Trust Agreement and the Supplemental Indenture of Trust Agreement between the Authority and the Trustee.

Custodial Credit Risk: All deposits of the Authority and CIT, with the exception of the Bank of New York Mellon account, are maintained in accounts covered by federal depository insurance and collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia, as amended, which provides for an assessable multiple financial institution collateral pool. The Bank of New York Mellon (Trust Department) account is a portfolio of U.S. Treasury and repurchase agreements that are collateralized by U.S. Treasury securities.

GASB 40 amends the requirements set out in GASB 3, by only requiring disclosure of uncollateralized deposits, and uninsured and unregistered securities held by a counterparty, or its trust department or agent but not in the government's name. The Authority and CIT had no investments exposed to custodial credit risk.

Concentration of Credit Risk: Disclosure of any one issuer is required when it represents five percent or more of total investments. At June 30, 2009, 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 2009.

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, 2009, the Authority and CIT had investments and ratings as shown in the chart below.

	<u>Credit Rating</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents:			
Cash		\$ 8,553	\$ 8,553
Federated Treasury Obligations Fund	AAAm	3,549	3,549
Local Government Investment Pool	AAAm	<u>4,840,053</u>	<u>4,840,053</u>
Total cash and cash equivalents		<u>\$4,852,155</u>	<u>\$4,852,155</u>

NOTE C - ACCOUNTS AND ACCRUED RECEIVABLES

The Authority held accounts receivable totaling \$23,341. CIT held accounts receivable totaling \$194,615 for federal awards and miscellaneous receivables, and \$139,401 of accounts receivable related to the Innovative Technology Foundation (see Note K).

NOTE D - NOTES RECEIVABLE

During the last five fiscal years, CIT has entered into convertible note purchase agreements with 32 promising emerging companies under its Growth Acceleration Program (GAP). The promissory notes have maturity dates of 12 months, 20 months, or 24 months from issuance. Payment due at maturity is principal plus eight percent; however, in one instance, CIT has written a note with a ten percent interest rate. In some cases, CIT has granted extensions as the notes have become due. Several of the extensions stipulate an interest rate increase from eight percent to ten percent. At CIT's option, CIT may convert the note into equity of the company, subject to the terms of the note.

During fiscal year 2009, Soft Tissue Regeneration, Inc. paid CIT \$50,000 for half of the principal balance plus \$4,000 in interest. The remainder of the note was converted into equity. CIT also converted into equity the notes of Mpowerplayer, Inc., South49 Solutions, Inc., and Engineered Products of Virginia, LLC (see Note J). At June 30, 2009, CIT had \$1,464,055 in notes receivable. Due to the risk involved with an emerging company, CIT has elected to set up an allowance of \$1,464,055.

NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2009:

	<u>Beginning Balance</u>	<u>Acquisitions and Depreciation</u>	<u>Sales and Dispositions</u>	<u>Ending Balance</u>
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	150,354	-	27,353,428
Accumulated depreciation	(11,407,489)	(924,628)	-	(12,332,117)
Furniture, fixtures, and equipment	903,731	10,298	(5,461)	908,568
Accumulated depreciation	<u>(883,980)</u>	<u>(8,466)</u>	<u>5,461</u>	<u>(886,985)</u>
Total	<u>\$23,956,248</u>	<u>\$(772,442)</u>	<u>\$(195,915)</u>	<u>\$22,987,891</u>

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 the equivalent of two weeks of annual leave forward to the following year.

NOTE G - CAPITAL LEASES

The Authority leases a copier that qualifies as a capital lease for accounting purposes and has been recorded at \$10,298, the present value of the future minimum lease payments as of the date of its inception. Through June 30, 2009, \$515 of accumulated depreciation has been taken. Future minimum lease payments at June 30, 2009, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 2,912
2011	2,496
2012	2,496
2013	2,496
2014	<u>1,873</u>
Total minimum lease payments	12,273
Less: Amounts representing interest	<u>(2,115)</u>
Present value of future minimum lease payments	<u>\$10,158</u>

The following schedule presents the changes in capital lease obligations:

<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<u>\$ -</u>	<u>\$10,298</u>	<u>\$140</u>	<u>\$10,158</u>	<u>\$2,070</u>

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 midrise portion of the building. In turn, the Commonwealth has a sublease with the midrise tenant.

<u>Balance July 1, 2008</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>	<u>Amount Due Within One Year</u>
<u>\$6,270,000</u>	<u>\$855,000</u>	<u>\$5,415,000</u>	<u>\$935,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>1,220,000</u>	<u>91,744</u>	<u>1,311,744</u>
Total	<u>\$5,415,000</u>	<u>\$1,275,016</u>	<u>\$6,690,016</u>

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, 2009 was \$1,890 for the Authority and \$59,760 for CIT. The Authority does not have any minimum rental payments due under operating leases as of June 30, 2009. As of June 30, 2009, CIT has the following minimum rental payments due under several equipment leases.

<u>Year Ending</u> <u>June 30,</u>	
2010	\$8,651
2011	<u>171</u>
Total	<u>\$8,822</u>

NOTE J - EQUITY POSITIONS

CIT holds equity positions in fifteen start-up organizations obtained through CIT programs.

The first program is the CIT Intellectual Property program which is no longer in existence. Under this program, CIT licensed titles for technologies to start-up organizations in exchange for stock. CIT initially received the titles to these technologies from universities without cost to CIT. CIT obtained stock from several companies through this program; however, all but one of these companies (Hemodyne, Inc.) has gone out of business. This security is not traded on the open market and there is no cost basis to CIT. The equity position of this stock, therefore, has not been recorded on CIT assets since there is no clear assessment of the value at either cost or market.

The second program under which CIT has obtained equity positions in start-up companies is the Growth Acceleration Program (GAP). The equity was obtained by exercising conversion options in the GAP note purchase agreements and through additional cash purchases. As none of these companies are traded on the open market, it is difficult to determine a market value for these equity positions without full company valuations. Since there is no clear assessment of value, CIT has not recorded these equity positions as assets. CIT's equity portfolio, as of June 30, 2009, is detailed below.

<u>Company Name</u>	<u>Number of Shares</u> <u>or % ownership</u>	<u>Type of Equity</u>
Engineered Products of Virginia, LLC	6.45% ownership interest	ownership interest
Global Cell Solutions, Inc.	35,150 shares	Series A Preferred
Hemodyne, Inc.	35,003 shares	Common
KZO Innovations, Inc.	81,953 shares	Series A Preferred
Mpowerplayer, Inc.	128,804 shares	Series A Preferred
OnDialog, Inc.	27,121 shares	Series A Preferred
Rollstream, Inc.	738,322 shares	Series A Preferred

Secure Command, Inc.	53,850 shares	Series A Preferred
Senior-Living.com, Inc.	100,000 shares	Common
South49 Solutions, Inc.	250,000 shares	Series A Preferred
Soft Tissue Regeneration, Inc.	33,038 shares	Series A-1 Preferred
SquareLoop, Inc.	1,161,827 shares	Series A Preferred
Tau Therapeutics, LLC	482,986 shares	Series A Preferred
Verical, Inc.	282,624 shares	Series A Preferred
Visure Corp.	8,054 shares	Series A Preferred

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.

The Board of Directors of ITF authorized transfers of \$490,000 to support CIT programs. The funds were used to initiate the Entrepreneur-in-Residence program and to support the development of the Innovation Center land project. During fiscal year 2009, \$252,623 was transferred to CIT for these programs. As of June 30, 2009, ITF owed CIT \$129,430 for costs associated with the Innovation Center project, as well as \$9,971 for legal and consulting fees paid on ITF's behalf. At June 30, 2009, the ITF's unaudited net assets totaled \$301,280.

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 \$366,579 in 2009 for payroll of \$2,443,860.

NOTE M - RISK MANAGEMENT

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

NOTE N – SUBSEQUENT EVENT

During the Virginia Acts of Assembly – 2009 Reconvened Session, the Code of Virginia was changed to rename the Innovative Technology Authority to the Innovation and Entrepreneurship Investment Authority, effective July 1, 2009. The new legislation gives the Authority additional responsibilities, and changes the appointment process and structure of the Board of Directors. The Innovation and Entrepreneurship Investment Authority is the successor in interest to the Innovative Technology Authority. Without limitation, title and interest in and to any real or tangible personal property vested in the Innovative Technology Authority is transferred to and taken as standing in the name of the Innovation and Entrepreneurship Investment Authority.

SUPPLEMENTARY INFORMATION

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2009

	ITA	CIT	Eliminating Entry	Total
A S S E T S				
Current assets:				
Cash and cash equivalents	\$ 160,490	\$4,691,665	\$ -	\$ 4,852,155
Prepaid expenses	-	68,671	-	68,671
Accounts and accrued receivables	23,341	334,016	-	357,357
Less: allowance for doubtful accounts	(2,664)	(68,506)	-	(71,170)
Notes receivable	-	1,464,055	-	1,464,055
Less: allowance for doubtful accounts	-	(1,464,055)	-	(1,464,055)
Due from CIT	2,267,804	-	(2,267,804)	-
Total current assets	2,448,971	5,025,846	(2,267,804)	5,207,013
Noncurrent assets:				
Unamortized expense of bond issue	43,329	-	-	43,329
Unamortized rent abatement	336,842	-	-	336,842
Total noncurrent assets	380,171	-	-	380,171
Capital assets:				
Land and land improvements	7,944,997	-	-	7,944,997
Building and improvements	27,353,428	-	-	27,353,428
Less: accumulated depreciation	(12,332,117)	-	-	(12,332,117)
Furniture, fixtures and equipment	908,568	-	-	908,568
Less: accumulated depreciation	(886,985)	-	-	(886,985)
Total capital assets	22,987,891	-	-	22,987,891
Total assets	25,817,033	5,025,846	(2,267,804)	28,575,075
LIABILITIES				
Current liabilities:				
Due to ITA	-	2,267,804	(2,267,804)	-
Accrued interest payable	67,999	-	-	67,999
Compensated absences	-	126,172	-	126,172
Accounts payable, accrued expenses and prepaid rental income	110,376	194,457	-	304,833
Deferred revenue	-	705	-	705
Due to Commonwealth of Virginia	826,354	-	-	826,354
Capital lease obligations - short term	2,070	-	-	2,070
Bonds payable - short term	935,000	-	-	935,000
Security deposits	29,922	-	-	29,922
Total current liabilities	1,971,721	2,589,138	(2,267,804)	2,293,055
Long-term liabilities:				
Capital lease obligations	8,088	-	-	8,088
Bonds payable	4,480,000	-	-	4,480,000
Total long term liabilities	4,488,088	-	-	4,488,088
Total liabilities	6,459,809	2,589,138	(2,267,804)	6,781,143

INNOVATIVE TECHNOLOGY AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 COMBINING STATEMENT OF NET ASSETS
 As of June 30, 2009

	ITA	CIT	Eliminating Entry	Total
NET ASSETS				
Investment in capital assets, net of related debt	17,606,061	-	-	17,606,061
Unrestricted net assets	1,751,163	1,736,708	-	3,487,871
Restricted net assets, expendable	-	700,000	-	700,000
Total net assets	<u>\$19,357,224</u>	<u>\$2,436,708</u>	<u>\$ -</u>	<u>\$21,793,932</u>

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, 2009

	ITA	CIT	Total
Operating revenues:			
Rental income - lease revenue	\$ 1,645,217	\$ -	\$ 1,645,217
Rental income - bonds	1,327,910	-	1,327,910
Federal awards	-	514,566	514,566
Other business	-	1,087,740	1,087,740
Other income	2,623	100	2,723
Total operating revenues	2,975,750	1,602,406	4,578,156
Operating expenses:			
Program expenses:			
Research and development	-	835,320	835,320
Entrepreneur	-	2,196,088	2,196,088
Connect	-	629,367	629,367
Broadband	-	487,746	487,746
Commonwealth support	-	38,969	38,969
Innovative Institutes	-	57,111	57,111
Innovation Center	-	335,583	335,583
Total program expenses	-	4,580,184	4,580,184
Other expenses:			
Communications and marketing	-	319,771	319,771
Business development	-	938,531	938,531
Advocacy	-	526,021	526,021
Other unallowable expenses	-	41,324	41,324
Unapplied indirect	-	201,006	201,006
Administrative	648	-	648
Building expense	1,483,705	-	1,483,705
Depreciation and amortization	942,059	-	942,059
Total other expenses	2,426,412	2,026,653	4,453,065
Total operating expenses	2,426,412	6,606,837	9,033,249
Operating income/(loss)	549,338	(5,004,431)	(4,455,093)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	5,308,802	-	5,308,802
Interest income	4,003	81,829	85,832
Interest expense - bonds	(459,576)	-	(459,576)
Interest expense - capital lease	(199)	-	(199)
Total non-operating revenues/(expenses)	4,853,030	81,829	4,934,859
Income/(loss) before transfers	5,402,368	(4,922,602)	479,766

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, 2009

	<u>ITA</u>	<u>CIT</u>	<u>Total</u>
Transfers in/(out)	<u>(5,308,802)</u>	<u>5,308,802</u>	<u>-</u>
Change in net assets	<u>93,566</u>	<u>386,200</u>	<u>479,766</u>
Net assets at July 1, 2008	<u>19,263,658</u>	<u>2,050,508</u>	<u>21,314,166</u>
Net assets at June 30, 2009	<u>\$ 19,357,224</u>	<u>\$ 2,436,708</u>	<u>\$ 21,793,932</u>

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

	ITA	CIT	Total
Cash flows from operating activities:			
Rental income received	\$2,596,018	\$ -	\$ 2,596,018
Security deposits paid	(41,411)	-	(41,411)
Program income received	-	678,186	678,186
Federal awards income received	-	680,377	680,377
Growth Acceleration Program funding income received	-	250,000	250,000
Other income received	2,623	100	2,723
Payments to Growth Acceleration Program recipients	-	(550,000)	(550,000)
Payments to vendors	(1,347,894)	(3,403,910)	(4,751,804)
Payments to grantees	-	(114,327)	(114,327)
Payments to employees	-	(2,935,825)	(2,935,825)
Net cash provided/(used) by operating activities	<u>1,209,336</u>	<u>(5,395,399)</u>	<u>(4,186,063)</u>
Cash flows from non-capital financing activities:			
Appropriations received from the Commonwealth of Virginia	5,308,802	-	5,308,802
Operating transfers (out)/in	<u>(5,308,802)</u>	<u>5,308,802</u>	<u>-</u>
Net cash provided/(used) by non-capital financing activities	<u>-</u>	<u>5,308,802</u>	<u>5,308,802</u>
Cash flows from investing activities:			
Interest received	<u>4,003</u>	<u>84,667</u>	<u>88,670</u>
Net cash provided/(used) by investing activities	<u>4,003</u>	<u>84,667</u>	<u>88,670</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - ITA	(150,354)	-	(150,354)
Cash payments on capital lease	(141)	-	(141)
Cash payment to retire bond indenture	(855,000)	-	(855,000)
Payments for interest	<u>(470,117)</u>	<u>-</u>	<u>(470,117)</u>
Net cash provided/(used) by capital and related financing activities	<u>(1,475,612)</u>	<u>-</u>	<u>(1,475,612)</u>
Net increase/(decrease) in cash and cash equivalents	(262,273)	(1,930)	(264,203)
Cash and cash equivalents at July 1, 2008	<u>422,763</u>	<u>4,693,595</u>	<u>5,116,358</u>
Cash and cash equivalents at June 30, 2009	<u>\$ 160,490</u>	<u>\$ 4,691,665</u>	<u>\$ 4,852,155</u>

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

	ITA	CIT	Total
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	\$ 549,338	\$ (5,004,431)	\$ (4,455,093)
Adjustments to reconcile operating income/(loss) to net cash:			
Depreciation and amortization	942,059	-	942,059
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	686	43,554	44,240
Decrease in due from CIT and (decrease) in due to ITA, respectively	218,377	(218,377)	-
(Increase)/decrease in incentive to lessee	61,140	-	61,140
(Increase)/decrease in prepaid expenses	-	(32,010)	(32,010)
(Increase)/decrease in unamortized rent abatement	(336,842)	-	(336,842)
Increase/(decrease) in accounts payable, accrued expenses and prepaid rental income	(88,369)	(149,218)	(237,587)
Increase/(decrease) in deferred revenue	-	(595)	(595)
Increase/(decrease) in security deposits	(65,292)	-	(65,292)
Increase/(decrease) in grants payable	-	(23,906)	(23,906)
Increase/(decrease) in compensated absences	-	(10,416)	(10,416)
Increase/(decrease) in due to Commonwealth of Virginia	(71,761)	-	(71,761)
Net cash provided/(used) by operating activities	<u>\$ 1,209,336</u>	<u>\$ (5,395,399)</u>	<u>\$ (4,186,063)</u>

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Fiscal Year Ended June 30, 2009

	ITA	CIT	Total
Undesignated:			
Beginning balance	\$ 49,233	\$ 1,750,508	\$ 1,799,741
Change in net assets	93,566	386,200	479,766
Depreciation	933,094	-	933,094
Interest income designated to building	(4,003)	-	(4,003)
Transfer net profit from building operations to designated to building	(160,512)	-	(160,512)
Change in restricted - GAP BioLife Fund	-	(400,000)	(400,000)
Capital lease payments	(141)	-	(141)
Bond issuance expense	8,965	-	8,965
Bond payment	(855,000)	-	(855,000)
Bank fees on building reserve	648	-	648
Total undesignated	65,850	1,736,708	1,802,558
Restricted - GAP BioLife Fund:			
Beginning balance	-	300,000	300,000
Grant from Johnson & Johnson Services, Inc.	-	200,000	200,000
Matching funds from CIT	-	200,000	200,000
Total restricted for GAP BioLife Fund	-	700,000	700,000
Investment in capital assets:			
Beginning balance	17,738,540	-	17,738,540
Reversal of fiscal year 2008 construction in progress	(195,915)	-	(195,915)
Purchases for building	150,354	-	150,354
Depreciation	(933,094)	-	(933,094)
Capital lease payments	141	-	141
Bond issuance expense	(8,965)	-	(8,965)
Bond payment	855,000	-	855,000
Total investment in capital assets	17,606,061	-	17,606,061
Designated to building:			
Beginning balance	1,475,885	-	1,475,885
Transfer net profit from building operations to designated to building	160,512	-	160,512
Interest income designated to building	4,003	-	4,003
Reversal of fiscal year 2008 construction in progress	195,915	-	195,915
Purchases for building	(150,354)	-	(150,354)
Bank fees on building reserve	(648)	-	(648)
Total designated to building	1,685,313	-	1,685,313
Total fund balance	\$ 19,357,224	\$ 2,436,708	\$ 21,793,932

APPENDIX A

Independent Auditor's Report on Financial Statements



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 16, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities 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, 2009 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, 2009, 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 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 opinions on the basic financial statements of 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2009, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Walter J. Kucharski". The signature is fluid and cursive, with a prominent initial "W".

AUDITOR OF PUBLIC ACCOUNTS

APPENDIX B

AGENCY OFFICIALS

INNOVATIVE TECHNOLOGY AUTHORITY
AND
CENTER FOR INNOVATIVE TECHNOLOGY

BOARDS OF DIRECTORS
As of June 30, 2009

Daniel Bannister, Chairman

Kimberly B. Chapman	Rick Kapani
Aneesh P. Chopra	Suzanne H. King
Evan L. Curbeam	Harry T. Lester
Rakesh C. Gupta	Carolyn Meyers
Rodney P. Hunt	Roderick Powell
Maloy I. Jones	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