The cataclysmic economic events of the past two years have demonstrated that we cannot afford to continue to govern and manage our organizations and institutions – both public and private – using the same assumptions or models of the past.

We need to take this opportunity to change the way we look at technology and innovation, their role in our economy and what we can do now to begin to foster policies that foster innovation. Globally, innovation is recognized as the premier path to economic expansion. In Virginia, innovation can accelerate recovery from the current recession and propel the Commonwealth into a new economy that creates new jobs, cuts costs and improves efficiencies.

We have worked with leaders in Richmond to begin positioning CIT and its parent authority so that we can strengthen our mission to help innovators and facilitate the adoption of innovation. Earlier this year, the General Assembly and Governor Kaine created the Innovation and Entrepreneurship Investment Authority (IEIA). The legislation consolidated two existing entities with research and development (R&D)-related responsibilities – the Innovative Technology Authority and the Virginia
Research and Technology Advisory Commission – into a single authority — the IEIA. The new Authority continues the work of the ITA, with the added duty of creating a strategic R&D roadmap for the Commonwealth.

As the IEIA begins its work, CIT leaders are continuing to foster innovation. This year, CIT R&D and other executives worked with the regional Technology Councils to create the community-driven Innovation Index, which will enhance regional as well as statewide strategic planning and investment decisions. More information is provided later in this report and is documented in the Phase I report of the Index.

Likewise, in spite of funding constraints, our CIT Entrepreneur service line continued to accelerate early stage technology company formation and growth with seed stage capital to jump-start new company formation and to link professional managers to early stage companies. While we received nearly 380 applications this year, we were only able to invest in and create four of these technology and bioscience high expectation companies, which are crucial to providing new growth to our economy.

With innovation comes “disruptive” change that produces opportunities and challenges. We must be prepared to seize both, and CIT professionals in our CIT Connect and CIT Broadband service lines are helping private and public sector clients discover, plan and initiate policy and investment strategies necessary to secure federal funding and facilitate private sector investment.

Innovation is the key to maintaining America’s and Virginia’s standing in the global economy. The current economic challenges and constrained budgets have created challenges, to be sure. But, as you will see in this annual report, we at CIT are creating many more opportunities that will make Virginia the leader in the new innovation economy, while maximizing its return on innovation investments.

Sincerely,

Pete Jobse
CIT President and CEO
CIT Entrepreneur
Creating New Companies and Jobs

Virginia has received low scores in providing capital for new technology companies. CIT Entrepreneur works to solve this problem through the CIT GAP Funds (seed stage investment programs that leverage federal and private investments to launch new high expectation companies).

CIT is responsible for facilitating capital formation for ten to fifteen new companies, which are projected to add $500 million to Virginia’s GSP in seven to ten years. Since its inception, CIT GAP Funds has invested almost $3.5 million to create 36 companies that, in turn, were able to attract an additional $41 million in private equity. As a double-bottom-line fund designed to resolve Virginia’s current shortage of seed stage capital, CIT GAP Funds offers superior economic returns for entrepreneurs and co-investors, while providing a significant economic development contribution to the Commonwealth.

The service line also manages CIT’s Federal Funding Assistance Program, which identifies and accelerates opportunities for small technology firms to obtain federal R&D awards – about $120 million in federal funds annually. This program brings non-dilutive financing to enhance the value of Virginia’s early-stage technology companies and promotes a more robust and innovative R&D base within the Commonwealth.
CIT Connect
Creating Innovative Solutions

Technological innovation can improve standards of living and delivery of services, increase security and lower operational expenditures. CIT Connect is pursuing global leadership in the identification and assimilation of innovative technologies.

CIT experts work with state and federal government officials to identify opportunities to test and deploy advances in technology that improve government operations. CIT Connect consultants help clients solve specific problems and challenges, improving their ability to plan for the future.

The Connect service line generates revenue to offset direct and indirect costs. This year, Connect team members were responsible for delivering an operational analysis of mobile learning training and technologies for the US Department of Defense. This assessment entailed pinpointing leading edge mobile learning technologies and evaluating how these technologies can bridge training gaps for military personnel. A critical element of this work involved identifying industry best practices for implementing an enterprise-wide mobile learning practice. The detailed technical insight and expertise Connect acquires helps to grow the business and improves client relationships. These insights and capabilities are leveraged to support and improve government operations in the Commonwealth.

In the spring, the Connect team worked with the Virginia Department of Education (VDOE) to support the expansion of its longitudinal data system by providing recommendations on improving the quality and utility of data. A key component of this effort centered on exploring the benefits gained and the challenges faced when student achievement data are linked to teachers.

This fall, Connect again partnered with VDOE to develop resources and training to assist Virginia school divisions in providing all Virginia students with career counseling and Academic and Career Plans (ACP).

CIT Connect is working to improve the quality of our lives through cutting-edge research and through the creation of innovative solutions for today’s challenging environment.
CIT R&D
Creating Research Partnerships

Large-scale technology solutions need to be proven before they can be deployed on a wider scale. A nonprofit organization with a 25-year reputation for neutrality, CIT R&D conducts research and development programs that conceive and validate advanced technology solutions for Commonwealth and national challenges.

CIT has created teams of private sector and university partners to advance research in mine safety and environmental monitoring, over-the-horizon vessel detection for enhanced port security, wireless bridge monitoring, and environmental bioterrorism detection that will help homeland security and public safety experts better monitor the release of natural and/or man-made pathogens.

CIT is expert in identifying and managing the best teams and developing and deploying innovative technology-based solutions to complex problems. In providing solutions to government and commercial clients, CIT also helps small companies and universities move research from the lab to real-world settings, ensuring that local economies benefit from that commercialization and growth.

Lastly, CIT R&D experts are working with regional technology councils to develop the Commonwealth Innovation Index, which will identify and create new industry clusters in advanced technologies. By mobilizing, educating, and supporting a community-based planning and measurement process, regional economies will be prepared to foster the formation, retention, and growth of key technology initiatives by maximizing investment and policy decisions. CIT is uniquely positioned to support this initiative due to the extensive knowledge it has gained facilitating the growth of Virginia’s research and development assets and technology industry base.
CIT Broadband
Creating Tools for a Mobile Workforce and New Economies

CIT Broadband operates the Governor’s Office of Telework and Broadband Promotion. The office helps local governments, schools, hospitals, businesses and consumers across the Commonwealth acquire and incorporate high-speed communications into their development strategies so they can participate in the innovation economy.

CIT delivers strategic guidance, facilitation, broadband demand generation, and asset mapping services necessary for the Commonwealth of Virginia to ensure statewide deployment of affordable broadband services and applications such as telework. CIT is uniquely qualified to deliver these services due to its extensive experience with Commonwealth broadband deployment projects, federal broadband programs, and technological domain expertise.

On the infrastructure side, CIT is credited with having developed the Commonwealth’s first broadband availability map – the only one in the nation to be created at no incremental cost to taxpayers. Subsequently, CIT was designated the Commonwealth’s sole “Broadband Mapping Entity” for the purpose of participating in Federal Broadband initiatives. In this capacity, CIT is working with private sector partners to further document broadband availability and to develop a framework for attracting and supporting an affordable broadband infrastructure. For application development, CIT continues to work with partners across the Commonwealth to support the development and deployment of applications that will accelerate and support broadband adoption. Both the infrastructure framework and the application development activities are contributing to the success of broadband deployments throughout the Commonwealth.
In 2008, the Virginia General Assembly passed a resolution creating the Commonwealth Innovation Index – a community-driven tool that will help the Commonwealth build and attract advanced technology companies. Specifically, it directed CIT to work with Virginia’s technology councils and technology leaders to create the index.

Unlike other states that use centralized planning and top-down directives, this is a grassroots, regional approach that gives local industry and technology leaders the opportunity to provide input about innovations that will shape the future of their regions.

Already, participation in the Innovation Index is providing technology council leaders and industry members with the opportunity to outline their vision for the next ten to fifteen years of technology growth in their regions and in the Commonwealth.
For instance, the Hampton Roads Technology Council has convened a series of focus groups targeting three industry clusters that will guide economic activity for the next several years: modeling and simulation; sensor technology, and bioscience. In the Lynchburg area, the Region 2000 Technology Council is focused on opportunities in the wireless and nuclear industries. This information is detailed in the Phase I Report released in December.

All across the Commonwealth, regional leaders are profiling leading technology industry sectors and related workforce requirements, educational attainment, and areas of research so that the community and elected officials can work together to maximize the opportunities for economic growth.

The Innovation Index is a true public-private partnership that is creating a road map to the innovation economy, while providing elected officials and business leaders with valuable guidance and expertise so that they can make targeted and wise investments that will advance all regions of the Commonwealth.
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2009

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

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$5,207,013</td>
<td>$5,487,068</td>
<td>$(280,055)</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>380,171</td>
<td>113,433</td>
<td>266,738</td>
</tr>
<tr>
<td>Capital assets</td>
<td>22,987,891</td>
<td>23,956,248</td>
<td>$(968,357)</td>
</tr>
<tr>
<td>Total assets</td>
<td>28,575,075</td>
<td>29,556,749</td>
<td>$(981,674)</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>2,293,055</td>
<td>2,827,583</td>
<td>(534,528)</td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>4,488,088</td>
<td>5,415,000</td>
<td>(926,912)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>6,781,143</td>
<td>8,242,583</td>
<td>(1,461,440)</td>
</tr>
<tr>
<td>Net assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in capital assets, net of related debt</td>
<td>17,606,061</td>
<td>17,738,540</td>
<td>(132,479)</td>
</tr>
<tr>
<td>Unrestricted net assets</td>
<td>3,487,871</td>
<td>3,275,626</td>
<td>212,245</td>
</tr>
<tr>
<td>Restricted net assets, expendable</td>
<td>700,000</td>
<td>300,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Total net assets</td>
<td>$21,793,932</td>
<td>$21,314,166</td>
<td>$479,766</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental income</td>
<td>$2,973,127</td>
<td>$3,201,156</td>
<td>$228,029</td>
</tr>
<tr>
<td>Federal awards</td>
<td>514,566</td>
<td>2,919,922</td>
<td>(2,405,356)</td>
</tr>
<tr>
<td>Other business</td>
<td>1,087,740</td>
<td>526,607</td>
<td>561,133</td>
</tr>
<tr>
<td>VA initiatives - COVITS sponsorships and registration</td>
<td>-</td>
<td>383,795</td>
<td>(383,795)</td>
</tr>
<tr>
<td>Other income</td>
<td>2,723</td>
<td>-</td>
<td>2,723</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>4,578,156</td>
<td>7,031,480</td>
<td>(2,453,324)</td>
</tr>
</tbody>
</table>

Operating expenses:
- Building and ITA administrative expenses: 1,484,353 1,599,374 (115,021) (2009) 1,484,353 1,599,374 (115,021) (2008)

Non-operating revenues/(expenses):
- Change in net assets: 479,766 (1,642,376) 2,122,142 (2009) 479,766 (1,642,376) 2,122,142 (2008)

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)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>$7,944,997</td>
<td>$7,944,997</td>
<td>$ -</td>
</tr>
<tr>
<td>Construction in progress -- leasehold improvements</td>
<td>-</td>
<td>195,915</td>
<td>(195,915)</td>
</tr>
<tr>
<td>Building and improvements (net of depreciation)</td>
<td>15,021,311</td>
<td>15,795,585</td>
<td>(774,274)</td>
</tr>
<tr>
<td>Furniture, fixtures and equipment (net of depreciation)</td>
<td>21,583</td>
<td>19,751</td>
<td>1,832</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>$22,987,891</td>
<td>$23,956,248</td>
<td>$968,357</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Programs</th>
<th>Budgeted Cost</th>
<th>Actual Cost</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneur</td>
<td>$2,958,914</td>
<td>$2,196,088</td>
<td>$762,826</td>
</tr>
<tr>
<td>Connect</td>
<td>$2,043,103</td>
<td>$629,367</td>
<td>$1,413,736</td>
</tr>
<tr>
<td>Innovation Center</td>
<td>$0</td>
<td>$335,583</td>
<td>$(335,583)</td>
</tr>
</tbody>
</table>

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 federales 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

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) (1,464,055)
Total current assets 5,207,013

Noncurrent assets:
Unamortized expense of bond issue 43,329
Unamortized rent abatement 336,842
Total noncurrent assets 380,171

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 (886,985)
Total capital assets 22,987,891

Total assets 28,575,075

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 29,922
Total current liabilities 2,293,055

Long term liabilities:
Capital lease obligations (Note G) 8,088
Bonds payable (Note H) 4,480,000
Total long term liabilities 4,488,088
Total liabilities 6,781,143

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<table>
<thead>
<tr>
<th></th>
<th>Direct Expenses</th>
<th>Indirect Expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental income - lease revenue</td>
<td>$1,645,217</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental income - bonds</td>
<td>1,327,910</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal awards</td>
<td>514,566</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other business</td>
<td>1,087,740</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>2,723</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>4,578,156</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 257,053 78,530 335,583
Total program expenses 2,604,643 1,975,541 4,580,184

Other expenses:
Communications and marketing 190,294 129,477 319,771
Business development 322,779 615,752 938,531
### Statement of Financial Position

**As of June 30, 2009**

**Total Assets:**

- Buildings: $1,483,705
- Cash and cash equivalents: $4,852,155
- Other assets: $21,793,932

**Total Liabilities:**

- Accounts payable, accrued expenses, and prepaid rental income: $237,500
- Due to the Commonwealth of Virginia: $71,761
- Other liabilities: $23,906

**Net Assets:**

- Net assets at July 1, 2008: $21,314,166
- Net assets at June 30, 2009: $21,793,932

### Statement of Cash Flows

**For the Fiscal Year Ended June 30, 2009**

**Cash Flows from 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
- Net cash used by operating activities: $(4,186,063)

**Cash Flows from Non-Capital Financing Activities:**

- Appropriations received from the Commonwealth of Virginia: $5,308,802
- Net cash provided by non-capital financing activities: $5,308,802

**Cash Flows from Investing Activities:**

- Interest received: $88,670
- Net cash provided by investing activities: $88,670

**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: $(470,117)
- Net cash used by capital and related financing activities: $(1,475,612)

**Net Decrease in Cash and Cash Equivalents:**

- Net decrease in cash and cash equivalents: $(264,203)

**Cash and Cash Equivalents at June 30, 2009:**

- Cash and cash equivalents at June 30, 2009: $4,852,155

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.

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

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Acquisitions</th>
<th>Sales and Dispositions</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>$7,944,997</td>
<td>$</td>
<td>$</td>
<td>$7,944,997</td>
</tr>
<tr>
<td>Construction in progress - leasehold improvements</td>
<td>195,915</td>
<td>- (195,915)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Building and improvements</td>
<td>27,203,074</td>
<td>150,354</td>
<td>-</td>
<td>27,353,428</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(11,407,489)</td>
<td>(924,628)</td>
<td>-</td>
<td>(12,332,117)</td>
</tr>
<tr>
<td>Furniture, fixtures, and equipment</td>
<td>903,731</td>
<td>10,298</td>
<td>(5,461)</td>
<td>908,568</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(883,980)</td>
<td>(8,466)</td>
<td>5,461</td>
<td>(886,985)</td>
</tr>
<tr>
<td>Total</td>
<td>$23,956,248</td>
<td>$(772,442)</td>
<td>$(195,915)</td>
<td>$22,987,891</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Year ending June 30</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$2,912</td>
</tr>
<tr>
<td>2011</td>
<td>2,496</td>
</tr>
<tr>
<td>2012</td>
<td>2,496</td>
</tr>
<tr>
<td>2013</td>
<td>2,496</td>
</tr>
<tr>
<td>2014</td>
<td>1,873</td>
</tr>
</tbody>
</table>

Total minimum lease payments: $12,273
Less: Amounts representing interest: (2,115)

Present value of future minimum lease payments: $10,158

The following schedule presents the changes in capital lease obligations:

<table>
<thead>
<tr>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
<th>Amount Due Within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$10,298</td>
<td>$140</td>
<td>$10,158</td>
<td>$2,070</td>
</tr>
</tbody>
</table>

**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.

<table>
<thead>
<tr>
<th>Balance</th>
<th>Retirements</th>
<th>Balance</th>
<th>Amount Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 2008</td>
<td>$855,000</td>
<td>June 30, 2009</td>
<td>$5,415,000</td>
</tr>
<tr>
<td>$6,270,000</td>
<td></td>
<td></td>
<td>$935,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year Ending June 30</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>935,000</td>
<td>407,208</td>
<td>1,342,208</td>
</tr>
<tr>
<td>2011</td>
<td>1,015,000</td>
<td>336,896</td>
<td>1,351,896</td>
</tr>
<tr>
<td>2012</td>
<td>1,090,000</td>
<td>260,568</td>
<td>1,350,568</td>
</tr>
<tr>
<td>2013</td>
<td>1,155,000</td>
<td>178,600</td>
<td>1,333,600</td>
</tr>
<tr>
<td>2014</td>
<td>1,220,000</td>
<td>91,744</td>
<td>1,311,744</td>
</tr>
<tr>
<td>Total</td>
<td>$5,415,000</td>
<td>$1,275,016</td>
<td>$6,690,016</td>
</tr>
</tbody>
</table>

**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.

<table>
<thead>
<tr>
<th>Year Ending June 30</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$8,651</td>
</tr>
<tr>
<td>2011</td>
<td>171</td>
</tr>
<tr>
<td>Total</td>
<td>$8,822</td>
</tr>
</tbody>
</table>

**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.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Number of Shares</th>
<th>Type of Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineered Products of Virginia, LLC</td>
<td>6.45% ownership interest</td>
<td>ownership interest</td>
</tr>
<tr>
<td>Global Cell Solutions, Inc.</td>
<td>35,150 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>Hemodyne, Inc.</td>
<td>35,003 shares</td>
<td>Common</td>
</tr>
<tr>
<td>KZO Innovations, Inc.</td>
<td>81,953 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>Mpowerplayer, Inc.</td>
<td>128,804 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>OnDialog, Inc.</td>
<td>27,121 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>Rollstream, Inc.</td>
<td>738,322 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>Secure Command, Inc.</td>
<td>53,850 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>Senior-Living.com, Inc.</td>
<td>100,000 shares</td>
<td>Common</td>
</tr>
<tr>
<td>South49 Solutions, Inc.</td>
<td>250,000 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>Soft Tissue Regeneration, Inc.</td>
<td>33,038 shares</td>
<td>Series A-1 Preferred</td>
</tr>
<tr>
<td>SquareLoop, Inc.</td>
<td>1,161,827 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>Tau Therapeutics, LLC</td>
<td>482,986 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>Verical, Inc.</td>
<td>282,624 shares</td>
<td>Series A Preferred</td>
</tr>
<tr>
<td>Visure Corp.</td>
<td>8,054 shares</td>
<td>Series A Preferred</td>
</tr>
</tbody>
</table>

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.
INDEPENDENT 
AUDITOR’S 
REPORT

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

Walter J. Kucharski, Auditor

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 Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows 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. 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.

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.

[Signature]

AUDITOR OF PUBLIC ACCOUNTS
The Innovation and Entrepreneurship Investment Authority (IEIA) was created by the General Assembly and signed into law in 2009 by Governor Timothy M. Kaine. The legislation consolidated two existing entities with research and development (R&D)-related responsibilities – the Innovative Technology Authority (ITA) and the Virginia Research and Technology Advisory Commission – into a single authority — the IEIA. Governed by a 13-member Board of Directors, the new Authority continues the work of the ITA, with the added duty to create a strategic R&D roadmap for the Commonwealth.
BOARD OF DIRECTORS

The Honorable
Leonard M. Pomata
Secretary of Technology,
Commonwealth of
Virginia

Daniel Bannister
President, Bannister
Enterprises

Ted Cahall
Chief Technology
Officer, AOL, LLC

Dr. Ray O. Johnson, Sr.
Vice President & CTO,
Lockheed Martin
Corporation

Dr. Lydia W. Thomas
Board of Trustees of
The George Washington
University and retired
President and CEO,
Noblis, Inc.

Hooks Johnston
General Partner,
Valhalla Partners

Suzanne H. King
Partner, New Enterprise
Associates

Wayne Hunter
Managing Partner,
Harbert Venture
Partners

Eric Hansen
Chairman, CEO/
President, Co-founder,
Innovative Wireless
Technologies Inc.

Rick Kapani
Managing Partner,
Vision360 Solutions

Dr. Charles W. Steger
President, Virginia
Polytechnic Institute
and State University

Dr. Linwood H. Rose
President, James
Madison University

Dr. Alan G. Merten
President, George
Mason University