

**THE INNOVATION AND ENTREPRENEURSHIP
INVESTMENT AUTHORITY
INCLUDING ITS BLENDED COMPONENT UNIT
CENTER FOR INNOVATIVE TECHNOLOGY
and SUBSIDIARIES
Herndon, Virginia**

**ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**



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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The management of the Innovation and Entrepreneurship Investment Authority (Authority) offers readers of the Authority's consolidated financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the consolidated financial statements and accompanying notes.

The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth). Its mission is to accelerate the next generation of technology and technology companies coupled with the objective to achieve national recognition as the premier services provider engaged in technology company creation and company growth. The Center for Innovative Technology (CIT) is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority and is a blended component unit of the Authority. Transactions are accounted for in enterprise funds and reports have been prepared on the accrual basis of accounting.

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

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

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

Consolidated Net Position as of June 30, 2016
(With comparative figures for June 30, 2015)

	2016	2015	Change
Assets:			
Current assets	\$ 9,683,738	\$ 8,555,964	\$ 1,127,774
Noncurrent assets	2,133,372	75,969	2,057,403
Capital assets	<u>14,914,577</u>	<u>15,855,135</u>	<u>(940,558)</u>
Total assets	<u>26,731,687</u>	<u>24,487,068</u>	<u>2,244,619</u>
Liabilities:			
Current liabilities	<u>1,664,319</u>	<u>1,420,487</u>	<u>243,832</u>
Total liabilities	<u>1,664,319</u>	<u>1,420,487</u>	<u>243,832</u>
Net Position:			
Net investment in capital assets	14,914,577	15,855,135	(940,558)
Unrestricted	9,962,866	7,211,446	2,751,420
Restricted - Nonexpendable minority interest	<u>189,925</u>	<u>-</u>	<u>189,925</u>
Total net position	<u>\$ 25,067,368</u>	<u>\$ 23,066,581</u>	<u>\$ 2,000,787</u>

Current assets increased \$1,127,774 primarily due to the addition of sponsorships received by MACH37 and the addition of marketable equity securities received as return on a Growth Acceleration Program (GAP) investment.

Noncurrent assets increased \$2,057,403 due primarily to the addition of M37 EP investments during the fiscal year ended June 30, 2016.

Consolidated Revenues, Expenses, and Changes in Net Position for the Fiscal Year Ended June 30, 2016
(With comparative figures for the fiscal year ended June 30, 2015)

	2016	2015	Change
Operating revenues:			
Lease	\$ 1,691,530	\$ 1,882,044	\$ (190,514)
Contracts and grants	4,433,484	6,392,205	(1,958,721)
Miscellaneous	515,418	424,100	91,318
Total operating revenues	6,640,432	8,698,349	(2,057,917)
Operating expenses:			
CIT expenses	14,642,610	15,441,536	(798,926)
Building and Authority administrative	1,649,023	1,683,511	(34,488)
Depreciation	808,825	898,268	(89,443)
Total operating expenses	17,100,458	18,023,315	(922,857)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	9,948,407	5,746,460	4,201,947
Interest revenue and gain on investment	2,473,430	182,447	2,290,983
Donations expense	(243,697)	-	(243,697)
Loss on disposal of assets	92,748	-	92,748
Total non-operating revenues/(expenses)	12,270,888	5,928,907	6,341,981
Capital contributions	189,925	-	189,925
Change in net position	2,000,787	(3,396,059)	5,396,846
Net position at July 1, beginning fiscal year	23,066,581	26,462,640	(3,396,059)
Net position at June 30, ending fiscal year	<u>\$ 25,067,368</u>	<u>\$ 23,066,581</u>	<u>\$ 2,000,787</u>

Operating revenues

Lease revenue decreased due to normal fluctuations in lease contracts. Contracts and grants revenue decreased \$1,958,721 from the prior fiscal year, primarily attributable to the fiscal year 2016 winding down of several federal and non-federal awards.

Operating expenses

CIT operating expenses decreased \$798,926 due to reductions in contractual costs associated with completed awards and a reduction in overall staffing.

Non-operating revenues and expenses

The fiscal year 2016 increase in appropriations revenue over fiscal year 2015 is the result of additional appropriation from the Commonwealth of Virginia, for non-discretionary projects.

The fiscal year 2016 increase of interest revenue and gain on investment primarily reflects gains earned on GAP Fund investments in fiscal year 2016. Of the interest revenue and gain on investment earned during fiscal year 2016, 84% was non-cash gain, primarily due to the transfer of equity from CIT to M37 EP.

Donation expense of \$243,697 was recorded in March 2016 to reflect the transfer of 1.1 acres of land to the Board of Supervisors of Fairfax County, Virginia for the Dulles Corridor Metrorail Project.

Capital Assets

Capital Assets as of June 30, 2016

(With comparative figures for June 30, 2015)

	2016	2015	Change
Land and land improvements	\$ 5,385,801	\$ 5,629,498	\$ (243,697)
Building and improvements (net of depreciation)	9,425,686	10,192,275	(766,589)
Furniture, fixtures and equipment (net of depreciation)	88,090	33,362	54,728
Trademark	15,000	-	15,000
Total capital assets	<u>\$ 14,914,577</u>	<u>\$ 15,855,135</u>	<u>\$ (940,558)</u>

Net reductions in the value of building and improvements and furniture, fixture and equipment reflect depreciation expense of \$819,740 and capital additions of \$107,879. As noted above, land donation expense of \$243,697 was recorded in fiscal year 2016.

Significant variations between budget and actual results

Service Line	Budgeted Cost	Actual Cost	Variance
Entrepreneur	\$ 7,299,000	\$ 5,282,361	\$ (2,016,639)

Under Entrepreneur, the costs incurred were lower than budgeted predominately due to GAP funds designated for follow-on investments in fiscal year 2016.

CONSOLIDATED FINANCIAL STATEMENTS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
 CONSOLIDATED STATEMENT OF NET POSITION
 As of June 30, 2016

ASSETS	
Current assets:	
Cash and cash equivalents (Note C)	\$ 9,112,086
Prepaid expenses and deposits (Note B)	104,985
Accounts and accrued receivables (Note D)	390,891
Less: allowance for doubtful accounts	(73,543)
Notes receivable (Note E)	5,927,976
Less: allowance for doubtful accounts (Note E)	(5,927,976)
Investments in marketable securities (Note G)	<u>149,319</u>
Total current assets	<u>9,683,738</u>
Noncurrent assets:	
M37 Equity Pool, LLC investments (Note G)	2,086,850
Unamortized leasing commissions	<u>46,522</u>
Total noncurrent assets	<u>2,133,372</u>
Capital assets (Note F):	
Land and land improvements	5,385,801
Building and improvements	27,714,228
Less: accumulated depreciation	(18,288,542)
Furniture, fixtures and equipment	795,010
Less: accumulated depreciation	(706,920)
Trademark	<u>15,000</u>
Total capital assets	<u>14,914,577</u>
Total assets	<u>26,731,687</u>
LIABILITIES	
Current liabilities:	
Compensated absences (Note J)	199,693
Unearned revenue (Note B)	330,965
Accounts payable (Note B)	178,822
Accrued expenses (Note B)	714,925
Due to Commonwealth of Virginia (Note B)	123,941
Security deposits (Note B)	<u>115,973</u>
Total current liabilities	<u>1,664,319</u>
Total liabilities	<u>1,664,319</u>
NET POSITION	
Net investment in capital assets	14,914,577
Unrestricted	9,962,866
Restricted - Nonexpendable minority interest	<u>189,925</u>
Total net position	<u>\$ 25,067,368</u>

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

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
 CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2016

Operating revenues:	
Lease	\$ 1,691,530
Contracts and grants	4,433,484
Growth Acceleration Program	223,679
Sponsorships and donations	277,944
Miscellaneous	<u>13,795</u>
Total operating revenues	<u>6,640,432</u>
Operating expenses:	
Program expenses:	
Research and development	489,798
Entrepreneur	5,282,361
Connect	2,256,689
Broadband	1,042,164
Commonwealth support	<u>3,593,754</u>
Total program expenses	<u>12,664,766</u>
Other expenses:	
Communications and marketing	465,041
Business development	437,234
Advocacy and other unallowable expenses	98,691
Fundraising	60,966
Indirects unapplied to projects	915,912
Building and Authority administrative	1,649,023
Depreciation	<u>808,825</u>
Total other expenses	<u>4,435,692</u>
Total operating expenses	<u>17,100,458</u>
Operating loss	(10,460,026)
Non-operating revenues/(expenses):	
Appropriations from the Commonwealth of Virginia	9,948,407
Interest revenue	55,775
Gain on investment	2,417,655
Donation expense	(243,697)
Gain on disposal of fixed assets	<u>92,748</u>
Total non-operating revenues/(expenses)	<u>12,270,888</u>
Income before capital contributions	1,810,862
Capital contributions	<u>189,925</u>
Change in net position	2,000,787
Net position at July 1, 2015	<u>23,066,581</u>
Net position at June 30, 2016	<u>\$ 25,067,368</u>

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

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2016

Cash flows from operating activities:	
Leases	\$ 1,733,373
Security deposits received	46,686
Contracts and grants revenue received	4,404,736
Growth Acceleration Program revenue received	223,679
Sponsorship revenue	500,000
Miscellaneous receipts	71,334
Payments to Growth Acceleration Program recipients	(2,585,000)
Payments to vendors	(7,154,433)
Security deposits paid	(49,107)
Payments to employees	<u>(5,969,418)</u>
Net cash used by operating activities	<u>(8,778,150)</u>
Cash flows from non-capital financing activities:	
Appropriations received from the Commonwealth of Virginia	<u>10,405,519</u>
Net cash provided by non-capital financing activities	<u>10,405,519</u>
Cash flows from investing activities:	
Gain on investment	347,396
Interest received	<u>26,449</u>
Net cash provided by investing activities	<u>373,845</u>
Cash flows from capital and related financing activities:	
Acquisition of marketable securities - CIT	(165,911)
Acquisition and construction of capital assets - Authority	<u>(24,175)</u>
Net cash used by capital and related financing activities	<u>(190,086)</u>
Net decrease in cash and cash equivalents	1,811,128
Cash and cash equivalents at July 1, 2015	<u>7,300,958</u>
Cash and cash equivalents at June 30, 2016	<u>\$ 9,112,086</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2016

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (10,460,026)
Adjustments to reconcile operating loss to net cash:	
Non-cash item - Depreciation	808,825
Non-cash item - Note receivable interest applied to new note or equity conversion	29,326
Non-cash item - Depreciation on generator accepted from tenant in lieu of rent to Commonwealth of Virginia in prior fiscal year	4,959
Non-cash item - Participation interest in M37 Equity Pool, LLC	189,925
Changes in assets and liabilities:	
Decrease in accounts and accrued receivables	221,538
Decrease in prepaid expenses and deposits	1,572
Decrease in due from Commonwealth of Virginia	276,393
Decrease in unamortized leasing commissions and rent abatement	29,447
Decrease in accounts payable	(349,416)
Increase in accrued expenses	563,863
Decrease in unearned revenue	(53,164)
Decrease in security deposits	(2,421)
Decrease in compensated absences	(38,971)
	<u>(38,971)</u>
Net cash used by operating activities	<u>\$ (8,778,150)</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE A – DESCRIPTION OF ORGANIZATION

Basis of Presentation: The financial statements include the accounts of the Innovation and Entrepreneurship Investment Authority (Authority) and its blended component unit, the Center for Innovative Technology (CIT) and subsidiaries, collectively “the Organization”. The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth), as authorized by the Innovation and Entrepreneurship Investment Authority Act of 2009, as amended, Title 2.2, Chapter 22, of the Code of Virginia. The Innovation and Entrepreneurship Investment Authority Act provides for the Authority to form a non-stock corporation to carry out the mission of the Authority. CIT is the non-stock, not-for-profit corporation created for this purpose, and acts as the operating arm of the Authority. Its mission is to accelerate the next generation of technology and technology companies coupled with the objective to achieve national recognition as the premier services provider engaged in technology company creation and company growth. The Virginia General Assembly 2015 Session, Virginia Acts of Assembly Chapter 665 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 and subsidiaries, are intended to present the financial position and the changes in financial position and cash flows on only that portion of the financial reporting entity of the Commonwealth that is attributable to the transactions of the Organization. A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises oversight authority. The Authority is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth. Consolidating financial statements for the Authority and CIT and its subsidiaries can be found in the Supplementary Information section of the Annual Financial Statement report.

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

NOTE B – BASIS OF ACCOUNTING

Basis of Accounting: The financial statements of the Organization 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 incurred.

The activities of the Organization 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.

Basis of Consolidation: The consolidated financial statements incorporate the financial statements of the Authority and CIT and its subsidiaries. All significant inter-organizational accounts have been eliminated.

Basis of Presentation: Under current governmental accounting standards generally accepted in the United States of America, the Organization is required to report information regarding its financial position and activities according to two classes of net position: unrestricted net position and restricted net position. The financial statements report amounts separately by class of net position as follows:

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

Allocation Method: CIT uses the full-cost allocation approach to allocate indirect costs among 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.

Accounts Receivable: Accounts receivable are primarily unsecured non-interest-bearing amounts due from tenant leases, contracts and grants. The Organization provides an allowance for doubtful collections, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal accounts receivable are due 30 days after issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer/grantor. At June 30, 2016, the Organization had designated an allowance for doubtful accounts of \$73,543 in relation to delinquent accounts.

Prepaid Expenses: Prepaid assets for operating costs paid in advance, such as insurance expense, are recognized when purchased and expensed when used.

Capital Assets: Property and equipment are stated at cost at the date of acquisition or, in the case of gifts, at fair market value at the date of donation. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets, ranging from 3 to 40 years. Capital assets are recorded if they have a cost of \$5,000 or more and a useful life of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the useful lives of the assets, as follows:

	<u>Years</u>
Building and improvements	5 - 40
Furniture, fixtures and equipment	3 - 10

Land, buildings and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statement in the current period.

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

Compensated Absences: Compensated absences account for the Organization's liability for compensated time off earned by employees but not taken as of June 30, 2016.

Unearned Revenue: Unearned revenue represents monies received but not earned as of June 30, 2016. The majority of unearned revenue as of June 30, 2016 is related to unearned sponsorship revenue from annual corporate sponsors of MACH37.

Due to Commonwealth of Virginia: Amounts due to the Commonwealth consist of appropriation refunds payable, offset by amounts related to the Commonwealth of Virginia lease of the midrise portion of the Authority's building, located in Herndon, Virginia.

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

Restricted Fund Balances: Restricted funds reported by the Organization represent ownership by realated-party minority members of M37 EP.

Operating and Non-Operating Activity: Most of the financial activity of the Organization is related to operations. Operating activities are directly related to the Organization's promotion of the Commonwealth of Virginia's economic growth through technology.

Currently, non-operating activity relates to appropriations from the Commonwealth and investment activities such as interest income and interest expense.

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

CIT and its wholly-owned subsidiary MACH37 (as a disregarded entity) are exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The organization is not classified as a private foundation.

CIT's majority owned subsidiary, M37 EP, is a limited liability company and has elected to be taxed as a partnership. Each member is responsible for the tax liability, if any, related to its proportionate share of M37 EP's taxable income. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

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

Generally, tax returns of the Organization's entities remain open to inspection by federal, state and local authorities for three years from the date of filing. Returns for fiscal years ended June 30, 2013 and later remain subject to examination.

NOTE C - CASH AND INVESTMENTS

The investment policy of the Organization is established and monitored by the Board of Directors. The investment policies of the Organization comply with the Investment of Public Funds Act, Code of Virginia Section 2.2-4500 - 4518. The investment policy establishes guidelines for the quality of investments, maturities, and investment yields.

Certain deposits and investments are maintained by the Organization, are represented by specific identifiable investment securities maintained by the Treasurer of Virginia, or are held by the Bank of America. Cash and cash equivalents represent deposits and short-term investments with an original maturity of 90 days or less.

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

Disclosure is required for risk associated with uncollateralized cash deposits, and uninsured and unregistered securities held by a counterparty, or its trust department or agent but not in the government's name. The Organization 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, 2016, the Organization 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 Organization had no foreign investments or deposits for fiscal year 2016.

Credit Risk: Disclosure of the credit quality rating is required for investments exposed to the risk an issuer or other counterparty will not fulfill its obligations. At June 30, 2016, the Organization had investments and ratings as shown in the chart below.

	<u>Credit Rating</u>	<u>Fair Value</u>
Cash, cash equivalents and investments:		
Cash		\$ 605,802
Local Government Investment Pool	AAAm	8,506,284
Corporate stock		149,319
M37 Equity Pool, LLC investments		<u>2,086,850</u>
		<u>\$ 11,348,255</u>

NOTE D - ACCOUNTS AND ACCRUED RECEIVABLES

At June 30, 2016, the Authority held accounts receivable, related to tenant leases, contracts and grants, totaling \$156,571, net of an allowance of \$72,945. At June 30, 2016, CIT held accounts receivable, related to contracts, grants, and miscellaneous receivables, totaling \$160,777, net of an allowance of \$598.

NOTE E - NOTES RECEIVABLE

During the last 12 fiscal years, CIT has entered into convertible note purchase agreements with 115 promising emerging companies under its Growth Acceleration Program (GAP), the Commonwealth Energy Fund (CEF) contract with the Virginia Department of Mines, Minerals, and Energy (DMME), and the State Small Business Credit Initiative (SSBCI) program with the Virginia Small Business Financing Authority (VSBFA).

The promissory notes have maturity dates of twelve months to sixty months from issuance. Payment due at maturity is principal plus interest, which ranges from 6% to 12%.

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

At June 30, 2016, CIT had \$5,927,976 in notes receivable. Due to the risk involved with emerging companies, CIT has elected to set up an allowance of \$5,927,976.

NOTE F - CAPITAL ASSETS

The Organization had the following capital asset activities during fiscal year 2016:

	Beginning Balance	Acquisitions and Additions	Sales and Dispositions	Ending Balance
Land and land improvements	\$ 5,629,498	\$ -	\$ (243,697)	\$ 5,385,801
Building and improvements	27,743,806	24,175	(53,753)	27,714,228
Accumulated Depreciation	(17,551,531)	(790,764)	53,753	(18,288,542)
Furniture, fixtures and equipment	719,786	83,704	(8,480)	795,010
Accumulated Depreciation	(686,424)	(28,976)	8,480	(706,920)
Trademark	-	15,000	-	15,000
	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Total	<u>\$ 15,855,135</u>	<u>\$ (696,861)</u>	<u>\$ (243,697)</u>	<u>\$ 14,914,577</u>

NOTE G – INVESTMENTS

Investments consisted of the following at June 30, 2016:

CIT

Marketable securities \$ 149,319

M37 Equity Pool, LLC

Interest in portfolio company equity 2,086,850

\$ 2,236,169

The composition of the investment return for the year ended June 30, 2016, as reported in the consolidated statement of revenues, expenses and changes in net position, is as follows:

	<u>2016</u>
Transfer of equity from CIT to M37 EP	\$ 2,086,850
Net gain on GAP investments	<u>330,805</u>
	<u>\$ 2,417,655</u>

NOTE H – FAIR VALUE MEASUREMENTS

The organization reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement.

Valuation of Investments

The values determined for the Organization's investments are based upon available information at the time the good faith valuations are made and do not necessarily represent the amount that might ultimately be realized, which could be higher or lower than the reported value. Because of the inherent uncertainty of valuation, estimated values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. Any appreciation or depreciation of an investment's value is reported as an unrealized gain or loss in the financial statements.

Marketable securities are carried at estimated fair value as determined using the quoted closing price from the last day of trading during the period.

Investments for which quoted market prices are not available, including interests in portfolio companies held by M37 EP, are carried at estimated fair value as determined in good faith by the managing member. Fair value is estimated considering such factors as the inherent illiquidity of, and lack of marketability associated with, venture capital investments in private companies or unregistered securities, the investee company's enterprise value established in the last round of venture financing, changes in market conditions after the last round of venture financing or after the last reporting period, the value of a minority interest in the investee company's financial position, the investee company's ability to obtain necessary additional financing, and the investee company's performance as compared to its business plan and its progress toward a liquidity event.

The Organization determined fair value measurements within a framework that has established a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices for instruments that are identical in markets that are not active or similar instruments in active markets and model-derived valuations for which all significant inputs are observable, either directly or indirectly, in active markets. The Organization held no investments with Level 2 inputs at June 30, 2016.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurements and are unobservable. The types of investments included in Level 3 generally include investments in private companies, other venture capital partnerships, and unregistered securities.

The hierarchy requires the use of the observable market data when available. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management’s assessment of the significance of a particular input to the fair value measurement in its entirety required judgment and considers factors specific to the investment.

The following is a summary of the levels within the fair value hierarchy for the Organization’s investments at June 30, 2016:

Description	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 149,349	\$ -	\$ -	\$ 149,349
Interest in portfolio company equity	-	-	2,086,850	2,086,850
	<u>\$ 149,349</u>	<u>\$ -</u>	<u>\$ 2,086,850</u>	<u>\$ 2,236,199</u>

There were no significant transfers between the levels during the year. The Organization’s policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized.

The table below sets forth a summary of change in the fair value of the Organization's Level 3 assets for the year ended June 30, 2016:

	<u>2016</u>
Balance at beginning of year	\$ -
Additions	<u>2,086,850</u>
	<u>\$ 2,086,850</u>

NOTE I – CONCENTRATION OF REVENUE

For the fiscal year ended June 30, 2016, approximately 60%, of the Organization's non-investment revenue was from appropriations received from the Commonwealth of Virginia.

NOTE J - 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 calendar year.

NOTE K - COMMITMENTS

The Authority and CIT have entered into several operating lease agreements. Rental expense for operating leases for the year ended June 30, 2016 was \$2,662 for the Authority and \$10,547 for CIT. The Authority does not have minimum rental payments due under operating leases, as of June 30, 2016. CIT has the following minimum rental payments due under operating leases, as of June 30, 2016:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 5,054
Thereafter	<u>-</u>
Total	<u>\$ 5,054</u>

MACH37 LLC rent of \$120,000, paid to the Authority, was eliminated on consolidation.

NOTE L - EQUITY POSITIONS

CIT holds equity positions in 53 start-up organizations, obtained through CIT's GAP Fund. The equity was obtained by exercising conversion options in the GAP Fund note purchase agreements and through cash purchases. As the companies are not traded on the open market, it is difficult to determine a market value for the equity positions without full company valuations. Since there is no clear assessment of value, CIT has not recorded the equity positions as assets.

CIT's GAP Fund equity portfolio, as of June 30, 2016, is detailed below:

Company Name	Number of Shares or % ownership	Type of Equity
Brazen Technologies, Inc.	477,981 shares	Preferred
Canvas Solutions, Inc.	589,193 shares	Preferred
CargoSense, Inc.	321,395 shares	Preferred
Cavion LLC	1,053,692 shares	Ownership interest
Cirusworks, Inc.	163,040 shares	Preferred
Cirusworks, Inc.	205,210 shares	Common
ClearEdge3D, Inc.	930,045 shares	Preferred
Cont3nt.com, Inc.	133,262 shares	Preferred
DataRPM Corporation	196,344 shares	Preferred
Distil, Inc.	1,139,840 shares	Preferred
Encore HQ, Inc.	196,781 shares	Preferred
Engineered Products of Virginia, LLC	6.41% ownership interest	Ownership interest
Fitnet Corporation	965 shares	Preferred
Global Cell Solutions, Inc.	35,150 shares	Preferred
GovTribe, Inc.	4,037 shares	Preferred
Gryphn Corporation	24,621 shares	Common
ID.ME, Inc.	121,329 shares	Preferred
Introhive, Inc.	322,580 shares	Preferred
Invincea, Inc.	82,729 shares	Preferred
iTi Health, Inc.	62,696 shares	Preferred
LiveSafe, Inc.	101,153 shares	Preferred
Loop88, Inc.	43,450 shares	Preferred
Lujure Media, Inc.	2,741 shares	Preferred
Mobile System 7, Inc.	211,438 shares	Preferred
Mpowerplayer, Inc.	128,804 shares	Preferred
Neoantigenics, Inc.	79,101 shares	Preferred
NexVortex, Inc.	23,654 shares	Common
Ostendio, Inc.	75,266 shares	Preferred
Ovastasis, LLC	12,500 units	Ownership interest
Perform Yard, Inc.	347,830 shares	Preferred
Phthisis Diagnostic, Inc.	750 shares	Preferred
Piedmont BioProducts, LLC	6% ownership interest	Ownership interest
Power Fingerprinting, Inc.	21,672 shares	Preferred
Power Supply Collective, Inc.	217,108 shares	Preferred
Power Supply Collective, Inc.	69,422 shares	Common
Private Practice, Inc.	200,000 shares	Preferred
PublicRelay, Inc.	985,027 shares	Preferred
Riogin, LLC	764 units	Preferred
Sitscape, Inc.	37 shares	Common
Soft Tissue Regeneration, Inc.	33,038 shares	Preferred
South49 Solutions, Inc.	250,000 shares	Preferred
Squareloop, Inc.	1,161,827 shares	Preferred
Sunnovations, Inc.	2,255,657 shares	Preferred
TearSolutions, LLC	50,000 shares	Ownership interest
ThreatQuotient, Inc.	398,461 shares	Preferred
Triblio, Inc.	89,526 shares	Preferred
Urgent.ly, Inc.	106,945 shares	Preferred
Vangogh Imaging, Inc.	200,000 shares	Preferred
Vangogh Imaging, Inc.	80,000 shares	Common
VividCortex, Inc.	212,359 shares	Preferred
Wealth Engine, Inc.	42,302 shares	Preferred
WealthForge, LLC	33,422 shares	Preferred
YaSabe, Inc.	2,295,923 shares	Preferred
Zoobean, Inc.	1,256,982 shares	Preferred
Zoomdata, Inc.	218,872 shares	Preferred
Zoomph, Inc.	66,667 shares	Preferred

NOTE M - EMPLOYEE BENEFITS

CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Plan contributions are fully and immediately vested and amounts are non-forfeitable. Additional tax-deferred contribution, subject to certain limitations, may be made by the employees through a salary reduction program. Pension expense for the plan totaled \$697,795 in fiscal year 2016.

NOTE N - CONTINGENT LIABILITIES

At June 30, 2016, CIT had contingent liabilities related to 2 term sheets (letters of intent) for GAP investments of \$200,000. The term sheets state CIT's intention to purchase equity or enter into convertible note purchase agreements with the companies, subject to certain conditions. The letters of intent expire 30 - 120 days after issuance. CIT invested a total of \$160,000 in the two companies subsequent to year-end.

NOTE O - RISK MANAGEMENT

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

NOTE P – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 13, 2017, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

On September 30, 2016, CIT became the majority member of M37 Carried Interest, LLC. M37 Carried Interest, LLC was formed in the Commonwealth on September 30, 2016 for the purpose of making and holding qualified investments made in companies participating in the MACH37 Cybersecurity Accelerator after June 30, 2016.

SUPPLEMENTARY INFORMATION

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
 CONSOLIDATING STATEMENT OF NET POSITION
 As of June 30, 2016

	Authority	CIT	MACH37 LLC	M37 Equity Pool, LLC	Eliminating Entry	Total
A S S E T S						
Current assets:						
Cash and cash equivalents	\$ 2,866,954	\$ 5,745,132	\$ 500,000	\$ -	\$ -	\$ 9,112,086
Prepaid expenses and deposits	-	104,985	-	-	-	104,985
Accounts and accrued receivables	229,516	161,375	-	-	-	390,891
Less: allowance for doubtful accounts	(72,945)	(598)	-	-	-	(73,543)
Notes receivable	-	5,927,976	-	-	-	5,927,976
Less: allowance for doubtful accounts	-	(5,927,976)	-	-	-	(5,927,976)
Investments in marketable securities	-	149,319	-	-	-	149,319
Due from CIT	69,871	-	-	-	(69,871)	-
Total current assets	3,093,396	6,160,213	500,000	-	(69,871)	9,683,738
Noncurrent assets:						
Interest in M37 Equity Pool, LLC	-	1,896,925	-	-	(1,896,925)	-
Interest in MACH37, LLC	-	98,704	-	-	(98,704)	-
M37 Equity Pool, LLC investments	-	-	-	2,086,850	-	2,086,850
Unamortized leasing commissions	46,522	-	-	-	-	46,522
Total noncurrent assets	46,522	1,995,629	-	2,086,850	(1,995,629)	2,133,372
Capital assets:						
Land and land improvements	5,385,801	-	-	-	-	5,385,801
Building and improvements	27,714,228	-	-	-	-	27,714,228
Less: accumulated depreciation	(18,288,542)	-	-	-	-	(18,288,542)
Furniture, fixtures and equipment	711,306	-	83,704	-	-	795,010
Less: accumulated depreciation	(693,170)	-	(13,750)	-	-	(706,920)
Trademark	-	-	15,000	-	-	15,000
Total capital assets	14,829,623	-	84,954	-	-	14,914,577
Total assets	17,969,541	8,155,842	584,954	2,086,850	(2,065,500)	26,731,687
LIABILITIES						
Current liabilities:						
Compensated absences	-	199,693	-	-	-	199,693
Unearned revenue	903	49,467	280,595	-	-	330,965
Accounts payable	8,241	170,581	-	-	-	178,822
Accrued expenses	22,085	692,840	-	-	-	714,925
Due to the Authority	-	69,871	-	-	(69,871)	-
Due to COV	123,941	-	-	-	-	123,941
Security deposits	115,973	-	-	-	-	115,973
Total current liabilities	271,143	1,182,452	280,595	-	(69,871)	1,664,319
Total liabilities	271,143	1,182,452	280,595	-	(69,871)	1,664,319
NET POSITION						
Net investment in capital assets	14,829,623	-	84,954	-	-	14,914,577
Unrestricted	2,868,775	6,973,390	219,405	1,896,925	(1,995,629)	9,962,866
Restricted - Nonexpendable minority interest	-	-	-	189,925	-	189,925
Total net position	\$ 17,698,398	\$ 6,973,390	\$ 304,359	\$ 2,086,850	\$ (1,995,629)	\$ 25,067,368

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY and SUBSIDIARIES
 CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2016

	Authority	CIT	MACH37 LLC	M37 Equity Pool, LLC	Eliminating Entry	Total
Operating revenues:						
Lease	\$ 1,811,530	\$ -	\$ -	\$ -	\$ (120,000)	\$ 1,691,530
Contracts and grants	982,278	3,451,206	-	-	-	4,433,484
Growth Acceleration Program	-	223,679	-	-	-	223,679
Sponsorships and donations	-	58,539	219,405	-	-	277,944
Miscellaneous	-	13,795	-	-	-	13,795
Total operating revenues	2,793,808	3,747,219	219,405	-	(120,000)	6,640,432
Operating expenses:						
Program expenses:						
Research and development	-	489,798	-	-	-	489,798
Entrepreneur	-	5,282,361	-	-	-	5,282,361
Connect	-	2,256,689	-	-	-	2,256,689
Broadband	-	1,042,164	-	-	-	1,042,164
Commonwealth support	-	3,713,754	-	-	(120,000)	3,593,754
Total program expenses	-	12,784,766	-	-	(120,000)	12,664,766
Other expenses:						
Communications and marketing	-	465,041	-	-	-	465,041
Business development	-	437,234	-	-	-	437,234
Advocacy and other unallowable expenses	-	98,691	-	-	-	98,691
Fundraising	-	60,966	-	-	-	60,966
Indirects unapplied to projects	-	915,912	-	-	-	915,912
Building and Authority administrative	1,649,023	-	-	-	-	1,649,023
Depreciation	795,075	-	13,750	-	-	808,825
Total other expenses	2,444,098	1,977,844	13,750	-	-	4,435,692
Total operating expenses	2,444,098	14,762,610	13,750	-	(120,000)	17,100,458
Operating income/(loss)	349,710	(11,015,391)	205,655	-	-	(10,460,026)
Non-operating revenues/(expenses):						
Appropriations from the Commonwealth of Virginia	9,948,407	-	-	-	-	9,948,407
Interest revenue	8,047	47,728	-	-	-	55,775
Gain on investment	-	2,417,655	-	-	-	2,417,655
Donations expense	(243,697)	-	-	-	-	(243,697)
Gain (loss) on disposal of fixed assets	(5,956)	98,704	-	-	-	92,748
Total non-operating revenues/(expenses)	9,706,801	2,564,087	-	-	-	12,270,888
Income/(loss) before transfers and capital contributions	10,056,511	(8,451,304)	205,655	-	-	1,810,862
Transfers (out)/in - Appropriations	(9,948,407)	9,948,407	-	-	-	-
Transfers (out)/in - Authority contracts and grants	(982,278)	982,278	-	-	-	-
Total transfers (out)/in	(10,930,685)	10,930,685	-	-	-	-
Capital contributions	-	-	98,704	2,086,850	(1,995,629)	189,925
Change in net position	(874,174)	2,479,381	304,359	2,086,850	(1,995,629)	2,000,787
Net position at July 1, 2015	18,572,572	4,494,009	-	-	-	23,066,581
Net position at June 30, 2016	\$ 17,698,398	\$ 6,973,390	\$ 304,359	\$ 2,086,850	\$ (1,995,629)	\$ 25,067,368

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 CONSOLIDATING STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2016

	Authority	CIT	MACH37 LLC	M37 Equity Pool, LLC	Total
Cash flows from operating activities:					
Leases	\$ 1,733,373	\$ -	\$ -	\$ -	\$ 1,733,373
Security deposits received	46,686	-	-	-	46,686
Contracts and grants revenue received	1,021,689	3,383,047	-	-	4,404,736
Growth Acceleration Program revenue received	-	223,679	-	-	223,679
Sponsorship revenue	-	-	500,000	-	500,000
Miscellaneous receipts	-	71,334	-	-	71,334
Payments to Growth Acceleration Program recipients	-	(2,585,000)	-	-	(2,585,000)
Payments to vendors	(1,329,077)	(5,825,356)	-	-	(7,154,433)
Security deposits paid	(49,107)	-	-	-	(49,107)
Payments to employees	-	(5,969,418)	-	-	(5,969,418)
Intercompany receipts/(payments)	9,250	(9,250)	-	-	-
Net cash provided/(used) by operating activities	1,432,814	(10,710,964)	500,000	-	(8,778,150)
Cash flows from non-capital financing activities:					
Appropriations received from the Commonwealth of Virginia	10,405,519	-	-	-	10,405,519
Transfers (out)/in - Appropriations	(10,405,519)	10,405,519	-	-	-
Transfers (out)/in - Authority contracts and grants	(1,021,689)	1,021,689	-	-	-
Net cash provided/(used) by non-capital financing activities	(1,021,689)	11,427,208	-	-	10,405,519
Cash flows from investing activities:					
Gain on investment	-	347,396	-	-	347,396
Interest received	8,047	18,402	-	-	26,449
Net cash provided/(used) by investing activities	8,047	365,798	-	-	373,845
Cash flows from capital and related financing activities:					
Acquisition of marketable securities	-	(165,911)	-	-	(165,911)
Acquisition and construction of capital assets - Authority	(24,175)	-	-	-	(24,175)
Net cash provided/(used) by capital and related financing activities	(24,175)	(165,911)	-	-	(190,086)
Net increase/(decrease) in cash and cash equivalents	394,997	916,131	500,000	-	1,811,128
Cash and cash equivalents at July 1, 2015	2,471,957	4,829,001	-	-	7,300,958
Cash and cash equivalents at June 30, 2016	\$ 2,866,954	\$ 5,745,132	\$ 500,000	\$ -	\$ 9,112,086

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND
 CENTER FOR INNOVATIVE TECHNOLOGY
 CONSOLIDATING STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2015

	Authority	CIT	MACH37 LLC	M37 Equity Pool, LLC	Total
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:					
Operating income/(loss)	\$ 349,710	\$ (11,015,391)	\$ 205,655	\$ -	\$ (10,460,026)
Adjustments to reconcile operating income/(loss) to net cash:					
Non-cash item - Depreciation	795,075	-	13,750	-	808,825
Non-cash item - interest applied to new note or equity conversion	-	29,326	-	-	29,326
Non-cash item - Depreciation on generator accepted from tenant in lieu of rent to Commonwealth of Virginia in prior fiscal year	4,959	-	-	-	4,959
Non-cash item - Participation interest in M37 Equity Pool, LLC	-	189,925	-	-	189,925
Changes in assets and liabilities:					
(Increase)/decrease in accounts and accrued receivables	6,872	214,666	-	-	221,538
(Decrease) in due to CIT and Decrease in Due from the Authority, respectively	9,250	(9,250)	-	-	-
(Increase)/decrease in prepaid expenses and deposits	6,778	(5,206)	-	-	1,572
(Increase)/decrease in due from Commonwealth of Virginia	276,393	-	-	-	276,393
(Increase)/decrease in unamortized leasing commissions and rent abatement	29,447	-	-	-	29,447
Increase/(decrease) in accounts payable	(8,819)	(340,597)	-	-	(349,416)
Increase/(decrease) in accrued expenses	22,085	541,778	-	-	563,863
Increase/(decrease) in unearned revenue	(56,515)	(277,244)	280,595	-	(53,164)
Increase/(decrease) in security deposits	(2,421)	-	-	-	(2,421)
Increase/(decrease) in compensated absences	-	(38,971)	-	-	(38,971)
Net cash provided/(used) by operating activities	\$ 1,432,814	\$ (10,710,964)	\$ 500,000	\$ -	\$ (8,778,150)

APPENDIX A

Independent Auditor's Report on Financial Statements



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 13, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
And Review Commission

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

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the Innovation and Entrepreneurship Investment Authority, a component unit of the Commonwealth of Virginia, and its blended component unit, the Center for Innovative Technology, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the

United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Innovation and Entrepreneurship Investment Authority and its blended component unit, the Center for Innovative Technology, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The Combining Statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.



AUDITOR OF PUBLIC ACCOUNTS

KJS/clj

APPENDIX B

AGENCY OFFICIALS

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

BOARD OF DIRECTORS

As of June 30, 2016

Michael Steed, Chairman

Walter Mazan, Vice Chairman

Jonathan Aberman

J. S. Gamble

Todd Haymore

Karen Jackson

Angela Kellett

David C. Lucien

Christy Morton

Bernard Mustafa

Rob Quartel

Michael Rao

Timothy Sands

Teresa A. Sullivan

Dietra Trent

Sandy Williamson

OFFICERS

Ed Albrigo, President and Chief Executive Officer, CIT

Susan Aitcheson, Treasurer and Secretary, CIT and IEIA