

CONNECTICUT INNOVATIONS, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF CONNECTICUT)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2023

CONNECTICUT INNOVATIONS, INCORPORATED

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Connecticut Innovations, Incorporated
New Haven, Connecticut

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Connecticut Innovations, Incorporated (the Corporation), a component unit of the State of Connecticut, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Innovations, Incorporated, as of June 30, 2023, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Connecticut Innovations, Incorporated and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 9 and the pension and other post-employment benefit information on pages 45 and 46 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2023, on our consideration of the Corporation'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 solely 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 effectiveness of the Corporation's 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 Corporation's internal control over financial reporting and compliance.

Mahoney Sabol + Company, LLP

Certified Public Accountants
Glastonbury, Connecticut
December 21, 2023

CONNECTICUT INNOVATIONS, INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2023

The following Management's Discussion and Analysis (MD&A) provides an overview of Connecticut Innovations, Incorporated's (CI) financial performance for the fiscal year ended June 30, 2023. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to financial statements and related schedules included in the "Required Supplementary Information" section of this report.

FINANCIAL STATEMENTS PRESENTED IN THIS REPORT

CI is a quasi-public agency of the State of Connecticut (CT) created to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovation and inventions or markets in Connecticut by providing financial and technical assistance using risk capital. In addition, the operations of the Connecticut Development Authority (CDA), which was established under Title 32, Chapter 579 of the General Statutes of Connecticut as amended (Statute), were transferred to CI pursuant to Section 147 to 189 of Public Act No. 12-1, Bill 6001. The operations transferred from CDA, which now continue as part of CI, were created to stimulate industrial and commercial development within the State. The incorporation of CDA into CI is a vertical extension of the overall economic reach of CI. CI's activities are accounted for as an enterprise fund using the accrual basis of accounting, similar to a private business entity.

The financial statements include: Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows. The Statement of Net Position provides a measure of CI's economic resources. The Statement of Revenues, Expenses and Changes in Fund Net Position measures the transactions for the period presented and the impact of those transactions on the resources of CI. The Statement of Cash Flows reconciles the changes in cash and cash equivalents with the activities of CI for the period presented. The activities are classified as to operating, capital and related investing and noncapital financing.

These financial statements and notes thereto reflect a broad and diverse business model. In addition to the merger with CDA, other initiatives include the establishment of a bioscience cluster anchored by Jackson Laboratories (Jax) in Farmington, CT, an increased role in support of stem cell research, the introduction of the CT Bioscience Investment Fund, funding received from the State Small Business Credit Initiative (SSBCI) and a leading financial and managerial role in support of the entire entrepreneurial community in Connecticut.

Notes to the financial statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities.

CONNECTICUT INNOVATIONS, INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023

FINANCIAL HIGHLIGHTS OF FISCAL YEAR 2023:

Net Position:

Total assets and deferred outflows exceeded total liabilities and deferred inflows by \$194.6 million at June 30, 2023. Net position totaling \$183.2 million is unrestricted. Net position totaling \$10.1 million is restricted for cash reserves whose use is specified or limited by bond resolution, enabling legislation, laws or third parties. The portion of CI's net position invested in capital assets, net of related debt totals \$1.3 million. In total the net position of CI decreased \$2.6 million.

Current assets, excluding the current portion of loans and investments, increased \$3.7 million in 2023. Inflows included \$15.9 million from the sale of investments and paydown of loans and \$19.7 million from cash gain realized from the sale of investments. Outflows totaled \$24.0 million for funding of investments (non-SSBCI) and new loans, and \$7.9 million for operations.

Restricted cash increased \$33.1 million. Inflows of restricted cash totaled \$42.5 million and consisted of \$38.4 million of U.S. Treasury funding and interest for the SSBCI program, \$3.7 million of additional cash for CBIF anticipated investment funding and \$0.4 million of grant reimbursements received in Regenerative Medicine Research Fund (RMRF). CI had restricted cash outflows totaling \$9.4 million, consisting of \$7.6 million SSBCI investment fundings, \$1.3 million Proof of Concept investment funding, \$0.3 million release of escrow deposits and \$0.2 million in Urbank release for guarantee.

CI's investment portfolio decreased \$3.7 million in 2023. New investments funded in FY2023 totaled \$33.3 million while net investment decreases totaled \$37.0 million. The decreases totaling \$37.0 million consisted of \$20.1 million in portfolio decreases from sales, recovery of principal and debt equity conversions, coupled with \$16.9 million decrease in portfolio from write-off's and unrealized valuation adjustments. During 2023, CI approved \$46.0 million and funded \$33.3 million (of which \$16 million was approved prior to 2023) for investments in new opportunities and continued support of existing portfolio companies. Committed funding for CI's equity programs as of June 30, 2023 total \$46.0 million. Total new investments funded of \$33.3 million were: \$17.4 million of new investments through its Eli Whitney Fund, \$7.6 million through SSBCI program, \$4.6 million through Fund to Funds, \$1.9 million through Future Fund, \$1.3 million through Climate Tech Fund and \$0.5 million through Proof of Concept Fund. The type of investments may take time to mature and involve considerable risk. A considerable cash reserve is maintained in order to meet the future funding requirements of its portfolio companies.

CI's direct loan portfolio had a net decrease of \$0.6 million in 2023. The decrease was due to loan pay downs of \$2.3 million, a \$0.4 million provision, and new direct loans funded totaling \$2.1 million.

The increase of \$2.1 million of deferred outflows and \$3.9 million increase of deferred inflows consists of a \$1.8 million decrease in CI's proportionate share of the net difference of the State of Connecticut's pension and other post-employment benefit's projected and actual performance, and a \$29 thousand decrease in contributions made subsequent to measurement date in 2023.

CONNECTICUT INNOVATIONS, INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023

FINANCIAL HIGHLIGHTS OF FISCAL YEAR 2023 (Continued):

Net Position (continued):

Current liabilities increased \$9.7 million. Two transfers in transit totaling \$8.1 million currently held by CI on behalf of CBIF (\$4.5 million Exits received) and CTNext (\$3.6 million for Proof of Concept). In addition \$0.8 million of SSBCI State Treasurer's Investment Fund interest deferred and \$0.8 million for salary, fringe, operations and program accruals.

CI's proportionate share of the State of Connecticut net pension liability decreased \$3.7 million in 2023 while CI's proportionate share of the State of Connecticut net other post-employment benefit's liability decreased \$2.3 million in 2023.

CONNECTICUT INNOVATIONS, INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023

FINANCIAL HIGHLIGHTS OF FISCAL YEAR 2023 (Continued):

Net Position (continued):

The following table summarizes the net positions as of June 30, 2023 and 2022:

	Balance June 30, 2023	Balance June 30, 2022 <i>(In Thousands)</i>	Increase (Decrease) 2023 vs. 2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:			
Current assets, excluding current portion of loans and investments	\$ 94,323	\$ 90,578	\$ 3,745
Restricted assets	45,431	12,320	33,111
Portfolio investments	133,721	137,376	(3,655)
Loans, net	14,051	14,650	(599)
Capital assets, net	1,304	1,781	(477)
Operating lease right-of-use assets, net	723	-	723
Other noncurrent assets	66	66	-
Deferred outflows of resources	15,848	13,701	2,147
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	305,467	270,472	34,995
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:			
Current liabilities, excluding unearned U.S. Treasury SSBCI program revenue	17,363	7,638	9,725
Unearned U.S. Treasury SSBCI program revenue	29,761	-	29,761
Net pension liability	22,121	25,849	(3,728)
Net other post-employment benefits liability	22,634	24,930	(2,296)
Other noncurrent liabilities	469	312	157
Deferred inflows of resources	18,540	14,589	3,951
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	110,888	73,318	37,570
NET POSITION:			
Net invested in capital assets	1,304	1,781	(477)
Restricted	10,123	11,223	(1,100)
Unrestricted	183,152	184,150	(998)
TOTAL NET POSITION	\$ 194,579	\$ 197,154	\$ (2,575)

CONNECTICUT INNOVATIONS, INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023

FINANCIAL HIGHLIGHTS OF FISCAL YEAR 2023 (Continued):

Change in Net Position:

Total CI operating revenues in FY2023 increased \$11.0 million when compared to FY2022. CI deployed and recorded \$7.6 million as SSBCI program revenue in FY2023. Earlier in the fiscal year, the U.S. Treasury approved and CI received \$37.3 million from the U.S. Treasury to be used for the SSBCI program. FY2023 net realized and unrealized losses on investments of \$2.3 million represented a \$3.7 million change from FY2022 net realized and unrealized investment losses of \$6.0 million reported in FY2022.

Compensation, benefits and payroll taxes decreased \$35 thousand in FY2023. CI's employees are participants in the State payroll and retirement system and participants are charged a fringe rate which currently averages 82% of salary.

General and administrative expenses increased by \$1.7 million due primarily to increased advisory and consulting services (\$1.2 million) and continued ramp-up of marketing efforts (\$.1 million), which were associated with the growth of portfolio companies managed. General facility expenses (lease, insurance, office) comprised the remainder (\$.4 million).

Net realized gains on investments for FY2023 were \$1.4 million as compared to net realized gains of \$52.2 million in FY2022. Net unrealized losses for FY2023 were \$3.6 million, as compared to net unrealized losses of \$58.2 (inclusive of a \$6.5 million adjustment made in FY2020 for uncertainties that arose from the Covid-19 pandemic).

In FY2023, the net unrealized losses resulted from net decreases in valuations for privately held companies in CI's investment portfolio and public holdings. In FY2022, the net unrealized gains resulted from net increases in valuations for privately held companies in CI's investment portfolio and public holdings.

In FY2023, CI received \$0.6 million for the Connecticut Bioscience Collaboration Program. The entire amount was then loaned to a recipient. This funding was subsequently forgiven (see Note 14) and recorded as a non-operating expense in FY2023.

Non-operating income decreased \$1.2 million when compared to FY2022. CI recorded \$3.6 million of expense related to CTNext Proof of Concept funding that was previously earmarked as bond funds received and recorded as revenue by CI. The CTNext funding was offset by a \$2.1 million increase in income for recaptured pension and other post-employment benefits income, and a net decrease of \$0.3 million for grant and program expenses.

CONNECTICUT INNOVATIONS, INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023

FINANCIAL HIGHLIGHTS OF FISCAL YEAR 2023 (Continued):

Change in Net Position (continued):

The following table summarizes the change in net position for the year ended June 30, 2023 compared to the year ended June 30, 2022.

	Year Ended June 30, 2023	Year Ended June 30, 2022	Favorable (Unfavorable) 2023 vs. 2022
	<i>(In Thousands)</i>		
OPERATING REVENUES:			
U.S. Treasury - SSBCI program revenue	\$ 7,575	\$ -	\$ 7,575
Investment interest income	6,428	5,467	961
Interest on loans	719	586	133
Realized gain on investments - net	1,372	52,186	(50,814)
Unrealized loss on investments, excluding special adjustments - net	(3,644)	(64,706)	61,062
Unrealized gain on investments - special adjustments	-	6,500	(6,500)
Loan fee income	208	370	(162)
Other	1,433	2,680	(1,247)
TOTAL OPERATING REVENUES	14,091	3,083	11,008
OPERATING EXPENSES:			
Payroll and fringes	11,978	12,013	35
Loss provision	400	300	(100)
General, administrative and other	4,856	3,153	(1,703)
TOTAL OPERATING EXPENSES	17,234	15,466	(1,768)
OPERATING LOSS	(3,143)	(12,383)	9,240
NON-OPERATING REVENUES:			
Grant and program income	1	1,119	(1,118)
CT Bioscience Collaboration funding	569	5,969	(5,400)
Recaptured pension and other post-employment benefits	4,219	2,124	2,095
TOTAL NON-OPERATING REVENUES	4,789	9,212	(4,423)
NON-OPERATING EXPENSES:			
Grants and programs	-	4,400	4,400
CT Bioscience Collaboration loan write-down	584	3,038	2,454
CTNext Fund Proof of Concept funding	3,637	-	(3,637)
TOTAL NON-OPERATING EXPENSES	4,221	7,438	3,217
NON-OPERATING INCOME	568	1,774	(1,206)
CHANGE IN NET POSITION	(2,575)	(10,609)	8,034
NET POSITION - BEGINNING OF YEAR	197,154	207,763	(10,609)
NET POSITION - END OF YEAR	\$ 194,579	\$ 197,154	\$ (2,575)

CONNECTICUT INNOVATIONS, INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023

Any questions regarding this report or requests for additional information may be directed to:

Chief Financial Officer
Connecticut Innovations, Inc.
470 James Street, Ste 8, New Haven, CT 06513

FINANCIAL STATEMENTS

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF NET POSITION

JUNE 30, 2023

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents:

Cash and cash equivalents \$ 61,957,750

Committed cash and cash equivalents 31,461,863

TOTAL CASH AND CASH EQUIVALENTS 93,419,613

Current portion of loans 4,637,892

Current portion of portfolio investments 6,645,178

Interest and other receivables 447,191

Prepaid expenses 95,531

Due from State of Connecticut 360,697

TOTAL CURRENT ASSETS 105,606,102

NONCURRENT ASSETS:

Restricted cash and cash equivalents 45,431,371

Portfolio investments, net of current portion 127,075,660

Loans - noncurrent, net of allowance
for loan losses of \$4,996,451 9,412,722

Capital assets, net of depreciation 1,304,328

Operating lease right-of-use assets, net of amortization 722,904

Other 66,000

TOTAL NONCURRENT ASSETS 184,012,985

TOTAL ASSETS 289,619,087

DEFERRED OUTFLOWS OF RESOURCES:

Pension related 8,402,231

Other post-employment benefits related 7,445,603

TOTAL DEFERRED OUTFLOWS OF RESOURCES 15,847,834

The accompanying notes are an integral part of the financial statements.

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2023

LIABILITIES:

CURRENT LIABILITIES:

Unearned U.S. Treasury SSBCI program revenue	\$ 29,761,098
Accrued expenses and other liabilities	5,579,727
Due to Connecticut Bioscience Innovation Fund	4,526,501
Operating lease liabilities, current	279,522
Reserve for loss guarantees	1,655,552
Unearned revenue	845,664
Custodial liability	826,274
Due to CTNext	3,649,953
TOTAL CURRENT LIABILITIES	<u>47,124,291</u>

NONCURRENT LIABILITIES:

Net pension liability	22,121,163
Net other post-employment benefits liability	22,634,089
Operating lease liabilities, net	468,732
TOTAL NONCURRENT LIABILITIES	<u>45,223,984</u>

TOTAL LIABILITIES	<u>92,348,275</u>
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DEFERRED INFLOWS OF RESOURCES:

Pension related	4,606,989
Other post-employment benefits related	13,932,888
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>18,539,877</u>

NET POSITION:

Net investment in capital assets	1,304,328
Restricted	10,122,586
Unrestricted	183,151,855
TOTAL NET POSITION	<u>\$ 194,578,769</u>

The accompanying notes are an integral part of the financial statements.

CONNECTICUT INNOVATIONS, INCORPORATED

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

FOR THE YEAR ENDED JUNE 30, 2023

OPERATING REVENUES:

U.S. Treasury - SSBCI program revenue	\$ 7,574,998
Investment interest income	6,427,782
Interest on loans	718,577
Realized gain on investments - net	1,372,441
Unrealized loss on investments - net	(3,644,712)
Loan fee income	208,296
Other income	1,433,159
TOTAL OPERATING REVENUES	<u>14,090,541</u>

OPERATING EXPENSES:

Salaries	6,493,388
Benefits and payroll taxes	5,484,569
Professional service fees	2,300,922
Provision for loan and guarantee losses	400,000
General facility and office	1,347,180
Marketing, conferences, development	700,796
Depreciation and amortization	495,089
Other	11,127
TOTAL OPERATING EXPENSES	<u>17,233,071</u>

OPERATING LOSS (3,142,530)

NON-OPERATING REVENUES:

Grant and program income	705
Connecticut Bioscience Collaboration funding	569,347
Recaptured pension and other post-employment benefits expense to income	4,219,210
TOTAL NON-OPERATING REVENUES	<u>4,789,262</u>

NON-OPERATING EXPENSES:

Connecticut Bioscience Collaboration Loan write-down	584,347
CTNext Fund Proof of Concept funding	3,637,500
TOTAL NON-OPERATING EXPENSES	<u>4,221,847</u>

NON-OPERATING INCOME 567,415

CHANGE IN NET POSITION (2,575,115)

NET POSITION - BEGINNING OF YEAR 197,153,884

NET POSITION - END OF YEAR \$ 194,578,769

The accompanying notes are an integral part of the financial statements.

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Sale of investments	\$ 33,220,842
Purchase of investments	(31,461,863)
Loan principal collected	2,309,921
Loans funded	(2,110,975)
Interest from loans	725,648
Cash from loan/guarantee/insurance fees	208,296
Interest on investments and marketable securities	1,822,671
Interest on short-term investments and cash deposits	5,039,609
Cash received from other income	414,681
Cash received from dividends and royalties	818,476
Payroll and fringe benefits paid	(10,974,532)
General and administrative expenses paid	(4,224,358)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(4,211,584)</u>

CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES:

Purchase of capital assets	<u>(18,132)</u>
NET CASH USED FOR CAPITAL AND RELATED INVESTING ACTIVITIES	<u>(18,132)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

U.S. Treasury SSBCI program funding received	37,336,096
Cash received under Connecticut Bioscience Collaboration program	569,347
CTNext fund transfers	21,511
Connecticut Bioscience Innovation Fund transfers	4,261,295
Cash paid under grants and programs	(35,295)
Cash paid under custodial arrangements	385,087
Cash paid on lease liabilities	(262,930)
Connecticut Bioscience Collaborative loans	(584,347)
Decrease in escrow payments	(312,455)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>41,378,309</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 37,148,593

CASH AND CASH EQUIVALENTS - BEGINNING 101,702,391

CASH AND CASH EQUIVALENTS - ENDING \$ 138,850,984

The accompanying notes are an integral part of the financial statements.

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2023

As Presented on the Statement of Net Position:

Cash and cash equivalents	\$ 61,957,750
Committed cash and cash equivalents	31,461,863
Restricted cash and cash equivalents	45,431,371
	<u>\$ 138,850,984</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH

USED FOR OPERATING ACTIVITIES:

Operating loss	\$ (3,142,530)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Purchase of investments	(31,461,863)
SSBCI program investment purchases recognized in operating income	(7,574,998)
Realized loss from investment write-offs	18,281,250
Return of principal on investments	13,567,151
Unrealized loss on investments, net	3,644,712
Noncash interest conversions	(375,838)
Charge-offs of loans receivable	(1,267,456)
Noncapital CBIF administrative fee	(200,000)
Provision for loan and guarantee losses	400,000
Depreciation and amortization	495,089
Amortization of right-of-use operating lease assets	288,280
Decrease (increase) in assets:	
Loans receivable	1,466,403
Interest and other receivables	8,658
Prepaid expenses	44,167
Due from State of Connecticut	230,247
Increase (decrease) in liabilities:	
Accrued expenses and other liabilities	542,248
Unearned revenue	842,896
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (4,211,584)</u>

The accompanying notes are an integral part of the financial statements.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations:

Connecticut Innovations, Incorporated (CI or the Corporation) was established under Title 32, Chapter 581 of the General Statutes of the State of Connecticut (the Act), as amended, and was created as a body politic and instrumentality of the State of Connecticut (the State). For purposes of financial reporting, the Corporation is a component unit of the State of Connecticut, and the Corporation's financial statements are included in the State's Annual Comprehensive Financial Report. The Corporation was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations and inventions or markets in Connecticut by providing financial and technical assistance. In addition, the operations of the Connecticut Development Authority (CDA), which was established under Title 32, Chapter 579 of the General Statutes of Connecticut as amended (Statute), were transferred to CI pursuant to Section 147 to 189 of Public Act No. 12-1, Bill 6001. The operations transferred from CDA, which now continue as part of the Corporation, were created to stimulate industrial and commercial development within the State. The powers of the Corporation are vested in its seventeen-member Board of Directors consisting of four members who serve by virtue of their office, four members appointed by the leadership of the General Assembly and nine members appointed by the Governor of the State of Connecticut, each for specified periods of time pursuant to the Act.

Significant funding for the Corporation's programs has been provided by the State through the issuance of general obligation bonds. According to the Act, the State may require the Corporation to repay the contribution of capital obtained through State general obligation bonds at some future date. Such repayment may include the forgiveness of certain interest or principal, or both.

Reporting Entity:

The accompanying financial statements present the Corporation and its component units, entities for which the Corporation is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Corporation's operations.

The Corporation, as a primary government entity, follows the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34* (the Statement) regarding presentation of component units. The Statement modifies certain requirements for including component units in the reporting entity, either by blending (recording their amounts as part of the government), or discretely presenting them (showing their amounts separately in the reporting entity's financial statements). To qualify as a blended component unit, the unit must meet one of the following criteria: (1) have substantively the same governing body as that of the primary government, and either (A) a financial benefit or burden relationship exists between the unit and the primary government, or (B) management of the primary government (below the level of the governing body) has operational responsibility of the unit; (2) the unit provides services or benefits exclusively or almost exclusively to the primary government; or (3) the unit's total debt outstanding, including leases, is expected to be repaid by resources of the primary government.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Reporting Entity (continued):

A unit which fails to meet the substantively the same governing requirement may still be included as a discretely presented component unit, if the primary government has appointed the voting majority of the component unit's governance and meet other criteria as specified in the Statement, such as whether or not it would be misleading were the entity to be excluded. CI did not have any blended or discretely presented component units as of and for the year ended June 30, 2023.

Financial and Technical Programs:

The Corporation provides several basic financial and technical programs and corresponding funds to assist qualifying Connecticut companies and Connecticut colleges and universities as follows:

Eli Whitney Fund - This program may be used for risk capital investments in emerging and established companies to stimulate their development of high technology products, processes and services. The program also provides working capital to assist companies in marketing and launching technology products, processes and services.

BioScience Facilities Fund - This program was developed to enable the development of laboratory space in Connecticut in order to encourage the growth of biotechnology research and development companies.

Seed and BioSeed Funds - These programs were developed to address the needs of entrepreneurs by promoting and investing in early stage Connecticut based emerging technology and biotechnology companies.

PreSeed Fund - This program was developed to provide support and assistance to prepare high technology companies for future investments. Investments consist of two year promissory notes ranging from \$50,000 to \$350,000.

Clean Tech Fund - This program was developed to support the demand for alternative energy technologies, which focuses on energy conservation, environmental protection, or the elimination of harmful waste.

Mezzanine Fund - This loan program is designed to address the needs of Connecticut companies as they endeavor to grow sales and revenues and thus their job base and market share. The loans will be used for working capital purposes.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Financial and Technical Programs (continued):

State Small Business Credit Initiative (SSBCI) - On February 9, 2022, the Connecticut Department of Economic and Community Development (DECD) submitted an application to the United States Department of the Treasury to participate in the SSBCI program established by the Small Business Jobs Act of 2010, as reauthorized and amended by the American Rescue Plan Act of 2021. The United States Department of the Treasury approved the State of Connecticut as a "Participating Jurisdiction" in the SSBCI and, effective June 16, 2022, entered into an Allocation Agreement with the DECD to provide an aggregate amount not to exceed \$119,419,934 to carry out approved State Programs. The entirety of the funds were allocated to the State of Connecticut to support the other credit support program (OCSP) – Equity Capital Program (Direct)/CT Innovations Equity Fund and the OCSP – Other/CT Venture Debt Fund, intended to encompass investments and loans from the Eli Whitney Fund, the Connecticut Works Fund and any other CI funds or investment or loans within CI's powers to make (now or hereafter arising). CI was identified as the "Contracted Entity" that would be administering the State Programs. During 2023, CI received \$37,336,096 (1st tranche of allocated funds) and expended \$7,574,998 in support of the approved CI programs. The remaining amount of the 1st tranche that has not been expended as of June 30, 2023 is classified as a current liability in the accompany statement of net position as the monies are expected to be expended to support the approved CI programs during the fiscal year ending June 30, 2024.

Self-Sustaining Bond Program - Under the Self-Sustaining Bond Program, the Corporation accommodates the financing for specific industrial and certain recreational and utility projects through the issuance of special obligation industrial revenue bonds. These bonds are available for financing such projects as the acquisition of land or the construction of buildings, and purchase and installation of machinery, equipment and pollution control facilities. The Corporation has issued \$474,885,000 of special obligation industrial revenue bonds since July 1, 1978. Total bonds outstanding at June 30, 2023 were \$225,420,070. The bonds are payable solely from payments received from participating companies (or from proceeds of sale of the specific projects in the event of default) and do not otherwise constitute a debt or liability of the Corporation or the State or any municipality thereof. Accordingly, the balances and activity of the Self-Sustaining Bond Program are not included in the Corporation's financial statements.

Titles to most projects financed under this program prior to 1978 (and, in some cases, since then) are generally held by the Corporation, and projects are leased to participating companies at annual rentals sufficient to amortize bond principal and interest over the life of the applicable bonds. The participating companies pay directly any other costs of the projects. Title to a particular project is transferred to the participating company at a nominal amount when the applicable bonds are paid in full. In some cases, prior to 1978 and for most projects financed since then, the Corporation does not hold title to the projects, and collateral loan agreements are obtained from participating companies under which they pay amounts sufficient to amortize the bond principal and interest over the life of the bonds and pay directly any other costs of the project.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Financial and Technical Programs (continued):

Insurance Program - The State has authorized the issuance of up to \$25,000,000 in bonds allocated to the Insurance Program. Of this amount, \$5,500,000 has been distributed to the Insurance Program and was recorded as Contributed Capital. Under the Insurance Program, the Corporation may insure loans made by other lending institutions to companies for acquisition of industrial land, buildings, machinery, and equipment located within the State. In addition, all of the Corporation's Umbrella Program loans were insured under this program.

On June 30, 2023, no loans remained which were insured under the program by other lending institutions.

The Statute provides that the insurance is payable from the net assets of the Insurance Program. If such net assets are not sufficient, the faith and credit of the State are pledged to absorb any shortfall. The Corporation has established maximum limits for individual loans on real property of \$25,000,000 and twenty-five years, and for individual loans on machinery and equipment of \$10,000,000 and ten years.

Loans receivable within the program arise from sales of foreclosed properties. Other real estate owned consists of properties acquired through foreclosure proceedings. Management records other real estate owned at the lower of cost or estimated fair value, less selling cost.

Growth Fund - Under the Growth Fund, the Corporation is authorized to issue individual loans up to a maximum of \$4,000,000. This program provides financial assistance for any purpose the Corporation determines will materially contribute to the economic base of the State by creating or retaining jobs promoting the export of products and services, encouraging innovation in products or services, or supporting existing activities that are important to the State's economy. Financing may be used to purchase real property, machinery and equipment, or for working capital. The Corporation has established an overall maximum loan term of 20 years and a maximum 90 percent loan-to-value ratio for real property loans. The maximum loan terms for machinery and equipment are ten years and 80 percent financing and a seven-year term for working capital loans.

Small contractors and minority business enterprises are eligible for loans up to \$250,000 for terms not to exceed one year to cover the costs of labor and material related to specific contracts.

Connecticut Works Fund and Connecticut Works Guarantee Fund - The Connecticut Works Fund includes direct loans and a loan guarantee program with participating lenders to encourage them to provide more credit on more favorable terms. Eligible projects include most manufacturing related projects and any project that materially supports the economic base of the State through jobs, defense diversification, exporting and the development of innovative products or services. Loan types and amounts include revolving credit lines, fixed asset loans and refinancing in some cases.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Financial and Technical Programs (continued):

Connecticut Works Fund and Connecticut Works Guarantee Fund (continued) - The Connecticut Works Guarantee Fund provides commitments to guarantee loans made by participating financial institutions. Eligible projects are determined by the due diligence principles set forth in the loan presentation guidelines and underwriting considerations for the loan guarantee program of the Connecticut Works Fund.

Connecticut Capital Access Fund - The Connecticut Capital Access Fund provides portfolio insurance to participating financial institutions to assist them in making loans that are somewhat riskier than conventional loans. This assistance is funded by the two branches of the Connecticut Capital Access Fund, the "Urbank Program" and the "Entrepreneurial Loan Program." Eligible projects are determined usually by the financial institution making the loan as long as the projects meet the requirements specified in the participation agreements.

The State has authorized the issuance of up to \$5,000,000 in bonds allocated to the Connecticut Capital Access Fund. Of this amount, \$2,000,000 has been distributed and \$3,000,000 remains available for distribution. In addition, any insurance losses associated with this fund are reimbursable by the State up to amounts remaining in the \$5,000,000 bond allocation.

Financial Statement Presentation:

The Corporation is considered to be an enterprise fund of the State of Connecticut and the accounting methods and procedures adopted by the Corporation conform to U.S. generally accepted accounting principles (GAAP). Enterprise funds are used to account for governmental activities that are similar to those found in the private sector in which the determination of net income is necessary or useful to sound financial administration. In its accounting and financial reporting, the Corporation follows GASB.

Basis of Accounting:

The Corporation's financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of the related cash flows.

Operating and Non-Operating Revenue (Expense):

The Corporation distinguishes operating revenues and expenses from non-operating items. Operating revenue consists primarily of loan interest from its lending and economic development activities and revenue generated in connection with investments (including investment gains and losses from portfolio investments) and programs and other fees and assessments related to all of the above. Operating expenses consist of the costs of operating the lending, economic development, capital venture, programs, as well as depreciation on capital assets.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Operating and Non-Operating Revenue (Expense) (continued):

Non-operating revenues consist of funding from 1) certain State of Connecticut appropriations or regulations, 2) grants and stem cell research funding, and 3) recaptured pension and post-employment expenses to income. Offsetting non-operating revenues and recorded as non-operating expenses are expenditures under grant programs.

Revenue Recognition:

Revenue from grants under government-mandated or voluntary non-exchange transactions is recognized when eligibility requirements are met to the extent that the Corporation can be expected to comply with the purpose restrictions within the specified time limit. Funds received in advance such as those under the Regenerative Medicine Research Fund are recorded as refundable advances until the Corporation fulfills the program's requirements.

Interest income on loans is accrued and credited to operations based upon the principal amount outstanding. The accrual of interest income is generally discontinued when a loan becomes 61 days past due or earlier when there is sufficient question as to the collectability of the interest. The Corporation records past due interest on a cash basis as the money is received. Interest income on past due loans is not accrued until adequate repayment history is again established (typically after three months). Loan acceptance (origination) fees approximate direct loan origination costs and, accordingly, are recognized as income at loan origination. Interest income from investments is recorded as earned. Insurance Program premiums are recorded as income proportionately over the life of the contract (interest method).

Application of Resources:

The Corporation first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

Use of Estimates:

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts and disclosures in the financial statements. The most significant estimates are the determination of fair value of its investments, which are mainly not publicly traded, and determining the adequacy of the allowance for loan losses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents:

Cash equivalents consist of deposits with financial institutions as well as the Corporation's funds in the Connecticut State Treasurer's Short-Term Investment Fund. For purposes of the statement of cash flows, the Corporation considers their marketable securities, such as commercial paper and short-term government bonds, with original maturity of three months or less to be cash equivalents.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Portfolio Investments and Valuations:

The Corporation's portfolio investments consist of shares of publicly traded securities, as well as promissory notes and equity and debt financing instruments extended to various companies to create jobs and further the economic base of Connecticut.

The Corporation records all investments at fair value, which is defined as the price that would be received to sell an asset in an orderly transaction between market participants. Fair value, for other than publicly traded securities, is determined by the Chief Financial Officer after an internal review process and incorporating the advice of an independent valuation consultant for the Corporation using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group (PEIGG).

In determining fair value of non-public traded investments, consideration is given to pertinent information about the companies comprising these investments, including, but not limited to, recent sales and purchase prices of the issuer's securities, sales growth, progress toward business goals, net earnings or losses, and other operating data. The Corporation has applied procedures in arriving at the estimate of the value of such securities that it believes are reasonable and appropriate. Due to the inherent uncertainty of such valuations, those estimated values may differ significantly from the amounts ultimately realized from the investments, and the differences could be material.

All of the Corporation's investments, except certain equity investments, are uninsured, unregistered and held by the Corporation in the Corporation's name. Certain equity investments are insured by the Securities Investor Protection Corporation and held by a registered broker-dealer in the Corporation's name. Investments in the form of debt instruments are secured by the underlying assets of the borrower.

Loans and Allowance for Loan Losses:

Loans are stated at unpaid principal balances less an allowance for loan losses. The allowance for loan losses is maintained at a level believed adequate by management to absorb losses existing in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, historical loan loss experience, current economic conditions, volume, growth and composition of the loan portfolio, reviews of individual delinquent loans, and other relevant factors. The allowance is increased by charges against income and decreased by charge-offs (net of recoveries) when management determines that the collectability of the principal is unlikely.

Allowances for certain impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital Assets:

Capital asset acquisitions exceeding \$1,000 are capitalized at cost. Maintenance and repairs expenses are charged to operations when incurred. Depreciation is computed using the straight-line method over depreciable lives. Leasehold improvements are depreciated over the shorter of their economic useful life or the lease term.

For capital assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any related gain or loss is reflected as non-operating revenue for the period.

Leases:

The Corporation follows GASB Statement No. 87, *Leases*, which became effective for all fiscal years beginning after June 15, 2021. The Corporation determines if an arrangement contains a lease at inception based on whether the Corporation has the right to control the asset during the contract period and other facts and circumstances.

The right-of-use (ROU) lease asset represents the Corporation's right to use an underlying asset for the lease term and lease liabilities represents the Corporation's obligation to make lease payments arising from the lease. ROU lease assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Any leases with a lease term of 12 months or less at inception are not recorded on the statement of net position, and are expensed on a straight-line basis over the lease term in the statement of revenues, expenses, and changes in fund net position. The ROU lease asset was initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, plus ancillary changes necessary to place the lease into service. The ROU lease asset is amortized on a straight-line basis over the life of the related lease.

Pension:

The Corporation's proportionate share of net pension liability, deferred outflows of resources, deferred inflows of resources, and income or expense associated with the Corporation's requirement to contribute to the Connecticut State Employees' Retirement Systems (SERS) have been determined on the same basis as they are reported by SERS. Contributions made to SERS after the measurement date and prior to the Corporation's fiscal year end are reported as deferred outflows of resources.

Other Post-Employment Benefits (OPEB):

The Corporation's proportionate share of net other post-employment benefits, deferred outflows of resources, deferred inflows of resources, and income or expense associated with the Corporation's requirement to participate in the State of Connecticut State Employee OPEB (SEOPEBP or the Plan) have been determined on the same basis as they are reported by the Plan. Contributions made to the Plan after the measurement date and prior to the Corporation's fiscal year end are reported as deferred outflows of resources.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital Contributions:

In accordance with legislation, additional capital is to be contributed from the State of Connecticut to the Insurance Program, Growth, Connecticut Works, Connecticut Works Guarantee, Connecticut Capital Access, on an "as needed" basis to provide additional funds for financial assistance to qualified borrowers. Such contributions, when received, are reported as non-operating revenue.

Restricted Cash and Cash Equivalents:

Restricted cash and cash equivalents includes all cash that relates to specific revenue or General Obligation Bonds, as well as cash reserves whose use is specified or limited by bond resolution, enabling legislation, laws or third parties.

Statement of Cash Flows:

For purposes of the statement of cash flows, cash and cash equivalents include both restricted and unrestricted funds held on deposit with banks as well as funds held with the Connecticut State Treasurer's Short-Term Investment Fund.

Net Position:

Net position of the Corporation is presented in the following three categories:

- Net investment in capital assets consists of capital assets including restricted capital assets reduced by accumulated depreciation.
- Restricted net position consists of those net restricted assets whose use is restricted through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position is the amount of the net assets that are not included in the determination of net investment in capital assets or the restricted component of net position.

Subsequent Events:

Events subsequent to June 30, 2023 have been evaluated through December 21, 2023, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 2 - FAIR VALUE MEASUREMENTS:

The Corporation accounts for certain assets at fair value on a recurring and non-recurring basis. The framework for measuring assets at fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets and liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The Corporation accounts for its portfolio investments at fair value on a recurring basis. Following is a description of the valuation methodologies used for portfolio investments. There have been no changes in the methodologies used at June 30, 2023 compared to the prior year.

CI's investments in public companies are valued at the closing price recorded on the active market on which the individual securities are traded and are categorized as Level 1.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued):

Fair value, for other than publicly traded securities, is determined by the Chief Financial Officer after an internal review process and incorporating the advice of an independent valuation consultant for the Corporation using United States Private Equity Valuation Guidelines promulgated by the PEIGG and the American Institute of Certified Public Accountants Accounting and Valuation Guide – Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies. Such investments are categorized in Level 3. The Corporation has applied procedures in arriving at the estimate of the value of such securities that it believes are reasonable and appropriate.

The valuation methods previously described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Corporation's financial assets measured at fair value on a recurring basis as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Portfolio investments				
Equity	\$ 11,520,221	\$ -	\$ 88,493,176	\$ 100,013,397
Debt	-	-	33,707,441	33,707,441
	<u>\$ 11,520,221</u>	<u>\$ -</u>	<u>\$ 122,200,617</u>	<u>\$ 133,720,838</u>

The following table sets forth a summary of changes in the fair value of the Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2023:

Balance - beginning of year	\$ 112,489,093
Purchases	33,326,930
Sales proceeds	(13,425,295)
Reclassifications	(987,642)
Realized/unrealized losses	<u>(9,202,469)</u>
Balance - end of year	<u>\$ 122,200,617</u>

The Corporation's only assets measured at fair value on a non-recurring basis are its loans classified as impaired totaling \$5.1 million as of June 30, 2023, which are all classified as Level 3.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 3 - CASH AND CASH EQUIVALENTS:

The following is a summary of the composition of cash and cash equivalents (both restricted and unrestricted) at June 30, 2023:

Connecticut State Treasurer's Short-Term Investment Fund	\$ 130,497,391
Deposits with financial institutions	<u>8,353,593</u>
	<u>\$ 138,850,984</u>

Cash and cash equivalents are presented on the statement of net position at June 30, 2023 as follows:

Unrestricted cash and cash equivalents	\$ 93,419,613
Restricted cash and cash equivalents	<u>45,431,371</u>
	<u>\$ 138,850,984</u>

Restricted cash maintained in the Connecticut Capital Access Fund is restricted until the related obligations are paid in full, and all cash that relates to a specific revenue or General Obligation Bond is restricted until the related obligation is paid in full (see Note 1). There were no General Obligation Bonds remaining which required cash in this fund at June 30, 2023.

Custodial credit risk is the risk that, in the event of a bank failure, the Corporation will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Corporation's policy is to deposit any funds in obligations issued or guaranteed by the United States of America or the State of Connecticut and in other obligations which are legal investments for savings banks in Connecticut.

As of June 30, 2023, \$6,489,584 of the Corporation's bank balance was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Credit Risk - Pursuant to the General Statutes of the State of Connecticut, the Corporation may only invest funds in obligations issued or guaranteed by the United States of America or the State of Connecticut, including its instrumentalities and agencies, and the State Treasurer's Investment Fund (STIF). The STIF is available for use by the State's funds and agencies, public authorities and municipalities. State statutes authorized these pooled investment funds to be invested in United States Government and agency obligations, United States Postal Service obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, banker acceptances, student loans, and repurchase agreements. STIF has a weighted average maturity of less than 90 days and is valued at amortized cost.

Investment ratings for the Corporation's investments are as follows:

	Standard & Poor's
	<hr/>
State Treasurer's Investment Fund	AAAm

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 4 - PORTFOLIO INVESTMENTS:

Investments as of June 30, 2023 by related fund are summarized as follows:

<u>CI Fund</u>	<u>Equity Securities</u>	<u>Debt Securities</u>	<u>Total</u>
Eli Whitney	\$ 95,836,712	\$ 10,540,173	\$ 106,376,885
Venture Debt	-	17,177,240	17,177,240
Climate Tech	333,300	2,450,000	2,783,300
Preseed	1,473,590	1,271,274	2,744,864
Future	1,750,033	968,750	2,718,783
Proof of Concept	619,762	1,300,004	1,919,766
	<u>\$ 100,013,397</u>	<u>\$ 33,707,441</u>	<u>\$ 133,720,838</u>

The following is a summary of investments in the Eli Whitney Fund by industry classification as of June 30, 2023:

	<u>Amount</u>	<u>%</u>
Technology	\$ 51,693,698	48.6%
Healthcare	28,189,591	26.5%
Climate Tech	12,449,154	11.7%
VentureFunds	10,556,992	9.9%
Consumer	3,487,450	3.3%
	<u>\$ 106,376,885</u>	<u>100.0%</u>

The Corporation invests in emerging companies which, in the event the companies become successful, could represent a significant portion of the investment balances at a given time. As of June 30, 2023, the five largest investments comprised 27.0% of the fair value of the Corporation's total investments, with two investments comprising 6.7% each of the fair value of the Corporation's total investments.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 5 - LOANS:

The Corporation extends commercial loans to companies located within Connecticut to advance certain economic development objectives consistent with their corporate mission and contractual obligations with the State of Connecticut. Loans are collateralized by assets acquired with the proceeds of the related loans.

The Corporation's direct loan portfolio is comprised of 33 loans (gross) totaling \$19,047,065. Of this amount, 28 loans totaling \$15,263,518 (80%) are in the Growth and Connecticut Works Fund ("A"). The remaining \$3,783,547 (20%) is comprised of 5 loans in the CBRA Fund. The ability of the borrowers to honor their contracts may be affected by a downturn in the State's economy, which may ultimately limit the funds available to repay interest and principal, thus the Authority provides for an allowance for loan losses.

Loans are presented in the statement of net position as follows as of June 30, 2023:

Loans, current portion	\$ 4,637,892
Loans, non-current portion	14,409,173
	<u>19,047,065</u>
Less: Allowance for doubtful accounts	<u>(4,996,451)</u>
Net	<u>\$ 14,050,614</u>

Loans over 61 days past due and deemed nonperforming loans totaled \$1,703,003 as of June 30, 2023.

NOTE 6 - ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses has been provided through charges against operations based upon management's evaluation of the loan portfolio for each fund and is maintained at a level believed adequate to absorb potential losses in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly in Connecticut.

The following is a summary of the allowance for possible loan losses by individual fund as of June 30, 2023:

Connecticut Works Fund (A)	\$ 3,658,688
CBRA Fund	856,628
Growth Fund	<u>481,135</u>
Total	<u>\$ 4,996,451</u>

A loan is impaired when, based on current circumstances and events, the Corporation expects to be unable to collect all amounts contractually due in accordance with the terms of the loan agreement. Impaired loans have a specific allowance for possible loan losses included in the overall allowance for loan losses totaling \$1,815,937 as of June 30, 2023.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 7 - RELATED PARTY TRANSACTIONS:

The Corporation's employees may serve as directors and/or officers of portfolio companies and nonprofit organizations whose work advances the mission of the Corporation. Consistent with State law and the Corporation's own policies, employees receive no compensation or benefits from such organizations. Serving as directors or officers was contemplated as part of the employees' official duties.

Pursuant to an agreement between the DECD and CI, an amount due to the DECD for \$29,375 in reimbursables is due to DECD that will be paid from cash on hand in FY2024.

During the year ended June 30, 2012, the Connecticut legislature created Connecticut Green Bank (CGB) (formerly known as the Clean Energy Finance and Investment Authority), the successor entity to the Connecticut Clean Energy Fund (CCFE) and directed that CCEF be administered on a contract basis by the Corporation. The Corporation expended \$2,308 on behalf of CGB, which will be reimbursed during the fiscal year ended June 30, 2024.

Pursuant to Section 72 of Public Act 13-239, CI was appointed administrator of the Connecticut Bioscience Innovation Fund (CBIF). CI provided staff and all administrative support and services including marketing, accounting, legal, consulting, peer review and other incidental costs associated with operating the fund. In addition, CI holds on behalf of CBIF any unexpended cash on hand. As of June 30, 2023, \$4,490,251 of available cash was held for CBIF by CI for future funding. Additionally, amounts due to CBIF as of June 30, 2023 includes \$36,250 in reimbursables that will be transferred from cash on hand in FY2024.

Effective July 1, 2016 as part of the State of Connecticut's implementer Bill, Public Act No. 16-3 was enacted, which established CTNext as a separate entity managed by the Corporation. As of June 30, 2023, amounts due to CTNext includes \$3,637,500 of available capital held by CI for CTNext Proof of Concept funding and \$12,453 in reimbursables that will be transferred from cash on hand in FY2024.

Pursuant to State statute, the Corporation is subject to fringe benefit charges for pension plan and medical plan contributions which are paid at the state level. The Corporation's payroll related taxes are also paid at the state level. The Corporation reimburses the State for these payments.

Related party balances are as follows at June 30, 2023:

Due to CBIF	<u>\$ 4,526,501</u>
Due from DECD	<u>\$ 29,375</u>
Due from the CGB	<u>\$ 2,308</u>
Due to CTNext	<u>\$ 3,649,953</u>

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 8 - DUE FROM STATE OF CONNECTICUT:

Amounts due from the State of Connecticut at June 30, 2023 represents the pre-funding of payroll.

NOTE 9 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2023 is as follows:

	Balance, June 30, 2022	Additions	Deletions	Balance, June 30, 2023
Capital assets being depreciated:				
Furniture and equipment	\$ 760,990	\$ 18,132	\$ -	\$ 779,122
Leasehold improvements	2,430,422	-	-	2,430,422
	<u>3,191,412</u>	<u>18,132</u>	<u>-</u>	<u>3,209,544</u>
Less accumulated depreciation and amortization:				
Furniture and equipment	521,273	152,516	-	673,789
Leasehold improvements	888,854	342,573	-	1,231,427
	<u>1,410,127</u>	<u>495,089</u>	<u>-</u>	<u>1,905,216</u>
Capital assets - net	<u>\$ 1,781,285</u>	<u>\$ (476,957)</u>	<u>\$ -</u>	<u>\$ 1,304,328</u>

NOTE 10 - STATE FUNDING:

In 2023, the Corporation received \$569,347 in cash from the State of Connecticut under approved bond fund authorizations to provide financial assistance to high technology companies. These funds were for the Connecticut Bioscience Collaboration Program for facility and equipment loans.

NOTE 11 - LEASES:

In 2020, the Corporation signed leases for office space in New Haven, Connecticut and Hartford, Connecticut. The Corporation leases its office space in New Haven and Hartford from unrelated third parties under operating leases ending October 2026 and April 2025, respectfully. In addition, the Corporation signed an office lease in January 2022 with an unrelated third party in Stamford, Connecticut, which ends in December 2024.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 11 - LEASES (Continued):

Future minimum lease payments are as follows:

<u>Years ending June 30,</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2024	\$ 279,522	\$ 24,745	\$ 304,267
2025	224,974	13,989	238,963
2026	181,290	6,435	187,725
2027	62,468	519	62,987
	<u>\$ 748,254</u>	<u>\$ 45,688</u>	<u>\$ 793,942</u>

Other supplemental information related to leases for the year ended June 30, 2023 are as follows:

Weighted-average remaining lease term	2.9 years
Weighted-average discount rate	3.98%

The right-of-use assets acquired through outstanding leases as of June 30, 2023 is as follows:

Right-of-use assets	\$ 1,575,109
Accumulated right-of-use assets amortization	<u>(852,205)</u>
	<u>\$ 722,904</u>

Rent expense for all facilities for the year ended June 30, 2023 was \$315,556 and is included in general facility and office in the accompanying statement of revenues, expenses, and changes in fund net position.

NOTE 12 - PENSION PLAN:

Plan Description:

Eligible employees of CI participate in the State Employees' Retirement System (SERS). SERS is a single-employer defined benefit pension plan that the Public Employees' Retirement System (PERS) established in 1939 and governed by Sections 5-152 and 5-192 of the Connecticut General Statutes. Employees are covered by one of five tiers. Tier I, Tier IIA, Tier III and Tier IV are contributory plans, and Tier II is a noncontributory plan. Tier I requires an employee to contribute 2% or 5% of salary, while Tier IIA and Tier III require a contribution of 2%. The Tier IV plan requires a contribution of 5%. Employees who joined the retirement system prior to July 1, 1984 are enrolled in Tier I. Employees who joined the retirement system after July 1, 1984 but before July 1, 1997 are enrolled in Tier II.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 - PENSION PLAN (Continued):

Plan Description (continued):

Employees first hired on or after July 1, 1997 but before July 1, 2011 are members of Tier IIA. Employees hired on or after July 1, 2011 but before July 1, 2017 are members of Tier III.

Employees hired on or after July 1, 2017 are members of Tier IV. All Tier I and Tier III members are vested after 10 years of service while all Tier II and Tier IIA members are vested after 5 years of service under certain conditions, and all four tiers provide for death and disability benefits.

Tier I employees who retire at or after age 65 with 10 years of credited service, or at or after age 55 with 25 years of service, are entitled to an annual retirement benefit payable monthly for life, in an amount of 2% of the annual average earnings (which are based on the three highest earning years of service) over \$4,800 plus 1 percent of \$4,800 for each year of credited service. Employees at age 55 with 10 years but less than 25 years of service, or at age 70 with 5 years of service, are entitled to a reduced benefit.

Current Tier II and Tier IIA employees who retire at or after age 60 with 25 Years of Benefit Service, age 62 with 10 Years of Benefit Service, or at age 70 with 5 years of Benefit Service, are entitled an annual retirement benefit payable monthly for life, in an amount of 1.4% of the average annual earnings plus 0.433% of the average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service. In addition, any years of service over 35 would be at one and five-eighths percent. Employees who attain age 55 with 10 years of service are entitled to a reduced benefit.

The revised 2011 State Employees Bargaining Agent Coalition Agreement (Agreement) changed the requirements for employees who retired after July 1, 2022 without the required age and years of benefit service criteria at that date. For those employee's normal retirement would increase to Age 63 and 25 Years of Benefit Service or Age 65 and 10 Years of Benefit Service. This change affects all years of benefit service earned on or after July 1, 2011. These employees were provided the opportunity for a one-time irrevocable election to retain the normal retirement eligibility in place prior to the Agreement. The election would require an additional employee contribution based on their original retirement date.

Tier III and Tier IV employees who retire on or after the first of any month after age 63, with at least 25 years of vested service, or age 65 with at least 10 but less than 25 years of vested service, will be eligible for normal retirement. In addition, Tier III and Tier IV members who have at least 10 years of vested service can receive early reduced retirement benefits if they retire on the first of any month on or following their 58th birthday.

Tier III normal retirement benefits include annual retirement benefits for life, in the amount of 1.4% of the five-year average annual earnings plus .433 of one percent of the five-year average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service plus one and five-eighths of the five-year average annual average salary times years of credited service over 35 years. Tier IV normal retirement benefits include annual retirement benefits for life, in the amount of 1.3% of the five-year average annual earnings times years of credited service.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 - PENSION PLAN (Continued):

The total payroll cash expended for employees of the Corporation covered by SERS for the year ended June 30, 2023 was \$6,091,493.

SERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at osc.ct.gov/rbsd/reports.

Contributions:

The Corporation's contribution for the fiscal year ended June 30, 2023 is determined by applying a State mandated percentage to eligible salary and wage amounts which are as follows:

Contributions made:

By employees	\$	218,658
Percent of current year covered payroll		3.6%
By the Corporation	\$	4,108,614
Percent of current year covered payroll		67.4%

Pension Liabilities, Pension Income, Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension Plan:

The accounting standards require the Corporation to report its proportionate share of the net pension liability, which is based on a June 30, 2022 measurement date. GASB 68 requires the Corporation to recognize a net pension liability for the difference between the present value of projected benefits for past services, known as the Total Pension Liability (TPL), and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (FNP). For purposes of measuring the net position liability, deferred outflows of resources, deferred inflows of resources, pension income or expense, information about the FNP of SERS and additions to and deductions from SERS FNP have been determined on the same basis as reported by SERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

At June 30, 2023, the Corporation reported a liability of \$22,121,163 for its proportionate share of the net pension liability. The net pension liability at June 30, 2023 was measured as of June 30, 2022 and was determined by actuarial valuations as of that date. The Corporation's proportion of the net pension liability was based on a projection of the Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all participating component units, actuarially determined. At June 30, 2023, the Corporation's proportion was 0.1003%.

For the year ended June 30, 2023, the Corporation recognized pension income of \$3,379,542, which is included in non-operating revenues in the accompanying statement of revenues, expenses and changes in fund net position.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 - PENSION PLAN (Continued):

Pension Liabilities, Pension Income, Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension Plan (continued):

At June 30, 2023, the Corporation reported deferred outflows of resources and deferred inflows of resources related to its pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual expense	\$ 4,293,617	\$ (4,606,989)
Contributions subsequent to the measurement date	<u>4,108,614</u>	<u>-</u>
Total	<u>\$ 8,402,231</u>	<u>\$ (4,606,989)</u>

Deferred contributions subsequent to the measurement date of \$4,108,614 represent the Corporation's contributions during the fiscal year ended June 30, 2023. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

Deferred inflows and outflows (net difference between projected and actual expense) of resources represent the Corporation's share of the net difference between projected and actual performance of the Plan. These amounts will be amortized over a 5.15 year period beginning in the year in which the difference occurred and will be recognized in income as follows:

<u>Years ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2024	\$ 833,712	\$ 894,561
2025	833,712	894,561
2026	833,712	894,561
2027	833,712	894,561
2028	833,712	894,561
2029	<u>125,057</u>	<u>134,184</u>
	<u>\$ 4,293,617</u>	<u>\$ 4,606,989</u>

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 - PENSION PLAN (Continued):

Actuarial Assumptions:

The total pension liability as of the June 30, 2022 measurement date was determined based on the roll-forward to June 30, 2022 of the annual actuarial funding valuation report prepared as of June 30, 2021. The following major actuarial assumptions are summarized below:

Inflation	2.50%
Salary increases	3.00 to 11.50%, including inflation
Investment long-term rate of return	6.90%, net of investment related expense
Cost of living adjustment	1.95% to 3.25%, for certain tiers

Mortality rates are based on the Pub-2010 Mortality Tables projected generationally with scale MP-2020.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Fund	20%	5.4%
Real Estate Fund	19%	5.2%
Core Fixed Income Fund	13%	0.8%
Developed Market Intl. Stock Fund	11%	6.4%
Private Equity	10%	9.4%
Emerging Market Intl. Stock Fund	9%	8.6%
Emerging Market Debt Fund	5%	3.8%
Private Credit	5%	6.5%
High Yield Bond Fund	3%	3.4%
Alternative Investments	3%	3.1%
Liquidity Fund	2%	-0.4%
	<u>100%</u>	

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 - PENSION PLAN (Continued):

Actuarial Assumptions (continued):

The discount rate used to measure the total pension liability was 6.9%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from component units of the State will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

There is a sensitivity of the Corporation's proportionate share of the net pension liability in relation to changes in the discount rate. The following presents the Corporation's proportionate share of the net pension liability calculated using the current discount rate of 6.9%, as well as what the Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.9%) or 1-percentage-point higher (7.9%) than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1%</u> <u>Increase</u>
Corporation's proportionate share of the net pension liability	<u>\$ 26,993,598</u>	<u>\$ 22,121,163</u>	<u>\$ 18,060,245</u>

NOTE 12 (B) - OPEB PLAN:

Plan Description:

The State Comptroller's Healthcare Policy & Benefits Division under the direction of the Connecticut State Employees Retirement Commission administers this single-employer defined benefit OPEB Plan (the Plan) that is used to provide benefits for qualifying employees. Sections 5-257 and 5-259 of the Connecticut General Statutes assigns the authority to establish and amend the benefit provisions of the Plan. The Plan provides healthcare and life insurance benefits to eligible retired State employees and their spouses. To be eligible for benefits under the Plan, participants must be retired and receiving a Normal, Early, Disabled or Pre-retirement Survivor pension from the State Employees Retirement System (SERS).

Employees with less than 10 years of service as of July 1, 2009 must have 15 years of service to receive retiree medical benefits unless they were grandfathered in under the provisions of the State Employees Bargaining Agent Coalition (SEBAC) 2011. In addition, an employee must have a combined age plus service of 75 years to receive retiree medical benefits unless they retire directly from active service.

The Plan does not issue standalone financial statements, however, financial statements for the Plan are included as part of the State of Connecticut Annual Financial Report that is publicly available.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 (B) - OPEB PLAN (Continued):

Benefit Types:

The Plan provides for medical, prescription drug, dental, and life insurance for the lifetime of the retiree. Prescription drug and medical benefits for Medicare-eligible retirees are provided through a Medicare Advantage Prescription Drug (MA-PD) plan. The State also reimburses the Medicare Part B premium for Medicare-eligible retirees. Terminated vested participants of the Plan are not eligible for life insurance or pre-retirement death benefits. Spouses of retirees are entitled to the same benefits as the retiree except for life insurance. Spousal coverage is for life if the spouse receives a survivor pension from their retirement system; otherwise coverage ends at the retiree's death.

Contributions:

The Plan is primarily funded on a pay-as-you-go basis. The contribution requirements of the State are established and may be amended by the State legislature, or by agreement between the State and employee unions, upon approval by the State legislature. Retiree contributions for medical, prescription drug, and dental benefits are supplied by the Office of the State Comptroller. For individuals who retire after October 1, 2011, and who decline participation in the Health Enhancement program, or who are removed from the program, the retiree must pay an additional \$100 per month in premium share. Individuals who elect early retirement will be charged the greater of the retiree contribution supplied by the Office of the State Comptroller and a percentage of the premium until they reach their normal retirement date, or age 65, whichever is earlier. The premium is capped at 25% of the person's actual pension benefit.

Current active employees pay a percentage of their pay into the Retiree Health Care Trust Fund for pre-funding of OPEB benefits. All employees hired after July 1, 2009, or with fewer than five years of service as of July 1, 2010, are contributing 3.0% of their salaries to the Fund, for a period of 10 years or until their retirement, whichever is sooner. All employees not paying into the Fund as of June 30, 2013, began paying a contribution at that time. The contribution was 0.5 % for the year beginning July 1, 2013, increasing to 2.0% for the year beginning July 1, 2014, and to 3.0% for the year beginning July 1, 2015. Contributions continue for a period of ten years or until the employee retires, whichever is sooner. Employees hired after July 1, 2017 contribute for a period of 15 years or until the employee retires, whichever is sooner. Contributions are refundable to employees who leave State employment prior to completing 10 years of service. Effective July 1, 2017, the State began to contribute into the Retiree Health Trust Fund an amount equal to the amount contributed by the employees each year.

The total payroll cash expenditures for employees of the Corporation covered by the Plan for the year ended June 30, 2023 was \$6,091,493.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 (B) - OPEB PLAN (Continued):

Contributions (continued):

The Corporation's contribution to the OPEB Plan is determined by applying a State mandated percentage to eligible salary and wage amounts for eligible employees for the plan year. Contributions to the Plan for the year ended June 30, 2023 are as follows:

Contributions made:

By employees	\$	67,453
Percent of current year covered payroll		1.1%
By the Corporation	\$	145,482
Percent of current year covered payroll		2.4%

OPEB Liabilities, OPEB Income, Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB Plan:

The applicable accounting standards require the Corporation to recognize a proportionate share of the net OPEB liability, deferred outflows of resources, deferred inflows of resources and income or expenses related to the Plan.

At June 30, 2023, the Corporation reported a liability of \$22,634,089 for its proportionate share of the net OPEB liability. The net OPEB liability for June 30, 2023 was measured as of June 30, 2022, and the total OPEB liability used to calculate the Corporation's proportional share of the net OPEB liability was determined by an actuarial valuation as of June 30, 2022. The Corporation's proportion of the net OPEB liability was based on a projection of the Corporation's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating component units, actuarially determined. At June 30, 2023, the Corporation's proportion was 0.1460%.

For the year ended June 30, 2023, the Corporation recorded recaptured OPEB income of \$839,668, which is included in non-operating revenues in the accompanying statement of revenues, expenses and changes in fund net position. At June 30, 2023, the Corporation reported deferred outflows of resources and deferred inflows of resources related to its OPEB plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual expense	\$ 7,302,121	\$ (13,932,888)
Contributions subsequent to the measurement date	143,482	-
Total	<u>\$ 7,445,603</u>	<u>\$ (13,932,888)</u>

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 (B) - OPEB PLAN (Continued):

OPEB Liabilities, OPEB Income, Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB Plan (continued):

Deferred outflows of resources (contributions subsequent to measurement date) of \$143,482 represent the Corporation's contributions for the fiscal year ended June 30, 2023. This amount will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024.

Deferred inflows and outflows (net difference between projected and actual expenses) of resources represent the Corporation's share of the net difference between projected and actual performance of the Plan. These amounts will be amortized over a 5.16 year period beginning in the year in which the difference occurred and will be recognized in income as follows:

<u>Years ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2024	\$ 1,415,140	\$ 2,700,172
2025	1,415,140	2,700,172
2026	1,415,140	2,700,172
2027	1,415,140	2,700,172
2028	1,415,140	2,700,172
2029	226,421	432,028
	<u>\$ 7,302,121</u>	<u>\$ 13,932,888</u>

Actuarial Assumptions:

The total OPEB liability in the June 30, 2022 actuarial valuation report was determined based on the following major actuarial assumptions:

Inflation	2.50%
Salary increases	3.00% to 11.50% varying by years of service and retirement system, including inflation
Discount rate	3.90% as of June 30, 2022
Healthcare cost trend rates:	
Medical	6.00% graded to 4.50% over 6 years
Prescription drug	6.00% graded to 4.50% over 6 years
Dental	3.00%
Part B	4.50%
Administrative expense	3.00%

Mortality rates for healthy members were based on the Pub-2010 General, Above-Median, Employee Headcount-weighted Mortality Table projected generationally using Scale MP-2020. Mortality rates for disabled members were based on the Pub-2010 General, Disabled Retiree Headcount-weighted Mortality Table projected generationally using MP-2020.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 (B) - OPEB PLAN (Continued):

Actuarial Assumptions (continued):

The long-term expected rate of return on OPEB Plan investments was determined using a log-normal distribution analysis method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Fund	20%	5.4%
Real Estate Fund	19%	5.2%
Core Fixed Income Fund	13%	0.8%
Developed Market Intl. Stock Fund	11%	6.4%
Private Equity	10%	9.4%
Emerging Markets Intl. Stock Fund	9%	8.6%
Emerging Market Debt Fund	5%	3.8%
Private Credit	5%	6.5%
High Yield Bond Fund	3%	3.4%
Alternative Investments	3%	3.1%
Liquidity Fund	2%	-0.4%
	<u>100%</u>	

The discount rate is a blend of the long-term expected rate of return on OPEB Trust assets and a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rate of AA/Aa or higher (6.9% as of June 30, 2022). The final discount rate used to measure to total OPEB liability was 3.54% as of June 30, 2022. The blending is based on the sufficiency of projected assets to make projected benefit payments.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 12 (B) - OPEB PLAN (Continued):

Actuarial Assumptions (continued):

There is a sensitivity of the Corporation's proportionate share of the net OPEB liability in relation to changes in the discount rate as well as in the healthcare cost trend rates. The following table presents 1) the Corporation's proportionate share of the net OPEB liability calculated using the current discount rate of 3.9%, and what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.9%) or 1-percentage-point higher (4.9%) than the current rate and 2) the Corporation's proportional share of the net OPEB liability if the health care cost trend rates goes up 1% and down 1%:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Corporation's proportionate share of net OPEB liability	<u>\$ 26,463,551</u>	<u>\$ 22,634,089</u>	<u>\$ 19,536,616</u>

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trends</u>	<u>1% Increase</u>
Corporation's proportionate share of net OPEB liability	<u>\$ 19,106,557</u>	<u>\$ 22,634,089</u>	<u>\$ 27,111,998</u>

NOTE 13 - REGENERATIVE MEDICINE RESEARCH FUND:

Connecticut General Statutes Sec. 32-41ll. (2) (f):

Connecticut Innovations, Incorporated, shall serve as administrator of the Regenerative Medicine Research Fund and shall, in consultation with the Regenerative Medicine Research Advisory Committee: (1) Develop the application for the grants-in-aid authorized under subsection (b) of section 32-41kk; (2) review such applications; (3) review recommendations of the Regenerative Medicine Research Advisory Committee, established pursuant to section 32-41mm; (4) prepare and execute any assistance agreements or other agreements in connection with the awarding of such grants-in-aid; (5) develop performance metrics and systems to collect data from recipients of such grants-in-aid; (6) collect information from such recipients concerning each recipient's employment statistics, business accomplishments and performance outcomes, peer review articles and papers published, partnerships and collaborations with other entities, licenses, patents and invention disclosures, scientific progress as it relates to the commercialization of intellectual property funded by such grants-in-aid, efforts to commercialize such intellectual property, and other funds received for research; and (7) performing such other administrative duties as the Regenerative Medicine Research Advisory Committee deems necessary.

For the fiscal year ended June 30, 2023, CI was refunded \$390,029 for unused grants-in-aid expended previously from bond funds, but not utilized by the recipients for their intended purpose. After the add-back of the refunds, CI has \$826,274 of funds available for future distributions.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 14 - CONNECTICUT BIOSCIENCE COLLABORATION PROGRAM:

In 2011, the Connecticut General Assembly enacted Public Act 11-2 (Act 11-2) to support the establishment of a bioscience cluster anchored by a research laboratory housed in Farmington, Connecticut. Act 11-2 provides that CI shall work with an organization to develop, construct and equip a structure for use as a research laboratory. Act 11-2 also authorized CI to make loans to this organization to complete the project. To fund this project, Act 11-2 provides that the State Bond Commission shall authorize the issuance of bonds in the amount not to exceed \$290,685,000. CI then approved an application from Jackson Laboratories (Jax) and entered into a funding agreement with Jax on January 5, 2012 to develop, construct and equip an 189,000 square foot laboratory and operate a genomics medicine research program in Farmington, Connecticut.

The funding agreement provides for 1) a maximum \$145.0 million loan to Jax to design and construct the facility 2) a maximum loan of \$46.7 million loan to Jax for furniture, fixtures and equipment and 3) \$99.0 million in development grants for annual operating expenses and bioscience medical research. The loans accrue simple interest at 1% per year.

The loans and accrued interest were to be forgiven if Jax met an employment goal of 300 employees for a period of six months, including a minimum of 90 senior scientists within 10 years. Jax met both the employment goal of 300 and hiring of 90 senior scientists in the fiscal year 2018, resulting in the Corporation forgiving the entire loan funded at that time and all future funding provided for in the funding agreement. As of June 30, 2023, the full funding amount of \$191,700,000 was loaned to Jax and forgiven in full.

In consideration of the loans and the grants, CI is entitled to a share of all net royalty revenue received. Jax shall pay to CI ten percent (10%) of the first \$3,000,000 of all net royalty revenue received and fifty percent (50%) of all net royalty revenue received over \$3,000,000 in any calendar year. No net royalty revenue was received for the year ended June 30, 2023.

NOTE 15 - RISK MANAGEMENT:

The Corporation is subject to normal risks associated with its operations including property damage, personal injury and employee dishonesty. All risks are managed through the purchase of commercial insurance. There have been no losses exceeding insurance coverage, and there have been no decreases in insurance coverage over the last four years.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 16 - RESTRICTED NET POSITION:

At June 30, 2023, restricted net position consisted of funds restricted for the following:

Proof of Concept	\$ 6,941,092
Urbank Enabling Legislation	1,961,583
REGEN (Stem Cell)	825,583
Loan guarantees	394,328
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	\$ 10,122,586
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NOTE 17 - OFF-BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK:

Off-Balance Sheet Risk:

The Corporation is a party to off-balance sheet financial transactions in the normal course of business. These may expose the Corporation to credit risks in excess of the amounts recognized on the statement of net position.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the off-balance sheet financial transactions is represented by the contractual amount of those instruments. Total credit exposure related to these items at June 30, 2023 is summarized below:

	<u>Contract Amount</u>
Equity commitments:	
Fund of Fund	\$ 10,654,400
SSBCI	4,000,000
Climate Tech	1,000,000
Eli Whitney Fund	500,000
Proof of Concept	50,000
	<hr/>
	\$ 16,204,400
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Loan guarantees:	
Connecticut Capital Access Fund	\$ 2,260,203
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	\$ 2,260,203
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Loan commitments, equity commitments, commitments to guarantee, and guarantees are generally made using the same underwriting standards as those funded and recorded on the statement of net position.

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 17 - OFF-BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK (Continued):

Concentrations of Credit Risk:

The Corporation has granted commercial loans, equity investments, and loan guarantees to customers in Connecticut. The majority of the Corporation's loan portfolio is comprised of commercial mortgage loans secured by business assets located principally in Connecticut. Certain customers of the Corporation also transact business with the State or its agencies.

NOTE 18 - LITIGATION:

The Corporation is involved in litigation arising from its operations. After review of all significant matters with counsel, management believes that the resolution of these matters will not materially affect the Corporation's financial position or change in net position.

REQUIRED SUPPLEMENTARY INFORMATION

CONNECTICUT INNOVATIONS, INCORPORATED
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CORPORATION'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY AND NET OPEB LIABILITY –
STATE EMPLOYEES' RETIREMENT SYSTEM AND STATE EMPLOYEE OPEB PLAN

FOR THE LAST EIGHT FISCAL YEARS ENDED JUNE 30*

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Net Pension Liability:</u>								
Corporation's portion of the net pension liability	0.1003%	0.1216%	0.1202%	0.1305%	0.1189%	0.1109%	0.1236%	0.1633%
Corporation's proportionate share of the net pension liability	\$ 22,121,163	\$ 25,849,343	\$ 28,521,961	\$ 29,765,417	\$ 25,785,828	\$ 23,370,173	\$ 28,379,878	\$ 26,988,791
Corporation's covered-employee payroll	\$ 6,091,493	\$ 6,776,496	\$ 5,474,773	\$ 5,575,898	\$ 5,166,250	\$ 5,086,804	\$ 4,658,776	\$ 5,433,127
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	363.15%	381.46%	520.97%	533.82%	499.12%	459.43%	609.17%	496.75%
Plan fiduciary net position as a percentage of the total pension liability	45.76%	44.55%	35.84%	36.79%	36.62%	36.25%	31.69%	39.23%
<u>Net OPEB Liability:</u>								
Corporation's portion of the net OPEB liability	0.1460%	0.1277%	0.1416%	0.1628%	0.1389%	0.1359%		
Corporation's proportionate share of the net OPEB liability	\$ 22,634,089	\$ 24,929,682	\$ 33,334,008	\$ 33,679,479	\$ 23,982,148	\$ 23,597,482		
Corporation's covered-employee payroll	\$ 6,091,493	\$ 6,776,496	\$ 5,474,773	\$ 5,575,898	\$ 5,166,250	\$ 5,086,804		
Corporation's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	371.57%	367.88%	608.87%	604.02%	464.21%	463.90%		
Plan fiduciary net position as a percentage of the total OPEB liability	12.63%	10.12%	6.13%	5.47%	4.69%	3.03%		

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

CONNECTICUT INNOVATIONS, INCORPORATED
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CORPORATION'S CONTRIBUTIONS TO THE
STATE EMPLOYEES' RETIREMENT SYSTEM AND STATE EMPLOYEE OPEB PLAN

FOR THE LAST EIGHT FISCAL YEARS ENDED JUNE 30*

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>State Employees' Retirement System:</u>								
Contractually required contribution	\$ 4,108,614	\$ 4,137,610	\$ 3,309,412	\$ 3,194,979	\$ 3,308,069	\$ 2,848,478	\$ 2,549,442	\$ 2,781,291
Contributions in relation to the contractually required contribution	<u>4,108,614</u>	<u>4,137,610</u>	<u>3,309,412</u>	<u>3,194,979</u>	<u>3,308,069</u>	<u>2,848,478</u>	<u>2,549,442</u>	<u>2,781,291</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Corporation's covered-employee payroll	\$ 6,091,493	\$ 6,776,496	\$ 5,474,773	\$ 5,575,898	\$ 5,166,250	\$ 5,086,804	\$ 4,658,776	\$ 5,433,127
Contributions as a percentage of covered-employee payroll	67.45%	61.06%	60.45%	57.30%	64.03%	56.00%	54.72%	51.19%
<u>State Employee OPEB Plan:</u>								
Contractually required contribution	\$ 145,482	\$ 149,300	\$ 136,799	\$ 154,630	\$ 152,767	\$ 148,981		
Contributions in relation to the contractually required contribution	<u>145,482</u>	<u>149,300</u>	<u>136,799</u>	<u>154,630</u>	<u>152,767</u>	<u>148,981</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Corporation's covered-employee payroll	\$ 6,091,493	\$ 6,776,496	\$ 5,474,773	\$ 5,575,898	\$ 5,166,250	\$ 5,086,804		
Contributions as a percentage of covered-employee payroll	2.39%	2.20%	2.50%	2.77%	2.96%	2.93%		

* This schedule is intended to show information for ten years and additional years' information will be displayed as it becomes available.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Connecticut Innovations, Incorporated
New Haven, Connecticut

We have audited, in accordance with the 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, the financial statements of Connecticut Innovations, Incorporated (the Corporation), a component unit of the State of Connecticut, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 21, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mahoney Sabol + Company, LLP

Certified Public Accountants
Glastonbury, Connecticut
December 21, 2023