# CONNECTICUT INNOVATIONS, INCORPORATED
(A Component Unit of the State of Connecticut)

## FINANCIAL STATEMENTS

## FISCAL YEAR ENDED JUNE 30, 2014

# CONNECTICUT INNOVATIONS, INCORPORATED

## CONTENTS

MARCUM
ACCOUNTANTS ▲ ADVISORS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors
**Connecticut Innovations, Incorporated**

### Report on the Financial Statements

We have audited the accompanying financial statements of Connecticut Innovations, Incorporated (CI) (a component unit of the State of Connecticut), as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise CI's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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


Marcum LLP ▪ City Place II ▪ 185 Asylum Street ▪ 17th Floor ▪ Hartford, CT 06103 ▪ Phone 860.549.8500 / 877.231.5351 ▪ Fax 860.549.8501 ▪ marcumllp.com

***Opinion***

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, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matter***

As described in Note 1 to the financial statements, CI's policy is to present investments at fair value. The fair value of certain of those investments ($80 million at June 30, 2014, representing 36% of total assets) has been estimated by management in the absence of readily ascertainable market values. We have reviewed the methods used by management in estimating values of such investments and believe they are reasonable under the circumstances and have been applied on a basis consistent with the prior year. However, because of the inherent valuation uncertainties, those estimated values could differ significantly from the amounts ultimately realized from the investments, and the differences could be material.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 on our consideration of the CI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 CI's internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
November 21, 2014

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, 2014. 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 Report on Compliance included in the "Financial Statements" section of this report.

## FINANCIAL STATEMENTS PRESENTED IN THIS REPORT

CI is a quasi-public agency of the State of Connecticut 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 Connecticut Development Authority (CDA) which was established under Title 32, Chapter 579 of the General Statutes of Connecticut as amended (Statute), were transferred to Connecticut Innovations, Incorporated (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 incorporation of CDA into CI is a vertical extension of the overall economic reach of CI. CI 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 Net Position, and the 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 Net Position measure the transactions for the period presented and the impact of those transactions on the resources of CI. The Statement of Cash Flows reconcile the changes in cash and cash equivalents with the activities of CI for the period presented. The activities are classified as to operating, capital, investing and noncapital financing.

These financial statements and notes thereto and discussion reflect a tremendously broader and more diverse business model than CI has had in previous years. In addition, to the merger with CDA, other initiatives include the establishment of a bioscience cluster anchored by Jackson Laboratories in Farmington, CT, an increased roll in support of stem cell research, the introduction of the CT Bioscience Investment Fund, 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.

## *FINANCIAL HIGHLIGHTS OF FISCAL 2014*

### *NET POSITION*

Total assets exceeded total liabilities by $178 million at June 30, 2014. Net assets totaling $166 million are unrestricted. Net assets totaling $12.5 million are restricted in accordance with revenue and general obligation bond indentures as well as for cash reserves principally for 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. The portion of the corporation's net position invested in capital assets, net of related debt total $414 thousand. In total the net position of the corporation increased $9.5 million in 2014.

Current assets of CI decreased $17.8 million due primarily to net funding of loans and investments totaling $31.3 million ($42 million of funding less $10.7 million in loan paydowns and investment distributions), pay-down of $3.7 million of bonds, and $5.7 million of SBI/CTNext program funding while funding received from the State totaled $23.9 million.

Restricted cash increased $21 million due to receipt of CBIF funds transferred out after the fiscal year end close totaling $19 million and increase in escrow deposits of approximately $2 million.

The total value of CI's investment portfolio increased $15.1 million in 2014. This increase consisted of new investments totaling $22 million offset by investment sales of $900 thousand, principal repayments of $2 million and net $4 million of write-offs and devaluations of portfolio investments. During 2014, CI approved $23.6 million and funded $22 million for investments in new opportunities and continued support of existing portfolio companies. Committed funding for CI's equity programs on June 30, 2014 total $7.5 million. CI funded $13.4 million of new investments through its Eli Whitney Fund. In addition CI also funded $2 million through its Seed Fund and $3.2 million through its PreSeed program to promote the development of young technology companies. The type of investments made 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 increased $10.9 million in 2014. The increase was due to new direct loans issued totaling $20.1 million offset by $7.9 million of loan pay downs, and a $1.3 million provision. Committed funding for CI's direct loan programs as of June 30, 2014 totals $5.4 million. Other noncurrent assets decreased $174 thousand due to conversion of program loan to equity investment. Current liabilities increased $21 million, which consisted primarily of $19 million in receipts related to CBIF funding subsequently transferred to CBIF in fiscal year 2015, and $3.6 million of additional retainage for CT Bioscience Collaboration. Bonds payable decreased $3.7 million due to normal amortization of bonds in 2014. This reduction yielded interest expense savings of $194 thousand in 2014.

***FINANCIAL HIGHLIGHTS OF FISCAL 2014 (CONTINUED)***

***NET POSITION (CONTINUED)***

CI acts as a custodian of grant funds on behalf of state agencies under various agreements, and distributed $2 million in fiscal year 2014.

The following table summarizes the net positions as of June 30, 2014 and 2013:

| | *(In Thousands)* | | |
|---|---|---|---|
| | Balance June 30, 2014 | Balance June 30, 2013 | Increase (Decrease) 2014 vs. 2013 |
| **Assets** | | | |
| Current assets, excluding current portion of loans and investments | $ 34,913 | $ 52,701 | $ (17,788) |
| Restricted assets | 45,682 | 24,717 | 20,965 |
| Portfolio investments | 80,118 | 65,008 | 15,110 |
| Loans | 63,972 | 53,026 | 10,946 |
| Capital assets, net | 414 | 414 | -- |
| Other noncurrent assets | 254 | 428 | (174) |
| **Total assets** | 225,353 | 196,294 | 29,059 |
| **Liabilities** | | | |
| Current liabilities, excluding current portion of debt | 31,885 | 10,770 | 21,115 |
| Bonds payable | 5,020 | 8,705 | (3,685) |
| Other noncurrent liabilities | 9,960 | 7,843 | 2,117 |
| **Total liabilities** | 46,865 | 27,318 | 19,547 |
| **Net Position** | | | |
| Invested in capital assets | 414 | 414 | -- |
| Restricted | 12,477 | 12,595 | (118) |
| Unrestricted | 165,597 | 155,967 | 9,630 |
| | $ 178,488 | $ 168,976 | $ 9,512 |

## FINANCIAL HIGHLIGHTS OF FISCAL 2014 (CONTINUED)

### CHANGE IN NET POSITION

Total CI operating revenue increased $58.2 million from $32.3 million to $90.5 million in 2014 when compared to 2013. This increase was due to an additional $56 million of State of Connecticut funding for the CT Bioscience Collaboration from $29.4 million to $85.4 million in 2014. XL Center revenues consisted of $700 thousand in Whaler exit fees plus $500 thousand received from AEG in lieu of release of capital expenditure's agreement. Interest on notes increased slightly by $116 thousand due to an accretive effect of $8.7 million direct loan closings in fiscal 2013. Loan fee income decreased $200 thousand in fiscal 2014 due to falloff of self-sustaining bond renewals. Other income increased $1.7 million primarily to $1 million administrative fee revenue for CBIF administration and $978 thousand of interest earned on debt investments converted to equity in 2014 versus $245 thousand earned in 2013.

XL Center expenses decreased $2.1 million when compared to 2013. The final expense recorded in relation to the XL center was interest expense on the final bond redemption.

Compensation, benefits and payroll taxes increased $1.1 million. Compensation increased $600 thousand while benefits and payroll taxes increased $500 thousand. CI's employees are participants in the State payroll and retirement system and as participants are charged a fringe rate which currently averages 75% of salary.

Interest expense on bonds payable decreased $119 thousand due to interest savings realized from the $2.2 million pay down of Corporation GO bonds. Interest savings from the redemption of the final $1.5 million XL Center GO bond resulted in an additional $75 thousand in savings over 2013. General and administrative expenses increased by $530 thousand primarily due to legal and advisory fees associated with the Innovation Ecosystem and marketing and re-branding expenses for the corporation and CTNext/SBI initiatives.

Net realized losses on investments for the year were $5.8 million as compared to realized losses of $4.1 million in 2013. In both 2014 and 2013, the realized losses resulted from divestitures of investments which were recorded as unrealized losses in previous years.

Net unrealized gains on investments for the year were $2.2 million as compared to net unrealized losses of $225 thousand in 2013. In 2014, the net unrealized gains resulted from net decreases in valuation reserves for privately held companies in CI's investment portfolio and public holdings. In 2013, the net unrealized losses resulted from net increases in valuation reserves for privately held companies in CI's investment portfolio and public holdings.

***FINANCIAL HIGHLIGHTS OF FISCAL 2014 (CONTINUED)***

***CHANGE IN NET POSITION (CONTINUED)***

Total expenditures for grants and programs in 2014 were $17.3 million, an increase of $6.6 million over the previous year. Operating grants disbursed under the Bioscience Collaborative Program totaled $11.2 million which, in 2014, amounted to a $5.1 million increase over 2013. The remaining expenditures in 2014 pertained to funding of SBI/CTNext programs.

Funding received from the State and recorded as operating revenue in 2014 totaled $74,185,633 for facility and equipment loans under the Connecticut Bioscience Collaborative program. This funding was reserved in full in fiscal 2014 and recorded as an operating expense. Please see our financial statements.

Other funding recorded as revenue from the state totaled $26.3 million in 2014. These contributions were utilized as follows: $5.5 million for CT Works (Fund A), $11.1 million for CT Works (Fund B), $225 thousand for CT PreSeed and $9.5 million from Connecticut General Statutes 31-41a.

## *FINANCIAL HIGHLIGHTS OF FISCAL 2014 (CONTINUED)*

### *CHANGE IN NET POSITION*

The following table summarizes the change in net position for the fiscal year ended June 30, 2014.

| | (In Thousands) | | |
|---|---|---|---|
| | Year Ended June 30, 2014 | Year Ended June 30, 2013 | Favorable (Unfavorable) 2014 vs. 2013 |
| **Operating Revenue:** | | | |
| XL Center | $ 1,257 | $ 1,312 | $ (55) |
| Interest on notes | 2,751 | 2,635 | 116 |
| Loan fee income | 1,232 | 1,431 | (199) |
| Grant and program income | 586 | 616 | (30) |
| Unrealized gain (loss) on investments | 2,243 | (225) | 2,468 |
| Realized loss on sale of investments | (5,820) | (4,120) | (1,700) |
| CT Bioscience Collaboration funding | 85,391 | 29,427 | 55,964 |
| Other | 2,871 | 1,203 | 1,668 |
| **Total Operating Revenues** | 90,511 | 32,279 | 58,232 |
| **Operating Expenses:** | | | |
| XL Center | 27 | 2,109 | 2,082 |
| Payroll and fringes | 10,337 | 9,246 | (1,091) |
| Interest on bonds | 273 | 392 | 119 |
| Loss provision | 1,950 | 3,372 | 1,422 |
| Grants and programs | 17,333 | 10,781 | (6,552) |
| CT Bioscience Collaboration loan write-down | 74,186 | 25,947 | (48,239) |
| General, administrative and other | 3,200 | 2,670 | (530) |
| **Total Operating Expenses** | 107,306 | 54,517 | (52,789) |
| **Operating Loss** | (16,795) | (22,238) | 5,443 |
| **Total Nonoperating Revenues (Expenses) - Net** | 26,307 | 21,510 | 4,797 |
| **Change in Net Position Before Extraordinary Item** | 9,512 | (728) | 10,240 |
| **Extraordinary Item - Assets Transferred in from Connecticut Development Authority** | -- | 83,999 | (83,999) |
| **Change in Net Position** | $ 9,512 | $ 83,271 | $ (73,759) |

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

Chief Financial Officer
Connecticut Innovations, Inc.
865 Brook Street
Rocky Hill, CT 06067

# CONNECTICUT INNOVATIONS, INCORPORATED

## STATEMENT OF NET POSITION

## JUNE 30, 2014

| | |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash and cash equivalents | $ 22,895,618 |
| Loans, current portion | 5,603,810 |
| Portfolio investments, current portion | 942,917 |
| Interest and other receivables | 1,703,018 |
| Due from State of Connecticut | 10,041,437 |
| Prepaid expenses | 216,398 |
| **Total Current Assets** | 41,403,198 |
| **Noncurrent Assets** | |
| Restricted Assets: | |
| Restricted cash and cash equivalents | 45,681,652 |
| Total Restricted | 45,681,652 |
| Portfolio investments, net of current portion | 79,175,449 |
| Loans - noncurrent, net of allowance for loan losses of $6,991,735 | 58,368,220 |
| Connecticut Bioscience Collaboration Program Loans, net of allowance for doubtful accounts of $100,132,598 (Note 18) | -- |
| Capital assets, net of depreciation | 413,593 |
| Other | 166,000 |
| **Total Noncurrent Assets** | 183,804,914 |
| **Total Assets** | $ 225,208,112 |
| **Deferred Outflows of Resources** | $ 145,266 |

***The accompanying notes are an integral part of these financial statements.***

# CONNECTICUT INNOVATIONS, INCORPORATED

## STATEMENT OF NET POSITION (CONTINUED)

### JUNE 30, 2014

| | |
|---|---|
| **Liabilities** | |
| **Current Liabilities** | |
| Current portion of bonds payable | $ 2,260,000 |
| Accrued expenses and liabilities | 7,004,950 |
| Deferred revenue | 505,222 |
| Due to Connecticut Bioscience Innovation Fund | 19,000,000 |
| Refundable advances | 4,072,458 |
| Reserve for guarantee losses | 1,302,237 |
| **Total Current Liabilities** | 34,144,867 |
| **Noncurrent Liabilities** | |
| Escrow deposits | 9,960,743 |
| Bonds payable, net of current portion | 2,760,000 |
| **Total Noncurrent Liabilities** | 12,720,743 |
| **Total Liabilities** | 46,865,610 |
| **Net Position** | |
| Net investment in capital assets | 413,593 |
| Restricted | 12,476,820 |
| Unrestricted | 165,597,355 |
| **Total Net Position** | 178,487,768 |
| **Total Liabilities and Net Position** | $ 225,353,378 |

***The accompanying notes are an integral part of these financial statements.***

# CONNECTICUT INNOVATIONS, INCORPORATED

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

## FOR THE YEAR ENDED JUNE 30, 2014

| | |
|---|---|
| **Operating Revenues** | |
| Investment interest income | $ 1,399,444 |
| Interest on loans | 2,751,037 |
| Unrealized gain on investments | 2,243,357 |
| Realized loss on sale of investments | (5,819,766) |
| Loan fee income | 1,231,942 |
| XL Center income | 1,257,165 |
| Grant and program income | 586,330 |
| Connecticut Bioscience Collaboration funding | 85,390,633 |
| Other income | 1,471,055 |
| **Total Operating Revenues** | 90,511,197 |
| **Operating Expenses** | |
| Salaries | 5,874,367 |
| Benefits and payroll taxes | 4,462,416 |
| Grants and programs | 17,333,014 |
| Connecticut Bioscience Collaboration loan write-down | 74,185,633 |
| Provision for loan and guarantee losses | 1,950,000 |
| XL Center expenses | 27,164 |
| General facility and office | 1,098,123 |
| Professional service fees | 1,138,124 |
| Interest | 272,681 |
| Marketing, conferences, development | 691,661 |
| Depreciation and amortization | 235,215 |
| Other | 38,976 |
| **Total Operating Expenses** | 107,307,374 |
| **Operating Loss** | (16,796,177) |
| **Nonoperating Revenue** | |
| Connecticut General Statutes 31-41a funding | 9,496,918 |
| Connecticut PreSeed Fund | 225,000 |
| Connecticut Works (A) and Connecticut Works (B) Guarantee Fund | 16,585,571 |
| **Total Nonoperating Revenue** | 26,307,489 |
| **Change in Net Position** | 9,511,312 |
| **Net Position** - Beginning of year | 168,976,456 |
| **Net Position** - End of year | $ 178,487,768 |

***The accompanying notes are an integral part of these financial statements.***

## CONNECTICUT INNOVATIONS, INCORPORATED

### STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED JUNE 30, 2014

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Loan principal collected | $ 7,857,303 |
| Cash received under grants and programs | 437,423 |
| Cash received under Connecticut Bioscience Collaboration Program | 85,390,633 |
| Interest from loans | 2,795,916 |
| Cash from loan/guarantee/insurance fees | 1,213,738 |
| Interest on investments and marketable securities | 419,346 |
| XL Center revenues | 1,200,000 |
| Sale of investments | 868,772 |
| Return of principal on investments | 1,865,805 |
| Gain on sale of investments | 1,520,238 |
| Purchase of investments | (22,014,305) |
| Program loans funded | (33,000) |
| Cash received from dividends and royalties | 1,963 |
| Interest on short-term investments and cash deposits | 62,912 |
| Cash from recovery of principal | 11,650 |
| Cash received from other income | 208,556 |
| Cash paid under grants and programs | (17,374,204) |
| Connecticut Bioscience Collaborative loans | (74,185,633) |
| Cash received under custodial arrangements | 13,743,788 |
| Cash expended under custodial arrangements | (10,067,577) |
| Payroll and fringe benefits paid | (10,635,721) |
| Loans funded | (20,066,153) |
| General and administrative expenses paid | (3,781,646) |
| Guarantees paid | (408,168) |
| Loan workout expenses paid | (197,562) |
| **Net Cash Used in Operating Activities** | (41,165,926) |
| **Cash Flows from Capital and Related Financing Activities** | |
| Purchase of capital assets | (204,169) |
| Principal payments on bonds | (503,250) |
| Interest payments on bonds | (11,952) |
| **Net Cash Used in Capital and Related Financing Activities** | (719,371) |

***The accompanying notes are an integral part of these financial statements.***

# CONNECTICUT INNOVATIONS, INCORPORATED

## STATEMENT OF CASH FLOWS (CONTINUED)

## FOR THE YEAR ENDED JUNE 30, 2014

| | |
|---|---|
| **Cash Flows from Noncapital Financing Activities** | |
| Funding received from State of Connecticut | $ 23,840,000 |
| Connecticut Bioscience Innovation Fund receipts | 20,000,000 |
| Increase in escrow deposits | 2,117,731 |
| Marketable securities | 3,008,095 |
| Principal payments on bonds | (3,181,750) |
| Interest payments on bonds | (332,444) |
| Cash paid for State Small Business Credit Initiative funding | (36,149) |
| **Net Cash Provided by Noncapital Financing Activities** | 45,415,483 |
| **Net Increase in Cash and Cash Equivalents** | 3,530,186 |
| **Cash and Cash Equivalents** - Beginning | 65,047,084 |
| **Cash and Cash Equivalents** - Ending | $ 68,577,270 |
| **As Presented on the Statement of Net Position:** | |
| Cash and cash equivalents | $ 22,895,618 |
| Restricted cash and cash equivalent | 45,681,652 |
| | $ 68,577,270 |

***The accompanying notes are an integral part of these financial statements.***

# CONNECTICUT INNOVATIONS, INCORPORATED

## STATEMENT OF CASH FLOWS (CONTINUED)

## FOR THE YEAR ENDED JUNE 30, 2014

| | |
|---|---|
| **Reconciliation of Operating Loss to Net Cash Used in Operating Activities** | |
| Operating loss | $ (16,796,177) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Noncash interest conversions | (978,002) |
| Sale of investments | 868,772 |
| Return of principal on investments | 1,865,805 |
| Realized loss from investment charge-offs | 7,340,004 |
| Purchase of investments | (22,014,305) |
| Unrealized appreciation on investments | (2,243,357) |
| Program loans funded | (33,000) |
| Noncapital CBIF administrative fee | (1,000,000) |
| Interest expense on bonds | 299,845 |
| Provision for loan and guarantee losses | 1,950,000 |
| Depreciation and amortization | 235,215 |
| Recoveries of loan principal | 11,650 |
| Guarantees paid | (408,168) |
| (Increase) decrease in assets: | |
| Loans receivable | (8,097,924) |
| Charge-offs of Loans Receivable | (4,150,152) |
| Interest and other receivables | (434,796) |
| Advances, prepaid and deferred expenses | 449,347 |
| Other assets | 200 |
| Increase (decrease) in liabilities: | |
| Accrued expenses | (1,548,805) |
| Custodial liability | 3,676,211 |
| Deferred revenue | (158,289) |
| **Net Cash Used in Operating Activities** | $ (41,165,926) |

***The accompanying notes are an integral part of these financial statements.***

### NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

#### *NATURE OF OPERATIONS*

Connecticut Innovations, Incorporated (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 Comprehensive Annual 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 Connecticut Development Authority (CDA) which was established under Title 32, Chapter 579 of the General Statutes of Connecticut as amended (Statute), were transferred to Connecticut Innovations, Incorporated (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 the primary government, 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

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***REPORTING ENTITY (CONTINUED)***

(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. 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.

The following two organizations are blended component units of the Corporation based upon the criteria above:

***Connecticut Technology Development Corporation (CTDC) –*** CTDC was established to address the need by new biotech firms for wet laboratory space in "move-in" condition. CTDC also established a business incubator program which leases office space to startup firms focusing on information technologies. The wet laboratory activities were discontinued on June 30, 2013. Activities now consist only for those in relation to the business incubator program.

***Connecticut Brownfields Redevelopment Authority (CBRA)*** – A quasi-public agency created by the former Connecticut Development Authority in May 1999 to carry out the remediation, development, and financing of contaminated property within the State, in accordance with Section 32-11a, subsection (1), of the General Statutes. CBRA is now a wholly owned subsidiary of the Corporation**.** The CBRA subsidiary provides loans, grants or guarantees from the Corporation's assets and the proceeds of its bonds, notes and other obligations. Any net gain from the subsidiary will flow back to the parent (Corporation) as an addition or in the case of a loss, a reduction to the earnings of the Corporation.

No balance sheet or activity eliminations between the Corporation and its blended units were necessary.

Condensed combining information for the primary government (the Corporation) and its three blended component units is presented as follows:

## NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *CONDENSED, COMBINING INFORMATION – STATEMENT OF NET POSITION*

| | CBRA | CTECH / Wet Lab | CI | Total Primary Government |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ -- | $ 42,587 | $ 22,853,031 | $ 22,895,618 |
| Loans, current portion | 476,101 | -- | 5,127,709 | 5,603,810 |
| Portfolio investments, current portion | -- | -- | 942,917 | 942,917 |
| Interest and other receivables | 280,203 | -- | 1,422,815 | 1,703,018 |
| Due from State of Connecticut | -- | -- | 10,041,437 | 10,041,437 |
| Prepaid expenses | -- | 7,165 | 209,233 | 216,398 |
| **Total Current Assets** | 756,304 | 49,752 | 40,597,142 | 41,403,198 |
| **Noncurrent Assets** | | | | |
| Restricted Assets: | | | | |
| Restricted cash and cash equivalents | -- | -- | 45,681,652 | 45,681,652 |
| Total Restricted | -- | -- | 45,681,652 | 45,681,652 |
| Portfolio investments, net of current portion | -- | -- | 79,175,449 | 79,175,449 |
| Loans - noncurrent, net of allowance for loan losses of $6,991,735 | 7,442,643 | -- | 50,925,577 | 58,368,220 |
| Connecticut Bioscience Collaboration Program Loans, net of allowance for doubtful accounts of $100,132,598 (Note 18) | -- | -- | -- | -- |
| Capital assets, net of depreciation | -- | 20,544 | 393,049 | 413,593 |
| Other | -- | -- | 166,000 | 166,000 |
| **Total Noncurrent Assets** | 7,442,643 | 20,544 | 176,341,727 | 183,804,914 |
| **Total Assets** | $ 8,198,947 | $ 70,296 | $ 216,938,869 | $ 225,208,112 |
| **Deferred Outflows of Resources** | $ -- | $ -- | $ 145,266 | $ 145,266 |

## NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *CONDENSED, COMBINING INFORMATION – STATEMENT OF NET POSITION (CONTINUED)*

| | CBRA | CTECH / Wet Lab | CI | Total Primary Government |
|---|---|---|---|---|
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Current portion of bonds payable | $ -- | $ -- | $ 2,260,000 | $ 2,260,000 |
| Accrued expenses and liabilities | -- | 17 | 7,004,933 | 7,004,950 |
| Deferred revenue | -- | 1,200 | 504,022 | 505,222 |
| Due to Connecticut Bioscience Innovation Fund | -- | -- | 19,000,000 | 19,000,000 |
| Refundable advances | -- | -- | 4,072,458 | 4,072,458 |
| Reserve for guarantee losses | -- | -- | 1,302,237 | 1,302,237 |
| **Total Current Liabilities** | -- | 1,217 | 34,143,650 | 34,144,867 |
| **Noncurrent Liabilities** | | | | |
| Escrow deposits | -- | -- | 9,960,743 | 9,960,743 |
| Bonds payable, net of current portion | -- | -- | 2,760,000 | 2,760,000 |
| **Total Noncurrent Liabilities** | -- | -- | 12,720,743 | 12,720,743 |
| **Total Liabilities** | -- | 1,217 | 46,864,393 | 46,865,610 |
| **Net Position** | | | | |
| Net investment in capital assets | -- | 20,544 | 393,049 | 413,593 |
| Restricted | -- | -- | 12,476,820 | 12,476,820 |
| Unrestricted | 8,198,947 | 48,535 | 157,349,873 | 165,597,355 |
| **Total Net Position** | 8,198,947 | 69,079 | 170,219,742 | 178,487,768 |
| **Total Liabilities and Net Position** | $ 8,198,947 | $ 70,296 | $ 217,084,135 | $ 225,353,378 |

## NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *CONDENSED, COMBINING INFORMATION – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION*

| | CBRA | CTECH / Wet Lab | CI | Total Primary Government |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Investment interest income | $ -- | $ -- | $ 1,399,444 | $ 1,399,444 |
| Interest on loans | 518,367 | -- | 2,232,670 | 2,751,037 |
| Unrealized gain on investments | -- | -- | 2,243,357 | 2,243,357 |
| Realized loss on sale of investments | -- | -- | (5,819,766) | (5,819,766) |
| Loan fee income | -- | -- | 1,231,942 | 1,231,942 |
| XL Center income | -- | -- | 1,257,165 | 1,257,165 |
| Grant and program income | -- | -- | 586,330 | 586,330 |
| Connecticut Bioscience Collaboration funding | -- | -- | 85,390,633 | 85,390,633 |
| Other income | -- | 65,793 | 1,405,262 | 1,471,055 |
| **Total Operating Revenues** | 518,367 | 65,793 | 89,927,037 | 90,511,197 |
| **Operating Expenses** | | | | |
| Salaries | -- | -- | 5,874,367 | 5,874,367 |
| Benefits and payroll taxes | -- | -- | 4,462,416 | 4,462,416 |
| Grants and programs | -- | -- | 17,333,014 | 17,333,014 |
| Connecticut Bioscience Collaboration loan write-down | -- | -- | 74,185,633 | 74,185,633 |
| Provision for loan and guarantee losses | 100,000 | -- | 1,850,000 | 1,950,000 |
| XL Center expenses | -- | -- | 27,164 | 27,164 |
| General facility and office | -- | 88,116 | 1,010,007 | 1,098,123 |
| Professional service fees | -- | 5,850 | 1,132,274 | 1,138,124 |
| Interest | -- | -- | 272,681 | 272,681 |
| Marketing, conferences, development | -- | -- | 691,661 | 691,661 |
| Depreciation and amortization | -- | 18,516 | 216,699 | 235,215 |
| Other | -- | -- | 38,976 | 38,976 |
| **Total Operating Expenses** | 100,000 | 112,482 | 107,094,892 | 107,307,374 |
| **Operating Income (Loss)** | 418,367 | (46,689) | (17,167,855) | (16,796,177) |
| **Nonoperating Revenues** | | | | |
| Connecticut General Statutes 31-41a funding | -- | -- | 9,496,918 | 9,496,918 |
| Connecticut PreSeed Fund | -- | -- | 225,000 | 225,000 |
| Connecticut Works (A) Fund and Connecticut Works (B) Guarantee Fund | -- | -- | 16,585,571 | 16,585,571 |
| **Total Nonoperating Revenues** | -- | -- | 26,307,489 | 26,307,489 |
| **Change in Net Position Before Transfers** | 418,367 | (46,689) | 9,139,634 | 9,511,312 |
| **Transfers** | (941,014) | 35,591 | 905,423 | -- |
| **Net Position** - Beginning of year | 8,721,594 | 80,177 | 160,174,685 | 168,976,456 |
| **Net Position** - End of year | $ 8,198,947 | $ 69,079 | $ 170,219,742 | $ 178,487,768 |

## NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *CONDENSED, COMBINING INFORMATION – STATEMENT OF CASH FLOWS*

| | CBRA | CTECH / Wet Lab | CI | Total Primary Government |
|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | |
| Loan principal collected | $ 407,952 | $ -- | $ 7,449,351 | $ 7,857,303 |
| Cash received under grants and programs | -- | -- | 437,423 | 437,423 |
| Cash received under Connecticut Bioscience Collaboration Program | -- | -- | 85,390,633 | 85,390,633 |
| Interest from loans | 533,062 | -- | 2,262,854 | 2,795,916 |
| Cash from loan/guarantee/insurance fees | -- | -- | 1,213,738 | 1,213,738 |
| Interest on investments and marketable securities | -- | -- | 419,346 | 419,346 |
| XL Center revenues | -- | -- | 1,200,000 | 1,200,000 |
| Sale of investments | -- | -- | 868,772 | 868,772 |
| Return of principal on investments | -- | -- | 1,865,805 | 1,865,805 |
| Gain on sale of investments | -- | -- | 1,520,238 | 1,520,238 |
| Purchase of investments | -- | -- | (22,014,305) | (22,014,305) |
| Program loans funded | -- | -- | (33,000) | (33,000) |
| Cash received from dividends and royalties | -- | -- | 1,963 | 1,963 |
| Interest on short-term investments and cash deposits | -- | -- | 62,912 | 62,912 |
| Cash from recovery of principal | -- | -- | 11,650 | 11,650 |
| Cash received from other income | -- | 61,418 | 147,138 | 208,556 |
| Cash paid under grants and programs | -- | -- | (17,374,204) | (17,374,204) |
| Connecticut Bioscience Collaborative loans | -- | -- | (74,185,633) | (74,185,633) |
| Cash received under custodial arrangements | -- | -- | 13,743,788 | 13,743,788 |
| Cash expended under custodial arrangements | -- | -- | (10,067,577) | (10,067,577) |
| Payroll and fringe benefits paid | -- | -- | (10,635,721) | (10,635,721) |
| Loans funded | -- | -- | (20,066,153) | (20,066,153) |
| General and administrative expenses paid | -- | (95,399) | (3,686,247) | (3,781,646) |
| Guarantees paid | -- | -- | (408,168) | (408,168) |
| Loan workout expenses paid | -- | -- | (197,562) | (197,562) |
| **Net Cash Provided by (Used in) Operating Activities** | 941,014 | (33,981) | (42,072,959) | (41,165,926) |
| **Cash Flows from Capital and Related Financing Activities** | | | | |
| Purchase of capital assets | -- | -- | (204,169) | (204,169) |
| Principal payments on bonds | -- | -- | (503,250) | (503,250) |
| Interest payments on bonds | -- | -- | (11,952) | (11,952) |
| **Net Cash Used in Capital and Related Financing Activities** | -- | -- | (719,371) | (719,371) |

### NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *CONDENSED, COMBINING INFORMATION – STATEMENT OF CASH FLOWS (CONTINUED)*

| | CBRA | CTECH / Wet Lab | CI | Total Primary Government |
|---|---|---|---|---|
| **Cash Flows from Noncapital Financing Activities** | | | | |
| Funding received from State of Connecticut | $ -- | $ -- | 23,840,000 | $ 23,840,000 |
| Connecticut Bioscience Innovation Fund receipts | -- | -- | 20,000,000 | 20,000,000 |
| Increase in escrow deposits | -- | -- | 2,117,731 | 2,117,731 |
| Marketable securities | -- | -- | 3,008,095 | 3,008,095 |
| Principal payments on bonds | -- | -- | (3,181,750) | (3,181,750) |
| Interest payments on bonds | -- | -- | (332,444) | (332,444) |
| Cash paid for State Small Business Credit Initiative funding | -- | -- | (36,149) | (36,149) |
| **Net Cash Provided by Noncapital Financing Activities** | -- | -- | 45,415,483 | 45,415,483 |
| **Net Increase in Cash and Cash Equivalents** | 941,014 | (33,981) | 2,623,153 | 3,530,186 |
| **Cash and Cash Equivalents** - Beginning | -- | 40,978 | 65,006,106 | 65,047,084 |
| **Cash and Cash Equivalents** - Ending | $ 941,014 | $ 6,997 | $ 67,629,259 | $ 68,577,270 |

### NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *CONDENSED, COMBINING INFORMATION – STATEMENT OF CASH FLOWS (CONTINUED)*

| | CBRA | CTECH / Wet Lab | CI | Total Primary Government |
|---|---|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Used in Operating Activities** | | | | |
| Operating gain (loss) | $ 418,367 | $ (46,689) | $ (17,167,855) | $ (16,796,177) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | | |
| Noncash interest conversions | -- | -- | (978,002) | (978,002) |
| Sale of investments | -- | -- | 868,772 | 868,772 |
| Return of principal on investments | -- | -- | 1,865,805 | 1,865,805 |
| Realized loss from investment charge-offs | -- | -- | 7,340,004 | 7,340,004 |
| Purchase of investments | -- | -- | (22,014,305) | (22,014,305) |
| Unrealized appreciation on investments | | | (2,243,357) | (2,243,357) |
| Program loans funded | -- | -- | (33,000) | (33,000) |
| Noncapital CBIF administrative fee | -- | -- | (1,000,000) | (1,000,000) |
| Interest expense on bonds | -- | -- | 299,845 | 299,845 |
| Provision for loan and guarantee losses | 100,000 | -- | 1,850,000 | 1,950,000 |
| Depreciation and amortization | -- | 18,516 | 216,699 | 235,215 |
| Recoveries of loan principal | -- | -- | 11,650 | 11,650 |
| Guarantees paid | -- | -- | (408,168) | (408,168) |
| (Increase) decrease in assets: | | | | |
| Loans receivable | 407,952 | -- | (8,505,876) | (8,097,924) |
| Charge-offs of loans receivable | -- | -- | (4,150,152) | (4,150,152) |
| Interest and other receivables | 14,695 | -- | (449,491) | (434,796) |
| Advances, prepaid and deferred expenses | -- | (1,270) | 450,617 | 449,347 |
| Other assets | -- | 200 | -- | 200 |
| Increase (decrease) in liabilities: | | | | |
| Accrued expenses | -- | (163) | (1,548,642) | (1,548,805) |
| Custodial liability | -- | -- | 3,676,211 | 3,676,211 |
| Deferred revenue | -- | (4,575) | (153,714) | (158,289) |
| **Net Cash Provided by (Used in) Operating Activities** | $ 941,014 | $ (33,981) | $ (42,072,959) | $ (41,165,926) |

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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 $25,000 to $200,000.

***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.

***Small Business Innovation Research (SBIR) Office* –** The Connecticut SBIR Office seeks to support Connecticut based innovators, entrepreneurs and small businesses to commercialize new products. The program also provides matching grants to manufacturers to design and develop innovative technologies to diversify their portfolio of products thereby retaining/increasing sales and employment in the State. The SBIR program also assists companies to obtain federal grants through the federal SBIR program.

## NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *FINANCIAL AND TECHNICAL PROGRAMS (CONTINUED)*

***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 $2,119,741,141 of special obligation industrial revenue bonds since July 1, 1978. Total bonds outstanding at June 30, 2014 were $596,421,738.

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.

***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, 2014 loans totaling $2,879,999 were insured under the program by other lending institutions.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***FINANCIAL AND TECHNICAL PROGRAMS (CONTINUED)***

***Insurance Program (Continued)*** – 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 25 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.

Water facilities include municipally owned water companies and investor-owned water companies that service between 25 and 10,000 customers and municipally owned and privately owned dams deemed a community benefit by the Commissioner of the Department of Energy and Environmental Protection. The loans are generally limited to $250,000 for terms not to exceed 20 years for real property and ten years for machinery and equipment.

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.

## NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *FINANCIAL AND TECHNICAL PROGRAMS (CONTINUED)*

***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.

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.

## NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *SIGNIFICANT ACCOUNTING POLICIES*

#### *MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION*

The Corporation is considered to be an enterprise fund of the State of Connecticut. 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 Governmental Accounting Standards Board (GASB) Statement No. 62, *GASB Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which incorporates into GASB guidance pre-November 29, 1989 FASB Statements and Interpretations and Accounting Principles Board (ABP) Opinions and Research Bulletins which do not conflict or contradict GASB statements.

#### *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 revenues consists primarily of (1) loan interest from its lending and economic development activities; (2) grants, including Jackson Laboratory funding, and program income; and (3) other revenue generated in connection with investments (including investment gains and losses from portfolio investments) and programs as well as from the operations of the XL Center 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, grants, XL Center operations as well as depreciation on capital assets.

Non-operating revenue consists of funding from certain State of Connecticut appropriations or regulations. Offsetting non-operating revenue and recorded as non-operating expenses are gains and losses from the disposition of assets.

## NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *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 State Small Business Credit Initiative (SSBCI) program, 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 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 cash and highly liquid short-term investments. Cash includes deposits with financial institutions as well as the Corporation's funds within the Connecticut State Treasurer's Short-Term Investment Fund.

### 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 carries all investments at fair value, which 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. Fair value, for other than publicly traded securities, is determined by an independent valuation committee for the Corporation using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group (PEIGG). In the absence of readily determinable market values, the committee gives consideration to pertinent information about the companies comprising these investments, including, but not limited to, recent sales prices of the issuer's securities, sales growth, progress toward business goals 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. Management reserves the right to establish a reserve in addition to the recommended reserve from the valuation committee to further account for current market conditions and volatility. Due to the inherent uncertainty of valuation, those estimated values may differ significantly from the amounts ultimately realized from the investments, and the differences could be material. The calculation of realized gains and losses is independent of the calculation of the net change in investment value.

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, bear interest at rates ranging from 5% to 12% per annum and have an average term of 1 to 10 years.

### NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *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.

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.

#### *CAPITAL ASSETS*

Capital asset acquisitions exceeding $500 are capitalized at cost. Maintenance and repair expenses are charged to operations when incurred. Depreciation is computed using the straight-line method over depreciable lives ranging from two to five years. 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 income for the period.

#### *DEFERRED OUTFLOWS OF RESOURCES*

This amount represents the balance of bond issuance costs in connection with debt refinanced in prior years. These costs are amortized over the life of the bond issue in proportion to the outstanding balance of the related bond issue.

## NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *ESCROW DEPOSITS*

The Corporation holds in a separate financial institution account escrow deposits which provide collateral security from various program participants. These deposits secure the program participants liability in regards to relocation/abandonment, employment thresholds and employment recapture payments. In addition to the above and pursuant to the construction contracts for the completion of work by contractors at 263 and 297 Farmington Avenue, Farmington, Connecticut. The Corporation retains 10% of all interim progress payments due and payable to The Jackson Laboratory until the facility is 50% constructed, then retains 5% immediately after the facility is 50% complete until the completion of the project. On June 30, 2014 the retainage maintained in escrow in relation to the Jackson Laboratory Construction contract was $4,292,697.

### *OFF-BALANCE SHEET INSTRUMENTS*

Fair values for the Corporations off-balance-sheet instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing (guarantees, loan commitments).

### *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*

Restricted cash 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.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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 and by the outstanding balances of bonds that are attributable to those particular assets.

*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, 2014 have been evaluated through November 21, 2014, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

**NOTE 2 – FAIR VALUE MEASUREMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value for the Corporation's other security and portfolio investments, is 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 under Financial Accounting Standards Board Accounting Standards Codification 820 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 Plan has the ability to access.

**NOTE 2 – FAIR VALUE MEASUREMENTS (CONTINUED)**

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.

The asset or liability'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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014.

*Cash Equivalents* – Cash equivalents consist of funds invested in the Connecticut State Treasurer's Short-Term Investment Fund and are valued at one dollar per share due to the highly liquid nature of the investment.

*Portfolio Investments* – CI's investments in public companies are valued at the closing price recorded on the active market on which the individual securities are traded. The other portfolio investments valuations are determined by an independent valuation committee for the Corporation using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group (PEIGG). In the absence of readily determinable market values, the committee gives consideration to pertinent information about the companies comprising these investments, including, but not limited to, recent sales prices of the issuer's securities, sales growth, progress toward business goals 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.

## NOTE 2 – FAIR VALUE MEASUREMENTS (CONTINUED)

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 at fair value as of June 30, 2014:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 68,577,270 | $ -- | $ -- | $ 68,577,270 |
| Portfolio investments | | | | |
| Equity | 7,896,760 | -- | 55,920,318 | 63,817,078 |
| Debt | -- | -- | 16,301,288 | 16,301,288 |
| | $ 76,474,030 | $ -- | $ 72,221,606 | $ 148,695,636 |

The following table sets forth a summary of changes in the fair value of the level 3 assets for the year ended June 30, 2014.

| | |
|---|---|
| Balance - beginning of year | $ 64,953,520 |
| Purchases | 23,116,067 |
| Settlements | (12,266,424) |
| IPO Conversions | (2,745,385) |
| Unrealized depreciation in investments | (836,172) |
| Balance - end of year | $ 72,221,606 |

There were no transfers between levels during the year ended June 30, 2014.

## NOTE 3 – CASH AND CASH EQUIVALENTS AND OTHER SECURITY

### *CASH AND CASH EQUIVALENTS*

The following is a summary of the composition of cash and cash equivalents (both restricted and unrestricted) on June 30, 2014.

| | |
|---|---|
| Deposits with financial institutions | $ 20,239,744 |
| Connecticut State Treasurer's Short-Term Investment Fund | 48,337,526 |
| Total cash and cash equivalents | $ 68,577,270 |

Cash and cash equivalents are presented on the statement of net position at June 30, 2014 as follows:

| | |
|---|---|
| Unrestricted cash and cash equivalents | $ 22,895,618 |
| Restricted cash and cash equivalents | 45,681,652 |
| | $ 68,577,270 |

### *DEPOSITS WITH FINANCIAL INSTITUTIONS*

On June 30, 2014, the carrying amount of the Corporation's deposits with financial institutions (including checking accounts, certificates of deposit and escrow accounts) was $20,239,744, and the bank balance was $20,466,424.

All cash maintained by 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 (Note 1). Total restricted cash and cash equivalents was $45,681,652 as of June 30, 2014.

### *CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND*

The Connecticut State Treasurer's Short-Term Investment Fund (STIF) is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27c through 3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

## NOTE 3 – CASH AND CASH EQUIVALENTS AND OTHER SECURITY (CONTINUED)

### *INVESTMENT MATURITIES*

The Connecticut State Treasurer's Short-Term Investment Fund has no maturity date and is available for withdrawal on demand.

### *CUSTODIAL CREDIT RISK*

Deposits - 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.

On June 30, 2014, $17,861,756 of the Corporation's bank balance was uninsured and uncollateralized and therefore exposed to custodial credit risk.

*Investments* – For an investment, this represents the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of the investment. On June 30, 2014, the Corporation had no reportable credit risk. The Connecticut State Treasurer's Short-Term Investment Fund is not subject to this disclosure.

### *INTEREST RATE RISK*

*Unrestricted Investments* – The Corporation manages its exposure to declines in fair value by limiting the average maturity of its short-term investment portfolio to less than one year.

*Restricted Investments* – The Corporation's investment policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures and with applicable Connecticut General Statutes. Whenever possible, restricted investments are to be held to maturity and be invested in an appropriate manner as to ensure the availability for specified payment dates and other intended purposes as set forth in the relevant trust indentures and agreements, and to ensure a rate of return at least equal to the restricted bond yield, all with minimal risk to capital.

## NOTE 3 – CASH AND CASH EQUIVALENTS AND OTHER SECURITY (CONTINUED)

### *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 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.

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

| | Standard & Poor's |
|---|---|
| State Treasurer's Investment Fund | AAAm |

### *CONCENTRATION OF CREDIT RISK*

For restricted and unrestricted investments, the Corporation places no limits on the amount of investment in any one investment vehicle. The Corporation does not have a policy on credit risk concentration. The State Treasurer's Investment Fund is not subject to this disclosure.

## NOTE 4 – PORTFOLIO INVESTMENTS

Investments as of June 30, 2014 are summarized as follows:

| | June 30, 2014 | | |
|---|---|---|---|
| CI Fund | Equity Securities | Debt Securities | Total |
| Eli Whitney investments | $ 59,762,944 | $ 5,119,333 | $ 64,882,277 |
| BioScience Facilities investments | -- | 2,297,113 | 2,297,113 |
| Seed Fund investments | 2,512,799 | 1,325,001 | 3,837,800 |
| Clean Tech investments | 307,502 | 107,524 | 415,026 |
| Mezzanine Fund investments | -- | 2,838,206 | 2,838,206 |
| Other investments | 1,233,834 | 4,614,110 | 5,847,944 |
| Totals | $ 63,817,079 | $ 16,301,287 | $ 80,118,366 |

**NOTE 4 – PORTFOLIO INVESTMENTS (CONTINUED)**

The following is a summary of Eli Whitney Investments by industry as of June 30, 2014:

| | June 30, 2014 | % |
|---|---|---|
| BioScience | $ 22,340,772 | 34.4 |
| IT Software | 15,046,977 | 23.2 |
| IT Infrastructure | 8,082,809 | 12.5 |
| Medical Devices | 6,948,969 | 10.7 |
| Clean Technology | 3,238,500 | 5.1 |
| IT Services | 2,820,224 | 4.3 |
| Photonics | 6,404,026 | 9.8 |
| | $ 64,882,277 | 100.0 |

CI accrues interest on its debt investments from the start of the note and then fair values the investment in accordance with its fair value methodology as described in Note 2. It is normal policy to convert its debt holdings to equity investments. As of June 30, 2014, the Corporation owned warrants in several portfolio companies with various exercise dates and at exercise prices that range from $.0001 to $35,000 per share. Warrants held at June 30, 2014 represented investments in 32 companies.

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, 2014, the five largest investments comprised 29.1% of the carrying value of the Corporation’s total investments.

### NOTE 5 – LOANS

The Corporation extends commercial loans to customers 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. These loans have original terms of one to twenty-five years and bear interest as follows:

| | Interest Rates (Percentages) |
|---|---|
| Growth Fund | 3.0% - 8.219% |
| Connecticut Works Fund ("A") | 2.0% - 7.0% |
| Operating Fund | 5.04% |
| CBRA | 5.5% - 6.0% |

The Corporation’s direct loan portfolio is comprised of 103 loans totaling $70,963,765. Of this amount, 95 loans totaling $59,459.481 (84%) are in the Growth and Connecticut Works Fund (“A”). The remaining $11,504,284 (16%) is comprised of 8 loans in the CBRA subsidiary and Operating 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 (Note 6).

Nonperforming loans include loans that are over 61 days past due on June 30, 2014.

Loans are presented in the statement of net position as follows:

| | |
|---|---|
| Loans, current portion | $ 5,603,810 |
| Loans, non-current portion | 65,359,955 |
| | 70,963,765 |
| Less: Allowance for doubtful accounts | (6,991,735) |
| Net | $ 63,972,030 |

## 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.

Changes in the allowance for possible loan and guarantee losses by individual fund during the years ended were as follows:

| | June 30, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Loans | | | | Guarantees | | | |
| | CBRA Subsidiary/ Insurance Fund | Growth Fund | Connecticut Works Fund (A) | Direct Loan Totals | Connecticut Works Fund (A) Guarantees | Connecticut Capital Access Fund | Guarantee Totals | Total Loans and Guarantees |
| Beginning balance | $ 756,628 | $ 392,982 | $ 8,690,127 | $ 9,839,737 | $ 485,000 | $ 565,905 | $ 1,050,905 | $ 10,890,642 |
| Other | -- | -- | -- | -- | -- | -- | -- | -- |
| Provision | 100,000 | 300,000 | 900,000 | 1,300,000 | -- | 650,000 | 650,000 | 1,950,000 |
| Charge-offs | -- | (348,645) | (3,801,507) | (4,150,152) | -- | -- | -- | (4,150,152) |
| Guarantee fees | -- | -- | -- | -- | (408,168) | -- | (408,168) | (408,168) |
| Recoveries | -- | 2,150 | -- | 2,150 | -- | 9,500 | 9,500 | 11,650 |
| Ending balance | $ 856,628 | $ 346,487 | $ 5,788,620 | $ 6,991,735 | $ 76,832 | $ 1,225,405 | $ 1,302,237 | $ 8,293,972 |
| Loan balances/exposure | $ 11,504,284 | $ 8,519,540 | $ 50,939,941 | $ 70,963,765 | $ 916,773 | $ 4,076,557 | $ 4,993,330 | $ 75,957,095 |
| Allowance balance as a percent of loans/ exposure | 7.4% | 4.1% | 11.4% | 9.9% | 8.4% | 30.1% | 26.1% | 10.9% |

## NOTE 6 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

At June 30, 2014, the Corporation had a recorded balance in impaired loans of $9,881,081 in the CBRA Subsidiary, Insurance Program, Growth Fund and Connecticut Works Fund (A), collectively. A loan is impaired when, based on current circumstances and events, a creditor expects to be unable to collect all amounts contractually due in accordance with the terms of the loan agreement.

All impaired loans have a specific allowance for possible loan losses included in the overall allowance for loan losses totaling $5,131,283 on June 30, 2014.

The average recorded investment in impaired loans for the year ended June 30, 2014 was $12,090,632 and income recorded on loans identified as being impaired totaled $116,355 of which $126,071 was recorded as revenue when received.

## 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. Certain employees of the Corporation also serve as directors of CTDC. (see Note 1).

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 (CCEF) and directed that it be administered on a contract basis by the Corporation. The Corporation expended $1,110,683 in the year ended June 30, 2014 on behalf of CGB, for which the Corporation was reimbursed $692,416. $439,643 is owed by CGB to CI at June 30, 2014.

Pursuant to an agreement entered into as of March 21, 2013, a limited liability company, CEFIA Holdings LLC was established and CI became a member with a .1% membership interest with a $1,000 initial capital contribution. CGB holds a 99.9% membership interest with an initial capital contribution of $99,000.

## NOTE 7 – RELATED PARTY TRANSACTIONS (CONTINUED)

Pursuant to Section 72 of Public Act 13-239, CI was appointed administrator of the Connecticut Bioscience Innovation Fund (CBIF). Allocated staff costs, peer review costs and other out-of pocket costs incurred by CI in providing administrative support and services to the Advisory Committee and in connection with the activities of the Fund are to be paid or reimbursed to CI from the Fund subject to an overall limit each fiscal year of five (5%) of total allotted funding for that fiscal year. $20,000,000 in allocated funding was received for CBIF and CBIF expended $1,000,000 to CI in the form of a reimbursement for the year ended June 30, 2014. The balance of these funds, $19,000,000, is shown as due to CBIF.

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. The reimbursement for fiscal year 2014 totaled of gross salaries.

Related party balances are as follows at June 30, 2014:

| | |
|---|---|
| Due to CBIF | $ 19,000,000 |
| Due from the Connecticut Green Bank | $ 439,643 |
| Membership Interest - CEFIA Holdings LLC | $ 1,000 |

## NOTE 8 – DUE FROM STATE OF CONNECTICUT

During 2014, CI was notified by the State of Connecticut ("State") that approximately $9.5 million dollars was available to CI under Connecticut General Statutes 31-41a to support general operations. It is management's intent as of June 30, 2014 to use these funds to offset future CI payroll costs. The balance of the amount due from the State represent reimbursements of approximately $426,600 incurred in the normal course of operations.

## NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 is as follows:

| | Balance, July 1, 2013 | Additions | Deletions | Other | Balance, June 30, 2014 |
|---|---|---|---|---|---|
| Capital assets being depreciated: | | | | | |
| Furniture and equipment | $ 317,348 | $ 9,189 | $ -- | $ -- | $ 326,537 |
| Computer hardware and software | 612,321 | 257,328 | -- | 2,565 | 872,214 |
| Leasehold improvements (CI and CTech) | 122,150 | -- | -- | 799 | 122,949 |
| Construction in progress | 92,307 | 109,406 | (196,550) | -- | 5,163 |
| | 1,144,126 | 375,923 | (196,550) | 3,364 | 1,326,863 |
| Less accumulated depreciation and amortization: | | | | | |
| Furniture and equipment | 262,602 | 41,181 | -- | 3,325 | 307,108 |
| Computer hardware and software | 429,791 | 113,614 | -- | (159) | 543,246 |
| Leasehold improvements (CI and CTech) | 37,184 | 25,534 | -- | 198 | 62,916 |
| | 729,577 | 180,329 | -- | 3,364 | 913,270 |
| Capital assets - net | $ 414,549 | $ 195,594 | $ (196,550) | $ -- | $ 413,593 |

## NOTE 10 – STATE FUNDING

In 2014 the Corporation received $109,230,633 from the State of Connecticut under approved bond fund authorizations to provide financial assistance to high technology companies. These funds were provided as follows: $225,000 through the PreSeed Fund; $74,185,633 for the Connecticut Bioscience Collaboration Program for facility and equipment loans; $11,205,000 for operating assistance to the Jackson Laboratory for Genomic Medicine; $12,515,000 through the Connecticut Works Fund and $11,100,000 through the Guarantee Program Fund “B”. Also, the corporation recorded non-operating revenue due from the state of Connecticut of $9,496,918 related to funds available from Connecticut General Statutes 31-41a and described in Note 8 of the financial statements.

## NOTE 10 – STATE FUNDING (CONTINUED)

As of June 30, 2014, $175,667,972 remained available to the corporation from bond fund authorizations as follows:

| | |
|---|---|
| BioFacilities Fund | $ 2,991,500 |
| Connecticut Bioscience Collaboration Program: | |
| Loans | 90,950,972 |
| Operating Grant | 81,725,500 |
| | 172,676,472 |
| | $ 175,667,972 |

## NOTE 11 – BONDS PAYABLE

The bonds of the General Operating Fund bear interest at 4.90 to 5.25 percent. The principal and interest payable as of June 30, 2014 are as follows:

| Year ending June 30, | Principal General Obligation Bonds | Interest General Obligation Bonds |
|---|---|---|
| 2015 | $ 2,260,000 | $ 200,448 |
| 2016 | 500,000 | 131,775 |
| 2017 | 525,000 | 104,869 |
| 2018 | 555,000 | 76,519 |
| 2019 | 585,000 | 46,594 |
| 2020 | 595,000 | 15,619 |
| | $ 5,020,000 | $ 575,824 |

**NOTE 11 – BONDS PAYABLE (CONTINUED)**

Outstanding principal of the General Operating Fund's General Obligation Bonds is as follows:

| | Original Amount | Outstanding Principal June 30, 2014 |
|---|---|---|
| 2004 Series B, 2.37 - 5.25 percent, $6,725,000 with $3,965,000 in aggregate principal amount of serial bonds maturing on October 15 in the years 2005 through 2014, both inclusive; $2,760,000 in aggregate principal amount of term bonds maturing on October 15, 2019. Callable at par under special circumstances. | $ 6,725,000 | $ 3,240,000 |
| 2004 Series C, 2.35 - 4.92 percent, $15,005,000 due serially from August 15, 2005 through August 15, 2014. Callable at par under special circumstances | 15,005,000 | 1,780,000 |
| | $ 21,730,000 | 5,020,000 |
| Less: current portion | | 2,260,000 |
| Long-term portion | | $ 2,760,000 |

### NOTE 12 – OPERATING LEASES

The Corporation leases its office and laboratory space from unrelated third parties under operating leases ending December, 2020, and July, 2015 respectively.

Future minimum lease payments under these leases are as follows:

| Years ending June 30, | | |
|---|---|---|
| 2015 | $ | 434,520 |
| 2016 | | 379,780 |
| 2017 | | 383,990 |
| 2018 | | 394,095 |
| 2019 | | 404,200 |
| Thereafter | | 623,984 |
| | $ | 2,620,569 |

Rent expense for all facilities for the year ended June 30, 2014, was $444,178.

### NOTE 13 – PENSION PLAN

All employees of the Corporation participate in the State Employees' Retirement System (SERS), which is administered by the State Employees' Retirement Commission. The Corporation has no liability for pension costs other than the annual contribution. In addition, an actuarial study was performed on the plan as a whole as of June 30, 2012 but does not separate information for employees of the Corporation. Therefore, certain pension disclosures otherwise required pursuant to accounting principles generally accepted in the United States of America are omitted. Information on the total plan funding status and progress, contribution required and trend information can be found in the State of Connecticut's Comprehensive Annual Financial Report.

**NOTE 13 – PENSION PLAN (CONTINUED)**

***PLAN DESCRIPTION***

SERS is a single-employer defined benefit public employee 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 four tiers. Tier I, Tier IIA and Tier III are contributory plans, and Tier II is a noncontributory plan. Tier I requires an employee contribution of 2% or 5% of salary, while Tier IIA and Tier III require a contribution of 2%. 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. 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 are members of Tier III. 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.

Tier II and Tier IIA employees who retire at or after age 63 with 25 years of service, or at age 65 with 10 years of service, or at age 70 with 5 years of service, are entitled an annual retirement benefit payable monthly for life, in an amount of one and one third percent of the average annual earnings plus one-half of one percent 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 2011 State Employees Bargaining Agent Coalition Agreement (Agreement) provides current Tier II and Tier IIA members who remain employed after July 1, 2022, 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. Under the prior agreement, normal retirement eligibility was age 60 and 25 years of service or age 62 and 10 years of service.

## NOTE 13 – PENSION PLAN (CONTINUED)

Tier III 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 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 58$^{th}$ birthday. Tier III normal retirement benefits include annual retirement benefits for life, in the amount of one and one-third percent of the five year average annual earnings plus one-half 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.

The total payroll and the payroll for employees of the Corporation covered by SERS for the years ended June 30, 2014 was $5,870,102.

### *CONTRIBUTIONS MADE*

The Corporation's contribution is determined by applying a State mandated percentage to eligible salaries and wages as follows:

| | | |
|---|---|---|
| Contributions made: | | |
| By employees | $ | 187,773 |
| Percent of current year covered payroll | | 3.2% |
| By the Corporation | $ | 3,403,927 |
| Percent of current year covered payroll | | 58.0% |

## NOTE 14 – XL CENTER OPERATIONS

On September 1, 1993, the former CDA entered into a series of agreements centering around the lease of the XL Center from the City of Hartford, Connecticut (City). The principal agreements are summarized as follows:

- The lease agreement originally called for quarterly lease payments of $400,000 with 4 percent increases compounded annually; the first quarters and a one-time payment of $3,000,000 at the lease inception (total of $3,400,000) were paid to the City on September 1, 1993. The lease expired September 1, 2013.

**NOTE 14 – XL CENTER OPERATIONS (CONTINUED)**

- On March 21, 2007 the Board of Directors of the former CDA voted to award the contract relating to the management and operation of the XL Center to Northland/AEG. The scheduled term of the sublease and operating agreement began on July 1, 2007 and ended on August 30, 2013, subject to earlier termination under special circumstances. Under the terms of the agreement CDA granted and transferred to Northland/AEG the full and exclusive managerial, operational and financial responsibility for the facility.

Northland/AEG will be fully responsible for all obligations and requirements binding upon the Tenant under the City Lease and CDA including (i) the payment to CDA of all City Rent; (ii) maintenance and repair of the Facilities and changes, alterations and improvements, including responsibility for all capital expenditures; (iii) taxes and utilities; (iv) the use and continued operation of the Facilities; (v) indemnification and insurance; (vi) damage or deterioration of the Facilities; (vii) the condition of the Facilities upon surrender at the scheduled expiration of the City lease; and the hiring of residents of the City and affirmative action and equal opportunity covenants.

Effective on June 30, 2013, the Sublease and operating agreement was terminated and the CI and AEG Entities shall have no further rights, liabilities or obligations in connection with the Sublease arising subsequent to the Termination Date.

In consideration of the early termination of the Sublease, (CRDA) Capital Region Development Authority shall pay (AEGM), AEG Management CT, LLC (formerly known as Northland / AEG), the amount of $500,000 as fair and reasonable compensation for the loss of expected revenue over the remainder of the scheduled term of the Sublease. In consideration of the mutual representations, warranties and agreements set forth AEGM shall pay CI, without set off or reduction $500,000 to fully and finally settle and satisfy any and all obligations of AEGM under Section 6.04 of the Sublease. In September and October of 2013 AEGM paid to CI the $500,000 in full in final settlement and has satisfied any and all obligations to CI.

**NOTE 15 – GAIN SHARING PLAN**

In 1999 the Board of Directors established a nonqualified performance-based gain sharing plan. In any year, any employee in good standing who was an employee at the end of the year is eligible. Under this plan, the Corporation sets aside an amount based upon 5% of the net realized gains, if any, on the Eli Whitney equity and certain other equity investments reduced by any unrealized losses reducing the value of an investment below cost.

### NOTE 15 – GAIN SHARING PLAN (CONTINUED)

Allocations for each eligible participant are based on each participant's contribution toward the achievement by the Corporation of its statutory objectives under Section 32-39 of the Connecticut General Statutes.

Allocations vest at a rate of 25% per year, beginning no later than October 1 of the year that the award was approved and on the three one-year anniversaries thereafter. In order for vesting to occur, the employee must remain in good standing, and amounts may be offset by future net losses should such occur.

In 2006, the Board of Directors voted to terminate the plan effective July 1, 2009. Participants of the plan would still be eligible to receive distributions for investments held by the Corporation on that date. Plan liabilities would cease when all investments held by the plan on the termination date are either sold or written off. In 2009, the Board of Directors voted to delay termination of the plan until July 1, 2010. The plan terminated on July 1, 2010.

For the year ended June 30, 2014, $103,103 was added to the plan as a result of the combination of realized and net unrealized gains/losses. The amount reduced the gain share loss carry forward and will increase the total funds available, if any, for future gain share payments to employees. No allocations or payments to employees were made in 2014.

### NOTE 16 – HARTFORD WHALERS TRANSACTION

In connection with the XL Center transaction (Note 14), the Corporation, as successor to the Authority, obtained the right of first refusal to acquire the Hartford Whalers National Hockey League franchise (Whalers) for $47,500,000. The Authority exercised such right on June 27, 1994 and simultaneously sold the Whalers to KTR Hockey Limited Partnership (Partnership) for cash of $22,000,000 and a package of deferred payments with an estimated value of $25,500,000 as determined by the Authority after performing a review of the Whalers' projected operating results.

On June 18, 1997, the Corporation, as successor to the Authority, and the Whalers entered into a "Settlement Agreement." Under the terms of the agreement, the Whalers were permitted to relocate their hockey franchise and in return, the Whalers agreed to pay the Authority $20,500,000 plus interest on a portion of such principal. The principal payments commenced on July 1, 1997 with the payment of $5,000,000. Future installments of principal ranging from $1,000,000 to $1,050,000 were due annually on July 1, 1998 through July 1, 2012. The payment stream along with all XL Center revenues is pledged to cover the

### NOTE 16 – HARTFORD WHALERS TRANSACTION (CONTINUED)

annual debt service of the Corporation's 1993 Series A and 2004 C General Obligation bonds. On July 21, 2010, a modification to the payment terms was granted extending the last three annual payments commencing July 1, 2010 to six annual payments in exchange for a personal guarantee of $2.1 million that was acceptable to management and CDA's general counsel. The Corporation, as successor to the Authority, expects to recognize the installment of principal due and the modification of the three additional years through July 1, 2015, as income when the payments are received.

In addition, the Whalers and the Corporation, as successor to the Authority, each have granted the other party a mutual release of all claims. The Corporation also retains the rights to the Whalers' name, logo, and NHL Franchise Area.

### NOTE 17 – STATE GRANT PROGRAMS

For the year ended June 30, 2014 the Corporation received grant funds from the Department of Public Health (DPH) and the Department of Economic and Community Development (DECD) to be awarded to qualifying recipients under the terms of the respective agreements. These agreements have been accounted for as custodial arrangements whereby the unexpended funds held are presented as a custodial liability. Funds received and awarded are treated as changes in the custodial liability rather than revenue and expenses. The Corporation provides in-kind administrative services to DPH in connection with the award and administration of grants for stem cell research In addition to providing record keeping services for funds disbursed to individual grant recipients, the Corporation also develops grant applications and contracts for the program.

| | Inception to June 30, 2014 | | |
|---|---|---|---|
| | DPH | DECD | Total |
| Funds received | $ 68,957,891 | $ 2,461,445 | $ 71,419,336 |
| Funds awarded | 68,957,891 | 2,017,163 | 70,975,054 |
| Balance | $ -- | $ 444,282 | $ 444,282 |

## NOTE 18 – CONNECTICUT BIOSCIENCE COLLABORATION PROGRAM

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

The funding agreement provides for 1) a maximum $145 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) provide $99 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 will be forgiven if Jax meets an employment goal of 300 employees for a period of 6 months, including a minimum of 90 senior scientists within 10 years. As of June 30, 2014, the loan amount outstanding is $100,132,598.

Based upon information reviewed by CI management, management believes it is probable that Jax is on target to meet its employment goals to make the loans forgivable. CI has therefore elected to reserve in full for the outstanding loans. Interest is not being accrued.

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 ending June 30, 2014.

## NOTE 19 – 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 three years.

## NOTE 20 – RESTRICTED NET ASSETS

At June 30, 2014, restricted net position consisted of funds restricted for the following:

| | |
|---|---|
| CT Bioscience Collaboration Program | $ 4,292,697 |
| Loan Guarantees | 1,220,902 |
| Bonding Resolution Compliance | 3,701,763 |
| Urbank Enabling Legislation | 3,261,458 |
| | $ 12,476,820 |

## NOTE 21 – OFF-BALANCE SHEET RISK, CONCENTRATION OF CREDIT RISK AND COMMITMENTS

### *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 balance sheet.

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, 2014 is summarized below:

| | Contract Amount |
|---|---|
| Loan commitments: | |
| Connecticut Redevelopment Authority | $ 1,100,000 |
| Connecticut Works Fund ("A") | 4,031,579 |
| | $ 5,131,579 |
| Equity commitments: | |
| Eli Whitney Fund | $ 5,832,919 |
| PreSeed Fund | 358,500 |
| Clean Tech Fund | 24,636 |
| Venture Debt and Mezzanine Fund | 350,000 |
| BioFacilities Fund | 975,000 |
| | $ 7,541,055 |
| Loan guarantees: | |
| Connecticut Capital Access Fund | $ 2,456,531 |

### NOTE 21 – OFF-BALANCE SHEET RISK, CONCENTRATION OF CREDIT RISK AND COMMITMENTS (CONTINUED)

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.

***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 22 – 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 results of operations.

**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
**Connecticut Innovations, Incorporated**

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 statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows of Connecticut Innovations, Inc. (CI) (a component unit of the State of Connecticut) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise CI's financial statements, and have issued our report thereon dated November 21, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered CI's internal control over financial reporting (internal control) to determine the 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 CI's internal control. Accordingly, we do not express an opinion on the effectiveness CI'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 entity'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 may exist that have not been identified.



Marcum LLP ▪ City Place II ▪ 185 Asylum Street ▪ 17th Floor ▪ Hartford, CT 06103 ▪ Phone 860.549.8500 / 877.231.5351 ▪ Fax 860.549.8501 ▪ marcumllp.com

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CI'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 determination of financial statement amounts. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Hartford, CT
November 21, 2014