

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

Financial Statements

June 30, 2016

CONNECTICUT INNOVATIONS, INCORPORATED

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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 or the Corporation) (a component unit of the State of Connecticut), as of and for the year ended June 30, 2016, and the related notes to the 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 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.

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, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Accounting principles generally accepted in the United States of America also require that the schedule of the corporation's proportionate share of the net pension liability and schedule of the corporation's contributions to the State Employees' Retirement System as listed in the table of contents 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 them 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 October 27, 2016 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.



Hartford, Connecticut
October 27, 2016

CONNECTICUT INNOVATIONS, INCORPORATED

Management's Discussion and Analysis - Unaudited

For the year ended June 30, 2016

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, 2016. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to financial statements, and related schedules included in the "Financial Statements" section of this report.

FINANCIAL STATEMENTS PRESENTED IN THIS REPORT

Connecticut Innovations, Inc. ("CI" or the "Corporation") 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 ("Statutes"), were transferred to CI pursuant to Section 147 to 189 of Public Act No. 12-1, Bill 6001. The operations transferred from CDA which now continue as part of CI were created to stimulate industrial and commercial development within the State. The incorporation of CDA into CI is a vertical extension of the overall economic reach of CI. CI's activities are accounted for as an enterprise fund using the accrual basis of accounting, similar to a private business entity.

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

The financial statements and notes thereto 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.

The notes to the financial statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities, and revenues and expenses.

FINANCIAL HIGHLIGHTS OF FISCAL 2016

NET POSITION

Total assets exceeded total liabilities by \$159.8 million at June 30, 2016. Net assets totaling \$154.6 million are unrestricted. Net assets totaling \$5.0 million are restricted in accordance with revenue and general obligation bond indentures, cash reserves principally for specific revenue or general obligation bonds, and 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 \$0.2 million. In total the net position of the Corporation decreased \$21.4 million in 2016.

Current assets, excluding the current portion of loans and investments, decreased \$9.7 million in 2016 due primarily to \$9.9 net funding of loans and investments (\$24.1 million of funding less \$14.2 million in loan pay downs and investment distributions).

Restricted cash and cash equivalents decreased \$27.0 million due to a \$10.0 million outflow of Regen funding for grants-in-aid, a \$8.9 million outflow for funding of CBIF investments and grants, \$5.9 million release of Sales and Use program performance escrows, \$700 thousand final Jackson Labs retainage return, \$1.3 million net outflow of SSBCI funds, and \$0.2 million of Urbank cash balances returned.

The total value of CI's investment portfolio increased \$4.8 million in 2016. This increase consisted of new investments totaling \$21.6 million offset by investment sales of \$1.5 million, principal repayments of \$5.3 million and net \$10.0 million of write-offs and devaluations of portfolio investments. During 2016, CI approved \$30.8 million and funded \$21.6 million (of which \$4.3 million was approved prior to 2016) for investments in new opportunities and continued support of existing portfolio companies. Committed funding for CI's equity programs on June 30, 2016 total \$9.7 million. CI funded \$12.9 million of new investments through its Eli Whitney Fund and \$5.8 million of new investments through the SSBCI Program. In addition CI also funded \$2.2 million through its PreSeed Program to promote the development of young technology companies, \$0.5 million through the BioFacilities Fund, and \$0.2 million for its collaboration with Yale University. 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 decreased \$5.9 million in 2016. The decrease was due to loan pay downs of \$7.2 million, \$0.2 million of loan charge offs, a \$0.1 million provision, and \$0.1 million of loan recoveries while \$1.5 million of new direct loans were added to the portfolio. Committed funding for CI's direct loan programs as of June 30, 2016 totals \$2.1 million. Current liabilities decreased \$10.1 million, due primarily to \$8.6 million net CBIF expenditures, \$0.7 million release of CT Bioscience Collaboration retainage, and \$0.6 million payment of 2015 restructuring charge in 2016. Bonds payable decreased \$0.5 million in 2016 due to normal amortization of bonds. Other non-current liabilities decreased \$7.0 million primarily due to \$6.0 million of return of escrow deposits (\$5.9 million related to Sales and Use program performance escrow release and \$0.7 million return of Jackson Labs retainage). In addition CI's proportionate share of the State of Connecticut net pension liability as required under GASB 68 decreased \$1.0 million in FY2016. A \$28.0 million net pension liability was initially recorded by CI in FY2015 in the year of implementation.

FINANCIAL HIGHLIGHTS OF FISCAL 2016 - (CONTINUED)

NET POSITION - (CONTINUED)

The following table summarizes the net position as of June 30, 2016 and 2015:

	Balance June 30, 2016	Balance June 30, 2015	Increase (Decrease) 2016 vs. 2015
		<i>(In Thousands)</i>	
Assets			
Current assets, excluding current portion of loans and investments	\$ 50,084	\$ 59,755	\$ (9,671)
Restricted assets	19,310	46,269	(26,959)
Portfolio investments	84,187	79,372	4,815
Loans	50,562	56,479	(5,917)
Capital assets, net	200	341	(141)
Other noncurrent assets	100	133	(33)
Deferred outflow of resources	2,853	3,398	(545)
Total Assets & Deferred Outflow of Resources	207,296	245,747	(38,451)
Liabilities			
Current liabilities, excluding current portion of debt	\$ 13,744	\$ 23,880	\$ (10,136)
Bonds payable	2,260	2,760	(500)
Net pension liability	26,989	28,019	(1,030)
Other noncurrent liabilities	2,921	8,897	(5,976)
Deferred inflow of resources	1,592	1,001	591
Total Liabilities & Deferred Inflow of Resources	47,506	64,557	(17,051)
Net Position			
Invested in capital assets	200	341	(141)
Restricted	5,011	15,163	(10,152)
Unrestricted	154,579	165,686	(11,107)
Total Net Position	\$ 159,790	\$ 181,190	\$ (21,400)

FINANCIAL HIGHLIGHTS OF FISCAL 2016 - (CONTINUED)

CHANGE IN NET POSITION

Total CI operating revenue decreased \$42.9 million (from \$68.1 million to \$25.2 million) in 2016 when compared to 2015. State funding decreased \$38.8 million in 2016 due to decreased State funding for the CT Bioscience Collaborative Program. Federal funding from the U.S. Treasury (SSBCI) decreased \$4.1 million (\$8.6 million in 2015 to \$4.5 million in 2016). Net realized and unrealized losses were \$1.4 million less in 2016 when compared to 2015. Interest on notes and loan fees decreased \$0.6 million due to reduced loan closing volume.

Compensation, benefits and payroll taxes decreased \$2.1 million in 2016 to \$8.5 million from \$10.7 million in 2015. CI's employees are participants in the State of Connecticut payroll and retirement system and, as participants, are charged a fringe rate which currently averages 76.6%.

Interest expense on bonds payable decreased \$37 thousand due to interest savings from the \$0.5 million bond paydown in 2016. General and administrative expenses decreased by \$0.5 million in 2016 compared to 2015 due to continued efficiencies realized within the operations of the Corporation. A reduction of \$0.7 million for loan loss provision was recorded due to the reduced loan closing volume.

Net realized losses on investments for the year were \$3.4 million as compared to net realized losses of \$3.7 million in 2015. In both 2016 and 2015, the realized losses resulted from both divestitures of investments which were recorded as unrealized losses in previous years and permanent devaluation to zero of investments which occurred throughout the year.

Net unrealized losses on investments for the year were \$2.7 million as compared to net unrealized losses of \$3.8 million in 2015. In 2016 and 2015, the net unrealized losses resulted from net increases in valuation reserves for privately held companies in CI's investment portfolio and valuation changes for public holdings.

Total expenditures for grants and programs in 2016 were \$17.7 million, a decrease of \$1.0 million when compared to the previous year. This decrease was due to a decrease in expenditures pertaining to the funding of SBI/CTNext programs totaling \$0.5 million, as well as operating grants disbursed under the Bioscience Collaborative Program decreasing \$0.5 million from \$15.0 million in 2015 to \$14.5 million in 2016.

Funding received from the State and recorded as operating revenue in 2016 totaled \$6.1 million for facility and equipment loans under the Connecticut Bioscience Collaborative program. This funding was reserved in full in fiscal 2016 and recorded as an operating expense.

FINANCIAL HIGHLIGHTS OF FISCAL 2016 - (CONTINUED)

CHANGE IN NET POSITION - (CONTINUED)

No additional funding was recorded as revenue from the State in 2016. It is anticipated that the Corporation will seek additional funding in 2017.

The following table summarizes the change in net position for the fiscal year ended June 30, 2016.

	Year Ended June 30, 2016	Year Ended June 30, 2015	Favorable (Unfavorable) 2016 vs. 2015
	<i>(In Thousands)</i>		
Operating Revenue			
Interest on notes	\$ 2,593	\$ 2,964	\$ (371)
Loan fee income	602	789	(187)
U.S. Treasury grant income	4,536	8,646	(4,110)
Grant and program income	151	502	(351)
Unrealized (loss) gain on investments	(2,660)	(3,779)	1,119
Realized loss on sale of investments	(3,359)	(3,653)	294
CT Bioscience Collaboration funding	20,573	59,354	(38,781)
Other	2,751	3,259	(508)
Total Operating Revenues	25,187	68,082	(42,895)
Operating Expenses			
Payroll and fringes	\$ 8,527	\$ 10,666	\$ (2,139)
Interest on bonds	126	163	(37)
Loss provision	500	1,200	(700)
Grants and programs	17,661	18,656	(995)
CT Bioscience Collaboration loan write-down	6,073	44,354	(38,281)
General, administrative and other	3,729	4,209	(480)
Total Operating Expenses	36,616	79,248	(42,632)
Operating Loss	(11,429)	(11,166)	(263)
Regen Grant (expense) revenue, net	(9,971)	11,490	(21,461)
Nonoperating Revenues	-	27,992	(27,992)
Change in Net Position Before Extraordinary Item	(21,400)	28,316	(49,716)
Extraordinary Item - Cumulative effect of implementing GASB 68 and 71	-	(25,614)	25,614
Change in Net Position	\$ (21,400)	\$ 2,702	\$ (24,102)

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

I. FINANCIAL STATEMENTS

CONNECTICUT INNOVATIONS, INCORPORATED

Statement of Net Position

June 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$ 46,777,245
Current portion of loans	5,865,225
Current portion of portfolio investments	1,841,478
Interest and other receivables	1,737,254
Due from State of Connecticut	412,980
Prepaid expenses	<u>1,155,936</u>

Total Current Assets

57,790,118

Noncurrent Assets

Restricted assets:

Restricted cash and cash equivalents	<u>19,310,357</u>
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Total Restricted

19,310,357

Portfolio investments, net of current portion

82,345,674

Loans - noncurrent, net of allowance

for loan losses of \$8,021,119

44,696,545

Connecticut Bioscience Collaboration Program Loans, net of allowance for doubtful accounts of \$150,559,686 (Note 18)

-

Capital assets, net of depreciation

199,948

Other

100,000

Total Noncurrent Assets

146,652,524

Total Assets

\$ 204,442,642

Deferred Outflows of Resources

Deferred bond issuance costs \$ 71,900

Deferred amount for pensions 2,781,291

Total Deferred Outflows of Resources

\$ 2,853,191

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

CONNECTICUT INNOVATIONS, INCORPORATED

Statement of Net Position – (CONTINUED)

June 30, 2016

Current Liabilities

Current portion of bonds payable	\$ 525,000
Accrued expenses and liabilities	2,841,512
Deferred revenue	91,686
Due to Connecticut Bioscience Innovation Fund	9,242,711
Reserve for guarantee losses	<u>1,567,966</u>

Total Current Liabilities 14,268,875

Noncurrent Liabilities

Net pension liability	26,988,791
Escrow deposits	2,920,613
Bonds payable, net of current portion	<u>1,735,000</u>

Total Noncurrent Liabilities 31,644,404

Total Liabilities 45,913,279

Net Position

Net investment in capital assets	199,948
Restricted	5,011,013
Unrestricted	<u>154,579,252</u>

Total Net Position 159,790,213

Total Liabilities and Net Position \$ 205,703,492

Deferred Inflows of Resources

Deferred amount for pensions	<u><u>\$ 1,592,341</u></u>
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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, 2016

Operating Revenues	
Investment interest income	\$ 1,395,680
Loan interest income	2,592,776
Unrealized loss on investments	(2,660,094)
Realized loss on investments	(3,358,915)
Loan fee income	601,554
U.S. Treasury grant income	4,536,182
Grant and program income	150,808
Connecticut Bioscience Collaboration funding	20,572,730
Other income	1,356,508
Total Operating Revenues	<u>25,187,229</u>
Operating Expenses	
Salaries	4,833,099
Benefits and payroll taxes	3,693,895
Grants and programs	27,631,964
Connecticut Bioscience Collaboration loan write-down	6,072,730
Provision for loan and guarantee losses	500,000
General facility and office	1,070,037
Professional service fees	1,596,972
Interest	126,306
Marketing, conferences and development	885,907
Depreciation and amortization	152,921
Other	22,905
Total Operating Expenses	<u>46,586,736</u>
Change in Net Position	(21,399,507)
Net Position - Beginning of year	<u>181,189,720</u>
Net Position - End of year	<u><u>\$ 159,790,213</u></u>

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

CONNECTICUT INNOVATIONS, INCORPORATED

Statement of Cash Flows

For the year ended June 30, 2016

Cash Flows from Operating Activities

Loan principal collected	\$ 7,164,645
Cash received under grants and programs	103,754
Cash received under Connecticut Bioscience Collaboration Program	20,572,730
Interest from loans	2,596,364
Cash from loan/guarantee/insurance fees	598,897
Interest on investments and marketable securities	609,704
Sale and return of principal on investments	11,009,122
Purchase of investments	(22,612,567)
Program loan funded	33,000
Cash received from dividends and royalties	294,484
Interest on short-term investments and cash deposits	164,959
Recovery of principal	85,831
Cash received from other income	1,062,024
Cash paid under grants and programs	(17,995,384)
Connecticut Bioscience Collaborative loans	(6,072,730)
Funding received from State of Connecticut	1,102,428
Cash expended under custodial arrangements	(10,626,746)
Payroll and fringe benefits paid	(8,754,159)
Loans funded	(1,483,515)
General and administrative expenses paid	(4,362,375)
Loan workout expenses paid	(19,022)

Net Cash Used in Operating Activities (26,528,556)

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	<u>(955)</u>
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Net Cash Used in Capital and Related Financing Activities (955)

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, 2016

Cash Flows from Noncapital Financing Activities	
Connecticut Bioscience Innovation Fund transfers	\$ (8,569,028)
Decrease in escrow deposits	(5,976,784)
Interest payments on bonds	(131,776)
Principal payments on bonds	(500,000)
Funding received from State Small Business Credit Initiative	<u>4,522,382</u>
Net Cash Used in Noncapital Financing Activities	<u>(10,655,206)</u>
Net Decrease in Cash and Cash Equivalents	(37,184,717)
Cash and Cash Equivalents - Beginning	<u>103,272,319</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 66,087,602</u></u>
As Presented on the Statement of Net Position:	
Cash and cash equivalents	\$ 46,777,245
Restricted cash and cash equivalents	<u>19,310,357</u>
	<u><u>\$ 66,087,602</u></u>

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, 2016

Reconciliation of Operating Loss to Net Cash

Used in Operating Activities

Operating loss	\$ (21,399,507)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Proceeds from sale and return of principal on investments	10,226,203
Realized loss on investments	3,358,915
Purchase of investments	(22,612,567)
Unrealized loss on investments, net	2,660,094
Program loan principal paid	33,000
Change in amounts due from State of Connecticut	689,448
Interest expense on bonds	126,306
Non-operating revenue - SSBCI	(4,522,382)
Provision for loan and guarantee losses	500,000
Depreciation and amortization	152,921
Loss on disposal of fixed assets	4,978
Noncash portion of pension expense	91,085
(Increase) decrease in assets:	
Loans receivable, net	5,766,410
Interest and other receivables	246,719
Prepaid expenses	61,688
Increase (decrease) in liabilities:	
Accrued expenses	(1,862,156)
Deferred revenue	(49,711)

Net Cash Used in Operating Activities **\$ (26,528,556)**

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

CONNECTICUT INNOVATIONS, INCORPORATED

Notes to the Financial Statements

For the year ended June 30, 2016

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity - (CONTINUED)

The Corporation has the following organization which is a blended component unit based upon the criteria above:

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 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 unit were necessary.

Condensed combining information for the Corporation and its blended component unit is presented as follows:

Condensed, Combining Information – Statement of Net Position

	CBRA	CI	Total Primary Government
Assets			
Current Assets			
Cash and cash equivalents	\$ -	\$ 46,777,245	\$ 46,777,245
Current portion of loans	520,929	5,344,296	5,865,225
Current portion of portfolio investments	-	1,841,478	1,841,478
Interest and other receivables	239,292	1,497,962	1,737,254
Due from State of Connecticut	-	412,980	412,980
Prepaid expenses	-	1,155,936	1,155,936
Total Current Assets	760,221	57,029,897	57,790,118
Noncurrent Assets			
Restricted Assets:			
Restricted cash and cash equivalents	-	19,310,357	19,310,357
Total Restricted	-	19,310,357	19,310,357
Portfolio investments, net of current portion	-	82,345,674	82,345,674
Loans - noncurrent, net of allowance			
for loan losses of \$8,021,119	6,432,994	38,263,551	44,696,545
Connecticut Bioscience Collaboration			
Program Loans, net of allowance for			
doubtful accounts of \$150,559,686 (Note 18)	-	-	-
Capital assets, net of depreciation	-	199,948	199,948
Other	-	100,000	100,000
Total Noncurrent Assets	6,432,994	140,219,530	146,652,524
Total Assets	\$ 7,193,215	\$ 197,249,427	\$ 204,442,642
Deferred Outflows of Resources	\$ -	\$ 2,853,191	\$ 2,853,191

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

Condensed, Combining Information – Statement of Net Position - (CONTINUED)

	CBRA	CI	Total Primary Government
Liabilities			
Current Liabilities			
Current portion of bonds payable	\$ -	\$ 525,000	\$ 525,000
Accrued expenses and liabilities	-	2,841,512	2,841,512
Deferred revenue	-	91,686	91,686
Due to Connecticut Bioscience Innovation Fund	-	9,242,711	9,242,711
Reserve for guarantee losses	-	1,567,966	1,567,966
Total Current Liabilities	-	14,268,875	14,268,875
Noncurrent Liabilities			
Net pension liability	-	26,988,791	26,988,791
Escrow deposits	-	2,920,613	2,920,613
Bonds payable, net of current portion	-	1,735,000	1,735,000
Total Noncurrent Liabilities	-	31,644,404	31,644,404
Total Liabilities	-	45,913,279	45,913,279
Net Position			
Net investment in capital assets	-	199,948	199,948
Restricted	-	5,011,013	5,011,013
Unrestricted	7,193,215	147,386,037	154,579,252
Total Net Position	7,193,215	152,596,998	159,790,213
Total Liabilities and Net Position	\$ 7,193,215	\$ 198,510,277	\$ 205,703,492
Deferred Inflows of Resources	\$ -	\$ 1,592,341	\$ 1,592,341

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

Condensed, Combining Information – Statement of Revenues, Expenses and Changes in Net Position

	CBRA	CI	Total Primary Government
Operating Revenues			
Investment interest income	\$ -	\$ 1,395,680	\$ 1,395,680
Interest on loans	464,208	2,128,568	2,592,776
Unrealized gain on investments	-	(2,660,094)	(2,660,094)
Realized loss on sale of investments	-	(3,358,915)	(3,358,915)
Loan fee income	-	601,554	601,554
U.S. Treasury grant income	-	4,536,182	4,536,182
Grant and program income	-	150,808	150,808
Connecticut Bioscience Collaboration funding	-	20,572,730	20,572,730
Other income	-	1,356,508	1,356,508
Total Operating Revenues	464,208	24,723,021	25,187,229
Operating Expenses			
Salaries	-	4,833,099	4,833,099
Benefits and payroll taxes	-	3,693,895	3,693,895
Grants and programs	-	27,631,964	27,631,964
Connecticut Bioscience Collaboration loan write-down	-	6,072,730	6,072,730
Provision for loan and guarantee losses	-	500,000	500,000
General facility and office	200	1,069,837	1,070,037
Professional service fees	-	1,596,972	1,596,972
Interest	-	126,306	126,306
Marketing, conferences, development	-	885,907	885,907
Depreciation and amortization	-	152,921	152,921
Other	-	22,905	22,905
Total Operating Expenses	200	46,586,536	46,586,736
Change in Net Position Before Transfers and Extraordinary Items			
	464,008	(21,863,515)	(21,399,507)
Transfers	(946,203)	946,203	-
Net Position - Beginning of year	7,675,410	173,514,310	181,189,720
Net Position - End of year	\$ 7,193,215	\$ 152,596,998	\$ 159,790,213

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

Condensed, Combining Information – Statement of Cash Flows

	CBRA	CI	Total Primary Government
Cash Flows from Operating Activities			
Loan principal collected	\$ 485,689	\$ 6,678,956	\$ 7,164,645
Cash received under grants and programs	-	103,754	103,754
Cash received under Connecticut Bioscience Collaboration Program	-	20,572,730	20,572,730
Interest from loans	460,714	2,135,650	2,596,364
Cash from loan/guarantee/insurance fees	-	598,897	598,897
Interest on investments and marketable securities	-	609,704	609,704
Sale and return of principal on investments	-	11,009,122	11,009,122
Purchase of investments	-	(22,612,567)	(22,612,567)
Program loan funded	-	33,000	33,000
Cash received from dividends and royalties	-	294,484	294,484
Interest on short-term investments and cash deposits	-	164,959	164,959
Recovery of principal	-	85,831	85,831
Cash received from other income	-	1,062,024	1,062,024
Cash paid under grants and programs	-	(17,995,384)	(17,995,384)
Connecticut Bioscience Collaborative loans	-	(6,072,730)	(6,072,730)
Funding received from State of Connecticut	-	1,102,428	1,102,428
Cash expended under custodial arrangements	-	(10,626,746)	(10,626,746)
Payroll and fringe benefits paid	-	(8,754,159)	(8,754,159)
Loans funded	-	(1,483,515)	(1,483,515)
General and administrative expenses paid	(200)	(4,362,175)	(4,362,375)
Loan workout expenses paid	-	(19,022)	(19,022)
Net Cash Provided by (Used in)			
Operating Activities	<u>946,203</u>	<u>(27,474,759)</u>	<u>(26,528,556)</u>
Cash Flows Used In Capital and Related Financing Activities			
Purchase of capital assets	<u>-</u>	<u>(955)</u>	<u>(955)</u>

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

Condensed, Combining Information – Statement of Cash Flows - (CONTINUED)

	<u>CBRA</u>	<u>CI</u>	<u>Total Primary Government</u>
Cash Flows from Noncapital Financing Activities			
Connecticut Bioscience Innovation			
fund transfers	\$ -	\$ (8,569,028)	\$ (8,569,028)
Decrease in escrow deposits	-	(5,976,784)	(5,976,784)
Interest payments on bonds	-	(131,776)	(131,776)
Principal payments on bonds	-	(500,000)	(500,000)
Funding received from State Small Business Credit			
Initiative funding	-	4,522,382	4,522,382
Transfers	(946,203)	946,203	-
	<u>(946,203)</u>	<u>(9,709,003)</u>	<u>(10,655,206)</u>
Net Cash Used in Noncapital Financing Activities			
	<u>(946,203)</u>	<u>(9,709,003)</u>	<u>(10,655,206)</u>
Net Decrease in Cash and Cash Equivalents			
	-	(37,184,717)	(37,184,717)
Cash and Cash Equivalents - Beginning			
	<u>-</u>	<u>103,272,319</u>	<u>103,272,319</u>
Cash and Cash Equivalents - Ending			
	<u>\$ -</u>	<u>\$ 66,087,602</u>	<u>\$ 66,087,602</u>

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

Condensed, Combining Information – Statement of Cash Flows - (CONTINUED)

	<u>CBRA</u>	<u>CI</u>	<u>Total Primary Government</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities			
Operating gain (loss)	\$ 464,008	\$ (21,863,515)	\$ (21,399,507)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Proceeds from sales and return of principal on investments	-	10,226,203	10,226,203
Realized loss on investment	-	3,358,915	3,358,915
Purchase of investments	-	(22,612,567)	(22,612,567)
Unrealized loss on investments, net	-	2,660,094	2,660,094
Program loan principal paid	-	33,000	33,000
Change in amounts due from State of Connecticut	-	689,448	689,448
Interest expense on bonds	-	126,306	126,306
Non-operating revenue - SSBCI	-	(4,522,382)	(4,522,382)
Provision for loan and guarantee losses	-	500,000	500,000
Depreciation and amortization	-	152,921	152,921
Loss on disposal of fixed assets	-	4,978	4,978
Noncash portion of pension expense	-	91,085	91,085
 (Increase) decrease in assets:			
Loans receivable, net	485,689	5,280,721	5,766,410
Interest and other receivables	(3,494)	250,213	246,719
Prepaid expenses	-	61,688	61,688
Increase (decrease) in liabilities:			
Accrued expenses	-	(1,862,156)	(1,862,156)
Deferred revenue	-	(49,711)	(49,711)
 Net Cash Provided by (Used in) Operating Activities	 <u>\$ 946,203</u>	 <u>\$ (27,474,759)</u>	 <u>\$ (26,528,556)</u>

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.

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 \$2,124,741,141 of special obligation industrial revenue bonds since July 1, 1978. Total bonds outstanding at June 30, 2016 were \$441,353,000.

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.

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

Financial and Technical Programs - (CONTINUED)

Insurance Program – The State has authorized the issuance of up to \$25,000,000 in bonds allocated to the Insurance Program. Of this amount, \$5,550,000 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.

At June 30, 2016 loans totaling \$1,866,249 were insured under the program by other lending institutions.

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

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.

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

Financial and Technical Programs - (CONTINUED)

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.

Significant Accounting Policies

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.

Measurement Focus and 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 consist primarily of (1) loan interest from its lending and economic development activities; (2) grants, including Jackson Laboratory funding, Stem Cell research (Regen) 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)

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.

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

The Corporation records all investments at fair value, which is defined as the price that would be received to sell an asset in an orderly transaction between market participants. Fair value, for other than publicly traded securities, is determined by an independent valuation committee for the Corporation using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group ("PEIGG").

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

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

Significant Accounting Policies - (CONTINUED)

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 14% per annum and have an average term of 1 to 10 years.

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.

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

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.

Off-Balance Sheet Instruments - Fair values for the Corporation's 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; and the Growth, Connecticut Works, Connecticut Works Guarantee, Connecticut Capital Access Funds, 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.

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

Significant Accounting Policies - (CONTINUED)

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

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

- *Net investment in capital assets* consists of capital assets including restricted capital assets reduced by accumulated depreciation 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.

New Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement were effective for the Corporation on July 1, 2015. The Corporation evaluated this statement and has determined that there was no material impact on the Corporation's financial statements or footnotes because the Corporation is already accounting for investments at market value and already has necessary footnote disclosures.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Corporation is currently evaluating the impact this Statement will have on its financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Corporation is currently evaluating the impact this Statement will have on its financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and governmental employers about financial support for OPEB that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Corporation is currently evaluating the impact this Statement will have on its financial statements.

Subsequent Events - Events subsequent to June 30, 2016 have been evaluated through October 27, 2016, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified except as disclosed in Note 22.

NOTE 2 – FAIR VALUE MEASUREMENTS

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

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's 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 portfolio investments. There have been no changes in the methodologies used at June 30, 2016.

CI's investments in public companies are valued at the closing price recorded on the active market on which the individual securities are traded and are categorized as Level 1. 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") and are categorized as Level 3. The Corporation has applied procedures in arriving at the estimate of the value of such securities that it believes are reasonable and appropriate.

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

NOTE 2 – FAIR VALUE MEASUREMENTS - (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Corporation's financial assets measured at fair value on a recurring basis as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Portfolio investments				
Equity	\$ 862,560	\$ -	\$ 69,818,672	\$ 70,681,232
Debt	<u>-</u>	<u>-</u>	<u>13,505,920</u>	<u>13,505,920</u>
	<u>\$ 862,560</u>	<u>\$ -</u>	<u>\$ 83,324,592</u>	<u>\$ 84,187,152</u>

The following table sets forth a summary of changes in the fair value of the Level 3 assets for the year ended June 30, 2016.

Balance - beginning of year	\$ 76,858,898
Purchases	22,222,321
Sales proceeds	(7,023,299)
Realized/unrealized depreciation in investments	<u>(8,733,328)</u>
Balance - end of year	<u>\$ 83,324,592</u>

There were no transfers between levels in 2016.

The Corporation does not have any assets measured at fair value on a non-recurring basis.

NOTE 3 – CASH AND CASH EQUIVALENTS AND OTHER SECURITIES

Cash and Cash Equivalents - The following is a summary of the composition of cash and cash equivalents (both restricted and unrestricted) as of June 30, 2016.

Deposits with financial institutions	\$ 13,663,271
Connecticut State Treasurer's Short-Term Investment Fund	<u>52,424,331</u>
Total cash and cash equivalents	<u>\$ 66,087,602</u>

Cash and cash equivalents are presented on the statement of net position at June 30, 2016 as follows:

Unrestricted cash and cash equivalents	\$ 46,777,245
Restricted cash and cash equivalents	<u>19,310,357</u>
	<u>\$ 66,087,602</u>

NOTE 3 – CASH AND CASH EQUIVALENTS AND OTHER SECURITIES - (CONTINUED)

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). The Connecticut State Treasurer's Short Term Investment Fund (STIF) is an investment pool managed by the State of Connecticut Office of State Treasurer. Investments must be made in instruments authorized by Connecticut General Statute 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. Total restricted cash and cash equivalents was \$19,310,357 as of June 30, 2016.

Custodial Credit Risk – 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, 2016, \$11,647,839 of the Corporation's bank balance was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Restricted Investments – The Corporation's 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 assets 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.

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, 2016 are summarized as follows:

CI Fund	Equity Securities	Debt Securities	Total
Eli Whitney investments	\$ 56,305,923	\$ 5,974,790	\$ 62,280,713
BioScience Facilities investments	967,695	3,379,563	4,347,258
Seed Fund investments	1,805,660	250,964	2,056,624
Clean Tech investments	205,001	71,682	276,683
SSBCI investments	9,815,732	256,974	10,072,706
Other investments	1,581,221	3,571,947	5,153,168
Totals	<u>\$ 70,681,232</u>	<u>\$ 13,505,920</u>	<u>\$ 84,187,152</u>

The following is a summary of Eli Whitney investments by industry as of June 30, 2016:

	June 30, 2016	%
BioScience	\$ 15,417,894	24.8
IT software	25,065,511	40.2
IT infrastructure	6,257,031	10.0
Medical devices	2,786,812	4.5
Clean technology	6,470,859	10.4
IT services	1,525,002	2.4
Photonics	4,757,604	7.6
	<u>\$ 62,280,713</u>	<u>100.0</u>

CI accrues interest on its debt investments from the start of the note and then fair values debt investments 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, 2016, 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, 2016 represented investments in 36 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, 2016, the five largest investments comprised 36.7% of the carrying value of the Corporation's total investments, with one investment comprising 13.9% 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.

The Corporation’s direct loan portfolio is comprised of 85 loans totaling \$58,582,889. Of this amount, 78 loans totaling \$49,057,177 (84%) are in the Growth and Connecticut Works Fund (“A”). The remaining \$9,525,712 (16%) is comprised of 7 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 as of June 30, 2016.

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

Loans, current portion	\$ 5,865,225
Loans, non-current portion	52,717,664
	<u>58,582,889</u>
Less: Allowance for doubtful accounts	(8,021,119)
Net	<u><u>\$ 50,561,770</u></u>

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 year ended June 30, 2016 were as follows:

	Loans				Guarantees			Total Loans and 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	
Beginning balance	\$ 856,628	\$ 546,567	\$ 6,675,422	\$ 8,078,617	\$ 226,832	\$ 991,133	\$ 1,217,965	\$ 9,296,582
Provision	-	-	150,000	150,000	-	350,000	350,000	500,000
Charge-offs	-	-	(293,329)	(293,329)	-	-	-	(293,329)
Recoveries	-	85,831	-	85,831	-	-	-	85,831
Ending balance	<u>\$ 856,628</u>	<u>\$ 632,398</u>	<u>\$ 6,532,093</u>	<u>\$ 8,021,119</u>	<u>\$ 226,832</u>	<u>\$ 1,341,133</u>	<u>\$ 1,567,965</u>	<u>\$ 9,589,084</u>
Loan balances/exposure	<u>\$ 9,525,712</u>	<u>\$ 5,090,064</u>	<u>\$ 43,967,113</u>	<u>\$ 58,582,889</u>	<u>\$ 611,249</u>	<u>\$ 1,748,768</u>	<u>\$ 2,360,017</u>	<u>\$ 60,942,906</u>
Allowance balance as a percent of loans/exposure	<u>9.0%</u>	<u>12.4%</u>	<u>14.9%</u>	<u>13.7%</u>	<u>37.1%</u>	<u>76.7%</u>	<u>66.4%</u>	<u>15.7%</u>

NOTE 6 – ALLOWANCE FOR LOAN LOSSES - (CONTINUED)

At June 30, 2016, the Corporation had a recorded balance in impaired loans of \$7,817,888 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, the Corporation 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 totaling \$3,083,593, which is included in the overall allowance for loan losses as of June 30, 2016.

The average recorded investment in impaired loans for the year ended June 30, 2016 was \$8,393,596, and income recorded on loans identified as being impaired totaled \$147,041, of which \$144,706 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. 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 \$60,041 in the year ended June 30, 2016 on behalf of CGB, for which the Corporation was reimbursed \$28,275. \$31,766 is owed by CGB to CI at June 30, 2016.

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.

Pursuant to Section 72 of Public Act 13-239, CI was appointed administrator of the Connecticut Bioscience Innovation Fund (“CBIF”). CI provided staff and all administrative support and services including marketing, accounting, legal, consulting, and paid all out of pocket costs associated with operating the fund, as well as all peer review costs.

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 2016 totaled a percentage of gross salaries.

Related party balances are as follows at June 30, 2016:

Due to CBIF	<u>\$ (9,242,711)</u>
Due from the Connecticut Green Bank	<u>\$ 31,767</u>
Membership Interest - CEFIA Holdings LLC	<u>\$ 1,000</u>

NOTE 8 – DUE FROM STATE OF CONNECTICUT

At June 30, 2015, the State of Connecticut owed the Corporation \$1,102,428 under Connecticut General Statutes Public Act 93-1 to support general operations. During the fiscal year ended June 30, 2016, the Corporation used the \$1,102,428 to offset payroll costs for the year. The \$412,980 due from the State of Connecticut at June 30, 2016 represents the pre-funding of payroll.

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance, July 1, 2015	Additions	Deletions	Other	Balance, June 30, 2016
Capital assets being depreciated:					
Furniture and equipment	\$ 323,142	\$ -	\$ (90,444)	\$ -	\$ 232,698
Computer hardware and software	967,614	955	(67,039)	-	901,530
Leasehold improvements (CI and CTech)	122,949	-	(15,184)	-	(15,184)
Construction in progress	-	-	-	-	-
	<u>1,413,705</u>	<u>955</u>	<u>(172,667)</u>	<u>-</u>	<u>1,241,993</u>
Less accumulated depreciation and amortization:					
Furniture and equipment	338,810	23,141	(85,704)	-	276,247
Computer hardware and software	645,459	98,401	(66,245)	-	677,615
Leasehold improvements (CI and CTech)	88,450	15,473	(15,741)	-	88,182
	<u>1,072,719</u>	<u>137,015</u>	<u>(167,690)</u>	<u>-</u>	<u>1,042,044</u>
Capital assets - net	<u>\$ 340,986</u>	<u>\$ (136,060)</u>	<u>\$ (4,977)</u>	<u>\$ -</u>	<u>\$ 199,949</u>

NOTE 10 – STATE FUNDING

In 2016, the Corporation received \$20,572,730 from the State of Connecticut under approved bond fund authorizations to provide financial assistance to high technology companies and regenerative medicine research. These funds were provided as follows: \$6,072,730 for the Connecticut Bioscience Collaboration Program for facility and equipment loans; \$14,500,000 for operating assistance to the Jackson Laboratory for Genomic Medicine.

As of June 30, 2016, \$91,001,314 remained available to the Corporation from bond fund authorizations as follows:

Connecticut Bioscience Collaboration Program:

Loans	\$ 41,140,314
Operating grant	<u>49,861,000</u>
	<u>\$ 91,001,314</u>

NOTE 11 – BONDS PAYABLE

The bonds of the General Operating Fund bear interest at 5.25 percent. The principal and interest payable as of June 30, 2016 are as follows:

<u>Year ending June 30,</u>	<u>Principal General Obligation Bonds</u>	<u>Interest General Obligation Bonds</u>
2017	\$ 525,000	\$ 104,869
2018	555,000	76,519
2019	585,000	46,594
2020	595,000	15,619
	<u>\$ 2,260,000</u>	<u>\$ 243,601</u>

Original amount and outstanding principal of the General Operating Fund’s General Obligation Bonds is as follows:

	<u>Original Amount</u>	<u>Outstanding Principal June 30, 2016</u>
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.	<u>\$ 6,725,000</u>	\$ 2,260,000
Less: current portion		<u>525,000</u>
Long-term portion		<u>\$ 1,735,000</u>

Costs incurred in issuing revenue bonds are capitalized and amortized to interest expense using the effective interest method over the terms of the bonds. Amortization expense for the year ended June 30, 2016 was \$15,906.

NOTE 12 – OPERATING LEASES

The Corporation leases its office space from an unrelated third party under an operating lease ending December, 2020.

Future minimum lease payments under these leases are as follows:

<u>Years ending June 30,</u>	
2017	\$ 383,990
2018	394,095
2019	404,200
2020	414,305
2021	209,679
	<hr/>
	\$ 1,806,269
	<hr/>

Rent expense for all facilities for the year ended June 30, 2016, was \$363,957.

As of March 1, 2016 the Corporation signed an agreement with Connecticut Green Bank (“CGB”) (formerly known as the Clean Energy Finance and Investment Authority), the successor entity to the Connecticut Clean Energy Fund (“CCEF”) to sublease 3,626 square feet of office space. Proceeds received from CGB are used to offset rent expense.

NOTE 13 – PENSION PLAN

Plan Description - SERS is a cost-sharing, multi-employer defined benefit Public Employees’ Retirement System (“PERS”) established in 1939 and governed by Sections 5-152 and 5-192 of the Connecticut General Statutes. Employees are covered by one of 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)

Plan Description - (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 58th birthday. Tier III normal retirement benefits include annual retirement benefits for life, in the amount of one and one-third percent of the five ear 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 for employees of the Corporation covered by SERS for the year ended June 30, 2016 was \$5,433,127.

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

Contributions made:

By employees	\$	192,017
Percent of current year covered payroll		3.5%
By the Corporation	\$	2,781,291
Percent of current year covered payroll		51.19%

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires the Corporation to report its proportionate share of net pension liability, which is based on the June 30, 2015 measurement date. GASB 68 requires the Corporation to recognize a net pension liability for the difference between the present value of projected benefits for past services, known as the Total Pension Liability (“TPL”), and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (“FNP”). For purposes of measuring the net position liability, deferred outflows or resources, deferred inflows of resources, and pension expense, information about the FNP of SERS and additions to and deductions from SERS FNP have been determined on the same basis as reported by SERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

At June 30, 2016, the Corporation reported a liability of \$26,988,791 for its proportionate share of the net pension liability. The net pension liability at June 30, 2016 was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date. The Corporation’s proportion of the net pension liability was based on a projection of the Corporation’s long-term share of contributions to the pension plan relative to projected contributions of all participating component units, actuarially determined. At June 30, 2016, the Corporation’s proportion was 0.16333 percent.

NOTE 13 – PENSION PLAN - (CONTINUED)

For the year ended June 30, 2016, the Corporation recognized pension expense of \$1,797,795, which is included in benefits and payroll taxes on the accompanying statement of revenues, expenses and changes in net position. At June 30, 2016, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ (1,592,341)
Contributions subsequent to the measurement date	2,781,291	-
Total	<u>\$ 2,781,291</u>	<u>\$ (1,592,341)</u>

Deferred outflows of resources of \$2,781,291 represent the Corporation's contributions subsequent to the measurement date from July 1, 2015 to June 30, 2016. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Deferred inflows of resources represent the Corporation's share of the net difference between projected and actual earnings of the Plan. This amount will be amortized over a 5.73 year period beginning in the year in which the difference occurred and will be recognized in income as follows:

<u>Years ended June 30,</u>	
2017	\$ 336,647
2018	336,647
2019	336,647
2020	336,647
2021	245,753
	<u>\$ 1,592,341</u>

The total pension liability in the June 30, 2015 actuarial valuation was determined based on the results of an actuarial experience study for the period from July 1, 2007 to June 30, 2014. The following major actuarial assumptions have been applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	4.0 to 20.0 percent, including inflation
Investment rate of return	8.0 percent, net of pension plan investment expense, including inflation
Cost of living adjustment	2.30 to 3.60 percent, for certain tiers

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

NOTE 13 – PENSION PLAN - (CONTINUED)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equities	21%	5.8%
Developed Non-U.S. Equities	18%	6.6%
Emerging Market (Non-U.S.)	9%	8.3%
Real Estate	7%	5.1%
Private Equity	11%	7.6%
Alternative Investments	8%	4.1%
Fixed Income (Core)	8%	1.3%
High-Yield Bonds	5%	3.9%
Emerging Market Bonds	4%	3.7%
TIPS	5%	1.0%
Cash	4%	0.4%
	100%	

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from component units of the State will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

There is a sensitivity of the Corporation's proportionate share of the net pension liability in relation to changes in the discount rate. The following presents the Corporation's proportionate share of the net pension liability calculated using the current discount rate of 8.00 percent, as well as what the Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Corporation's proportionate share of the net pension liability	\$ 32,103,944	\$ 26,988,791	\$ 22,679,346

NOTE 14 – 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.

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, 2016, \$50,072 was added to the plan as a result of the combination of realized and net unrealized 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 2016.

NOTE 15 – HARTFORD WHALERS TRANSACTION

In connection with an XL Center transaction, the Corporation, as successor to the Connecticut Development Authority (the "Authority"), obtained the right of first refusal to acquire the Hartford Whalers National Hockey League franchise (the "Whalers") for \$47,500,000. The Authority exercised such right on June 27, 1994 and simultaneously sold the Whalers to KTR Hockey Limited Partnership (the "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 was pledged to cover the 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, recognized the installment of principal due and the modification of the three additional years through July 1, 2015, as income when the payments are received. On July 1, 2015 the Corporation received the final payment under this agreement. Upon receipt of this final payment, the personal guarantee was released.

NOTE 16 – REGENERATIVE MEDICINE RESEARCH FUND

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

During the year ended June 30, 2016, CI expended \$9,970,673 for use in the Regenerative Research Fund, and \$1,518,524 remains available for use in the program after June 30, 2016.

NOTE 17 – CONNECTICUT BIOSCIENCE COLLABORATION PROGRAM

In 2011, the Connecticut General Assembly enacted Public Act 11-2 (the "Act") to support the establishment of a bioscience cluster anchored by a research laboratory housed in Farmington, Connecticut. 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 ("Jax") and entered into a funding agreement with 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, Connecticut.

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, 2016, the loan amount outstanding is \$150,559,686.

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 ended June 30, 2016.

Grant expense pertaining to Jackson Labs for the year ended June 30, 2016 is \$14,500,000.

NOTE 18 – 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 19 – RESTRICTED NET POSITION

At June 30, 2016, restricted net position consisted of funds restricted for the following:

Loan guarantees	\$ 1,105,644
Bonding resolution compliance	370,193
Urbank Enabling Legislation	2,016,352
REGEN (Stem Cell)	<u>1,518,824</u>
	<u>\$ 5,011,013</u>

NOTE 20 – OFF-BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

Off-Balance-Sheet Risk - The Corporation is a party to off-balance-sheet financial transactions in the normal course of business. These may expose the Corporation to credit risks in excess of the amounts recognized on the 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, 2016 is summarized below:

	<u>Contract Amount</u>
Loan commitments:	
Connecticut Redevelopment Authority	\$ 1,100,000
Connecticut Works Fund ("A")	<u>1,630,076</u>
	<u>\$ 2,730,076</u>
Equity commitments:	
Eli Whitney Fund	\$ 7,193,583
SSBCI	1,850,000
PreSeed Fund	425,000
BioFacilities Fund	<u>250,000</u>
	<u>\$ 9,718,583</u>
Loan guarantees:	
Connecticut Capital Access Fund	<u>\$ 3,004,253</u>

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 21 – 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.

NOTE 22 – SUBSEQUENT EVENTS

Effective July 1, 2016 as part of the State of Connecticut's implementer bill, Public Act No. 16-3 was enacted which established CTNext as a subsidiary of CI to foster innovation, startup businesses, and entrepreneurial community building, among other specified purposes.

II. REQUIRED SUPPLEMENTARY INFORMATION

CONNECTICUT INNOVATIONS, INCORPORATED
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Corporation's Proportionate Share
of the Net Pension Liability

For the year ended June 30, 2016

Corporation's portion of the net pension liability	.1633%
Corporation's proportionate share of the net pension liability	\$ 26,988,791
Corporation's covered-employee payroll	\$ 5,433,127
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	496.75%
Plan fiduciary net position as a percentage of the total pension liability	39.23%

CONNECTICUT INNOVATIONS, INCORPORATED
 REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Corporation's Contributions to the
 State Employees' Retirement System (SERS)

For the year ended June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contribution	\$ 2,781,291	\$ 3,310,649	\$ 3,403,927	\$ 2,587,513	\$ 2,479,767	\$ 2,709,889	\$ 2,639,974
Contributions in relation to the contractually required contribution	<u>2,781,291</u>	<u>3,310,649</u>	<u>3,403,927</u>	<u>2,587,513</u>	<u>2,479,767</u>	<u>2,709,889</u>	<u>2,639,974</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Corporation's covered-employee payroll	\$ 5,433,127	\$ 6,118,180	\$ 5,870,102	\$ 5,241,997	\$ 5,826,210	\$ 5,398,526	\$ 6,694,481
Contributions as a percentage of covered-employee payroll	51.19%	54.11%	57.99%	49.36%	42.56%	50.20%	39.44%



INDEPENDENT AUDITORS' 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, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2016.

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 considered to be material weaknesses.

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.

Whitney & Hadley, P.C.

Hartford, Connecticut
October 27, 2016