

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

Financial Statements

Fiscal Year Ended June 30, 2017

# CONNECTICUT INNOVATIONS, INCORPORATED

## Table of Contents

June 30, 2017

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Independent Auditors' Report..... 1 - 2

Management's Discussion and Analysis..... 3 - 7

### I. FINANCIAL STATEMENTS

Statement of Net Position ..... 8 - 9

Statement of Revenues, Expenses and Changes in Net Position ..... 10

Statement of Cash Flows ..... 11 - 13

Notes to Financial Statements..... 14 - 42

### II. REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Corporation's Proportionate Share of the Net Pension Liability ..... 43

Schedule of the Corporation's Contributions to the State Employee's  
Retirement System (SERS)..... 44

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*..... 45 - 46



INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Connecticut Innovations, Incorporated  
Rocky Hill, Connecticut

**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), which comprise the statement of net position as of June 30, 2017 and the statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

***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 opinions 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 auditors' 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, 2017, 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.

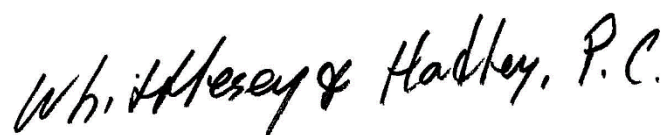
### ***Other Matters***

#### ***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 26, 2017 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 26, 2017

# CONNECTICUT INNOVATIONS, INCORPORATED

## Management's Discussion and Analysis - Unaudited

For the year ended June 30, 2017

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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, 2017. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to financial statements, Report on Compliance and related schedules included in the "Financial Statements" section of this report.

### **FINANCIAL STATEMENTS PRESENTED IN THIS REPORT**

CI is a quasi-public agency of the State of Connecticut created to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovation and inventions or markets in Connecticut by providing financial and technical assistance using risk capital. In addition, the operations of Connecticut Development Authority (CDA) which was established under Title 32, Chapter 579 of the General Statutes of Connecticut as amended (Statute), were transferred to 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 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 to operating, capital, investing and noncapital financing.

These 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.

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

## FINANCIAL HIGHLIGHTS OF FISCAL 2017

### *NET POSITION*

Total assets and deferred outflows exceeded total liabilities and deferred inflows by \$172.5 million at June 30, 2017. Net assets totaling \$158.4 million are unrestricted. Net assets totaling \$14.0 million are restricted in accordance with revenue and general obligation bond indentures as well as for cash reserves principally for specific revenue or general obligation bonds, as well as cash reserves whose use is specified or limited by bond resolution, enabling legislation, laws or third parties. The portion of the CI's net position invested in capital assets, net of related debt total \$112 thousand. In total the net position of CI increased \$12.7 million in 2017.

Current assets, excluding the current portion of loans and investments, of CI increased \$17.6 million in 2017 due primarily to \$15 million Jobs Bill funding received from the State of Connecticut coupled with net cash inflow of \$3.4 million from investments. Return of principal in the amount of \$10.4 along with an additional \$15.4 million of realized cash gains from the sale of investments were received as proceeds while \$22.4 million of new investments funded during the fiscal year ended June 30, 2017.

Restricted cash increased \$16.8 million due to \$18.6 million of net inflows (funding) for the following: \$9.1 million for CTNext startup operations, \$8.7 million for RMRF grants-in-aid, \$0.4 million for CBIF investments and grants, and \$0.4 million for Urbank and Statutory reserves. Offsetting this was \$1.8 million for funding of SSBCI program investments.

The total value of CI's investment portfolio increased \$5.8 million in 2017. This increase consisted of new investments totaling \$22.4 million offset by principal repayments of \$10.4 million and net \$6.2 million of write-offs and devaluations of portfolio investments. During 2017, CI approved \$23.3 million and funded \$22.4 million (of which \$9.1 million was approved prior to 2017) for investments in new opportunities and continued support of existing portfolio companies. Committed funding for CI's equity programs as of June 30, 2017 total \$3.4 million. Total new investments funded of \$22.4 million were: \$15.4 million of new investments through its Eli Whitney Fund, \$3 million through VentureClash promotion, \$1.8 million through SSBCI program, \$1 million through Venture Mezzanine Program and \$950 thousand Preseed fund. In addition CI also funded \$0.25 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 \$7.9 million in 2017. The decrease was due to loan pay downs of \$9.7 million, a \$225 thousand provision, and the addition of \$2.0 million new direct loans added to the portfolio. Committed funding for CI's direct loan programs as of June 30, 2017 totals \$1.1 million.

The net increase of \$1.4 million of deferred outflows (\$6.5) when compared to deferred inflows of resources (\$5.1) is due to CI's proportionate share of the net difference of the State of Connecticut's Pension's projected and actual performance. Please see Note 13 for more detailed information.

Current liabilities increased \$20.1 million. This is due primarily to \$10.1 million of funds held for medicine research grants-in-aid for the RMRF program, \$8.8 million held on behalf of CTNext for operational expenses. Bonds payable decreased \$525 thousand in 2017 due to normal amortization of bonds. CI's proportionate share of the State of Connecticut net pension liability increased \$1.4 million in FY 2017.

**FINANCIAL HIGHLIGHTS OF FISCAL 2017 - (CONTINUED)**

**NET POSITION - (CONTINUED)**

The following table summarizes the net position as of June 30, 2017 and 2016:

	Balance June 30, 2017	Balance June 30, 2016 <i>(In Thousands)</i>	Increase (Decrease) 2017 vs. 2016
<b>Assets</b>			
Current assets, excluding current portion of loans and investments	\$ 67,685	\$ 50,084	\$ 17,601
Restricted assets	36,068	19,310	16,758
Portfolio investments	89,960	84,187	5,773
Loans	42,681	50,562	(7,881)
Capital assets, net	112	200	(88)
Other noncurrent assets	96	100	(4)
Deferred outflow of resources	9,343	2,853	6,490
<b>Total Assets &amp; Deferred Outflow of Resources</b>	<b>\$ 245,945</b>	<b>\$ 207,296</b>	<b>\$ 38,649</b>
<b>Liabilities</b>			
Current liabilities, excluding current portion of debt	\$ 33,888	\$ 13,744	\$ 20,144
Bonds payable	1,735	2,260	(525)
Net pension liability	28,380	26,989	1,391
Other noncurrent liabilities	2,754	2,921	(167)
Deferred inflow of resources	6,676	1,592	5,084
<b>Total Liabilities &amp; Deferred Inflow of Resources</b>	<b>\$ 73,433</b>	<b>\$ 47,506</b>	<b>\$ 25,927</b>
<b>Net Position</b>			
Invested in capital assets	\$ 112	\$ 200	\$ (88)
Restricted	13,972	5,011	8,961
Unrestricted	158,428	154,579	3,849
<b>Total Net Position</b>	<b>\$ 172,512</b>	<b>\$ 159,790</b>	<b>\$ 12,722</b>

**FINANCIAL HIGHLIGHTS OF FISCAL 2017 - (CONTINUED)**

***CHANGE IN NET POSITION***

Total CI operating revenue increased \$7.3 million from \$4.5 million to \$11.8 million in 2017 when compared to 2016. Realized and unrealized gain on investments – net increased \$12.1 million.

Offsetting this \$12.1 million increase of investment gain was a \$4.4 million decrease in federal funding due to the sunset of the SSBCI Program. In addition loan portfolio interest decreased \$0.3 million due to scaled-down activity in favor of concentrated venture core.

Compensation, benefits and payroll taxes decreased \$438 thousand in 2017 to \$8.1 million from \$8.5 million in 2016. CI's employees are participants in the State payroll and retirement system and participants are charged a fringe rate which currently averages 79.6% of salary.

Interest expense on bonds payable decreased \$27 thousand due to interest savings realized from the \$525 thousand pay down of Corporation GO bonds. General and administrative expenses decreased by \$767 thousand in 2017 compared to 2016 due to continued pull-back of general office, legal and advisory fees associated with rightsizing the organization.

Net realized losses on investments for the year were \$2.8 million as compared to net realized losses of \$3.4 million in 2016. In both 2017 and 2016, 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 gains on investments for the year were \$8.9 million as compared to net unrealized losses of \$2.7 million in 2016. In 2017, the net unrealized gains resulted from net increases in valuation reserves for privately held companies in CI's investment portfolio and public holdings. In 2016, the net unrealized losses resulted from net decreases in valuation reserves for privately held companies in CI's investment portfolio and public holdings.

In 2017, CI received \$15.0 million of funding under the Jobs Bill Recapitalization as well as \$20.3 million for the Connecticut Bioscience Collaborative program. Of the \$20.3 million received and recorded as operating revenue for the Connecticut Bioscience Collaborative program, \$7.3 million was for facility and equipment loans under the Connecticut Bioscience Collaborative program. This funding was reserved in full in fiscal 2017 and recorded as an operating expense.

CI received \$16.0 million in FY2017 from the State of Connecticut for medicine grants-in aid under the RMRF program. CI disbursed \$7.4 million in grants-in-aid in FY2017 of which \$5.9 million was matched as revenue with the current funding and \$1.5 million was directly expensed as it was previously recognized as revenue prior to the start of FY2017.

Total expenditures in 2017 related to grants and programs decreased \$6.2 million when compared to 2016. Comparing June 30, 2017 to June 30, 2016 the following occurred: recorded expense for Grants-in-aid by CI as administrator for RMRF decreased \$2.6 million, operating grants disbursed under the Bioscience Collaborative Program decreased by \$1.5 million, and the enactment of Public Act No. 16-3 establishing CTNext as a standalone subsidiary which resulted in the reduction of \$2.2 million in associated expenses formerly absorbed by CI.



The following table summarizes the change in net position for the year ended June 30, 2017 compared to the 2016.

	Year Ended June 30, 2017	Year Ended June 30, 2016	Favorable (Unfavorable) 2017 vs. 2016
	<i>(In Thousands)</i>		
<b>Operating Revenue</b>			
Investment interest income	\$ 1,782	\$ 1,396	\$ 386
Interest on notes	2,281	2,593	\$ (312)
Realized and unrealized gain (loss) on investments - net	6,082	(6,019)	12,101
Loan fee income	752	602	150
Other	928	5,891	(4,963)
<b>Total Operating Revenues</b>	<b>11,825</b>	<b>4,463</b>	<b>7,362</b>
<b>Operating Expenses</b>			
Payroll and fringes	\$ 8,088	\$ 8,527	\$ 439
Interest on bonds	99	126	27
Loss provision	450	500	50
General, administrative and other	2,962	3,729	767
<b>Total Operating Expenses</b>	<b>11,599</b>	<b>12,882</b>	<b>1,283</b>
<b>Operating Income (Loss)</b>	<b>226</b>	<b>(8,419)</b>	<b>8,645</b>
<b>Non-Operating Revenues</b>			
Connecticut Public Act 11-1	15,000	-	15,000
Grant and program income	5,888	151	5,737
CT Bioscience Collaboration funding	20,317	20,573	(256)
<b>Total Non-Operating Revenues</b>	<b>41,205</b>	<b>20,724</b>	<b>20,481</b>
<b>Non-Operating Expenses</b>			
Grants and programs	21,392	27,632	6,240
CT Bioscience Collaboration loan write-down	7,317	6,073	(1,244)
<b>Total Non-Operating Expenses</b>	<b>28,709</b>	<b>33,705</b>	<b>4,996</b>
<b>Non-Operating Income (Loss)</b>	<b>12,496</b>	<b>(12,981)</b>	<b>25,477</b>
<b>Change in Net Position</b>	<b>\$ 12,722</b>	<b>\$ (21,400)</b>	<b>\$ 34,122</b>

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, 2017

	<u>2017</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents:	
Cash and cash equivalents	\$ 35,289,097
Committed cash and cash equivalents	31,558,454
Total cash and cash equivalents	66,847,551
Current portion of loans	5,136,256
Current portion of portfolio investments	973,170
Interest and other receivables	652,782
Prepaid expenses	81,034
Due from State of Connecticut	103,373
<b>Total Current Assets</b>	<u>73,794,166</u>
<b>Noncurrent Assets</b>	
Restricted assets:	
Restricted cash and cash equivalents	36,067,903
Total restricted assets	36,067,903
Portfolio investments, net of current portion	88,986,913
Loans - noncurrent, net of allowance for loan losses of \$6,110,454	37,544,440
Connecticut Bioscience Collaboration Program Loans, net of allowance for doubtful accounts of \$157,876,945	-
Capital assets, net of depreciation	111,869
Other	96,500
<b>Total Noncurrent Assets</b>	<u>162,807,625</u>
<b>Total Assets</b>	<u>\$ 236,601,791</u>
<b>Deferred Outflows of Resources</b>	
Deferred bond issuance costs	\$ 55,198
Deferred amount for pension	9,287,725
<b>Total Deferred Outflows of Resources</b>	<u>\$ 9,342,923</u>

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

# CONNECTICUT INNOVATIONS, INCORPORATED

## Statement of Net Position – (CONTINUED)

June 30, 2017

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<b>Liabilities</b>	
<b>Current Liabilities</b>	
Current portion of bonds payable	\$ 555,000
Custodial liability	10,112,062
Accrued expenses and other liabilities	3,531,752
Due to Connecticut Bioscience Innovation Fund	9,682,324
Due to CTNext	8,764,600
Reserve for guarantee losses	1,792,966
Deferred revenue	4,561
<b>Total Current Liabilities</b>	<u>34,443,265</u>
<b>Noncurrent Liabilities</b>	
Net pension liability	28,379,878
Escrow deposits	2,754,299
Bonds payable, net of current portion	1,180,000
<b>Total Noncurrent Liabilities</b>	<u>32,314,177</u>
<b>Total Liabilities</b>	<u>66,757,442</u>
<b>Net Position</b>	
Net investment in capital assets	111,869
Restricted	13,972,420
Unrestricted	158,427,487
<b>Total Net Position</b>	<u>172,511,776</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 239,269,218</u>
<b>Deferred Inflows of Resources</b>	
Deferred amount for pension	<u>\$ 6,675,496</u>

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

# CONNECTICUT INNOVATIONS, INCORPORATED

## Statement of Revenues, Expenses and Changes in Net Position

For the year ended June 30, 2017

	2017
<b>Operating Revenues</b>	
Investment interest income	\$ 1,782,238
Interest on loans	2,280,595
Realized and unrealized gain on investments - net	6,082,489
Loan fee income	752,289
Other income	927,874
<b>Total Operating Revenues</b>	<b>11,825,485</b>
<b>Operating Expenses</b>	
Salaries	4,555,276
Benefits and payroll taxes	3,533,275
Provision for loan and guarantee losses	450,000
General facility and office	993,833
Professional service fees	1,252,264
Interest	99,127
Marketing, conferences, development	481,623
Depreciation and amortization	229,499
Other	4,884
<b>Total Operating Expenses</b>	<b>11,599,781</b>
<b>Operating Income</b>	<b>225,704</b>
<b>Non-Operating Revenues</b>	
Connecticut Public Act 11-1	15,000,000
Grant and program income	5,887,938
Connecticut Bioscience Collaboration funding	20,317,259
<b>Total Non-Operating Revenues</b>	<b>41,205,197</b>
<b>Non-Operating Expenses</b>	
Grants and programs	21,392,079
Connecticut Bioscience Collaboration Loan write-down	7,317,259
<b>Total Non-Operating Expenses</b>	<b>28,709,338</b>
<b>Non-Operating Income</b>	<b>12,495,859</b>
<b>Change in Net Position</b>	<b>12,721,563</b>
<b>Net Position - Beginning of year</b>	<b>159,790,213</b>
<b>Net Position - End of year</b>	<b>\$ 172,511,776</b>

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

# CONNECTICUT INNOVATIONS, INCORPORATED

## Statement of Cash Flows

For the year ended June 30, 2017

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	<u>2017</u>
<b>Cash Flows from Operating Activities</b>	
Sale of investments	\$ 25,849,911
Purchase of investments	(22,372,534)
Loan principal collected	9,672,882
Loans funded	(2,021,786)
Interest from loans	2,293,628
Cash from loan/guarantee/insurance fees	724,524
Interest on investments and marketable securities	437,326
Interest on short-term investments and cash deposits	312,112
Cash received from other income	117,189
Cash received from dividends and royalties	29,013
Payroll and fringe benefits paid	(7,313,075)
General and administrative expenses paid	(2,315,674)
Loan workout expenses paid	(4,887)
	<u>5,408,629</u>
<b>Net Cash Provided by Operating Activities</b>	
	<u>5,408,629</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	(124,718)
	<u>(124,718)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	
	<u>(124,718)</u>

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

# CONNECTICUT INNOVATIONS, INCORPORATED

## Statement of Cash Flows – (CONTINUED)

For the year ended June 30, 2017

<b>Cash Flows from Noncapital Financing Activities</b>	
Cash received under Connecticut Bioscience Collaboration Program	\$ 20,317,259
Cash received under custodial arrangements	16,000,000
Funding received from State of Connecticut	15,000,000
CTNext Fund transfers	8,764,600
Connecticut Bioscience Innovation Fund transfers	1,189,613
Funding received from State Small Business Credit Initiative	60,162
Cash paid under grants and programs	(14,288,493)
Cash paid under custodial arrangements	(7,385,757)
Connecticut Bioscience Collaborative loans	(7,317,259)
Principal payments on bonds	(525,000)
Decrease in escrow deposits	(166,315)
Interest payments on bonds	(104,869)
	<u>31,543,941</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	
	<u>36,827,852</u>
<b>Net Increase in Cash and Cash Equivalents</b>	
	<u>66,087,602</u>
<b>Cash and Cash Equivalents - Beginning</b>	
	<u>\$ 102,915,454</u>
<b>Cash and Cash Equivalents - Ending</b>	
	<u><u>\$ 102,915,454</u></u>
<b>As Presented on the Statement of Net Position:</b>	
Cash and cash equivalents	\$ 35,289,097
Committed cash and cash equivalents	31,558,454
Restricted cash and cash equivalents	36,067,903
	<u><u>\$ 102,915,454</u></u>

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

# CONNECTICUT INNOVATIONS, INCORPORATED

## Statement of Cash Flows – (CONTINUED)

For the year ended June 30, 2017

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### Reconciliation of Operating Income to Net Cash

#### Provided by Operating Activities

Operating income	\$ 225,704
Adjustments to reconcile operating income to net cash provided by operating activities:	
Purchase of investments	(23,372,534)
Realized loss from investment charge-offs	18,281,577
Return of principal on investments	10,410,438
Unrealized gain on investments, net	(8,924,593)
Charge-offs of loans receivable	(2,135,666)
Noncash interest conversions	(1,079,426)
Noncapital CBIF administrative fee	(750,000)
Provision for loan and guarantee losses	450,000
Depreciation and amortization	229,499
Interest expense on bonds	99,127
Non-operating revenue - SSBCI	(60,162)
Noncash portion of pension expense	(32,192)
(Increase) decrease in assets:	
Loans receivable	9,795,240
Interest and other receivables	(3,920)
Advances, prepaid and deferred expenses	1,384,509
Increase (decrease) in liabilities:	
Accrued expenses and deferred revenue	891,028

#### Net Cash Provided by Operating Activities

\$ 5,408,629

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



# CONNECTICUT INNOVATIONS, INCORPORATED

## Notes to the Financial Statements

For the Year Ended June 30, 2017

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

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

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

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

The Corporation, as the primary government, follows the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 61 (The Financial Reporting Entity Omnibus – an Amendment of GASB Statements No. 14 and No. 34) (the "Statement") regarding presentation of component units. The Statement modifies certain requirements for including component units in the reporting entity, either by blending (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.

Based on the criteria above, the Corporation has one blended component unit.

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

*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. The CBRA subsidiary provides loans, grants or guarantees from the Corporation's assets and the proceeds of its bonds, notes and other obligations. Any net gain from the subsidiary will flow back to the parent (Corporation) as an addition or in the case of a loss, a reduction to the earnings of the Corporation.

No balance sheet or activity eliminations between the Corporation and its blended unit was necessary.

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

### Condensed, Combining Information – Statement of Net Position

	CBRA	CI	Total Primary Government
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents			
Cash and cash equivalents	\$ -	\$ 35,289,097	\$ 35,289,097
Committed cash and cash equivalents	-	31,558,454	31,558,454
Total cash and cash equivalents	-	66,847,551	66,847,551
Current portion of loans	520,929	4,615,327	5,136,256
Current portion of portfolio investments	-	973,170	973,170
Interest and other receivables	239,292	413,490	652,782
Prepaid expenses	-	81,034	81,034
Due from State of Connecticut	-	103,373	103,373
<b>Total Current Assets</b>	<b>760,221</b>	<b>73,033,945</b>	<b>73,794,166</b>
<b>Noncurrent Assets</b>			
Restricted Assets:			
Restricted cash and cash equivalents	-	36,067,903	36,067,903
Total restricted assets	-	36,067,903	36,067,903
Portfolio investments, net of current portion	-	88,986,913	88,986,913
Loans - noncurrent, net of allowance for loan losses of \$6,110,454	6,432,994	31,111,446	37,544,440
Connecticut Bioscience Collaboration Program Loans, net of allowance for doubtful accounts of \$157,876,945	-	-	-
Capital assets, net of depreciation	-	111,869	111,869
Other	-	96,500	96,500
<b>Total Noncurrent Assets</b>	<b>6,432,994</b>	<b>156,374,631</b>	<b>162,807,625</b>
<b>Total Assets</b>	<b>\$ 7,193,215</b>	<b>\$ 229,408,576</b>	<b>\$ 236,601,791</b>
<b>Deferred Outflows of Resources</b>	<b>\$ -</b>	<b>\$ 9,342,923</b>	<b>\$ 9,342,923</b>

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

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

	CBRA	CI	Total Primary Government
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Current portion of bonds payable	\$ -	\$ 555,000	\$ 555,000
Custodial liability	-	10,112,062	10,112,062
Accrued expenses and other liabilities	-	3,531,752	3,531,752
Due to Connecticut Bioscience Innovation Fund	-	9,682,324	9,682,324
Due to CTNext	-	8,764,600	8,764,600
Reserve for guarantee losses	-	1,792,966	1,792,966
Deferred revenue	-	4,561	4,561
<b>Total Current Liabilities</b>	-	34,443,265	34,443,265
<b>Noncurrent Liabilities</b>			
Net pension liability	-	28,379,878	28,379,878
Escrow deposits	-	2,754,299	2,754,299
Bonds payable, net of current portion	-	1,180,000	1,180,000
<b>Total Noncurrent Liabilities</b>	-	32,314,177	32,314,177
<b>Total Liabilities</b>	-	66,757,442	66,757,442
<b>Net Position</b>			
Net investment in capital assets	-	111,869	111,869
Restricted	-	13,972,420	13,972,420
Unrestricted	7,193,215	151,234,272	158,427,487
<b>Total Net Position</b>	7,193,215	165,318,561	172,511,776
<b>Total Liabilities and Net Position</b>	\$ 7,193,215	\$ 232,076,003	\$ 239,269,218
<b>Deferred Inflows of Resources</b>	\$ -	\$ 6,675,496	\$ 6,675,496

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
<b>Operating Revenues</b>			
Investment interest income	\$ -	\$ 1,782,238	\$ 1,782,238
Interest on loans	412,208	1,868,387	2,280,595
Realized and unrealized gain on investments - net	-	6,082,489	6,082,489
Loan fee income	-	752,289	752,289
Other income	-	927,874	927,874
<b>Total Operating Revenues</b>	<b>412,208</b>	<b>11,413,277</b>	<b>11,825,485</b>
<b>Operating Expenses</b>			
Salaries	-	4,555,276	4,555,276
Benefits and payroll taxes	-	3,533,275	3,533,275
Provision for loan and guarantee losses	-	450,000	450,000
General facility and office	-	993,833	993,833
Professional service fees	-	1,252,264	1,252,264
Interest	-	99,127	99,127
Marketing, conferences, development	-	481,623	481,623
Depreciation and amortization	-	229,499	229,499
Other	-	4,884	4,884
<b>Total Operating Expenses</b>	<b>-</b>	<b>11,599,781</b>	<b>11,599,781</b>
<b>Operating Income (Loss)</b>	<b>412,208</b>	<b>(186,504)</b>	<b>225,704</b>
<b>Non-Operating Revenues</b>			
Connecticut Public Act 11-1	-	15,000,000	15,000,000
Grant and program income	-	5,887,938	5,887,938
Connecticut Bioscience Collaboration funding	-	20,317,259	20,317,259
<b>Total Non-Operating Revenues</b>	<b>-</b>	<b>41,205,197</b>	<b>41,205,197</b>
<b>Non-Operating Expenses</b>			
Grants and programs	-	21,392,079	21,392,079
Connecticut Bioscience Collaboration Loan write-down	-	7,317,259	7,317,259
<b>Total Non-Operating Expenses</b>	<b>-</b>	<b>28,709,338</b>	<b>28,709,338</b>
<b>Non-Operating Income</b>	<b>-</b>	<b>12,495,859</b>	<b>12,495,859</b>
<b>Change in Net Position Before Transfers</b>	<b>412,208</b>	<b>12,309,355</b>	<b>12,721,563</b>
<b>Transfers</b>	<b>(939,796)</b>	<b>939,796</b>	<b>-</b>
<b>Net Position - Beginning of year</b>	<b>7,193,215</b>	<b>152,596,998</b>	<b>159,790,213</b>
<b>Net Position - End of year</b>	<b>\$ 6,665,627</b>	<b>\$ 165,846,149</b>	<b>\$ 172,511,776</b>

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

**Condensed, Combining Information – Statement of Cash Flows**

	CBRA	CI	Total Primary Government
<b>Cash Flows from Operating Activities</b>			
Sale of investments	\$ -	\$ 25,849,911	\$ 25,849,911
Purchase of investments	-	(22,372,534)	(22,372,534)
Loan principal collected	514,679	9,158,203	9,672,882
Loans funded	-	(2,021,786)	(2,021,786)
Interest from loans	425,117	1,868,511	2,293,628
Cash from loan/guarantee/insurance fees	-	724,524	724,524
Interest on investments and marketable securities	-	437,326	437,326
Interest on short-term investments and cash deposits	-	312,112	312,112
Cash received from other income	-	117,189	117,189
Cash received from dividends and royalties	-	29,013	29,013
Payroll and fringe benefits paid	-	(7,313,075)	(7,313,075)
General and administrative expenses paid	-	(2,315,674)	(2,315,674)
Loan workout expenses paid	-	(4,887)	(4,887)
<b>Net Cash Provided by Operating Activities</b>	<u>939,796</u>	<u>4,468,833</u>	<u>5,408,629</u>
<b>Cash Flows Used In Capital and Related Financing Activities</b>			
Purchase of capital assets	-	(124,718)	(124,718)
<b>Net Cash Used In Capital and Related Financing Activities</b>	<u>-</u>	<u>(124,718)</u>	<u>(124,718)</u>

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

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

	CBRA	CI	Total Primary Government
<b>Cash Flows from Noncapital Financing Activities</b>			
Cash received under Connecticut Bioscience Collaboration Program	\$ -	\$ 20,317,259	\$ 20,317,259
Cash received under custodial arrangements	-	16,000,000	16,000,000
Funding received from State of Connecticut	-	15,000,000	15,000,000
CTNext Fund transfers	-	8,764,600	8,764,600
Connecticut Bioscience Innovation Fund transfers	-	1,189,613	1,189,613
Cash paid for State Small Business Credit Initiative	-	60,162	60,162
Cash paid under grants and programs	-	(14,288,493)	(14,288,493)
Cash paid under custodial arrangements	-	(7,385,757)	(7,385,757)
Connecticut Bioscience Collaborative loans	-	(7,317,259)	(7,317,259)
Principal payments on bonds	-	(525,000)	(525,000)
Decrease in escrow deposits	-	(166,315)	(166,315)
Interest payments on bonds	-	(104,869)	(104,869)
Transfers	(939,796)	939,796	-
<b>Net Cash (Used In) Provided by Noncapital Financing Activities</b>	<b>(939,796)</b>	<b>32,483,737</b>	<b>31,543,941</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>-</b>	<b>36,827,852</b>	<b>36,827,852</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>-</b>	<b>66,087,602</b>	<b>66,087,602</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ -</b>	<b>\$ 102,915,454</b>	<b>\$ 102,915,454</b>

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

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

	CBRA	CI	Total Primary Government
<b>Reconciliation of Operating Income to Net</b>			
<b>Cash Provided by Operating Activities</b>			
Operating income	\$ 425,117	\$ (199,413)	\$ 225,704
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Purchase of investments	-	(23,372,534)	(23,372,534)
Realized loss from investment charge-offs	-	18,281,577	18,281,577
Return of principal on investments	-	10,410,438	10,410,438
Unrealized gain on investments, net	-	(8,924,593)	(8,924,593)
Charge-offs of loans receivable	-	(2,135,666)	(2,135,666)
Noncash interest conversions	-	(1,079,426)	(1,079,426)
Noncapital CBIF administrative fee	-	(750,000)	(750,000)
Provision for loan and guarantee losses	-	450,000	450,000
Depreciation and amortization	-	229,499	229,499
Interest expense on bonds	-	99,127	99,127
Non-operating revenue - SSBCI	-	(60,162)	(60,162)
Noncash portion of pension expense	-	(32,192)	(32,192)
 (Increase) decrease in assets:			
Loans receivable	501,769	9,293,471	9,795,240
Interest and other receivables	12,910	(16,830)	(3,920)
Advances, prepaid and deferred expenses	-	1,384,509	1,384,509
Increase (decrease) in liabilities:			
Accrued expenses and deferred revenue	-	891,028	891,028
 <b>Net Cash Provided by (Used In)</b>			
<b>Operating Activities</b>	<u>\$ 939,796</u>	<u>\$ 4,468,833</u>	<u>\$ 5,408,629</u>

**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.

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

*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 \$2,143,626,141 of special obligation industrial revenue bonds since July 1, 1978. Total bonds outstanding at June 30, 2017 were \$370,600,000.

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.

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

On June 30, 2017 loans totaling \$1,318,749 were insured under the program by other lending institutions.



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

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

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

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

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

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

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

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

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

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

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

### Significant Accounting Policies

Financial Statement Presentation - The Corporation is considered to be an enterprise fund of the State of Connecticut. Enterprise funds are used to account for governmental activities that are similar to those found in the private sector in which the determination of net income is necessary or useful to sound financial administration.

In its accounting and financial reporting, the Corporation follows Governmental Accounting Standards Board (GASB) Statement No. 62, *GASB Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which incorporates into GASB guidance pre-November 29, 1989 FASB Statements and Interpretations and Accounting Principles Board (ABP) Opinions and Research Bulletins which do not conflict or contradict GASB statements.

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

Operating and Non-Operating Revenue (Expense) - The Corporation distinguishes operating revenues and expenses from non-operating items. Operating revenue consists primarily of (1) loan interest from its lending and economic development activities and revenue generated in connection with investments (including investment gains and losses from portfolio investments) and programs and other fees and assessments related to all of the above. Operating expenses consist of the costs of operating the lending, economic development, capital venture, programs, as well as depreciation on capital assets.

Non-operating revenues consist of funding from 1) certain State of Connecticut appropriations or regulations, and 2) grants including Jackson Laboratory funding and stem cell research funding. Offsetting non-operating revenues and recorded as non-operating expenses are expenditures under grant programs.

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

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

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

All of the Corporation's investments, except certain equity investments, are uninsured, unregistered and held by the Corporation in the Corporation's name. Certain equity investments are insured by the Securities Investor Protection Corporation and held by a registered broker-dealer in the Corporation's name. Investments in the form of debt instruments are secured by the underlying assets of the borrower, 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 \$1,000 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.

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

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.

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

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

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

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.

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

**Recently Adopted Accounting Pronouncements**

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 were effective for the Corporation on July 1, 2016. The adoption of GASB No. 73 did not have a material impact on the Corporations financial statements.

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve accounting and financial reporting by state and local governments for Other Postemployment Benefits (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 of the corporation as of July 1, 2017. The Corporation is currently evaluating the impact this standard will have on its financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues*. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statements No. 67, 68 and 73. Specifically this statement addresses issues regarding 1) the presentation of payroll-related measures in required supplementary information, 2) the selection of assumptions for financial reporting purposes and 3) the classification of payments made by employers to satisfy plan member contribution requirements. The Corporation is required to adopt this Statement as of July 1, 2017. The adoption of this Statement is not expected to have a material impact on the Corporations financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Corporation will be required to adopt this Statement on July 1, 2020. The Corporation has not yet determined the impact of the Statements on its financial statements.

Subsequent Events - Events subsequent to June 30, 2017 have been evaluated through October 26, 2017, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

## NOTE 2 – FAIR VALUE MEASUREMENTS

The framework for measuring 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 at fair value on a recurring basis. Fair value is defined as portfolio investments, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy 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 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, 2017.

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 in Level 3. The Corporation has applied procedures in arriving at the estimate of the value of such securities that it believes are reasonable and appropriate.

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

**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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Portfolio investments				
Equity	8,269,884	-	65,976,792	74,246,676
Debt	-	-	15,713,407	15,713,407
	<u>\$ 8,269,884</u>	<u>\$ -</u>	<u>\$ 81,690,199</u>	<u>\$ 89,960,083</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, 2017.

Balance - beginning of year	\$ 83,324,592
Purchases	22,929,310
Sales Proceeds	(10,410,438)
Realized/unrealized depreciation	<u>(14,153,265)</u>
Balance - end of year	<u>\$ 81,690,199</u>

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

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The following is a summary of the composition of cash and cash equivalents (both restricted and unrestricted) at June 30, 2017.

Deposits with financial institutions	\$ 12,333,100
Connecticut State Treasurer's Short-Term Investment Fund	<u>90,582,354</u>
Total cash and cash equivalents	<u>\$ 102,915,454</u>

Cash and cash equivalents are presented on the statement of net position at June 30, 2017 as follows:

Unrestricted cash and cash equivalents	\$ 66,847,551
Restricted cash and cash equivalents	<u>36,067,903</u>
	<u>\$ 102,915,454</u>

**NOTE 3 – CASH AND CASH EQUIVALENTS - (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). Total restricted cash and cash equivalents was \$36,067,903 as of June 30, 2017.

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

As of June 30, 2017, \$9,558,482 of the Corporation's bank balance was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Restricted Investments – The Corporation's investment policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures and with applicable Connecticut General Statutes. Whenever possible, restricted investments are to be held to maturity and 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:

	<u>Standard &amp; Poor's</u>
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, 2017 by related fund are summarized as follows:

CI Fund	Equity Securities	Debt Securities	Total
Eli Whitney investments	\$ 56,946,620	\$ 9,475,973	\$ 66,422,593
BioScience Facilities investments	1,005,757	1,612,091	2,617,848
Seed Fund investments	1,805,659	660,465	2,466,124
Clean Tech investments	1	71,682	71,683
Mezzanine Fund investments	-	1,000,000	1,000,000
SSBCI investments	12,681,838	-	12,681,838
Other investments	1,806,801	2,893,196	4,699,997
Totals	<u>\$ 74,246,676</u>	<u>\$ 15,713,407</u>	<u>\$ 89,960,083</u>

The following is a summary of investments in the Eli Whitney Fund by industry classification as of June 30, 2017:

	Amount	%
BioScience	\$ 24,296,773	36.6
Medical Devices	1,467,789	2.2
IT Software	25,427,591	38.3
IT Infrastructure	1,808,475	2.7
IT services	1,525,001	2.3
Photonics	4,757,604	7.2
Clean Technology	7,139,360	10.7
	<u>\$ 66,422,593</u>	<u>100.0</u>

CI accrues interest on its debt investments from the start of the note and then fair values the investment in accordance with its fair value methodology as described in Note 2. It is normal policy to convert its debt holdings to equity investments. As of June 30, 2017, the Corporation owned warrants in several portfolio companies with various exercise dates and at exercise prices that range from \$.0001 to \$6,827 per share. Warrants held at June 30, 2017 represented investments in 34 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, 2017, the five largest investments comprised 22.7% of the carrying value of the Corporation's total investments, with one investment comprising 7.0% 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 80 loans (gross) totaling \$48,791,150. Of this amount, 72 loans totaling \$40,327,617 (83%) are in the Growth and Connecticut Works Fund ("A"). The remaining \$8,463,533 (17%) is comprised of 8 loans in the CBRA subsidiary and Operating Fund.

The ability of the borrowers to honor their contracts may be affected by a downturn in the State's economy, which may ultimately limit the funds available to repay interest and principal, thus the Authority provides for an allowance for loan losses (Note 6).

Nonperforming loans include loans that are over 61 days past due as of June 30, 2017.

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

Loans, current portion	\$ 5,136,256
Loans, non-current portion	<u>43,654,894</u>
	48,791,150
Less: Allowance for doubtful accounts	<u>(6,110,454)</u>
Net	<u><u>\$ 42,680,696</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, 2017 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	\$ 632,398	\$ 6,532,093	\$ 8,021,119	\$ 226,833	\$ 1,341,133	\$ 1,567,966	\$ 9,589,085
Provision	-	-	225,000	225,000	-	225,000	225,000	450,000
Charge-offs	-	-	(2,135,666)	(2,135,666)	-	-	-	(2,135,666)
Recoveries	-	-	-	-	-	-	-	-
Ending balance	<u>\$ 856,628</u>	<u>\$ 632,398</u>	<u>\$ 4,621,427</u>	<u>\$ 6,110,453</u>	<u>\$ 226,833</u>	<u>\$ 1,566,133</u>	<u>\$ 1,792,966</u>	<u>\$ 7,903,419</u>
Loan balances/exposure	<u>\$ 8,463,533</u>	<u>\$ 4,225,980</u>	<u>\$ 36,101,637</u>	<u>\$ 48,791,150</u>	<u>\$ 304,441</u>	<u>\$ 2,662,044</u>	<u>\$ 2,966,485</u>	<u>\$ 51,757,635</u>
Allowance balance as a percent of loans/ exposure	10.1%	15.0%	12.8%	12.5%	74.5%	58.8%	60.4%	15.3%

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

At June 30, 2017, the Corporation had a recorded balance in impaired loans of \$4,586,559 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 included in the overall allowance for loan losses totaling \$812,213 as of June 30, 2017.

The average recorded investment in impaired loans for the year ended June 30, 2017 was \$6,202,223 and income recorded on loans identified as being impaired totaled \$67,976 of which \$59,962 was recorded as revenue when received.

## NOTE 7 – RELATED PARTY TRANSACTIONS

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

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 CCEF be administered on a contract basis by the Corporation. The Corporation expended \$33,144 in the year ended June 30, 2017 on behalf of CGB, for which the Corporation was reimbursed \$29,935. \$3,209 is owed by CGB to CI at June 30, 2017.

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 in CEFIA Holdings, LLC 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.

Effective July 1, 2016 as part of the State of Connecticut's implementer Bill, Public Act No. 16-3 was enacted which established CTNext as a separate entity managed by the Corporation. During the year ended June 30, 2017 the Corporation expended funds and received bond funds from the state on behalf of CTNext, which will be reimbursed to CTNext in FY2018.

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

Related party balances are as follows at June 30, 2017:

Due to CBIF	<u><u>\$ (9,682,324)</u></u>
Due from the Connecticut Green Bank	<u><u>\$ 3,209</u></u>
Membership Interest - CEFIA Holdings LLC	<u><u>\$ 1,000</u></u>
Due to CTNext	<u><u>\$ (8,764,600)</u></u>

**NOTE 8 – DUE FROM STATE OF CONNECTICUT**

The \$103,373 due from the State of Connecticut at June 30, 2017 represents the pre-funding of payroll.

**NOTE 9 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance, July 1, 2016	Additions	Deletions	Other	Balance, June 30, 2017
Capital assets being depreciated:					
Furniture and equipment	\$ 232,698	\$ -	\$ (169,990)	\$ -	\$ 62,708
Computer hardware and software	901,530	124,718	(93,796)	-	932,452
Leasehold improvements	107,765	-	-	-	107,765
Construction in progress	-	-	-	-	-
	<u>1,241,993</u>	<u>124,718</u>	<u>(263,786)</u>	<u>-</u>	<u>1,102,925</u>
Less accumulated depreciation and amortization:					
Furniture and equipment	276,247	18,658	(169,990)	-	124,915
Computer hardware and software	676,744	183,074	(93,796)	-	766,022
Leasehold improvements (CI and CTech)	89,053	11,065	-	-	100,118
	<u>1,042,044</u>	<u>212,797</u>	<u>(263,786)</u>	<u>-</u>	<u>991,055</u>
Capital assets - net	<u>\$ 199,949</u>	<u>\$ (88,079)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,870</u>

**NOTE 10 – STATE FUNDING**

In 2017, the Corporation received \$51,317,259 in cash 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: \$7,317,259 for the Connecticut Bioscience Collaboration Program for facility and equipment loans; \$13,000,000 for operating assistance to the Jackson Laboratory for Genomic Medicine; \$15,000,000 from the CT Jobs Bill, and \$16,000,000 from Regen.

As of June 30, 2017, \$70,684,055 remained available to the Corporation from bond fund authorizations from the State of Connecticut as follows:

Loans	\$ 33,823,055
Operating grant	<u>36,861,000</u>
	<u>\$ 70,684,055</u>

**NOTE 11 – BONDS PAYABLE**

Original amount and outstanding principal of debt at June 30, 2017 of debt is as follows:

	Original Amount	Outstanding Principal June 30, 2017
	<u>                    </u>	<u>                    </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>	\$ 1,735,000
Less: current portion		<u>555,000</u>
Long-term portion		<u>\$ 1,180,000</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, 2017 was \$16,702.

The principal and interest payable by years are as follows:

Year ending June 30,	Principal General Obligation Bonds	Interest General Obligation Bonds
<u>                    </u>	<u>                    </u>	<u>                    </u>
2018	\$ 555,000	\$ 76,519
2019	585,000	46,594
2020	595,000	15,619
	<u>\$ 1,735,000</u>	<u>\$ 138,732</u>

## 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>	
2018	\$ 394,095
2019	404,200
2020	414,305
2021	<u>209,679</u>
	<u>\$ 1,422,279</u>

Rent expense for all facilities for the year ended June 30, 2017, was \$298,180.

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 1.4% of the average annual earnings plus 0.433% of the average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service. In addition, any years of service over 35 would be at one and five-eighths percent. Employees who attain age 55 with 10 years of service are entitled to a reduced benefit. The 2011 State Employees Bargaining Agent Coalition Agreement (Agreement) provides current Tier II and Tier IIA members who remain employed after July 1, 2022, the opportunity for a one-time irrevocable election to retain the normal retirement eligibility in place prior to the Agreement. The election would require an additional employee contribution based on their original retirement date. Under the prior agreement, normal retirement eligibility was age 60 and 25 years of service or age 62 and 10 years of service.

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

Tier III employees who retire on or after the first of any month after age 63, with at least 25 years of vested service, or age 65 with at least 10 but less than 25 years of vested service, will be eligible for normal retirement. In addition, Tier III members who have at least 10 years of vested service can receive early reduced retirement benefits if they retire on the first of any month on or following their 58<sup>th</sup> birthday. Tier III normal retirement benefits include annual retirement benefits for life, in the amount of 1.4% of the five year average annual earnings plus .433 of one percent of the five year average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service plus one and five-eighths of the five year average annual average salary times years of credited service over 35 years.

The total payroll for employees of the Corporation covered by SERS for the years ended June 30, 2017 was \$4,658,776.

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

Contributions made:

By employees	\$	167,379
Percent of current year covered payroll		5.0%
By the Corporation	\$	2,549,442
Percent of current year covered payroll		54.72%

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, 2016 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, 2017, the Corporation reported a liability of \$28,379,878 for its proportionate share of the net pension liability. The net pension liability at June 30, 2017 was measured as of June 30, 2016, 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 the projected contributions of all participating component units, actuarially determined. At June 30, 2017, the Corporation's proportion was 0.12359 percent.

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

For the year ended June 30, 2017, the Corporation recognized pension expense of \$1,596,290, which is included in benefits and payroll taxes on the accompanying Statement of Revenues, Expenses and Changes in Net Position. At June 30, 2017, the Corporation reported deferred outflows of resources and deferred inflows of resources related to its pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual expense	\$ 6,738,283	\$ (6,675,496)
Contributions subsequent to the measurement date	<u>2,549,442</u>	<u>-</u>
Total	<u>\$ 9,287,725</u>	<u>\$ (6,675,496)</u>

Deferred outflows of resources of \$2,549,442 represent the Corporation's contributions subsequent to the measurement date of July 1, 2016 to June 30, 2017. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Deferred inflows and outflows of resources represent the Corporation's share of the net difference between projected and actual performance of the Plan. These amounts will be amortized over a 5.73 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>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2018	\$ 1,175,966	\$ 1,165,008
2019	1,175,966	1,165,008
2020	1,175,966	1,165,008
2021	1,175,966	1,165,008
2022	1,175,966	1,165,008
2023	<u>858,453</u>	<u>850,456</u>
	<u>\$ 6,738,283</u>	<u>\$ 6,675,496</u>



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

The total pension liability in the June 30, 2016 actuarial valuation was determined based on the results of an actuarial experience study for the period from July 1, 2011 to June 30, 2015. The following major actuarial assumptions have been applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.5 to 19.5%, including inflation
Investment long-term rate of return	6.9%, net of pension plan investment expense, including inflation
Cost of living adjustment	2.25 to 3.25%, for certain tiers

Mortality rates were based on the RP-2014 White Collar Mortality Table projected to 2020 by Scale BB at 100% for males and 95% for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target 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 6.90%. 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.

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

There is a sensitivity of the Corporation's proportionate share of the net pension liability in relation to changes in the discount rate. The following presents the Corporation's proportionate share of the net pension liability calculated using the current discount rate of 6.9 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 (5.9 percent) or 1-percentage-point higher (7.9 percent) than the current rate:

	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
Corporation's proportionate share of the net pension liability	\$ 33,678,396	\$ 28,379,878	\$ 23,970,298

**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 Fund 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 related to 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, 2017, \$68,405 was deducted from the plan as a result of the combination of realized and net unrealized gains/losses. The amount reduced the gain share loss carry forward and will increase the total funds available, if any, for future gain share payments to employees. No allocations or payments to employees were made in 2017.

## **NOTE 15 – REGENERATIVE MEDICINE RESEARCH FUND**

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

For the fiscal year ended June 30, 2017 Connecticut Innovations received \$16,000,000 in bond funds, expended \$7,385,757 for grants-in-aid, and has \$10,112,062 of funds available for future distributions.

## **NOTE 16 – 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 and entered into a funding agreement with Jackson Laboratories (Jax) on January 5, 2012 to develop, construct and equip an 189,000 square foot laboratory and operate a genomics medicine research program in Farmington, Connecticut.

The funding agreement provides for 1) a maximum \$145 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, 2017, the loan amount outstanding is \$157,876,945.

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, 2017.

Grant expense pertaining to Jackson Labs for the year ended June 30, 2017 is \$13,000,000.

## NOTE 17 – 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 18 – RESTRICTED NET ASSETS

At June 30, 2017, restricted net position consisted of funds restricted for the following:

Loan guarantees	\$ 1,246,988
Bonding resolution compliance	386,610
Urbank Enabling Legislation	2,165,672
REGEN (Stem Cell)	10,173,150
	<hr/>
	\$ 13,972,420
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## NOTE 19 – 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, 2017 is summarized below:

	<u>Contract Amount</u>
Loan commitments:	
Connecticut Works Fund ("A")	\$ 1,133,292
	<hr/>
	\$ 1,133,292
	<hr/> <hr/>
Equity commitments:	
Eli Whitney Fund	\$ 2,090,000
SSBCI	250,000
PreSeed Fund	600,000
Other	500,000
	<hr/>
	\$ 3,440,000
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Loan guarantees:	
Connecticut Capital Access Fund	\$ 4,211,669
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Loan commitments, equity commitments, commitments to guarantee, and guarantees are generally made using the same underwriting standards as those funded and recorded on the statement of net position.

**NOTE 19 – OFF-BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK – (CONTINUED)**

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

**NOTE 20 – LITIGATION**

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

## 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, 2017

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Corporation's portion of the net pension liability	0.1236%
Corporation's proportionate share of the net pension liability	\$ 28,379,878
Corporation's covered-employee payroll	\$ 4,658,776
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	609.17%
Plan fiduciary net position as a percentage of the total pension liability	31.69%

**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, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contribution	\$ 2,549,442	\$ 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>2,549,442</u>	<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>	<u>\$ -</u>
Corporation's covered-employee payroll	\$ 4,658,776	\$ 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	54.72%	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, and the statements of revenues, expenses and changes in net position, and cash flows of Connecticut Innovations, Inc. (CI) (a component unit of the State of Connecticut) as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2017.

### **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.

