

**CONNECTICUT INNOVATIONS, INCORPORATED**  
(A Component Unit of the State of Connecticut)  
Independent Auditors' Report  
Financial Statements

Fiscal Year Ended June 30, 2018



ASSURANCE | ADVISORY | TAX | TECHNOLOGY

# CONNECTICUT INNOVATIONS, INCORPORATED

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June 30, 2018

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Connecticut Innovations, Incorporated (CI or the Corporation) (a component unit of the State of Connecticut), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principle***

As discussed in Note 2 to the financial statements, in 2018 the Corporation adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* effective on July 1, 2018. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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 and OPEB 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 November 20, 2018 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Hartford, Connecticut  
November 20, 2018

# CONNECTICUT INNOVATIONS, INCORPORATED

## Management's Discussion and Analysis - Unaudited

For the year ended June 30, 2018

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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, 2018. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to financial statements and related schedules included in the "Financial Statements" section of this report.

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

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 2018

### **NET POSITION**

Total assets and deferred outflows exceeded total liabilities and deferred inflows by \$149.8 million at June 30, 2018. Net position totaling \$137.2 million are unrestricted. Net position totaling \$12.5 million are restricted in accordance with revenue and general obligation bond indentures as well as for cash reserves principally for specific revenue or general obligation bonds, as well as cash reserves whose use is specified or limited by bond resolution, enabling legislation, laws or third parties. The portion of the CI's net position invested in capital assets, net of related debt total \$82.3 thousand. In total the net position of CI, net of the effect of implementing Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* decreased \$22.7 million for which a reduction of \$25.9 million resulted from the cumulative effect of the implementation of this new Standard. Exclusive of the cumulative effect of GASB 75, Net Position of the Corporation increased \$3.2 million. In addition, our operating expenses were \$1.1 million higher in fiscal 2018 due to the adoption of GASB 75 as of July 1, 2017.

Current assets, excluding the current portion of loans and investments, of CI decreased \$5.4 million in 2018 due primarily to \$5.6 net cash outflow (\$15.6 million purchase vs. \$10.0 million sale) for investments. Return of principal in the amount of \$2 million, \$.75 million from the sale of public investments and \$7.25 million of realized cash gains from the sale of investments were received as proceeds while \$15.6 million of new investments funded during the fiscal year ended June 30, 2018.

Restricted cash decreased \$21.2 million due to outflows for the following: \$9.5 million of funding for CBIF investments and grants, \$9.1 million transfer to CTNext of funds received and held on behalf of CTNext for operations, \$1.5 million for RMRF grants-in-aid funded, \$.5 million release of Sales Tax Program escrows, \$.4 million for SSBCI program investment funding and \$.2 million release of Limited Partnership deposits.

CI's investment portfolio increased \$14.4 million in 2018. This increase consisted of \$15.6 million in new investments and net unrealized appreciation of investments totaling \$4.9 million offset by principal repayments of \$2.8 million and \$3.3 million of realized losses due to charge-offs. During 2018, CI approved \$21.3 million and funded \$15.6 million (of which \$3.3 million was approved prior to 2018) for investments in new opportunities and continued support of existing portfolio companies. Committed funding for CI's equity programs as of June 30, 2018 total \$6.3 million. Total new investments funded of \$15.6 million were: \$8.9 million of new investments through its Eli Whitney Fund, \$4.4 million through Venture Mezzanine Program, \$1.7 million through Preseed Fund, \$.4 million through SSBCI program and \$.2 million through UConn Innovation Fund. 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 \$7.4 million in 2018. The decrease was due to loan pay downs of \$8.7 million, a \$375 thousand provision, and the addition of \$1.7 million new direct loans added to the portfolio. Committed funding for CI's direct loan programs as of June 30, 2018 totals \$1.1 million.

The net increase of \$6.0 million of deferred inflows is comprised of a \$3.7 million increase in deferred inflows and a decrease in deferred outflows of resources of (\$2.3) million due to CI's proportionate share of the net difference of the State of Connecticut's Pension and Other Post retirement benefit's projected and actual performance.

**FINANCIAL HIGHLIGHTS OF FISCAL 2018 - (CONTINUED)**

Current liabilities decreased \$20.5 million. This is due primarily to \$9.7 million of grants and investments funded for CBIF, \$8.8 million transferred from CI to CTNext for use in its operations and \$1.4 million of medicine research grants-in-aid funded for the RMRF program. Bonds payable decreased \$555 thousand in 2018 due to normal amortization of bonds. CI's proportionate share of the State of Connecticut net pension liability decreased \$5 million in FY 2018 while a \$23.6 million liability was recorded as other post retirement liability due to implementing GASB 75.

The following table summarizes the net position as of June 30, 2018 and 2017:

	Balance June 30, 2018	Balance June 30, 2017	Increase (Decrease) 2018 vs. 2017
	<i>(In Thousands)</i>		
<b>Assets</b>			
Current assets, excluding current portion of loans and investments	\$ 62,267	\$ 67,685	\$ (5,418)
Restricted assets	14,855	36,068	(21,213)
Portfolio investments	104,385	89,960	14,425
Loans	35,242	42,681	(7,439)
Capital assets, net	82	112	(30)
Other noncurrent assets	94	96	(2)
Deferred outflow of resources	7,025	9,343	(2,318)
<b>Total Assets &amp; Deferred Outflow of Resources</b>	<b>\$ 223,950</b>	<b>\$ 245,945</b>	<b>\$ (21,995)</b>
	Balance June 30, 2018	Balance June 30, 2017	Increase (Decrease) 2018 vs. 2017
	<i>(In Thousands)</i>		
<b>Liabilities</b>			
Current liabilities, excluding current portion of debt	\$ 13,395	\$ 33,888	\$ (20,493)
Bonds payable	1,180	1,735	(555)
Net pension liability	23,370	28,380	(5,010)
Net other post retirement benefits liability	23,597	-	23,597
Other noncurrent liabilities	2,214	2,754	(540)
Deferred inflow of resources	10,368	6,676	3,692
<b>Total Liabilities &amp; Deferred Inflow of Resources</b>	<b>\$ 74,124</b>	<b>\$ 73,433</b>	<b>\$ 691</b>
<b>Net Position</b>			
Invested in capital assets	\$ 82	\$ 112	\$ (30)
Restricted	12,497	13,972	(1,475)
Unrestricted	137,247	158,428	(21,181)
<b>Total Net Position</b>	<b>\$ 149,826</b>	<b>\$ 172,512</b>	<b>\$ (22,686)</b>

**FINANCIAL HIGHLIGHTS OF FISCAL 2018 - (CONTINUED)**

***CHANGE IN NET POSITION***

Total CI operating revenue increased \$2.2 million from \$11.8 million to \$14.0 million in 2018 when compared to 2017. This was due primarily to net realized and unrealized gain on investments increasing from \$6.1 million in FY2017 to \$8.2 million in FY2018.

Compensation, benefits and payroll taxes increased slightly by \$160 thousand to \$8.25 million in 2018. CI's employees are participants in the State payroll and retirement system and participants are charged a fringe rate which currently averages 80% of salary.

Interest expense on bonds payable decreased \$29 thousand due to interest savings realized from the \$555 thousand pay down of Corporation GO bonds. General and administrative expenses decreased by \$5 thousand in 2018 compared to 2017 due to continued pull-back of general office, legal and advisory fees associated with rightsizing the organization.

Net realized gains on investments for the year were \$3.3 million as compared to net realized losses of \$2.8 million in 2017. In both 2018 and 2017, 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 \$4.9 million as compared to net unrealized gains of \$8.9 million in 2017. In 2018, the net unrealized gains resulted from net increases in valuation reserves for privately held companies in CI's investment portfolio and public holdings. In 2017, the net unrealized losses resulted from net decreases in valuation reserves for privately held companies in CI's investment portfolio and public holdings.

In 2018, CI received \$18.6 million of funding for the Connecticut Bioscience Collaborative program. Of the \$18.6 million received and recorded as operating revenue for the Connecticut Bioscience Collaborative program, \$8.1 million was for facility and equipment loans under the Connecticut Bioscience Collaborative program. This funding was recorded as a non-operating expense in fiscal 2018.

CI disbursed \$1.4 million for medicine grants-in aid under the RMRF program from funding received prior to FY2018. Money available from this funding was matched and recorded as revenue as disbursements were made.

Total expenditures in 2018 related to grants and programs decreased \$9 million when compared to 2017. Comparing June 30, 2018 to June 30, 2017 the following occurred: recorded expense for Grants-in-aid by CI as administrator for RMRF decreased \$6 million, operating grants disbursed under the Bioscience Collaborative Program decreased by \$2.5 million, and the enactment of Public Act No. 16-3 establishing CTNext as a standalone subsidiary which resulted in the reduction of \$.5 million in associated expenses formerly absorbed by CI.



**FINANCIAL HIGHLIGHTS OF FISCAL 2018 - (CONTINUED)**

The following table summarizes the change in net position for the year ended June 30, 2018 compared to the 2017.

	Year Ended June 30, 2018	Year Ended June 30, 2017 <i>(In Thousands)</i>	Favorable (Unfavorable) 2018 vs. 2017
<b>Operating Revenue</b>			
Investment interest income	\$ 2,033	\$ 1,782	\$ 251
Interest on notes	1,910	2,281	(371)
Realized and unrealized gain on investments - net	8,234	6,082	2,152
Loan fee income	631	752	(121)
Other	1,185	928	257
<b>Total Operating Revenues</b>	<b>13,993</b>	<b>11,825</b>	<b>2,168</b>
<b>Operating Expenses</b>			
Payroll and fringes	8,248	8,088	(160)
Interest on bonds	70	99	29
Loss provision	375	450	75
General, administrative and other	2,957	2,962	5
<b>Total Operating Expenses</b>	<b>11,650</b>	<b>11,599</b>	<b>(51)</b>
<b>Operating Income</b>	<b>2,343</b>	<b>226</b>	<b>2,117</b>
<b>Non-Operating Revenues</b>			
Pension and post-retirement benefit recapture	1,271	-	1,271
Connecticut Public Act 11-1	-	15,000	(15,000)
Grant and program income	1,404	5,888	(4,484)
CT Bioscience Collaboration funding	18,558	20,317	(1,759)
<b>Total Non-Operating Revenues</b>	<b>21,233</b>	<b>41,205</b>	<b>(19,972)</b>
<b>Non-Operating Expenses</b>			
Grants and programs	12,353	21,392	9,039
CT Bioscience Collaboration loan write-down	8,058	7,317	(741)
<b>Total Non-Operating Expenses</b>	<b>20,411</b>	<b>28,709</b>	<b>8,298</b>
<b>Non-Operating Income</b>	<b>822</b>	<b>12,496</b>	<b>(11,674)</b>
<b>Change in Net Position</b>	<b>\$ 3,165</b>	<b>\$ 12,722</b>	<b>\$ (9,557)</b>
<b>Net Position - as previously reported</b>	<b>172,512</b>	<b>159,790</b>	<b>12,722</b>
<b>Cumulative Effect of Implementing GASB 75</b>	<b>(25,851)</b>	<b>-</b>	<b>(25,851)</b>
<b>Net Position - Beginning of year (as restated)</b>	<b>146,661</b>	<b>159,790</b>	<b>(13,129)</b>
<b>Net Position - End of Year</b>	<b>\$ 149,826</b>	<b>\$ 172,512</b>	<b>\$ (22,686)</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, 2018

### Assets

#### Current Assets

Cash and cash equivalents:	
Cash and cash equivalents	\$ 27,035,383
Committed cash and cash equivalents	33,333,292
Total cash and cash equivalents	<u>60,368,675</u>
Current portion of loans	5,884,403
Current portion of portfolio investments	798,809
Due from Connecticut Bioscience Innovation Fund	613,189
Interest and other receivables	540,450
Prepaid expenses	260,929
Due from State of Connecticut	484,147
<b>Total Current Assets</b>	<u><u>68,950,602</u></u>

#### Noncurrent Assets

Restricted assets:	
Restricted cash and cash equivalents	<u>14,854,444</u>
Total restricted assets	14,854,444
Portfolio investments, net of current portion	103,586,251
Loans - noncurrent, net of allowance for loan losses of \$6,512,244	29,357,935
Connecticut Bioscience Collaboration Program Loans, net of allowance of \$165,935,042	-
Capital assets, net of depreciation	82,314
Other	94,050
<b>Total Noncurrent Assets</b>	<u><u>147,974,994</u></u>

<b>Total Assets</b>	<u><u>\$ 216,925,596</u></u>
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#### Deferred Outflows of Resources

Deferred bond issuance costs	\$ 37,541
Deferred amount for pension	6,987,279
<b>Total Deferred Outflows of Resources</b>	<u><u>\$ 7,024,820</u></u>

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

# CONNECTICUT INNOVATIONS, INCORPORATED

## Statement of Net Position – (CONTINUED)

June 30, 2018

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<b>Liabilities</b>	
<b>Current Liabilities</b>	
Current portion of bonds payable	\$ 585,000
Custodial liability	8,708,048
Accrued expenses and other liabilities	2,888,475
Reserve for loss guarantees	1,792,966
Deferred revenue	5,835
<b>Total Current Liabilities</b>	<u>13,980,324</u>
<b>Noncurrent Liabilities</b>	
Net pension liability	23,370,173
Net other post retirement benefits liability	23,597,482
Escrow deposits	2,213,820
Bonds payable, net of current portion	595,000
<b>Total Noncurrent Liabilities</b>	<u>49,776,475</u>
<b>Total Liabilities</b>	<u>63,756,799</u>
<b>Net Position</b>	
Net investment in capital assets	82,314
Restricted	12,496,403
Unrestricted	137,247,319
<b>Total Net Position</b>	<u>149,826,036</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 213,582,835</u>
<b>Deferred Inflows of Resources</b>	
Deferred amount for pension	\$ 7,064,036
Deferred amount for other post retirement benefits	3,303,545
<b>Total Deferred Inflows of Resources</b>	<u>\$ 10,367,581</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, 2018

<b>Operating Revenues</b>	
Investment interest income	\$ 2,033,980
Interest on loans	1,909,762
Realized and unrealized gain on investments - net	8,233,604
Loan fee income	631,181
Other income	1,185,127
<b>Total Operating Revenues</b>	<u>13,993,654</u>
<b>Operating Expenses</b>	
Salaries	4,610,191
Benefits and payroll taxes	3,637,740
Provision for loan and guarantee losses	375,000
General facility and office	875,347
Professional service fees	1,347,753
Interest	70,448
Marketing, conferences, development	612,741
Depreciation and amortization	106,103
Other	15,370
<b>Total Operating Expenses</b>	<u>11,650,693</u>
<b>Operating Income</b>	<u>2,342,961</u>
<b>Non-Operating Revenues</b>	
Pension and other post retirement expense recapture	1,270,805
Grant and program income	1,404,480
Connecticut Bioscience Collaboration funding	18,558,097
<b>Total Non-Operating Revenues</b>	<u>21,233,382</u>
<b>Non-Operating Expenses</b>	
Grants and programs	12,352,873
Connecticut Bioscience Collaboration Loan write-down	8,058,097
<b>Total Non-Operating Expenses</b>	<u>20,410,970</u>
<b>Non-Operating Income</b>	<u>822,412</u>
<b>Change in Net Position</b>	<u>3,165,373</u>
<b>Net Position</b> - As previously reported	172,511,776
<b>Cumulative Effect of Implementing GASB 75</b>	(25,851,113)
<b>Net Position</b> - Beginning of year (as restated)	<u>146,660,663</u>
<b>Net Position</b> - End of year	<u>\$ 149,826,036</u>

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

# CONNECTICUT INNOVATIONS, INCORPORATED

## Statement of Cash Flows

For the year ended June 30, 2018

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### **Cash Flows from Operating Activities**

Sale of investments	\$ 10,006,837
Purchase of investments	(15,565,652)
Loan principal collected	8,682,380
Loans funded	(1,725,000)
Interest from loans	1,837,477
Cash from loan/guarantee/insurance fees	632,455
Interest on investments and marketable securities	499,068
Interest on short-term investments and cash deposits	958,155
Cash received from other income	358,321
Cash from recovery of principal	83,571
Cash received from dividends and royalties	109,547
Payroll and fringe benefits paid	(8,711,292)
General and administrative expenses paid	(3,290,583)
Loan workout expenses paid	<u>(15,370)</u>

**Net Cash Used in Operating Activities** (6,140,086)

### **Cash Flows from Capital and Related Financing Activities**

Purchase of capital assets	<u>(58,890)</u>
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**Net Cash Used in Capital and Related Financing Activities** (58,890)

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, 2018

<b>Cash Flows from Noncapital Financing Activities</b>	
Cash received under Connecticut Bioscience Collaboration Program	\$ 18,558,097
Cash received under custodial arrangements	465
CTNext Fund transfers	(8,764,600)
Connecticut Bioscience Innovation Fund transfers	(9,570,513)
Cash paid under grants and programs	(11,082,233)
Cash paid under custodial arrangements	(1,404,480)
Connecticut Bioscience Collaborative loans	(8,058,097)
Principal payments on bonds	(555,000)
Decrease in escrow deposits	(540,479)
Interest payments on bonds	(76,519)
	<u>(21,493,359)</u>
<b>Net Cash Used in Noncapital Financing Activities</b>	<u>(21,493,359)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(27,692,335)
<b>Cash and Cash Equivalents - Beginning</b>	<u>102,915,454</u>
<b>Cash and Cash Equivalents - Ending</b>	<u><u>\$ 75,223,119</u></u>
<b>As Presented on the Statement of Net Position:</b>	
Cash and cash equivalents	\$ 27,035,383
Committed cash and cash equivalents	33,333,292
Restricted cash and cash equivalents	<u>14,854,444</u>
	<u><u>\$ 75,223,119</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, 2018

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### Reconciliation of Operating Income to Net Cash

#### Provided by Operating Activities

Operating income	\$ 2,342,961
Adjustments to reconcile operating income to net cash provided by operating activities:	
Purchase of investments	(15,565,652)
Realized loss from investment charge-offs	2,937,805
Return of principal on investments	2,007,466
Unrealized gain on investments, net	(3,921,603)
Charge-offs of loans receivable	(56,781)
Noncash interest conversions	(558,628)
Sale of investments	749,565
Noncapital CBIF administrative fee	(725,000)
Provision for loan and guarantee losses	375,000
Depreciation and amortization	106,103
Interest expense on bonds	70,448
Cash from recovery of principal	83,571
(Increase) decrease in assets:	
Loans receivable	7,039,018
Interest and other receivables	38,402
Advances, prepaid and deferred expenses	(560,669)
Increase (decrease) in liabilities:	
Accrued expenses and deferred revenue	(502,092)

**Net Cash Used in Operating Activities** \$ (6,140,086)

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, 2018

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

*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	\$ -	\$ 27,035,383	\$ 27,035,383
Committed cash and cash equivalents	-	33,333,292	33,333,292
<b>Total cash and cash equivalents</b>	<b>-</b>	<b>60,368,675</b>	<b>60,368,675</b>
Current portion of loans	588,305	5,296,098	5,884,403
Current portion of portfolio investments	-	798,809	798,809
Due from Connecticut Bioscience Innovation Fund	-	613,189	613,189
Interest and other receivables	291,301	249,149	540,450
Prepaid expenses	-	260,929	260,929
Due from State of Connecticut	-	484,147	484,147
<b>Total Current Assets</b>	<b>879,606</b>	<b>68,070,996</b>	<b>68,950,602</b>
<b>Noncurrent Assets</b>			
Restricted assets:			
Restricted cash and cash equivalents	-	14,854,444	14,854,444
<b>Total restricted assets</b>	<b>-</b>	<b>14,854,444</b>	<b>14,854,444</b>
Portfolio investments, net of current portion	-	103,586,251	103,586,251
Loans - noncurrent, net of allowance for loan losses of \$6,512,244	5,385,643	23,972,292	29,357,935
Connecticut Bioscience Collaboration Program Loans, net of allowance for doubtful accounts of \$165,935,042	-	-	-
Capital assets, net of depreciation	-	82,314	82,314
Other	-	94,050	94,050
<b>Total Noncurrent Assets</b>	<b>5,385,643</b>	<b>142,589,351</b>	<b>147,974,994</b>
<b>Total Assets</b>	<b>\$ 6,265,249</b>	<b>\$ 210,660,347</b>	<b>\$ 216,925,596</b>
<b>Deferred Outflows of Resources</b>			
Deferred bond issuance costs	\$ -	\$ 37,541	\$ 37,541
Deferred amount for pension	-	6,987,279	6,987,279
<b>Total Deferred Outflows of Resources</b>	<b>\$ -</b>	<b>\$ 7,024,820</b>	<b>7,024,820</b>

**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	\$ -	\$ 585,000	\$ 585,000
Custodial liability	-	8,708,048.00	8,708,048
Accrued expenses and other liabilities	-	2,888,475	2,888,475
Reserve for guarantee losses	-	1,792,966	1,792,966
Deferred revenue	-	5,835	5,835
<b>Total Current Liabilities</b>	-	13,980,324	13,980,324
<b>Noncurrent Liabilities</b>			
Net pension liability	-	23,370,173	23,370,173
Net other post-retirement benefits liability	-	23,597,482	23,597,482
Escrow deposits	-	2,213,820	2,213,820
Bonds payable, net of current portion	-	595,000	595,000
<b>Total Noncurrent Liabilities</b>	-	49,776,475	49,776,475
<b>Total Liabilities</b>	-	63,756,799	63,756,799
<b>Net Position</b>			
Net investment in capital assets	-	82,314	82,314
Restricted	-	12,496,403	12,496,403
Unrestricted	6,265,249	130,982,070	137,247,319
<b>Total Net Position</b>	6,265,249	143,560,787	149,826,036
<b>Total Liabilities and Net Position</b>	<u>\$ 6,265,249</u>	<u>\$ 207,317,586</u>	<u>\$ 213,582,835</u>
<b>Deferred Inflows of Resources</b>			
Deferred amount for pension	\$ -	\$ 7,064,036	\$ 7,064,036
Deferred amount for other post retirement benefits	-	3,303,545	3,303,545
<b>Total Deferred Inflows of Resources</b>	<u>\$ -</u>	<u>\$ 10,367,581</u>	<u>\$ 10,367,581</u>

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

	CBRA	CI	Total Primary Government
<b>Operating Revenues</b>			
Investment interest income	\$ -	\$ 2,033,980	\$ 2,033,980
Interest on loans	357,916	1,551,846	1,909,762
Realized and unrealized gain on investments - net	-	8,233,604	8,233,604
Loan fee income	-	631,181	631,181
Other income	-	1,185,127	1,185,127
<b>Total Operating Revenues</b>	<b>357,916</b>	<b>13,635,738</b>	<b>13,993,654</b>
<b>Operating Expenses</b>			
Salaries	-	4,610,191	4,610,191
Benefits and payroll taxes	-	3,637,740	3,637,740
Provision for loan and guarantee losses	-	375,000	375,000
General facility and office	-	875,347	875,347
Professional service fees	-	1,347,753	1,347,753
Interest	-	70,448	70,448
Marketing, conferences, development	-	612,741	612,741
Depreciation and amortization	-	106,103	106,103
Other	-	15,370	15,370
<b>Total Operating Expenses</b>	<b>-</b>	<b>11,650,693</b>	<b>11,650,693</b>
<b>Operating Income (Loss)</b>	<b>357,916</b>	<b>1,985,045</b>	<b>2,342,961</b>
<b>Non-Operating Revenues</b>			
Pension and other post retirement expense recapture	-	1,270,805	1,270,805
Grant and program income	-	1,404,480	1,404,480
Connecticut Bioscience Collaboration funding	-	18,558,097	18,558,097
<b>Total Non-Operating Revenues</b>	<b>-</b>	<b>21,233,382</b>	<b>21,233,382</b>
<b>Non-Operating Expenses</b>			
Grants and programs	-	12,352,873	12,352,873
Connecticut Bioscience Collaboration Loan write-down	-	8,058,097	8,058,097
<b>Total Non-Operating Expenses</b>	<b>-</b>	<b>20,410,970</b>	<b>20,410,970</b>
<b>Non-Operating Income</b>	<b>-</b>	<b>822,412</b>	<b>822,412</b>
<b>Change in Net Position Before Transfers</b>	<b>357,916</b>	<b>2,807,457</b>	<b>3,165,373</b>
<b>Transfers</b>	<b>(758,293)</b>	<b>758,293</b>	<b>-</b>
<b>Net Position - as previously reported</b>	<b>6,665,626</b>	<b>165,846,150</b>	<b>172,511,776</b>
Cumulative Effect of Implementing GASB 75	-	(25,851,113)	(25,851,113)
Net Position - Beginning of year (as restated)	6,665,626	139,995,037	146,660,663
Net Position - End of year	<u>\$ 6,265,249</u>	<u>\$ 143,560,787</u>	<u>\$ 149,826,036</u>

## Condensed, Combining Information – Statement of Cash Flows

	CBRA	CI	Total Primary Government
<b>Cash Flows from Operating Activities</b>			
Sale of investments	\$ -	\$ 10,006,837	\$ 10,006,837
Purchase of investments	-	(15,565,652)	(15,565,652)
Loan principal collected	465,296	8,217,084	8,682,380
Loans funded	-	(1,725,000)	(1,725,000)
Interest from loans	292,997	1,544,480	1,837,477
Cash from loan/guarantee/insurance fees	-	632,455	632,455
Interest on investments and marketable securities	-	499,068	499,068
Interest on short-term investments and cash deposits	-	958,155	958,155
Cash received from other income	-	358,321	358,321
Cash from recovery of principal	-	83,571	83,571
Cash received from dividends and royalties	-	109,547	109,547
Payroll and fringe benefits paid	-	(8,711,292)	(8,711,292)
General and administrative expenses paid	-	(3,290,583)	(3,290,583)
Loan workout expenses paid	-	(15,370)	(15,370)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>758,293</u>	<u>(6,898,379)</u>	<u>(6,140,086)</u>
<b>Cash Flows Used In Capital and Related Financing Activities</b>			
Purchase of capital assets	-	(58,890)	(58,890)
<b>Net Cash Used In Capital and Related Financing Activities</b>	<u>-</u>	<u>(58,890)</u>	<u>(58,890)</u>

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

	<u>CBRA</u>	<u>CI</u>	<u>Total Primary Government</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Cash received under Connecticut Bioscience Collaboration Program	\$ -	\$ 18,558,097	\$ 18,558,097
Cash received under custodial arrangements	-	465	465
CTNext Fund transfers	-	(8,764,600)	(8,764,600)
Connecticut Bioscience Innovation Fund transfers	-	(9,570,513)	(9,570,513)
Cash paid under grants and programs	-	(11,082,233)	(11,082,233)
Cash paid under custodial arrangements	-	(1,404,480)	(1,404,480)
Connecticut Bioscience Collaborative loans	-	(8,058,097)	(8,058,097)
Principal payments on bonds	-	(555,000)	(555,000)
Decrease in escrow deposits	-	(540,479)	(540,479)
Interest payments on bonds	-	(76,519)	(76,519)
Transfers	(758,293)	758,293	-
<b>Net Cash Used In Noncapital Financing Activities</b>	<u>(758,293)</u>	<u>(20,735,066)</u>	<u>(21,493,359)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	-	(27,692,335)	(27,692,335)
<b>Cash and Cash Equivalents - Beginning</b>	<u>-</u>	<u>102,915,454</u>	<u>102,915,454</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ -</u>	<u>\$ 75,223,119</u>	<u>\$ 75,223,119</u>

**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 (Used In) Operating Activities</b>			
Operating income	\$ 357,916	\$ 1,985,045	\$ 2,342,961
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Purchase of investments	-	(15,565,652)	(15,565,652)
Realized loss from investment charge-offs	-	2,937,805	2,937,805
Return of principal on investments	-	2,007,466	2,007,466
Unrealized gain on investments, net		(3,921,603)	(3,921,603)
Charge-offs of loans receivable	-	(56,781)	(56,781)
Noncash interest conversions	-	(558,628)	(558,628)
Sale of investments		749,565	749,565
Noncapital CBIF administrative fee	-	(725,000)	(725,000)
Provision for loan and guarantee losses	-	375,000	375,000
Depreciation and amortization	-	106,103	106,103
Interest expense on bonds	-	70,448	70,448
Cash from recovery of principal		83,571	83,571
(Increase) decrease in assets:			
Loans receivable	465,296	6,573,722	7,039,018
Interest and other receivables	(64,919)	103,321	38,402
Advances, prepaid and deferred expenses	-	(560,669)	(560,669)
Increase (decrease) in liabilities:			
Accrued expenses and deferred revenue	-	(502,092)	(502,092)
<b>Net Cash Provided by (Used In)</b>			
<b>Operating Activities</b>	<u>\$ 758,293</u>	<u>\$ (6,898,379)</u>	<u>\$ (6,140,086)</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.

*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.

*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, 2018 were \$324,781,000.

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, 2018, loans totaling \$741,249 were insured under the program by other lending institutions.

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

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



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

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

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

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

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

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

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

*Financial Statement Presentation* - The Corporation is considered to be an enterprise fund of the State of Connecticut. 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 (APB) 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.

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

Cash and Cash Equivalents - Cash equivalents consist of 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).

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

All of the Corporation's investments, except certain equity investments, are uninsured, unregistered and held by the Corporation in the Corporation's name. Certain equity investments are insured by the Securities Investor Protection Corporation and held by a registered broker-dealer in the Corporation's name. Investments in the form of debt instruments are secured by the underlying assets of the borrower, bear interest at rates ranging from 3% 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.

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.

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

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

## **New Accounting Pronouncements**

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 were effective for financial statements of the Corporation as of July 1, 2017. The Corporation recorded a \$25.9 million cumulative effect accounting adjustment related to its adoption of GASB 75.

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 adopted this Statement as of July 1, 2017. The adoption of this Statement did not have material impact on the Corporation’s 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 this Statement on its financial statements.

*Subsequent Events* - Events subsequent to June 30, 2018 have been evaluated through November 20, 2018, 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 Corporation accounts for certain assets at fair value on a recurring and non-recurring basis. The framework for measuring assets at fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Corporation accounts for its portfolio investments at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy 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.

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

Following is a description of the valuation methodologies used for portfolio investments. There have been no changes in the methodologies used at June 30, 2018.

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.

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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Portfolio investments				
Equity	\$ 6,440,567	\$ -	\$ 80,967,897	\$ 87,408,464
Debt	<u>-</u>	<u>-</u>	<u>16,976,596</u>	<u>16,976,596</u>
	<u>\$ 6,440,567</u>	<u>\$ -</u>	<u>\$ 97,944,493</u>	<u>\$ 104,385,060</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, 2018.

	<u>2018</u>
Balance - beginning of year	\$ 81,690,199
Purchases	16,124,280
Sales proceeds	(2,007,465)
Realized/unrealized gains	<u>2,137,479</u>
Balance - end of year	<u>\$ 97,944,493</u>

The Corporation's only assets measured at fair value on a non-recurring basis are its loans classified as impaired totaling \$7.0 million and are all classified as Level 3.

### 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, 2018:

Deposits with financial institutions	\$ 6,820,812
Connecticut State Treasurer's Short-Term Investment Fund	<u>68,402,307</u>
Total cash and cash equivalents	<u>\$ 75,223,119</u>

Cash and cash equivalents are presented on the statement of net position at June 30, 2018 as follows:

Unrestricted cash and cash equivalents	\$ 60,368,675
Restricted cash and cash equivalents	<u>14,854,444</u>
	<u>\$ 75,223,119</u>

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 \$14,854,444 as of June 30, 2018.

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, 2018, \$2,808,251 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 State Treasurer's Investment Fund (STIF). The STIF is available for use by the State's funds and agencies, public authorities and municipalities. State statutes authorized these pooled investment funds to be invested in United States Government and agency obligations, United States Postal Service obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, banker acceptances, student loans, and repurchase agreements.

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

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

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

#### NOTE 4 – PORTFOLIO INVESTMENTS

Investments as of June 30, 2018 by related fund are summarized as follows:

CI Fund	Equity Securities	Debt Securities	Total
Eli Whitney investments	\$ 70,844,330	\$ 8,394,556	\$ 79,238,886
BioScience Facilities investments	54,218	706,054	760,272
Seed Fund investments	1,950,724	1	1,950,725
Clean Tech investments	1	70,373	70,374
Mezzanine Fund investments	-	5,100,000	5,100,000
SSBCI investments	12,763,150	-	12,763,150
Other investments	1,796,041	2,705,612	4,501,653
Totals	<u>\$ 87,408,464</u>	<u>\$ 16,976,596</u>	<u>\$ 104,385,060</u>

The following is a summary of investments in the Eli Whitney Fund by industry classification as of June 30, 2018:

	<u>Amount</u>	<u>%</u>
BioScience	\$ 28,662,591	36.2
Medical Devices	1,835,578	2.3
IT Software	32,390,834	40.9
IT Infrastructure	2,867,933	3.6
IT services	1,500,001	1.9
Photonics	4,757,604	6.0
Clean Technology	7,224,345	9.1
	<u>\$ 79,238,886</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, 2018, 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, 2018 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, 2018, the five largest investments comprised 27.3% of the carrying value of the Corporation's total investments, with one investment comprising 7.4% 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 74 loans (gross) totaling \$41,754,582. Of this amount, 66 loans totaling \$34,333,844 (82%) are in the Growth and Connecticut Works Fund ("A"). The remaining \$7,420,738 (18%) 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.

Nonperforming loans include loans that are over 61 days past due as of June 30, 2018.

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

Loans, current portion	\$ 5,884,403
Loans, non-current portion	35,870,179
	<u>41,754,582</u>
Less: Allowance for doubtful accounts	<u>(6,512,244)</u>
Net	<u>\$ 35,242,338</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, 2018 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	\$ 4,621,427	\$ 6,110,453	\$ 226,833	\$ 1,566,133	\$ 1,792,966	\$ 7,903,419
Provision	-	-	375,000	375,000	-	-	-	375,000
Charge-offs	-	(56,781)	-	(56,781)	-	-	-	(56,781)
Recoveries	-	83,571	-	83,571	-	-	-	83,571
Ending balance	\$ 856,628	\$ 659,188	\$ 4,996,427	\$ 6,512,243	\$ 226,833	\$ 1,566,133	\$ 1,792,966	\$ 8,305,209
Loan balances/exposure	\$ 7,420,738	\$ 3,040,433	\$ 31,293,411	\$ 41,754,582	\$ 281,247	\$ 3,204,123	\$ 3,485,370	\$ 45,239,952
Allowance balance as a percent of loans/ exposure	11.5%	21.7%	16.0%	15.6%	80.7%	48.9%	51.4%	18.4%

At June 30, 2018, the Corporation had a recorded balance in impaired loans of \$6,969,158 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.

Impaired loans have a specific allowance for possible loan losses included in the overall allowance for loan losses totaling \$861,939 as of June 30, 2018.

The average recorded investment in impaired loans for the year ended June 30, 2018 was \$5,777,859 and income recorded on loans identified as being impaired totaled \$203,224 of which \$206,997 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 \$9,632 in the year ended June 30, 2018 on behalf of CGB, for which the Corporation was reimbursed \$9,542. \$90 is owed by CGB to CI at June 30, 2018.

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. CI funded \$613,189 of a \$757,410 grant on behalf of CBIF in June 2018, which will be reimbursed in fiscal year ending June 30, 2019.

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 were reimbursed to CTNext in entirety in the fiscal year ended June 30, 2018.

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, 2018:

Due from Connecticut Bioscience Innovation Fund	<u>\$ 613,189</u>
Due from the Connecticut Green Bank	<u>\$ 90</u>
Membership Interest - CEFIA Holdings LLC	<u>\$ 1,000</u>

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

The \$484,147 due from the State of Connecticut at June 30, 2018 represents the pre-funding of payroll.

## NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance, June 30, 2017	Additions	Deletions	Other	Balance, June 30, 2018
Capital assets being depreciated:					
Furniture and equipment	\$ 126,254	\$ -	\$ (18,232)	\$ -	\$ 108,022
Computer hardware and software	868,905	58,890	(289,608)	-	638,187
Leasehold improvements	107,765	-	-	-	107,765
	<u>1,102,924</u>	<u>58,890</u>	<u>(307,840)</u>	<u>-</u>	<u>853,974</u>
Less accumulated depreciation and amortization:					
Furniture and equipment	112,917	12,901	(18,232)	-	\$ 107,586
Computer hardware and software	778,020	67,897	(289,608)	-	556,309
Leasehold improvements	100,118	7,647	-	-	107,765
	<u>991,055</u>	<u>88,445</u>	<u>(307,840)</u>	<u>-</u>	<u>771,660</u>
Capital assets - net	<u>\$ 111,869</u>	<u>\$ (29,555)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,314</u>

## NOTE 10 – STATE FUNDING

In 2018, the Corporation received \$18,558,097 in cash from the State of Connecticut under approved bond fund authorizations to provide financial assistance to the Connecticut Bioscience Collaboration Program. The Connecticut Bioscience Collaboration Program received \$8,058,097 for facility and equipment loans and \$10,500,000 for operating assistance to the Jackson Laboratory for Genomic Medicine.

As of June 30, 2018, \$52,125,958 remained available to the Corporation from bond fund authorizations from the State of Connecticut as follows:

Loans	\$ 25,764,958
Operating grant	<u>26,361,000</u>
	<u>\$ 52,125,958</u>

## NOTE 11 – BONDS PAYABLE

Original amount and outstanding principal of debt at June 30, 2018 of debt is as follows:

	<u>Original Amount</u>	<u>Outstanding Principal June 30, 2018</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>	\$ 1,180,000
Less: current portion		<u>585,000</u>
Long-term portion		<u>\$ 595,000</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, 2018 was \$17,657.

The principal and interest payable by years are as follows:

<u>Year ending June 30,</u>	<u>Principal General Obligation Bonds</u>	<u>Interest General Obligation Bonds</u>
2019	\$ 585,000	\$ 46,594
2020	<u>595,000</u>	<u>15,619</u>
	<u>\$ 1,180,000</u>	<u>\$ 62,213</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:

Years ending June 30,	
2019	\$ 404,200
2020	414,305
2021	209,679
	<hr/>
	\$ 1,028,184
	<hr/> <hr/>

Rent expense, net of sublease income, for all facilities for the year ended June 30, 2018, was \$307,964.

On 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 were used to offset rent expense. This sublease was terminated on June 1, 2018.

### **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 five tiers. Tier I, Tier IIA, Tier III and Tier IV are contributory plans, and Tier II is a noncontributory plan. Tier I requires an employee to contribute 2% or 5% of salary, while Tier IIA and Tier III require a contribution of 2%. The Tier IV plan requires a contribution of 5%. Employees who joined the retirement system prior to July 1, 1984 are enrolled in Tier I. Employees who joined the retirement system after July 1, 1984 but before July 1, 1997 are enrolled in Tier II. Employees first hired on or after July 1, 1997 but before July 1, 2011 are members of Tier IIA. Employees hired on or after July 1, 2011 but before July 1, 2017 are members of Tier III. Employees hired on or after July 1, 2017 are members of Tier IV. All Tier I and Tier III members are vested after 10 years of service while all Tier II and Tier IIA members are vested after 5 years of service under certain conditions, and all four tiers provide for death and disability benefits.

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

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.

Tier III and Tier IV employees who retire on or after the first of any month after age 63, with at least 25 years of vested service, or age 65 with at least 10 but less than 25 years of vested service, will be eligible for normal retirement. In addition, Tier III and Tier IV members who have at least 10 years of vested

service can receive early reduced retirement benefits if they retire on the first of any month on or following their 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. Tier IV normal retirement benefits include annual retirement benefits for life, in the amount of 1.3% of the five-year average annual earnings times years of credited service.

The total payroll expenditure for employees of the Corporation covered by SERS for the years ended June 30, 2018 was \$5,086,804.

The Corporation's contribution for the fiscal year ended June 30, 2018 is determined by applying a State mandated percentage to eligible salary and wage amounts which are as follows:

Contributions made:

By employees	\$	133,688
Percent of current year covered payroll		2.6%
By the Corporation	\$	2,848,478
Percent of current year covered payroll		56.00%

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 a June 30, 2017 measurement date. GASB 68 requires the Corporation to recognize a net pension liability for the difference between the present value of projected benefits for past services, known as the Total Pension Liability (TPL), and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (FNP). For purposes of measuring the net position liability, deferred outflows of resources, deferred inflows of resources, pension 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, 2018, the Corporation reported a liability of \$23,370,173 for its proportionate share of the net pension liability. The net pension liability at June 30, 2018 was measured as of June 30, 2017, 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, 2018, the Corporation's proportion was 0.110912 percent.

For the year ended June 30, 2018, the Corporation recognized recaptured pension income of \$2,320,719, which is included in Non-Operating income on the accompanying Statement of Revenues, Expenses and Changes in Net Position. At June 30, 2018, the Corporation reported deferred outflows of resources and deferred inflows of resources related to its pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual expense	\$ 4,138,801	\$ (7,064,036)
Contributions subsequent to the measurement date	<u>2,848,478</u>	<u>-</u>
Total	<u><u>\$ 6,987,279</u></u>	<u><u>\$ (7,064,036)</u></u>

Deferred outflows of resources of \$2,848,478 represent the Corporation's contributions subsequent to the measurement date of July 1, 2017 to June 30, 2018. 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 5.64 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>
2019	\$ 733,830	\$ 1,252,489
2020	733,830	1,252,489
2021	733,830	1,252,489
2022	733,830	1,252,489
2023	733,830	1,252,489
2024	<u>469,650</u>	<u>801,591</u>
	<u><u>\$ 4,138,800</u></u>	<u><u>\$ 7,064,036</u></u>

The total pension liability in the June 30, 2017 actuarial valuation was determined based on the roll-forward to June 30, 2017 of the annual actuarial funding valuation report prepared as of June 30, 2016. The following major actuarial assumptions are summarized below:

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%
Inflation Linked Bonds	5%	1.0%
Cash	4%	0.4%
	<u>100%</u>	

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.

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	Current Discount Rate	1% Increase
Corporation's proportionate share of the net pension liability	\$ 27,027,144	\$ 23,370,173	\$ 18,814,524



## NOTE 13 (B) – OPEB PLAN

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

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

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

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

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

The total payroll expenditure for employees of the Corporation covered by the Plan for the year ended June 30, 2018 was \$5,086,804.

The Corporation's contribution to the OPEB Plan is determined by applying a State mandated percentage to eligible salary and wage amounts for eligible employees for the plan year. Contributions to the Plan for the year ended June 30, 2018 are as follows:

Contributions made:	
By employees	\$145,822
Percent of current year covered payroll	2.86%
By the Corporation	\$148,981
Percent of current year covered payroll	2.92%

***OPEB Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources***

As discussed in Note 1, on July 1, 2017, the Corporation adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 75 requires the Corporation to recognize the liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to their participation in the Plan. The provisions of this Statement were recorded through a restatement of the beginning net position as of July 1, 2017 by recording a \$25,851,113 cumulative effect accounting adjustment.

At June 30, 2018 the Corporation reported a liability of \$23,597,482 for its proportionate share of the net OPEB liability. The net OPEB liability for June 30, 2018 was measured as of June 30, 2017, and the total OPEB liability used to calculate the Corporation's proportional share of the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Corporation's proportion of the net OPEB liability was based on a projection of the Corporation's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating component units, actuarially determined. At June 30, 2018, the Corporation's proportion was 0.135910 percent.

For the year ended June 30, 2018, the Corporation recorded \$1,049,914 of OPEB expense, which is included in non-operating income on the accompanying Statement of Revenues, Expenses and Changes in Net Position. At June 30, 2018, the Corporation reported \$3,303,545 deferred inflows of resources related to its OPEB plan.

There were no deferred outflows of resources recorded on the Corporation's Statement of Net Position as of 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 4.42-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>
2019	\$ -	\$ 748,042
2020	-	748,042
2021	-	748,042
2022	-	748,042
2023	-	311,374
2024	-	-
	<u>\$ -</u>	<u>\$ 3,303,542</u>

The total pension liability in the June 30, 2017 actuarial valuation was determined based on the following major actuarial assumptions:

Inflation	3.50%
Salary increases	3.25 to 19.5% varying by years of service and retirement system
Discount rate	3.68 as of June 30, 2017 and 2.96% as of June 30, 2016

Healthcare cost trend rates:

Medical	6.5% graded to 4.5% over 4 years
Prescription drug	8.0% graded to 4.5% over 7 years
Dental and Part B	4.50%
Administrative expense	3.00%

Mortality rates for healthy members were based on the RP-2014 White Collar Mortality Table projected to 2020 by Scale BB at 100% for males and 95% for females. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females.

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

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%
Inflation Linked Bonds	5%	1.0%
Cash	4%	0.4%
	100%	

The discount rate is a blend of the long-term expected rate of return on OPEB Trust assets and a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rate of AA/Aa or higher (3.58% as of June 30, 2017 and 2.85% as of June 30, 2016). The final discount rate used to measure to total OPEB liability was 3.68% as of June 30, 2017 and 2.96% as of June 30, 2016. The blending is based on the sufficiency of projected assets to make projected benefit payments.

There is a sensitivity of the Corporation's proportionate share of the net OPEB liability in relation to changes in the discount rate as well as in the healthcare cost trend rates. The following table presents 1) the Corporation's proportionate share of the net OPEB liability calculated using the current discount rate of 3.68%, and what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.68%) or 1-percentage-point higher (4.68%) than the current rate and 2) the Corporation's proportional share of the net OPEB liability if the health care cost trend rates goes up 1% and down 1%:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Corporation's proportionate share of net OPEB liability	<u>\$ 27,027,144</u>	<u>\$ 23,597,482</u>	<u>\$ 20,525,059</u>

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trends</u>	<u>1% Increase</u>
Corporation's proportionate share of net OPEB liability	<u>\$ 20,279,119</u>	<u>\$ 23,597,482</u>	<u>\$ 27,801,411</u>

#### **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, 2018, \$51,382 was added to the plan as a result of the combination of realized and net unrealized gains/losses. The amount reduced the gain share loss carry forward and will increase the total funds available, if any, for future gain share payments to employees. No allocations or payments to employees were made in 2018.

## **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, 2018 Connecticut Innovations expended \$1,404,480 for grants-in-aid from bond funds remaining from the fiscal year ended June 30, 2017, and has \$8,708,048 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 \$99.0 million in development grants for annual operating expenses and bioscience medical research. The loans accrue simple interest at 1% per year.

The loans and accrued interest will be forgiven if Jax meets an employment goal of 300 employees for a period of six months, including a minimum of 90 senior scientists within 10 years. Jax has met both the employment goal of 300 and hiring of 90 senior scientists in fiscal 2018, and as a result the loan has been forgiven by the Corporation. As of June 30, 2018, the loan amount forgiven is \$165,935,042. Prior to fiscal 2018, CI had elected to reserve in full all outstanding loan funding and had not accrued interest. This was due to information reviewed by CI management regarding hires, benchmarks and criteria suggesting that all goals would be met.

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, 2018.

Grant expense pertaining to Jackson Labs for the year ended June 30, 2018 is \$10,500,000.

## 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 four years.

## NOTE 18 – RESTRICTED NET ASSETS

At June 30, 2018, restricted net position consisted of funds restricted for the following:

Loan guarantees	\$ 1,249,117
Bonding resolution compliance	404,498
Urbank Enabling Legislation	2,134,740
REGEN (Stem Cell)	8,708,048
	<hr/>
	\$ 12,496,403
	<hr/> <hr/>

## 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, 2018 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	\$ 5,374,990
PreSeed Fund	452,000
Other	500,000
	<hr/>
	\$ 6,326,990
	<hr/> <hr/>
Loan guarantees:	
Connecticut Capital Access Fund	\$ 4,282,315
	<hr/> <hr/>

Loan commitments, equity commitments, commitments to guarantee, and guarantees are generally made using the same underwriting standards as those funded and recorded on the statement of net position.

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

**NOTE 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 and Net OPEB Liability

For the year ended June 30, 2018

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Net Pension Liability

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Corporation's portion of the net pension liability	0.1109%
Corporation's proportionate share of the net pension liability	\$ 23,370,173
Corporation's covered-employee payroll	\$ 5,086,804
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	459.43%
Plan fiduciary net position as a percentage of the total pension liability	36.25%

Net OPEB Liability

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Corporation's portion of the net OPEB liability	0.1359%
Corporation's proportionate share of the net OPEB liability	\$ 23,597,482
Corporation's covered-employee payroll	\$ 5,086,804
Corporation's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	463.90%
Plan fiduciary net position as a percentage of the total OPEB liability	N/A

**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, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 2,848,478	\$ 2,549,442	\$ 2,781,291	\$ 3,310,649	\$ 3,403,927	\$ 2,587,513	\$ 2,479,767	\$ 2,709,889
Contributions in relation to the contractually required contribution	<u>2,848,478</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Corporation's covered-employee payroll	\$ 5,086,804	\$ 4,658,776	\$ 5,433,127	\$ 6,118,180	\$ 5,870,102	\$ 5,241,997	\$ 5,826,210	\$ 5,398,526
Contributions as a percentage of covered-employee payroll	56.00%	54.72%	51.19%	54.11%	57.99%	49.36%	42.56%	50.20%

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, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2018.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of This Report**

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

A handwritten signature in black ink that reads "Whittlesey PC". The signature is written in a cursive, flowing style.

Hartford, Connecticut  
November 20, 2018

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