

CTNext Fund

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2017

CTNext Fund

CONTENTS

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

Financial Statements

Statements of Net Position.....	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows.....	5

Notes to Financial Statements	6-10
--	------

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11-12
--	-------

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
CTNext Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the CTNext Fund (CTNext), as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise CTNext's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CTNext'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 CTNext'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 CTNext, as of June 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018 on our consideration of CTNext's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CTNext's internal control over financial reporting and compliance.

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

Hartford, Connecticut
February 6, 2018

CTNext Fund

STATEMENTS OF NET POSITION

JUNE 30, 2017

	<u>2017</u>
Assets	
Current Assets	
Due from Connecticut Innovations, Incorporated	\$ 8,764,600
Due from State of Connecticut	<u>87,462</u>
Total Current Assets	<u>8,852,062</u>
Total Assets	<u>\$ 8,852,062</u>
Liabilities	
Accrued expenses and other liabilities	<u>706,775</u>
Total Liabilities	<u>\$ 706,775</u>
Net Position	
Restricted for CTNext Fund	<u>8,145,287</u>
Total Net Position	<u>8,145,287</u>
Total Liabilities and Net Position	<u>\$ 8,852,062</u>

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

CTNext Fund

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>
Operating Revenue	
Connecticut Public Act 16-3	\$ 12,850,000
Grant Income	<u>63,058</u>
Total Operating Revenue	<u>12,913,058</u>
Operating Expenses	
Grants and programs	3,871,110
Salaries	400,000
Benefits and payroll taxes	320,000
Marketing	134,009
Professional service fees	25,791
General and administrative	<u>16,861</u>
Total Operating Expenses	<u>4,767,771</u>
Operating Income	<u>8,145,287</u>
Change in Net Position	8,145,287
Net Position - Beginning of period	<u> --</u>
Net Position - End of period	<u><u>\$ 8,145,287</u></u>

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

CTNext Fund

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>
Cash Flows from Operating Activities	
Fast Grant revenue received	\$ 63,058
Program and grant expenses	(3,278,237)
Payroll and fringe benefits paid	(752,500)
General and administrative expenses paid	<u>(117,721)</u>
Net Cash Used in Operating Activities	<u>(4,085,400)</u>
Cash Flows from Financing Activities	
Funding transferred from Connecticut Innovations, Incorporated	<u>4,085,400</u>
Net Cash Provided by Financing Activities	<u>4,085,400</u>
Net Change in Cash and Cash Equivalents	<u>-</u>
Cash and Cash Equivalents - Beginning	<u>-</u>
Cash and Cash Equivalents - Ending	<u><u>\$ -</u></u>
Reconciliation of Operating (Loss) Income to Net Cash Used in Operating Activities	
Operating income	\$ 8,145,287
Connecticut Public Act 16-3	(12,850,000)
Increase in Due from State of Connecticut	(87,462)
Increase in accrued expenses and liabilities	<u>706,775</u>
Net Cash Used in Operating Activities	<u><u>\$ (4,085,400)</u></u>

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

CTNext Fund

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Connecticut Innovations, Incorporated (“CI”), was directed by Section 1 of Public Act No. 16-3 (the “Enabling Act”), adopted during the May 2016 Special Session of the General Assembly and signed by the Governor on June 2, 2016, to form a subsidiary pursuant to the provisions of Section 32-11e of the Connecticut General Statutes (G.G.S. Section 32-11e), such subsidiary to be established as a separate quasi-public agency and to be known as CTNext. Section 4 of the Enabling Act further established the CT Next Fund as a separate, non-lapsing fund to be held, administered, invested and disbursed by CI acting as its administrator, subject to the approval of expenditures by the CTNext Board of Directors.

The purposes of CTNext is to foster innovation, start-up and growth stage businesses and entrepreneur community building; to serve as a catalyst to protect and enhance the innovation ecosystem; to connect start-up and growth stage entrepreneurs with other start-up and growth stage entrepreneurs and with Connecticut, federal and private resources; to facilitate the establishment of innovation places; to facilitate mentorship for start-up and growth stage entrepreneurs; to provide technical training and resources to start-up and growth stage businesses and entrepreneurs; to facilitate innovation and entrepreneurship at institutions of higher education; to do all acts and things necessary or convenient to carry out the programs, activities and purposes of CTNext set forth in the Enabling Act; and to engage in any lawful activity not inconsistent with the Enabling Act.

The Enabling Act requires CTNext to be overseen by a separate Board of Director’s which serve as its managers. The Board of Directors consists of eleven directors, two of whom are *ex officio* directors and nine whom are appointed directors. The majority of the eleven members on the board are serial entrepreneurs representing a diverse range of growth sectors of the Connecticut economy. By education or experience, such directors are qualified in one or more of the following: start-up business development, growth stage business development, investment, innovation place development, urban planning and technology commercialization in higher education. The two *ex officio* members are the Chief Executive Officer of CI and the Commissioner of Economic and Community Development. The appointed directors are comprised by the following: (1) person appointed by the Governor of Connecticut, (1) appointed by the speaker of the Connecticut House of Representatives (House), (1) appointed by the president pro tempore of the Connecticut State Senate (Senate), (1) appointed by the majority leader of the Connecticut House of Representatives (House), (1) appointed by the majority leader of the Senate, (1) appointed by the minority leader of the House of representatives, (1) appointed by the minority leader of the Senate, and (2) directors jointly appointed by the chairpersons of the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue and bonding.

CTNext Fund

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

BOARD POWERS

Pursuant to Section (b)(2) of the CI Subsidiary Statute, the Board has the right to manage the business of CTNext and has all powers and rights necessary, appropriate or advisable to effectuate and carry out its purposes and day-to day business.

Pursuant to Section 4(f) of the Enabling Act, the Board has the right to approve all expenditures from the CTNext Fund.

Pursuant to Section 4(h) of the Enabling Act, the Board has the right to review and approve, each fiscal year, a plan of operations and an operating capital budget for the CTNext Fund.

Pursuant to Section 4(i) of the Enabling Act, not later than April 15, 2017 and annually thereafter, the Member shall provide a report of the activities of the CTNext Fund to the Board for its review and approval. The Board shall provide the report in accordance with the provisions of Section 11-4a of the Connecticut General Statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to commerce and finance, revenue and bonding. Such report shall contain available information on the status and progress of the operations and funding of the CTNext Fund and the types, amounts and recipients of grants awarded.

The Board is responsible for administering the programs under the Act, with the power to review and approve grants-in-aid applications, subject to any criteria and procedures established pursuant to the Act.

CI acts as administrator of the CTNext Fund, which is to be used for grants-in-aid and the program activities of CTNext, and for the purpose of paying the operating and administrative expenses of the CTNext Fund.

CTNext Fund

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

BOND AUTHORIZATIONS

The Act capitalizes the Fund by earmarking a total of \$67.5 million in previously authorized Manufacturing Assistance Act (MAA) and CI bond funds for CTNext over 5 years, as shown below. If the Committee does not use all or part of the maximum amount in a fiscal year, that amount is added to the following year's authorization. Authorizations according to the Act are as follows:

For the year ending June 30,

2017	\$ 12,850,000
2018	12,350,000
2019	12,350,000
2020	17,350,000
2021	<u>12,350,000</u>
	<u>\$ 67,250,000</u>

At June 30, 2017 \$54,400,000 of bond funding remained earmarked for CTNext.

BOND COMMISSION APPROVAL

A memorandum of understanding (MOU) exists between CII and the Office of Policy and Management (OPM) secretary and State Treasurer regarding bond issuance and authorization. The bond commission must approve the MOU, which satisfies the standard approval requirements under the State General Obligation Bond Procedure Act. The Act deems the principal amount of the authorized bonds to be an appropriation and allocation of the bond amounts. The bonds are subject to standard statutory conditions. Funds are not recorded as operating revenue under CT Public Act 13-239 until they have been requested and approved by the State of Connecticut for disbursement.

In addition, an annual renewable (MOU) exists between DECD and CII as administrator of the CTNext Fund, which allows and directs deposits be made from the proceeds of Bonds previously authorized to DECD under the Manufacturer's Assistance Act (MAA). This is incorporated into a separate (MOU) between DECD and (OPM) and allows DECD to request each fiscal years CTNext Bond Funding be placed on the agenda of the State Bond

CTNext Fund

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

Commission, and in cooperation of CI, file any necessary application and supporting documentation, to obtain State Bond Commission authorization of such bond funding and the allotment thereof for the deposit to the CTNext Fund.

CII'S FUND ADMINISTRATION DUTIES

In addition to CII managing CTNext Fund's assets, CII also provides staff, office space, systems, and administrative support needed to do so. Annually, CII must provide a report of the activities of the CTNext Fund to the Board for its review and approval. The Board shall provide the report in accordance with the provisions of Section 11-4a of the Connecticut General Statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to commerce and finance, revenue and bonding. Such report shall contain available information on the status and progress of the operations and funding of the CTNext Fund and the types, amounts and recipients of grants awarded.

BASIS OF PRESENTATION

These 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.

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 certain reported amounts and disclosures in the financial statements. Actual results could vary from the estimates that were used.

OPERATING VS. NON-OPERATING REVENUE (EXPENSE)

All entities distinguish between operating revenues and expenses from non-operating revenues and expenses. Operating revenues consist of funding received from the State of Connecticut and federal grant funding for CTNext's intended purpose. Operating expenses consist of those expenses allowed in accordance with the legislation establishing CTNext. Non-operating revenues and expenses consist of items determined by management to not directly relate to its operations.

CTNext Fund

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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

REVENUE RECOGNITION

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

SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 6, 2018, the date which the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.

NOTE 2 – DUE FROM CONNECTICUT INNOVATIONS INCORPORATED

Due from CII, as shown on the statements of net position, represents \$8,764,200 of cash being held by CII at June 30, 2017 on behalf of CTNext. These amounts are legally held in separate bank accounts by CII and are restricted for CTNext use only. Cash activity related to the separate bank accounts are shown in the accompanying statements of cash flows.

NOTE 3 – STATE FUNDING AND GRANT INCOME

In 2017 the State of Connecticut transferred \$12,850,000 into a Connecticut Innovations Incorporated (CII) bank account on behalf of CTNext. The balance of these fund are held by CII as administrative Agent for the CTNext Fund.

In 2017, CT Next received \$63,058 of grant income from the federal government related to the US Small Business Administration FAST GRANT program.

NOTE 4 – RELATED PARTY TRANSACTIONS

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 manager by CII. During the year ended June 30, 2017 CII expended funds and received bond funds from the state on behalf of CTNext.

**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
CTNext Fund:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the CTNext Fund (CTNext) (a fund of the State of Connecticut) as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise CTNext's basic financial statements, and have issued our report thereon dated February 6, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CTNext'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 CTNext's internal control. Accordingly, we do not express an opinion on the effectiveness of CTNext's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CTNext'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.

Whittlesey PC