

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

Independent Auditors' Report
Financial Statements

June 30, 2020



ASSURANCE | ADVISORY | TAX | TECHNOLOGY

CONNECTICUT INNOVATIONS, INCORPORATED

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June 30, 2020

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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, 2020, 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 auditors consider 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, 2020, 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.

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 7 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 December 22, 2020 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 solely 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.

A handwritten signature in cursive script that reads "Whittlesey PC".

Hartford, Connecticut
December 22, 2020

CONNECTICUT INNOVATIONS, INCORPORATED

Management's Discussion and Analysis - Unaudited

For the year ended June 30, 2020

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, 2020. 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 (CT) 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 broad and diverse business model. In addition to the merger with CDA, other initiatives include the establishment of a bioscience cluster anchored by Jackson Laboratories (Jax) 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 2020

Net Position

Total assets and deferred outflows exceeded total liabilities and deferred inflows by \$165.0 million at June 30, 2020. Net position totaling \$147.5 million is unrestricted. Net position totaling \$14.5 million is restricted for 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 totals \$3.0 million. In total the net position of CI decreased \$3.1 million.

Current assets, excluding the current portion of loans and investments, decreased \$17.5 million in 2020. Outflows totaled \$24.0 million for funding of investments and new loans, \$3.1 million for move to and buildout of new facilities in New Haven and Hartford, and \$12.4 million for operations. Inflows included \$9.1 million from the sale of investments and paydown of loans, \$7.1 million from cash gain realized from the sale of investments, and \$4.4 million in additional inflows from revenues.

Restricted cash increased \$6.7 million. CI received Proof of Concept funding in the amount of \$10.0 million. CI had outflows totaling \$3.3 million consisting of \$2.2 million in RMRF grants rewarded, \$.5 million final GO bond redemption, \$.4 million Proof of Concept investment funding and \$.2 million in Urbank release for guarantee.

CI's investment portfolio increased \$10.4 million in 2020. This increase consisted of \$24.0 million of new investments (\$23.7 million funded and \$.3 million Converted Interest) being offset by \$7.0 million of unrealized valuation decreases, \$3.3 million investments written-off and \$3.3 million of repayment of principal. During 2020, CI approved \$27.4 million and funded \$23.4 million (of which \$3.4 million was approved prior to 2020) for investments in new opportunities and continued support of existing portfolio companies. Committed funding for CI's equity programs as of June 30, 2020 total \$7.2 million. Total new investments funded of \$23.7 million were: \$14.6 million of new investments through its Eli Whitney Fund, \$7.7 million through Venture Mezzanine Program, \$.7 million through PreSeed Fund, \$.5 million Upward Hartford and \$.2 million through Fund to Funds. 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, net decreased \$6.3 million in 2020. The decrease was due to loan pay downs of \$5.8 million, a \$.8 million provision, and new direct loans funded totaling \$.3 million. Committed funding for CI's direct loan programs as of June 30, 2020 totals \$133 thousand.

The net increase of \$9.6 million of deferred outflows and \$1.8 million net decrease of deferred inflows consists of \$9.7 million from 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, and a \$155 thousand increase in Contributions subsequent to measurement date in 2020.

Current liabilities decreased \$2.5 million. CI funded \$2.2 million of medicine research grants-in-aid for the RMRF program in 2020 while accruals related to salary, fringe and operations decreased by \$300,000.

The final GO Bond redemption for \$595,000 was made in FY2020. CI's proportionate share of the State of Connecticut net pension liability increased \$4.0 million in 2020 while CI's proportionate share of the State of Connecticut net other post retirement benefit's liability increased \$9.7 million in 2020.

The following table summarizes the net position as of June 30, 2020 and 2019:

	Balance June 30, 2020 <i>(In Thousands)</i>	Balance June 30, 2019	Increase (Decrease) 2020 vs. 2019
Assets			
Current assets, excluding current portion of loans and investments	\$ 58,144	\$ 75,680	\$ (17,536)
Restricted assets	14,708	7,995	6,713
Portfolio investments	124,284	113,850	10,434
Loans, net	23,987	30,325	(6,338)
Capital assets, net	2,985	207	2,778
Other noncurrent assets	66	66	-
Deferred outflow of resources	18,346	8,767	9,579
Total Assets and Deferred Outflows of Resources	\$ 242,520	\$ 236,890	\$ 5,630
	Balance June 30, 2020 <i>(In Thousands)</i>	Balance June 30, 2019	Increase (Decrease) 2020 vs. 2019
Liabilities			
Current liabilities, excluding current portion of debt	\$ 7,256	\$ 9,798	\$ (2,542)
Bonds payable	-	595	(595)
Net pension liability	29,765	25,786	3,979
Net other post retirement benefits liability	33,680	23,982	9,698
Other noncurrent liabilities	13	10	3
Deferred inflow of resources	6,795	8,589	(1,794)
Total Liabilities and Deferred Inflows of Resources	\$ 77,509	\$ 68,760	\$ 8,749
Net Position			
Invested in capital assets	\$ 2,985	\$ 206	\$ 2,779
Restricted	14,542	7,919	6,623
Unrestricted	147,484	160,005	(12,521)
Total Net Position	\$ 165,011	\$ 168,130	\$ (3,119)

Change in Net Position

Total CI operating revenue decreased \$13.1 million from \$15.7 million to \$2.6 million in 2020 when compared to 2019. FY2020 net realized and unrealized loss on investments of \$3.1 million represented a \$12.2 million swing from FY2019 net realized and unrealized investment gains of \$9.0 million reported in FY2019. Many of CI's portfolio companies in early and development stage were sensitive to the national COVID 19 crisis.

Compensation, benefits and payroll taxes decreased \$.4 million in 2020. 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 \$31,000 due to interest savings realized from the \$.6 million final pay down of Corporation GO bonds. General and administrative expenses increased by \$267,000 due primarily to costs associated with the move from Rocky Hill to New Haven and Hartford. CI projects the additional expense incurred for the move (build out) will be offset by the many efficiencies (cost savings) gained at the new facilities. CI continues to pull-back general office, legal and advisory services.

Net realized gains on investments for the year were \$3.8 million as compared to net realized gains of \$.6 million in 2019.

Net gains realized from the sale of investments in 2020 increased \$3.2 million from \$.6 million in FY2019 to \$3.8 million in FY2020. Excluding a special adjustment for \$6.5 million for uncertainties arising from the COVID pandemic in FY 2020, unrealized losses on investments in FY2020 were \$.4 million. This represented a decrease of \$8.8 million in unrealized gains in FY2020 when compared to FY2019. Total net unrealized losses on investments for the year were \$6.9 million as compared to net unrealized gains of \$8.4 million in 2019.

In 2020, CI received \$10.0 million of Proof of Concept funding under the Jobs Bill as well as \$12.6 million for the Connecticut Bioscience Collaborative program. Of the \$12.6 million received and recorded as operating revenue for the Connecticut Bioscience Collaborative program, \$6.8 million was for facility and equipment loans. This funding was recorded as a non-operating expense in fiscal 2020.

CI disbursed \$2.2 million for medicine grants-in aid under the RMRF program from funding received prior to 2020. Money available from this funding was matched and recorded as revenue as disbursements were made.

Total expenditures in 2020 related to grants and programs decreased \$7.8 million when compared to 2019. Comparing June 30, 2020 to June 30, 2019 the following occurred: recorded expense for grants-in-aid by CI as administrator for RMRF decreased \$2.3 million and operating grants disbursed under the Bioscience Collaborative Program decreased by \$5.5 million.

In 2020, the net unrealized losses resulted from net decreases in valuations for privately held companies in CI's investment portfolio and public holdings. In 2019, the net unrealized gains also resulted from net increases in valuations for privately held companies in CI's investment portfolio and public holdings.

The following table summarizes the change in net position for the year ended June 30, 2020 compared to the 2019.

	Year Ended June 30, 2020	Year Ended June 30, 2019	Favorable (Unfavorable) 2020 vs. 2019
	<i>(In Thousands)</i>		
Operating Revenue			
Investment interest income	\$ 2,256	\$ 2,884	\$ (628)
Interest on notes	1,334	1,680	(346)
Realized gain on investments - net	3,805	628	3,177
Unrealized loss on investments, excluding special COVID adjustment - net	(446)	8,402	(8,848)
Unrealized loss on investments - special COVID adjustment	(6,500)	-	(6,500)
Loan fee income	509	894	(385)
Other	1,678	1,259	419
Total Operating Revenues	2,636	15,747	(13,111)
Operating Expenses			
Payroll and fringes	9,361	9,781	420
Interest on bonds	9	40	31
Loss provision	800	325	(475)
General, administrative and other	2,946	2,679	(267)
Total Operating Expenses	13,116	12,825	(291)
Operating Income	(10,480)	2,922	(13,402)
Non-Operating Revenues			
Pension and post-retirement benefit recapture	-	739	(739)
Connecticut Public Act 11-1	10,000	15,000	(5,000)
Grant and program income	2,228	4,543	(2,315)
CT Bioscience Collaboration funding	12,519	21,934	(9,415)
Total Non-Operating Revenues	24,747	42,216	(17,469)
Non-Operating Expenses			
Pension and post-retirement benefit expense	2,285	-	(2,285)
Grants and programs	8,332	16,150	7,818
CT Bioscience Collaboration loan write-down	6,769	10,684	3,915
Total Non-Operating Expenses	17,386	26,834	9,448
Non-Operating Income	7,361	15,382	(8,021)
Change in Net Position	\$ (3,119)	\$ 18,304	\$ (21,423)
Net Position - Beginning of year	168,130	149,826	18,304
Net Position - End of Year	\$ 165,011	\$ 168,130	\$ (3,119)

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

FINANCIAL STATEMENTS

CONNECTICUT INNOVATIONS, INCORPORATED

Statement of Net Position

June 30, 2020

Assets

Current Assets:

Cash and cash equivalents:	
Cash and cash equivalents	\$ 30,606,700
Committed cash and cash equivalents	<u>25,950,119</u>
Total cash and cash equivalents	56,556,819
Current portion of loans	3,772,912
Current portion of portfolio investments	1,124,798
Due from CTNext	510,802
Interest and other receivables	557,907
Prepaid expenses	181,640
Due from State of Connecticut	<u>336,704</u>
Total Current Assets	<u>63,041,582</u>

Noncurrent Assets

Restricted cash and cash equivalents	14,708,090
Portfolio investments, net of current portion	123,159,001
Loans - noncurrent, net of allowance for loan losses of \$5,551,512	20,214,103
Capital assets, net of depreciation	2,985,192
Other	<u>66,000</u>
Total Noncurrent Assets	<u>161,132,386</u>

Total Assets \$ 224,173,968

Deferred Outflows of Resources

Deferred amount for pension	\$ 9,837,412
Deferred Outflows - OPEB	<u>8,508,852</u>

Total Deferred Outflows of Resources \$ 18,346,264

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

CONNECTICUT INNOVATIONS, INCORPORATED

Statement of Net Position (continued)

June 30, 2020

Liabilities	
Current Liabilities:	
Custodial liability	\$ 1,936,806
Accrued expenses and other liabilities	3,506,332
Due to Connecticut Bioscience Innovation Fund	153,078
Reserve for loss guarantees	1,655,552
Deferred revenue	<u>4,438</u>
Total Current Liabilities	<u>7,256,206</u>
Noncurrent Liabilities	
Net pension liability	29,765,417
Net other post retirement benefits liability	33,679,649
Escrow deposits	<u>12,886</u>
Total Noncurrent Liabilities	<u>63,457,952</u>
Total Liabilities	<u>70,714,158</u>
Net Position	
Net investment in capital assets	2,985,192
Restricted	14,542,126
Unrestricted	<u>147,483,922</u>
Total Net Position	<u>165,011,240</u>
Total Liabilities and Net Position	<u><u>\$ 235,725,398</u></u>
Deferred Inflows of Resources	
Deferred amount for pension	\$ 3,338,031
Deferred amount for other post retirement benefits	<u>3,456,803</u>
Total Deferred Inflows of Resources	<u><u>\$ 6,794,834</u></u>

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

CONNECTICUT INNOVATIONS, INCORPORATED

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

For the year ended June 30, 2020

Operating Revenues	
Investment interest income	\$ 2,256,480
Interest on loans	1,334,389
Realized gain on investments - net	3,805,355
Unrealized loss on investments - net	(6,946,536)
Loan fee income	509,298
Other income	1,677,535
Total Operating Revenues	<u>2,636,521</u>
Operating Expenses	
Salaries	5,192,315
Benefits and payroll taxes	4,168,667
Provision for loan and guarantee losses	800,000
General facility and office	888,234
Professional service fees	1,172,359
Interest	9,111
Marketing, conferences, development	542,879
Depreciation and amortization	341,000
Other	2,005
Total Operating Expenses	<u>13,116,570</u>
Operating Loss	<u>(10,480,049)</u>
Non-Operating Revenues	
Grant and program income	2,227,729
Proof of Concept funding	10,000,000
Connecticut Bioscience Collaboration funding	12,519,425
Total Non-Operating Revenues	<u>24,747,154</u>
Non-Operating Expenses	
Pension and other post retirement expense	2,284,498
Grants and programs	8,332,022
Connecticut Bioscience Collaboration Loan write-down	6,769,425
Total Non-Operating Expenses	<u>17,385,945</u>
Non-Operating Income	<u>7,361,209</u>
Change in Net Position	<u>(3,118,840)</u>
Net Position - Beginning of year	<u>168,130,080</u>
Net Position - End of year	<u>\$ 165,011,240</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, 2020

Cash Flows from Operating Activities

Sale of investments	\$ 10,398,927
Purchase of investments	(23,666,432)
Loan principal collected	5,849,015
Loans funded	(312,863)
Interest from loans	1,332,418
Cash from loan/guarantee/insurance fees	508,347
Interest on investments and marketable securities	785,175
Interest on short-term investments and cash deposits	1,121,526
Cash received from other income	390,481
Cash received from dividends and royalties	147,054
Payroll and fringe benefits paid	(9,939,078)
General and administrative expenses paid	(2,426,798)
Guarantee's paid	(137,414)
Loan workout expenses paid	(1,799)

Net Cash Used in Operating Activities (15,951,441)

Cash Flows from Capital and Related Investing Activities

Purchase of capital assets	<u>(3,101,061)</u>
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Net Cash Used in Capital and Related Investing Activities (3,101,061)

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, 2020

Cash Flows from Noncapital Financing Activities	
Cash received under Connecticut Bioscience Collaboration program	\$ 12,519,425
Funding received from State of Connecticut	10,000,000
CTNext fund transfers	(352,643)
Connecticut Bioscience Innovation fund transfers	1,091,410
Cash paid under grants and programs	(6,109,293)
Cash paid under custodial arrangements	(2,227,729)
Connecticut Bioscience Collaborative loans	(6,769,425)
Principal payments on bonds	(595,000)
Increase in escrow payments	2,885
Interest payments on bonds	(15,619)
Net Cash Provided by Noncapital Financing Activities	<u>7,544,011</u>
Net Decrease in Cash and Cash Equivalents	(11,508,491)
Cash and Cash Equivalents - Beginning	<u>82,773,400</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 71,264,909</u></u>
As Presented on the Statement of Net Position:	
Cash and cash equivalents	\$ 30,606,700
Committed cash and cash equivalents	25,950,119
Restricted cash and cash equivalents	14,708,090
	<u><u>\$ 71,264,909</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, 2020

Reconciliation of Operating Loss to Net Cash

Used in Operating Activities

Operating loss	\$ (10,480,049)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Purchase of investments	(23,666,432)
Realized loss from investment write-offs	3,324,201
Return of principal on investments	2,349,572
Unrealized loss on investments, net	6,946,536
Charge-offs of loans receivable	(1,320,000)
Noncash interest conversions	(307,117)
Sale of investments	919,800
Noncapital CBIF administrative fee	(1,140,000)
Provision for loan and guarantee losses	800,000
Guarantee fees paid	(137,414)
Depreciation and amortization	341,001
Interest expense on bonds	9,111
Decrease (Increase) in assets:	
Loans receivable	6,858,139
Interest and other receivables	(138,466)
Prepaid expenses and other assets	(194,248)
Decrease in liabilities:	
Accrued expenses and deferred revenue	(116,075)
Net Cash Used in Operating Activities	<u><u>\$ (15,951,441)</u></u>

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

CONNECTICUT INNOVATIONS, INCORPORATED

Notes to Financial Statements

June 30, 2020

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. The Corporation had one blended component unit which was succeeded to CI effective July 1, 2019. CI did not have any blended component units as of or for the year ending June 30, 2020.

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 \$50,000 to \$350,000.

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, 2020 were \$309,255,070.

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, 2020, no loans remained which 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 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 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.

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.

Allowances for 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 repairs expenses are charged to operations when incurred. Depreciation is computed using the straight-line method over depreciable lives. 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.

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.
- 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 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, 2021. The Corporation has not yet determined the impact of this Statement on its financial statements.

Subsequent Events - Events subsequent to June 30, 2020 have been evaluated through December 22, 2020, 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. 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.

The Corporation accounts for its portfolio investments at fair value on a recurring basis. Following is a description of the valuation methodologies used for portfolio investments. There have been no changes in the methodologies used at June 30, 2020 compared to the prior year.

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 the AICPA Accounting and Valuation Guide – Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and

Other Investment Companies. Such investments 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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Portfolio investments				
Equity	\$ 15,207,603	\$ -	\$ 82,408,216	\$ 97,615,819
Debt	-	-	26,667,980	26,667,980
	<u>\$ 15,207,603</u>	<u>\$ -</u>	<u>\$ 109,076,196</u>	<u>\$ 124,283,799</u>

The following table sets forth a summary of changes in the fair value of the Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2020:

Balance - beginning of year	\$ 98,418,402
Purchases	23,973,549
Sales proceeds	(2,349,572)
Realized/unrealized losses	<u>(10,966,183)</u>
Balance - end of year	<u>\$ 109,076,196</u>

The Corporation's only assets measured at fair value on a non-recurring basis are its loans classified as impaired totaling \$8.6 million as of June 30, 2020 which 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, 2020:

Deposits with financial institutions	\$ 7,888,534
Connecticut State Treasurer's Short-Term Investment Fund	<u>63,376,375</u>
Total cash and cash equivalents	<u>\$ 71,264,909</u>

Cash and cash equivalents are presented on the statement of net position at June 30, 2020 as follows:

Unrestricted cash and cash equivalents	\$ 56,556,819
Restricted cash and cash equivalents	<u>14,708,090</u>
	<u>\$ 71,264,909</u>

Restricted cash maintained in 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). Restricted cash in this fund amounted to \$3.0 million at June 30, 2020.

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, 2020, \$6,031,192 of the Corporation's bank balance was uninsured and uncollateralized and therefore exposed to custodial credit risk.

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

NOTE 4 - PORTFOLIO INVESTMENTS

Investments as of June 30, 2020 by related fund are summarized as follows:

CI Fund	Equity Securities	Debt Securities	Total
Eli Whitney investments	\$ 81,691,765	\$ 14,294,975	\$ 95,986,740
BioScience Facilities investments	107,088	-	107,088
Seed Fund investments	362,386	-	362,386
Clean Tech investments	-	70,374	70,374
Mezzanine Fund investments	-	9,934,676	9,934,676
SSBCI investments	11,619,819	-	11,619,819
Proof of Concept	-	125,000	125,000
Other investments	3,834,761	2,242,955	6,077,716
Totals	<u>\$ 97,615,819</u>	<u>\$ 26,667,980</u>	<u>\$ 124,283,799</u>

The following is a summary of investments in the Eli Whitney Fund by industry classification as of June 30, 2020:

	<u>Amount</u>	<u>%</u>
BioScience	\$ 39,115,753	40.8%
Medical Devices	348,064	0.4%
IT Software	37,482,624	39.0%
IT Infrastructure	5,327,022	5.5%
IT services	537,207	0.6%
Photonics	3,364,988	3.5%
Clean Technology	6,648,743	6.9%
Other Industries	3,162,339	3.3%
	<u>\$ 95,986,740</u>	<u>100.0%</u>

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, 2020, the five largest investments comprised 32.1% of the carrying value of the Corporation's total investments, with one investment comprising 9.7% of the carrying value of the Corporation's total investments.

NOTE 5 - LOANS

The Corporation extends commercial loans to companies 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 67 loans (gross) totaling \$29,538,527. Of this amount, 60 loans totaling \$24,003,289 (81%) are in the Growth and Connecticut Works Fund ("A"). The remaining \$5,535,238 (19%) is comprised of 7 loans in the CBRA 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.

Loans are presented in the statement of net position as follows as of June 30, 2020:

Loans, current portion	\$ 3,772,912
Loans, non-current portion	<u>25,765,615</u>
	29,538,527
Less: Allowance for doubtful accounts	<u>(5,551,512)</u>
Net	<u>\$ 23,987,015</u>

Loans over 61 days past due and deemed nonperforming loans totaled \$562,333 as of June 30, 2020.

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, 2020 were as follows:

	Loans				Guarantees			Total Loans and Guarantees
	CBRA 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	\$ 481,135	\$ 4,733,751	\$ 6,071,514	\$ 226,833	\$ 1,566,133	\$ 1,792,966	\$ 7,864,480
Provision	-	-	800,000	800,000	-	-	-	800,000
Charge-offs	-	-	(1,320,002)	(1,320,002)	-	-	-	(1,320,002)
Guarantee fees	-	-	-	-	-	(137,414)	(137,414)	(137,414)
Recoveries	-	-	-	-	-	-	-	-
Ending balance	\$ 856,628	\$ 481,135	\$ 4,213,749	\$ 5,551,512	\$ 226,833	\$ 1,428,719	\$ 1,655,552	\$ 7,207,064
Loan balances/exposure	\$ 5,535,238	\$ 1,426,028	\$ 22,577,261	\$ 29,538,527	\$ 231,302	\$ 2,950,035	\$ 3,181,337	\$ 32,719,864
Allowance balance as a percent of loans/ exposure	15.5%	33.7%	18.7%	18.8%	98.1%	48.4%	52.0%	22.0%

The Corporation considers loans risk rated as substandard or worse impaired loans. At June 30, 2020, the Corporation had a recorded balance in impaired loans of \$8,630,263 in the CBRA, 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 \$1,590,450 as of June 30, 2020.

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 \$1,026 in the year ended June 30, 2020 on behalf of CGB, which will be reimbursed during the fiscal year ended June 30, 2021.

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. In addition, CI holds all unexpended cash on behalf of CBIF for which \$153,078 remained available for future funding.

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, 2020 the Corporation expended funds on behalf of CTNext which will be reimbursed during the fiscal year ending June 30, 2021.

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, 2020:

Due to Connecticut Bioscience Innovation Fund	<u>\$ (153,078)</u>
Due from the Connecticut Green Bank	<u>\$ 1,026</u>
Due from CTNext	<u>\$ 510,802</u>

NOTE 8 - DUE FROM STATE OF CONNECTICUT

The \$336,704 due from the State of Connecticut at June 30, 2020 represents the pre-funding of payroll.

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 is as follows:

	Balance, June 30, 2019	Additions	Deletions	Balance, June 30, 2020
Capital assets being depreciated:				
Furniture and equipment	\$ 590,155	\$ 248,962	\$ (267,024)	\$ 572,093
Leasehold improvements	<u>107,765</u>	<u>2,852,098</u>	<u>(107,765)</u>	<u>2,852,098</u>
	<u>697,920</u>	<u>3,101,060</u>	<u>(374,789)</u>	<u>3,424,191</u>
Less accumulated depreciation and amortization:				
Furniture and equipment	383,635	118,667	(267,024)	\$ 235,278
Leasehold improvements	<u>107,765</u>	<u>203,721</u>	<u>(107,765)</u>	<u>203,721</u>
	<u>491,400</u>	<u>322,388</u>	<u>(374,789)</u>	<u>438,999</u>
Capital assets - net	<u>\$ 206,520</u>	<u>\$ 2,778,672</u>	<u>\$ -</u>	<u>\$ 2,985,192</u>

NOTE 10 - STATE FUNDING

In 2020, the Corporation received \$22,519,425 in cash from the State of Connecticut under approved bond fund authorizations to provide financial assistance to high technology companies. These funds were provided as follows: \$6,769,425 for the Connecticut Bioscience Collaboration Program for facility and equipment loans; \$5,750,000 for operating assistance to the Jackson Laboratory for Genomic Medicine, and \$10,000,000 from the CT Jobs Bill (Proof of Concept).

As of June 30, 2020, \$17,672,935 remains available to the Corporation from bond fund authorizations from the State of Connecticut as follows:

Loans	\$ 8,311,935
Operating grants	<u>9,361,000</u>
	<u>\$ 17,672,935</u>

NOTE 11 - OPERATING LEASES

In 2020 the Corporation signed leases for office space in New Haven and Hartford. The Corporation leases its office space in New Haven and Hartford from unrelated third parties under operating leases ending October 2026 and April 2025 respectfully.

Future minimum lease payments are as follows:

Year ending June 30,	
2021	\$ 241,142
2022	245,536
2023	250,023
2024	269,680
2025	259,370
2026	187,725
2027	62,986
	<u>\$ 1,516,462</u>

Rent expense for all facilities for the year ended June 30, 2020, was \$299,825.

NOTE 12 - PENSION PLAN

Plan Description - SERS is a cost-sharing, multi-employer defined benefit pension plan that the 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.

Current Tier II and Tier IIA employees who retire at or after age 60 with 25 Years of Benefit Service, age 62 with 10 Years of Benefit Service, or at age 70 with 5 years of Benefit 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 revised 2011 State Employees Bargaining Agent Coalition Agreement (Agreement) changed the requirements for employees who retire after July 1, 2022 without the required age and years of benefit service criteria at that date. For those employee's normal retirement would increase to Age 63 and 25 Years of Benefit Service or Age 65 and 10 Years of Benefit Service. This change affects all years of benefit service earned on or after July 1, 2011. These employees were provided 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.

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 58th 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 cash expended for employees of the Corporation covered by SERS for the years ended June 30, 2020 was \$5,575,898.

The Corporation's contribution for the fiscal year ended June 30, 2020 is determined by applying a State mandated percentage to eligible salary and wage amounts which are as follows:

Contributions made:	
By employees	\$ 149,968
Percent of current year covered payroll	2.7%
By the Corporation	\$ 3,194,979
Percent of current year covered payroll	57.3%

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, 2019 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, 2020, the Corporation reported a liability of \$29,765,417 for its proportionate share of the net pension liability. The net pension liability at June 30, 2020 was measured as of June 30, 2019 and 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, 2020, the Corporation's proportion was .13048 percent.

For the year ended June 30, 2020, the Corporation recorded additional pension expense of \$426,341 which is included in Non-Operating expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position. At June 30, 2020, the Corporation reported deferred outflows of resources and deferred inflows of resources related to its pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual expense	\$ 6,642,433	\$ (3,338,031)
Contributions subsequent to the measurement date	<u>3,194,979</u>	<u>-</u>
Total	<u>\$ 9,837,412</u>	<u>\$ (3,338,031)</u>

Deferred contributions subsequent to the measurement date of \$3,194,979 represent the Corporation's contributions during the fiscal year ended June 30, 2020. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Deferred inflows and outflows (net difference between projected and actual expense) 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 5.58 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>
2021	\$ 1,190,400	\$ 598,213
2022	1,190,400	598,213
2023	1,190,400	598,213
2024	1,190,400	598,213
2025	1,190,400	598,213
2026	<u>690,432</u>	<u>346,966</u>
	<u>\$ 6,642,432</u>	<u>\$ 3,338,031</u>

The total pension liability in the June 30, 2019 actuarial valuation report was determined based on the roll-forward to June 30, 2019 of the annual actuarial funding valuation report prepared as of June 30, 2018. 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 investment related expense
Cost of living adjustment 1.95% to 3.25%, for certain tiers

Mortality rates are 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 6.9 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from component units of the State will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

There is a sensitivity of the Corporation's proportionate share of the net pension liability in relation to changes in the discount rate. The following presents the Corporation's proportionate share of the net pension liability calculated using the current discount rate of 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	<u>\$ 35,547,829</u>	<u>\$ 29,765,417</u>	<u>\$ 24,941,958</u>

NOTE 12 (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 the State Employees Bargaining Agent Coalition (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 retires, 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 cash expenditures for employees of the Corporation covered by the Plan for the year ended June 30, 2020 was \$5,575,898.

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, 2020 are as follows:

Contributions made:		
By employees	\$	131,309
Percent of current year covered payroll		2.4%
By the Corporation	\$	154,630
Percent of current year covered payroll		2.4%

The Corporation accounts for the OPEB Plan under 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.

At June 30, 2020 the Corporation reported a liability of \$33,679,649 for its proportionate share of the net OPEB liability. The net OPEB liability for June 30, 2020 was measured as of June 30, 2019, 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, 2019. 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, 2020, the Corporation's proportion was .162842 percent.

For the year ended June 30, 2020, the Corporation recorded \$1,858,157 of OPEB expense, which is included in non-operating expense on the accompanying Statement of Revenues, Expenses and Changes in Net Position. At June 30, 2020, the Corporation reported deferred outflows of resources and deferred inflows of resources related to its OPEB plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Net difference between projected and actual expense	\$ 8,354,222	\$ (3,456,803)
Contributions subsequent to the measurement date	154,630	-
	<u> </u>	<u> </u>
Total	<u>\$ 8,508,852</u>	<u>\$ (3,456,803)</u>

Deferred outflows of resources (contributions subsequent to measurement date) of \$154,630 represent the Corporation's contributions for the fiscal year ended June 30, 2020. This amount will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021.

Deferred inflows and outflows (net difference between projected and actual expenses) 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 5.22 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>
2021	\$ 1,600,426	\$ 662,223
2022	1,600,426	662,223
2023	1,600,426	662,223
2024	1,600,426	662,223
2025	1,600,426	662,223
2026	<u>352,094</u>	<u>145,689</u>
	<u>\$ 8,354,222</u>	<u>\$ 3,456,803</u>

The total OPEB liability in the June 30, 2019 actuarial valuation report was determined based on the following major actuarial assumptions:

Inflation	2.5%
	3.5 to 19.5%, varying by years of service and retirement system
	3.58% as of June 30, 2019 and 3.95% as of June 30, 2018
Healthcare cost trend rates:	
Medical	6% graded to 4.5% over 6 years
Prescription drug	6% graded to 4.5% over 6 years
Dental	3.0%
Part B	4.5%
Administrative expense	3.0%

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Fund	20%	5.6%
Developed Market Intl. Stock Fund	11%	6.0%
Emerging Market Intl. Stock Fund	9%	7.9%
Core Fixed Income Fund	16%	2.1%
Inflation Linked Bond Fund	5%	1.1%
Emerging Market Debt Fund	5%	2.7%
High Yield Bond Fund	6%	4.0%
Real Estate Fund	10%	4.5%
Private Equity	10%	7.3%
Alternative Investments	7%	2.9%
Liquidity Fund	1%	0.4%
	<u>100%</u>	

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 (3.50% as of June 30, 2019 and 3.87% as of June 30, 2018). The final discount rate used to measure to total OPEB liability was 3.58% as of June 30, 2019 and 3.95% as of June 30, 2018. 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 3.58%, and what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) 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>\$ 39,197,858</u>	<u>\$ 33,679,649</u>	<u>\$ 29,200,109</u>
		<u>Current Healthcare Cost Trends</u>	
	<u>1% Decrease</u>	<u>1% Increase</u>	
Corporation's proportionate share of net OPEB liability	<u>\$ 28,871,804</u>	<u>\$ 33,679,649</u>	<u>\$ 39,748,043</u>

NOTE 13 - 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, 2020, \$5,599 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 2020.

NOTE 14 - 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, 2020 Connecticut Innovations expended \$2,227,729 for grants-in-aid from bond funds and has \$1,936,806 of funds available for future distributions.

NOTE 15 - 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. CI then approved an application from Jackson Laboratories (Jax) and entered into a funding agreement with Jax on January 5, 2012 to develop, construct and equip an 189,000 square foot laboratory and operate a genomics medicine research program in Farmington, Connecticut.

The funding agreement provides for 1) a maximum \$145.0 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 were to be forgiven if Jax met an employment goal of 300 employees for a period of six months, including a minimum of 90 senior scientists within 10 years. Jax met both the employment goal of 300 and hiring of 90 senior scientists in fiscal 2018, resulting in the Corporation forgiving the entire loan funded at that time and all future funding provided for in the funding agreement. As of June 30, 2020, the loan amount forgiven is \$183,388,065. Of this amount \$2,432,643 remains available to be drawn from authorized bonding for the facility and \$5,879,292 for furniture, fixtures and equipment.

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, 2020.

Grant expense pertaining to Jackson Labs for the year ended June 30, 2020 is \$5,750,000.

NOTE 16 - 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 17 - RESTRICTED NET ASSETS

At June 30, 2020, restricted net position consisted of funds restricted for the following:

Loan guarantees	\$ 1,005,826
Urbank Enabling Legislation	1,948,457
REGEN (Stem Cell)	1,936,806
Proof of Concept	<u>9,651,037</u>
	<u>\$ 14,542,126</u>

NOTE 18 - 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, 2020 is summarized below:

	<u>Contract Amount</u>
Loan commitments:	
Connecticut Works Fund ("A")	\$ 133,292
	<u>\$ 133,292</u>
Equity commitments:	
Eli Whitney Fund	\$ 4,931,767
PreSeed Fund	300,000
Other	<u>1,954,156</u>
	<u>\$ 7,185,923</u>
Loan guarantees:	
Connecticut Capital Access Fund	<u>\$ 4,244,463</u>

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

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

NOTE 19 - 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.

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, 2020

Net Pension Liability	
Corporation's portion of the net pension liability	0.1305%
Corporation's proportionate share of the net pension liability	\$ 29,765,417
Corporation's covered-employee payroll	\$ 5,575,898
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	533.82%
Plan fiduciary net position as a percentage of the total pension liability	36.79%

Net OPEB Liability	
Corporation's portion of the net OPEB liability	0.1628%
Corporation's proportionate share of the net OPEB liability	\$ 33,679,649
Corporation's covered-employee payroll	\$ 5,575,898
Corporation's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	604.02%
Plan fiduciary net position as a percentage of the total OPEB liability	5.47%

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, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 3,194,979	\$ 3,308,069	\$ 2,848,478	\$ 2,549,442	\$ 2,781,291	\$ 3,310,649	\$ 3,403,927	\$ 2,587,513
Contributions in relation to the contractually required contribution	<u>3,194,979</u>	<u>3,308,069</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Corporation's covered-employee payroll	\$ 5,575,898	\$ 5,166,250	\$ 5,086,804	\$ 4,658,776	\$ 5,433,127	\$ 6,118,180	\$ 5,870,102	\$ 5,241,997
Contributions as a percentage of covered-employee payroll	57.30%	64.03%	56.00%	54.72%	51.19%	54.11%	57.99%	49.36%

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 of
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, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2020.

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) as a basis for designing 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 financial statements. 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
December 22, 2020

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