

CTNext Fund

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018



ASSURANCE | ADVISORY | TAX | TECHNOLOGY

CTNext Fund

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
CTNext Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the CTNext Fund (“CTNext” or the “Fund”), as of June 30, 2019 and 2018 and for the years then ended, and the related notes to the financial statements, which collectively comprise CTNext’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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 audits. We conducted our audits 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 audits 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 CTNext’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CTNext’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CTNext, as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2020 on our consideration of CTNext's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 CTNext'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 CTNext's internal control over financial reporting and compliance.

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

Hartford, Connecticut
July 7, 2020

CTNext Fund

STATEMENTS OF NET POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 12,645,445	\$ 12,114,585
Due from State of Connecticut	<u>72,567</u>	<u>55,352</u>
Total Assets	<u><u>\$ 12,718,012</u></u>	<u><u>\$ 12,169,937</u></u>
Liabilities and Net Position		
Liabilities		
Due to Connecticut Innovations, Incorporated	\$ 158,159	\$ -
Accrued expenses and other liabilities	<u>4,000,583</u>	<u>2,960,149</u>
Total Liabilities	<u>4,158,742</u>	<u>2,960,149</u>
Net Position		
Restricted for CTNext Fund	<u>8,559,270</u>	<u>9,209,788</u>
Total Net Position	<u>8,559,270</u>	<u>9,209,788</u>
Total Liabilities and Net Position	<u><u>\$ 12,718,012</u></u>	<u><u>\$ 12,169,937</u></u>

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

CTNext Fund

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating Revenues		
State bonding	\$ 10,350,000	\$ 12,850,000
Grant income	74,841	91,097
Investment interest	239,802	55,642
	10,664,643	12,996,739
Operating Expenses		
Salaries	442,305	398,726
Benefits and payroll taxes	334,649	291,281
Professional service fees	288,744	214,192
General and administrative	234,000	252,000
Marketing	162,177	169,011
Other	30,877	18,886
Grants and Programs		
Innovation Places	5,177,147	6,900,000
Partners	1,758,343	1,392,091
Higher Education	1,338,473	1,201,891
Technology Talent Bridge	1,241,446	781,197
Other program expense	307,000	312,963
	11,315,161	11,932,238
Operating (Loss) Income	(650,518)	1,064,501
Change in Net Position	(650,518)	1,064,501
Net Position - Beginning of year	9,209,788	8,145,287
Net Position - End of year	\$ 8,559,270	\$ 9,209,788

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

CTNext Fund

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
State Bonding revenue received	\$ 10,350,000	\$ 12,850,000
Grant revenue received	74,841	91,097
Investment interest	239,802	55,642
Program and grant expenses	(8,761,142)	(8,336,784)
Payroll and fringe benefits paid	(815,000)	(650,000)
General and administrative expenses paid	(715,800)	(659,970)
Net Cash Provided by Operating Activities	<u>372,701</u>	<u>3,349,985</u>
Cash Flows from Non-Capital Financing Activities		
Funding transferred from Connecticut Innovations, Incorporated	<u>158,159</u>	<u>8,764,600</u>
Net Cash Provided by Non-Capital Financing Activities	<u>158,159</u>	<u>8,764,600</u>
Net Change in Cash and Cash Equivalents	<u>530,860</u>	<u>12,114,585</u>
Cash and Cash Equivalents - Beginning	<u>12,114,585</u>	<u>-</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 12,645,445</u></u>	<u><u>\$ 12,114,585</u></u>
Reconciliation of Operating (Loss) Income to Net Cash Provided by Operating Activities		
Operating (loss) income	\$ (650,518)	\$ 1,064,501
Decrease (increase) in Due from State of Connecticut	(17,215)	32,111
Increase in accrued expenses and liabilities	<u>1,040,434</u>	<u>2,253,373</u>
Net Cash Provided by Operating Activities	<u><u>\$ 372,701</u></u>	<u><u>\$ 3,349,985</u></u>

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

CTNext Fund

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

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

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

CTNext does not have any component units.

BOARD POWERS

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

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

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

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

Pursuant to Section 4(i) of the Enabling Act, CI provides an annual report of the activities of the CTNext Fund to the Board for its review and approval. The Board provides the report in accordance with the provisions of Section 11-4a of the Connecticut General Statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to commerce and finance, revenue and bonding. Such reports contain available information on the status and progress of the operations and funding of the CTNext Fund and the types, amounts and recipients of grants awarded.

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

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

BOND AUTHORIZATIONS

The Act capitalizes the Fund by earmarking a total of \$67.3 million in previously authorized Manufacturing Assistance Act (MAA) and CI bond funds for CTNext over 5 years, as shown below. If the Fund does not use all or part of the maximum amount in a fiscal year, that amount is added to the following year's authorization. Authorizations according to the Act are as follows:

For the year ending June 30,

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

At June 30, 2019 \$29,700,000 of bond funding remained earmarked for CTNext.

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

BOND COMMISSION APPROVAL

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

In addition, an annual renewable MOU exists between the Department of Economic Community Development (DECD) and CI as administrator of the CTNext Fund, which allows and directs deposits be made from the proceeds of Bonds previously authorized to DECD under the Manufacturer's Assistance Act (MAA). This is incorporated into a separate MOU between DECD and OPM and allows DECD to request each fiscal years CTNext Bond Funding be placed on the agenda of the State Bond Commission, and in cooperation of CI, file any necessary application and supporting documentation, to obtain State Bond Commission authorization of such bond funding and the allotment thereof for the deposit to the CTNext Fund.

CI'S FUND ADMINISTRATION DUTIES

In addition to CI managing CTNext Fund's assets, CI also provides staff, office space, systems, and administrative support needed to do so. Annually, CI must provide a report of the activities of the CTNext Fund to the Board for its review and approval.

BASIS OF PRESENTATION

These financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of the related cash flows.

USE OF ESTIMATES

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect certain reported amounts and disclosures in the financial statements. Actual results could vary from the estimates that were used.

OPERATING VS. NON-OPERATING REVENUE (EXPENSE)

All government entities distinguish between operating revenues and expenses from non-operating revenues and expenses. Operating revenues consist of funding received from the State of Connecticut and federal grant funding for CTNext's intended purpose. Operating expenses consist of those expenses allowed in accordance with the legislation establishing CTNext.

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

REVENUE RECOGNITION

Revenue from grants under government mandated or voluntary non-exchange transactions is recognized when eligibility requirements are met to the extent that CTNext can be expected to comply with the purpose restrictions within the specified time limit.

CASH AND CASH EQUIVALENTS

Cash equivalents consist of cash and highly liquid short-term investments. Cash includes deposits with financial institutions as well as CTNext's funds in the Connecticut State Treasurer's Short-Term Investment Fund.

STATEMENTS OF CASH FLOWS

For purposes of the statements 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.

SUBSEQUENT EVENTS

Subsequent events have been evaluated up to and including July 7, 2020, the date the financial statements were available for issuance and noted no items that required adjustments to the financial statements. CTNext notes the following subsequent event that requires footnote disclosure.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic. COVID-19 has caused significant disruption in the national and global economy. CTNext's operating activities may be adversely affected by this global pandemic. While the disruption is currently expected to be temporary, there is uncertainty related to the duration. CTNext expects some negative impact to its operations, but because COVID-19 did not occur until after year end, the financial statements are not adjusted for this event.

NOTE 2 – CASH AND CASH EQUIVALENTS

The following is a summary of the composition of cash and cash equivalents as of June 30:

	2019
State Treasurer's Investment Fund	<u>\$ 12,645,445</u>

Credit Risk – Pursuant to the General Statutes of the State of Connecticut, CTNext may only invest funds in obligations issues 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 statues 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.

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

Investment ratings for CTNext’s investments are as follows:

	Standard & Poor's
State Treasurer's Investment Fund	<hr/> AAAm

NOTE 3 – DUE FROM CONNECTICUT INNOVATIONS INCORPORATED

At June 30, 2019 Due to CI, as shown on the statements of net position, represents \$158,159 of operating expenses paid by CI on behalf of CTNext. These expenses will be reimbursed to CI during the fiscal year ended June 30, 2020.

At June 30, 2018 all funds held by CI on behalf of CTNext were transferred to a CTNext bank account and are held by and restricted for CTNext use only.

NOTE 4 – STATE FUNDING AND FEDERAL GRANT INCOME

In 2019 the State of Connecticut transferred \$10,350,000 into a CI bank account on behalf of CTNext. These funds were then transferred to CTNext by CI and deposited in a CTNext bank account.

In 2018 the State of Connecticut transferred \$12,850,000 into a CI bank account on behalf of CTNext. These funds were then transferred to CTNext by CI and deposited in a CTNext bank account.

In 2019 and 2018 CTNext received \$74,841 and \$91,097, respectively, of grant income from the federal government related to the US Small Business Administration FAST GRANT program.

NOTE 5 – RELATED PARTY TRANSACTIONS

Effective July 1, 2016, as part of the State of Connecticut’s implementer Bill, Public Act No. 16-3 CTNext was established as a separate entity manager by CI. During the years ended June 30, 2019 and 2018, CI expended funds and received bond funds from the State on behalf of CTNext.

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
CTNext Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the CTNext Fund (CTNext) (a fund of the State of Connecticut) as of June 30, 2019 and 2018 and for the years then ended, and the related notes to the financial statements, which collectively comprise CTNext's basic financial statements, and have issued our report thereon dated July 7, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Hartford, Connecticut
July 7, 2020

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