

CONNECTICUT BIOSCIENCE INNOVATION FUND
(A Fund of the State of Connecticut)

Independent Auditors' Report
Financial Statements

June 30, 2021 And 2020



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CONNECTICUT BIOSCIENCE INNOVATION FUND

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Connecticut Bioscience Innovation Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of the Connecticut Bioscience Innovation Fund (CBIF) (a fund of the State of Connecticut), as of June 30, 2021 and 2020, and for the years then ended, and the related notes to the financial statements, which collectively comprise CBIF'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 opinions 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 CBIF'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 CBIF'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CBIF, as of June 30, 2021 and 2020, and the respective changes in financial position and 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 requires to be presented to supplement the basic financial statements. Such missing information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2022 on our consideration of CBIF'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 CBIF'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 CBIF's internal control over financial reporting and compliance.

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

Hartford, Connecticut
March 21, 2022

CONNECTICUT BIOSCIENCE INNOVATION FUND

Statements of Net Position

June 30, 2021 And 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Due from Connecticut Innovations, Incorporated	\$ 640,802	\$ 153,078
Noncurrent Assets		
Portfolio investments	47,621,989	39,906,596
Total Assets	<u>\$ 48,262,791</u>	<u>\$ 40,059,674</u>
Liabilities		
Noncurrent Liabilities		
Deferred interest income	\$ 924,284	\$ 666,037
Total Liabilities	<u>924,284</u>	<u>666,037</u>
Net Position		
Restricted for Bioscience Programs	47,338,507	39,393,637
Total Net Position	<u>47,338,507</u>	<u>39,393,637</u>
Total Liabilities and Net Position	<u>\$ 48,262,791</u>	<u>\$ 40,059,674</u>

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

CONNECTICUT BIOSCIENCE INNOVATION FUND

Statements of Revenues, Expenses and Changes In Net Position

For The Years Ended June 30, 2021 And 2020

	<u>2021</u>	<u>2020</u>
Operating Revenue		
Connecticut Public Act 13-239	\$ 15,500,000	\$ 22,800,000
Realized and unrealized loss on investments	(5,832,679)	(5,719,702)
Interest income	89	1,346
Total Operating Revenue	<u>9,667,410</u>	<u>17,081,644</u>
Operating Expenses		
Grants	695,000	2,834,125
Administrative fee	775,000	1,140,000
Other expense	252,540	464,975
Total Operating Expenses	<u>1,722,540</u>	<u>4,439,100</u>
Change in Net Position	7,944,870	12,642,544
Net Position - Beginning of year	<u>39,393,637</u>	<u>26,751,093</u>
Net Position - End of year	<u>\$ 47,338,507</u>	<u>\$ 39,393,637</u>

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

CONNECTICUT BIOSCIENCE INNOVATION FUND

Statements of Cash Flows

For The Years Ended June 30, 2021 And 2020

	2021	2020
Cash Flows from Operating Activities		
Connecticut Public Act 13-239	\$ 15,500,000	\$ 22,800,000
Purchase of investments	(14,760,634)	(16,372,776)
Grants disbursed	(695,000)	(4,872,185)
Administrative fees	(775,000)	(1,140,000)
Other expense	(252,540)	(464,975)
Interest income	89	1,346
Return of principal on investments	1,470,809	-
	<u>487,724</u>	<u>(48,590)</u>
Net Cash Provided by (Used in) Operating Activities		
Cash Flows from Financing Activities		
Funding transferred (to) from		
Connecticut Innovations, Incorporated	(487,724)	48,590
	<u>(487,724)</u>	<u>48,590</u>
Net Cash (Used in) Provided by Financing Activities		
Net Change in Cash and Cash Equivalents	<u>-</u>	<u>-</u>
Cash and Cash Equivalents - Beginning	<u>-</u>	<u>-</u>
Cash and Cash Equivalents - Ending	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating income	\$ 7,944,870	\$ 12,642,544
Accrued expenses	-	(2,038,060)
Realized and unrealized loss on investments	5,832,679	5,719,702
Return of principal on investments	1,470,809	-
Purchase of investments	(14,760,634)	(16,372,776)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 487,724</u>	<u>\$ (48,590)</u>

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

CONNECTICUT BIOSCIENCE INNOVATION FUND

Notes to Financial Statements

June 30, 2021 And 2020

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

On July 1, 2013, the State of Connecticut passed Public Act 13-239 (the Act) creating the Connecticut Bioscience Innovation Fund (CBIF or the Fund). CBIF was established to finance projects to improve the delivery of health care services, lower health care costs, and directly or indirectly create bioscience jobs. The projects can involve improvements or developments in services, therapeutics, diagnostics, and devices in pharmaceuticals, bioscience, biomedical engineering, medical care, medical devices, medical diagnostics, personalized medicine, health information management, and other related disciplines.

The legislation created a thirteen-member Bioscience Innovation Advisory Committee (the Committee) to administer CBIF's affairs. The Committee is comprised of four persons appointed by the Governor of Connecticut, one appointed by the president pro tempore of the Connecticut State Senate (Senate), one appointed by the speaker of the Connecticut House of Representatives (House), one appointed by the majority leader of the Senate, one appointed by the minority leader of the Senate, one appointed by the minority leader of the House, the Commissioner of Economic and Community Development and the Commissioner of Public Health (or their designees), and the chief executive officer and executive director of Connecticut Innovations, Incorporated (CII).

Nonprofit corporations, accredited colleges and universities, and for-profit start-up or early-stage businesses can propose projects. Early stage businesses are those that have been operating for no more than three years and are developing or testing a product or service that is not yet available for commercial release or available only in a limited manner, including clinical trials or market testing of prototypes.

CBIF can provide assistance in the form of grants, equity investments, and secured convertible loans. Eligible recipients can use this assistance to pay for facilities; necessary furniture, fixtures, and equipment; materials and supplies; peer reviews; proof of concept or relevance; compensation; and other costs the advisory committee approves (see below).

Connecticut Innovations, Inc. (CII), a related party, is a separate component unit of the State of Connecticut. CII is charged with managing the Funds' assets; and, on-behalf of CBIF, provides financial assistance to eligible recipients; and prepare the Funds' annual plan, budget, and report. By law, unchanged by the act, CII will provide different types of financial assistance, including equity investments to businesses developing a wide range of technology-based products, techniques, and services.

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

BOND AUTHORIZATIONS

The Act capitalizes the Fund by authorizing up to \$204 million in state general obligation bonds, as shown below. Any issuance costs and capitalized interest may be added to the annual authorizations. If the Committee does not use all or part of the maximum amount in a fiscal year, that amount is added to the following year’s authorization. Authorizations according to the Act are as follows:

For the year ending June 30,

2013	\$ 10,000,000
2014	10,000,000
2015	15,000,000
2016	15,000,000
2017	-
2018	15,000,000
2019	15,000,000
2020	25,000,000
2021	25,000,000
2022	25,000,000
2023	25,000,000
2024	<u>24,000,000</u>
	<u>\$ 204,000,000</u>

At June 30, 2021 and 2020 \$98,200,000 and \$113,700,000 of bond funding remained available to be drawn by CBIF.

BOND COMMISSION APPROVAL

The act requires CII to enter into a memorandum of understanding (MOU) with the Office of Policy and Management (OPM) secretary and state treasurer regarding the bond issuance, including the extent to which federal, private, and other available funds should be added to the bond proceeds. 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.

CII'S FUND ADMINISTRATION DUTIES

Besides managing CBIF’s assets and providing financial assistance, CII also provides staff, office space, systems, and administrative support needed to do so. In administering the fund, CII may use any of its statutory powers as the state’s venture capital and technology innovation arm (e.g., enter into agreements providing financial assistance for marketing new and innovative services based on the use of specific technologies, products, techniques, services, or processes).

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

Beginning January 1, 2014, CII must prepare, on behalf of CBIF, an annual operations plan and operating and capital budgets for each fiscal year. It must submit these documents to the Committee for review and approval no later than 90 days before the fiscal year begins.

CII is allowed to recover its administrative costs from the Fund's assets (5% of each amount paid to CBIF by the State of Connecticut). In addition CII will receive all interest repayments, income, and earnings or return on investment realized in excess of original cost.

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.

USE OF RESTRICTED VS. NON-RESTRICTED RESOURCES

When both restricted and unrestricted amounts are available for use, the policy is to use restricted resources for their intended purposes first and then unrestricted resources.

PORTFOLIO INVESTMENTS AND VALUATIONS

As set forth in the statutes, CBIF assistance can be provided through grants, equity investments, and secured convertible loans. At June 30, 2021, CBIF's portfolio investments consisted of 33 convertible loans and 43 equity investments. At June 30, 2020, CBIF's portfolio investments consisted of 27 convertible loans and 38 equity investments.

All of CBIF's investments are uninsured, unregistered and held by CBIF in CBIF's name. Investments in the form of debt instruments are secured by the underlying assets and intellectual property of the borrower and bear interest at rates ranging from 7% to 20% per annum. The debt instruments provide for a maximum borrowing amount, with funding provided in tranches, based on the borrower meeting certain milestones determined on a case-by-case basis.

For the year ended June 30, 2021, CBIF approved 22 debt financing investments totaling \$3,960,000 with \$2,671,000 of approved investments funded. \$2,525,137 remains to be funded based on the terms of the individual debt instruments. For the year ended June 30, 2020, CBIF approved 14 debt financing investments totaling \$3,416,000 with \$3,626,475 of approved investments funded. \$1,236,137 remains to be funded based on the terms of the individual debt instruments.

For the year ended June 30, 2021, CBIF approved 7 equity investments totaling \$7,450,000 with \$12,089,634 of approved investments funded. \$9,129,995 remains to be funded based on the term sheets for the equity investments. For the year ended June 30, 2020, CBIF approved 18 equity investments totaling \$19,633,333 with \$12,746,301 of approved investments funded. \$13,769,629 remains to be funded based on the term sheets for the equity investments.

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

CBIF values all investments at fair value but never greater than original cost because any return on investment realized in excess of original cost is deemed unrestricted funds of CII as administrator. 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. 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). 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 and other operating data. The CBIF committee has applied procedures in arriving at the estimate of the value of such securities that it believes are reasonable and appropriate.

GRANTS

CBIF grants provide for a maximum grant amount, with funding to be provided in tranches, based on the grantee meeting certain milestones determined on a case-by-case basis. For the year ended June 30, 2021, three grants totaling \$770,717 were approved by CBIF, \$695,000 of approved grants were funded, and \$3,147,092 remained to be funded based on the terms of the original grant agreements.

For the year ended June 30, 2020, three grants totaling \$475,000 were approved by CBIF, \$4,872,185 of approved grants were funded, and \$3,071,315 remained to be funded based on the terms of the original grant agreements.

If the grantee does not meet the performance requirements, unfunded amounts will not be earned and therefore not paid by CBIF.

SUBSEQUENT EVENTS

Subsequent events have been evaluated up to and including March 21, 2022, the date the financial statements were available for issuance. No events requiring recognition or disclosure in the financial statements have been identified.

NOTE 2 – DUE TO/FROM CONNECTICUT INNOVATIONS INCORPORATED

As of June 30, 2021, the State of Connecticut transferred \$15,500,000 into a CII bank account on behalf of CBIF for which CI deducted \$775,000 for administrative costs, as allowed by legislation, and then disbursed the funds to make investments and grants, and program expenses. As of June 30, 2020, the State of Connecticut transferred \$22,800,000 into a CII bank account on behalf of CBIF for which CI deducted \$1,140,000 for administrative costs, as allowed by legislation, and then disbursed the funds to make investments and grants.

Due from CII of \$640,802 and \$153,078 as shown on the statements of net position as of June 30, 2021 and 2020, respectively, represents the amount of cash held for CBIF by CII as administrator. These amounts are legally held in separate bank accounts and restricted by CII, for CBIF use only. Cash activity related to the separate bank accounts are shown in the accompanying statements of cash flows.

NOTE 3 – FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value for CBIF’s investments, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under Financial Accounting Standards Board Accounting Standards Codification 820 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 Fund has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets and liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

- Periodically, CBIF has investments in public companies. CBIF’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. CBIF values all investments with readily determinable market value at fair value but never greater than original cost, any return on investment realized in excess of original cost is deemed unrestricted funds of CII as administrator.
- Fair value, for non-publicly traded securities, is determined by an independent valuation committee for CBIF using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group (“PEIGG”) and are categorized as Level 3. CBIF has applied procedures in arriving at the estimate of the value of such securities that it believes are reasonable and appropriate. CBIF values all investments without readily determinable market value at fair value but never greater than original cost, because any return on investment realized in excess of original cost is deemed unrestricted income of CII as administrator.

All investments as of June 30, 2021 and 2020 are valued using Level 3 inputs.

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a break-out of investments as of June 30:

	<u>2021</u>	<u>2020</u>
Equity	\$ 41,574,133	\$ 34,694,618
Debt	<u>6,047,856</u>	<u>5,211,978</u>
	<u>\$ 47,621,989</u>	<u>\$ 39,906,596</u>

NOTE 4 – RISKS AND UNCERTAINTIES

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 economy and there is uncertainty related to its duration. CBIF's investment valuations and operations may continue to be affected by this global pandemic.

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 Bioscience Innovation 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 Connecticut Bioscience Innovation Fund (CBIF) (a fund of the State of Connecticut) as of June 30, 2021 and for the year then ended, and the related notes to the financial statements, which collectively comprise CBIF's basic financial statements, and have issued our report thereon dated March 21, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CBIF'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 CBIF's internal control. Accordingly, we do not express an opinion on the effectiveness of CBIF'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 CBIF'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 CBIF'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
March 21, 2022

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