STATE OF CONNECTICUT

AUDITORS' REPORT
CONNECTICUT DEVELOPMENT AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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June 22, 2011

AUDITORS' REPORT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2010

We have examined the books, records and accounts of the Connecticut Development Authority (Authority) and its subsidiary, as provided in Section 2-90 and Section 1-122 of the General Statutes, for the fiscal year ended June 30, 2010.

SCOPE OF AUDIT:

This audit was primarily limited to performing tests of the Connecticut Development Authority's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority and its subsidiary has complied with its regulations concerning the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

We also considered the Connecticut Development Authority's internal control over its financial operations and its compliance with requirements that could have a material or significant effect on the Authority's financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority's financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included the five areas identified above.

Our audit included a review of a representative sample of the activities of the Authority and its subsidiary during the fiscal year in the five areas identified above and a review of such other areas as we considered necessary. The financial statement audit of the Connecticut Development Authority, for the fiscal year indicated above, was conducted by the Authority's independent public accountants.

COMMENTS

FOREWORD:

The Connecticut Development Authority, hereinafter referred to as the CDA, operates primarily under the provisions of Title 32, Chapter 579, Sections 32-11a through 32-23zz of the General Statutes. Pursuant to Section 32-11a of those statutes, the CDA is a body politic and corporate, constituting a political instrumentality and political subdivision of the state created for the performance of an essential public and governmental function. The CDA is a quasi-public agency as provided for by Chapter 12 of the General Statutes. As a quasi-public agency, the CDA's financial information is included as a component unit in the State of Connecticut's Comprehensive Annual Financial Report (CAFR).

The CDA's mission is to maintain and create jobs within the state by stimulating industrial and commercial development, primarily through financial assistance to businesses. In addition, the CDA was responsible for operations at the XL Center from September 1993 through June 30, 2010. The CDA entered into a facilities management and operation contract for the XL Center effective July 1, 2007. Pursuant to the terms of that contract, the CDA transferred full managerial, operational and financial responsibility for the XL Center to the contractor, Northland/AEG, LLC.

Board of Directors and Administrative Officials:

Members of the CDA's Board of Directors (Board) as of June 30, 2010, were as follows:

Ex officio Members:

Denise L. Nappier	- State Treasurer
Robert L. Genuario	- Secretary, Office of Policy and Management
Joan McDonald	- Commissioner, Dept. of Economic and Community Development

Appointed Members:

Laura T. Grondin, Chairperson
Michael A. Cantor, Esq.
C. Robert Eick, Jr.
Arlo E. Ellison
John Pavia
Richard T. Mulready
Gian-Carlo Peressutti
Carol P. Wallace

In addition to the above members, Jack Orchulli served as a member of the Board during the audited period.

Antonio Roberto was appointed as Executive Director by the Board on October 15, 1997, and he served in that capacity throughout the audited period. On September 15, 2004, the Board appointed Marie O'Brien as the President of the CDA, and she served in that capacity throughout the audited period.

Connecticut Brownfields Redevelopment Authority:

In accordance with Section 32-11a, subsection (l), of the General Statutes, the Connecticut Development Authority has the authority to create subsidiaries to carry out the remediation, development, and financing of contaminated property within the state. As a result, the Connecticut Development Authority established the Connecticut Brownfields Redevelopment Authority, Inc. (CBRA) on May 17, 1999. The CBRA is a wholly owned subsidiary of the Authority. The CBRA provides loans, grants or guarantees from the Authority's assets and the proceeds of its bonds, notes and other obligations. Any net gain from the subsidiary will flow back to the parent (Authority) as an addition or in the case of a loss, a reduction to the earnings of the Authority. The CDA authorized $1,500,000 in financial resources to the CBRA in May 1999.

During the fiscal year ended June 30, 2010, the administrative expenses associated with the entity amounted to $4,313 and two loans totaling $3,800,000 were issued.

RÉSUMÉ OF OPERATIONS:

The CDA is authorized to issue general obligation bonds for certain programs. Pursuant to Section 32-23j, subsection (a), of the General Statutes, those bonds "…shall not be deemed to constitute a debt or liability of the state…" These bonds, except for issues totaling $30,560,000 associated with the purchase of the assets of the Hartford Whalers, are secured by special capital reserve funds. Pursuant to Section 32-23j, subsection (b), of the General Statutes, the CDA is required to maintain in these funds, a minimum balance at least equal to the maximum principal and interest payments becoming due in the succeeding calendar year. If the CDA is unable to maintain a sufficient balance in the special capital reserve fund, the state's General Fund could be required to restore the special capital reserve fund to its minimum balance if the specific bond indenture calls for such State reimbursement. However, any such payment must be repaid to the state (no such state payment or repayment was required during the audited period). As of June 30, 2010, the CDA's bonds payable amounted to $19,225,000, of which $6,100,000 is related to the purchased assets of the Hartford Whalers.

In addition, the CDA is authorized under its Self-Sustaining Bond Program to accommodate the financing for specific industrial and certain recreational and utility projects through the issuance of special obligation industrial revenue bonds. These bonds are payable solely from payments received from participating companies and are not otherwise a debt or liability of the CDA or the state. Accordingly, the balances and activity of the Self-Sustaining Bond Program are not included in the CDA's financial statements. Total bonds outstanding as of June 30, 2010, were $1,088,615,000.

The CDA maintains the following funds to account for its operations and various programs:

General Operating Fund:

The CDA's operating expenses are recorded in its General Operating Fund. In addition, during the audited period, the Operating Fund was used to account for the CDA's operation of the XL Center.

Based on the CDA's financial statements, operating revenues of the General Operating Fund totaled $5,913,216 and $5,138,226 for the 2008-2009 and 2009-2010 fiscal years, respectively. Operating expenses for the same periods amounted to $6,248,314 and $5,477,000, respectively. The Operating Fund's net income/(loss), exclusive of unrealized holding gains/losses, amounted to $(335,098) and $(338,774), respectively, for the same periods. The XL Center's operations accounted for 100 percent of the loss in the 2009-2010 fiscal year. The Operating Fund's change in net assets amounted to $(335,098) and $(338,774) for the 2008-2009 and 2009-2010 fiscal years, respectively.

Exclusive of the costs of running the XL Center, payroll and related fringe benefits were the single largest line-item expenditure category. Payroll and related charges for the 2008-2009 and 2009-2010 fiscal years were $3,734,231 and $3,782,150, respectively.

Umbrella Program Fund:

Under the Umbrella Program, the CDA was authorized to issue bonds to provide financial assistance for the acquisition of industrial land, buildings, new machinery, equipment, and pollution control facilities. Loans up to $800,000, with up to a 20-year term, can be made for each approved project. Of this amount, up to $500,000 can be used for machinery and equipment (term may not exceed ten years) and up to $800,000 can be used for pollution control facilities (term may not exceed ten years). Loans in this program are insured under the Insurance Program (discussed below). The last Umbrella loan outstanding was fully paid down in 2008.

Insurance Program Fund:

Authorized by Section 32-14 of the General Statutes, the CDA may insure loans made by other lending institutions to companies for the acquisition of industrial land, buildings, machinery, and equipment located within the state. In addition, all of the CDA's Umbrella Program loans are insured under the Insurance Program.

As of June 30, 2009 and 2010, loans totaling $5,036,248 and $4,643,749, respectively, were insured as follows:

	Fiscal Year Ended June 30,	
	2009	**2010**
Loans by Other Lending Institutions	$5,036,248	$4,643,749
Umbrella Program Loans	$0	$0

Growth Fund:

In accordance with Section 32-23v of the General Statutes, the CDA is authorized to issue individual loans up to a maximum of $4,000,000 with a maximum loan term of 20 years (10 years for machinery and equipment). The program provides financial assistance for any purpose the CDA determines will materially contribute to the economic base of the state by creating or retaining jobs, promoting exports, encouraging innovation, or supporting existing activities. Financing may be used to purchase real property, machinery and equipment, or for working capital.

The CDA has established a maximum 90 percent loan-to-value ratio for real property loans and 80 percent loan-to-value ratio for machinery and equipment loans. Working capital loans are limited to a term of up to seven years.

A summary of the Growth Fund's lending activity for the last two fiscal years is as follows:

	Fiscal Year Ended June 30,	
	2009	**2010**
Number of Entities Receiving Assistance	6	8
Amount of Assistance Provided	$3,438,030	$3,602,952

Connecticut Works Fund:

The Connecticut Works Fund, also known as "Fund A," is established in accordance with Section 32-23ii of the General Statutes. Fund A is used for direct loans and loan guarantees. Eligible projects include most manufacturing-related projects and any project that supports the economic base of the state through jobs, defense diversification, exporting, and the development of innovative products or services.

The state has authorized the issuance of up to $95,000,000 in state bonds allocated to Fund A. Of this amount, $82,485,000 has been distributed to Fund A. In the event direct loans are uncollectible, the CDA can use any remaining bond funds to reimburse itself for such losses subject to the total allocation limit.

A summary of Fund A's lending activity for the last two fiscal years is as follows:

	Fiscal Year Ended June 30,	
Type of Assistance	**2009**	**2010**
Direct Loans:		
Number of Entities Receiving Assistance	10	13
Amount of Assistance Provided	$8,304,215	$8,288,920
Guarantees:		
Number of Entities Receiving Assistance	2	2
Amount of Assistance Provided	$710,000	$2,250,000

Connecticut Works Guarantee Fund:

The Connecticut Works Guarantee Fund, also known as "Fund B," is established in accordance with Section 32-261 of the General Statutes. The purpose of Fund B is to provide commitments to guarantee loans made by participating financial institutions. Projects financed by Fund B are intended to encourage growth and the retention of businesses unable to obtain suitable financing and to stimulate an increase in jobs and tax revenue throughout the state. Eligibility is determined by the due diligence principles set forth in the Connecticut Works Fund.

The State has authorized up to $30,000,000 in state bonds allocated to Fund B. Of this amount, $18,900,000 has been distributed. In the event a direct loan is uncollectible by the participating financial institution, the CDA can use any remaining bond funds to reimburse itself for such losses, up to the total allocation.

Fund B did not provide any assistance to entities during the fiscal years ended June 30, 2009 and 2010.

Connecticut Capital Access Fund:

In accordance with Section 32-265 of the General Statutes, 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. These loans are of two types, referred to as Urbank Program loans and Entrepreneurial Program loans. Project eligibility is usually determined by the financial institution making the loan, subject to requirements specified in the participant agreements.

The state has authorized the issuance of up to $5,000,000 in state bonds allocated to this fund. Of this amount, $2,000,000 has been distributed. In addition, any insurance losses associated with this fund are reimbursable from those bonds up to the $5,000,000 allocated.

A summary of the fund's lending activity during the last two fiscal years is as follows:

	Fiscal Year Ended June 30,	
	2009	**2010**
Number of Entities Receiving Assistance	15	10
Amount of Assistance Provided	$409,426	$242,400

Business Environmental Clean-Up Revolving Loan Fund:

Established in accordance with Section 32-23z of the General Statutes, this fund provides direct loans to assist businesses in the containment or removal of property contamination. To be eligible, the business must have been established in the state for at least one year, have sales of less than $3,000,000 or less than 150 employees, and be unable to obtain conventional financing. Loan amounts cannot exceed $200,000.

No loans were made from this fund during the audited period and there is no additional funding available for this program.

Environmental Assistance Revolving Loan Fund:

Established under Section 32-23qq of the General Statutes, the CDA can use the Environmental Assistance Revolving Loan Fund to provide direct loans and guarantees to businesses to assist in financing pollution prevention activities. There has been no loan or guarantee activity since August

1996 and it is anticipated that no future funding will be available for this program.

Job Training Fund:

This fund was established to account for the Connecticut Job Training Finance Program authorized by Section 32-23uu of the General Statutes. Assistance under this program is provided to manufacturing or economic base businesses seeking to provide educational upgrades to their production workers. Performance grants of up to $25,000 are available, covering up to 25 percent of the amount borrowed by each business.

Funding for this program is provided by the bond issue authorized under Sections 32-23ll and 32-235 of the General Statutes. No assistance was provided from this fund during the audited period.

Summary of Revenues, Expenses and Net Income:

Based on the CDA's audited financial statements, the following is a summary of the revenues, expenses and income of the CDA for the fiscal year ended (FYE) June 30, 2010, as compared to the total from the previous fiscal year:

	General Operating Fund [1]	Growth Fund	CT Works Fund	Miscell-aneous [2]	Total FYE 06/30/10	Total FYE 6/30/09
Revenues:						
XL Center Revenues	$ 3,462,127	$ -	$ -	$ -	$ 3,462,127	$ 3,399,386
Interest	301,011	591,780	1,655,699	665,144	3,213,634	2,742,372
Investment Income	145,585	-	-	55,440	201,025	906,177
Other	1,229,503	57,624	76,417	77,592	1,441,136	1,189,090
Total Revenues	5,138,226	649,404	1,732,116	798,176	8,317,922	8,237,025
Expenses:						
XL Center Expenses	3,800,901	-	-	-	3,800,901	3,734,484
Interest	634,768	-	-	55,000	689,768	760,071
Payroll and Fringe Benefits	3,782,150	-	-	-	3,782,150	3,734,231
Intra-Fund Allocation	(3,639,135)	1,371,745	1,541,641	725,749	-	-
Other	898,316	355,240	455,767	50,186	1,759,509	2,418,038
Total Expenses	5,477,000	1,726,985	1,997,408	830,935	10,032,328	10,646,824
Net Income (Loss)	$ (338,774)	$(1,077,581)	$ (265,292)	$(32,759)	$(1,714,406)	$ (2,409,799)

Note 1: The operations of the XL Center are included in the General Operating Fund.

Note 2: The Miscellaneous category includes the operations related to the Connecticut Brownsfield Redeveiopment Authority (CBRA) Subsidiary, Insurance Program Fund, the Connecticut Works Guarantee Fund, and the Connecticut Capital Access Fund.

Summary of Loan Write-Offs and Guarantee Claims Paid:

Based on data in the CDA's internal financial reporting package, the following is a summary of the loan amounts written off and guarantee payments made and the written off loans recovered and written off guarantees recovered for the fiscal years ended June 30, 2009 and 2010.

	Fiscal Year Ended June 30,	
	2009	**2010**
Direct Loans Written off	$7,809	$1,348,412
Guarantees Paid	$83,659	$50,435
Loans Recovered	$43,305	$1,200
Guarantees Recovered	$54,814	$45,792

CONDITION OF RECORDS

Our review of the records of the Connecticut Development Authority revealed the following areas that warrant comment.

Reporting:

Criteria: Section 32-11a, subsection (c), of the General Statutes requires that the Connecticut Development Authority prepare an annual report which includes in excess of 20 types of information, including a list of the names, addresses and locations of all recipients of such assistance.

Among other things, for each recipient of assistance, the CDA is to report:

- The gross revenues during the recipient's most recent fiscal year.

- A summary of the terms and conditions for the assistance, including the type and amount of state financial assistance, job creation or retention requirements, and anticipated wage rates.

For each recipient of assistance on or after July 1, 1991, the CDA is to report:

- A comparison between the number of jobs to be created, the number of jobs to be retained, and the average wage rates for each such category of jobs, as projected in the recipient's application, versus the actual number of jobs created, the actual number of jobs retained, and the average wage rates for each such category.

- The actual number of full-time jobs and the actual number of part-time jobs in each such category and the benefit levels for each such subcategory.

Condition: As we reported in our prior audit reports for the fiscal years ended June 30, 2005 through 2009, and as disclosed in our review of the annual report for the fiscal year ended June 30, 2010, the CDA continues to not use the actual names of the recipients of financial assistance when reporting the information required for gross revenues, benefit levels, and average wage rates for each separate recipient. Instead, the CDA reports this information by using the nomenclature of "Company A," "Company B," etc.

The reported summary of the terms and conditions for assistance did not include the anticipated wage rates.

Effect: There was noncompliance with Section 32-11a, subsection (c), of the General Statutes.

Cause: The CDA believes that a modification to the legislation will be passed to support how the sensitive data is currently being reported in the annual report.

Recommendation: The Connecticut Development Authority should seek legislation to modify Section 32-11a, Subsection (c) of the General Statutes or should include the required data in its annual report. (See Recommendation 1.)

Agency Response: "The CDA agrees with the auditor's recommendation to seek a legislative modification on the required data for annual reports. The legislative change will make CDA's reporting requirements consistent with other economic development agencies.

On June 7, 2011, the Connecticut General Assembly approved the technical change to Section 32-11a, Subsection (c) as recommended by the State Auditors. This change becomes effective July 1, 2011."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Connecticut Development Authority should seek legislation to modify Section 32-11a(c) of the General Statutes or should include the required data in its annual report. This recommendation is repeated. (See Recommendation 1.)

- The Connecticut Development Authority should ensure the receipt of updated Affirmative Action Plans from all recipients of financial assistance. This recommendation has been implemented and therefore, will not be repeated.

Current Audit Recommendations:

1. **The Connecticut Development Authority should seek legislation to modify Section 32-11a(c) of the General Statutes or should include the required data in its annual report.**

Comment:

The CDA reported gross revenues, benefit levels, and average wage rates separately for each recipient. However, the actual names of recipients were not listed with that information. In addition, the reported summary of the terms and conditions for assistance did not include the anticipated wage rates.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the Connecticut Development Authority's activities for the fiscal year ended June 30, 2010. This audit was primarily limited to performing tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, including but not limited to a determination of whether the Authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grant agreements and other financial resources, and to understanding and evaluating the effectiveness of the Authority's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grant agreements applicable to the Authority are complied with. The financial statement audit of the Connecticut Development Authority, for the fiscal year indicated above, was conducted by the Authority's independent public accountants.

We conducted our audit in accordance with the requirements of Section 2-90 and Section 1-122 of the General Statutes. In doing so, we planned and performed the audit to obtain reasonable assurance about whether the Connecticut Development Authority complied in all material respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Internal Control over Financial Operations and Compliance:

In planning and performing our audit, we considered the Connecticut Development Authority's internal control over its financial operations and its compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Authority's financial operations and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Authority's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial operations and compliance. Our consideration of internal control included, but was not limited to, the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

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 unauthorized, illegal or irregular transactions on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Authority's financial operations will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial operations and compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Authority's financial operations or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiency, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be a significant deficiency in internal control over compliance: Recommendation 1 - names of recipients of financial assistance not reported on.

A *significant deficiency* is a deficiency, or 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.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Connecticut Development Authority complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Authority's financial operations or compliance for the fiscal year ended June 30, 2010, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including but not limited to the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our examination included reviewing all or a representative sample of the Authority's activities in those areas and performing such other procedures as we considered necessary in the circumstances.

The results of our tests disclosed no material or significant instances of noncompliance. However, we noted certain matters which we reported to Authority management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Connecticut Development Authority's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited. Users of this report should be aware that our audit does not provide a legal determination of the Authority's compliance with the provisions of the laws, regulations, contracts and grant agreements included within the scope of this audit.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Connecticut Development Authority during this examination.

Christine J. Delaney
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts