STATE OF CONNECTICUT

AUDITORS' REPORT
CONNECTICUT INNOVATIONS, INCORPORATED
INCLUDING
THE CONNECTICUT CLEAN ENERGY FUND
FOR THE FISCAL YEAR ENDED JUNE 30,2008

AUDITORS OF PUBLIC ACCOUNTS

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Table of Contents

INTRODUCTION 1

SCOPE OF AUDIT 1

COMMENTS 2
- FOREWORD 2
  - Connecticut Innovations, Incorporated 2
    - Significant State Legislation 5
    - Board of Directors and Administrative Officials 5
  - Connecticut Clean Energy Fund 7
    - Significant State Legislation 7
    - Board of Directors and Administrative Officials 8
- RÉSUMÉ OF OPERATIONS: 9
  - State Accounts 9
  - Connecticut Innovations, Incorporated 10
  - Connecticut Clean Energy Fund 13
  - Other Examinations 16

CONDITION OF RECORDS 17
- Connecticut Innovations, Incorporated 17
  - Conflicting Statutory Reporting Provisions 17
  - Policy on Campaign Contributions 18
- Connecticut Clean Energy Fund 19

RECOMMENDATIONS 20

CERTIFICATION 22

CONCLUSION 25

September 14, 2009

AUDITORS' REPORT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2008

We have examined the books, records and accounts of the Connecticut Innovations, Incorporated (the Corporation), including the Connecticut Clean Energy Fund (the CCEF), as provided in Section 2-90 and Section 1-122 of the General Statutes, for the fiscal year ended June 30, 2008.

SCOPE OF AUDIT:

This audit was primarily limited to performing tests of the Corporation’s and the CCEF’s compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Corporation and the CCEF have complied with their written operating procedures, as required per Section 32-35, subsection (d), and Section 16-245n, subsection (e), respectively, of the General Statutes, 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 Corporation’s and the CCEF’s internal control over their financial operations and compliance with requirements that could have a material or significant effect on the Corporation’s or the CCEF’s financial operations in order to determine our auditing procedures for the purpose of evaluating the Corporation’s and the CCEF’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 Corporation's and the CCEF's activities during the fiscal year in the five areas identified above and a review of such other areas as we considered necessary. The financial statement audits of the Corporation and the CCEF, for the fiscal year indicated above, were conducted by the Corporation's and the CCEF's independent public accountants.

This report on our examination consists of the Comments, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

Connecticut Innovations, Incorporated:

Connecticut Innovations, Incorporated (the Corporation) operates primarily under Chapter 581, Sections 32-32 through 32-47a of the General Statutes. Pursuant to Section 32-35 of those Statutes, it is a public instrumentality and political subdivision of the State. Pursuant to Chapter 12 of the General Statutes, the Corporation is classified as a quasi-public agency subject to the requirements related to such agencies as may be found in Chapter 12. As a quasi-public agency, the Corporation's financial information is included as a component unit in the State of Connecticut's Comprehensive Annual Financial Report (CAFR).

The Corporation was established to stimulate and encourage the research and development of new technologies, businesses and products and the development and operation of science parks and incubator facilities, and to promote science, engineering, mathematics and other disciplines essential to the development of and application of technology within Connecticut.

The Corporation provides financial assistance to Connecticut businesses for the development and marketing of high-technology products, services, and processes. This assistance has been made in the form of loans, royalty agreements and equity (ownership) investments. The Corporation also funds other organizations such as Connecticut universities and technology research or application centers. The Corporation includes contingent payback provisions to those funds as a means of sharing in the royalties and other earnings from successful research projects.

The Corporation targets early stage high-technology enterprises. These include: advanced materials, aerospace, bioscience, energy and environmental systems, information technology, applied optics and microelectronics. To address these areas, the Corporation utilizes a number of limited partnerships and financial investments to achieve its objectives of assisting qualified organizations.

The Corporation provides several financial and technical programs to assist qualifying Connecticut companies, colleges and universities. These include:

Access Connecticut Limited Partnership – This program is a limited partnership designed to generate new technology companies in Connecticut through technology transfer from universities.

Connecticut Emerging Enterprises Limited Partnership – This program is a partnership between the Corporation and a major commercial bank. The program invests in initial and follow-on rounds of financing for early-stage, technology growth enterprises with significant proprietary innovations or other unique, sustainable competitive advantages.

Connecticut Innovations Technology Scholars Program – This program provides scholarships to encourage talented young people to choose careers in science and technology and to pursue their education and their careers in Connecticut.

Eli Whitney Fund – This is the Corporation's primary investment program. The program makes risk capital investments in emerging and established companies to stimulate their development of high-technology products, processes and services. Areas of focus include bioscience, energy and environmental systems, information technology, photonics/applied optics, advanced materials and engineering.

Next Generation Ventures, LLC – This program is a joint venture between the Corporation and a major commercial insurer. The program invests in start-up and young technology companies in Connecticut by the use of seed or early-stage financing.

Yankee Ingenuity Technology Program – This program was developed to encourage technological innovation through partnerships between Connecticut businesses and Connecticut colleges and universities.

BioScience Facilities Fund – This program encourages the growth of Connecticut's bioscience industry by providing financing to qualified biotechnology companies for the construction of wet laboratory and related space.

Connecticut BioSeed Fund – This program was established to help accelerate the growth of early-stage biotech enterprises in Connecticut. The program typically invests up to $500,000 in companies working to solve unmet medical needs.

Seed Investment Fund – This program addresses the needs of entrepreneurs as they endeavor to grow Connecticut-based emerging technology companies. The program provides funding to qualified non-bioscience companies in Connecticut. Seed investments of up to $500,000 are structured as equity (preferred stock), convertible debt, or debt with warrants depending on the individual circumstances of the deals.

Pre-Seed Support Services – This program helps innovative, high-technology entrepreneurs develop companies in Connecticut. The Corporation provides mentoring, coordination of services and limited funding for business assistance to prepare a tech company for future investments.

Clean Tech Fund – This program makes investments of up to $1,000,000 in seed and early-stage companies focused on innovations which conserve energy and resources, protect the environment, or eliminate harmful waste.

Connecticut Clean Energy Fund – The Renewable Energy Investment Fund (commonly referred to as the Connecticut Clean Energy Fund) was created under Public Act 98-28 to promote the production and utilization of clean energy. The financial records and activities of the CCEF are kept separate from the Corporation and its purpose is distinctly different from that of the Corporation. A separate independent financial statement audit is done for the CCEF.

During the period July 1, 2007 through September 30, 2007, the Corporation was responsible for administering the CCEF, as required under Section 16-245n of the General Statutes. However, Public Act 07-152, effective October 1, 2007 (see "Significant State Legislation" section below concerning the Act), amended said Section requiring that the CCEF shall be within the Corporation for administrative purposes only.

In addition, in the footnotes to its financial statements for the fiscal year ended June 30, 2008, the following organizations are identified as blended component units of the Corporation that, although legally separate entities, are in substance, part of the Corporation's operations:

Connecticut Technology Development Corporation (CTDC) – The CTDC is the Connecticut Innovations, Inc.'s wholly owned for-profit corporation, used to address the need by new biotech firms for wet laboratory space in "move-in" condition. CTDC activities during the 2007-2008 fiscal year consisted mainly of rent, utilities, and depreciation expenses at 25 Science Park in New Haven. The total expenses of CTDC during the fiscal year ended June 30, 2008, were $454,998. These amounts are included in the Connecticut Innovations, Inc.'s financial statements.

Connecticut Innovations Educational Foundation (CIEF) – The Corporation's Board approved the creation of the CIEF at its meeting on May 14, 2001. It is a non-stock corporation, exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3), in which the Corporation is the sole member. At its meeting on March 22, 2004, the Board authorized several of the Corporation's and the CCEF's programs to be run through the CIEF, including the Technology Scholars Program, the Yankee Ingenuity Technology Competition, the Clean Energy Freedom Bus, and the Connecticut Clean Energy Fund Yankee Ingenuity Technology Competition. The Corporation explains that the Foundation was created so that it could solicit funds from external sources as a 501(c)(3) corporation, to provide additional funding for the programs. Apparently, the Foundation was not successful in its fund raising efforts, and at its meeting on July 28, 2006, the Board approved the dissolution of the Foundation, which was to occur in the fiscal year ended June 30, 2009. The Corporation assumed responsibility over the conduct and ongoing programs of the Foundation.

Organizationally, the Corporation is divided into five major areas:

- Finance and Administration – responsible for accounting, administration, finance, and information technology support for the Corporation and the CCEF.

- Investment Team – responsible for identifying opportunities that fall within the Corporation's scope and providing, where appropriate, capital for invention and innovation when financial aid is not available from normal commercial sources.

- External Relations – responsible for communications, marketing and media relations related to the Corporation and the CCEF.

- Business Development – responsible for developing and supporting business opportunities for the Corporation and its portfolio companies.

- Connecticut Clean Energy Fund operations – responsible for the operation of the CCEF.

Significant State Legislation:

An Act Concerning the Renewable Energy Investment Fund – Public Act 07-152, Section 1, effective October 1, 2007, requires that the Renewable Energy Investment Fund shall no longer be managed by the Corporation, but shall be within the Corporation for administrative purposes only and allows the Corporation to spend monies in said Fund only upon authorization of the Renewable Energy Investment Board created pursuant to the Act.

An Act Authorizing and Adjusting Bonds of the State for Capital Improvements and for Transportation Infrastructure Improvements and Concerning the Connecticut State University Infrastructure Act – Public Act 07-7, Section 13 (n), effective November 2, 2007, authorizes the proceeds of the sale of bonds not exceeding $12,000,000 to recapitalize the programs of the Corporation, provided up to $1,500,000 shall be made available for capital expenses associated with the BioBus.

Board of Directors and Administrative Officials:

Pursuant to Section 32-35, subsection (b), of the General Statutes, a 15-member Board of Directors governs the Corporation. Eight members are appointed by the Governor and four are appointed by various legislative leaders. In addition, the Commissioner of the Department of Economic and Community Development, the Commissioner of the Department of Higher Education and the Secretary of the Office of Policy and Management serve as ex-officio members. Subsection (c) of Section 32-35 provides that the Chairperson of the Board shall be appointed by the Governor with the advice and consent of the Legislature.

The members of the Corporation's Board of Directors as of June 30, 2008, were as follows:

Appointed by the Governor:
- Peter L. Cashman
- Louis N. George, Esq.
- R. Carol Muradian
- John W. Olsen
- Paul R. Pescatello, Esq.
- Rafael A. Santiago
- George W. Schiele
- Amrutur V. Srinivasan, Ph.D.

Legislative Appointments:
- Alan K. Greene
- Harris L. Marcus
- Stephen Nocera
- 1 vacancy

Ex-Officio:
- Joan McDonald, Chairperson, Commissioner of the Department of Economic and Community Development
- Robert L. Genuario, Secretary of the Office of Policy and Management
- Michael P. Meotti, Commissioner of the Department of Higher Education

In addition to the above members, Edward M. Bowman, Jr., Thomas J. Clark, Chandler Howard, Valerie F. Lewis, E. Charles McClenachan, Ph.D., and Elaine A. Pullen, served as members of the Board during the audited period.

Elaine A. Pullen served as Chairperson of the Board until her resignation effective July 31, 2007. Edward M. Bowman, Jr. served as Chairperson from August 10, 2007 until his resignation effective March 18, 2008. Joan McDonald was appointed Chairperson effective May 21, 2008.

In addition, the Board has set up several committees and sub-committees to expedite certain business activities of the Corporation, as well as, to maintain controls over its transactions. The Corporation has the following three standing committees: the Audit, Compliance and Governance Committee; the Finance, Operations and Compensation Committee; and the Eli Whitney Investment Committee. The Corporation also has several advisory committees including the Eli Whitney Advisory Committee, the Valuation Committee, the Executive Advisory Committee, and the BioSeed Advisory Committee.

The Board appointed Peter V. Longo, the Corporation's Deputy Executive Director, to Acting Executive Director on April 30, 2007, and subsequently, to the position of President and Executive Director on October 26, 2007.

Connecticut Clean Energy Fund:

The Renewable Energy Investment Fund (commonly referred to as the Connecticut Clean Energy Fund) was established in July 1998 under Title 16, Section 16-245n of the General Statutes, which until October 1, 2007, required that the Connecticut Innovations, Inc. (the Corporation) administer the Fund. However, Public Act 07-152, effective October 1, 2007 (see "Significant State Legislation" section below concerning the Act), amended said Section by placing the Connecticut Clean Energy Fund (the CCEF) within the Corporation for administrative purposes only.

Section 16-245n provides that, on or after January 1, 2004, the Department of Public Utility Control shall assess or cause to be assessed a charge per kilowatt-hour to each end-user of electrical service in the State. It is this assessment that provides the financing for the CCEF. Unlike the majority of the Corporation's investments, the CCEF is not limited to Connecticut businesses. Upon authorization by the CCEF Board, the Corporation may use any amount in the Fund for expenditures that promote investment in renewable energy sources in accordance with a comprehensive plan developed by the CCEF Board to foster the growth, development and commercialization of renewable energy sources and related enterprises and stimulate demand for renewable energy and deployment of renewable energy sources that serve end use customers in this state and for the further purpose of supporting operational demonstration projects for advanced technologies that reduce energy use from traditional sources. Such expenditures may include, but not be limited to, reimbursement for services provided by the Corporation including a management fee, disbursements to develop and carry out the comprehensive plan, grants, direct or equity investments, contracts or other actions which support research, development, manufacture, commercialization, deployment and installation of renewable energy technologies, and actions which expand the expertise of individuals, businesses and lending institutions with regard to renewable energy technologies.

The three strategic objectives of the CCEF's programs and initiatives are for Connecticut ratepayers to have access to a diverse supply of clean energy resources, to identify and promote renewable energy technologies and tools to address challenging energy issues while providing economic development opportunities, and to increase the demand for clean energy by creating model, sustainable communities.

Significant State Legislation:

An Act Concerning the Renewable Energy Investment Fund – Public Act 07-152, Section 1, effective October 1, 2007, requires that the Renewable Energy Investment Fund shall no longer be managed by the Corporation, but shall be within the Corporation for administrative purposes only. It also establishes a Renewable Energy Investments Board of not more than fifteen individuals with knowledge and experience in matters related to the purpose and activities of the Renewable Energy Investment Fund. The Act requires the Board to act on matters related to the Renewable Energy Investment Fund, including, but not limited to, the expenditure of funds and development of a comprehensive plan that must be submitted to the Department of Public Utility Control for approval. The Board shall issue annually a report to the Department of Public Utility Control describing the programs and activities of the Renewable Energy Investment Fund and shall provide a copy of such report, to the joint standing committees of the General Assembly having cognizance of matters relating to energy and commerce and to the Office of Consumer

Counsel.

Board of Directors and Administrative Officials:

Prior to October 1, 2007, Section 16-245n, subsection (d), established a Renewable Energy Investments Advisory Committee to assist the Corporation in matters related to the CCEF. The Committee consisted of not more than 12 individuals with knowledge and experience in matters related to the purpose and activities of the CCEF. The members were appointed by the Governor, legislative leaders and the Corporation's Board of Directors. This Advisory Committee was known as the Clean Energy Advisory Committee of the CCEF. There was also a Clean Energy Investment Committee of the Corporation's Board of Directors, made up of six of the Corporation's Board members, which approved funding for any investment or grant proposals, etc., generally on the recommendations made by the Advisory Committee.

The members of the CCEF Advisory Committee as of September 30, 2007, were as follows:

Timothy Bowles, Chairman
Marian Chertow
Donald W. Downes
Norma J. Glover
Richard C. Lichter
Robert Maddox
John Mengacci
William T. Sellay
Margery C. Winters

Appointed by the Board of Directors of Connecticut Innovations, Inc.:
E. Charles McClenachan, Ph.D.
John W. Olsen
Jerome P. Peters, Jr.

Timothy Bowles was appointed Chairman on October 25, 2004.

Public Act 07-152, effective October 1, 2007, eliminated the CCEF Advisory Committee and created the Renewable Energy Investments Board (commonly referred to as the Connecticut Clean Energy Fund Board) under Section 16-245n, subsection (d), of the General Statutes, to act on matters related to the CCEF. Section 16-245n, subsection (e), provides that the CCEF Board shall include up to 15 members with knowledge and expertise in matters related to the purpose and activities of the CCEF and shall consist of three members appointed by the Governor, six members appointed by various legislative leaders, two members appointed by the Board of Directors of Connecticut Innovations, Inc., the Consumer Counsel and the heads or designees of the Department of Emergency Management and Homeland Security, the Office of Policy and Management, and the Department of Environmental Protection. The Board shall elect a chairperson biennially and shall adopt bylaws and procedures deemed necessary to carry out its functions.

The members of the CCEF Board as of June 30, 2008, were as follows:

Timothy Bowles, Chairman
Mary Healey (Consumer Counsel)
Scott DeVico (designee – Department of Emergency Management and Homeland Security)
John Mengacci (designee – Office of Policy and Management)
Tracy Babbidge (designee – Department of Environmental Protection)
Norma Glover
Kevin Hennessy
Robert Maddox
John Olsen
Jerry Peters
Jessie Stratton
Patricia Wrice

Appointed by the Board of Directors of Connecticut Innovations, Inc.:
Alan Greene
Carol Muradian
1 vacancy

In addition to the above members, Edward M. Bowman Jr. also served as a member of the CCEF Board during the audited period.

Timothy Bowles was elected Chairperson on October 1, 2007.

In addition, the Board has set up several committees and sub-committees to review and discuss issues and assist the Board in making decisions related to the CCEF. The CCEF Board has the following four standing committees: Executive Committee, Finance and Operations Committee, Projects Committee, and Technology Programs Committee.

Lise Dondy served as President of the CCEF throughout the audited period.

RÉSUMÉ OF OPERATIONS:

State Accounts:

The State of Connecticut provided significant initial financing for the Corporation's programs through the proceeds of General Obligation Bonds. It is these bond proceeds and any net income from operations that are used to finance the Corporation's investments.

State expenditures related to the Corporation include bond fund proceeds to finance various grants and investments. They also include certain operating expenses processed through Core-CT (the State's accounting system). These transactions are processed through two State funds – a special revenue fund (Grants to Local Governments and Others) and an enterprise fund (Connecticut Innovations, Incorporated Fund).

The Grants to Local Governments and Others Fund is a special revenue fund used to process certain grant awards authorized by the State Legislature through various authorizing special acts and the action of the State Bond Commission. Bond payments are processed through Core-CT and are recorded on both the State's and the Corporation's books. The State Comptroller records State bond proceeds to finance loans and investments as expenditures, while the Corporation records them as investments and as contributed capital. During the audited period, $4,000,000 of special revenue funds were used to provide financial aid for biotechnology and other high-technology laboratories, facilities, and equipment, as authorized under Public Act 01-2, Section 9(e). In addition, $3,000,000 in special revenue funds were utilized to recapitalize the programs of the Corporation, as authorized under Public Act 07-7, Section 13(n).

The Connecticut Innovations, Incorporated Fund is an enterprise fund authorized by Section 32-41a of the General Statutes. That Statute provides that this fund be used to carry out the purposes of the Corporation and for the repayment of State bonds when required by the State Bond Commission. Total bond fund monies authorized by Sections 32-41, 32-41b, and 32-41o, amounted to $114,801,000 as of June 30, 2008. Core-CT is used by the Corporation for processing of enterprise fund payroll and other operating expenses. Expenditures charged to the enterprise fund during the audited period consisted entirely of payroll costs for the Corporation and the CCEF, which were funded by cash transfers by the Corporation (see "Connecticut Innovations, Incorporated" section below) to the Connecticut Innovations, Inc. Fund. A summary of the Corporation's expenditures during the audited period, as compared to the previous fiscal year, follows:

	Fiscal Year Ended June 30,	
	2008	**2007**
Personal Services	$ 3,705,116	$ 3,137,264
Fringe Benefits	1,933,535	1,649,119
Totals	**$ 5,638,651**	**$ 4,786,383**

The increase in personal services and fringe benefits is due to an increase in salaries, the number of employees and benefit accruals. There were no State expenditures made from the enterprise fund for investment purposes.

Connecticut Innovations, Incorporated:

Pursuant to subsection (b) of Section 32-41a of the General Statutes, all investment income, loan repayments, and grants with payback provisions are deposited into the Corporation's account (i.e. "operating account"). The operating account is used to pay administrative expenses including the transfers to the enterprise fund for reimbursements of personal services, fringe benefits and other administrative costs charged to the fund.

Any excess funds in the operating account are transferred to short-term investments and marketable securities, including the State Treasurer's Short Term Investment Fund (STIF), to earn investment income. It should be noted that the Corporation may be required by the Bond Commission to repay the moneys advanced by the Bond Commission, including interest, under terms the Commission might find desirable and consistent with the purposes of the Corporation. As of June 30, 2008, the Bond Commission had not requested repayment of any principal or interest.

The financial position of the Corporation as of June 30, 2007 and 2008, per its audited financial statements, is presented below. The following amounts do not include the Connecticut Clean Energy Fund.

	As of June 30	
Assets	**2008**	**2007**
Current Assets:		
Cash and cash equivalents	$ 42,521,274	$ 24,793,944
Marketable securities	15,360,159	16,694,181
Current portion of investments	4,508,825	1,885,189
Due from the State of Connecticut	0	865
Due from related party	20,869	0
Other assets	390,686	888,746
Total current assets	62,801,813	44,262,925
Non-Current Assets:		
Portfolio Investments:		
Eli Whitney Fund investments	25,004,069	27,379,667
BioScience Facilities Fund investments	14,178,786	12,739,819
Seed Fund investments	1,275,000	0
Investment in CT Emerging Enterprises, LP	837,829	1,269,596
Investment in Next Generation Ventures, LLC	1,280,885	228,890
Other investments	574,501	752,672
Total investments	43,151,070	42,370,644
Less current portion	(4,508,825)	(1,885,189)
Investments – non-current	38,642,245	40,485,455
Capital assets, net of depreciation	1,006,741	1,140,155
Total non-current assets	39,648,986	41,625,610
Total Assets	**$ 102,450,799**	**$ 85,888,535**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 792,780	$ 707,526
Custodial liability	10,357,654	250,000
Due to related parties	0	104,568
Due to State of Connecticut	80	0
Total liabilities	11,150,514	1,062,094
Net Assets:		
Invested in capital assets	1,006,741	1,140,155
Unrestricted	90,293,544	83,686,286
Total net assets	91,300,285	84,826,441
Total Liabilities and Net Assets	**$ 102,450,799**	**$ 85,888,535**

The Corporation makes risk capital investments of no more than six million dollars, with the approval of the Finance Committee of the Board of Directors, in high-technology applicant companies. Investments greater than six million dollars are possible, with approval of the full Board of Directors. The Corporation primarily makes investments in equity securities of emerging high-tech companies. It has substantially eliminated the use of royalty financing arrangements but continues to recover the cost and revenues of past royalty arrangements. The Corporation has nearly 70 percent of its investments in equity securities.

In the absence of readily determinable market values, investments are carried at fair value as estimated by the Valuation Committee of the Corporation, using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group. As is commonplace with investments such as those held by the Corporation, and as disclosed in the Corporation's audited financial statements, due to the inherent uncertainty of valuation, those estimated values may differ significantly from the amounts ultimately realized from the investments, and the differences could be material.

The Corporation also provides loans that are generally convertible into equity to Connecticut companies to bring new high-technology products to market. Loans may be used for any business-related purpose such as hiring, marketing, research and development, inventory buildup and capital expenditures. A loan must be repaid within six years according to an arranged payment schedule.

A schedule of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2007 and 2008, follows. The information was obtained from the Corporation's audited financial statements, and does not include the Connecticut Clean Energy Fund.

	Fiscal Year Ended June 30,	
Operating Revenues:	**2008**	**2007**
Interest on short-term investments and cash deposits	$ 1,904,520	$ 2,117,204
Interest on investments	1,256,804	1,125,959
Other income	469,938	193,010
Total Revenues	3,631,262	3,436,173
Operating Expenses:		
Compensation and benefits	2,690,216	2,573,188
General and administrative expenses	1,514,991	1,616,917
Grants and programs	188,528	197,881
Total Expenses	4,393,735	4,387,986
Operating Loss	(762,473)	(951,813)
Non-Operating Revenues (Expenses):		
Unrealized gain (loss) on investments	1,559,131	1,321,805
Realized gain (loss) on sale of investments	(1,322,814)	580,227
Total Non-Operating Revenues (Expenses)	236,317	1,902,032
Change in Net Assets Before Capital Contributions	(526,156)	950,219
Capital Contributions	7,000,000	0
Change in Net Assets	**$ 6,473,844**	**$ 950,219**

Total revenues increased by $195,089 during the 2007-2008 fiscal year. Interest on short-term investments and cash deposits decreased by $212,684 during the 2007-2008 fiscal year due to interest rate decreases for the fiscal year. Interest earned on investments increased by $130,845 as a result of new loan activity. Other income increased by $276,928 due to the receipt of non-recurring royalties, dividend income and reimbursement of legal fees during the 2007-2008 fiscal year.

Compensation and benefits increased by $117,028 during the 2007-2008 fiscal year primarily as a result of increases in salaries, the number of employees and benefit accruals.

General and administrative expenses decreased by $101,926 during the 2007-2008 fiscal year due primarily to decreases in consulting fees and office and office related expenses.

Total expenditures for grants and scholarship programs during the 2007-2008 fiscal year were $188,528, a decrease of $9,353 from the prior year. The decrease was largely due to a decline in funding of the scholarship program during the 2007-2008 fiscal year.

Net realized losses on investments for the year were $1,322,814 as compared to realized gains of $580,227 during the 2006-2007 fiscal year. During the 2007-2008 fiscal year, the realized losses were from the sale of public securities and investment write-offs. The $580,227 in realized gains during the 2006-2007 fiscal year resulted from the sale of public securities and recoveries of investments written off in prior years.

During the 2007-2008 fiscal year, the Corporation received capital contributions of $4,000,000 for the BioScience Facilities Fund and $3,000,000 to recapitalize the Corporation's various programs. These capital contributions consist of State bond proceeds authorized under Public Act 01-2, Section 9(e), and Public Act 07-7, Section 13(n), respectively.

The Corporation's Board approved $13,063,210 for new investments during the fiscal year ended June 30, 2008, and funded $11,483,098. The Eli Whitney Fund comprised the majority of the approved and funded amounts. In addition, the Corporation provided funding of $188,528 for grants and scholarships, net of refunds, during the audited period.

Connecticut Clean Energy Fund:

Section 16-245n, subsection (c), of the General Statutes provides that the CCEF may receive any amount required by law to be deposited into the CCEF and may receive any Federal funds available to the State for renewable energy investments. The Corporation, upon authorization of the CCEF Board, is allowed to use CCEF monies for expenditures that promote investment in renewable energy sources in accordance with its Comprehensive Plan.

The financial position of the Connecticut Clean Energy Fund as of June 30, 2007 and 2008, as presented in its audited financial statements, follows:

	As of June 30,	
	2008	**2007**
Assets		
Cash and cash equivalents	$ 56,542,756	$ 48,791,662
Marketable securities	31,084,200	33,055,835
Utility customer assessments receivable	2,078,654	2,073,650
Due from related parties	0	104,568
Investments	427,419	427,421
Other assets	217,527	80,517
Restricted assets	481,215	830,415
Total Assets	**$ 90,831,771**	**$ 85,364,068**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,866,218	$ 783,887
Due to Fund Administrator	20,869	0
Total Liabilities	1,887,087	783,887
Net Assets:		
Restricted	481,215	830,415
Unrestricted	88,463,469	83,749,766
Total Net Assets	88,944,684	84,580,181
Total Liabilities and Net Assets	**$ 90,831,771**	**$ 85,364,068**

Connecticut Clean Energy Fund revenues, expenditures and the changes in net assets for the fiscal years ended June 30, 2007 and 2008, are presented below. The information was taken from the Connecticut Clean Energy Fund audited financial statements for those fiscal years.

	Fiscal Year Ended June 30,	
	2008	**2007**
Revenues:		
Utility customer assessments	$ 21,425,250	$ 22,841,350
Interest on short-term investments	3,534,007	3,834,314
Other income	3,975,663	323,529
Total Revenues	28,934,920	26,999,193
Expenditures/Expenses:		
Program:		
Grants	19,699,676	10,822,746
Program expenses	2,728,513	2,109,107
Total program expenses	22,428,189	12,931,853
General and administrative expenses	2,142,226	1,650,627
Total Expenditures and Expenses	24,570,415	14,582,480

Change in Net Assets Before Changes in the Fair Value of Investments	4,364,505	12,416,713
Net realized gain (loss) on investments	(1,696,687)	20,408
Net increase (decrease) in the fair value of investments	1,696,685	(560,434)
Net Change in Net Assets	4,364,503	11,876,687
Net assets, Beginning of Year	84,580,181	72,703,494
Net assets, End of Year	**$ 88,944,684**	**$ 84,580,181**

Revenues from utility customer assessments decreased by $1,416,100 during the 2007-2008 fiscal year primarily as a result of a decrease in utility usage. Beginning in the 2005-2006 fiscal year, there was a statutory transfer of funds for debt service on the State of Connecticut Special Obligation Rate Reduction Bonds (2004 Series A), which were issued on June 23, 2004, in accordance with Public Act 03-6, Section 50, of the June 30, 2003, Special Session, effective August 20, 2003. The proceeds of these bonds were to be used in lieu of direct transfers from the CCEF to the General Fund. One-third of the one mill statutory ratepayer assessment will be used to cover the debt service portion on the bonds, resulting in a reduction in the CCEF revenues of an estimated $8,600,000 per year.

Interest on short-term investments and cash deposits increased by $300,307 during the 2007-2008 fiscal year due to the increase in the average cash balance on hand offset by lower interest rates. Other income during the 2007-2008 fiscal year included $3,488,180 received from utility companies representing a penalty assessed by the Connecticut Department of Public Utility Control for failure to meet requirements pertaining to each utilities renewable energy portfolio.

Total expenditures for grants and programs during the 2007-2008 fiscal year were $19,699,676, an increase of $8,876,930 from the prior year due to growth in the CCEF's grant programs. During the 2007-2008 fiscal year, the CCEF committed a total of $38,910,459 for new grants and programs. As of June 30, 2008, the CCEF had outstanding commitments totaling $41,498,495 expected to be paid over the next two fiscal years.

Program expenses increased by $619,406 to $2,728,513 during the 2007-2008 fiscal year due to the hiring of additional program staff and consultants to administer the CCEF's various programs. General and administrative expenses increased by $491,599 to $2,142,226 during the 2007-2008 fiscal year due to growth in the CCEF's activities.

Realized losses on program investments during the 2007-2008 fiscal year increased by $1,717,095 over the prior year and unrealized appreciation on these investments increased by the same amount due to the write-off of certain investments that had been fully reserved for in prior years.

Other Examinations:

Independent public accountants audited the Corporation's and the CCEF's financial statements for the year under review. Those audits attested that the financial statements presented fairly, in all material respects, the financial position of Connecticut Innovations, Incorporated and the Connecticut Clean Energy Fund for the audited period, and the results of the operations and cash flows during that period in conformity with accounting principles generally accepted in the United States of America.

The independent public accountants' report included an explanatory paragraph regarding the Corporation's use of estimates to determine the fair value of a significant portion of its assets in the absence of readily ascertainable market values. Essentially, it was concluded that the procedures the Corporation used to arrive at the estimated values of its investments were reasonable and appropriately documented; however, because of the inherent uncertainty of valuation, those estimated values could differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

As an integral part of their financial statement audits, the independent public accountants also provided reports on compliance and on internal control over financial reporting. These reports disclosed no instances of noncompliance concerning these requirements. The reports on internal control indicated that no material weaknesses in internal control over financial reporting were identified.

CONDITION OF RECORDS

Our review of the records of Connecticut Innovations, Incorporated, including the Connecticut Clean Energy Fund, revealed the following areas that warrant comment.

<u>Connecticut Innovations, Incorporated:</u>

Conflicting Statutory Reporting Provisions:

Criteria: Section 32-47a of the General Statutes requires Connecticut Innovations, Inc. (the Corporation) to submit an annual report which shall include specific information with respect to new and outstanding financial assistance provided by the Corporation during the twelve-month period ending on June thirtieth for each financial assistance program administered by the Corporation. The information required to be reported consists of a list of the names, addresses and locations of all recipients of such assistance and, for each recipient, in addition to other necessary information, the gross revenues during the recipient's most recent fiscal year. In addition, for each recipient of assistance on or after July 1, 1991, 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 report shall also indicate 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.

Section 32-40, subsection (c), of the General Statutes provides that all financial information obtained by the Corporation concerning any applicant or project shall not be regarded as public records.

Condition: Our review of the Corporation's annual financial assistance report for the fiscal year ended June 30, 2008, revealed that the Corporation did not clearly report revenue, wage rate and benefit level data separately for each recipient of assistance; the data was reported in such a format that the identity of the individual recipients of assistance could not be linked with the data reported. In addition, the wage rate data was not reported for jobs to be created and retained.

Effect: The Corporation did not disclose all of the information required under Section 32-47a of the General Statutes.

Cause: The Corporation reported the data in an encrypted format because it has taken the position that such information is confidential in accordance with Section 32-40, subsection (c). Although the information was collected, we could not determine why the Corporation did not report the wage rate data for jobs to be created and retained.

Conclusion: Public Act 09-172 amended Section 32-47a of the General Statues, effective July 1, 2009, to address the apparent statutory conflict between Section 32-47a and Section 32-40, subsection (c). The Act requires gross revenues to be reported for organizations that make the information public in the normal course of business. For organizations that do not make the information public in the normal course of business, the gross revenue information must be provided separately, concealing the organizations' names and identities, in a manner consistent with the provisions of Section 32-40, subsection (c), of the General Statutes.

Policy on Campaign Contributions:

Criteria: Section 32-35, subsection (d), of the General Statutes requires that the Board of Directors of Connecticut Innovations, Inc. (the Corporation) shall adopt written procedures for the hiring, dismissing, promoting and compensating of employees of the Corporation. As described in the Corporation's Bylaws, the responsibilities of the Board include the development and monitoring of personnel employment policies and practices and to insure adequate employee education and training on ethics and related legal requirements. Specific personnel polices are included in the Operating Procedures adopted by the Board. In addition, the Corporation's Employee Handbook, which is provided to employees upon being hired, with changes being communicated through official notices, contains additional policies and procedures relating to employment at the Corporation.

Section 9-612, subsection (j)(2)(A), of the General Statutes provides that, "no executive head of a state agency in the executive branch, executive head of a quasi-public agency, deputy of any such executive head, other full-time official or employee of any such state agency or quasi-public agency who is appointed by the Governor, other full-time official or employee of any such state agency or quasi-public agency who is in the unclassified service, or member of the immediate family of any such person, shall make a contribution or contributions (i) to, or for the benefit of, any candidate's campaign for nomination at a primary or election to the office of Governor or Lieutenant Governor, in excess of one hundred dollars for each such campaign, or (ii) to a political committee established by any such candidate, in excess of one hundred dollars in any calendar year."

Condition: Our review disclosed that there was no mention of the campaign contribution limitations prescribed under Section 9-612, subsection (j)(2)(A), of the General Statutes, in either the Corporation's Operating Procedures or the Corporation's Employee Manual, which is distributed to employees upon being hired, nor was there any other formal means in place during the audited period to communicate the restrictions to the Corporation's employees and officials. Therefore, the Corporation's employees and officials were not made aware of the legal requirements related to campaign contribution limitations.

Effect: An employee or official of the Corporation who is unaware of the campaign contribution limitations for employees and officials of quasi-public agencies could contribute in excess of $100 to a political campaign, and, thereby, inadvertently not comply with statutory limitations. In addition, the Corporation did not fulfill its responsibility to inform employees on ethics and related legal requirements.

Cause: It appears that the campaign contribution limitation was overlooked by the Corporation and was not specifically identified as a legal requirement to its employees or officials.

Recommendation: Connecticut Innovations, Inc. should implement a policy to inform its employees of the limitations on campaign contributions for employees and officials of quasi-public agencies, as prescribed under Section 9-612, subsection (j)(2)(A), of the General Statutes. (See Recommendation 2.)

Agency Response: "Once we were made aware of this oversight we implemented and notified staff of the limitation on campaign contributions and required them to acknowledge that they have read and will abide by this policy. All current staff has acknowledged that they have read and will abide by this policy. All new employees will be required to read and acknowledge receipt of this policy."

Connecticut Clean Energy Fund:

There were no audit recommendations, pertaining to the CCEF, as a result of this audit examination.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- Connecticut Innovations, Inc. should institute procedures to ensure that the revenue collected for the Connecticut Clean Energy Fund represents all of the monies that the Connecticut Clean Energy Fund is due. Also, consideration should be given to reviewing prior years' payments to ensure that the Connecticut Clean Energy Fund received all of the revenue that it was statutorily required to receive. – Our current audit noted that the Corporation has implemented procedures to review the utility companies' support for the amounts paid to the CCEF to ensure that all monies due to the CCEF were collected. This recommendation is considered resolved.

- Connecticut Innovations, Inc. should strengthen internal controls to ensure the correct budget is reported in the Business Plan. The Corporation should also seek legislative clarification to resolve the apparent statutory conflict between Section 32-47a and Section 32-40, subsection (c), to ensure that all information is reported consistent with the legislative intent. – Our current audit noted that the correct budget was reported in the Corporation's Business Plan for fiscal year 2007-2008. Although the apparent statutory conflict previously noted was not resolved during our audit period, Public Act 09-172 amended Section 32-47a, effective July 1, 2009, allowing the Corporation to report gross revenue information of recipients in a manner consistent with Section 32-40, subsection (c). This recommendation is considered resolved. (See Recommendation 1.)

- Connecticut Innovations, Inc. should amend its operating procedures to ensure compliance with Section 32-40 of the General Statutes. – The current audit disclosed that three seed investments, which totaled $1,250,000, in our sample were funded without obtaining the approval required under Section 32-40 of the General Statutes; however, we noted in the minutes of the Corporation's Boards and Committees that, upon being notified of the matter during the prior audit, it was decided that all seed investments were to be brought to the Eli Whitney Advisory and Investment Committees for approval. Further, on March 17, 2009, the Corporation's Board of Directors voted to amend the Operating Procedures of the Corporation to ensure compliance with statutory requirements, thereby resolving this recommendation.

- Connecticut Innovations, Inc. should strengthen its internal controls to ensure compliance with the Corporation's Employee Handbook and to ensure that employee time and attendance records are maintained in an accurate manner and employees are compensated only for time worked or earned. – Our current audit did not note any instances where employees were compensated for time not worked and/or earned. In addition, the Corporation has amended its vacation policy relative to introductory employees. This recommendation is considered resolved.

- Connecticut Innovations, Inc. should institute written policies and procedures related to telecommuting that include formal telecommuting agreements. – The current audit disclosed that a written Telecommuting Policy was implemented within the Corporation's Employee Manual, which requires the completion and authorization of a formal Telecommuting Agreement. This recommendation is considered resolved.

Current Audit Recommendation:

1. **Connecticut Innovations, Inc. should implement a policy to inform its employees of the limitations on campaign contributions for employees and officials of quasi-public agencies, as prescribed under Section 9-612, subsection (j)(2)(A), of the General Statutes.**

   Comment:

   Our review disclosed that, at the time of our audit, the Corporation's employees and officials were not made aware of the legal requirements related to campaign contribution limitations as prescribed under Section 9-612, subsection (j)(2)(A), of the General Statutes.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90, Section 1-122 and Section 32-42 of the General Statutes, we have conducted an audit of Connecticut Innovations, Incorporated's activities (the Corporation), including the Connecticut Clean Energy Fund's (the CCEF) activities, for the fiscal year ended June 30, 2008. This audit was primarily limited to performing tests of the Corporation's and the CCEF's compliance with certain provisions of laws, regulations, contracts and grant agreements, including but not limited to a determination of whether the Corporation and the CCEF have complied with their 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 Corporation's and the CCEF's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grant agreements applicable to the Corporation and the CCEF are complied with. The financial statement audits of Connecticut Innovations, Inc. and the Connecticut Clean Energy Fund, for the fiscal year indicated above, were conducted by the Corporation's and the CCEF'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 Connecticut Innovations, Inc. and the Connecticut Clean Energy Fund 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 Corporation's and the CCEF's internal control over their financial operations and their compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Corporation's and the CCEF'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 Corporation's and the CCEF's internal control over those control objectives. 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 *control deficiency* 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 on a timely basis unauthorized, illegal, or irregular transactions. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's or the CCEF's ability to properly initiate, authorize, record, process, or report financial data reliably consistent with management's direction, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Corporation's or the CCEF's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood 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 Corporation's or the CCEF's financial operations will not be prevented or detected by the Corporation's or the CCEF's internal control.

Our consideration of the internal control over the Corporation's and the CCEF's financial operations and compliance with requirements would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Corporation's or the CCEF's financial operations and compliance with requirements that we consider to be material weaknesses, as defined above.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Corporation and the CCEF 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 Corporation's and the CCEF's financial operations for the fiscal year ended June 30, 2008, we performed tests of their 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 Corporation's and the CCEF'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 the Corporation's management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Corporation's response to the findings identified in our audit is described in the accompanying "Condition of Records" sections of this report. We did not audit the Corporation'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 Corporation's and the CCEF'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 Innovations, Incorporated and the Connecticut Clean Energy Fund during our examination.

Vincent Filippa
Associate Auditor

Approved:

Kevin P. Johnston	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts