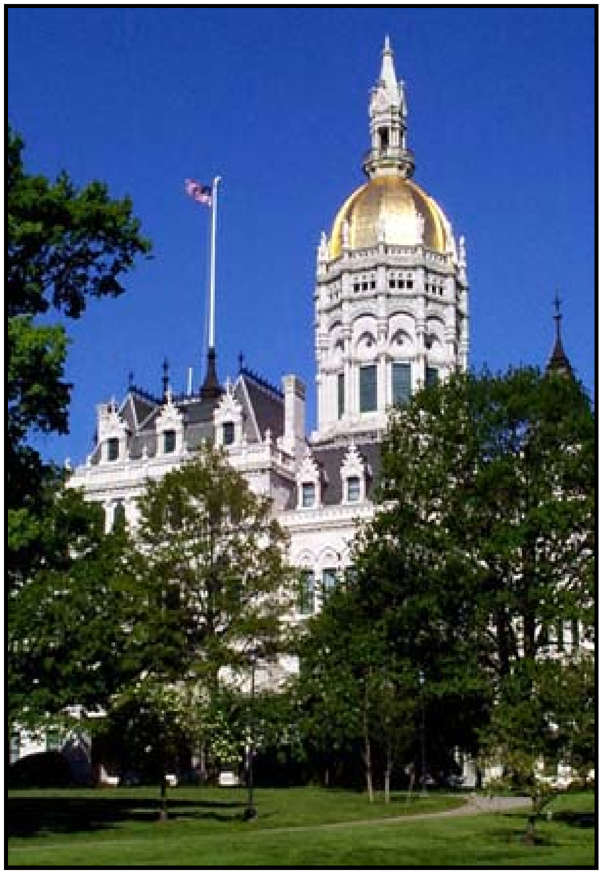
STATE OF CONNECTICUT



AUDITORS' REPORT
CONNECTICUT INNOVATIONS, INCORPORATED
INCLUDING
THE CONNECTICUT CLEAN ENERGY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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November 1, 2010

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CONNECTICUT INNOVATIONS, INCORPORATED
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FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009.

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. The partnership was dissolved during the fiscal year ended June 30, 2009.

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.

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.

In addition, in the footnotes to its financial statements for the fiscal year ended June 30, 2009, 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, 2009, were $692,587. 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. The Corporation explains that the Foundation was created so that it could solicit funds from external sources to provide additional funding for certain 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 occurred in March 2010. The Corporation assumed responsibility over the conduct and ongoing programs of the Foundation.

Organizationally, the Corporation is divided into six major areas:

- Finance and Administration – responsible for accounting, administration, finance, and information technology support for the Corporation and the Connecticut Clean Energy Fund.

- 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 Connecticut Clean Energy Fund.

- 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 Connecticut Clean Energy Fund.

- Small Business Innovation Research – responsible for helping businesses learn about the funds available to them from the Federal Small Business Innovation Research program.

Significant State Legislation:

An Act Concerning Connecticut Innovations, Incorporated – Public Act 09-172, effective July 1, 2009, amended Section 32-47a of the General Statutes, to address the apparent statutory conflict between Section 32-47a and Section 32-40, subsection (c) of the General Statutes. The Act requires that in the preparation of CI's annual report on its financial assistance programs, gross revenues shall 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. The Act allows the Governor and Chairpersons and ranking members of the Finance, Revenue and Bonding and Commerce Committees, after a request to CI, to examine the detailed report data in confidence, including the specific revenue data for each identifiable business included in the report. The Act also allows the committee chairpersons and ranking members to disclose the data to other committee members and requires that they also keep the data confidential.

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, 2009, 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
- Drew Harris

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

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, 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.

Board of Directors and Administrative Officials:

Pursuant to Section 16-245n of the General Statutes, as amended by Public Act 07-152, effective October 1, 2007, the Renewable Energy Investments Board (commonly referred to as the Connecticut Clean Energy Fund Board) acts 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, 2009, 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 and served until his resignation effective September 1, 2009. Norma Glover was elected chairperson effective October 1, 2009.

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, $32,312 of special revenue funds were used for capital improvements associated with the BioBus mobile laboratory program, as authorized under Public Act 07-7, Section 13(n) of the June Special Session.

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 $114,800,000 as of June 30, 2009. Core-CT is used by the Corporation for the 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,	
	2009	**2008**
Personal Services	$ 4,058,544	$ 3,705,116
Fringe Benefits	2,164,290	1,933,535
Totals	**$ 6,222,834**	**$ 5,638,651**

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, 2009, the Bond Commission had not requested repayment of any principal or interest.

The financial position of the Corporation as of June 30, 2008 and 2009, per its audited financial statements, is presented below. The following amounts do not include the Connecticut Clean Energy Fund.

	As of June 30	
Assets	**2009**	**2008**
Current Assets:		
Cash and cash equivalents	$ 39,095,080	$ 42,521,274
Certificates of deposit	6,000,000	161,671
Marketable securities	0	15,198,488
Current portion of investments	3,555,080	4,508,825
Due from CCEF	76,309	20,869
Other assets	260,688	390,686
Total current assets	48,987,157	62,801,813
Non-Current Assets:		
Portfolio Investments:		
Eli Whitney Fund investments	29,709,614	25,004,069
BioScience Facilities Fund investments	9,189,524	14,178,786
Seed Fund investments	1,687,501	1,275,000
BioSeed Fund investments	189,504	564,501
Investment in CT Emerging Enterprises, LP	348,719	837,829
Investment in Next Generation Ventures, LLC	625,733	1,280,885
Other investments	217,500	10,000
Total investments	41,968,095	43,151,070
Less current portion	(3,555,080)	(4,508,825)
Investments – non-current	38,413,015	38,642,245
Capital assets, net of depreciation	827,845	1,006,741

Total non-current assets	39,240,860	39,648,986
Total Assets	**$ 88,228,017**	**$ 102,450,799**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 694,279	$ 792,780
Custodial liability	159,493	10,357,654
Due to State of Connecticut	0	80
Total liabilities	853,772	11,150,514
Net Assets:		
Invested in capital assets	827,845	1,006,741
Unrestricted	86,546,400	90,293,544
Total net assets	87,374,245	91,300,285
Total Liabilities and Net Assets	**$ 88,228,017**	**$ 102,450,799**

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, 2008 and 2009, 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:	**2009**	**2008**
Interest on short-term investments and cash deposits	$ 732,823	$ 1,904,520
Interest on investments	973,433	1,256,804
Other income	541,369	469,938
Total Revenues	2,247,625	3,631,262

Operating Expenses:		
Compensation and benefits	2,942,187	2,690,216
General and administrative expenses	1,723,310	1,514,991
Grants and programs	39,340	188,528
Total Expenses	4,704,837	4,393,735
Operating Loss	(2,457,212)	(762,473)
Non-Operating Revenues (Expenses):		
Unrealized gain (loss) on investments	(4,469,810)	1,559,131
Realized gain (loss) on sale of investments	3,000,982	(1,322,814)
Total Non-Operating Revenues (Expenses)	(1,468,828)	236,317
Change in Net Assets Before Capital Contributions	(3,926,040)	(526,156)
Capital Contributions	0	7,000,000
Change in Net Assets	**$ (3,926,040)**	**$ 6,473,844**

Total revenues decreased by $1,383,637 during the 2008-2009 fiscal year. Interest on short-term investments and cash deposits decreased by $1,171,697 during the 2008-2009 fiscal year due to interest rate decreases for the fiscal year. Interest earned on investments decreased by $283,371 as a result of pay-offs and pay-downs of loans. Other income increased by $71,431 due to the receipt of non-recurring grant income during the 2008-2009 fiscal year.

Compensation and benefits increased by $251,971 during the 2008-2009 fiscal year primarily as a result of increases in salaries, the number of employees and benefit accruals.

General and administrative expenses increased by $208,319 during the 2008-2009 fiscal year due primarily to increases in office related expenses and a reserve for uncollectible debt.

Total expenditures for grants and scholarship programs during the 2008-2009 fiscal year were $39,340, a decrease of $149,188 from the prior year. The decrease was largely due to a decline in funding of the scholarship program during the 2008-2009 fiscal year.

Net realized gains on investments for the year were $3,000,982 as compared to realized losses of $1,322,814 during the 2007-2008 fiscal year. During the 2008-2009 fiscal year, the realized gains were from the divestitures of investments. The $1,322,814 in realized losses during the 2007-2008 fiscal year resulted from the sale of public securities and investment write-offs.

During the 2008-2009 fiscal year, no capital contributions were received. 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 $8,732,000 for new investments during the fiscal year ended June 30, 2009, and funded $9,044,315, based on current and prior year approvals. The Eli Whitney Fund comprised the majority of the approved and funded amounts.

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, 2008 and 2009, as presented in its audited financial statements, follows:

	As of June 30,	
	2009	**2008**
Assets		
Cash and cash equivalents	$ 64,952,366	$ 56,542,756
Certificates of deposit	6,000,000	0
Marketable securities	0	31,084,200
Utility customer assessments receivable	2,491,466	2,078,654
RGGI auction receivable	1,076,659	0
Investments	1,223,718	427,419
Other assets	1,245,369	217,527
Restricted assets	395,415	481,215
Total Assets	**$ 77,384,993**	**$ 90,831,771**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 3,255,105	$ 1,866,218
Due to Fund Administrator	76,309	20,869
Total Liabilities	3,331,414	1,887,087
Net Assets:		
Restricted	395,415	481,215
Unrestricted	73,658,164	88,463,469
Total Net Assets	74,053,579	88,944,684
Total Liabilities and Net Assets	**$ 77,384,993**	**$ 90,831,771**

Connecticut Clean Energy Fund revenues, expenditures and the changes in net assets for the fiscal years ended June 30, 2008 and 2009, 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,	
	2009	**2008**
Revenues:		
Utility customer assessments	$ 28,104,415	$ 21,425,250
Interest on short-term investments	1,192,800	3,534,007
RGGI Auction Income	4,305,254	
Other income	3,112,941	3,975,663
Total Revenues	36,715,410	28,934,920

Expenditures/Expenses:		
Program:		
Grants	48,853,603	19,699,676
Program expenses	3,363,494	2,728,513
Total program expenses	52,217,097	22,428,189
General and administrative expenses	1,987,455	2,142,226
Total Expenditures and Expenses	54,204,552	24,570,415
Change in Net Assets Before Changes in the Fair Value of Investments	(17,489,142)	4,364,505
Net realized gain (loss) on investments	851,739	(1,696,687)
Net increase (decrease) in the fair value of investments	1,746,298	1,696,685
Net Change in Net Assets	(14,891,105)	4,364,503
Net assets, Beginning of Year	88,944,684	84,580,181
Net assets, End of Year	**$ 74,053,579**	**$ 88,944,684**

Revenues from utility customer assessments increased by $6,679,165 during the 2008-2009 fiscal year primarily as a result of the restoration of the assessment levied on utility customers to 1 mill from .7 mill during the 2008-2009 fiscal year. The assessment was restored due to the defeasance of the rate reduction bonds that 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 had been used in lieu of direct transfers from the CCEF to the General Fund and one-third of the one mill statutory ratepayer assessment had been used to cover the debt service portion on the bonds prior to the 2008-2009 fiscal year.

Interest on short-term investments and cash deposits decreased by $2,341,207 during the 2008-2009 fiscal year due to the decrease in the average cash balance on hand and lower interest rates. Other income during the 2008-2009 fiscal year included $2.9 million received from the State Treasurer as proceeds from the defeasance of the rate reduction bonds. The fund received $4.3 million from the State in Regional Greenhouse Gas Initiative (RGGI) auction proceeds.

Total expenditures for grants and programs during the 2008-2009 fiscal year were $48,853,603, an increase of $29,153,927 from the prior year due to growth in the CCEF's grant programs. During the 2008-2009 fiscal year, the CCEF committed a total of $56,358,664 for new grants and programs. As of June 30, 2009, the CCEF had outstanding commitments totaling $42,890,031 expected to be paid over the next two fiscal years.

Program expenses increased by $634,981 to $3,363,494 during the 2008-2009 fiscal year due to the hiring of additional program staff and consultants to administer the CCEF's various programs.

Realized gains on program investments during the 2008-2009 fiscal year increased by $2,548,426 over the prior year and unrealized appreciation on these investments increased slightly.

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, did not reveal any areas that warrant comment.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. CI has complied with this recommendation.

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, 2009. 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, 2009, 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 instances of noncompliance.

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.

Lisa G. Daly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts