STATE OF CONNECTICUT

AUDITORS' REPORT
CONNECTICUT INNOVATIONS, INCORPORATED
INCLUDING
THE CONNECTICUT CLEAN ENERGY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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September 30, 2011

AUDITORS' REPORT
CONNECTICUT INNOVATIONS, INCORPORATED
INCLUDING
THE CONNECTICUT CLEAN ENERGY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

We have examined the books, records and accounts of the Connecticut Innovations, Incorporated (Corporation), including the Connecticut Clean Energy Fund (CCEF), as provided in Section 2-90 and Section 1-122 of the General Statutes, for the fiscal year ended June 30, 2010.

SCOPE OF AUDIT:

This audit was primarily limited to performing tests of the 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 (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. 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:

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

Eli Whitney Fund – This program may be used for risk capital investments in emerging and established companies to stimulate their development of high technology products, processes and services. The program also provides working capital to assist companies in marketing and launching technology products, processes and services.

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

Yankee Ingenuity Technology Program – This program seeks to support royalty based, market-driven funding for applied high technology research and development which leads to marketable products or processes with high potential to contribute to long-term, sustainable economic growth in Connecticut. The program promotes technological innovation through partnerships between Connecticut businesses and Connecticut colleges and universities. Scientists from business and academics combine their research capability and expertise to invent new products and processes.

BioScience Facilities Fund – This program was developed to enable the development of laboratory space in Connecticut in order to encourage the growth of biotechnology research and development companies.

Seed Investment Fund and BioSeed Fund – These programs were developed to address the needs of entrepreneurs by promoting and investing in early-stage Connecticut-based emerging technology and biotechnology companies.

Pre-Seed Fund – This program was developed to provide support and assistance to prepare high technology companies for future investments.

Clean Tech Fund – This program was developed to support the demand for alternative energy technologies which focus on energy conservation, environmental protection, or the elimination of harmful waste.

Small Business Innovation Research (SBIR) Program – The SBIR program supports Connecticut-based innovators, entrepreneurs and small businesses to commercialize their new products. The program also provides matching grants to manufacturers to design and develop innovative technologies to diversify their portfolio of products, thereby retaining and increasing sales and employment in the state. The SBIR program also assists companies to obtain federal grants through the federal SBIR program. This program was transferred to the Connecticut Innovations Inc. from the Connecticut Center for Advanced Technology (CCAT) in April 2009.

In addition, in the footnotes to its financial statements for the fiscal year ended June 30, 2010, 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 was established to address the need by new biotech firms for wet laboratory space in "move-in" condition. The only activities through the 2009-2010 fiscal year have been the leasing and fit-out of laboratory space expenses at 25 Science Park in New Haven. The total expenses of CTDC during the fiscal year ended June 30, 2010, were $330,517. These amounts are included in the Corporation'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 fundraising 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:

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, 2010, 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
- Michael Cicchetti, Secretary (Designee) 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 and to maintain controls over its transactions. The Corporation has the following three standing committees: Audit, Compliance and Governance Committee; Finance, Operations and Compensation Committee; and Eli Whitney Investment Committee. The Corporation also has two advisory committees including the Eli Whitney Advisory Committee, and the Valuation Committee, which met through the audit period. There is a BioSeed Advisory Committee, which did not meet during the fiscal year under review, nor is it scheduled to meet through the end of the 2011 calendar year.

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, in which he continues to serve.

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 Corporation administer the fund. However, Public Act 07-152, effective October 1, 2007, amended said section by placing the Connecticut Clean Energy Fund (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, manufacturing, 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, 2010, were as follows:

Norma Glover, Chairperson
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)
Mun Y. Choi
Kevin Hennessy
Robert Maddox
John Olsen
Jerry Peters
Matthew Ranelli
Jessie Stratton
Patricia Wrice

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

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 Committee, Projects Committee, and Technology Review Committee.

Lise Dondy served as President of the CCEF throughout the audited period. She subsequently resigned, effective October 1, 2010. Dale E. Hedman was appointed the Acting President of the CCEF at a special meeting held September 8, 2010 and he continued to serve in that capacity until May 31, 2011, when Bryan Garcia was appointed President of CCEF.

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, $402,950 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 $114,800,500 as of June 30, 2010. 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,	
	2010	**2009**
Personal Services	$ 4,344,360	$ 4,058,544
Fringe Benefits	2,606,267	2,164,290
Totals	**$ 6,950,627**	**$ 6,222,834**

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 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 monies 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, 2010, the Bond Commission had not requested repayment of any principal or interest.

The financial position of the Corporation as of June 30, 2009 and 2010, per its audited financial statements, is presented below. The following amounts do not include the Connecticut Clean Energy Fund.

	As of June 30	
Assets	**2010**	**2009**
Current Assets:		
Cash and cash equivalents	$ 40,077,664	$ 39,095,080
Certificates of deposit	0	6,000,000
Marketable securities	0	0
Current portion of investments	2,589,562	3,555,080
Due from CCEF	159,816	76,309
Other assets	2,523,363	260,688
Total current assets	45,350,405	48,987,157
Non-Current Assets:		
Portfolio Investments:		
Eli Whitney Fund investments	34,177,365	29,709,614
BioScience Facilities Fund investments	3,920,987	9,189,524
Seed Fund investments	987,501	1,687,501
BioSeed Fund investments	2	189,504
Clean Tech Investments	801,250	180,000
Investment in CT Emerging Enterprises, LP	256,302	348,719
Investment in Next Generation Ventures, LLC	388,127	625,733
Other investments	62,500	37,500
Total investments	40,594,034	41,968,095
Less current portion	(2,589.562)	(3,555,080)
Investments – non-current	38,004,472	38,413,015
Capital assets, net of depreciation	622,864	827,845
Total non-current assets	38,627,336	39,240,860
Total Assets	**$ 83,977,741**	**$ 88,228,017**

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued expenses	$ 1,697,366	$ 694,279
Custodial liability	30,544	159,493
Due to State of Connecticut	0	0
Total liabilities	1,727,910	853,772
Net Assets:		
Invested in capital assets	622,864	827,845
Unrestricted	81,626,967	86,546,400
Total net assets	82,249,831	87,374,245
Total Liabilities and Net Assets	**$ 83,977,741**	**$ 88,228,017**

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, 2009 and 2010, 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:	**2010**	**2009**
Interest on short-term investments and cash deposits	$ 167,324	$ 732,823
Interest on investments	789,320	973,433
Other income	920,611	541,369
Total Revenues	1,877,255	2,247,625
Operating Expenses:		
Compensation and benefits	3,434,106	2,942,187
General and administrative expenses	1,503,211	1,723,310

Grants and programs	28,478	39,340
Total Expenses	4,965,795	4,704,837
Operating Loss	(3,088,540)	(2,457,212)
Non-Operating Revenues (Expenses):		
Unrealized gain (loss) on investments	7,541,071	(4,469,810)
Realized gain (loss) on sale of investments	(10,885,445)	3,000,982
Total Non-Operating Revenues (Expenses)	(3,344,374)	(1,468,828)
Change in Net Assets Before Capital Contributions	(6,432,914)	(3,926,040)
Capital Contributions	1,308,500	0
Change in Net Assets	**$ (5,124,414)**	**$ (3,926,040)**

Total revenues decreased by $370,370 during the 2009-2010 fiscal year. Interest on short-term investments and cash deposits decreased by $565,499 during the 2009-2010 fiscal year due to interest rate decreases for the fiscal year. Interest earned on investments decreased by $184,113 as a result of pay-offs and pay-downs of loans. Other income increased by $379,242 due to the receipt of non-recurring grant income during the 2009-2010 fiscal year.

Compensation, benefits and payroll taxes increased by $491,919 during the 2009-2010 fiscal year, primarily as a result of the transfer of the Connecticut SBIR office staff to the Corporation and an increase in the contribution to the State Employees Retirement System.

General and administrative expenses decreased by $220,099 during the 2009-2010 fiscal year due primarily to decreases in office related expenses.

Total expenditures for grants and scholarship programs during the 2009-2010 fiscal year were $28,478, a decrease of $10,862 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 loss on investments for the year were $10,885,445, as compared to realized gains of $3,000,982 during the 2008-2009 fiscal year. During the 2009-2010 fiscal year, the realized losses were primarily the result of investment write-offs which were recorded as unrealized losses in previous years. The $3,000,982 in realized gains during the 2008-2009 fiscal year resulted from the divestitures of investments.

During the 2009-2010 fiscal year, capital contributions of $1,308,500 were received for the BioScience Facilities Fund. Capital contributions were not received during the 2008-2009 fiscal year. The capital contributions consist of state bond proceeds authorized under Public Act 01-2, Section 9(e).

The Corporation's board approved $15,210,627 for new investments during the fiscal year ended June 30, 2010, and funded $12,322,247, 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, 2009 and 2010, as presented in its audited financial statements, follows:

	As of June 30,	
	2010	**2009**
Assets		
Cash and cash equivalents	$ 54,749,142	$ 64,952,366
Certificates of deposit	0	6,000,000
Marketable securities	0	0
Utility customer assessments receivable	2,223,292	2,491,466
RGGI auction receivable	1,187,914	1,076,659
Investments	1,348,715	1,223,718
Other assets	1,466,776	1,245,369
Solar Lease Notes	6,287,804	0
Restricted assets	3,448,823	395,415
Total Assets	**$ 70,712,466**	**$ 77,384,993**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,661,838	$ 3,255,105
Due to Fund Administrator	159,816	76,309
Deferred Revenue	3,159,579	0
Total Liabilities	4,981,233	3,331,414
Net Assets:		
Restricted	289,245	395,415
Unrestricted	65,441,988	73,658,164
Total Net Assets	65,731,233	74,053,579
Total Liabilities and Net Assets	**$ 70,712,466**	**$ 77,384,993**

Connecticut Clean Energy Fund revenues, expenditures and the changes in net assets for the fiscal years ended June 30, 2009 and 2010, 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,	
	2010	**2009**
Revenues:		
Utility customer assessments	$ 27,252,497	$ 28,104,415
Interest on short-term investments	408,723	1,192,800
RGGI Auction Income	4,017,149	4,305,254

Other income	1,447,525	3,112,941
Total Revenues	33,125,894	36,715,410
Expenditures/Expenses:		
Program:		
Grants	35,943,115	48,853,603
Program expenses	3,589,659	3,363,494
Total program expenses	39,532,774	52,217,097
General and administrative expenses	1,859,571	1,987,455
Total Expenditures and Expenses	41,392,345	54,204,552
Change in Net Assets Before Changes in the Fair Value of Investments	(8,266,451)	(17,489,142)
Net realized gain (loss) on investments	(1,525,000)	851,739
Net increase (decrease) in the fair value of investments	1,469,105	1,746,298
Net Change in Net Assets	(8,322,346)	(14,891,105)
Net assets, Beginning of Year	74,053,579	88,944,684
Net assets, End of Year	**$ 65,731,233**	**$ 74,053,579**

Revenues from utility customer assessments decreased by $851,918 during the 2009-2010 fiscal year primarily as a result of a decrease in utility usage.

Interest on short-term investments and cash deposits decreased by $784,077 during the 2009-2010 fiscal year due to the decrease in the average cash balance on hand and lower interest rates. Other income during the 2009-2010 fiscal year included $1.4 million received from the State Treasurer as proceeds from the defeasance of the rate reduction bonds. The fund received $4 million from the state in Regional Greenhouse Gas Initiative (RGGI) auction proceeds.

Total expenditures for grants and programs during the 2009-2010 fiscal year were $35,943,115, a decrease of $12,910,488. Grant and program expenditures fluctuate from year to year as they are based on the achievement of contract milestones by the grantee. During the 2009-2010 fiscal year, the CCEF committed a total of $41 million for new grants and programs. As of June 30, 2010, the CCEF had outstanding commitments totaling $36,866,787 expected to be paid over the next two fiscal years.

Program expenses increased by $226,165 to $3,589,659 during the 2009-2010 fiscal year due to the increases in costs to administer the Corporation's various programs. General and administrative expenses decreased slightly by $127,884 to $1,859,571.

Realized gains on program investments during the 2009-2010 fiscal year decreased by $2,376,739 over the prior year and unrealized appreciation on these investments decreased by $277,193 resulting from write-offs 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 warranted comment.

Personnel Practices – Lack of Employee Performance Appraisals:

Criteria: The Connecticut Innovations Employee Handbook requires that formal performance assessments for new hires and newly promoted employees are conducted at the completion of six (6) months. In addition, once an employee has completed an introductory employment period of six months, formal written performance appraisals are conducted annually.

Condition: We reviewed five personnel files and our review disclosed that four did not contain a signed copy of either an annual or semi-annual performance appraisal as required by the Connecticut Innovations (CI) Employee Handbook. Formal written performance appraisals were missing from the files for two employees upon hire and for two employees upon their promotions in the 2008-2009 and 2009-2010 fiscal years. Additionally, a signed copy of the annual performance appraisal for one employee for the 2009-2010 fiscal year could not be located.

Effect: Semi-annual performance appraisals were not completed as required by the employee handbook. In addition, the agency could not produce a signed copy of an annual performance appraisal for one employee.

Cause: We were informed that semi-annual performance appraisals were not always given if the employee's hire and/or promotion date coincided with the date of an annual review. In addition, it appears that staff may not be fully aware of both the semi-annual requirement upon hire and promotion. The agency could not produce a signed copy from either the supervisor and/or the employee and stated that they did not know where the signed copy was.

Recommendation: Connecticut Innovations Inc. should complete the semi-annual and annual performance appraisals as outlined in their employee handbook and maintain a signed copy in the employee's personnel file. (See Recommendation 1.)

Agency's Response: "Connecticut Innovations will take the following steps to implement this recommendation:

1. The manager of human resources will meet with all managers and supervisors to review employee performance appraisal requirements.

2. The manager of human resources will develop and maintain a log of performance appraisal due dates for all employees for all appraisal types.

3. On a monthly basis the vice president of finance and administration will review the log to ensure that all performance appraisals have been completed as required. Performance appraisals will be reviewed to ensure that all proper signoffs have been obtained.

4. CI will include the conducting of timely staff performance reviews per the CI employee handbook as a annual performance goal for all supervisors and managers of the company."

CCEF Loan Agreement, Section 5.2.(a)(i) – Lack of Financial Reports:

Criteria: Section 5.2.(a)(i) of each Connecticut Innovations, Incorporated Loan Agreement requires that within thirty days after the end of each fiscal quarter of each fiscal year, the company shall deliver to Connecticut Innovations Inc. consolidated and consolidating balance sheets of the company and the related consolidated and consolidating statements of income, equity, and cash flows, annual reviewed statements, unaudited but prepared in accordance with GAAP and certified by the chief executive, chief financial, or other accounting officer of the company.

Condition: Quarterly financial reports were not obtained for all five loan agreements reviewed.

Effect: Lack of quarterly financial reports prevents the CI from determining the company's ability to repay the loan.

Cause: We were informed that project monitoring was being accomplished through discussions and meetings.

Recommendation: Loan agreement stipulations should be enforced, including obtaining all required quarterly financial reports. (See Recommendation 2.)

Agency's Response: "Connecticut Innovations will take the following steps to implement this recommendation:

1. Notify all parties to loan agreements of their obligation to provide quarterly financial reports to CI as required.

2. Develop an electronic monitoring system to:
   a. Record all reporting obligations of current and future loan

agreements;

b. Track dates when financial reports are due and send reminder letters 15 days prior to due dates to appropriate parties;
c. Notify CCEF project managers 15 days in advance of when such financial reports are due;
d. Record receipt of all financial reports;
e. Notify CCEF project managers of any delinquent financial reports at 15 day intervals, and
f. Assist CCEF project managers in obtaining all delinquent financial reports with additional written notifications to appropriate parties.

3. CI will include the proper request and review of quarterly financial reports in a timely manner as required by specific CCEF projects as an annual performance goal for all project and program managers."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- There were no prior audit recommendations from 2008-2009.

Current Audit Recommendation:

1. **Connecticut Innovations Inc. should complete the semi-annual and annual performance appraisals as outlined in their employee handbook and maintain a signed copy in the employee's personnel file.**

   Comment:

   Our review of five personnel files disclosed that four employee files did not contain a signed copy of either an annual or semi-annual performance appraisal as required by the employee handbook.

2. **Loan agreement stipulations should be enforced, including obtaining all required quarterly financial reports.**

   Comment:

   Quarterly financial reports were not obtained for all five loan agreements reviewed.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of Connecticut Innovations Incorporated's (Corporation) activities, including the Connecticut Clean Energy Fund's (CCEF) activities, for the fiscal year ended June 30, 2010. This audit was primarily limited to performing tests of the Corporations'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 its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grant agreements and other financial resources, and to understanding and evaluating the effectiveness of the 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 audit of the Connecticut Innovations Incorporated and the Connecticut Clean Energy Fund, for the fiscal year indicated above, was 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 the Connecticut Innovations Incorporated 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 CCEF's internal control over its financial operations and its compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the 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. Accordingly, we do not express an opinion on the effectiveness of the Corporation's and the CCEF's internal control over financial operations and compliance. Our consideration of internal control included, but was not limited to, the following areas:

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct unauthorized, illegal or irregular transactions on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Corporation's or the CCEF's financial operations will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial operations and compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Corporation's and the CCEF's financial operations or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies in internal control over compliance: Recommendation 1 – Lack of semi-annual and annual performance evaluations and Recommendation 2 – Lack of quarterly financial reports.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the 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 CCEF's financial operations or compliance for the fiscal year ended June 30, 2010, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including but not limited to the following areas:

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

Our examination included reviewing all or a representative sample of the 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 Corporation's management in the accompanying Condition of Records and Recommendations sections of this report.

The Connecticut Innovations Incorporated's responses to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the Corporation's responses and, accordingly, we express no opinion on them.

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 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.

Christine J Delaney
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts