

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
CONNECTICUT INNOVATIONS, INCORPORATED  
INCLUDING  
THE CONNECTICUT CLEAN ENERGY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011*

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

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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October 15, 2012

**AUDITORS' REPORT  
CONNECTICUT INNOVATIONS, INCORPORATED  
INCLUDING  
THE CONNECTICUT CLEAN ENERGY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

We have examined the books, records and accounts of Connecticut Innovations, Incorporated (CI), including the Connecticut Clean Energy Fund (CCEF), as provided in Section 2-90, Section 1-122 and Section 32-42 of the General Statutes, for the fiscal year ended June 30, 2011.

**SCOPE OF AUDIT:**

This audit was primarily limited to performing tests of CI's and CCEF's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether CI 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 CI's and CCEF's internal control over their operations and compliance with requirements that could have a material or significant effect on CI's or CCEF's operations in order to determine our auditing procedures for the purpose of evaluating CI's and CCEF's

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 CI's and 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 CI and CCEF, for the fiscal year indicated above were conducted by CI's and CCEF's independent public accountants.

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

## COMMENTS

### FOREWORD:

#### **Connecticut Innovations, Incorporated:**

Connecticut Innovations, Incorporated (CI) operates primarily under Chapter 581, Sections 32-32 through 32-47a of the General Statutes. Pursuant to Section 32-35, it is a public instrumentality and political subdivision of the state. Pursuant to Chapter 12 of the General Statutes, CI 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, CI's financial information is included as a component unit in the State of Connecticut's Comprehensive Annual Financial Report (CAFR).

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

CI 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. CI also funds other organizations such as Connecticut universities and technology research or application centers. CI includes contingent payback provisions to those funds as a means of sharing in the royalties and other earnings from successful research projects.

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

CI 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 CI and a major commercial bank. The program invests in initial and subsequent rounds of financing 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 CI and a major commercial insurer invests in start-up and young technology companies in Connecticut by providing seed or early-stage financing.

**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 that 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.

In addition, in the footnotes to its financial statements for the fiscal year ended June 30, 2011, the following organizations are identified as blended component units of CI that, although legally separate entities, are in substance part of CI'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 activities through the 2010-2011 fiscal year have pertained to 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, 2011, were \$446,845. These amounts are included in CI's financial statements.

Organizationally, CI was divided into six major areas during the audited period:

- Finance and Administration – responsible for accounting, administration, finance, and information technology support for CI and the Connecticut Clean Energy Fund.
- Investment Team – responsible for identifying opportunities that fall within CI'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 CI and the Connecticut Clean Energy Fund.
- Business Development – responsible for developing and supporting business opportunities for CI 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:**

Sections 12 and 13 of Public Act 10-75, effective July 1, 2010, require Connecticut Innovations to establish a program to provide pre-seed financing for Connecticut businesses, which shall include, but not be limited to, financial assistance for the development of proof of concepts and support concepts. The act also authorizes \$5 million in general obligation bonds for these purposes and establishes a non-lapsing General Fund account to receive the bond proceeds. Section 15, effective July 1, 2010, requires that CI shall administer personal income tax credits for angel investors.

Section 99 of Public Act 11-80, effective July 1, 2011, created a quasi-public authority called the Connecticut Clean Energy Finance Authority (CEFIA) to oversee the Clean Energy Fund. The act specifies that the authority is the successor agency to CI for the purpose of administering the Clean Energy Fund and is in CI for administrative purposes only.

Public Act 11-2 of the October Special Session, effective November 8, 2011, created the Connecticut Bioscience Collaboration program within Connecticut Innovations, Incorporated to support the establishment of a bioscience cluster anchored by a research lab at the University of Connecticut Health Center. It requires the State Bond Commission to authorize

up to \$290,685,000 in general obligation bonds, with the money going to a Connecticut Bioscience Collaboration Fund, administered by CI. The money must be used to fund the program and repay the bonds in amounts the State Bond Commission may require. The act requires the State Bond Commission to approve a memorandum of understanding (MOU) between CI's board of directors and the state regarding the bonds. Under the act, once approved, the MOU satisfies the standard statutory bond commission requirements. Other bonding provisions consistent with the act's provisions apply. The act requires CI to collaborate with a federally tax-exempt organization to develop, construct, and equip a research lab and office. The act authorizes CI's board to provide loans for this purpose and for CI to, at the board's direction, (1) provide an annual operations, research, and development grant to the organization and (2) enter into venture agreements with the organization. The act requires the board to set the application process and guidelines and terms for these grants and loans. It must review and approve each application. The act requires CI's board to (1) report quarterly to certain legislative committees on the program's operations and funding and (2) submit the program's operating and capital budget each fiscal year to the Governor, Secretary of the Office of Policy and Management, and certain legislative committees.

Section 124 of Public Act 11-48, effective July 1, 2011, requires that the chairperson of the board of directors of Connecticut Innovations, Incorporated shall be the Commissioner of Economic and Community Development. Prior law required that the chairperson shall be appointed by the Governor, with the advice and consent of both houses of the General Assembly.

**Board of Directors and Administrative Officials:**

Pursuant to Section 32-35, subsection (b), of the General Statutes, a 15-member board of directors governs CI. 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 CI's board of directors as of June 30, 2011, 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

Vacancy

Legislative Appointments:

Alan K. Greene  
Harris L. Marcus  
Stephen Nocera  
Drew Harris

Ex-Officio:

Catherine Smith, Chairperson, Commissioner of the Department of Economic and Community Development  
Mark Ojakian, Secretary (Designee) of the Office of Policy and Management  
Michael P. Meotti, Commissioner of the Department of Higher Education

Amrutur V. Srinivasan, Ph.D. and Michael Cicchetti also served during the audited period. Joan McDonald of the Department of Economic and Community Development was appointed chairperson effective May 21, 2008 and served through February 2011. Catherine Smith was appointed chairperson in April 2011 and continues to serve in that capacity.

In addition, the board has set up several committees and sub-committees to expedite certain business activities of CI and to maintain controls over its transactions. CI has the following three standing committees: Audit, Compliance and Governance Committee; Finance, Operations and Compensation Committee; and Eli Whitney Investment Committee. CI also has two advisory committees including the Eli Whitney Advisory Committee, and the Valuation Committee, which met throughout the audited period.

The board appointed Peter V. Longo to serve as president and executive director during the audited period. On March 1, 2012, Claire Leonardi was appointed chief executive officer and executive director. Peter Longo continues to serve as president and chief investment officer.

**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 CI administer the fund. However, Public Act 07-152, effective October 1, 2007, amended said section by placing the Connecticut Clean Energy Fund (CCEF) within CI 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 CCEF. Unlike the majority of CI's investments, CCEF is not limited to Connecticut businesses. Upon authorization by the CCEF board, CI 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 CI, 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 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 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 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, 2011, were as follows:

- Norma Glover, Chairperson
- Richard Steeves (designee – Office of Consumer Counsel)
- Scott DeVico (designee – Department of Emergency Management and Homeland Security)
- Raymond Wilson (designee – Office of Policy and Management)
- Tracy Babbidge (designee – Department of Environmental Protection)
- Eric Brown
- Mun Y. Choi
- Robert Maddox
- John Olsen
- Jerry Peters

Matthew Ranelli  
Patricia Wrice  
Vacancy

Appointed by the board of directors of Connecticut Innovations, Inc.:

Alan K. Greene  
R. Carol Muradian

Kevin Hennessy, Jessie Stratton and John Mengacci also served on the board during the audited period. 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 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 CCEF until her resignation effective October 1, 2010. Dale E. Hedman was appointed the acting president of 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 CI'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 CI's investments.

State expenditures related to CI 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 CI's books. The State Comptroller records state bond proceeds to finance loans and investments as expenditures, while CI records them as investments and as contributed capital. During the audited period, \$64,738 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 and \$810,000 was used for pre-seed programs, as authorized by Public Act 10-75, Section 13.

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 CI 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, 2011. Core-CT is used by CI 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 of CI and CCEF, which were funded by cash transfers by CI (see Connecticut Innovations, Incorporated section below) to the Connecticut Innovations, Inc. Fund. A summary of CI's expenditures during the audited period, as compared to the previous fiscal year, follows:

	<b><u>Fiscal Year Ended June 30,</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
Personal Services	\$ 4,471,698	\$ 4,344,360
Fringe Benefits	<u>2,706,265</u>	<u>2,606,267</u>
<b>Totals</b>	<b><u>\$ 7,177,963</u></b>	<b><u>\$ 6,950,627</u></b>

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 CI'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 CI 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 CI. As of June 30, 2011, the Bond Commission had not requested repayment of any principal or interest.

The financial position of CI as of June 30, 2010 and 2011, per its audited financial statements, is presented below. The following amounts do not include the Connecticut Clean Energy Fund.

	<b><u>As of June 30</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 39,365,379	\$ 40,077,664

Current Portion of Investments	1,269,012	2,589,562
Due from CCEF	131,919	159,816
Due from Department of Economic and Community Development	0	1,187,914
Other Assets	<u>780,870</u>	<u>1,335,449</u>
Total Current Assets	<u>41,547,180</u>	<u>45,350,405</u>
Non-Current Assets:		
Portfolio Investments:		
Eli Whitney Fund Investments	34,671,967	34,177,365
BioScience Facilities Fund Investments	1,627,691	3,920,987
Seed Fund Investments	1,950,001	987,501
Clean Tech Investments	2,891,944	801,250
Other Investments	<u>17</u>	<u>706,931</u>
Total Investments	41,141,620	40,594,034
Less Current Portion	<u>(1,269,012)</u>	<u>(2,589,562)</u>
Investments – Non-Current	39,872,608	38,004,472
Capital Assets, Net of Depreciation	<u>412,332</u>	<u>622,864</u>
Total Non-Current Assets	<u>40,284,940</u>	<u>38,627,336</u>
<b>Total Assets</b>	<b><u>\$ 81,832,120</u></b>	<b><u>\$ 83,977,741</u></b>

**Liabilities and Net Assets**

Liabilities:		
Accounts Payable and Accrued Expenses	\$ 986,948	\$ 1,697,366
Custodial Liability	<u>0</u>	<u>30,544</u>
Total Liabilities	<u>986,948</u>	<u>1,727,910</u>
Net Assets:		
Invested in Capital Assets	412,332	622,864
Unrestricted	<u>80,432,840</u>	<u>81,626,967</u>
Total Net Assets	<u>80,845,172</u>	<u>82,249,831</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 81,832,120</u></b>	<b><u>\$ 83,977,741</u></b>

CI 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. CI primarily makes investments in equity securities of emerging high-tech companies. It has essentially eliminated the use of royalty financing arrangements but continues to recover the costs and revenues of past royalty arrangements. CI has more than 80 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 CI, 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 CI, and as disclosed in CI'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.

CI 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, 2010 and 2011, follows. The information was obtained from CI's audited financial statements, and does not include the Connecticut Clean Energy Fund.

	<b><u>Fiscal Year Ended June 30,</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>Operating Revenues:</b>		
Interest on Short-term Investments and Cash Deposits	\$ 90,922	\$ 167,324
Interest on Investments	324,276	789,320
Other Income	560,994	920,611
Total Revenues	<u>976,192</u>	<u>1,877,255</u>
<b>Operating Expenses:</b>		
Compensation and Benefits	3,655,373	3,434,106
General and Administrative Expenses	1,603,506	1,503,211
Grants and Programs	<u>225,049</u>	<u>28,478</u>
Total Expenses	<u>5,483,928</u>	<u>4,965,795</u>
Operating Loss	<u>(4,507,736)</u>	<u>(3,088,540)</u>
<b>Non-Operating Revenues (Expenses):</b>		
Unrealized Gain on Investments	3,518,866	7,541,071
Realized Loss on Sale of Investments	(1,103,212)	(10,885,445)
Loss on Disposal of Assets	<u>(197,577)</u>	<u>0</u>
Total Non-Operating Revenues (Expenses)	<u>2,218,077</u>	<u>(3,344,374)</u>
<b>Change in Net Assets Before Capital Contributions</b>	<b>(2,289,659)</b>	<b>(6,432,914)</b>
Capital Contributions	<u>885,000</u>	<u>1,308,500</u>
<b>Change in Net Assets</b>	<b><u>\$ (1,404,659)</u></b>	<b><u>\$ (5,124,414)</u></b>

Total revenues decreased by \$901,063 during the 2010-2011 fiscal year. Interest on short-term investments and cash deposits decreased by \$76,402 during the 2010-2011 fiscal year due to interest rate decreases for the fiscal year. Interest earned on investments decreased by \$465,044 as a result of pay-offs and pay-downs of loans. Other income decreased by \$359,617 due to the receipt of fewer non-recurring grants in the 2010-2011 fiscal year.

Compensation, benefits and payroll taxes increased by \$221,267 during the 2010-2011 fiscal year, primarily as a result of adjustments to headcount, salaries and benefit accruals.

General and administrative expenses increased by \$100,295 during the 2010-2011 fiscal year due primarily to increases in office-related expenses.

Total expenditures for grants during the 2010-2011 fiscal year were \$225,049, an increase of \$196,571 from the prior year. The increase was largely due to increased funding of the SBIR Small Business Innovation and Diversification Program in the 2010-2011 fiscal year.

Net realized losses on investments for the year were \$1,103,212, as compared to realized losses of \$10,885,445 in the 2009-2010 fiscal year. During the 2010-2011 fiscal year, the realized losses resulted from divestitures of investments, which were recorded as unrealized losses in previous years. The \$10,885,445 in realized losses in the 2009-2010 fiscal year resulted from investment write-offs reserved for in previous years.

Net unrealized gains on investments for the 2010-2011 fiscal year were \$3,518,866, as compared to unrealized gains of \$7,541,071 in the 2009-2010 fiscal year. In the 2010-2011 fiscal year, net unrealized gain was the result of increases in valuation reserves for privately held companies in CI's investment portfolio and public holdings. In the 2009-2010 fiscal year, the net unrealized gain was the result of write-offs of investment in companies in CI's investment portfolio for which valuation reserves had previously been maintained.

During the 2010-2011 fiscal year, capital contributions of \$885,000 were requested from the state for the Pre-Seed Fund. Capital contributions of \$1,308,500 were received in the 2009-2010 fiscal year for the BioScience Facilities Fund, as authorized under Public Act 01-2, Section 9(e).

CI's board approved \$13,084,000 for new investments during the fiscal year ended June 30, 2011, and funded \$9,454,572, 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 CCEF may receive any amount required by law to be deposited into CCEF and may receive any federal funds available to the state for renewable energy investments. CI, 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, 2010 and 2011, as presented in its audited financial statements, follows:

	<b><u>As of June 30,</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 57,664,091	\$ 54,749,142
Utility Customer Assessments Receivable	2,683,145	2,223,292
RGGI Auction Receivable	329,833	1,187,914
Investments	1,698,715	1,348,715

Other Assets	1,721,592	1,466,776
Solar Lease Notes	10,663,543	6,287,804
Restricted Assets	<u>2,234,945</u>	<u>3,448,823</u>
<b>Total Assets</b>	<b><u>\$ 76,995,864</u></b>	<b><u>\$ 70,712,466</u></b>

**Liabilities and Net Assets**

Liabilities:		
Accounts Payable and Accrued Expenses	\$ 1,753,874	\$ 1,661,838
Due to Fund Administrator	461,752	159,816
Deferred Revenue	<u>2,000,000</u>	<u>3,159,579</u>
<b>Total Liabilities</b>	<b><u>4,215,626</u></b>	<b><u>4,981,233</u></b>
Net Assets:		
Restricted	233,875	289,245
Unrestricted	<u>72,546,364</u>	<u>65,441,988</u>
<b>Total Net Assets</b>	<b><u>72,780,239</u></b>	<b><u>65,731,223</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 76,995,865</u></b>	<b><u>\$ 70,712,466</u></b>

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.

	<b><u>Fiscal Year Ended June 30,</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>Revenues:</b>		
Utility Customer Assessments	\$ 28,444,062	\$ 27,252,497
Interest on Short-term Investments	117,145	408,723
Interest on Solar Lease Notes	447,251	
RGGI Auction Income	3,383,276	4,017,149
Grant Revenue	3,808,690	
Other Income	<u>191,340</u>	<u>1,447,525</u>
<b>Total Revenues</b>	<b><u>36,391,764</u></b>	<b><u>33,125,894</u></b>
<b>Expenditures/Expenses:</b>		
Program:		
Grants	24,253,642	35,943,115
Program Expenses	<u>3,772,446</u>	<u>3,589,659</u>
Total Program Expenses	28,026,088	39,532,774
General and Administrative Expenses	<u>1,435,869</u>	<u>1,859,571</u>
<b>Total Expenditures and Expenses</b>	<b><u>29,461,957</u></b>	<b><u>41,392,345</u></b>
Change in Net Assets Before Changes in the Fair Value of Investments	6,929,807	(8,266,451)
Net Realized Gain (Loss) on Investments	177,756	(1,525,000)
Net Increase (Decrease) in the Fair Value of Investments	<u>(58,557)</u>	<u>1,469,105</u>

<b>Net Change in Net Assets</b>	7,049,006	(8,322,346)
Net Assets, Beginning of Year	<u>65,731,233</u>	<u>74,053,579</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 72,780,239</u></b>	<b><u>\$ 65,731,233</u></b>

Revenues from utility customer assessments increased by \$1,191,565 during the 2010-2011 fiscal year primarily as a result of an increase in utility usage.

Interest on short-term investments and cash deposits decreased by \$291,578 during the 2010-2011 fiscal year due to the decrease in the average cash balance on hand and lower interest rates. The fund received \$3.4 million from the state in Regional Greenhouse Gas Initiative (RGGI) auction proceeds during the year.

Total expenditures for grants during the 2010-2011 fiscal year were \$24,253,642, a decrease of \$11,689,473. Grant expenditures fluctuate from year to year as they are based on the achievement of contract milestones by the grantee. During the 2010-2011 fiscal year, CCEF committed a total of \$16 million for new grants and programs. As of June 30, 2011, CCEF had outstanding commitments totaling \$26 million expected to be paid over the next two fiscal years.

Program expenses increased slightly by \$182,787 to \$3,772,446 during the 2010-2011 fiscal year due to the increases in costs to administer the fund's various programs. General and administrative expenses decreased slightly by \$423,702 to \$1,435,869.

Realized gains on program investments during the 2010-2011 fiscal year increased by \$1,702,756 over the prior year and unrealized appreciation on these investments decreased by \$1,527,662 resulting from Renewable Energy Credit activity during the year.

**Other Examinations:**

Independent public accountants audited CI's and 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 CI'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 CI 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.

Independent public accountants also performed an OMB Circular A-133 compliance audit of the Connecticut Clean Energy Fund. The audit disclosed no findings relating to federal award programs.

## 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.

### **Statutory Reporting Requirements:**

*Criteria:* Section 1-123(c) of the Connecticut General Statutes requires that, for the quarter commencing July 1, 2010, and for each quarter thereafter, the board of directors of each quasi-public agency shall submit a personnel status report to the legislature's Office of Fiscal Analysis.

Section 32-47a of the Connecticut General Statutes requires that the Corporation shall submit a Financial Assistance Annual Report to the Commissioner of Economic and Community Development, the Auditors of Public Accounts and the joint standing committee having cognizance of matters relating to the Department of Economic and Community Development, appropriations and capital bonding.

*Condition:* Our review disclosed that quarterly personnel status reports were not submitted to the Office of Fiscal Analysis during the fiscal year ended June 30, 2011. We also noted that, when the Financial Assistance Annual Report was submitted in November 2011, a copy was not submitted to the Auditors of Public Accounts.

*Effect:* There is non-compliance with the reporting requirements in Sections 1-123(c) and 32-47a of the General Statutes.

*Cause:* Due to an oversight on the part of CI, quarterly personnel status reports were not submitted. We were unable to determine why copies of the Financial Assistance Annual Report were not sent to all parties, as the individual responsible for submitting this report is no longer with CI.

*Recommendation:* Connecticut Innovations should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes. (See Recommendation 1.)

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

- CI will assign the responsibility of managing the data collection, development and timely submission of all required statutory reports to a member of the senior management team.
- CI will include this responsibility as an annual performance goal for this individual."

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- 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. This recommendation has been resolved, as Connecticut Innovations has taken corrective action.
- Loan agreement stipulations should be enforced, including obtaining all required quarterly financial reports. This recommendation has been resolved, as Connecticut Innovations has taken corrective action.

### *Current Audit Recommendation:*

- 1. Connecticut Innovations should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes.**

#### Comment:

Our review disclosed that quarterly personnel status reports were not submitted to the Office of Fiscal Analysis during the fiscal year ended June 30, 2011. We also noted that when the Financial Assistance Annual Report was submitted in November 2011, a copy was not submitted to the Auditors of Public Accounts.

## **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 (CI) operations, including the Connecticut Clean Energy Funds' (CCEF) operations for the fiscal year ended June 30, 2012. This audit was primarily limited to performing tests of CI's and CCEF's compliance with certain provisions of laws, regulations, contracts and grant agreements, including but not limited to a determination of whether CI and 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 CI's and CCEF's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grant agreements applicable to the Authority are complied with. The financial statement audit of Connecticut Innovations, Incorporated and the Connecticut Clean Energy Fund, for the fiscal year indicated above, was conducted by CI'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, 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 Compliance:***

Management of Connecticut Innovations, Incorporated and the Connecticut Clean Energy Fund is responsible for establishing and maintaining effective internal control over operations. In planning and performing our audit, we considered Connecticut Innovations, Incorporated's and the Connecticut Clean Energy Fund's internal control over its operations as a basis for designing our auditing procedures for the purpose of evaluating the CI's and CCEF's operations and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of CI's and CCEF's internal control over operations and compliance. Accordingly, we do not express an opinion.

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 unauthorized, illegal, or irregular transactions on a timely basis. 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 CI's and CCEF's operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over CI's and CCEF's operations, and compliance with requirements would not necessarily identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies described in the Condition of Records that we consider to be significant weaknesses as follows: Recommendation number one - Statutory Reporting Requirements. 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 CI and 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 CI's and CCEF's operations for the fiscal year ended June 30, 2011, 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 CI's and CCEF's operations in those areas and performing such other procedures as we considered necessary in the circumstances.

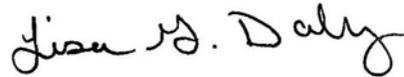
The results of our tests disclosed no material or significant instances of noncompliance. However, we noted certain matters which we reported to CI's management in the accompanying Condition of Records and Recommendation sections of this report.

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

This report is intended for the information and use of CI management, 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 CI'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 Connecticut Innovations, Incorporated and the Connecticut Clean Energy Fund during our examination.



Lisa G Daly  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts