

**CONNECTICUT INNOVATIONS,
INCORPORATED**

(A Component Unit of the State of Connecticut)

AUDITED FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

CONNECTICUT INNOVATIONS, INCORPORATED

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Connecticut Innovations, Incorporated
Rocky Hill, Connecticut

We have audited the accompanying statements of net assets of Connecticut Innovations, Incorporated (a component unit of the State of Connecticut) as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of Connecticut Innovations, Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Innovations, Incorporated, at June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, Connecticut Innovations, Incorporated's policy is to present investments at fair value. The fair value of certain of those investments (\$42 million at June 30, 2009, representing 45% of total assets, and \$40 million at June 30, 2008, representing 39% of total assets) has been estimated by management in the absence of readily ascertainable market values. We have reviewed the methods used by management in estimating values of such investments and believe they are reasonable under the circumstances and have been applied on a basis consistent with the prior year. However, because of the inherent valuation uncertainties, those estimated values could differ significantly from the amounts ultimately realized from the investments, and the differences could be material.

Blum, Shapiro & Company, P.C.

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Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2009, on our consideration of Connecticut Innovations, Incorporated's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Blum, Shapiro & Company, P.C.

September 24, 2009

CONNECTICUT INNOVATIONS, INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides an overview of Connecticut Innovations, Incorporated's (CI) financial performance for the fiscal years ended June 30, 2009 and 2008. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to financial statements and Report on Compliance included in the "Financial Statements" section of this report.

Financial Statements Presented in this Report

CI is a quasi-public agency of the State of Connecticut created to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovation and inventions or markets in Connecticut by providing financial and technical assistance using risk capital. CI activities are accounted for as an enterprise fund using the accrual basis of accounting, similar to a private business entity.

The financial statements include: Statements of Net Assets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and the Statements of Cash Flows. The Statements of Net Assets provide a measure of CI's economic resources. The Statements of Revenues, Expenses and Changes in Fund Net Assets measure the transactions for the periods presented and the impact of those transactions on the resources of CI. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of CI for the periods presented. The activities are classified as to operating, investing and noncapital financing.

Notes to the financial statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities.

Financial Highlights of Fiscal 2009

Net Assets

Net assets decreased \$3.9 million in 2009 to \$87.4 million. The total value of CI's investment portfolio decreased by \$1.2 million in 2009. This decrease was attributable to a net decrease in portfolio company valuations of \$3.7 million, new investments of \$9 million, principal repayments of \$4.2 million, and investment sales of \$2.3 million. During 2009, CI approved and funded \$9 million to fund investments in new opportunities and continued support of existing portfolio companies as of June 30, 2009. During fiscal 2009, CI funded \$.7 million through its Seed Fund to promote the development of young technology companies. CI will continue to face challenges in the near term as it pursues its economic development objectives. The type of investments CI makes take time to mature and involve significant risk. CI maintains a considerable cash reserve in order to meet the future funding requirements of its portfolio companies. Current liabilities decreased \$10.3 million in 2009 to \$.9 million. CI acts as a custodian of grant funds on behalf of state agencies under various agreements, and distributed \$10.6 million in fiscal year 2009.

The following table summarizes CI's net assets as of June 30, 2009 and 2008:

	<i>Net Assets</i> <i>(in thousands)</i>		
	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Cash and other assets	\$ 45,432	\$ 58,293	\$ (12,861)
Investments	41,968	43,151	(1,183)
Capital assets (net of accumulated depreciation)	828	1,007	(179)
<i>Total assets</i>	<u>88,228</u>	<u>102,451</u>	<u>(14,223)</u>
Current liabilities	854	11,151	(10,297)
<i>Total liabilities</i>	<u>854</u>	<u>11,151</u>	<u>(10,297)</u>
Invested in capital assets	828	1,007	(179)
Unrestricted	86,546	90,293	(3,747)
<i>Total net assets</i>	<u>87,374</u>	<u>91,300</u>	<u>(3,926)</u>
<i>Total liabilities and net assets</i>	<u>\$ 88,228</u>	<u>\$ 102,451</u>	<u>\$ (14,223)</u>

Change in Net Assets

Total revenues decreased \$1.4 million to \$2.2 million in 2009. Interest on short-term investments and cash deposits decreased by \$1.2 million in 2009 due to interest rate decreases for the fiscal year. Interest on investments decreased by \$283,371 as a result of pay-offs and pay-downs of loans. Other income increased by \$71,431 due to the receipt of nonrecurring grant income in 2009.

Compensation and benefits increased by \$251,971 primarily as a result of increases in salaries, headcount and benefit accruals.

General and administrative expenses increased by \$208,319 to \$1.7 million in 2009 due primarily to increases in office related expenses and a reserve for uncollectible debt.

Total expenditures for grants and scholarship programs in 2009 were \$39,340, a decrease of \$149,188 over last year. The decrease was largely due to a decline in funding of the scholarship program in 2009.

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

Net unrealized losses on investments for the year were \$4,469,810 as compared to a net unrealized gain of \$1,559,131 in 2008. In 2009, the net unrealized loss was the result of increases in valuation reserves for privately held companies in CI's investment portfolio. In 2008, 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.

Capital contributions were not received in fiscal year 2009. Capital contributions of \$4,000,000 were received in 2008 for the BioScience Facilities Fund and \$3,000,000 to recapitalize the Company's various programs.

The following table summarizes the changes in net assets for the fiscal years ended June 30, 2009 and 2008:

<i>Changes in Net Assets</i>			
<i>(in thousands)</i>			
	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Revenues	\$ 2,248	\$ 3,631	\$ (1,383)
Operating expenses:			
Compensation and benefits	2,942	2,690	252
General and administrative expense	1,724	1,515	209
Grants and programs	39	188	(149)
Total operating expenses	<u>4,705</u>	<u>4,393</u>	<u>312</u>
<i>Operating loss</i>	<u>(2,457)</u>	<u>(762)</u>	<u>(1,695)</u>
Unrealized gain (loss) on investments	(4,470)	1,559	(6,029)
Realized gain (loss) on sale of investments	3,001	(1,323)	4,324
	<u>(1,469)</u>	<u>236</u>	<u>(1,705)</u>
<i>Change in net assets before capital contributions</i>	(3,926)	(526)	(3,400)
Capital contributions	<u>-</u>	<u>7,000</u>	<u>(7,000)</u>
<i>Change in net assets</i>	<u>\$ (3,926)</u>	<u>\$ 6,474</u>	<u>\$ (10,400)</u>

Financial Highlights of Fiscal 2008

Net Assets

Net assets increased \$6.5 million in 2008 to \$91.3 million. The total value of CI's investment portfolio increased by \$.7 million. This increase was attributable to a net increase in portfolio company valuations of \$1.3 million, new investments of \$11.5 million, principal repayments of \$2.3 million, and investment sales of \$9.8 million. During 2008, CI approved \$13 million to fund investments in new opportunities and continued support of existing portfolio companies, of which \$11.5 million was funded as of June 30,

2008. During fiscal 2008, CI funded \$1.3 million through its Seed Fund to promote the development of economic development objectives. The type of investments CI makes take time to mature and involve considerable risk. CI maintains a considerable cash reserve in order to meet the future funding requirements of our portfolio companies. Current liabilities increased \$10.1 million in 2008 to \$11.2 million. CI acts as a custodian of grant funds totaling \$10.4 million as of June 30, 2008 on behalf of state agencies under various agreements. These funds will be distributed to qualifying recipients during fiscal year 2009.

The following table summarizes the net assets as of June 30, 2008 and 2007 (in thousands):

	<i>Net Assets</i>		
	<i>(in thousands)</i>		
	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Cash and other assets	\$ 58,293	\$ 42,377	\$ 15,916
Investments	43,151	42,371	780
Capital assets (net of accumulated depreciation)	<u>1,007</u>	<u>1,140</u>	<u>(133)</u>
<i>Total assets</i>	<u>102,451</u>	<u>85,888</u>	<u>16,563</u>
Current liabilities	<u>11,151</u>	<u>1,062</u>	<u>10,089</u>
<i>Total liabilities</i>	<u>11,151</u>	<u>1,062</u>	<u>10,089</u>
Invested in capital assets	1,007	1,140	(133)
Unrestricted	<u>90,293</u>	<u>83,686</u>	<u>6,607</u>
<i>Total net assets</i>	<u>\$ 91,300</u>	<u>\$ 84,826</u>	<u>\$ 6,474</u>

Change in Net Assets

Total revenues increased by \$195,089 to \$3.6 million in 2008. Interest on short-term investments and cash deposits decreased by \$212,684 in 2008 due to interest decreases for the fiscal year. Interest earned on investments increased by \$130,845 as a result of new loan activity. Other income increased by \$276,928 due to the receipt of nonrecurring royalties and dividend income in 2008.

Compensation and benefits increased by \$117,028 primarily as a result of increases in salaries, headcount and benefit accruals.

General and administrative expenses decreased by \$101,926 to \$1.5 million in 2008 due primarily to decreases in consulting fees and office and office related expenses.

Total expenditures for grants and scholarship programs in 2008 were \$188,528, a decrease of \$9,353 over last year. The decrease was largely due to a decline in funding of the scholarship program in 2008.

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

Net unrealized gain on investments for the year was \$1,559,131 as compared to a net unrealized gain of \$1,321,805 in 2007. In both 2008 and 2007, the net unrealized gain was the result of write-offs of investments in companies in CI's investment portfolio for which valuation reserves had previously been maintained.

Capital contributions of \$4,000,000 were received in 2008 for the BioScience Facilities Fund and \$3,000,000 to recapitalize the Company's various programs.

The following table summarizes the changes in net assets for the fiscal years ended June 30, 2008 and 2007:

Changes in Net Assets
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Revenues	\$ 3,631	\$ 3,436	\$ 195
Operating expenses:			
Compensation and benefits	2,690	2,573	117
General and administrative expense	1,515	1,617	(102)
Grants and programs	188	198	(10)
Total operating expenses	<u>4,393</u>	<u>4,388</u>	<u>5</u>
<i>Operating loss</i>	<u>(762)</u>	<u>(952)</u>	<u>190</u>
Unrealized gain (loss) on investments	1,559	1,322	237
Realized gain (loss) on sale of investments	<u>(1,323)</u>	<u>580</u>	<u>(1,903)</u>
	<u>236</u>	<u>1,902</u>	<u>(1,666)</u>
<i>Change in net assets before capital contributions</i>	<u>(526)</u>	<u>950</u>	<u>(1,476)</u>
Capital Contributions	<u>7,000</u>	<u>-</u>	<u>7,000</u>
<i>Change in net assets</i>	<u>\$ 6,474</u>	<u>\$ 950</u>	<u>\$ 5,524</u>

CONNECTICUT INNOVATIONS, INCORPORATED
STATEMENTS OF NET ASSETS

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 39,095,080	\$ 42,521,274
Certificates of deposit	6,000,000	161,671
Marketable securities	-	15,198,488
Current portion of investments	3,555,080	4,508,825
Due from Connecticut Clean Energy Fund	76,309	20,869
Other assets	260,688	390,686
Total current assets	<u>48,987,157</u>	<u>62,801,813</u>
NONCURRENT ASSETS		
Portfolio investments:		
Eli Whitney Fund investments	29,709,614	25,004,069
BioScience Facilities Fund investments	9,189,524	14,178,786
Seed Fund investments	1,687,501	1,275,000
BioSeed Fund investments	189,504	564,501
Investment in Connecticut Emerging Enterprises, LP	348,719	837,829
Investment in Next Generation Ventures, LLC	625,733	1,280,885
Other investments	217,500	10,000
Total investments	41,968,095	43,151,070
Less current portion	(3,555,080)	(4,508,825)
Investments - noncurrent	38,413,015	38,642,245
Capital assets, net of depreciation	827,845	1,006,741
Total noncurrent assets	<u>39,240,860</u>	<u>39,648,986</u>
Total assets	<u>\$ 88,228,017</u>	<u>\$ 102,450,799</u>

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 694,279	\$ 792,780
Custodial liability	159,493	10,357,654
Due to State of Connecticut	-	80
Total liabilities	<u>853,772</u>	<u>11,150,514</u>
NET ASSETS		
Invested in capital assets	827,845	1,006,741
Unrestricted	86,546,400	90,293,544
Total net assets	<u>87,374,245</u>	<u>91,300,285</u>
Total liabilities and net assets	<u>\$ 88,228,017</u>	<u>\$ 102,450,799</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT INNOVATIONS, INCORPORATED
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS

	Years Ended June 30,	
	2009	2008
OPERATING REVENUES		
Interest on short-term investments and cash deposits	\$ 732,823	\$ 1,904,520
Interest on investments	973,433	1,256,804
Other income	541,369	469,938
Total revenues	<u>2,247,625</u>	<u>3,631,262</u>
OPERATING EXPENSES		
Compensation and benefits	2,942,187	2,690,216
General and administrative expenses	1,723,310	1,514,991
Grants and programs	39,340	188,528
Total expenses	<u>4,704,837</u>	<u>4,393,735</u>
OPERATING LOSS	<u>(2,457,212)</u>	<u>(762,473)</u>
NONOPERATING REVENUES (EXPENSES)		
Unrealized gain (loss) on investments	(4,469,810)	1,559,131
Realized gain (loss) on sale of investments	3,000,982	(1,322,814)
Total nonoperating revenues (expenses)	<u>(1,468,828)</u>	<u>236,317</u>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(3,926,040)	(526,156)
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>7,000,000</u>
CHANGE IN NET ASSETS	(3,926,040)	6,473,844
NET ASSETS, Beginning of Year	<u>91,300,285</u>	<u>84,826,441</u>
NET ASSETS, End of Year	<u>\$ 87,374,245</u>	<u>\$ 91,300,285</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT INNOVATIONS, INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest on investments	\$ 931,445	\$ 1,242,248
Interest on short-term investments and cash deposits	747,151	1,897,657
Cash received from royalties and other income	507,370	398,413
Sale of investments	4,442,521	9,835,866
Return of principal on investments	4,415,345	2,279,140
Cash received under custodial arrangements	389,245	10,270,976
Cash expended under custodial arrangements	(10,560,221)	(163,322)
Cash paid for general and administrative expenses	(1,522,101)	(1,701,946)
Cash paid to employees	(2,936,364)	(2,870,379)
Cash paid under grants and programs	(39,341)	(188,528)
Purchase of investments	(9,044,315)	(10,149,075)
Net cash provided by (used in) operating activities	<u>(12,669,265)</u>	<u>10,851,050</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(117,089)	(123,720)
Purchase of certificates of deposit	(5,838,329)	-
Liquidation of short-term investments	15,198,489	-
Net cash provided by (used in) investing activities	<u>9,243,071</u>	<u>(123,720)</u>
NONCAPITAL FINANCING ACTIVITIES		
Capital contributions from the State of Connecticut	-	7,000,000
Net cash provided by noncapital financing activities	<u>-</u>	<u>7,000,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,426,194)	17,727,330
CASH AND CASH EQUIVALENTS, Beginning of Year	42,521,274	24,793,944
CASH AND CASH EQUIVALENTS, End of Year	\$ <u>39,095,080</u>	\$ <u>42,521,274</u>

(Continued on next page)

CONNECTICUT INNOVATIONS, INCORPORATED
STATEMENTS OF CASH FLOWS - CONTINUED

	Years Ended June 30,	
	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (2,457,212)	\$ (762,473)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Realized gains (losses)	3,000,982	(1,322,814)
Depreciation	295,984	257,134
(Increase) decrease in assets:		
Other assets and due from related parties	74,558	426,542
Investments	(3,286,835)	2,059,753
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses and due to State of Connecticut	(98,581)	85,254
Custodial liability	(10,198,161)	10,107,654
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (12,669,265)	\$ 10,851,050

The accompanying notes are an integral part of the financial statements

CONNECTICUT INNOVATIONS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Connecticut Innovations, Incorporated (CI) was established under Title 32, Chapter 581 of the General Statutes of the State of Connecticut (the Act), as amended, and was created as a body politic and instrumentality of the State of Connecticut (the State). For purposes of financial reporting, CI is a component unit of the State of Connecticut, and the Corporation's financial statements are included in the State's Comprehensive Annual Financial Report. CI was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations and inventions or markets in Connecticut by providing financial and technical assistance. The powers of CI are vested in its fifteen-member Board of Directors consisting of three members who serve by virtue of their office, four members appointed by the leadership of the General Assembly and eight members appointed by the Governor of the State of Connecticut, each for specified periods of time pursuant to the Act. The accompanying financial statements present CI and its component units, entities for which CI is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of CI's operations.

Significant funding for CI's programs has been provided by the State through the issuance of general obligation bonds. According to the Act, the State may require CI to repay the contribution of capital obtained through State general obligation bonds at some future date. Such repayment may include the forgiveness of certain interest or principal, or both.

The following organizations are blended component units of CI:

Connecticut Technology Development Corporation (CTDC) — CTDC was established to address the need by new biotech firms for wet laboratory space in "move-in" condition. The only activities through June 30, 2009 have been the leasing and fit-out of laboratory space as disclosed in Notes 5 and 7.

Connecticut Innovations Educational Foundation (CIEF) — CIEF is a nonstock corporation exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) in which CI is the sole member. It was organized to promote, coordinate and assist science and technology education, job training, research, development and innovation in the State of Connecticut. The Board of Directors approved the dissolution of this corporation. CIEF will be dissolved in the year ending June 30, 2010.

CI provides several basic financial and technical programs and corresponding funds to assist qualifying Connecticut companies and Connecticut colleges and universities as follows:

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.

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 and BioSeed Funds — These programs were developed to address the needs of entrepreneurs by promoting and investing in early stage Connecticut based emerging technology and biotechnology companies.

PreSeed 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 focuses on energy conservation, environmental protection, or the elimination of harmful waste.

Connecticut Emerging Enterprises Limited Partnership (CEELP) — CEELP is a partnership comprised of CI 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.

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 them seed or early stage financing.

Access Connecticut Limited Partnership — This program was a limited partnership designed to spawn new technology companies in Connecticut through technology transfer from universities. The partnership was dissolved in 2009.

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.

Significant Accounting Policies

Measurement Focus, Basis of Accounting and Financial Statement Presentation — CI is considered to be an enterprise fund. Enterprise funds are used to account for governmental activities that are similar to those found in the private sector in which the determination of net income is necessary or useful to sound financial administration. In accordance with *Governmental Accounting Standards Board (GASB) Statement No. 20*, CI has elected to apply all GASB pronouncements, as well as all Financial Accounting Standards Board Statements, Interpretations, Accounting Principles, Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

CI's financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of the related cash flows.

CI distinguishes operating revenues and expenses from nonoperating items. Operating revenues consist of investment earnings and other revenue generated in connection with investments and programs. Operating expenses consist of operating costs, including depreciation on capital assets and grants and programs. Nonoperating revenue consists of investment gains and losses.

Use of Estimates — Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts and disclosures in the financial statements. The most significant estimates are the determination of fair value of its investments which are not publicly traded. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents — Cash equivalents consist of cash and highly liquid short-term investments with an original maturity of less than 90 days. The investments are recorded at cost, which approximates market value.

Marketable Securities — Marketable securities are carried at fair value.

Portfolio Investments — CI carries all investments at fair value as determined by an independent valuation committee for the Corporation using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group (PEIGG). In the absence of readily determinable market values, the committee gives consideration to pertinent information about the companies comprising these investments, including, but not limited to, recent sales prices of the issuer's securities, sales growth, progress toward business goals and other operating data. The Corporation has applied procedures in arriving at the estimate of the value of such securities that it believes are reasonable and appropriate. Management reserves the right to establish a reserve in addition to the recommended reserve from the valuation committee to further account for current market conditions and volatility. 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 calculation of realized gains and losses is independent of the calculation of the net change in investment value.

All of CI's investments, except certain equity investments, are uninsured, unregistered and held by CI in CI's name. Certain equity investments are insured by the Securities Investor Protection Corporation and held by a registered broker-dealer in CI's name. Investments in the form of debt instruments are secured by the underlying assets of the borrower, bear interest at rates ranging from 6.5% to 15% per annum and have an average term of 1 to 15 years.

Investment in Connecticut Emerging Enterprises, LP — CI recognizes its partnership interest in the Connecticut Emerging Enterprises LP using the equity method. As of June 30, 2009 and 2008, CI had a 75.25% ownership interest in the limited partnership. Separate financial statements are available for Connecticut Emerging Enterprises LP upon request at CI's offices.

Investment in Next Generation Ventures, LLC — CI's membership interest in Next Generation Ventures, LLC, is accounted for using the equity method. CI has a 49% equity interest in Next Generation Ventures, LLC, as of June 30, 2009 and 2008. Separate financial statements are available for this entity upon request at CI's offices.

Other Investments — Other investments consist of an equity investment by the Clean Tech Fund and a debt investment by the CT Technology Development Corporation in 2009. In 2008, other investments consisted of the Corporation's equity interest in Access Connecticut, LP, which is accounted for using the equity method. This entity was dissolved in 2009.

Capital Assets — Capital asset acquisitions exceeding \$500 are capitalized at cost. Maintenance and repair expenses are charged to operations when incurred. Depreciation is computed using the straight-line method over depreciable lives ranging from two to five years. Leasehold improvements are depreciated over the shorter of their economic useful life or the remaining lease term.

NOTE 2 — CASH, SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES

The following is a summary of cash, certificates of deposit and marketable securities at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Cash and Cash Equivalents:		
Checking	\$ 2,280,924	\$ 13,738,595
Money market funds	172	7,099,125
Mutual fund invested U.S. Treasuries	-	2,210,082
State Treasurer’s Investment Fund	<u>36,813,984</u>	<u>19,473,472</u>
Total cash and cash equivalents	<u>\$ 39,095,080</u>	<u>\$ 42,521,274</u>
Certificates of deposit	<u>\$ 6,000,000</u>	<u>\$ 161,671</u>
Marketable securities:		
Federal Home Loan/Mortgage Association	<u>\$ -</u>	<u>\$ 15,198,488</u>

State Treasurer’s Investment Fund — The State Treasurer’s Investment Fund is an investment pool. The value of CI’s position in the pool is the same as the value of pool shares. Regulatory oversight is provided by an investment advisory council and the State Treasurer’s Cash Management Board.

Investment Maturities — Money market funds and the State Treasurer’s Investment Fund have no maturity date and are available for withdrawal on demand. The Federal Home Loan Bank and Mortgage Company investments in 2008 had maturities of one year or less. These investments were sold in 2009. The certificate of deposit in 2008 had a maturity of two years and was redeemed in 2009. The certificates of deposit in 2009 had a maturity of one year or less.

Interest Rate Risk — CI manages its exposure to declines in fair value by limiting the average maturity of its short-term investment portfolio to less than one year.

Credit Risk — Connecticut General Statutes authorize CI to invest in obligations of the U.S. Treasury including its agencies and instrumentalities, commercial paper, banker’s acceptance, repurchase agreements and the State Treasurer’s Investment Fund.

Investment ratings for CI's investments are as follows:

	Moody's Investors Service	Standard & Poor's
Mutual fund invested in U.S. Treasuries	Aaa	AAAm
State Treasurer's Investment Fund	Aaa	AAAm
Federal home loan/mortgage	Aaa	A1+

Concentration of Credit Risk — CI's investment policy does not limit the investment in any one investment vehicle. As of June 30, 2009, no portion of CI's investments represented a significant portion of the overall portfolio as the State Treasurer's Investment Fund is not subject to this disclosure.

Custodial Credit Risk — Deposits — In the case of deposits, this represents the risk that, in the event of a bank failure, CI's deposits may not be returned to it. CI does not have a deposit policy for custodial credit risk. As of June 30, 2009, \$1,554,313 of CI's bank balance was exposed to custodial credit risk because it was not covered under federal depository insurance.

Custodial Credit Risk — Investments — For an investment, this represents the risk that, in the event of the failure of the counterparty, CI will not be able to recover the value of the investment. As of June 30, 2009, the Corporation has no reportable credit risk. The State Treasurer's Investment Fund is not subject to this disclosure.

NOTE 3 — INVESTMENTS

Investments as of June 30, 2009 and 2008, are summarized as follows:

	June 30, 2009		
	Equity Securities	Debt Securities	Total
Eli Whitney Investments	\$ 27,999,196	\$ 1,710,418	\$ 29,709,614
Investment in BioScience Facilities	608,508	8,581,016	9,189,524
Seed Fund investments	1,687,501	-	1,687,501
BioSeed Fund investments	189,504	-	189,504
Investment in Connecticut Emerging Enterprises	348,719	-	348,719
Investment in Next Generation Ventures	625,733	-	625,733
Clean Tech	217,500	-	217,500
Totals	<u>\$ 31,676,661</u>	<u>\$ 10,291,434</u>	<u>\$ 41,968,095</u>

	June 30, 2008		
	Equity Securities	Debt Securities	Total
Eli Whitney Investments	\$ 23,752,415	\$ 1,251,654	\$ 25,004,069
Investment in BioScience Facilities	771,876	13,406,910	14,178,786
Seed Fund investments	1,275,000	-	1,275,000
BioSeed Fund investments	564,501	-	564,501
Investment in Connecticut Emerging Enterprises	837,829	-	837,829
Investment in Next Generation Ventures	1,280,885	-	1,280,885
Other investments	10,000	-	10,000
Totals	\$ 28,492,506	\$ 14,658,564	\$ 43,151,070

The following is a summary of Eli Whitney Investments by industry as of June 30, 2009 and 2008:

	June 30, 2009	%	June 30, 2008	%
Photonics	\$ 845,934	2.8%	\$ 824,574	3.3%
Computer applications	18,733,752	63.1	16,764,955	67.0
BioScience	7,860,730	26.5	5,252,007	21.0
Clean Technology	2,269,198	7.6	2,162,533	8.7
Total	\$ 29,709,614	100.0%	\$ 25,004,069	100.0%

As of June 30, 2009 and 2008, CI owned warrants in several portfolio companies with various exercise dates and at exercise prices that range from \$.01 to \$4.03 per share and \$.01 to \$8.16 per share, respectively. Warrants held at June 30, 2009 and 2008, represented investments in 14 companies and 12 companies, respectively.

CI invests in emerging companies which, in the event the companies become successful, could represent a significant portion of the investment balances at a given time. As of June 30, 2009 and 2008, the five largest investments comprise 40% and 42% of the carrying value of total investments, respectively.

NOTE 4 — RELATED PARTY TRANSACTIONS

CI's employees may serve as directors and/or officers of portfolio companies and nonprofit organizations whose work advances the mission of CI. Consistent with State law and the Corporation's own policies, employees receive no compensation or benefits from such organizations. Serving as directors or officers was contemplated as part of the employees' official duties. Certain employees of CI also serve as directors of CTDC and CIEF (see Note 1).

During the year ended June 30, 2000, the Connecticut legislature created the Connecticut Clean Energy Fund (the Fund) and directed that it be administered on a contract basis by CI. CI expended \$6,622,799 and \$2,997,533 for the years ended June 30, 2009 and 2008, respectively, on behalf of the Connecticut Clean Energy Fund, for which CI was reimbursed.

Pursuant to state statute, the Corporation is subject to a mandated fringe benefit charge as fringe benefits are paid at the state level. The rate charged for fiscal years 2009 and 2008 was 54.55% and 52.68% of gross salaries, respectively.

CI also reimburses the State for certain operating expenses which the State pays on CI's behalf.

Amounts due from the Connecticut Clean Energy Fund were \$76,309 and \$20,869 as of June 30, 2009 and 2008, respectively.

Amounts due to the State of Connecticut were \$-0- and \$80 as of June 30, 2009 and 2008, respectively.

NOTE 5 — CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2009 and 2008, is as follows:

<u>2009</u>	<u>Balance, July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance, June 30, 2009</u>
Capital assets being depreciated:					
Furniture and equipment	\$ 244,501	\$ -	\$ -	\$ -	\$ 244,501
Computer hardware and software	540,701	84,921	-	112,653	738,275
Leasehold improvements (CI and CTDC)	1,494,346	-	-	-	1,494,346
Construction in progress	80,485	32,168	-	(112,653)	-
	<u>2,360,033</u>	<u>117,089</u>	<u>-</u>	<u>-</u>	<u>2,477,122</u>
Less accumulated depreciation and amortization:					
Furniture and equipment	117,743	-	-	-	117,743
Computer hardware and software	575,650	135,386	-	-	711,036
Leasehold improvements (CI and CTDC)	659,899	160,599	-	-	820,498
	<u>1,353,292</u>	<u>295,985</u>	<u>-</u>	<u>-</u>	<u>1,649,277</u>
Capital assets, net	<u>\$ 1,006,741</u>	<u>\$ (178,895)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 827,845</u>

<u>2008</u>	<u>Balance, July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance, June 30, 2008</u>
Capital assets being depreciated:					
Furniture and equipment	\$ 244,501	\$ -	\$ -	\$ -	\$ 244,501
Computer hardware and software	708,502	29,261	197,062	-	540,701
Leasehold improvements (CI and CTDC)	1,627,700	13,974	147,328	-	1,494,346
Construction in progress	-	80,485	-	-	80,485
	<u>2,580,703</u>	<u>123,720</u>	<u>344,390</u>	<u>-</u>	<u>2,360,033</u>
Less accumulated depreciation and amortization:					
Furniture and equipment	117,743	-	-	-	117,743
Computer hardware and software	674,753	97,467	197,062	492	575,650
Leasehold improvements (CI and CTDC)	648,052	159,667	147,328	(492)	659,899
	<u>1,440,548</u>	<u>257,134</u>	<u>344,390</u>	<u>-</u>	<u>1,353,292</u>
Capital assets, net	<u>\$ 1,140,155</u>	<u>\$ (133,414)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,006,741</u>

NOTE 6 — CAPITAL CONTRIBUTIONS

In 2008, the State of Connecticut made capital contributions of \$4,000,000 for the BioScience Facilities Fund and \$3,000,000 to recapitalize CI's various programs. The State of Connecticut made no capital contribution in 2009.

NOTE 7 — OPERATING LEASES

The Corporation leases its office and laboratory space from unrelated third parties under operating leases ending September 2010 and June 2013, respectively. CI also leases equipment from unrelated third parties. A portion of office rent is allocated to the Connecticut Clean Energy Fund (CCEF) which shares space with CI. For each of the years ended June 30, 2009 and 2008, \$145,424 of rent was allocated to CCEF.

Future minimum lease payments under these leases are as follows:

Years Ending June 30,

2010	\$ 463,473
2011	241,598
2012	166,488
2013	<u>160,776</u>
	<u>\$ 1,032,335</u>

Rent expense for the years ended June 30, 2009 and 2008, was \$288,926.

NOTE 8 — PENSION PLAN

All employees of CI participate in the State Employees' Retirement System (SERS), which is administered by the State Employees' Retirement Commission. CI has no liability for pension costs other than the annual contribution. In addition, an actuarial study was performed on the plan as a whole and does not separate information for employees of CI. Therefore, certain pension disclosures otherwise required pursuant to accounting principles generally accepted in the United States of America are omitted. Information on the total plan funding status and progress, contribution required and trend information can be found in the State of Connecticut's Comprehensive Annual Financial Report.

Plan Description — SERS is a single-employer defined benefit public employee retirement system (PERS) established in 1939 and governed by Sections 5-152 to 5-192 of the Connecticut General Statutes. Employees are covered under one of three tiers. Tier I requires an employee contribution of either 2% or 5% of salary, depending on the plan. Tier II is a noncontributory plan. Tier IIA requires an employee contribution of 2% of salary. The Corporation's contribution is determined by applying a state mandated percentage to eligible salaries and wages. Members who joined the retirement system prior to July 1, 1984 are generally enrolled in Tier I. Members who joined the retirement system after July 1, 1984 are enrolled in Tier II. Employees first hired on or after July 1, 1997 are members of Tier IIA. Employees rehired on or after July 1, 1997 are also members of Tier IIA unless the application of SERS service bridging provisions mandates their placement in either Tier I or Tier II. Tier I employees who retire at or after age 65 with 10 years of credited service, or at age 55 with 25 years of service, are eligible for an annual retirement benefit payable monthly for life, in an amount of 2% of the annual average earnings (which are based on the three highest years of service). In most cases, this is reduced to 1% for the first \$4,800 of salary upon receipt of Social Security benefits. Employees at age 55 with 10 years but less than 25 years of service, or at age 70 with 5 years of service, are entitled to a reduced benefit. Tier II and Tier IIA employees who retire at or after age 60 with 25 years of service, or at age 62 with 5 years of service, or at age 70 with 5 years of service, or at age 55 with 10 years of service with reduced benefits are entitled to an annual retirement benefit payable monthly for life, in an amount of 1.33% of the average earnings plus 0.5% of the average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service. In addition, any years of service over 35 would be at 1.63%. All Tier I members are vested after 10 years. Effective July 1, 1997, all Tier II and Tier IIA members are vested after 5 years and may retire at age 62 with 5 years of actual state service. All plans provide for death and disability benefits. The total payroll and the payroll for employees of CI covered by SERS for the years ended June 30, 2009 and 2008, was \$4,058,542 and \$3,705,109, respectively.

Contributions Made — CI's contribution is determined by applying a State mandated percentage to eligible salaries and wages as follows:

	Years Ended June 30,	
	2009	2008
Contributions made:		
By employees	\$ 63,766	\$ 56,380
Percent of current year covered payroll	1.6%	1.5%
By CI	\$ 1,379,499	\$ 1,230,973
Percent of current year covered payroll	34.0%	33.2%

NOTE 9 — GAIN SHARING PLAN

In 1999, the Board of Directors established a nonqualified performance-based gain sharing plan. In any year, any employee in good standing who was an employee at the end of the year is eligible. Under this plan, CI sets aside an amount based upon 5% of the net realized gains, if any, on the Eli Whitney equity and certain other equity investments reduced by any unrealized losses reducing the value of an investment below cost.

Allocations for each eligible participant are based on each participant's contribution toward the achievement by CI of its statutory objectives under Section 32-39 of the Connecticut General Statutes.

Allocations vest at a rate of 25% per year, beginning no later than October 1 of the year that the award was approved and on the three one-year anniversaries thereafter. In order for vesting to occur, the employee must remain in good standing, and amounts may be offset by future net losses should such occur.

For the year ended June 30, 2009, \$204,091 was charged to the plan as a result of the combination of realized net gains offset by unrealized net losses. The amount was added to the gain share loss carry forward and will reduce the total funds available, if any, for future gain share payments to employees. No allocations or payments to employees were made in 2009.

For the year ended June 30, 2008, \$54,534 was charged to the plan as a result of the combination of realized net gains offset by unrealized net losses. The amount was added to the gain share loss carry forward and will reduce the total funds available, if any, for future gain share payments to employees. No allocations or payments to employees were made in 2008.

In 2006, the Board of Directors voted to terminate the plan effective July 1, 2009. Participants of the plan would still be eligible to receive distributions for investments held by CI on that date. Plan liabilities would cease when all investments held by the plan on the termination date are either sold or written off. In 2009, the Board of Directors voted to delay termination of the plan until July 1, 2010.

NOTE 10 — STATE GRANT PROGRAMS

For the years ended June 30, 2009 and 2008, CI received grant funds from the Department of Public Health (DPH) and the Department of Economic and Community Development (DECD) to be awarded to qualifying recipients under the terms of the respective agreements. These agreements have been accounted for as custodial arrangements whereby the unexpended funds held are presented as a custodial liability. Funds received and awarded are treated as changes in the custodial liability rather than revenue and expenses.

	Inception to June 30, 2009		
	DPH	DECD	Total
Funds received	\$ 17,908,873	\$ 340,000	\$ 18,248,873
Funds awarded	17,839,380	250,000	18,089,380
Balance	\$ 69,493	\$ 90,000	\$ 159,493

	Inception to June 30, 2008		
	<u>DPH</u>	<u>DECD</u>	<u>Total</u>
Funds received	\$ 17,519,628	\$ 250,000	\$ 17,769,628
Funds awarded	<u>7,348,652</u>	<u>63,322</u>	<u>7,411,974</u>
Balance	<u>\$ 10,170,976</u>	<u>\$ 186,678</u>	<u>\$ 10,357,654</u>

NOTE 11 — RISK MANAGEMENT

The Corporation is subject to normal risks associated with its operations including property damage, personal injury and employee dishonesty. All risks are managed through the purchase of commercial insurance. There have been no losses exceeding insurance coverage, and there have been no decreases in insurance coverage over the last three years.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Connecticut Innovations, Incorporated
Rocky Hill, Connecticut

We have audited the financial statements of Connecticut Innovations, Incorporated (a component unit of the State of Connecticut) as of and for the year ended June 30, 2009 and have issued our report thereon dated September 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Connecticut Innovations, Incorporated's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Connecticut Innovations, Incorporated's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Connecticut Innovations, Incorporated's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in Connecticut Innovations, Incorporated's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Blum, Shapiro & Company, P.C.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Connecticut Innovations, Incorporated's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. These laws and regulations included the provisions of Connecticut Public Act No. 88-266 Section 41 (the Act) which address affirmative action, personnel practice, the purchase of goods and services, the use of surplus funds, the issuance and retirement of bonds and the award of loans. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors and the State of Connecticut and is not intended to be and should not be used by anyone other than those specified parties.

Blum, Shapiro & Company, P.C.

September 24, 2009