

**CLEAN ENERGY FINANCE AND  
INVESTMENT AUTHORITY**  
(A Component Unit of the State of Connecticut)

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
**Clean Energy Finance and Investment Authority**

We have audited the accompanying statement of net assets of the Clean Energy Finance and Investment Authority (a component unit of the State of Connecticut) as of June 30, 2012 and the related statements of revenue, expenditures and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Clean Energy Finance and Investment Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit 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 Clean Energy Finance and Investment Authority'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Clean Energy Finance and Investment Authority as of June 30, 2012 and the respective changes in financial position, and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2012 on our consideration of Clean Energy Finance and Investment Authority'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 of other matters 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Marcum LLP*

Hartford, CT  
October 5, 2012

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of the Clean Energy Finance and Investment Authority (CEFIA) (a Component Unit of the State of Connecticut) for the fiscal year ended June 30, 2012. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements and notes to the financial statements included in the "Financial Statements" section of this report.

### **Financial Statements Presented in this Report**

CEFIA is a quasi-public agency of the State of Connecticut established on July 1, 2011 by Section 16-245n of the Connecticut General Statutes, created to promote investment in renewable energy sources and energy efficiency in accordance with a comprehensive plan developed by CEFIA to foster the growth, development and commercialization of renewable energy sources and related enterprises, and to stimulate demand for renewable energy and the deployment of renewable energy sources, which serve end-use customers in the State. CEFIA constitutes the successor agency to Connecticut Innovations for the purposes of administering the clean energy fund in accordance with section 4-38d of the Connecticut General Statutes and therefore the net assets of such fund were transferred to the newly created CEFIA as of July 1, 2011.

The financial statements include: Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. The Statement of Net Assets provides a measure of CEFIA's economic resources. The Statement of Revenues, Expenses and Changes in Net Assets measures the transactions for the periods presented and the impact of those transactions on the resources of CEFIA. The Statement of Cash Flows reconciles the changes in cash and cash equivalents with the activities of CEFIA 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 2012**

In our discussion of the 2012 financial highlights below, management has elected to utilize the 2011 financial results of the Connecticut Clean Energy Fund, the predecessor entity to Clean Energy Finance and Investment Authority, as a benchmark for comparing its 2012 activities.

#### **Net Assets**

From the base of \$72.8 transferred from the State of Connecticut, net assets increased by \$8.4 million to \$81.2 million at June 30, 2012 and cash and cash equivalents increased by \$13.3 million in 2012 to \$73.2 million. Cash increased primarily as a result of an increase in grant awards received during 2012.

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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As of June 30, 2012, the Board of Directors designated \$25.8 million in net assets to fund outstanding grant commitments as described in Note 10. These grants are expected to be paid over the next two fiscal years.

Other assets are composed primarily of utility customer assessments receivables and Regional Greenhouse Gas Initiative (RGGI) auction receivables. The promissory note portfolio of \$11.7 million as of June 30, 2012 and \$10.7 million as of July 1, 2011 funded a residential photovoltaic equipment lease program which ended during 2012. Smith, Gary

The following table summarizes the net assets at June 30, 2012 and July 1, 2011 (in thousands):

	2012	2011	Increase (Decrease)
Cash, certificates of deposit	\$ 73,214	\$ 59,899	\$ 13,315
Investments	2,155	1,699	456
Promissory notes	11,736	10,663	1,073
Other assets	<u>5,071</u>	<u>4,735</u>	<u>336</u>
<b>Total assets</b>	<u>92,176</u>	<u>76,996</u>	<u>15,180</u>
Current liabilities	2,625	4,216	(1,591)
Deferred revenue	<u>8,363</u>	<u>--</u>	<u>8,363</u>
<b>Total liabilities</b>	<u>10,988</u>	<u>4,216</u>	<u>6,772</u>
Invested in capital assets	91	--	91
Restricted	8,541	234	8,307
Unrestricted	<u>72,556</u>	<u>72,546</u>	<u>10</u>
<b>Total net assets</b>	<u>\$ 81,188</u>	<u>\$ 72,780</u>	<u>\$ 8,408</u>

### Changes in Net Assets

Revenues from utility customer assessments were \$27.0 million for 2012 compared to \$28.4 million in 2011.

Revenue from interest on cash deposits increased \$.03 million to \$.14 million in 2012. Interest on short-term investments and cash deposits decreased due to the increase in the average cash balance on hand and changes in interest rates. CEFIA received \$2.0 million from the state in RGGI auction proceeds during the year.

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Total expenditures for grants and programs in 2012 were \$31.1 million, an increase of \$3 million from the prior year. Grant and program expenditures fluctuate from year to year as they are based on the achievement of contract milestones by the grantee. During 2012, CEFIA committed a total of \$30.4 million for new grants and programs.

General and administrative expenses decreased by \$48,000 from \$1.436 million to \$1.388 million.

Net gains in program investments increased by \$315,000 as a result in adjustments to the valuation of equity and debt investments.

The following table summarizes the changes in net assets between June 30, 2012 and 2011 (in thousands):

	2012	2011	Increase (Decrease)
<b>Revenues</b>	<u>\$ 40,483</u>	<u>\$ 36,391</u>	<u>\$ 4,092</u>
<b>Operating expenses:</b>			
Grants and programs	31,122	28,026	3,096
General and administrative expense	<u>1,388</u>	<u>1,436</u>	<u>(48)</u>
<b>Total operating expenses</b>	<u>32,510</u>	<u>29,462</u>	<u>3,048</u>
<b>Operating income</b>	7,973	6,929	1,044
Net change in unrealized appreciation in fair value of investments	435	(58)	493
Net realized (loss) gain on investments	<u>--</u>	<u>178</u>	<u>(178)</u>
<b>Net change in net assets</b>	<u>\$ 8,408</u>	<u>\$ 7,049</u>	<u>\$ 1,359</u>

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## STATEMENT OF NET ASSETS

JUNE 30, 2012

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### Assets

#### Current Assets

Cash and cash equivalents	\$ 64,672,910
Accounts receivable	725,259
Utility customer assessments receivable	2,580,042
Other assets	350,302
Current portion of solar lease notes	<u>670,645</u>

**Total Current Assets** 68,999,158

#### Non-Current Assets

Portfolio investments, less current portion	2,155,525
Solar lease notes, less current portion	11,064,879
Renewable energy credits	1,324,614
Capital assets, net of depreciation and amortization	91,329
Restricted cash and cash equivalents	<u>8,540,684</u>

**Total Non-Current Assets** 23,177,031

**Total Assets** \$ 92,176,189

*The accompanying notes are an integral part of these financial statements.*



**CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY**

**STATEMENT OF NET ASSETS (CONTINUED)**

**JUNE 30, 2012**

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**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued expenses	\$ 2,624,861
Deferred revenue	<u>8,363,119</u>

<b>Total Liabilities</b>	<u>10,987,980</u>
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**Net Assets**

Invested in capital assets	91,329
Restricted net assets	8,540,684
Unrestricted net assets	<u>72,556,196</u>

<b>Total Net Assets</b>	<u>81,188,209</u>
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<b>Total Liabilities and Net Assets</b>	<u><u>\$ 92,176,189</u></u>
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*The accompanying notes are an integral part of these financial statements.*

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

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### Operating Revenues

Utility customer assessments	\$ 27,025,088
Grant Revenue	10,435,251
RGGI auction income	2,052,748
Interest on solar lease notes	589,007
Interest on short-term investments	140,786
Other income	<u>240,597</u>

### Total Revenues

40,483,477

### Operating Expenses

General and administrative expenses	1,387,854
Grants and programs	<u>31,122,355</u>

### Total Expenses

32,510,209

### Operating Income

7,973,268

### Nonoperating Expenses

Unrealized gain on investments	<u>434,702</u>
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### Income before transfers in from State of Connecticut

8,407,970

Transfers in from State of Connecticut

72,780,239

### Change in Net Assets

81,188,209

Net Assets - Beginning of year

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Net Assets - End of year

\$ 81,188,209

*The accompanying notes are an integral part of these financial statements.*

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

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<b>Cash Flows from Operating Activities</b>	
Utility ratepayer assessments	\$ 27,128,191
Interest on short-term investments and cash deposits	118,680
Interest on solar lease notes	634,070
Grants	16,892,363
RGGI auctions	1,657,321
Return of principal on investments	603,197
Other income	288,354
Grant and program expenditures	(30,452,049)
General and administrative expenditures	(1,747,177)
Purchase on solar lease notes	<u>(1,710,659)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>13,412,291</u>
<b>Cash Flows from Investing Activities</b>	
Purchase of capital assets	<u>(97,733)</u>
<b>Net Cash Used in Investing Activities</b>	<u>(97,733)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfer from State of Connecticut	<u>59,899,036</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>59,899,036</u>
<b>Net Increase in Cash and Cash Equivalents</b>	73,213,594
<b>Cash and Cash Equivalents - Beginning</b>	<u>--</u>
<b>Cash and Cash Equivalents - Ending</b>	<u><u>\$ 73,213,594</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 7,973,268
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,404
Changes in operating assets and liabilities:	
Other assets and due from related parties	(1,317,629)
Investments	(22,108)
Accounts payable and accrued expenses and due to related parties	<u>6,772,356</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 13,412,291</u></u>

*The accompanying notes are an integral part of these financial statements.*

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

#### *NATURE OF OPERATIONS*

The Clean Energy Finance and Investment Authority (CEFIA) was established in July 2011 under Title 16, Sec. 16-245n of the General Statutes of the State of Connecticut as the successor entity of the Connecticut Clean Energy Fund. CEFIA, a component unit of the State of Connecticut, was created to promote energy efficiency and investment in renewable energy sources in accordance with a comprehensive plan developed by it 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 which serve end-use customers in the State. CEFIA constitutes the successor agency to Connecticut Innovations for the purposes of administering the clean energy fund in accordance with section 4-38d of the Connecticut General Statutes and therefore the net assets of such fund were transferred to the newly created CEFIA as of July 1, 2011. As described in Note 5, the Fund is administered by Connecticut Innovations, Incorporated.

The Department of Public Utility Control assesses a charge per kilowatt-hour to each end-use customer of electric services in the State, which is paid to CEFIA. CEFIA may deploy the funds for grants, direct or equity investments, contracts or other actions that support energy efficiency projects and research, development, manufacture, commercialization, deployment and installation of renewable energy technologies.

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government and its component units, entities for which the government is considered to be financially accountable, all organizations for which the primary government is financially accountable, and other organizations which by the nature and significance of their relationship with the primary government would cause the financial statements to be incomplete or misleading if excluded. Blended component units, although legally separate entities, are, in substance, part of the government's operations; therefore, data from these units are combined with data of the primary government. Based on these criteria, there are no component units requiring inclusion in these financial statements.

#### *MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION*

CEFIA 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.

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In its accounting and financial reporting, CEFIA follows the pronouncements of the Governmental Accounting Standards Board (GASB). CEFIA also follows the pronouncements of all applicable Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. Finally, CEFIA follows all FASB pronouncements issued after November 30, 1989, except where they conflict or contradict GASB pronouncements.

#### *BASIS OF PRESENTATION*

CEFIA'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.

#### *OPERATING VS. NON-OPERATING REVENUE (EXPENSE)*

CEFIA distinguishes operating revenues and expenses from non-operating items. Operating revenues consist of utility customer assessments and other revenue generated in connection with investments renewable energy programs. Operating expenses consist of operating costs, including depreciation on capital assets and grants and programs. Non-operating 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 certain reported amounts and disclosures in the financial statements. The most significant estimates are the determination of the fair value of its investments. 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 term of 90 days and are recorded at cost, which approximates market value.

#### *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 straight-line methods over the estimated useful lives of the assets, which range from two to five years. Leasehold improvements are amortized over the shorter of their useful life or the lease term.

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For capital assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any related gain or loss is reflected in income for the period.

#### *PORTFOLIO INVESTMENTS*

CEFIA carries all investments at fair value as determined by an independent valuation committee using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group. 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. CEFIA 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. CEFIA reports gains as realized and unrealized consistent with the practice of venture capital firms. The calculation of realized gains and losses is independent of the calculation of the net change in investment value.

All of CEFIA's portfolio investments are uninsured and unregistered, and are held in the administrator's name.

#### *NET ASSETS*

Net assets of CEFIA are presented in the following three categories:

- *Net Assets Invested in Capital Assets* represent capital assets, net of accumulated depreciation that are attributable to those particular assets.
- *Restricted Net Assets* represent assets whose use is restricted through external restrictions imposed by creditors, grantors, contributors and the like, or through restrictions imposed by laws or through constitutional provisions or enabling legislature.
- *Unrestricted Net Assets* represent assets which do not meet the definition of the two preceding categories.

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *GRANTS AND PROGRAMS*

Expenditures for grants and programs are recorded upon the submission of invoices and other supporting documentation and approval by management. Salaries, benefits and overhead expenses are allocated to program expenses based on job functions.

#### *SUBSEQUENT EVENTS*

CEFIA has performed a review of events subsequent to the balance sheet date through October 5, 2012, the date of the financial statements where available to be issued. No events requiring recording or disclosure in the financial statements were identified.

### NOTE 2 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In determining fair value, CEFIA utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. CEFIA also considers nonperformance risk in the overall assessment of fair value.

Auditing standards establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets of liabilities.

Level 2: Inputs other than quotes prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quotes prices for similar assets and liabilities in active markets
- Quotes prices for identical or similar assets or liabilities in markets that are not active
- Observable inputs other than quotes prices that are used in the valuation of the asset or liability (e.g., interest rate and yield curve quotes at commonly quotes intervals)

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 2 - FAIR VALUE MEASUREMENTS

- Inputs that are derived principally from or corroborated by observed market data by correlation or other means

Level 3: Unobservable inputs for the asset or liability (supported by little or no market activity). Level 3 inputs include management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although CEFIA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, CEFIA's fair value measurements at June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash and				
cash equivalents	\$ 73,213,594	\$ --	\$ --	\$ 73,213,594
Portfolio investments	<u>--</u>	<u>--</u>	<u>2,155,525</u>	<u>2,155,525</u>
	<u>\$ 73,213,594</u>	<u>\$ --</u>	<u>\$ 2,155,525</u>	<u>\$ 75,369,119</u>

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of net assets available for benefits using significant unobservable (Level 3) inputs:

Balance - beginning of year	\$ 1,698,715
Purchases	22,107
Unrealized appreciation in value of investments	<u>434,703</u>
Balance - end of year	<u>\$ 2,155,525</u>



# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 3 - CASH AND CASH EQUIVALENTS

The following is a summary of cash and cash equivalents at June 30, 2011:

Checking	\$ 4,050,160
State Treasurer's Short-Term Investment Fund	<u>60,687,137</u>
Unrestricted cash and cash equivalents	64,737,297
Checking - restricted	112,588
State Treasurer's Short-Term Investment Fund - restricted	<u>8,363,709</u>
Total cash and cash equivalents	<u>\$ 73,213,594</u>

#### *STATE TREASURER'S SHORT-TERM INVESTMENT FUND*

The State Treasurer's Investment Fund is an investment pool. The value of CEFIA'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*

The State Treasurer's Short-Term Investment Fund has no maturity date and is available for withdrawal on demand.

#### *INTEREST RATE RISK*

CEFIA manages its exposure to declines in fair value by limiting the average maturity of its cash and cash equivalents to no more than one year.

#### *CREDIT RISK*

Connecticut General Statutes authorize CEFIA 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 Short-Term Investment Fund.

Investment ratings for the Fund's investments are as follows:

	Moody's Investors Service	Standard & Poor's
State Treasurer's Short-Term Investment Fund	Aaa	AAAm

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

#### *CONCENTRATION OF CREDIT RISK*

CEFIA's investment policy does not limit the investment in any one investment vehicle. The State Treasurer's Short-term 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, CEFIA's deposits may not be returned to it. CEFIA does not have a deposit policy for custodial credit risk. As of June 30, 2012, none of CEFIA's bank balances were exposed to custodial credit risk because they were covered under federal depository insurance or collateralized.

#### *CUSTODIAL CREDIT RISK - INVESTMENTS*

For an investment, this represents the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of the investment. As of June 30, 2012, the Fund has no reportable custodial risk.

### NOTE 4 - PORTFOLIO INVESTMENTS

CEFIA invests in emerging companies. June 30, 2012 portfolio investments represent funds held in two companies.

### NOTE 5 - RELATED PARTY TRANSACTIONS AND OPERATING LEASES

#### *RELATED PARTY TRANSACTIONS*

CEFIA utilizes the services of Connecticut Innovations, Incorporated (CI), as provided in the General Statutes of the State of Connecticut. CI provides services to CEFIA, at cost, for its operations. Such services include, but are not limited to, staff for accounting and information technology support, office space, equipment, supplies and insurance. Expenses billed to CEFIA by CI totaled \$1,868,098 for the year ended June 30, 2012. As of June 30, 2012, amounts due to Connecticut Innovations Incorporated, totaled \$94,340.

Pursuant to state statute, CEFIA is subject to fringe benefit charges for pension plan and medical plan contributions which are paid at the state level. CEFIA's employer payroll taxes are also paid at the state level. CEFIA reimburses the state for these payments. The reimbursement for 2012 comprised 63.0% of gross salaries.

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### NOTE 5 - RELATED PARTY TRANSACTIONS AND OPERATING LEASES (CONTINUED)

#### *OPERATING LEASES*

CEFIA sub leases its main office space from Connecticut Innovations, Inc. under a non-cancellable Memorandum of Understanding (MOU). The MOU calls for monthly payments of \$14,105, with escalating payments through December 2020.

In addition, CEFIA leases office equipment on a month-to-month basis. Rent expense related to the office equipment for the year ended June 30, 2012 was \$799.

Future minimum lease payments on leases are as follows:

<u>Years ending June 30,</u>	
2013	\$ 171,785
2014	176,837
2015	181,890
2016	186,942
2017	191,995
Thereafter	<u>711,139</u>
	<u>\$ 1,620,588</u>

Rent expense for the year ended June 30, 2012 was \$161,612.

### NOTE 6 - CAPITAL ASSETS

Capital asset activity for fiscal year 2012 is as follows:

	Balance, July 1, 2011	Additions	Deletions	Adjustments	Balance, June 30, 2012
Capital assets being depreciated:					
Furniture and equipment	\$ --	\$ 13,049	\$ --	\$ --	\$ 13,049
Computer hardware and software	--	28,460	--	--	28,460
Leasehold improvements	--	56,224	--	--	56,224
	<u>--</u>	<u>97,733</u>	<u>--</u>	<u>--</u>	<u>97,733</u>
Less accumulated depreciation and amortization:					
Furniture and equipment	--	626	--	--	626
Computer hardware and software	--	3,807	--	--	3,807
Leasehold improvements	--	1,971	--	--	1,971
	<u>--</u>	<u>6,404</u>	<u>--</u>	<u>--</u>	<u>6,404</u>
Capital assets, net	<u>\$ --</u>	<u>\$ 91,329</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 91,329</u>

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 7 - GRANT PROGRAMS

CEFIA recognizes grant revenue based on expenditures. For the year ended June 30, 2012 CEFIA expended, and recognized related grant revenue of \$10,384,251 under Department of Energy programs and \$51,000 under a program sponsored by a Private Foundation.

### NOTE 8 - COMMITMENTS

As of June 30, 2012, the Board of Directors has committed a portion of the net assets to fund grants for specific projects in the following areas:

Fuel cells	\$ 6,320,367
Solar	8,082,471
Geothermal and Solar Thermal	1,095,689
Other technologies	246,340
Project 150 and Predevelopment Program	7,487,145
Operation Demonstration Program	1,397,895
Education and outreach	1,219,336
	<u>\$ 25,849,243</u>

These grants are expected to be paid over the next two fiscal years.

### NOTE 9 - PENSION PLAN

All employees of the CEFIA participate in the State Employees' Retirement System (SERS), which is administered by the State Employees' Retirement Commission. The CEFIA 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 the CEFIA. 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 and 5-192 of the Connecticut General Statutes. Employees are covered under one of three tiers. Tier I and Tier IIA are contributory plans, and Tier II is a noncontributory plan.

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 9 - PENSION PLAN (CONTINUED)

Members who joined the retirement system prior to July 1, 1984 are enrolled in Tier I. Tier I employees who retire at or after age 65 with 10 years of credited service, at or after age 55 with 25 years of service, or at age 55 with 10 years of credited service with reduced benefits are entitled to an annual retirement benefit payable monthly for life, in an amount of 2 percent of the annual average earnings (which are based on the three highest earning years of service) over \$4,800 plus 1 percent of \$4,800 for each year of credited service. Tier II employees who retire at or after age 60 with 25 years of service, or at age 62 with 10 years of service, or at age 65 with 5 years of service, are entitled to one and one-third percent of the average annual earnings plus one-half of one percent of the average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service. Tier II employees between the ages of 55 and 62 with 10 years but less than 25 years of service may retire with reduced benefits. In addition, Tier II and Tier IIA members with at least five but less than ten years of actual state service who terminate their state employment July 2, 1997 or later and prior to attaining age 62 will be in deferred vested status and may commence receipt of normal retirement benefits on the first of the month on or following their sixty-fifth (65) birthday.

Employees hired on and after July 1, 1997, will become members of Tier IIA. Tier IIA plan is essentially the existing Tier II plan with the exception that employee contributions of 2 percent of salary are required. Tier I members are vested after ten years of service, while Tier II and Tier IIA members may be vested after five years of service under certain conditions, and all three plans provide for death and disability benefits.

Employees hired on or after July 1, 2011 are covered under the Tier III plan. Tier III requires employee contributions of two percent of salary up to a \$250,000 limit after which no additional contributions will be taken on earnings above this limit. The normal retirement date will be the first of any month on or after age 63 if the employee has at least 25 years of vested service or age 65 if the employee has at least 10 but less than 25 years of vested service. Tier III members who have at least 10 years of vested service can receive early reduced retirement benefits if they retire on the first of any month on or following their 58<sup>th</sup> birthday. Tier III normal retirement benefits include annual retirement benefits for life, in the amount of one and one-third percent of the five year average annual earnings plus one-half of one percent of the five year average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service plus one and five-eighths of the five year annual average salary times years of credited service over 35 years.

The total payroll and the payroll for employees of the CEFIA covered by SERS for the years ended June 30, 2012, was \$1,541,308.

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 9 - PENSION PLAN (CONTINUED)

#### *CONTRIBUTIONS MADE*

CEFIA's contribution is determined by applying a State mandated percentage to eligible salaries and wages as follows:

Contributions made:

By employees	\$	59,034
Percent of current year covered payroll		3.8%
By CEFIA	\$	601,014
Percent of current year covered payroll		39.0%

### NOTE 10 - RESTRICTED NET ASSETS

As discussed in Note 1, the CEFIA has a contractual commitment of \$176,975 to fund the maintenance of a fuel cell for a municipality in the State of Connecticut and \$ 8,363,709 to fund credit enhancements in support of the Residential Clean Energy Financing Program and the Clean Energy Financial Innovation Program under the American Recovery and Reinvestment Act.

### NOTE 11 - RISK MANAGEMENT

CEFIA 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.

### NOTE 12 - RENEWABLE ENERGY CREDITS

CEFIA owns Class 1 Renewable Energy Certificates (RECs) that are generated by certain renewable energy facilities for which CEFIA provided the initial funding. CEFIA has entered into agreements to sell a total of 20,000 REC's generated through December 31, 2013 at a price of \$15.00 per REC, totaling \$300,000.

# CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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### NOTE 12 - RENEWABLE ENERGY CREDITS (CONTINUED)

RECs trade on the New England Power Pool (NEPOOL) market. The market price of Connecticut Class 1 RECs as of June 30, 2012 ranged from \$29.00 to \$31.00. However CEFIA's inventory as of June 30, 2012 has been priced at the sales price per the agreements. Based on historical performance, management believes that the RECs it will receive from its funded facilities through December 31, 2013 will exceed its commitment to sell under this agreement.

### NOTE 13 - DEFERRED REVENUE

The amount represents unspent grant funds received by CEFIA under the American Recovery and Reinvestment Act program. These monies, \$8,363,709, will fund credit enhancements in support of Residential Clean Energy Financing Program and Clean Energy Financial Innovation Program under the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5

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

To the Board of Directors  
**Clean Energy Finance and Investment Authority**

We have audited the financial statements of the Clean Energy Finance and Investment Authority (a component unit of the State of Connecticut), as of and for the year ended June 30, 2012 and have issued our report thereon dated October 5, 2012. 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***

Management of the Clean Energy Finance and Investment Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Clean Energy Finance and Investment Authority'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 Clean Energy Finance and Investment Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clean Energy Finance and Investment Authority's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 previously.



## ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether Clean Energy Finance and Investment Authority'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 or other matters that are required to be reported under *Government Auditing Standards*.

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

*Marcum LLP*

Hartford, CT  
October 5, 2012