

CONNECTICUT CLEAN ENERGY FUND
(A Special Revenue Fund of the State of Connecticut)

FINANCIAL STATEMENTS

JUNE 30, 2011

CONNECTICUT CLEAN ENERGY FUND

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Connecticut Clean Energy Fund

We have audited the accompanying balance sheet and statement of net assets of the Connecticut Clean Energy Fund (the "Fund") (a Special Revenue Fund of the State of Connecticut) as of June 30, 2011 and the related statement of revenues, expenditures and changes in fund balance and statement of activities for the year then ended. These financial statements are the responsibility of Connecticut Clean Energy Fund'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 the Fund'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet and statement of net assets of the Connecticut Clean Energy Fund as of June 30, 2011 and the changes in financial position and changes in net assets 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 our report dated November 30, 2011 on our consideration of Connecticut Clean Energy Fund'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 assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 5 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.

Marcum LLP

Hartford, CT
November 30, 2011

CONNECTICUT CLEAN ENERGY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of the Connecticut Clean Energy Fund (the Fund) (a Special Revenue Fund of the State of Connecticut) for the fiscal year ended June 30, 2011. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements and notes to financial statements included in the "Financial Statements" section of this report.

FINANCIAL STATEMENTS PRESENTED IN THIS REPORT

The Fund was created to promote investment in renewable energy sources in accordance with a comprehensive plan developed by the Fund 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.

The Fund's basic financial statements consist of government-wide financial statements, fund financial statements and notes to the financial statements.

The government-wide financial statements, consisting of the statements of net assets and activities, are designed to provide readers with a broad overview of the Connecticut Clean Energy Fund's finances in a manner similar to private-sector business. All the resources the Fund has at its disposal are shown, including long-term investments. They provide both long-term and short-term information about the Fund's overall financial status.

The statement of net assets presents information on all Fund assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets may serve as an indicator of whether the financial position of the Fund is improving or deteriorating.

The statement of activities presents information showing how the Fund's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period.

Fund financial statements, consisting of the balance sheet and statement of revenues, expenditures and changes in fund balance, focus on current financial resources and omit long-term investments.

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

CONNECTICUT CLEAN ENERGY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS OF FISCAL 2011

NET ASSETS

Net assets increased by \$7.0 million to \$72.8 million at June 30, 2011. Cash and certificates of deposit increased by \$1.7 million in 2011 to \$59.9 million. Cash increased primarily as a result of an increase in utility assessment revenues, and grant revenues received during 2011.

As of June 30, 2011, the Board of Directors designated \$34.2 million in net assets to fund outstanding grant commitments as described in Note 6. These grants are expected to be paid over the next two fiscal years. The Fund has also budgeted an additional \$36 million to fund new grants which are expected to be awarded over the next year.

The Fund will continue to face challenges in the near term as it tries to meet its objectives. The type of investments the Fund makes are in new and unproven renewable energy technologies, which will take time to mature and involve considerable risk.

Other assets are composed primarily of utility customer assessments receivables, Regional Greenhouse Gas Initiative (RGGI) auction receivables and promissory notes purchased to fund a residential photovoltaic equipment lease program as of the end of the fiscal year.

The following table summarizes the net assets at June 30, 2011 and 2010 (in thousands):

	<i>Net Assets</i> <i>(in thousands)</i>		
	2011	2010	Increase (Decrease)
Cash, certificates of deposit	\$ 59,899	\$ 58,198	\$ 1,701
Investments	1,699	1,349	350
Promissory notes	10,663	6,288	
Other assets	<u>4,735</u>	<u>4,877</u>	<u>(142)</u>
Total assets	<u>76,996</u>	<u>70,712</u>	<u>6,284</u>
Current liabilities	<u>4,216</u>	<u>4,981</u>	<u>(765)</u>
Total liabilities	<u>4,216</u>	<u>4,981</u>	<u>(765)</u>
Restricted	234	289	(55)
Unrestricted	<u>72,546</u>	<u>65,442</u>	<u>7,104</u>
Total net assets	<u>\$ 72,780</u>	<u>\$ 65,731</u>	<u>\$ 7,049</u>

CONNECTICUT CLEAN ENERGY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN NET ASSETS

Revenues from utility customer assessments were \$28.4 million for 2011 compared to \$27.3 million in 2010. The net increase of \$1.1 million was primarily a result of an increase in utility usage.

Revenues from interest on cash deposits decreased \$.3 million to \$.1 million in 2011. Interest on short-term investments and cash deposits decreased due to the decrease in the average cash balance on hand and lower interest rates. The fund received \$3.4 million from the state in RGGI auction proceeds during the year.

Total expenditures for grants and programs in 2011 were \$24.3 million, a decrease of \$11.7 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 2011, the Fund committed a total of \$16 million for new grants and programs.

Program expenses increased slightly by \$.2 million to \$3.8 million due to increases in costs to administer the Fund's various programs. General and administrative expenses decreased by \$.4 million to \$1.4 million.

Realized gains on program investments increased by \$.2 million over the prior year and unrealized appreciation on these investments decreased by \$59,000 as a result of Renewable Energy Credit activity during the year.

The following table summarizes the changes in net assets between June 30, 2011 and 2010 (in thousands):

	2011	2010	Increase (Decrease)
Revenues	<u>\$ 36,391</u>	<u>\$ 33,126</u>	<u>\$ 3,265</u>
Operating expenses:			
Grants and program investments	24,254	35,943	(11,689)
Program expenses	3,772	3,590	182
General and administrative expense	<u>1,436</u>	<u>1,859</u>	<u>(423)</u>
Total operating expenses	<u>29,462</u>	<u>41,392</u>	<u>(11,930)</u>
Operating income	6,929	(8,266)	15,195
Net change in unrealized appreciation in fair value of investments	(58)	1,469	(1,527)
Net realized (loss) gain on investments	<u>178</u>	<u>(1,525)</u>	<u>1,703</u>
Net change in net assets	<u>\$ 7,049</u>	<u>\$ (8,322)</u>	<u>\$ 15,371</u>

CONNECTICUT CLEAN ENERGY FUND

BALANCE SHEET AND STATEMENT OF NET ASSETS

JUNE 30, 2011

	Balance Sheet	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 57,664,091	\$ --	\$ 57,664,091
Utility customer assessments receivable	2,683,145	--	2,683,145
RGGI auction receivable	329,833	--	329,833
Other assets	291,671	1,429,921	1,721,592
Solar Lease Notes	--	10,663,543	10,663,543
Portfolio investments	--	1,698,715	1,698,715
Restricted assets:			
Cash and cash equivalents	2,234,945	--	2,234,945
Total Assets	\$ 63,203,685	\$ 13,792,179	\$ 76,995,864
Liabilities and Fund Balance/Net Assets			
Liabilities			
Accounts payable and accrued expenses	\$ 1,753,874	\$ --	\$ 1,753,874
Due to fund administrator	461,752	--	461,752
Deferred revenue	2,000,000	--	2,000,000
Total Liabilities	4,215,626	--	4,215,626
Fund Balance/Net Assets			
Unrestricted net assets	--	72,546,364	72,546,364
Restricted fund balance/ restricted net assets	233,875	--	233,875
Committed fund balance	34,225,106	(34,225,106)	--
Unassigned fund balance	24,529,079	(24,529,079)	--
Total Fund Balance/Net Assets	58,988,060	13,792,179	72,780,239
Total Liabilities and Fund Balance/Net Assets	\$ 63,203,686	\$ 13,792,179	\$ 76,995,865

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

CONNECTICUT CLEAN ENERGY FUND

BALANCE SHEET AND STATEMENT OF NET ASSETS (CONTINUED)

JUNE 30, 2011

	Balance Sheet	Adjustments	Statement of Net Assets
Amounts reported for governmental activities in the statement of net assets are different because:			
Long-term program investments are treated as expenditures for fund purposes		\$ 1,698,715	
Long-term renewable energy certificates are treated as expenditures for fund purposes		1,429,921	
Long-term solar lease notes receivable are treated as expenditures when the notes are purchased for fund purposes		10,936,961	
Less - Solar Loan Loss Reserve		<u>(273,418)</u>	
Total Adjustments to Net Assets		<u>\$ 13,792,179</u>	

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

CONNECTICUT CLEAN ENERGY FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Utility customer assessments	\$ 28,444,062	\$ --	\$ 28,444,062
Interest on short-term investments	117,145	--	117,145
Interest on solar lease notes	447,251	--	447,251
RGGI Auction income	3,383,276	--	3,383,276
Grant revenue	3,808,690	--	3,808,690
Other income	191,340	--	191,340
Total Revenues	<u>36,391,764</u>	<u>--</u>	<u>36,391,764</u>
Expenditures and Expenses			
Program			
Grants	29,288,320	(5,034,678)	24,253,642
Program expenses	3,772,446	--	3,772,446
	33,060,766	(5,034,678)	28,026,088
General and administrative expenses	1,435,869	--	1,435,869
Total Expenditures and Expenses	<u>34,496,635</u>	<u>(5,034,678)</u>	<u>29,461,957</u>
Change in Fund Balance/Net Assets Before Change in Value of Investments	1,895,129	5,034,678	6,929,807
Net Realized Gain on Investments	177,756	--	177,756
Net Decrease in Fair Value of Investments	<u>(58,557)</u>	<u>--</u>	<u>(58,557)</u>
Net Change in Fund Balance/ Net Assets	2,014,328	5,034,678	7,049,006
Fund Balance/Net Assets - Beginning	<u>56,973,732</u>	<u>8,757,501</u>	<u>65,731,233</u>
Fund Balance/Net Assets - End	<u>\$ 58,988,060</u>	<u>\$ 13,792,179</u>	<u>\$ 72,780,239</u>

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

CONNECTICUT CLEAN ENERGY FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2011

	Prior Year Reconciling Items	Current Year Reconciling Items	Total Statement of Activities
Net Change in Fund Balance		<u>\$ 2,014,328</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Long-term program investments are treated as expenditures for fund purposes	\$ 1,348,815	350,000	\$ 1,698,815
Long-term renewable energy certificates are treated as expenditures for fund purposes	1,120,982	308,939	1,429,921
Long-term solar lease notes receivable are treated as expenditures when the notes are purchased for fund purposes	6,449,029	4,487,932	10,936,961
Less - Solar Loan Loss Reserve Provision	<u>(161,225)</u>	<u>(112,193)</u>	<u>(273,418)</u>
Total Adjustments	<u>\$ 8,757,601</u>	<u>5,034,678</u>	<u>\$ 13,792,279</u>
Net Change in Net Assets		<u>\$ 7,049,006</u>	

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

CONNECTICUT CLEAN ENERGY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Connecticut Clean Energy Fund (the Fund) (statutorily the Renewable Energy Investment Fund) was established in July 1998 under Title 16, Sec. 16-245n of the General Statutes of the State of Connecticut. The Fund, a Special Revenue Fund of the State of Connecticut, was created to promote 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. 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 the Fund. The Fund, through its administrator, Connecticut Innovations, Incorporated, may deploy the funds for grants, direct or equity investments, contracts or other actions which support research, development, manufacture, commercialization, deployment and installation of renewable energy technologies, and actions which expand the expertise of individuals, businesses and lending institutions with regard to renewable energy technologies.

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

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in conformity with the requirements of the Governmental Accounting Standards Board. The more significant of the Fund's accounting policies are described below.

CONNECTICUT CLEAN ENERGY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the Connecticut Clean Energy Fund.

The government-wide financial statements are reported using economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Fees are recognized as revenues in the year for which they are charged.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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 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.

CONNECTICUT CLEAN ENERGY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

RESTRICTED ASSETS

Restricted assets consist of short-term investments in the State Treasurer's Short-Term Investment Funds which are legally restricted for a contractual commitment to fund the maintenance of a fuel cell for a municipality in the State of Connecticut.

PORTFOLIO INVESTMENTS

The Fund 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. The Fund 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 Fund 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 the Fund's portfolio investments are uninsured and unregistered, and are held in the administrator's name.

FUND BALANCE/NET ASSETS

The Fund adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with the Statement, the Fund has reported its fund balances on the fund financial statements in the following categories:

- Committed Fund Balance – represents amounts that can only be used for specific purposes imposed by formal action of the Board of Directors
- Restricted Fund Balance – represents amounts with restrictions that are legally enforceable
- Unassigned Fund Balance – represents fund balance that is neither restricted, committed or assigned to specific purposes

CONNECTICUT CLEAN ENERGY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

For government-wide reporting purposes, the Fund has reported its net assets in the following categories:

- Restricted Net Assets – represents amounts with restrictions that are legally enforceable
- Unrestricted – represents net assets that are not restricted

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

The Fund has performed a review of events subsequent to the balance sheet date through November 30, 2011, the date of the financial statements where available to be issued.

Effective July 1, 2011 Title 16, Sec. 16-245n of the General Statutes of the State of Connecticut under which the Renewable Energy Investment Fund (Connecticut Clean Energy Fund) was established was modified to create the Clean Energy Finance and Investment Authority (CEFIA), a quasi public agency of the State. The Renewable Energy Investment Fund was renamed the Clean Energy Fund. CEFIA is the successor agency to Connecticut Innovations, Inc, a quasi public agency of the State, for purposes of administering the Clean Energy Fund. The CEFIA is within Connecticut Innovations, Inc., a quasi public agency of the State of Connecticut for administrative purposes only.

CONNECTICUT CLEAN ENERGY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 2 – FAIR VALUE MEASUREMENTS

The Fund values certain of its financial assets and liabilities at fair value, which it defines 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, the Fund utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Fund also considers nonperformance risk in the overall assessment of fair value.

The Fund uses 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: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority Level 1 assets.
- Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.
- Level 3: Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset at the reporting date.

Financial assets carried at fair value as of June 30, 2011 are classified in the following table in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Cash and				
cash equivalents	\$ 59,899,036	\$ --	\$ --	\$ 59,899,036
Portfolio investments	--	--	1,698,715	1,698,715
	<u>\$ 59,899,036</u>	<u>\$ --</u>	<u>\$ 1,698,715</u>	<u>\$ 61,597,751</u>

CONNECTICUT CLEAN ENERGY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 2 – FAIR VALUE MEASUREMENTS (CONTINUED)

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	\$ 1,348,715
Purchases, issuances and settlements - net	<u>350,000</u>
Balance - end of year	<u>\$ 1,698,715</u>

NOTE 3 – CASH AND CASH EQUIVALENTS

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

Checking	\$ 193,337
Money Market	500
State Treasurer's Short-Term Investment Fund	<u>57,470,254</u>
Unrestricted cash and cash equivalents	57,664,091
Checking - restricted	100
State Treasurer's Short-Term Investment Fund - restricted	<u>2,234,845</u>
Total cash and cash equivalents	<u>\$ 59,899,036</u>

STATE TREASURER'S SHORT-TERM INVESTMENT FUND

The State Treasurer's Short-Term Investment Fund is an investment pool. The value of the Fund'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.

CONNECTICUT CLEAN ENERGY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 3 – CASH AND CASH EQUIVALENTS (CONTINUED)

INTEREST RATE RISK

The Fund 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 the Fund 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

CONCENTRATION OF CREDIT RISK

The Fund's investment policy does not limit the investment in any one investment vehicle. Other than the State Treasurer's Short-Term Investment Fund (STIF), the Fund has no investments in any one investment vehicle greater than 5% of the Fund's total investments. The STIF lowers risk by investing in high quality, well diversified securities with relatively short average maturities.

CUSTODIAL CREDIT RISK — DEPOSITS

In the case of deposits, this represents the risk that, in the event of a bank failure, the Fund's deposits may not be returned to it. The Fund does not have a deposit policy for custodial credit risk. As of June 30, 2011, none of the Fund's bank balance was exposed to custodial credit risk because it was not 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, 2011, the Fund has no reportable custodial risk.

CONNECTICUT CLEAN ENERGY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 4 - PORTFOLIO INVESTMENTS

The Fund invests in emerging companies, which, in the event the company becomes successful, could represent a significant portion of the investment balances at a given time. Securities held at June 30, 2011 represent investments in two companies.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Fund is operated by its administrator, Connecticut Innovations, Incorporated, as provided in the General Statutes of the State of Connecticut. The administrator provides services to the Fund, at cost, for its operations. Such services include, but are not limited to, staff to manage and administer the Fund, office space, equipment and supplies, insurance and back office support. Pursuant to State statute, the Fund administrator is subject to a mandated personnel fringe benefit charges because the Fund's employees are paid by the State. The rates charged for fiscal years 2011 and 2010 in the aggregate comprised 63.73% and 62.92% of gross salaries, respectively. Expenses billed to the Fund by its administrator totaled \$3,995,066 for the year ended June 30, 2011. As of June 30, 2011, amounts due to Connecticut Innovations Incorporated, totaled \$131,919.

The administrator's employees may serve as directors and/or officers of portfolio companies and non-profit organizations whose work advances the mission of the Fund. Consistent with State law and the administrator's own policies, employees receive no compensation or benefits from such organizations. Serving as directors and/or officers was contemplated as part of the administrator's official duties.

NOTE 6 - COMMITTED FUND BALANCE

As of June 30, 2011, the Board of Directors has committed a portion of the fund balance to fund grants for specific projects in the following areas:

Fuel cells	\$ 7,087,591
Solar	13,886,583
Other technologies	840,017
Project 150 and Predevelopment Program	10,702,892
Operation Demonstration Program	1,369,777
Education and outreach	<u>338,246</u>
	<u>\$ 34,225,106</u>

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

CONNECTICUT CLEAN ENERGY FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 7 - RESTRICTED FUND BALANCE/NET ASSETS

As discussed in Note 1, the Fund has a contractual commitment of \$233,875 to fund the maintenance of a fuel cell for a municipality in the State of Connecticut.

NOTE 8 - RISK MANAGEMENT

The Fund is subject to normal risks associated with its operations. All risks are managed through commercial insurance as the Fund is covered by the insurance policies maintained by the administrator.

NOTE 9 - RENEWABLE ENERGY CREDITS

The Fund owns Class 1 Renewable Energy Certificates (RECs) that are generated by certain renewable energy facilities for which the Fund provided the initial funding. The Fund has entered into agreements to sell a total of 30,000 REC's generated through December 31, 2013 at prices ranging from \$15.00 to 16.50 per REC, totaling \$465,000.

RECs trade on the New England Power Pool (NEPOOL) market. The market price of Connecticut Class 1 RECs as of June 30, 2011 ranged from \$19.00 to \$21.00. However the Fund's inventory as of June 30, 2011 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.

The REC's are reported as part of Other Assets on the Balance Sheet and Statement of Net Assets.

NOTE 10 – DEFERRED REVENUE

The amount represents unspent grant funds received by the Fund under the American Recovery and Reinvestment Act program. These monies, \$2,000,000, will fund State Energy Program Formula Grants for Fuel Cell projects 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
Connecticut Clean Energy Fund

We have audited the balance sheet and statement of net assets of the Connecticut Clean Energy Fund, a special revenue fund of the State of Connecticut, as of June 30, 2010 and the related statement of revenues, expenditures and changes in fund balance and statement of activities for the year then ended, and have issued our report thereon dated November 30, 2010. 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 the Connecticut Clean Energy Fund'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 the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Connecticut Clean Energy Fund'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 above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Connecticut Clean Energy Fund'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. 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
November 30, 2011