845 Brook Street
Rocky Hill, Connecticut 06067

300 Main Street, 4th Floor
Stamford, Connecticut 06901

T: 860.563.0015
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CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

September 30, 2013

Dear Audit, Compliance and Governance Committee Members,

We look forward to our meeting on Friday, October 4th, at CEFIA in Rocky Hill from 1 to 2 p.m. We have three main agenda items:

- Presentation of the Draft 2013 Audited Financial Statements;
- CEFIA Board of Directors Recruitment Update; and
- Legislative Update.

The materials for the meeting can be found at the link below. As always, please let me know if you have any questions.

Sincerely,

Brian Farnen
General Counsel & Chief Legal Officer

845 Brook Street
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Stamford, Connecticut 06901

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CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

AGENDA

Audit, Compliance and Governance Committee of the
Clean Energy Finance and Investment Authority
845 Brook Street
Rocky Hill, CT 06067

Friday, October 4, 2013 – Regular Meeting
1:00 to 2:00 p.m.

Staff Invited: Bryan Garcia, Brian Farnen, Bert Hunter George Bellas, Mackey Dykes, and David Goldberg

Others Invited: Marcum, LLP

1. Call to order

2. Public Comments – 5 minutes

3. Approve meeting minutes for June 5, 2013 Regular Meeting* – 5 minutes

4. Presentation of the Draft Audited Financial Statements and the Federal Single Audit Report for the Clean Energy Finance and Investment Authority (CEFIA) for the Fiscal Year (FY) ending June 30, 2013 – 25 minutes

5. Review and recommendation to the Board of Directors of CEFIA for approval of the FY 2013 Draft CEFIA Audited Financial Statements** – 10 minutes

6. CEFIA Board of Directors Recruitment update – 5 minutes

7. Legislative update – 10 minutes

8. Adjourn

*Denotes item requiring Committee action
** Denotes item requiring Committee action and recommendation to the Board for approval

Join the meeting online at https://www4.gotomeeting.com/join/646038343
Meeting ID: 646-038-343

845 Brook Street
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CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

RESOLUTIONS

Audit, Compliance and Governance Committee of the
Clean Energy Finance and Investment Authority
845 Brook Street
Rocky Hill, CT 06067

Friday, October 4, 2013 – Regular Meeting
1:00 to 2:00 p.m.

Staff Invited: Bryan Garcia, Brian Farnen, Bert Hunter George Bellas, Mackey Dykes, and David Goldberg

Others Invited: Marcum, LLP

1. Call to order

2. Public Comments – 5 minutes

3. Approve meeting minutes for June 5, 2013 Regular Meeting* – 5 minutes

4. Presentation of the Draft Audited Financial Statements and the Federal Single Audit Report for the Clean Energy Finance and Investment Authority (CEFIA) for the Fiscal Year (FY) ending June 30, 2013 – 25 minutes

5. Review and recommendation to the Board of Directors of CEFIA for approval of the FY 2013 Draft CEFIA Audited Financial Statements** – 10 minutes

WHEREAS, Article V, Section 5.3.1(ii) of the Clean Energy Finance and Investment Authority (CEFIA) Operating Procedures requires the Audit, Compliance, and the Governance Committee (the "Committee") to meet with the auditors to review the annual audit and formulation of an appropriate report and recommendations to the Board with respect to the approval of the audit report;

NOW, therefore be it:

RESOLVED, that the Committee hereby recommends to the Board of Directors of CEFIA for approval the Audited Financial Statements and the Federal Single Audit Report of the Clean Energy Finance and Investment Authority for the Fiscal Year Ending June 30, 2013 (Attachment A).

Second. Discussion. Vote.

6. CEFIA Board of Directors Recruitment update – 5 minutes

7. Legislative update – 10 minutes

8. Adjourn

*Denotes item requiring Committee action
** Denotes item requiring Committee action and recommendation to the Board for approval

Join the meeting online at https://www4.gotomeeting.com/join/646038343

Dial 1+ (786) 358-5417 Meeting ID: 646-038-343

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

Audit Compliance and Governance Committee of the Clean Energy Finance and Investment Authority

Agenda Item #1

Call to Order

October 4, 2013

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

Audit, Compliance and Governance Committee of the Clean Energy Finance and Investment Authority

Agenda Item #2

Public Comments

October 4, 2013

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

Audit, Compliance and Governance Committee of the Clean Energy Finance and Investment Authority

Agenda Item #3

Approval of Meeting Minutes June 6, 2013

October 4, 2013

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

Audit, Compliance and Governance Committee of the Clean Energy Finance and Investment Authority

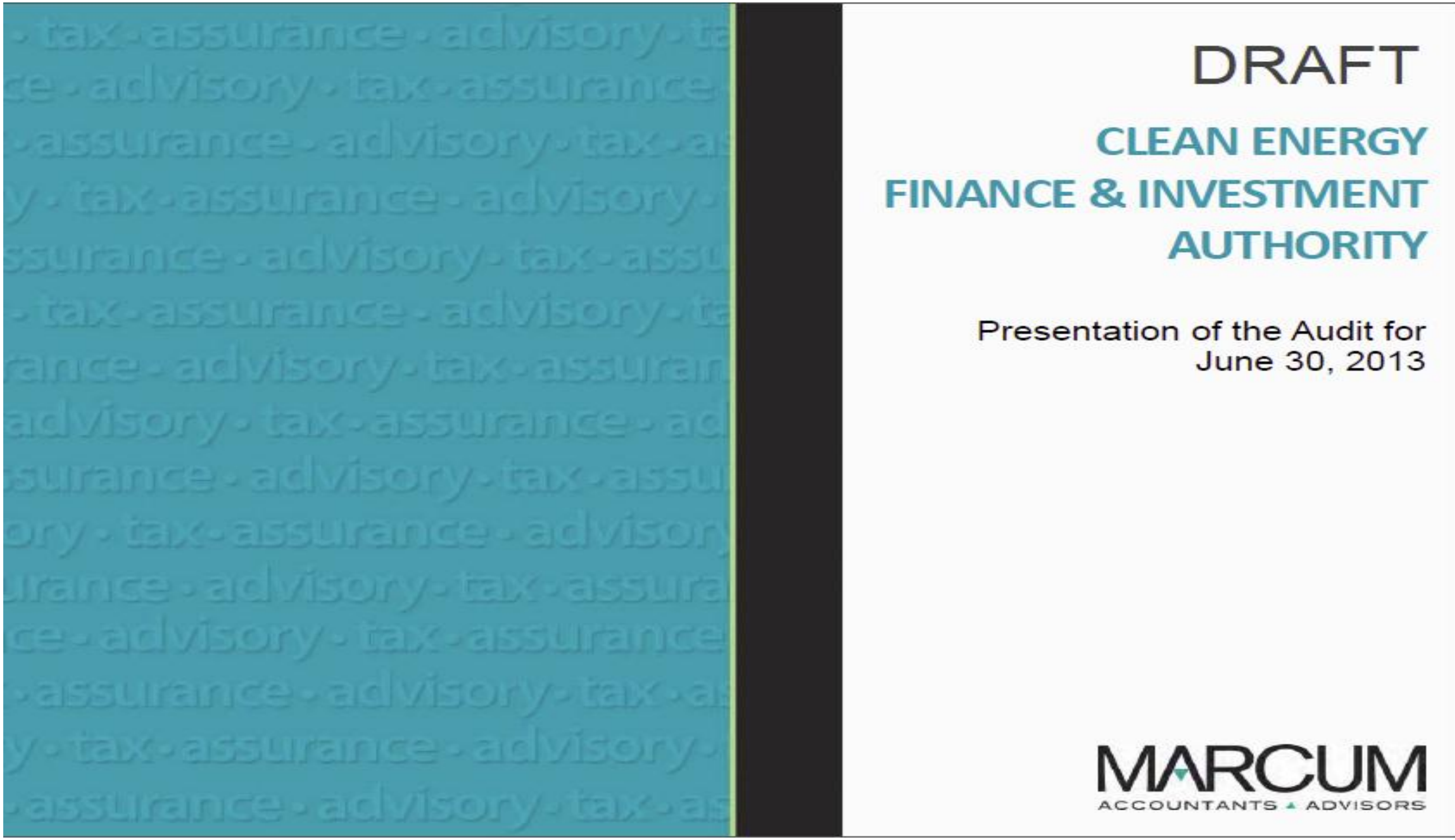
Agenda Item #4

Presentation of the Draft Audited Financial Statements and the Federal Single Audit Report for the Clean Energy Finance and Investment Authority (CEFIA) for the Fiscal Year (FY) ending June 30, 2013

October 4, 2013

Fiscal Year 2013 Financial Statements and Federal Single Audit Report

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY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CLEAN ENERGY
FINANCE & INVESTMENT
AUTHORITY

Presentation of the Audit for
June 30, 2013

MARCUM
ACCOUNTANTS ▲ ADVISORS

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

DRAFT

The Audit

- Unmodified Opinion on the Financial Statements
- Audit conducted under
  - Auditing Standards Generally Accepted in the United States of America
  - *Government Auditing Standards* issued by the Comptroller General of the United States
- Reporting on Internal Control Over Financial Reporting and on Compliance and Other Matters required under *Government Auditing Standards*
- Reporting on Internal Control and Internal Control Over Compliance required under the Federal OMB Circular A-133 (single audit)

MARCUM
ACCOUNTANTS ▲ ADVISORS

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

DRAFT

Status of the 2013 Audit

- The following areas are open:
  - Discussion on Performance Based Incentive (PBI) activity
  - Discussion of Accounting for ARRA LLR and IRB activity
  - CEFIA recording of energy recs
  - Updating of MD&A
  - Subsequent events
  - CEFIA review of final reporting
  - Management representation letter
  - Issuance of audit opinion and related federal single audit reporting

Audits in Accordance with *Government Auditing Standards* (“Yellow Book”)

- All audits require the auditor to gain an understanding of internal control in order to plan the audit procedures
- Audits under *Government Auditing Standards* (GAS) require an explicit reporting on whether or not there were significant deficiencies or material weaknesses found in internal controls over financial reporting or in compliance by the entity over grants, contracts, laws, regulations or agreements that could materially impact its financial statements

Management Responsibilities

- Establishing and maintaining effective internal controls, including those over compliance;
- Selection and application of accounting principles;
- Making all financial records and related information available for the audit;
- Design and implementation of programs and controls to prevent and detect fraud; and
- Compliance with laws, regulations, contracts, agreements and grants as required by *Government Auditing Standards* and the federal single audit act (A-133)

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

DRAFT

Auditor Reporting to Governance

- Our responsibility to report on conducting the engagement:
  - Significant sensitive accounting estimates including the valuation of investments
  - Significant audit adjustments and proposed but unrecorded adjustments – NONE
  - Disagreements with management about auditing, accounting or disclosure matters – NONE
  - Management's consultations with other auditors – NONE

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

DRAFT

Auditor Reporting to Governance

- Difficulties encountered relating to the performance of the audits – NONE
- Material errors or fraud or possible illegal acts – NONE
- Material weaknesses or significant deficiencies in internal control – NONE
- Relationships between any of our representatives and CEFIA that in our professional judgment, may reasonably be thought to bear on independence – NONE
- Major issues discussed with management prior to retention – NONE
- Other items – NONE

DRAFT

Questions?

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

Audit, Compliance and Governance Committee of the Clean Energy Finance and Investment Authority

Agenda Item #5

Review and recommendation to the Board of Directors for approval of the FY 2013 Draft CEFIA Audited Financial Statements

October 4, 2013

RESOLVED, that the Committee hereby recommends to the Board of Directors of CEFIA for approval the Audited Financial Statements and the Federal Single Audit Report of the Clean Energy Finance and Investment Authority for the Fiscal Year Ending June 30, 2013 (Attachment A).

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

Audit, Compliance and Governance Committee of the Clean Energy Finance and Investment Authority

Agenda Item #6

CEFIA Board of Directors Recruitment Update

October 4, 2013

CEFIA Board of Directors Recruitment Update

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

Name	Organization	Appointer	Term (Years)	Appointment Date
Catherine Smith (Chair)	DECD	Statute (PA 11-80)	N/A	July 1, 2011
Dan Esty (Vice Chair)	DEEP	Statute (PA 11-80)	N/A	July 1, 2011
1 TBD	State Treasurer	Statute (PA 11-80)	N/A	July 1, 2011
Patricia Wrice	Operation Fuel	Speaker of the House	4	Sept. 1, 2011
Norma Glover	NJG Associates	Minority Leader of the House	3	July 26, 2011
Matt Ranelli (Secretary)	Shipman & Goodwin	President Pro Temp Senate	4	July 14, 2011
Tom Flynn	Town of Fairfield	Minority Leader of the Senate	4	July 11, 2012
Reed Hundt	CGC	Governor (Finance)	2 + 4	2 Sept. 22, 2011
3 TBD	TBD	Governor (Finance)	2 + 4	TBD
John Harrity	CSCM	Governor (Labor)	4 + 4	July 16, 2013
Mun Choi	UConn	Governor (R&D)	4 + 4	Sept. 22, 2011
Bryan Garcia	CEFIA	Ex Officio – Non-Voting	N/A	Sept. 29, 2011
4 TBD	CI Board of Directors	Ex Officio – Non-Voting	N/A	TBD

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

Audit, Compliance and Governance Committee of the Clean Energy Finance and Investment Authority

Agenda Item #7

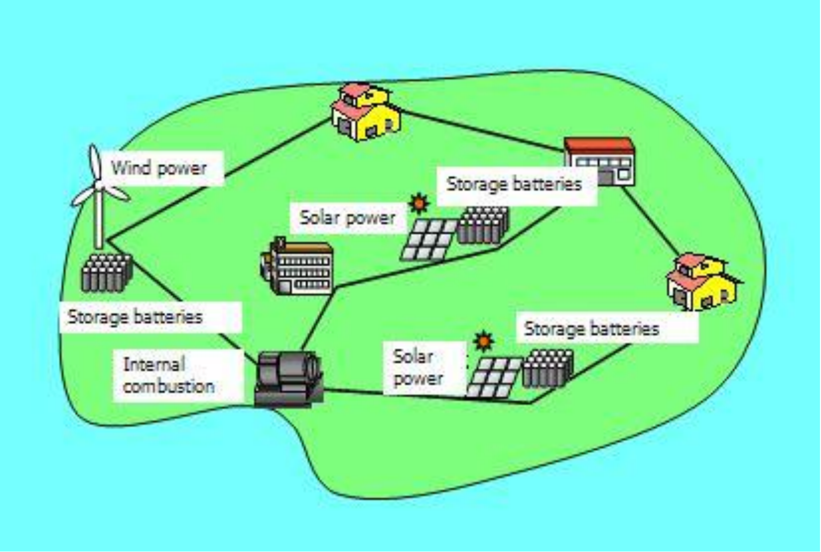
Legislative Update

October 4, 2013

Legislative Update

- Last session C-PACE program was expanded to include District Heating & Cooling Systems (PA 13-116)

- CEFIA will seek to include a broader definition (of “non-permanently fixed” equipment) including Microgrids as we believe C-PACE financing will provide great value as CT seeks to fund/finance Microgrids.



Legislative Update

- **Benchmarking and Disclosure – continue discussion regarding building disclosure requirements in an effort to possibly get passage in 2015.**
  - This discussion was had with the Administration, Legislative Leadership, and Policy Leaders, but did not move last session.
  - We are not certain that there will be the appetite to move this policy matter during the upcoming session but will collaborate with DEEP and others if this gains some traction

CLEAN ENERGY
FINANCE AND INVESTMENT AUTHORITY

Audit, Compliance and Governance Committee of the Clean Energy Finance and Investment Authority

Agenda Item #8

Adjourn

October 4, 2013

Subject to changes and deletions

AUDIT, COMPLIANCE AND GOVERNANCE COMMITTEE OF THE CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY
Draft Minutes – Regular Meeting
Wednesday, June 5, 2013

A regular meeting of the Audit, Compliance and Governance Committee ("Audit Committee") of the Board of Directors of the **Clean Energy Finance and Investment Authority (the "Authority")** was held on June 5, 2013, at the office of CEFIA, 845 Brook Street, Rocky Hill, CT.

1. **Call to Order**: John Olsen, Chairperson of the Audit Committee, called the meeting to order at 2:18 p.m. Audit Committee members participating: John Olsen and Matthew Ranelli (by phone).

Absent: Patricia Wrice.

Staff Attending: George Bellas, Brian Farnen, Bryan Garcia, David Goldberg, Shelly Mondo, and Phil Siuta.

2. **Public Comments:** There were no public comments.

3. **Approval of Minutes:**

Mr. Olsen asked the Audit Committee members to consider the minutes from the December 11, 2012 meeting.

> **Upon a motion made by Mr. Ranelli, seconded by Mr. Olsen, the Audit Committee members voted unanimously in favor of adopting the minutes from the December 11, 2012 meeting as presented.**

4. **Legislative Update:**

Mr. Goldberg provided an update on Commercial Property Assessed Clean Energy ("C-PACE") legislation. He discussed the proposed change to the timing of the lien under C-PACE. Attorney Farnen explained that the existing statutes do not allow liens on the properties during the construction period, thereby affecting the willingness of capital providers to provide funding for unsecured loans during construction at a low interest rate. He noted that the proposed amendment would allow liens on the properties during construction, giving banks the comfort to provide low-interest rate loans for secured obligations during the construction period. Mr. Goldberg explained that the C-PACE amendments and the comprehensive on-bill repayment legislation are in the comprehensive energy strategy bill which is being considered by the legislature this afternoon. He mentioned that the Commercial and Industrial property tax-exemption bill has already been signed by the Governor.

Mr. Garcia spoke about the proposal by the legislature to transfer CEFIA funds in FY 2014 and 2015 to the General Fund to help reduce the state budget deficit. He indicated that staff is working with the Administration and legislature to mitigate and potentially reverse the potential impact of the transfer of funds before the session ends. One of the possibilities being actively considered is allocating additional Regional Greenhouse Gas Emissions auction proceeds to CEFIA for use for financing energy efficiency projects.

Mr. Goldberg discussed alternative compliance payments. In response to a question, Mr. Bellas indicated that in the past several years, approximately $100,000 a year has been received for alternative compliance payments. It is anticipated that in the future the amount will be substantially more.

5. Review and Approval of the Creation of a New Credit Committee:

Attorney Farnen discussed the recommendation to create a new Credit Committee of the Board. He reviewed the existing committees of the Board and noted the strategic transition of funding away from technology innovation towards a focus on low-cost financing of commercially available clean energy deployment. Attorney Farnen explained the need to create a new committee to review staff's recommendations for C-PACE funding transactions between $300,000 and $2,500,000. Due to the anticipated volume of C-PACE transactions, Mr. Farnen noted the likelihood of the Credit Committee needing to meet on a monthly basis.

Concerns were expressed with the potential for the responsibilities of the Deployment Committee and proposed Credit Committee overlapping. Staff explained that the Deployment Committee would be responsible for the programmatic-type issues, and the Credit Committee would focus on individual transactions. The Audit Committee members discussed having the requisite experience on a committee to review the C-PACE transactions. A suggestion was made to expand the membership of the existing Deployment Committee to include another member or two with the requisite expertise. Some concerns were expressed with increasing the frequency of the meetings of the Deployment Committee. The Audit Committee members discussed the suggestion to create a subcommittee of the Deployment Committee to review and approve C-PACE transactions. It was noted that Board action would be required to delegate authority to a subcommittee of a committee to approve the transactions.

A discussion ensued on the approval process for transactions, beginning with staff's due diligence, recommendation and ultimate approval by the Board or committee of the Board. Mr. Siuta explained how the CI Loan Committee functions. He noted that the Loan Committee members approve transactions after thorough review and due diligence is performed by staff. Mr. Siuta stated that the CI Loan Committee is comprised of members with different backgrounds and expertise. After further discussion by the Audit Committee members, there was general consensus to proceed with a recommendation to create a subcommittee of the Deployment Committee.

Upon a motion made by Mr. Ranelli, seconded by Mr. Olsen, the Audit Committee members voted unanimously in favor of recommending to the Board for consideration the following:

- **expanding the membership of the Deployment Committee to include a member(s) with the requisite background to review and approve C-PACE transactions; and**
- **the creation of a subcommittee of the Deployment Committee of the Board;**
- **delegating authority to the subcommittee of the Deployment Committee to approve C-PACE transactions between $300,000 and $2,500,000 in accordance with Section 5.1 of the CEFIA Bylaws; and**
- **delegating authority to the subcommittee of the Deployment Committee to recommend approval of C-PACE transactions in excess of $2,500,000 to the Board in accordance with Section 5.1 of the CEFIA Bylaws.**

6. Review and Approval of the Dissolution of the Technology Innovation Committee:

Attorney Farnen reviewed the recommendation to dissolve the Technology Innovation Committee. He noted that staff has been working to wind down technology innovation programs, and the potential last meeting of the Technology Innovation Committee is planned to be held on Friday, June 7. Even though not required, Attorney Farnen mentioned that the Technology Innovation Committee will also be considering a recommendation to dissolve at their June 7th meeting. It was noted that in accordance with CEFIA's Bylaws, the ACG Committee has jurisdiction over corporate governance and therefore should consider the dissolution.

Upon a motion made by Mr. Ranelli, seconded by Mr. Olsen, the Audit Committee members voted unanimously in favor of adopting the following amended resolution:

WHEREAS, Section 99 of Public Act 11-80, "An Act Concerning the Establishment of the Department of Energy and Environmental Protection and Planning for Connecticut's Energy Future," (the "Act") directs the Clean Energy Finance and Investment Authority ("CEFIA") to develop a comprehensive plan to foster the growth, development and commercialization of clean energy sources, related enterprises and stimulate demand clean energy and deployment of clean energy sources that serve end use customers in this state; and

WHEREAS, CEFIA has been strategically transitioning funding from technology innovation towards a focus on low-cost financing of commercially available clean energy deployment pursuant to CEFIA's Board approved Comprehensive Plan; and

WHEREAS, CEFIA has four Standing Committees of the Board consisting of an Audit, Compliance and Governance ("ACG") Committee, a Budget and Operations Committee, a Deployment Committee and a Technology Innovation Committee; and

WHEREAS, CEFIA staff proposes to wind down the Technology Innovation Committee and further proposes the establishment of a committee function to review financing projects consistent with our new mission focused on financing the scaled deployment of commercially available technologies.

NOW, therefore be it:

RESOLVED, that the ACG Committee hereby recommends, effective July 1, 2013, that the CEFIA Board of Directors approves the dissolution of the Technology Innovation Committee.

7. <u>Review of Auditors</u>:

Mr. Siuta discussed the Request for Proposals ("RFP") process for an outside auditor. He reviewed the scores for each of the five qualified applicants and explained the metrics used to score the proposals. Mr. Siuta discussed the fees for each of the applicants. Mr. Bellas and Mr. Siuta indicated that given the complexities of the organization, staff believes that the hours proposed by Marcum LLP to complete the audit is more realistic than the second scored applicant. It was noted that Marcum LLP has served as auditor for CI for the last three fiscal years. In accordance with State Statutes, independent auditors for quasi-public agencies cannot serve for more than six consecutive fiscal years.

Upon a motion made by Mr. Ranelli, seconded by Mr. Olsen, the Audit, Compliance and Governance Committee members voted unanimously in favor of adopting the following resolution recommending the appointment of Marcum LLP as CEFIA's auditor for fiscal years ending June 30, 2013, 2014 and 2015:

WHEREAS, Article V, Section 5.3.1(i) of the Clean Energy Finance and Investment Authority ("CEFIA") Operating Procedures requires that the Audit, Compliance and Governance ("ACG") Committee recommends to the Board of Directors (the "Board") the selection of the auditors;

WHEREAS, Connecticut Innovations provides administrative and accounting services to CEFIA, has reviewed and scored auditor bids and recommends Marcum, LLP.

NOW, therefore, be it:

RESOLVED, that the ACG Committee recommends to the Board Marcum, LLP as CEFIA's auditor for the Fiscal Years Ending June 30, 2013, 2014, and 2015.

8. **Adjournment**: Upon a motion made by Mr. Ranelli, seconded by Mr. Olsen, the Audit Committee members voted unanimously in favor of adjourning the June 5, 2013 meeting at 3:22 a.m.

Respectfully submitted,

John Olsen, Chairperson of Audit Committee

DRAFT

CLEAN ENERGY FINANCE & INVESTMENT AUTHORITY

Presentation of the Audit for
June 30, 2013

MARCUM
ACCOUNTANTS ▲ ADVISORS

The Audit

- Unmodified Opinion on the Financial Statements
- Audit conducted under
  - Auditing Standards Generally Accepted in the United States of America
  - *Government Auditing Standards* issued by the Comptroller General of the United States
- Reporting on Internal Control Over Financial Reporting and on Compliance and Other Matters required under *Government Auditing Standards*
- Reporting on Internal Control and Internal Control Over Compliance required under the Federal OMB Circular A-133 (single audit)

DRAFT

Status of the 2013 Audit

- The following areas are open:
  - Discussion on Performance Based Incentive (PBI) activity
  - CEFIA recording of energy recs
  - Updating of MD&A
  - Subsequent events
  - CEFIA review of final reporting
  - Management representation letter
  - Issuance of audit opinion and related federal single audit reporting

MARCUM
ACCOUNTANTS ▲ ADVISORS

DRAFT

Audits in Accordance with *Government Auditing Standards* ("Yellow Book")

- All audits require the auditor to gain an understanding of internal control in order to plan the audit procedures
- Audits under *Government Auditing Standards* (GAS) require an explicit reporting on whether or not there were significant deficiencies or material weaknesses found in internal controls over financial reporting or in compliance by the entity over grants, contracts, laws, regulations or agreements that could materially impact its financial statements

DRAFT

Management Responsibilities

- Establishing and maintaining effective internal controls, including those over compliance;
- Selection and application of accounting principles;
- Making all financial records and related information available for the audit;
- Design and implementation of programs and controls to prevent and detect fraud; and
- Compliance with laws, regulations, contracts, agreements and grants as required by *Government Auditing Standards* and the federal single audit act (A-133)

DRAFT

Auditor Reporting to Governance

- Our responsibility to report on conducting the engagement:
  - Significant sensitive accounting estimates including the valuation of investments
  - Significant audit adjustments and proposed but unrecorded adjustments – NONE
  - Disagreements with management about auditing, accounting or disclosure matters – NONE
  - Management’s consultations with other auditors – NONE

MARCUM
ACCOUNTANTS ▲ ADVISORS

DRAFT

Auditor Reporting to Governance

- Difficulties encountered relating to the performance of the audits – NONE
- Material errors or fraud or possible illegal acts – NONE
- Material weaknesses or significant deficiencies in internal control – NONE
- Relationships between any of our representatives and CEFIA that in our professional judgment, may reasonably be thought to bear on independence – NONE
- Major issues discussed with management prior to retention – NONE
- Other items – NONE

DRAFT

Questions?

MARCUM
ACCOUNTANTS ▲ ADVISORS

DRAFT

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

(A Component Unit of the State of Connecticut)

FEDERAL SINGLE AUDIT

JUNE 30, 2013

DRAFT

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

CONTENTS

DRAFT

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*

Board of Trustees
Clean Energy Finance and Investment Authority

We have audited, 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, the consolidated 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, 2013, which comprise the consolidated statement of net position as of June 30, 2013, and the related consolidated statements of revenues, expenses and changes in net position and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated October XX, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Clean Energy Finance and Investment Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Clean Energy Finance and Investment Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clean Energy Finance and Investment Authority's internal control.

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

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 material weaknesses or significant deficiencies. Given these imitations, during our audit we did not identify any deficiencies in internal control, that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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, regulations, contracts, and grant agreements, 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.*

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope and testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hartford, CT
______________________, 2013

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
Clean Energy Finance and Investment Authority

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM

We have audited the Clean Energy Finance and Investment Authority's (CEFIA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CEFIA's major federal programs for the year ended June 30, 2013. CEFIA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of CEFIA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CEFIA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CEFIA's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, CEFIA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of CEFIA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above In planning and performing our audit of compliance, we considered CEFIA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances, for the purpose of expressing an opinion on compliance for each major federal program, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CEFIA's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance,

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

We have audited the consolidated financial statements of the Clean Energy Finance and Investment Authority (CEFIA) as of and for the year ended June 30, 2013, and have issued our report thereon dated __________, 2013, and the related notes to the consolidated financial statements, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the Unites States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Hartford, CT
_______________, 2013

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CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Program Title	CFDA Number	Expenditures
Department of Energy		
State Energy Program (Recovery Act)	81.041	$ 4,691,300
Energy Efficiency and Conservation Block Grant Program (EECBG) (Recovery Act)	81.128	1,106,720
Energy Efficiency and Renewable Energy Cooperative Agreement (Energy Policy Act)	81.117	436,537
Total Expenditures of Federal Awards		$ 6,234,557

See Notes to Schedule of Expenditures of Federal Awards.

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Clean Energy Finance and Investment Authority (CEFIA) and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

NOTE 2 – STATE ENERGY PROGRAM (RECOVERY ACT) #81.041

Included within the program's total federal expenditures is $3,881.050 of funds set aside under written agreements for loan-loss reserves with ten banks which participate with CEFIA in financing of solar energy programs. The funds are committed to these loan-loss reserves for a period of fifteen years and are unavailable for any other use or purpose by CEFIA.

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CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes __x__ no
- Significant deficiency(ies) identified? ___ yes __x__ none reported

Noncompliance material to financial statements noted? ___ yes __x__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes __x__ no
- Significant deficiency(ies) identified? ___ yes __x__ none reported

Type of auditor's report issued on compliance for major programs: unqualified.

Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ___ yes __x__ no

Major Programs:

Funding Source	Program	CDFA No.
U.S. Department of Energy	State Energy Program (Recovery Act)	81.041
	Energy Efficiency and Conservation Block Grant (Recovery Act)	81.128
	Energy Efficiency and Renewable Energy Cooperative Agreement (Recovery Act)	81.117

Dollar Threshold Used to Distinguish Type A and Type B Programs: $300,000

Qualification of Auditee as a Low-Risk Auditee: Yes

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

SECTION II - SUMMARY OF FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED UNDER GENERAL ACCEPTED GOVERNMENT AUDITING STANDARDS

- We issued reports, dated ___________, 2013, 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*.

- Our report on compliance and other matters indicated no reportable instances of noncompliance.

- Our report on internal control over financial reporting indicated no material weaknesses.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings relating to Federal award programs.

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CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

(A Component Unit of the State of Connecticut)

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clean Energy Finance and Investment Authority

Report on the Financial Statements

We have audited the accompanying consolidated statements of net position of the Clean Energy Finance and Investment Authority ("CEFIA") as of June 30, 2013 and 2012, and the consolidated statements of revenues, expenses and changes in net position, and statements of cash flows, for the years then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. I making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Clean Energy Finance and Investment Authority as of June 30, 2013 and 2012, and the related statement of operations and statement of cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October XX, 2013 on our consideration of the 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 financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Clean Energy Finance and Investment Authority's internal control over financial reporting and compliance.

Hartford, CT
October XX, 2013

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 years ended June 30, 2013 and 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 2013

NET POSITION

Net position increased by $13.0 million to $94.2 million at June 30, 2013 and cash and cash equivalents increased by $4.4 million in 2013 to $77.6 million. Cash increased primarily as a result of greater than expected proceeds received from Regional Greenhouse Gas Initiative (RGGI) auctions and a reduction in grant activity and CEFIA transitions to a financing model as opposed to grant model to fund renewable energy and energy efficiency projects.

As of June 30, 2013, the Board of Directors designated $XX.X million in net position to fund contingent grant commitments as described in Note 10. These grants are expected to be paid over the next fiscal year.

Other assets are composed primarily of utility customer assessment receivables and RGGI auction receivables. The promissory note portfolio of $11.2 million as of June 30, 2013 and $11.7 million as of July 1, 2012 funded a residential photovoltaic equipment lease program which ended during 2012.

The following table summarizes the net assets at June 30, 2013 and July 1, 2012 (in thousands):

	2013	2012	Increase (Decrease)
Cash, certificates of deposit	$ 77,642	$ 73,214	$ 4,428
Investments	4,788	2,155	2,633
Promissory notes	11,240	11,736	(496)
Other assets	6,427	5,071	1,356
Total Assets	100,097	92,176	7,921
Current liabilities	1,816	2,625	(809)
Deferred revenue - ARRA	4,085	8,363	(4,278)
Total Liabilities	5,901	10,988	(5,087)
Invested in capital assets	362	91	271
Restricted Net Position:			
Non-expendable	238	--	238
Other restricted	4,058	177	3,881
Unrestricted	89,537	81,011	8,526
Total Net Position	$ 94,195	$ 81,279	$ 12,916

CHANGES IN NET POSITION

Revenues from utility customer assessments were $27.6 million for 2013 compared to $27.0 million in 2012.

Revenue from interest on cash deposits decreased $ 37,858 to $ 103,928 million in 2013. 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 $4.7 million from the State in RGGI auction proceeds during the year.

Total expenditures for grants and programs in 2013 were $23.5 million, a decrease of $7.6 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. In addition, CEFIA is transitioning to primarily a financing model as opposed to primarily issuing grants to fund renewable energy and energy efficiency projects. During 2013, CEFIA committed a total of $XX.X million for new grants and programs.

General and administrative expenses increased by $0.4 million from $1.4 million to $1.8 million. CEFIA also incurred $1.2 million in start-up costs to develop its Solar Lease II program and organize the subsidiary that will administer the program, CT Solar Lease II, LLC.

The net loss of $657,000 in investments represents write offs of investments previously reserved for and adjustments to the valuation of equity and debt investments currently held.

The following table summarizes the changes in net position between June 30, 2013 and 2012 (in thousands):

	2013	2012	Increase (Decrease)
Revenues	$ 39,945	$ 40,483	$ (538)
Operating Expenses			
Organizational expenses	1,180	--	1,180
Grants and programs	23,527	31,122	(7,595)
General and administrative expense	1,811	1,388	423
Total Operating Expenses	26,518	32,510	(5,992)
Operating Income	13,426	7,973	5,453
Net change in unrealized appreciation in fair value of investments	378	435	(57)
Net realized (loss) gain on investments	(1,035)	--	(1,035)
Minority interest contribution	238	--	238
Net Change in Net Position	$ 13,007	$ 8,408	$ 4,599

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 POSITION

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.

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.

The following table summarizes the net positions 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	5,071	4,735	336
Total Assets	92,176	76,996	15,180
Current liabilities	2,625	4,216	(1,591)
Deferred revenue	8,363	--	8,363
Total Liabilities	10,988	4,216	6,772
Invested in capital assets	91	--	91
Restricted	8,541	234	8,307
Unrestricted	72,556	72,546	10
Total Net Position	$ 81,188	$ 72,780	$ 8,408

CHANGES IN NET POSITION

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.

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 position between June 30, 2012 and 2011 (in thousands):

	2012	2011	Increase (Decrease)
Revenues	$ 40,483	$ 36,391	$ 4,092
Operating Expenses			
Grants and programs	31,122	28,026	3,096
General and administrative expense	1,388	1,436	(48)
Total Operating Expenses	32,510	29,462	3,048
Operating Income	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	--	178	(178)
Net Change in Net Position	$ 8,408	$ 7,049	$ 1,359

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CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

CONSOLIDATED STATEMENT OF NET POSITION

JUNE 30, 2013 AND 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 68,105,014	$ 64,672,910
Accounts receivable	1,940,835	725,259
Utility customer assessments receivable	2,604,826	2,580,042
Other assets	194,056	350,302
Current portion of solar lease notes	704,032	670,645
Total Current Assets	73,548,763	68,999,158
Non-Current Assets		
Portfolio investments, less current portion	4,788,094	2,155,525
Solar lease notes, less current portion	10,536,136	11,064,879
Renewable energy credits	1,324,614	1,324,614
Capital assets, net of depreciation and amortization	362,505	91,329
Restricted cash and cash equivalents	9,536,656	8,540,684
Total Non-Current Assets	26,548,005	23,177,031
Total Assets	$ 100,096,768	$ 92,176,189

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

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

CONSOLIDATED STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2013 AND 2012

	2013	2012
Liabilities and Net Position		
Liabilities		
Accounts payable and accrued expenses	$ 1,422,898	$ 2,624,861
Custodial liability	393,000	--
Deferred revenue - ARRA	4,085,431	8,363,119
Total Liabilities	5,901,329	10,987,980
Net Position		
Invested in capital assets	362,505	91,329
Restricted Net Position:		
Non-expendable	237,594	--
Other restricted net position	4,058,225	176,975
Unrestricted net position	89,537,115	80,919,905
Total Net Position	94,195,439	81,188,209
Total Liabilities and Net Position	$ 100,096,768	$ 92,176,189

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

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Revenues		
Utility customer assessments	$ 27,621,409	$ 27,025,088
Grant Revenue	5,949,819	10,435,251
RGGI auction income	4,744,657	2,052,748
Interest on solar lease notes	583,575	589,007
Interest on short-term investments	103,928	140,786
Other income	941,777	240,597
Total Revenues	39,945,165	40,483,477
Operating Expenses		
General and administrative expenses	1,811,226	1,387,854
Grants and programs	23,527,342	31,122,355
Organizational expenses	1,180,414	--
Total Expenses	26,518,982	32,510,209
Operating Income	13,426,183	7,973,268
Nonoperating Expenses		
Realized loss on investments	(1,034,607)	--
Unrealized gain on investments	378,059	434,702
Income Before Transfers in and Minority Interest Contributions	12,769,635	8,407,970
Transfers In and Minority Interest Contributions		
Transfers in of net assets from State of Connecticut Clean Energy Fund	--	72,780,239
Minority interest contributions	237,594	--
Change in Net Position	13,007,229	81,188,209
Net Position - Beginning of year	81,188,209	--
Net Position - End of year	$ 94,195,438	$ 81,188,209

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

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities		
Utility ratepayer assessments	$ 27,597,453	$ 27,128,191
Interest on short-term investments and cash deposits	116,831	118,680
Interest on solar lease notes	583,942	634,070
Grants	2,015,677	16,892,363
RGGI auctions	3,529,080	1,657,321
Other income	440,533	288,354
Organizational expenses	(1,130,414)	--
Grant and program expenditures	(20,842,074)	(30,452,049)
General and administrative expenditures	(5,670,784)	(1,747,177)
Net Cash Provided by Operating Activities	6,640,244	14,519,753
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(281,654)	(97,733)
Minority interest contributions	237,594	--
Net Cash Used in Capital and Related Financing Activities	(44,060)	(97,733)
Cash Flows from Noncapital Financing Activities		
Transfer from State of Connecticut Clean Energy Fund	--	59,899,036
Net Cash Provided by Noncapital Financing Activities	--	59,899,036
Cash Flows from Investing Activities		
Purchase on solar lease notes	--	(1,710,659)
Return of principal on investments	663,488	603,197
Program loan disbursements	(2,831,596)	--
Net Cash Used in Investing Activities	(2,168,108)	(1,107,462)
Net Increase in Cash and Cash Equivalents	4,428,076	73,213,594
Cash and Cash Equivalents - Beginning	73,213,594	--
Cash and Cash Equivalents - Ending	$ 77,641,670	$ 73,213,594

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

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 13,426,183	$ 7,973,268
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	79,364	6,404
Changes in operating assets and liabilities:		
Other assets	(1,117,501)	(1,317,629)
Accounts payable, accrued expenses, deferred revenue and due to related parties	(1,866,552)	7,857,710
Net Cash Provided by Operating Activities	$ 10,521,494	$ 14,519,753

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

NOTE 1 - NATURE OF OPERATIONS 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. Pursuant to Connecticut General Statute 4-38f, CEFIA is within Connecticut Innovations, Incorporated (CII) for administrative purposes only.

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 and is the principal source of CEFIA's revenue. 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.

During 2013, CEFIA established four legally separate taxable entities whose collective purpose is to administer the solar energy programs established by CEFIA. For the year ended June 30, 2013, separate financial statements have not been issued by these entities. The entities are as follows:

CT Solar Lease 2 LLC

A limited-liability corporation which receives title to the leases of solar photovoltaic and solar thermal equipment from CEFIA Holdings LLC, along with funding from participating banks to pay the final costs of each solar project installation. Repayment to participating banks is predicated upon the property owners repayment to CT Solar Lease 2 of the installation funds advanced.

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

CEFIA Solar Services, Inc

A corporation, 100% owned by CEFIA Holdings LLC established to accumulate tax benefits derived from the leasing activity of CT Solar Lease 2. CEFIA Solar Services, Inc. has a one percent ownership interest in CT Solar Lease 2, and is the managing member of the corporation responsible for performing all management and operational functions.

CEFIA Solar Loan 1 LLC

A limited-liability corporation, wholly-owned by CEFIA Holdings LLC established to issue financing to residential property owners for the purposes of installing photovoltaic equipment.

CEFIA Holdings LLC

A limited liability corporation, 99% owned by CEFIA (1% owned by Connecticut Innovations, Inc. a quasi-public agency of the State of Connecticut) established to initially acquire lease assets and fund the initial 50% of the cost of solar equipment installations. CEFIA Holdings LLC takes initial title to the lease assets in exchange for the 50% funding and then passes such title onto CT Solar Lease 2 which administers the project and provides the balance of the necessary funding.

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, organizations for which the primary government has operational responsibility, 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. As such, CEFIA follows the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 61 – *The Financial Reporting Entity Omnibus – an amendment of GASB Statements No. 14 and No.34.* CEFIA's governance, management, financial, and operational responsibilities extends to all of these entities. In addition, excluding them from presentation within the financial statements would be misleading. CEFIA management believes the criteria for including all four entities as blended component units within these financial statements are satisfied. Retroapplication of this statement to 2012 was not necessary.

As required by Statement 61, condensed, combining information for the above entities and the primary government (CEFIA) is presented as follows:

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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

CONDENSED, COMBINING INFORMATION – CONSOLIDATED STATEMENT OF NET POSITION

	CT Solar Lease 2 LLC	CEFIA Solar Services Inc.	CEFIA Solar Loan I LLC	CEFIA Holdings LLC	CEFIA	Consolidation entries	2013	2012
Assets								
Current Assets								
Cash and cash equivalents	$ 406,456	$ --	$ 54,342	$ 24,786	$ 67,619,430	$ --	$ 68,105,014	$ 64,672,910
Accounts receivable	--	--	--	--	1,940,835	--	1,940,835	
Utility customer assessments receivable	--	--	--	--	2,604,826	--	2,604,826	2,580,042
Other assets	--	--	--	--	194,056	--	194,056	350,302
Current portion of Solar Lease notes	--	--	--	--	704,032	--	704,032	670,645
Current portion of portfolio investments	--	--	--	--	--	--	--	--
Total Current Assets	406,456	--	54,342	24,786	73,063,179	--	73,548,763	68,273,899
Noncurrent Assets								
Portfolio investments, less current portion	--	--	20,596	--	4,767,498	--	4,788,094	2,155,525
Solar Lease Notes, less current portion	--	--	--	--	10,536,136	--	10,536,136	11,064,879
Renewable Energy Credits	--	--	--	--	1,324,614	--	1,324,614	1,324,614
Investment in Subsidiary	--	100	--	100	99,000	(99,200)	--	--
Due from CEFIA and subsidiaries	--	3,500,000	--	5,875,000	5,850,000	(15,225,000)	--	--
Capital assets, net of depreciation	--	--	--	--	362,505	--	362,505	91,329
Restricted assets:								
Cash and cash equivalents	4,500,000	--	--	--	5,036,656	--	9,536,656	8,540,684
Total Noncurrent Assets	4,500,000	3,500,100	20,596	5,875,100	27,976,409	(15,324,200)	26,548,005	23,177,031
Total Assets	$ 4,906,456	$ 3,500,100	$ 74,938	$ 5,899,886	$ 101,039,588	$ (15,324,200)	$ 100,096,768	$ 91,450,930

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CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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

CONDENSED, COMBINING INFORMATION – CONSOLIDATED STATEMENT OF NET POSITION (CONTINUED)

	CT Solar Lease 2 LLC	CEFIA Solar Services Inc.	CEFIA Solar Loan I LLC	CEFIA Holdings LLC	CEFIA	Consolidation entries	2013	2012
Liabilities and Net Position								
Liabilities								
Accounts payable and accrued expenses	$ --	$ --	$ --	$ --	$ 1,422,898	$ --	$ 1,422,898	$ 2,624,861
Due to CEFIA and subsidiaries	5,850,000	3,500,000	75,000	5,800,000	--	(15,225,000)	--	--
Custodial liability	--	--	--	--	393,000	--	393,000	--
Deferred revenue - ARRA	--	--	--	--	4,085,431	--	4,085,431	8,363,119
Total Liabilities	5,850,000	3,500,000	75,000	5,800,000	5,901,329	(15,225,000)	5,901,329	10,987,980
Net Position								
Invested in capital assets	--	--	--	--	362,505	--	362,505	91,329
Capital contributions	--	100	--	99,000	--	(99,100)	--	--
Restricted Net Position								
Non-expendable	236,694	--	--	1,000	--	(100)	237,594	--
Other Restricted	3,500,000	--	--	--	558,225	--	4,058,225	8,540,684
Unrestricted (deficit)	(4,680,238)	--	(62)	(114)	94,217,529	--	89,537,115	72,556,196
Total Net Position	(943,544)	100	(62)	99,886	95,138,259	(99,200)	94,195,439	81,188,209
Total Liabilities and Net Position	$ 4,906,456	$ 3,500,100	$ 74,938	$ 5,899,886.03	$ 101,039,588	$ (15,324,200)	$ 100,096,768	$ 92,176,189

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CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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

CONDENSED, COMBINING INFORMATION – CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	CT Solar Lease 2 LLC	CEFIA Solar Services Inc.	CEFIA Solar Loan I LLC	CEFIA Holdings LLC	CEFIA	Consolidation entries	2013	2012
Operating Revenues								
Utility customer assessments	$ --	$ --	$ --	$ --	$ 27,621,409	$ --	$ 27,621,409	$ 27,025,088
Grant revenue	--	--	--	--	5,949,819	--	5,949,819	10,435,251
RGGI Auction income	--	--	--	--	4,744,657	--	4,744,657	2,052,748
Interest on solar lease notes	--	--	--	--	583,575	--	583,575	589,007
Interest on short-term investments	--	--	--	--	103,928	--	103,928	140,786
Other income	--	--	--	--	941,777	--	941,777	240,597
Total Revenues	--	--	--	--	39,945,165	--	39,945,165	40,483,477
Operating Expenses								
Grants and program expenditures	--	--	--	--	23,527,342	--	23,527,342	31,122,355
General and administrative expenses	--	--	--	--	1,811,227	--	1,811,227	1,387,854
Organizational expenses	1,180,238	--	62	114	--	--	1,180,414	--
Total Expenses	1,180,238	--	62	114	25,338,569	--	26,518,983	32,510,209
Operating Income	(1,180,238)	--	(62)	(114)	14,606,596	--	13,426,182	7,973,268
Nonoperating Expenses								
Realized gain (loss) on investments	--	--	--	--	(1,034,607)	--	(1,034,607)	--
Unrealized gain (loss) on investments	--	--	--	--	378,059	--	378,059	434,702
Income before Transfers in, Capital contributions, and minority interest contributiions	(1,180,238)	--	(62)	(114)	13,950,048	--	12,769,634	8,407,970
Capital contributions	--	--	--	99,000	--	(99,000)	--	--
Minority interest contributions	--	--	--	237,594	--	--	237,594	--
Transfers in of net assets from State of Connecticut Clean Energy Fund	--	--	--	--	--	--	--	72,780,239
Change in Net Position	(1,180,238)	--	(62)	237,480	13,950,048	--	13,007,228	81,188,209
Net Position - Beginning of Year	--	--	--	--	81,188,209	--	81,188,209	--
Net Position - End of Year	$ (1,180,238)	$ --	$ (62)	$ 237,480	$ 95,138,257	$ --	$ 94,195,438	$ 81,188,209

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CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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

CONDENSED, COMBINING INFORMATION – CONSOLIDATING STATEMENT OF CASH FLOWS

	CT Solar Lease 2 LLC	CEFIA Solar Services Inc.	CEFIA Solar Loan I LLC	CEFIA Holdings LLC	CEFIA	Consolidation Entries	2013	2012
Cash Flows from Operating Activities								
Utility ratepayer assessments	$ --	$ --	$ --	$ --	$ 27,597,453	$ --	$ 27,597,453	$ 27,128,191
Interest on short-term investments and cash deposits	--	--	--	--	116,831	--	116,831	118,680
Interest on solar lease notes	--	--	--	--	583,942	--	583,942	634,070
Grants	--	--	--	--	2,015,677	--	2,015,677	16,892,363
RGGI auction proceeds	--	--	--	--	3,529,080	--	3,529,080	1,657,321
Other income	--	--	--	--	440,533	--	440,533	288,354
Organizational Costs	(1,130,238)	--	(62)	(114)	(50,000)	--	(1,180,414)	--
Grant and program expenditures	--	--	--	--	(24,582,055)	--	(24,582,055)	(30,452,049)
General and administrative expenditures	--	--	--	--	(1,880,806)	--	(1,880,806)	(1,747,177)
Net Cash Provided by (Used in) Operating Activities	(1,130,238)	--	(62)	(114)	7,770,655	--	6,640,241	14,519,753
Cash Flows from Noncapital Financing Activities								
Transfer from State of Connecticut	--	--	--	--	--	--	--	59,899,036
Transfer to CEFIA and subsidiaries	--	(3,500,000)	--	(5,875,000)	(5,800,000)	15,175,000	--	--
Transfers from CEFIA and subsidiaries	5,800,000	3,500,000	75,000	5,800,000	--	(15,175,000)	--	--
Net Cash Provided by Noncapital Financing Activities	5,800,000	--	75,000	(75,000)	(5,800,000)	--	--	59,899,036
Cash Flows from Capital and Related Financing Activities								
Purchase of capital assets	--	--	--	--	(281,654)	--	(281,654)	(97,733)
Capital contributions, net	--	--	--	99,000	(99,000)	--	--	--
Minority funds	236,694	--	--	1,000	--	--	237,694	
Net Cash Provided by (Used in) Capital and Related Financing Activities	236,694	--	--	100,000	(380,654)	--	(43,960)	(97,733)

CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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

CONDENSED, COMBINING INFORMATION – CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

	CT Solar Lease 2 LLC	CEFIA Solar Services Inc.	CEFIA Solar Loan I LLC	CEFIA Holdings LLC	CEFIA	Consolidation entries	2013	2012
Cash Flows from Investing Activities								
Purchase on Solar Lease Notes	--	--	--	--	--	--	--	(1,710,659)
Return of principal on investments	--	--	--	--	663,488	--	663,488	603,197
CPACE program loan disbursements	--	--	--	--	(86,000)	--	(86,000)	--
Grid Tied program loan disbursements	--	--	--	--	(2,625,000)	--	(2,625,000)	--
Operational Demo program loan disbursements	--	--	--	--	(100,000)	--	(100,000)	--
Residential Solar Loan program disbursements	--	--	(20,596)	--	--	--	(20,596)	--
Net Cash Provided by Noncapital Financing Activities	--	--	(20,596)	--	(2,147,512)	--	(2,168,108)	(1,107,462)
Net Increase (Decrease) in Cash and Cash Equivalents	4,906,456	--	54,342	24,886	(557,511)	--	4,428,173	73,213,594
Cash and Cash Equivalents - Beginning of Year	--	--	--	--	73,213,594	--	73,213,594	--
Cash and Cash Equivalents - End of Year	$ 4,906,456	$ --	$ 54,342	$ 24,886	$ 72,656,083	$ --	$ 77,641,767	$ 73,213,594
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities:								
Operating gain	$ (1,180,238)	$ --	$ (62)	$ (114)	$ 10,725,346	$ --	$ 9,544,932	$ 7,973,268
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:								
Depreciation	--	--	--	--	79,364	--	79,364	6,404
Changes in operating assets and liabilities:								
Other assets	--	--	--	--	--	--	--	(1,317,629)
Investments	--	--	--	--	(1,117,501)	--	(1,117,501)	(22,108)
Increase in liabilities:								
Accounts payable,accrued expenses, deferred revenue and due to related parties	50,000	--	--	--	(1,916,554)	--	(1,866,554)	6,772,356
Net Cash Provided by (Used in) Operating Activities	$ (1,130,238)	$ --	$ (62)	$ (114)	$ 7,770,655	$ --	$ 6,640,241	$ 13,412,291

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

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.

In its accounting and financial reporting, CEFIA follows Governmental Accounting Standards Board (GASB) Statement No. 62, *GASB Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which incorporates into GASB guidance pre-November 30, 1989 FASB Statements and Interpretations and Accounting Principles Board (APB) Opinions and Research Bulletins which do not conflict or contradict GASB statements.

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 when purchased and are recorded at cost, which approximates fair value.

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

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.

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 POSITION

Net position of CEFIA is presented in the following three categories:

- *Net Position Invested in Capital Assets* represent capital assets, net of accumulated depreciation that are attributable to those particular assets.
- *Restricted Net Position* 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, and includes minority interest within one of CEFIA's component unit.

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

NET POSITION (CONTINUED)

- *Unrestricted Net Position* represents assets which do not meet the definition of the two preceding categories.

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 X, 2013, 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:

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

<u>Level 2:</u> 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

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

- 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)
- 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, 2013 and 2012, respectively:

	Investment assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 77,641,670	$ --	$ --	$ 77,641,670
Portfolio investments	--	--	4,788,094	4,788,094
	$ 77,641,670	$ --	$ 4,788,094	$ 82,429,764

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Investment assets at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 73,213,594	$ --	$ --	$ 73,213,594
Portfolio investments	--	--	2,155,525	2,155,525
	$ 73,213,594	$ --	$ 2,155,525	$ 75,369,119

There were transfers between levels during the years ended June 30, 2013 or 2012.

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:

	2013	2012
Balance - beginning of year	$ 2,155,525	$ 1,698,715
Purchases	2,254,510	22,107
Unrealized appreciation in value of investments	378,059	434,703
Balance - end of year	$ 4,788,094	$ 2,155,525

NOTE 3 - CASH AND CASH EQUIVALENTS

The following is a summary of cash and cash equivalents at June 30, 2013 and 2012:

	2013	2012
Checking	$ 2,382,089	$ 4,050,160
State Treasurer's Short-Term Investment Fund	66,258,900	60,687,137
Unrestricted cash and cash equivalents	68,640,989	64,737,297
Checking - restricted	1,034,000	112,588
Money Market - restricted	3,500,000	--
State Treasurer's Short-Term Investment Fund - restricted	4,466,681	8,363,709
Total cash and cash equivalents	$ 77,641,670	$ 73,213,594

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

STATE TREASURER'S SHORT-TERM INVESTMENT FUND

The State Treasurer's Short-Term Investment Fund is a Standard & Poors AAAm investment pool of high-quality, short-term money market instruments managed by the Cash Management Division of the State Treasurer's Office. It is the investment vehicle for the operating cash of the State of Connecticut Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State. 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 investment is as follows:

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

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, 2013, $6,865,660 of CEFIA's bank balances were exposed to 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, 2013 and 2012, the Fund has no reportable custodial risk.

NOTE 4 - PORTFOLIO INVESTMENTS

CEFIA invests in emerging technology companies in the renewable energy space and also provides financing to companies constructing or installing renewable energy equipment and energy efficiency products. As of June 30, 2013 and 2012 portfolio investments represent equity and debt investments in eleven companies and two companies respectively.

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 $880,741 and $1,868,098 for the years ended June 30, 2013 and 2012 respectively. As of June 30, 2013 and 2012, amounts due to Connecticut Innovations Incorporated, totaled $21,396 and $94,340 respectively.

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

RELATED PARTY TRANSACTIONS (CONTINUED)

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 2013 and 2012 comprised 66.25% and 63.0% of gross salaries, respectively.

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 $ 12,213 with escalating payments through December 2020. CEFIA also leases additional office space from an unaffiliated entity which calls for monthly payments of $7,333, with escalating payments through December 2020.

Future minimum lease payments for office rentals are as follows:

Years ending June 30,	
2014	$ 237,678
2015	243,928
2016	250,176
2017	256,424
2018	221,838
Thereafter	683,234
	$ 1,893,278

Rent expense for the years ended June 30, 2013 and 2012 was $145,947 and $161,612, respectively.

In addition, CEFIA leases office equipment on a month-to-month basis. Rent expense related to the office equipment for the years ended June 30, 2013 and 2012 were $7,344 and $799, respectively.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for years ended June 30, 2013 and 2012, is as follows:

	Balance, July 1, 2012	Additions	Deletions	Adjustments	Balance, June 30, 2013
Capital assets being depreciated:					
Furniture and equipment	$ 13,049	$ 188,068	$ --	$ 134,627	$ 335,744
Computer hardware and software	28,460	43,010	--	--	71,470
Leasehold improvements	56,224	80,394	--	40	136,658
	97,733	311,472	--	134,667	543,872
Less accumulated depreciation and amortization:					
Furniture and equipment	626	11,267	--	134,667	146,560
Computer hardware and software	3,807	14,286	--	--	18,093
Leasehold improvements	1,971	14,744	--	--	16,715
	6,404	40,297	--	134,667	181,368
Capital assets, net	$ 91,329	$ 271,175	$ --	$ --	$ 362,504

	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
	--	97,733	--	--	97,733
Less accumulated depreciation and amortization:					
Furniture and equipment	--	626	--	--	626
Computer hardware and software	--	3,807	--	--	3,807
Leasehold improvements	--	1,971	--	--	1,971
	--	6,404	--	--	6,404
Capital assets, net	$ --	$ 91,329	$ --	$ --	$ 91,329

NOTE 7 - GRANT PROGRAMS

CEFIA recognizes grant revenue based on expenditures. For the years ended June 30, 2013 and 2012 CEFIA expended, and recognized related grant revenue of $ 2,032,569 and $10,384,251, respectively under Department of Energy programs and $36,000 and $51,000, respectively under a program sponsored by a private foundation.

NOTE 8 - COMMITMENTS

As of June 30, 2013, the Board of Directors has committed a portion of the net assets to fund grants for specific projects in the following areas:

Fuel cells	$	--
Solar		--
Geothermal and Solar Thermal		--
Other technologies		--
Project 150		1,500,000
Operation Demonstration Program		--
Education and outreach		--
	$	1,500,000

These grants are expected to be paid over the next two fiscal years and are contingent upon the completion of performance milestones by the recipient of the grant.

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.

NOTE 9 - PENSION PLAN (CONTINUED)

PLAN DESCRIPTION (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 58th 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 for employees of the CEFIA covered by SERS for the years ended June 30, 2013 and 2012 was $2,517,190 and $1,541,308, respectively.

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:

	2013	2012
Contributions made:		
By employees	$ 104,214	$ 59,034
Percent of current year covered payroll	4.1%	3.8%
By CEFIA	$ 1,125,649	$ 601,014
Percent of current year covered payroll	44.7%	39.0%

NOTE 10 - RESTRICTED NET POSITION

As discussed in Note 1, the CEFIA has the following contractual commitments as of June 30, 2013:

Contractural obligation to fund maintenace of a fuel cell for a Connecticut municipality	$ 176,975
Contractual obligation to maintain loan loss and interest rate	3,881,250
	$ 4,058,225

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 XX,XXX REC's generated through XXXXXX at a price of $XX.XX per REC, totaling $XXX,XXX.

RECs trade on the New England Power Pool (NEPOOL) market. The market price of Connecticut Class 1 RECs as of June 30, 2013 and 2012 ranged from $43.00 to $55.00 and $29.00 to $49.00, respectively. However CEFIA's inventory as of June 30, 2013 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 XXXXXX will exceed its commitment to sell under this agreement.

NOTE 13 - DEFERRED REVENUE –ARRA FUNDS

Deferred revenue amounts to $4,085,431 at June 30, 2013 and represents unspent grant funds received by CEFIA under the American Recovery and Reinvestment Act (ARRA) program which 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, 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, the consolidated 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, 2013, which comprise the consolidated statement of net position as of June 30, 2013, and the related consolidated statements of revenues, expenses and changes in net position and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated October XX, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Clean Energy Finance and Investment Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Clean Energy Finance and Investment Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clean Energy Finance and Investment Authority's internal control.

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

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 material weaknesses or significant deficiencies. Given these imitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, regulations, contracts, and grant agreements, 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope and testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hartford, CT
October XX, 2013