CONNECTICUT INNOVATIONS, INCORPORATED
(A Component Unit of the State of Connecticut)

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

CONNECTICUT INNOVATIONS, INCORPORATED

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Connecticut Innovations, Incorporated

We have audited the accompanying statements of net assets of Connecticut Innovations, Incorporated (a component unit of the State of Connecticut) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Connecticut Innovations, Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Innovations, Incorporated, at June 30, 2012 and 2011, and the respective changes in financial position, and where applicable, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2012, on our consideration of Connecticut Innovations, Incorporated's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Marcum LLP

Hartford, CT
October 22, 2012

The following Management's Discussion and Analysis (MD&A) provides an overview of Connecticut Innovations, Incorporated's (CI) financial performance for the fiscal years ended June 30, 2012, 2011 and 2010. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to financial statements and Report on Compliance included in the "Financial Statements" section of this report.

FINANCIAL STATEMENTS PRESENTED IN THIS REPORT

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

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

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

FINANCIAL HIGHLIGHTS OF FISCAL 2012

NET ASSETS

Net assets increased \$4.9 million in 2012 to \$85.7 million. The total value of CI's investment portfolio increased by \$10.2 million in 2012. This increase was attributable to a net decrease in portfolio company valuations of \$ .4 million, new investments of \$25.6 million, principal repayments of \$2.2 million and investment sales of \$12.8 million. During 2012, CI approved \$26.4 million and funded \$25.6 million for investments in new opportunities and continued support of existing portfolio companies. During fiscal 2012, CI funded \$3.8 million through its Seed Fund and \$2.9 million through its PreSeed program to promote the development of young technology companies. CI will continue to face challenges in the near term as we try to meet our economic development objectives. The type of investments we make take time to mature and involve considerable risk. CI maintains a considerable cash reserve in order to meet the future funding requirements of our portfolio companies. CI also invested \$2.9 million under the Connecticut Bioscience Collaborative program in the form of facility and equipment loans for the development of the Jackson Laboratory for Genomic Medicine in Farmington, Connecticut. Current liabilities increased \$1 million in 2012 to \$2 million.

CI acts as a custodian of grant funds on behalf of state agencies under various agreements, and distributed $11.5 million in fiscal year 2012.

The following table summarizes the net assets as of June 30, 2012 and 2011:

Net Assets
(in thousands)

	2012	2011	Increase (Decrease)
Cash and other assets	$ 33,179	$ 40,278	$ (7,099)
Investments	51,383	41,142	10,241
CT Bioscience Program loans	2,589	--	2,589
Capital assets (net of accumulated depreciation)	512	412	100
Total assets	87,663	81,832	5,831
Current liabilities	1,958	987	971
Total liabilities	1,958	987	971
Invested in capital assets	512	412	100
Unrestricted	85,193	80,433	4,760
Total net assets	85,705	80,845	4,860
Total liabilities and net assets	$ 87,663	$ 81,832	$ 5,831

CHANGE IN NET ASSETS

Total operating revenues increased $3.9 million to $4.8 million in 2012. Interest on short-term investments and cash deposits decreased by $32,940 in 2012 due to interest rate decreases for the fiscal year. Interest on investments increased by $840,082 as a result of interest earned on debt investments converted to equity in 2012. Grant and program income increased $ 2,795,736 primarily as a result of grant funds received from the State to be distributed under the Connecticut Bioscience Collaborative program for the Jackson Laboratory for Genomic Medicine located in Farmington, CT. Other income increased by $250,138 as a result of proceeds received from portfolio company redemptions.

Compensation, benefits and payroll taxes increased by $668,415. Compensation increased $426,932 as a result of increased headcount primarily for investment managers and analysts to support the planned increase in portfolio company investments. Benefits and payroll taxes increased $ 241,483 as a result of the increase in headcount.

General and administrative expenses decreased by $148,614 to $1.5 in 2012 due primarily to decreases in office related expenses.

Total expenditures for grants and programs in 2012 were $3,935,000, an increase of $3,710,000 over the previous year. During 2012 $2,364,000 was disbursed under the Connecticut Bioscience Collaborative program. The remaining expenditures in 2012 pertained to funding of SBIR programs and the Innovation Ecosystem program.

Net realized losses on investments for the year were $6,256,261 as compared to realized losses of $1,103,212 in 2011. In 2012, the realized losses resulted from divestitures of investments which were recorded as unrealized losses in previous years. The $1,103,212 in realized losses in 2011 also were the result of divestitures of investments that were recorded as unrealized losses in previous years.

Net unrealized losses on investments for the year were $608,410 as compared to net unrealized gains of $3,518,866 in 2011. In 2012, the net unrealized loss was the result of net decreases in valuation reserves for privately held companies in CI's investment portfolio and public holdings. In 2011, the net unrealized gain was also the result of net increases to valuation reserves for privately held companies in CI's investment portfolio and public holdings.

Capital contributions of $16.6 million were received from the State in 2012. These contributions were utilized as follows: $10 million to recapitalize various portfolio investment programs, $2.6 million for facility and equipment loans under the Connecticut Bioscience Collaborative program, $2.3 million for the PreSeed fund and $1.7 million for the BioFacilities loan program. Capital contributions of $885,000 were requested from the State in 2011 for the PreSeed Fund.

The following table summarizes the changes in net assets for the fiscal years ended June 30, 2012 and 2011:

Changes in Net Assets
(in thousands)

	2012	2011	Increase (Decrease)
Revenues	$ 4,829	$ 976	$ 3,853
Operating expenses:			
Compensation, benefits and payroll taxes	4,324	3,655	669
General and administrative expense	1,455	1,604	(149)
Grants and programs	3,935	225	3,710
Total operating expenses	9,714	5,484	4,230
Operating loss	(4,885)	(4,508)	(377)
Unrealized gain (loss) on investments	(608)	3,519	(4,127)
Net realized gain (loss) on sale of investments	(6,256)	(1,103)	(5,153)
Gain (loss) on disposal of assets	--	(198)	198
Change in net assets before capital contributions	(11,749)	(2,290)	(9,459)
Capital contributions	16,609	885	15,724
Change in net assets	$ 4,860	$ (1,405)	$ 6,265

FINANCIAL HIGHLIGHTS OF FISCAL 2011

NET ASSETS

Net assets decreased $1.4 million in 2011 to $80.8 million. The total value of CI's investment portfolio increased by $.5 million in 2011. This increase was attributable to a net increase in portfolio company valuations of $ 5.0 million, new investments of $9.5 million, principal repayments of $3.6 million and investment sales of $10.4 million. During 2011, CI approved $13 million and funded $9.5 million to fund investments in new opportunities and continued support of existing portfolio companies. During fiscal 2011, CI funded $1 million through its Seed Fund and $.9 million through its PreSeed program to promote the development of young technology companies. CI will continue to face challenges in the near term as we try to meet our economic development objectives. The type of investments we make take time to mature and involve considerable risk. CI maintains a considerable cash reserve in order to meet the future funding requirements of our portfolio companies.

Current liabilities decreased $.7 million in 2011 to $1 million. CI acts as a custodian of grant funds on behalf of state agencies under various agreements, and distributed $10.2 million in fiscal year 2011.

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

Net Assets
(in thousands)

	2011	2010	Increase (Decrease)
Cash and other assets	$ 40,278	$ 42,761	$ (2,483)
Investments	41,142	40,594	548
Capital assets (net of accumulated depreciation)	412	623	(211)
Total assets	81,832	83,978	(2,146)
Current liabilities	987	1,728	(741)
Total liabilities	987	1,728	(741)
Invested in capital assets	412	623	(211)
Unrestricted	80,433	81,627	(1,194)
Total net assets	80,845	82,250	(1,405)
Total liabilities and net assets	$ 81,832	$ 83,978	$ (2,146)

Change in Net Assets

Total operating revenues decreased $.9 million to $1 million in 2011. Interest on short-term investments and cash deposits decreased by $ 76,402 in 2011 due to interest rate decreases for the fiscal year. Interest on investments decreased by $465,044 as a result of pay-offs and pay-downs of loans. Other income decreased by $395,112 due to the receipt of fewer nonrecurring grants in 2011.

Compensation, benefits and payroll taxes increased by $221,267. Compensation increased $211,991 primarily as a result of an increase in headcount and benefit accruals.

General and administrative expenses increased by $100,295 to $1.6 in 2011 due primarily to increases in office related expenses.

Total expenditures for grants and scholarship programs in 2011 were $225,049, an increase of $196,571 over last year. The increase was largely due to increased funding of the SBIR Small Business Innovation and Diversification Program in 2011.

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

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

Capital contributions of $885,000 were requested from the State in 2011 for the PreSeed Fund. Capital contributions of $1,308,500 were received in 2010 for the BioScience Facilities Fund.

The following table summarizes the changes in net assets for the fiscal years ended June 30, 2011 and 2010:

Changes in Net Assets
(in thousands)

	2011	2010	Increase (Decrease)
Revenues	$ 976	$ 1,877	$ (901)
Operating expenses:			
Compensation, benefits and payroll taxes	3,655	3,434	221
General and administrative expense	1,605	1,503	102
Grants and programs	225	29	196
Total operating expenses	5,485	4,966	519
Operating loss	(4,509)	(3,089)	(1,420)
Unrealized gain (loss) on investments	3,519	7,541	(4,022)
Net realized gain (loss) on sale of investments	(1,103)	(10,885)	9,782
Gain (loss) on disposal of assets	(198)	--	(198)
Change in net assets before capital contributions	(2,291)	(6,433)	4,142
Capital contributions	885	1,308	(423)
Change in net assets	$ (1,406)	$ (5,125)	$ 3,719

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENTS OF NET ASSETS

JUNE 30, 2012 AND 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 32,759,049	$ 39,365,379
Current portion of investments	694,681	1,269,012
Due from Clean Energy Finance and Investment Authority, net	94,340	131,919
Other assets	326,286	780,870
Total Current Assets	33,874,356	41,547,180
Noncurrent Assets		
Portfolio investments		
Eli Whitney Fund investments	39,281,411	34,671,967
BioScience Facilities Fund investments	1,627,950	1,627,691
Seed Fund investments	4,250,705	1,950,001
Clean Tech investments	3,753,365	2,891,944
Mezzanine Fund investments	1,475,000	--
Other investments	994,461	17
	51,382,892	41,141,620
Less - current portion	(694,681)	(1,269,012)
Investments - noncurrent	50,688,211	39,872,608
CT Bioscience Collaboration Program loans	2,589,180	--
Capital assets, net of depreciation	511,711	412,332
Total Noncurrent Assets	53,789,102	40,284,940
Total Assets	$ 87,663,458	$ 81,832,120

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

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENTS OF NET ASSETS (CONTINUED)

JUNE 30, 2012 AND 2011

Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 794,671	$ 614,042
Custodial liability	94,484	--
Due to Department of Economic and Community Development, net	48,743	--
Deferred revenue	1,020,483	372,906
Total Liabilities	1,958,381	986,948
Net Assets		
Invested in capital assets	511,711	412,332
Unrestricted	85,193,366	80,432,840
Total Net Assets	85,705,077	80,845,172
Total Liabilities and Net Assets	$ 87,663,458	$ 81,832,120

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

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating Revenues		
Interest on short-term investments and cash deposits	$ 57,982	$ 90,922
Interest on investments	1,164,358	324,276
Grant and program income	3,185,573	389,837
Other income	421,295	171,157
Total Revenues	4,829,208	976,192
Operating Expenses		
Compensation, benefits and payroll taxes	4,323,788	3,655,373
General and administrative expenses	1,454,892	1,603,506
Grants and programs	3,935,132	225,049
Total Expenses	9,713,812	5,483,928
Operating Loss	(4,884,604)	(4,507,736)
Nonoperating Revenues (Expenses)		
Unrealized gain on investments	(608,410)	3,518,866
Realized loss on sale of investments	(6,256,261)	(1,103,212)
Loss on disposal of assets	--	(197,577)
Total Nonoperating Revenues (Expenses)	(6,864,671)	2,218,077
Change in Net Assets Before Capital Contributions	(11,749,275)	(2,289,659)
Capital Contributions	16,609,180	885,000
Change in Net Assets	4,859,905	(1,404,659)
Net Assets - Beginning of year	80,845,172	82,249,831
Net Assets - End of year	$ 85,705,077	$ 80,845,172

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

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities		
Interest on investments	$ 217,635	$ 335,500
Interest on short-term investments and cash deposits	58,251	90,923
Cash received from royalties and other income	278,896	432,222
Cash received under grants and programs	3,793,584	--
Cash received from scholarship loans	10,504	21,916
Cash paid under grants and programs	(3,813,437)	(268,830)
Cash received under custodial arrangements	11,212,725	9,886,227
Cash expended under custodial arrangements	(11,118,241)	(9,886,227)
Cash paid for general and administrative expenses	(766,998)	(1,625,791)
Cash paid to employees	(2,606,511)	(2,304,566)
Cash paid for employee benefits and payroll taxes	(1,616,266)	(1,301,655)
Net Cash Used in Operating Activities	(4,349,858)	(4,620,281)
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(283,259)	(181,800)
Net Cash Used in Capital and Related Financing Activities	(283,259)	(181,800)
Noncapital Financing Activities		
Cash received due affiliate	16,914,149	5,496,148
Cash paid affiliate to affiliate	(16,914,149)	(5,496,148)
Capital contributions from the State of Connecticut	16,584,180	810,000
Net Cash Provided by Noncapital Financing Activities	16,584,180	810,000
Cash Flows from Investing Activities		
Sale of investments	6,750,488	9,076,534
Return of principal on investments	1,571,543	3,657,833
CT Bioscience Collaborative loans	(2,589,180)	--
Purchase of investments	(24,290,244)	(9,454,571)
Net Cash Used in Investing Activities	(18,557,393)	3,279,796
Net Decrease in Cash and Cash Equivalents	(6,606,330)	(712,285)
Cash and Cash Equivalents - Beginning	39,365,379	40,077,664
Cash and Cash Equivalents - Ending	$ 32,759,049	$ 39,365,379

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

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (4,884,604)	$ (4,507,736)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Noncash interest	(896,508)	--
Depreciation	179,772	204,358
Other	(212,113)	(200,787)
(Increase) decrease in assets:		
Other assets and due from related parties	492,162	655,390
Increase in liabilities:		
Accounts payable and accrued expenses and due to related parties	876,949	(740,962)
Custodial liability	94,484	(30,544)
Net Cash Used in Operating Activities	$ (4,349,858)	$ (4,620,281)
Non-Cash Transaction		
Exchange of investment participation in consideration of eliminating amount due from Department of Economic and Community Development, a related party	$ --	$ 250,000

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

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

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

The following organizations are blended component units of the Corporation:

Connecticut Technology Development Corporation (CTDC) — CTDC was established to address the need by new biotech firms for wet laboratory space in "move-in" condition. CTDC has also established a business incubator program which leases office space to startup firms focusing on information technologies. Activities through June 30, 2012 pertain to the leasing and fit-out of laboratory and office space (Note 8).

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

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

Eli Whitney Fund — This program may be used for risk capital investments in emerging and established companies to stimulate their development of high technology products, processes and services. The program also provides working capital to assist companies in marketing and launching technology products, processes and services.

BioScience Facilities Fund — This program was developed to enable the development of laboratory space in Connecticut in order to encourage the growth of biotechnology research and development companies.

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

PreSeed Fund — This program was developed to provide support and assistance to prepare high technology companies for future investments. Investments consist of two year promissory notes ranging from $25,000 to $200,000.

Clean Tech Fund — This program was developed to support the demand for alternative energy technologies which focuses on energy conservation, environmental protection, or the elimination of harmful waste.

Mezzanine Fund— This loan program is designed to address the needs of Connecticut companies as they endeavor to grow sales and revenues and thus their job base and market share. The loans will be used for working capital purposes.

Small Business Innovation Research (SBIR) Office— The Connecticut SBIR Office seeks to support Connecticut based innovators, entrepreneurs and small businesses to commercialize new products. The program also provides matching grants to manufacturers to design and develop innovative technologies to diversify their portfolio of products thereby retaining/increasing sales and employment in the State. The SBIR program also assists companies to obtain federal grants through the federal SBIR program.

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

Connecticut Emerging Enterprises Limited Partnership (CEELP) — CEELP is a partnership comprised of the Corporation and a major commercial bank. The program invests in initial and follow-on rounds of financings for early stage, technology growth enterprises with significant proprietary innovations or other unique, sustainable competitive advantages.

Next Generation Ventures, LLC — This joint venture between the Corporation and a major commercial insurer invests in start-up and young technology companies in Connecticut by providing them seed or early stage financing. The joint venture was dissolved in fiscal year 2012 and the Corporation received its pro rata share of the investments held by the joint venture at the time of dissolution.

SIGNIFICANT ACCOUNTING POLICIES

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Corporation 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, the Corporation follows the pronouncements of the Governmental Accounting Standards Board (GASB). CII also follows the pronouncements of all applicable Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. Finally, CII follows all FASB pronouncements issued after November 30, 1989, except where they conflict or contradict GASB pronouncements.

BASIS OF ACCOUNTING

The Corporation'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)

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

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

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

Cash equivalents consist of cash and highly liquid short-term investments. The investments are recorded at cost, which approximates market value.

PORTFOLIO INVESTMENTS

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

All of the Corporation's investments, except certain equity investments, are uninsured, unregistered and held by the Corporation in the Corporation's name. Certain equity investments are insured by the Securities Investor Protection Corporation and held by a registered broker-dealer in the Corporation's name. Investments in the form of debt instruments are secured by the underlying assets of the borrower, bear interest at rates ranging from 5.75% to 15% per annum and have an average term of 1 to 10 years.

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

INVESTMENT IN CONNECTICUT EMERGING ENTERPRISES, LP

The Corporation recognizes its partnership interest in the Connecticut Emerging Enterprises LP using the equity method. As of June 30, 2012 and 2011, the Corporation had a 75.25% ownership interest in the limited partnership. Separate financial statements are available for Connecticut Emerging Enterprises LP upon request at the Corporation's offices.

INVESTMENT IN NEXT GENERATION VENTURES, LLC

The Corporation's membership interest in Next Generation Ventures, LLC (NGV), is accounted for using the equity method. NGV was dissolved in December 2011. The Corporation has a 49% equity interest in NGV, as of the date of dissolution and June 30, 2011. Separate financial statements are available for this entity upon request at the Corporation's offices.

OTHER INVESTMENTS

Other investments consisted primarily of promissory notes under the PreSeed program in 2012. Other investments consist of an equity investment by the CT Technology Development Corporation in 2011.

CAPITAL ASSETS

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

SUBSEQUENT EVENTS

Events subsequent to June 30, 2012 have been evaluated through October 22, 2012, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

RECLASSIFICATIONS

Certain 2011 amounts have been reclassified to conform to the 2012 financial statement presentation.

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, the Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Corporation also considers nonperformance risk in the overall assessment of fair value.

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

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

Level 2: Inputs other than quoted 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:

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

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The valuation methods previously described in Note 1 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation 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, the Corporation's fair value measurements at June 30, 2012 and 2011, respectively:

Investment Assets at Fair Value as of June 30, 2012

	Level 1	Level 2	Level 3	Total
Cash and				
cash equivalents	$ 32,759,049	$ --	$ --	$ 32,759,049
Portfolio investments				
Equity	1,880,683	--	35,679,537	37,560,220
Debt	--	--	13,822,671	13,822,671
	$ 34,639,732	$ --	$ 49,502,208	$ 84,141,940

Investment Assets at Fair Value as of June 30, 2011

	Level 1	Level 2	Level 3	Total
Cash and				
cash equivalents	$ 39,365,379	$ --	$ --	$ 39,365,379
Portfolio investments				
Equity	5,441,545	--	30,162,378	35,603,923
Debt	--	--	5,537,697	5,537,697
	$ 44,806,924	$ --	$ 35,700,075	$ 80,506,999

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	2012	2011
Balance - beginning of year	$ 35,700,075	$ 37,674,992
Purchases	25,575,601	9,454,571
Settlements	(13,197,459)	(11,270,386)
Unrealized appreciaiton (depreciation) in investments	1,423,991	(159,102)
Balance - end of year	$ 49,502,208	$ 35,700,075

NOTE 3 - SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES

The following is a summary of cash, short-term investments and marketable securities at June 30, 2012 and 2011:

	2012	2011
Cash and Cash Equivalents		
Checking	$ 1,850,960	$ 1,140,272
State Treasurer's Investment Fund	30,908,089	38,225,107
Total cash and cash equivalents	$ 32,759,049	$ 39,365,379

STATE TREASURER'S SHORT-TERM INVESTMENT FUND

The State Treasurer's Investment Fund (STIF) is a Standard & Poor's AAAm rated investment pool of high-quality, short term money market instruments managed by the Cash Management Division of the State Treasurer's Office. STIF serves as an investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State. The value of the Corporation'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.

NOTE 3 - SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES (CONTINUED)

INVESTMENT MATURITIES

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

INTEREST RATE RISK

The Corporation manages its exposure to declines in fair value by limiting the average maturity of its short-term investment portfolio to less than one year.

CREDIT RISK

Connecticut General Statutes authorize the Corporation 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 Corporation's investments are as follows:

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

CONCENTRATION OF CREDIT RISK

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

NOTE 3 - SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES (CONTINUED)

CUSTODIAL CREDIT RISK - INVESTMENTS

For an investment, this represents the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of the investment. As of June 30, 2012, the Corporation has no reportable credit risk. The State Treasurer's Investment Fund is not subject to this disclosure.

NOTE 4 - INVESTMENTS

Investments as of June 30, 2012 and 2011, are summarized as follows:

	June 30, 2012		
	Equity Securities	Debt Securities	Total
Eli Whitney investments	$ 31,849,423	$ 7,431,988	$ 39,281,411
BioScience Facilities investments	--	1,627,950	1,627,950
Seed Fund investments	2,500,704	1,750,001	4,250,705
Clean Tech investments	3,210,001	543,364	3,753,365
Mezzanine Fund investments	--	1,475,000	1,475,000
Other investments	92	994,369	994,461
Totals	$ 37,560,220	$ 13,822,672	$ 51,382,892

	June 30, 2011		
	Equity Securities	Debt Securities	Total
Eli Whitney investments	$ 30,761,963	$ 3,910,004	$ 34,671,967
BioScience Facilities investments	--	1,627,691	1,627,691
Seed Fund investments	1,950,001	--	1,950,001
Clean Tech investments	2,891,944	--	2,891,944
Other investments	15	2	17
Totals	$ 35,603,923	$ 5,537,697	$ 41,141,620

NOTE 4 – INVESTMENTS (CONTINUED)

The following is a summary of Eli Whitney Investments by industry as of June 30, 2012 and 2011:

	June 30, 2012	%	June 30, 2011	%
Bioscience	$ 8,339,528	21.3	$ 10,280,653	29.7
IT Software	8,302,448	21.1	5,702,320	16.4
IT Infrastructure	7,487,507	19.1	5,816,827	16.8
Medical Device	4,638,075	11.8	2,493,751	7.2
Clean Tech	3,725,603	9.5	3,541,891	10.2
IT Communications	--	--	1,700,001	4.9
IT Services	3,549,750	9.0	2,200,000	6.3
Photonics	3,238,500	8.2	2,936,524	8.5
	$ 39,281,411	100.0	$ 34,671,967	100.0

CII accrues interest on its debt investments from the start of the note and the fair values the investment in accordance with its fair value methodology as described in Note 2. It is normal policy to convert its debt holdings to equity investments. As of June 30, 2012 and 2011, the Corporation owned warrants in several portfolio companies with various exercise dates and at exercise prices that range from $.0001 to $6,827.20 per share. Warrants held at June 30, 2012 and 2011, represented investments in 19 companies and 15 companies, respectively.

The Corporation invests in emerging companies which, in the event the companies become successful, could represent a significant portion of the investment balances at a given time. As of June 30, 2012 and 2011, the five largest investments comprise 31.5% and 43.5% of the carrying value of total investments, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

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

NOTE 5 - RELATED PARTY TRANSACTIONS (CONTINUED)

During the year ended June 30, 2012, the Connecticut legislature created the Clean Energy Finance and Investment authority (CEFIA) the successor entity to the Connecticut Clean Energy Fund (CCEF) and directed that it be administered on a contract basis by the Corporation. The Corporation expended $1,868,098 and $3,995,066 for the years ended June 30, 2012 and 2011, respectively, on behalf of CEFIA and CCEF, for which the Corporation was reimbursed.

Pursuant to an agreement between the Department of Economic and Community Development (DECD) and CI, DECD agreed to make funds available to CI to underwrite a portion of CI's Clean Tech investments. As a result of a change in policy in 2011, CI will solely fund these investments and not seek funds from DECD.

Pursuant to state statute, the Corporation is subject to fringe benefit charges for pension plan and medical plan contributions which are paid at the state level. The Corporation's payroll related taxes are also paid at the state level. The corporation reimburses the State for these payments. The reimbursements for fiscal years 2012 and 2011 totaled 60.62% and 62.55% of gross salaries, respectively.

Amounts due from various related parties are as follows:

	2012	2011
Due from the Connecticut Clean Energy Fund, net	$ 94,340	$ 131,919
Due from the Department of Economic and Community Development, net	$ 48,743	$ --

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2012 and 2011, is as follows:

2012	Balance, July 1, 2011	Additions	Deletions	Adjustments	Balance, June 30, 2012
Capital assets being depreciated:					
Furniture and equipment	$ 292,556	$ 43,685	$ --	$ --	$ 336,241
Computer hardware and software	514,859	211,727	(151,603)	--	574,983
Leasehold improvements (CI and CTDC)	661,251	19,272	--	97,224	777,747
Construction in progress	3,925	216,611	(202,203)	--	18,333
	1,472,591	491,295	(353,806)	97,224	1,707,304
Less accumulated depreciation and amortization:					
Furniture and equipment	216,392	33,787	--	--	250,179
Computer hardware and software	421,014	66,501	(145,722)	--	341,793
Leasehold improvements (CI and CTDC)	422,851	83,543	--	97,227	603,621
	1,060,257	183,831	(145,722)	97,227	1,195,593
Capital assets - net	$ 412,334	$ 307,464	$ (208,084)	$ (3)	$ 511,711

2011	Balance, July 1, 2010	Additions	Deletions	Adjustments	Balance, June 30, 2011
Capital assets being depreciated:					
Furniture and equipment	$ 270,075	$ 78,835	$ (56,354)	$ --	$ 292,556
Computer hardware and software	470,458	65,667	(21,266)	--	514,859
Leasehold improvements (CI and CTDC)	1,494,346	51,902	(884,997)	--	661,251
Construction in progress	8,925	2,500	(7,500)	--	3,925
	2,243,804	198,904	(970,117)	--	1,472,591
Less accumulated depreciation and amortization:					
Furniture and equipment	252,017	20,802	(56,426)	--	216,393
Computer hardware and software	387,826	53,575	(20,388)	--	421,013
Leasehold improvements (CI and CTDC)	981,095	123,121	(681,365)	--	422,851
	1,620,938	197,498	(758,179)	--	1,060,257
Capital assets - net	$ 622,866	$ 1,406	$ (211,938)	$ --	$ 412,334

NOTE 7 - CAPITAL CONTRIBUTIONS

In 2012 the Corporation received $16,609,180 from the State of Connecticut under approved bond fund authorizations to provide financial assistance to high technology companies. These funds were invested as follows: $2,320,000 through the PreSeed Fund; $1,700,000 through the Biofacilities Fund; $10,000,000 to recapitalize CI's investment programs under PA 11-1 and $2,589,180 for the Connecticut Bioscience Collaboration Program for facility and equipment loans to the Jackson Laboratory foe Genomic Medicine. As of June 30, 2012, $193,897,321 remained available to the Corporation for future investments under these bond fund authorizations as follows:

PreSeed Fund	$ 1,795,000
BioFacilities Fund	2,991,500
Connecticut Bioscience Collaboration Program	189,110,821
	$ 193,897,321

In 2011 the Corporation requested $885,000 (of which $810,000 had been received as of June 30, 2011) from the State of Connecticut under an approved bond fund authorization to provide financial assistance to high technology companies. These funds were invested through the PreSeed Fund. As of June 30, 2011, $4,115,000 remained available to the Corporation for future investments under this bond fund authorization.

NOTE 8 - OPERATING LEASES

The Corporation leases its office and laboratory space from unrelated third parties under operating leases ending September 2020, July 2015 and June 2013, respectively. The Corporation also leases equipment from unrelated third parties. A portion of office rent is allocated the Clean Energy Finance and Investment authority (CEFIA) which shares space with the Corporation. For the years ended June 30, 2012 and 2011, $161,612 and $161,852, respectively, were allocated to CEFIA.

NOTE 8 - OPERATING LEASES (CONTINUED)

Future minimum lease payments under these leases are as follows:

Years ending June 30,		
2013	$	495,586
2014		424,415
2015		434,520
2016		379,780
2017		383,990
Thereafter		1,422,279
	$	3,540,570

Rent expense for the years ended June 30, 2012 and 2011, was $299,421 and $327,957, respectively.

NOTE 9 - PENSION PLAN

All employees of the Corporation participate in the State Employees' Retirement System (SERS), which is administered by the State Employees' Retirement Commission. The Corporation 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 Corporation. 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)

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 and the payroll for employees of the Corporation covered by SERS for the years ended June 30, 2012 and 2011, was 3,486,785 and \$4,471,698, respectively.

NOTE 9 - PENSION PLAN (CONTINUED)

CONTRIBUTIONS MADE

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

	2012	2011
Contributions made:		
By employees	$ 106,691	$ 121,631
Percent of current year covered payroll	3.1%	2.7%
By the Corporation	$ 1,403,398	$ 1,783,061
Percent of current year covered payroll	40.2%	39.9%

NOTE 10 - GAIN SHARING PLAN

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

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

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

For the years ended June 30, 2012 and 2011, $100,164 and $97,625, respectively, were charged to the plan as a result of the combination of realized net gains offset by unrealized net losses. The amount was added to the gain share loss carry forward and will reduce the total funds available, if any, for future gain share payments to employees. No allocations or payments to employees were made in 2012 and 2011.

NOTE 10 - GAIN SHARING PLAN (CONTINUED)

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

NOTE 11 - STATE GRANT PROGRAMS

For the years ended June 30, 2012 and 2011, the Corporation received grant funds from the Department of Public Health (DPH) and the Department of Economic and Community Development (DECD) to be awarded to qualifying recipients under the terms of the respective agreements. These agreements have been accounted for as custodial arrangements whereby the unexpended funds held are presented as a custodial liability. Funds received and awarded are treated as changes in the custodial liability rather than revenue and expenses. The Corporation provides in-kind administrative services to DPH in connection with the award and administration of grants for stem cell research In addition to providing record keeping services for funds disbursed to individual grant recipients, the Corporation also develops grant applications and contracts for the program.

	Inception to June 30, 2012		
	DPH	DECD	Total
Funds received	$ 49,903,390	$ 2,137,699	$ 52,041,089
Funds awarded	49,903,390	1,291,367	51,194,757
Balance	$ --	$ 846,332	$ 846,332

	Inception to June 30, 2011		
	DPH	DECD	Total
Funds received	$ 39,042,296	$ 1,000,344	$ 40,042,640
Funds awarded	39,042,296	628,339	39,670,635
Balance	$ --	$ 372,005	$ 372,005

NOTE 12 - RISK MANAGEMENT

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

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

To the Board of Directors
Connecticut Innovations, Incorporated

We have audited the financial statements of Connecticut Innovations, Incorporated (a component unit of the State of Connecticut) as of and for the year ended June 30, 2012 and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 Connecticut Innovations, Incorporated's internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as previously defined.

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Compliance and Other Matters

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

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

Marcum LLP

Hartford, CT
October 22, 2012