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

FINANCIAL STATEMENTS

JUNE 30, 2013

CONNECTICUT INNOVATIONS, INCORPORATED

CONTENTS

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Connecticut Innovations, Incorporated

Report on the Financial Statements

We have audited the accompanying financial statements of Connecticut Innovations, Incorporated (CI) (a component unit of the State of Connecticut), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise CI's basic financial statements as listed in the table of contents.

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 State 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.

Auditors' 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. In making those risk assessments, the auditor considers internal control relevant to the CI's preparation and fair 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 CI'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 financial position of Connecticut Innovations, Incorporated, as of June 30, 2013, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As described in Note 20, arbitrage liability related to investment earnings of 1993 bond proceeds was discovered by management during the current year. Accordingly, the amount reported for net position as of July 1, 2012 has been restated. Our opinion is not modified with respect to this matter.

Emphasis-of-Matter

As described in Note 1 to the financial statements, CI's policy is to present investments at fair value. The fair value of certain of those investments ($65 million at June 30, 2013, representing 33% of total assets) has been estimated by management in the absence of readily ascertainable market values. We have reviewed the methods used by management in estimating values of such investments and believe they are reasonable under the circumstances and have been applied on a basis consistent with the prior year. However, because of the inherent valuation uncertainties, those estimated values could differ significantly from the amounts ultimately realized from the investments, and the differences could be material.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3-8 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013 on our consideration of the CI'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CI's internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
December 23, 2013

The following Management's Discussion and Analysis (MD&A) provides an overview of Connecticut Innovations, Incorporated's (CI) financial performance for the fiscal year ended June 30, 2013. 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. Effective July 1, 2012 all operations of the Connecticut Development Authority which was established under Title 32, Chapter 579 of the General Statues of Connecticut as amended (Statute), have been transferred to Connecticut Innovations Incorporated (CI). The transfer of CDA operations to CI is pursuant to Section 47 to 189 of Public Act No. 12-1, Bill 6001. All CDA programs and activities are continuing as part of CI. The operations of the former CDA were created to stimulate industrial and commercial development within the State. The incorporation of CDA into CI is a vertical extension of the overall economic reach of CI. 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: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provide a measure of CI's economic resources. The Statement of Revenues, Expenses and Changes in Net Position measure the transactions for the period presented and the impact of those transactions on the resources of CI. The Statement of Cash Flows reconcile the changes in cash and cash equivalents with the activities of CI for the period presented. The activities are classified as to operating, capital, investing and noncapital financing.

These financial statements and notes thereto and discussion reflect a tremendously broader and more diverse business model than CI has had in previous years. In addition, to the merger with CDA, other initiatives include the establishment of a bioscience cluster anchored by Jackson Laboratories in Farmington, CT, an increased roll in support of stem cell research, the introduction of the CT Bioscience Investment Fund, and a leading financial and managerial roll in support of the entire entrepreneurial community in Connecticut.

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

Total assets exceeded total liabilities by $169 million at June 30, 2013. Net assets totaling $156 million are unrestricted. Net assets totaling $12.6 million are restricted in accordance with revenue and general obligation bond indentures as well as for cash reserves principally for specific revenue or general obligation bonds, as well as cash reserves whose use is specified or limited by bond resolution, enabling legislation, laws or third parties. The portion of the corporation's net position invested in capital assets, net of related debt total $414 thousand. In total the net position of the corporation decreased $728 thousand in 2013.

Current assets of CI decreased $9.9 million due primarily to $4 million of net funding for the Small Business Innovation (SBI) and the Innovation Ecosystem programs, $1.4 million for the XL center, and $4.5 million for debt service on General Obligation bonds. Restricted assets increased $2.6 million due primarily to increase of escrow deposits of $2.7 million.

The total value of CI's investment portfolio increased $12.4 million in 2013. This increase consisted of new investments totaling $21.5 million offset by investment sales of $3.2 million, principal repayments of $1 million and $4.9 million of write-offs and devaluations of portfolio investments. During 2013, CI approved $27 million and funded $21.3 million for investments in new opportunities and continued support of existing portfolio companies. Committed funding for CI's equity programs at June 30, 2013 total $8.1 million. CI funded $12.4 million of new investments through its Eli Whitney Fund. In addition CI also funded $3.7 million through its Seed Fund and $3.3 million through its Pre-Seed program to promote the development of young technology companies. The type of investments made take time to mature and involve considerable risk. A considerable cash reserve is maintained in order to meet the future funding requirements of its portfolio companies.

CI's direct loan portfolio decreased by $3.6 million in 2013. This decrease was due to new direct loans issued totaling $8.7 million offset by $9.9 million of loan pay downs and a $2.4 million provision. Committed funding for CI's direct loan programs as of June 30, 2013 totaled $14.6 million. Other noncurrent assets decreased $2.4 million due primarily to a $2.6 million write-down of the facility and equipment loan capitalized in 2012 for the development of the Jackson Laboratory for Genomic Medicine in Farmington, Connecticut. Current liabilities increased $1.4 million due primarily to expenses incurred and payable on June 30, 2013 for the Innovation Ecosystem program. Bonds payable decreased $3.6 million due to normal amortization of bonds in 2013. This reduction yielded interest expense savings of $133 thousand in 2013. Other noncurrent liabilities increased primarily due to final XL Center payment to AEG of $1 million offset by increase in escrow deposits of $2.7 million.

FINANCIAL HIGHLIGHTS OF FISCAL 2013 (CONTINUED)

NET POSITION (CONTINUED)

CI acts as a custodian of grant funds on behalf of state agencies under various agreements, and distributed $1.7 million in fiscal year 2013.

The following table summarizes the net positions as of June 30, 2013 and 2012:

(in thousands)

	Balance June 30, 2013	CII Balance June 30, 2012	CDA Balance June 30, 2012	Combined CII/CDA Balance June 30, 2012	Increase (Decrease) 2013 vs. 2012
Assets					
Current assets, excluding current portion of loans and investments	$ 45,481	$ 33,180	$ 22,205	$ 55,385	$ (9,904)
Restricted assets	24,717	--	22,103	22,103	2,614
Portfolio investments	65,008	51,383	1,198	52,581	12,427
Loans	53,026	--	56,670	56,670	(3,644)
Capital assets, net	414	511	49	560	(146)
Other noncurrent assets	7,648	2,589	7,459	10,048	(2,400)
Total assets	196,294	87,663	109,684	197,347	(1,053)
Liabilities					
Current liabilities, excluding current portion of debt	10,770	1,958	7,417	9,375	1,395
Bonds payable	8,705	--	12,295	12,295	(3,590)
Other noncurrent liabilities	7,843	--	5,973	5,973	1,870
Total liabilities	27,318	1,958	25,685	27,643	(325)
Net Position					
Invested in capital assets	414	512	49	561	(147)
Restricted	12,595	--	12,652	12,652	(57)
Unrestricted	155,967	85,193	71,298	156,491	(524)
	$ 168,976	$ 85,705	$ 83,999	$ 169,704	$ (728)

FINANCIAL HIGHLIGHTS OF FISCAL 2013 (CONTINUED)

CHANGE IN NET POSITION

Total combined CI/CDA operating revenue increased $21.7 million from $14.9 million to $36.6 million in 2013 when compared to 2012. Of this increase there was a $24.5 increase in State of Connecticut funding for the CT Bioscience Collaboration from $5 million to $29.4 million in 2013. XL Center revenues decreased $2.1 million in 2013 when compared to 2012 due to the scheduled payments by AEG, the facilities management company, in the form of a contribution for the payment when due of the rent to City of Hartford ending August 31, 2012. A prepayment on September 1, 1993 of the final annual lease payments to the City of Hartford, which expired on September 1, 2013, decreased the final annual contributions due. Interest on notes increased $92 thousand due to an accretive effect of FY 2012 direct loan closings totaling $13 million. Loan fee income increased $121 thousand in FY 2013 when compared to FY 2012. Sales and Use Tax relief totaled $10.25 million in 2013. Self-Sustaining bond closings totaled $63.7 million. Grant and program income related to the Small Business Innovation Program decreased $200 thousand. Other income decreased by $612 thousand primarily due to $245 thousand of interest earned on debt investments converted to equity in 2013 versus $840 thousand earned in 2012.

XL Center expenses decreased $2.2 million when compared to 2012. This is due to the prepayment on September 1, 1993 of the final annual lease payment to the City of Hartford which expires on September 1, 2013.

Compensation, benefits and payroll taxes increased $1.2 million. Compensation increased $200 thousand while benefits and payroll taxes increased $1 million. CI's employees are participants in the State payroll and retirement system and as participants are charged a fringe rate which currently approximates 75% of salary. This has increased from the previous year fringe rate of 62% of salary.

Interest expense on bonds payable decreased $133 thousand due to interest savings realized from the $3.6 million pay down of bonds. General and administrative expenses increased by $273 thousand primarily due to legal and advisory fees associated with the Innovation Ecosystem, Pre-seed, Tech-Start and Jackson Laboratory initiatives.

FINANCIAL HIGHLIGHTS OF FISCAL 2013 (CONTINUED)

CHANGE IN NET POSITION (CONTINUED)

Total expenditures for grants and programs in 2013 were $10.8 million, an increase of $6.8 million over the previous year. In 2013 $6.1 million was disbursed under the Connecticut Bioscience Collaborative program. The remaining expenditures in 2013 pertained to funding of SBIR programs and the Innovation Ecosystem program.

Funding received from the State and recorded as operating revenue in 2013 totaled $23,357,785 for facility and equipment loans under the Connecticut Bioscience Collaborative program. This funding plus an additional $2,589,180 received from the state in 2012 and recorded as a loan were reserved in full in 2013. In total $25.9 million was recorded as an operating expense in relation to the CT Bioscience Collaboration loan write-down in 2013.

Net realized losses on investments for the year were $4.1 million as compared to realized losses of $6.3 million in 2012. In both 2013 and 2012, the realized losses resulted from divestitures of investments which were recorded as unrealized losses in previous years.

Net unrealized losses on investments for the year were $225 thousand as compared to net unrealized losses of $608 thousand in 2012. In 2013 and 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.

Other funding received from the state totaled $21.6 million in 2013. These contributions were utilized as follows: $20 million to recapitalize various portfolio investment programs and $1.6 million for the Pre-Seed fund.

FINANCIAL HIGHLIGHTS OF FISCAL 2013 (CONTINUED)

CHANGE IN NET POSITION

The following table summarizes the change in net position for the fiscal year ended June 30, 2013.

	Year Ended June 30,2013	Year Ended CII Balance June 30, 2012	Year Ended CDA Balance June 30, 2012	Combined CII/CDA Year Ended June 30, 2012	Favorable (Unfavorable) 2013 vs. 2012
Operating Revenue:					
XL Center	$ 1,312	--	$ 3,438	$ 3,438	$ (2,126)
Interest on notes	2,635	--	2,543	2,543	92
Loan fee income	1,431	--	1,310	1,310	121
Grant and program income	616	821	--	821	(205)
CT Bioscience Collaboration funding	29,427	4,954	--	4,954	24,473
Other	1,203	1,644	171	1,815	(612)
Total Operating Revenues	36,624	7,419	7,462	14,881	21,743
Operating Expenses:					
XL Center	2,109	--	4,315	4,315	2,206
Payroll and fringes	9,246	4,324	3,705	8,029	(1,217)
Interest on bonds	392	--	525	525	133
Loss provision	3,372	--	3,359	3,359	(13)
Grants and programs	10,781	3,935	--	3,935	(6,846)
CT Bioscience Collaboration loan writedowr	25,947	--	--	--	(25,947)
General, administrative and other	2,670	1,455	942	2,397	(273)
Total Operating Expenses	54,517	9,714	12,846	22,560	(31,957)
Operating Loss	(17,893)	(2,295)	(5,384)	(7,679)	(10,214)
Total Nonoperating Revenues (Expenses)	17,165	7,155	(14)	7,141	10,024
Change in Net Position Before Extraordinary Item	(728)	4,860	(5,398)	(538)	(190)
Extraordinary Item - Assets Transferred in From Connecticut Development Authority	83,999	--	--	--	83,999
Change in Net Position	$ 83,271	$ 4,860	$ (5,398)	$ (538)	$ 83,809

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF NET POSITION

JUNE 30, 2013

Assets	
Current Assets	
Cash and cash equivalents	$ 43,338,189
Loans, current portion	7,720,383
Portfolio investments, current portion	754,649
Interest and other receivables	1,067,652
Prepaid expenses	1,019,919
Total Current Assets	53,900,792
Noncurrent Assets	
Restricted Assets:	
Restricted cash and cash equivalents	21,708,895
Other security	3,008,095
Total Restricted	24,716,990
Portfolio investments, net of current portion	64,253,204
Loans - noncurrent, net of allowance for loan losses of $9,839,737	45,305,721
CT Bioscience Collaboration Program Loans, net of allowance for doubtful accounts of $25,946,965	--
Capital assets, net of depreciation	414,549
Due from State of Connecticut	7,219,774
Other	283,200
Total Noncurrent Assets	142,193,438
Total Assets	$ 196,094,230
Deferred Outflows of Resources	$ 200,150

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

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2013

Liabilities	
Current Liabilities	
Current portion of bonds payable	$ 3,685,000
Accrued expenses and liabilities	4,946,889
Deferred revenue	663,511
Refundable advances	4,108,607
Reserve for guarantee losses	1,050,905
Total Current Liabilities	14,454,912
Noncurrent Liabilities	
Escrow deposits	7,843,012
Bonds payable, net of current portion	5,020,000
Total Noncurrent Liabilities	12,863,012
Total Liabilities	27,317,924
Net Position	
Net investment in capital assets	414,549
Restricted	12,595,371
Unrestricted	155,966,536
Total Net Position	168,976,456
Total Liabilities and Net Position	$ 196,294,380

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

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

Operating Revenues	
Investment interest income	$ 605,618
Interest on loans	2,634,562
Loan fee income	1,431,409
XL Center income	1,311,669
Grant and program income	616,057
CT Bioscience Collaboration funding	29,427,285
Other income	597,773
Total Operating Revenues	36,624,373
Operating Expenses	
Salaries	5,287,327
Benefits and payroll taxes	3,959,122
Grants and programs	10,781,358
CT Bioscience Collaboration loan writedown	25,946,965
Provision for loan and guarantee losses	3,372,500
XL Center expenses	2,108,609
General facility and office	1,176,952
Professional service fees	813,859
Interest	391,558
Marketing, conferences, development	371,859
Depreciation and amortization	237,211
Other	69,797
Total Operating Expenses	54,517,117
Operating Loss	(17,892,744)
Nonoperating Revenues (Expenses)	
Unrealized loss on investments	(224,775)
Realized loss on sale of investments	(4,119,749)
CT Public Act 11-1	20,000,000
CT Pre-Seed Fund	1,570,000
Loss on disposal of assets	(60,151)
Total Nonoperating Revenues (Expenses)	17,165,325
Change in Net Position Before Extraordinary Item	(727,419)
Extraordinary Item - Assets Transferred in from Connecticut Development Authority	83,998,798
Change in Net Position	83,271,379
Net Position - Beginning of year	85,705,077
Net Position - End of year	$ 168,976,456

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

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

Cash Flows from Operating Activities	
Loan principal collected	$ 9,895,071
Cash received under grants and programs	247,011
Cash received under CT Bioscience Collaboration Program	29,427,285
Interest from loans	2,593,017
Cash from loan/guarantee/insurance fees	1,430,804
Interest on investments and marketable securities	488,598
XL Center revenues	700,000
Cash received from dividends and royalties	182,060
Interest on short-term investments and cash deposits	92,437
Cash from recovery of principal	1,900
Cash received from other income	417,271
Cash paid under grants and programs	(10,351,018)
CT Bioscience Collaborative loans	(23,357,786)
Cash received under custodial arrangements	11,284,988
Cash expended under custodial arrangements	(10,789,850)
Payroll and fringe benefits paid	(9,401,596)
Loans funded	(8,653,276)
XL Center expenses	(2,100,000)
General and administrative expenses paid	(2,243,869)
Guarantees paid	(669,620)
Loan workout expenses paid	(61,959)
Net Cash Provided by Operating Activities	(10,868,532)
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(243,943)
Principal payments on bonds	(503,250)
Interest payments on bonds	(37,115)
Net Cash Used in Capital and Related Financing Activities	(784,308)

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

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Cash Flows from Noncapital Financing Activities	
Funding received from State of Connecticut	$ 21,670,000
Transfer in from Connecticut Development Authority	39,954,485
Increase in escrow deposits	2,745,483
Principal payments on bonds	(4,086,750)
Interest payments on bonds	(511,115)
Cash paid for SSBCI funding	(74,577)
Net Cash Provided by Noncapital Financing Activities	59,697,526
Cash Flows from Investing Activities	
Sale of investments	4,498,361
Return of principal on investments	977,025
Purchase of investments	(20,949,037)
Program loans funded	(282,000)
Investment in CEFIA Holdings, LLC	(1,000)
Net Cash Used in Investing Activities	(15,756,651)
Net Increase in Cash and Cash Equivalents	32,288,035
Cash and Cash Equivalents - Beginning	32,759,049
Cash and Cash Equivalents - Ending	$ 65,047,084
As Presented on the Statement of Net Position:	
Cash and cash equivalent	$ 43,338,189
Restricted cash and cash equivalent	21,708,895
	$ 65,047,084

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

CONNECTICUT INNOVATIONS, INCORPORATED

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Reconciliation of Operating Loss to Net Cash	
Used in Operating Activities	
Operating loss	$ (17,892,744)
Adjustments to reconcile operating loss	
to net cash used in operating activities:	
Noncash interest conversions	(245,170)
Interest expense on bonds	494,019
Provision for loan and guarantee losses	3,372,500
CT Bioscience Collaboration Program writedown	2,589,179
Depreciation and amortization	237,211
Amortization of bond premium	(3,279)
Recoveries of loan principal	1,900
Guarantees paid	(669,620)
(Increase) decrease in assets:	
Loans receivable	1,241,795
Interest and other receivables	(189,116)
Advances, prepaids and deferred expenses	(460,861)
Other assets	(200)
Decrease in deferred outflows of resources	52,471
Increase (decrease) in liabilities:	
Accrued expenses	923,677
Custodial liability	495,139
Deferred revenue	(815,433)
Net Cash Provided by Operating Activities	$ (10,868,532)

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. In addition the operations of CDA transferred to the Corporation were created to stimulate industrial and commercial development within the State. 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.

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.

MERGER OF CONNECTICUT DEVELOPMENT AUTHORITY

Effective July 1, 2012 all operations of the Connecticut Development Authority (CDA) which was established under Title 32, Chapter 579 of the General Statutes of Connecticut as amended (Statute), have been transferred to Connecticut Innovations, Incorporated (CI). The transfer of CDA operations to CI is pursuant to Section 147 to 189 of Public Act No. 12-1, Bill 6001. All CDA programs and activities are continuing as part of the Corporation.

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

MERGER OF CONNECTICUT DEVELOPMENT AUTHORITY (CONTINUED)

The following presents the components from the Connecticut Development Authority as of July 1, 2012:

Assets:	
Current	$ 27,115,206
Capital (net)	48,488
Non-current	82,519,948
Total	$ 109,683,642
Liabilities:	
Current	$ 11,007,314
Non-current	14,677,530
Total	$ 25,684,844
Net Position:	
Invested in capital assets	$ 48,488
Restricted	12,652,400
Unrestricted	71,297,910
Total	$ 83,998,798

No consideration was involved in the transfer, nor were there any adjustments required to be made to the amounts reported.

REPORTING ENTITY

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.

The Corporation, as the primary government, 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)* (the "Statement") regarding presentation of component units. The Statement modifies certain requirements for including component units in the reporting entity, either by blending

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

REPORTING ENTITY (CONTINUED)

(recording their amounts as part of the government), or discretely presenting them (showing their amounts separately in the reporting entity's financial statements). To qualify as a blended component unit, the unit must meet one of the following criteria: (1) have substantively the same governing body as that of the primary government, and either (A) a financial benefit or burden relationship exists between the unit and the primary government, or (B) management of the primary government (below the level of the governing body) has operational responsibility of the unit; (2) the unit provides services or benefits exclusively or almost exclusively to the primary government; or (3) the unit's total debt outstanding, including leases, is expected to be repaid by resources of the primary government. A unit which fails to meet the substantively the same governing requirement may still be included as a discretely presented component unit, if the primary government has appointed the voting majority of the component unit's governance and meet other criteria as specified in the Statement, such as whether or not it would be misleading were the entity to be excluded.

The following two organizations are blended component units of the Corporation based upon the criteria above:

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 also established a business incubator program which leases office space to startup firms focusing on information technologies. The wet laboratory activities were discontinued on June 30, 2013. Activities after June 30, 2013 will consist only for those in relation to the business incubator program.

Connecticut Brownfields Redevelopment Authority (CBRA) — A quasi-public agency created by the former Connecticut Development Authority in May 1999 to carry out the remediation, development, and financing of contaminated property within the State, in accordance with Section 32-11a, subsection (1), of the General Statutes. CBRA is now a wholly owned subsidiary of the Corporation**.** The CBRA subsidiary provides loans, grants or guarantees from the Corporation's assets and the proceeds of its bonds, notes and other obligations. Any net gain from the subsidiary will flow back to the parent (Corporation) as an addition or in the case of a loss, a reduction to the earnings of the Corporation.

Condensed combining information for the primary government (the Corporation) and its three blended component units is presented as follows:

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

CONDENSED, COMBINING INFORMATION – STATEMENT OF NET POSITION

	CBRA	CTECH / Wet Lab	CI	Eliminating Entries	Total Primary Government
Assets					
Current Assets					
Cash and cash equivalents	$ --	$ 40,978	$ 43,297,211	$ --	$ 43,338,189
Loans, current portion	424,419	--	7,295,964	--	7,720,383
Portfolio investments, current portion	--	--	754,649	--	754,649
Interest and other receivables	294,898	--	772,754	--	1,067,652
Prepaid expenses	--	5,895	1,014,024	--	1,019,919
Total Current Assets	719,317	46,873	53,134,602	--	53,900,792
Noncurrent Assets					
Restricted Assets:					
Restricted cash and cash equivalents	--	--	21,708,895	--	21,708,895
Other security	--	--	3,008,095	--	3,008,095
Total Restricted	--	--	24,716,990	--	24,716,990
Portfolio investments, net of current portion	--	--	64,253,204	--	64,253,204
Loans - noncurrent, net of allowance for loan losses of $9,839,737	8,002,277	--	37,303,444		45,305,721
CT Bioscience Collaboration Program Loans, net of allowance for doubtful accounts of $25,946,965	--	--	--	--	--
Capital assets, net of depreciation	--	39,059	375,490	--	414,549
Due from State of Connecticut	--	--	7,219,774	--	7,219,774
Other	--	200	283,000	--	283,200
Total Noncurrent Assets	8,002,277	39,259	134,151,902	--	142,193,438
Total Assets	$ 8,721,594	$ 86,132	$ 187,286,504	$ --	$ 196,094,230
Deferred Outflows of Resources	$ --	$ --	$ 200,150	$ --	$ 200,150

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

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

	CBRA	CTECH / Wet Lab	CI	Eliminating Entries	Total Primary Government
Liabilities and Net Position					
Liabilities					
Current Liabilities					
Current portion of bonds payable	$ --	$ --	$ 3,685,000	$ --	$ 3,685,000
Accrued expenses and liabilities	--	180	4,946,709	--	4,946,889
Deferred revenue	--	5,775	657,736	--	663,511
State Small Business Credit Initiative Capital	--	--	4,108,607	--	4,108,607
Reserve for guarantee losses	--	--	1,050,905	--	1,050,905
Total Current Liabilities	--	5,955	14,448,957	--	14,454,912
Noncurrent Liabilities					
Escrow deposits	--	--	7,843,012	--	7,843,012
Bonds payable, net of current portion	--	--	5,020,000	--	5,020,000
Total Noncurrent Liabilities	--	--	12,863,012	--	12,863,012
Total Liabilities	--	5,955	27,311,969	--	27,317,924
Net Position					
Net investment in capital assets	--	39,059	375,490	--	414,549
Restricted	--	--	12,595,371	--	12,595,371
Unrestricted	8,721,594	41,118	147,203,824	--	155,966,536
Total Net Position	8,721,594	80,177	160,174,685	--	168,976,456
Total Liabilities and Net Position	$ 8,721,594	$ 86,132	$ 187,486,654	$ --	$ 196,294,380

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

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

	CBRA	CTECH / Wet Lab	CI	Eliminating Entries	Total Primary Government
Operating Revenues					
Investment interest income	$ 16,452	$ --	$ 589,166	$ --	$ 605,618
Interest on loans	527,702	--	2,106,860	--	2,634,562
Loan fee income	--	--	1,431,409	--	1,431,409
XL Center income	--	--	1,311,669	--	1,311,669
Grant and program income	--	--	616,057	--	616,057
CT Bioscience Collaboration funding	--	--	29,427,285	--	29,427,285
Other income	--	80,141	517,632	--	597,773
Total Operating Revenues	544,154	80,141	36,000,078	--	36,624,373
Operating Expenses					
Salaries	--	--	5,287,327	--	5,287,327
Benefits and payroll taxes	--	--	3,959,122	--	3,959,122
Grants and programs	--	--	10,781,358	--	10,781,358
CT Bioscience Collaboration loan writedown	--	--	25,946,965	--	25,946,965
Provision for loan and guarantee losses	100,000	--	3,272,500	--	3,372,500
XL Center expenses	--	--	2,108,609	--	2,108,609
General facility and office	--	235,393	941,559	--	1,176,952
Professional service fees	--	4,650	809,209	--	813,859
Interest	15,889	--	375,669	--	391,558
Marketing, conferences, development	--	--	371,859	--	371,859
Depreciation and amortization	--	96,841	140,370	--	237,211
Other	--	--	69,797	--	69,797
Total Operating Expenses	115,889	336,884	54,064,344	--	54,517,117
Operating Income (Loss)	428,265	(256,743)	(18,064,266)	--	(17,892,744)

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

CONDENSED, COMBINING INFORMATION – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)

	CBRA	CTECH / Wet Lab	CI	Eliminating Entries	Total Primary Government
Nonoperating Revenues (Expenses)					
Unrealized loss on investments	$ --	$ --	(224,775)	$ --	$ (224,775)
Realized loss on sale of investments	--	--	(4,119,749)	--	(4,119,749)
CT Public Act 11-1	--	--	20,000,000	--	20,000,000
CT Pre-Seed Fund	--	--	1,570,000	--	1,570,000
Loss on disposal of assets	--	(51,406)	(8,745)	--	(60,151)
Total Nonoperating Revenues (Expenses)	--	(51,406)	17,216,731	--	17,165,325
Change in Net Position Before Transfers and Extraordinary Item Transfers	428,265	(308,149)	(847,535)	--	(727,419)
Transfers	(1,701,964)	--	(8,293,329)	9,995,293	--
Extraordinary Item - Assets Transferred in from Connecticut Development Authority	--	--	83,998,798	--	83,998,798
Change in Net Position	(1,273,699)	(308,149)	74,857,934	9,995,293	83,271,379
Net Position - Beginning of year	9,995,293	388,326	85,316,751	(9,995,293)	85,705,077
Net Position - End of year	$ 8,721,594	$ 80,177	$ 160,174,685	$ --	$ 168,976,456

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

CONDENSED, COMBINING INFORMATION – STATEMENT OF CASH FLOWS

	CBRA	CTECH / Wet Lab	CI	Eliminating Entries	Total Primary Government
Cash Flows from Operating Activities					
Loan principal collected	$ 397,124	$ --	$ 9,497,947	$ --	$ 9,895,071
Cash received under grants and programs	--	--	247,011	--	247,011
Cash received under CT Bioscience Collaboration Program	--	--	29,427,285	--	29,427,285
Interest from loans	508,668	--	2,084,349	--	2,593,017
Cash from loan/guarantee/insurance fees	--	--	1,430,804	--	1,430,804
Interest on investments and marketable securities	27,500	--	461,098	--	488,598
XL Center revenues	--	--	700,000	--	700,000
Cash received from dividends and royalties	--	--	182,060	--	182,060
Interest on short-term investments and cash deposits	638	--	91,799	--	92,437
Cash from recovery of principal	--	--	1,900	--	1,900
Cash received from other income	--	84,816	332,455	--	417,271
Cash paid under grants and programs	--	--	(10,351,018)	--	(10,351,018)
CT Bioscience Collaborative loans	--	--	(23,357,786)	--	(23,357,786)
Cash received under custodial arrangements	--	--	11,284,988	--	11,284,988
Cash expended under custodial arrangements	--	--	(10,789,850)	--	(10,789,850)
Payroll and fringe benefits paid	--	--	(9,401,596)	--	(9,401,596)
Loans funded	--	--	(8,653,276)	--	(8,653,276)
XL Center expenses	--	--	(2,100,000)	--	(2,100,000)
General and administrative expenses paid	--	(225,299)	(2,018,570)	--	(2,243,869)
Guarantees paid	--	--	(669,620)	--	(669,620)
Loan workout expenses paid	--	--	(61,959)	--	(61,959)
Net Cash Provided by Operating Activities	933,930	(140,483)	(11,661,979)	--	(10,868,532)
Cash Flows from Capital and Related Financing Activities					
Purchase of capital assets	--	(1,098)	(242,845)	--	(243,943)
Principal payments on bonds	--	--	(503,250)	--	(503,250)
Interest payments on bonds	--	--	(37,115)	--	(37,115)
Net Cash Used in Capital and Related Financing Activities	--	(1,098)	(783,210)	--	(784,308)

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

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

	CBRA	CTECH / Wet Lab	CI	Eliminating Entries	Total Primary Government
Cash Flows from Noncapital Financing Activities					
Funding received from State of Connecticut	$ --	$ --	21,670,000	$ --	$ 21,670,000
Transfer in from Connecticut Development Authority	--	--	39,954,485	--	39,954,485
Increase in escrow deposits	--	--	2,745,483	--	2,745,483
Principal payments on bonds	(1,000,000)	--	(3,086,750)	--	(4,086,750)
Interest payments on bonds	(27,500)	--	(483,615)	--	(511,115)
Capital from CII	--	150,000	(150,000)		--
Cash paid for SSBCI funding	--	--	(74,577)	--	(74,577)
Net Cash Provided by Noncapital Financing Activities	(1,027,500)	150,000	60,575,026	--	59,697,526
Cash Flows from Investing Activities					
Sale of investments	1,000,000	--	3,498,361	--	4,498,361
Return of principal on investments	--	--	977,025	--	977,025
Purchase of investments	--	--	(20,949,037)	--	(20,949,037)
Program loans funded	--	--	(282,000)	--	(282,000)
Transfers	(1,701,964)	--	1,701,964	--	--
Investment in CEFIA Holdings, LLC	--	--	(1,000)	--	(1,000)
Net Cash Used in Investing Activities	(701,964)	--	(15,054,687)	--	(15,756,651)
Net Increase (Decrease) in Cash and Cash Equivalents	(795,534)	8,419	33,075,150	--	32,288,035
Cash and Cash Equivalents - Beginning	795,534	32,559	31,930,956	--	32,759,049
Cash and Cash Equivalents - Ending	$ --	$ 40,978	$ 65,006,106	$ --	$ 65,047,084

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

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

	CBRA	CTECH / Wet Lab	CI	Eliminating Entries	Total Primary Government
Reconciliation of Operating Loss to Net Cash Used in Operating Activities					
Operating loss	$ 428,265	$ (256,743)	$ (18,064,266)	$ --	$ (17,892,744)
Adjustments to reconcile operating loss to net cash used in operating activities:					
Noncash interest conversions	--	--	(245,170)	--	(245,170)
Interest expense on bonds	15,889	--	478,130	--	494,019
Provision for loan and guarantee losses	100,000	--	3,272,500	--	3,372,500
CT Bioscience Collaboration Program writedown	--	--	2,589,179	--	2,589,179
Depreciation and amortization	--	96,839	140,372	--	237,211
Amortization of bond premium	--	--	(3,279)	--	(3,279)
Recoveries of loan principal	--	--	1,900	--	1,900
Guarantees paid			(669,620)	--	(669,620)
(Increase) decrease in assets:					
Loans receivable	397,123	--	844,672	--	1,241,795
Interest and other receivables	(7,347)	(200)	(181,569)	--	(189,116)
Advances, prepaids and deferred expenses	--	16,613	(477,474)	--	(460,861)
Other assets	--	--	(200)	--	(200)
Decrease in deferred outflows of resources	--	--	52,471	--	52,471
Increase (decrease) in liabilities:					
Accrued expenses	--	(1,867)	925,544	--	923,677
Custodial liability	--	--	495,139	--	495,139
Deferred revenue	--	4,875	(820,308)	--	(815,433)
Net Cash Provided by Operating Activities	$ 933,930	$ (140,483)	$ (11,661,979)	$ --	$ (10,868,532)

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

FINANCIAL AND TECHNICAL PROGRAMS

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)

FINANCIAL AND TECHNICAL PROGRAMS (CONTINUED)

Self-Sustaining Bond Program — Under the Self-Sustaining Bond Program, the Corporation accommodates the financing for specific industrial and certain recreational and utility projects through the issuance of special obligation industrial revenue bonds. These bonds are available for financing such projects as the acquisition of land or the construction of buildings, and purchase and installation of machinery, equipment and pollution control facilities. The Corporation has issued $2,119,741,141 of special obligation industrial revenue bonds since July 1, 1978. Total bonds outstanding at June 30, 2013 were $731,625,144.

The bonds are payable solely from payments received from participating companies (or from proceeds of sale of the specific projects in the event of default) and do not otherwise constitute a debt or liability of the Corporation or the State or any municipality thereof. Accordingly, the balances and activity of the Self-Sustaining Bond Program are not included in the Corporation's financial statements.

Titles to most projects financed under this program prior to 1978 (and, in some cases, since then) are generally held by the Corporation, and projects are leased to participating companies at annual rentals sufficient to amortize bond principal and interest over the life of the applicable bonds. The participating companies pay directly any other costs of the projects. Title to a particular project is transferred to the participating company at a nominal amount when the applicable bonds are paid in full. In some cases prior to 1978 and for most projects financed since then, the Corporation does not hold title to the projects, and collateral loan agreements are obtained from participating companies under which they pay amounts sufficient to amortize the bond principal and interest over the life of the bonds and pay directly any other costs of the project.

Insurance Program — The State has authorized the issuance of up to $25,000,000 in bonds allocated to the Insurance Program. Of this amount, $5,500,000 has been distributed to the Insurance Program and was recorded as Contributed Capital. Under the Insurance Program, the Corporation may insure loans made by other lending institutions to companies for acquisition of industrial land, buildings, machinery, and equipment located within the State. In addition, all of the Corporation's Umbrella Program loans were insured under this program.

On June 30, 2013 loans totaling $3,391,665 were insured under the program by other lending institutions.

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

FINANCIAL AND TECHNICAL PROGRAMS (CONTINUED)

Insurance Program (Continued) — The Statute provides that the insurance is payable from the net assets of the Insurance Program. If such net assets are not sufficient, the faith and credit of the State are pledged to absorb any shortfall. The Corporation has established maximum limits for individual loans on real property of $25,000,000 and 25 years, and for individual loans on machinery and equipment of $10,000,000 and ten years.

Loans receivable within the program arise from sales of foreclosed properties. Other real estate owned consists of properties acquired through foreclosure proceedings. Management records other real estate owned at the lower of cost or estimated fair value, less selling cost.

Growth Fund — Under the Growth Fund, the Corporation is authorized to issue individual loans up to a maximum of $4,000,000. This program provides financial assistance for any purpose the Corporation determines will materially contribute to the economic base of the State by creating or retaining jobs, promoting the export of products and services, encouraging innovation in products or services, or supporting existing activities that are important to the State's economy. Financing may be used to purchase real property, machinery and equipment, or for working capital. The Corporation has established an overall maximum loan term of 20 years and a maximum 90 percent loan-to-value ratio for real property loans. The maximum loan terms for machinery and equipment are ten years and 80 percent financing and a seven-year term for working capital loans.

Water facilities include municipally owned water companies and investor-owned water companies that service between 25 and 10,000 customers and municipally owned and privately owned dams deemed a community benefit by the Commissioner of the Department of Energy and Environmental Protection. The loans are generally limited to $250,000 for terms not to exceed 20 years for real property and ten years for machinery and equipment.

Small contractors and minority business enterprises are eligible for loans up to $250,000 for terms not to exceed one year to cover the costs of labor and material related to specific contracts.

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

FINANCIAL AND TECHNICAL PROGRAMS (CONTINUED)

Connecticut Works Fund and Connecticut Works Guarantee Fund — The Connecticut Works Fund includes direct loans and a loan guarantee program with participating lenders to encourage them to provide more credit on more favorable terms. Eligible projects include most manufacturing related projects and any project that materially supports the economic base of the State through jobs, defense diversification, exporting and the development of innovative products or services. Loan types and amounts include revolving credit lines, fixed asset loans and refinancing in some cases.

The Connecticut Works Guarantee Fund provides commitments to guarantee loans made by participating financial institutions. Eligible projects are determined by the due diligence principles set forth in the loan presentation guidelines and underwriting considerations for the loan guarantee program of the Connecticut Works Fund.

The State has authorized the issuance of up to $95,000,000 in bonds allocated to Connecticut Works Fund (Fund A). Of this amount, $82,485,000 has been distributed to Fund A and $12,515,000 remains available for distribution. In the event direct loans are uncollectible, the Corporation can put such loans to the State for reimbursement until the total bonds allocated ($95,000,000) have been utilized. In addition, any losses pursuant to the Fund A guarantee program can be put to the State (up to amounts remaining in the $95,000,000 bond allocation).

The State has also authorized the issuance of up to $30,000,000 in bonds allocated to Connecticut Works Guarantee Fund (Fund B). Of this amount, $18,900,000 has been distributed to Fund B, and $11,100,000 remains available for distribution. Pursuant to this guarantee program, any losses on guarantees made by the Corporation are reimbursable by the State (up to amounts remaining in the $30,000,000 bond allocation).

Connecticut Capital Access Fund — The Connecticut Capital Access Fund provides portfolio insurance to participating financial institutions to assist them in making loans that are somewhat riskier than conventional loans. This assistance is funded by the two branches of the Connecticut Capital Access Fund, the “Urbank Program” and the “Entrepreneurial Loan Program.” Eligible projects are determined usually by the financial institution making the loan as long as the projects meet the requirements specified in the participation agreements.

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

FINANCIAL AND TECHNICAL PROGRAMS (CONTINUED)

Connecticut Capital Access Fund (Continued) **—** The State has authorized the issuance of up to $5,000,000 in bonds allocated to the Connecticut Capital Access Fund. Of this amount, $2,000,000 has been distributed and $3,000,000 remains available for distribution. In addition, any insurance losses associated with this fund are reimbursable by the State up to amounts remaining in the $5,000,000 bond allocation.

Business Environmental Clean-up Revolving Loan Fund — The Business Environmental Clean-up Revolving Loan Fund provides direct fixed-rate loans to business property owners unable to obtain clean-up financing from conventional sources. There is no additional funding available for this program.

The Environmental Assistance Revolving Loan Fund — The Environmental Assistance Revolving Loan Fund provides direct loans to businesses unable to obtain financing from conventional sources. Assistance relates to the prevention of future environmental hazards. There are no active loans remaining in this program. It is anticipated that no future funding will be available for this program.

SIGNIFICANT ACCOUNTING POLICIES

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Corporation is considered to be an enterprise fund of the State of Connecticut. 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 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 29, 1989 FASB Statements and Interpretations and Accounting Principles Board (ABP) Opinions and Research Bulletins which do not conflict or contradict GASB statements.

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.

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

OPERATING AND NON-OPERATING REVENUE (EXPENSE)

The Corporation distinguishes operating revenues and expenses from non-operating items. Operating revenues consists primarily of (1) loan interest from its lending and economic development activities; (2) grants and program income; and (3) other revenue generated in connection with investments / programs as well as from the operations of the XL Center and other fees and assessments related to all of the above. Operating expenses consist of the costs of operating the lending, economic development, capital venture, programs, grants, XL Center operations as well as depreciation on capital assets.

Non-operating revenue consists of funding from the State for the CT, not related to operations at the time of receipt. Offsetting non-operating revenue and recorded as non-operating expenses are investment losses, and losses from the disposition of assets.

REVENUE RECOGNITION

Revenue from grants under government mandated or voluntary non-exchange transactions is recognized when eligibility requirements are met to the extent that the Corporation can be expected to comply with the purpose restrictions within the specified time limit. Funds received in advance such as those under the State Small Business Credit Initiative (SSBCI) program, are recorded as refundable advances until the Corporation is expected to comply with the program's requirements.

Interest income on loans is accrued and credited to operations based upon the principal amount outstanding. The accrual of interest income is generally discontinued when a loan becomes 61 days past due or earlier when there is sufficient question as to the collectability of the interest. The Corporation records past due interest on a cash basis as the money is received. Interest income on past due loans is not accrued until adequate repayment history is again established (typically after three months). Loan acceptance (origination) fees approximate direct loan origination costs and, accordingly, are recognized as income at loan origination. Interest income from investments is recorded as earned. Insurance Program premiums are recorded as income proportionately over the life of the contract (interest method).

APPLICATION OF RESOURCES

The Corporation first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

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 and determining the adequacy of the allowance for loan losses. 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 fair value. Cash includes deposits with financial institutions as well as the Corporation's funds within the Connecticut State Treasurer's Short-Term Investment Fund.

OTHER SECURITY

The other security reported on the balance sheet consists of a guaranteed investment contract, acquired in connection with a 1993 issuance of bonds, which matured on November 15, 2013. The carrying amount approximates the asset's fair value.

PORTFOLIO INVESTMENTS AND VALUATIONS

The Corporation's portfolio investments consist of shares of publicly traded securities as well as promissory notes, and equity and debt financing instruments extended to various companies to create jobs and further the economic base of Connecticut.

The Corporation carries all investments at fair value, which 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. Fair value, for other than publicly traded securities, is 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

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

PORTFOLIO INVESTMENTS (CONTINUED)

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.

In connection with becoming the successor agency to the Connecticut Development Authority (CDA), the Corporation absorbed promissory notes under the CDA's PreSeed program and also direct equity and debt financing investments. Equity securities do not have readily determinable fair values and are initially recorded at cost. If it is determined that such investments experienced an other than temporary impairment they are written down to fair value, establishing a new cost basis. At June 30, 2013, all investments remaining from CDA are in equity securities.

LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are stated at unpaid principal balances less an allowance for loan losses. The allowance for loan losses is maintained at a level believed adequate by management to absorb losses existing in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, historical loan loss experience, current economic conditions, volume, growth and composition of the loan portfolio, reviews of individual delinquent loans, and other relevant factors. The allowance is increased by charges against income and decreased by charge-offs (net of recoveries) when management determines that the collectability of the principal is unlikely.

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

Certain impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

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 as non-operating income for the period.

DEFERRED OUTFLOWS OF RESOURCES

This amount represents the balance of bond issuance costs in connection with debt refinanced in prior years. These costs are amortized over the life of the bond issue in proportion to the outstanding balance of the related bond issue.

ESCROW DEPOSITS

The Corporation holds in a separate financial institution account escrow deposits which provide collateral security from various program participants. These deposits secure the program participants liability in regards to relocation/abandonment, employment thresholds and employment recapture payments. In addition to the above and pursuant to the construction contracts for the completion of work by contractors at 263 and 297 Farmington Avenue, Farmington, Connecticut. The Corporation retains 10% of all interim progress payments due and payable to The Jackson Laboratory until the facility is 50% constructed, then retains 5% immediately after the facility is 50% complete until the completion of the project. On June 30, 2013 the retainage maintained in escrow in relation to the Jackson Laboratory Construction contract was $616,486.

OFF-BALANCE SHEET INSTRUMENTS

Fair values for the Corporations off-balance-sheet instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing (guarantees, loan commitments).

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

CAPITAL CONTRIBUTIONS

In accordance with legislation, additional capital is to be contributed from the State of Connecticut to the Insurance Program, Growth, Connecticut Works, Connecticut Works Guarantee, Connecticut Capital Access, on an “as needed” basis to provide additional funds for financial assistance to qualified borrowers. Such contributions, when received, are reported as non-operating revenue.

RESTRICTED CASH

Restricted cash includes all cash that relates to specific revenue or General Obligation Bonds, as well as cash reserves whose use is specified or limited by bond resolution, enabling legislation, laws or third parties.

STATEMENT OF CASH FLOWS

For purposes of the statement of cash flows, cash and cash equivalents include both restricted and unrestricted funds held on deposit with banks as well as funds held with the Connecticut State Treasurer’s Short-Term Investment Fund.

NET POSITION

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

Net investment in capital assets consists of capital assets including restricted capital assets reduced by accumulated depreciation and by the outstanding balances of bonds that are attributable to those particular assets.

Restricted net position consists of those net restricted assets whose use is restricted through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position is the net amount of the net assets that are not included in the determination of net investment in capital assets or the restricted component of net position. Assets which do not meet the definition of the two preceding categories.

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

SUBSEQUENT EVENTS

Events subsequent to June 30, 2013 have been evaluated through December 23, 2013, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

NOTE 2 – FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value for the Corporation's other security and portfolio investments, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets and liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTE 2 – FAIR VALUE MEASUREMENTS (CONTINUED)

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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013.

Cash Equivalents – Cash equivalents consist of funds invested in the Connecticut State Treasurer's Short-Term Investment Fund and are valued at one dollar per share due to the highly liquid nature of the investment.

Other Security – The amount represents a Guaranteed Investment Contract (GIC) which matured November 15, 2013. Fair value is calculated by the issuer using primarily unobservable inputs including cash flow information.

Portfolio Investments – Portfolio investments are 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.

The valuation methods previously described 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.

NOTE 2 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Corporation's financial assets at fair value as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Cash and				
cash equivalents	$ 65,047,084	$ --	$ --	$ 65,047,084
Other Security	--	--	3,008,095	3,008,095
Portfolio investments				
Equity	3,062,428	--	46,480,328	49,542,756
Debt	--	--	15,465,097	15,465,097
	$ 68,109,512	$ --	$ 64,953,520	$ 133,063,032

The following table sets forth a summary of changes in the fair value of the level 3 assets for the year ended June 30, 2013.

Balance - beginning of year	$ 53,223,862
Purchases	21,747,212
Settlements	(8,129,094)
Unrealized depreciation in investments	(1,888,460)
Balance - end of year	$ 64,953,520

NOTE 3 – CASH AND CASH EQUIVALENTS AND OTHER SECURITY

CASH AND CASH EQUIVALENTS

The following is a summary of the composition of cash and cash equivalents (both restricted and unrestricted) on June 30, 2013.

Deposits with financial institutions	$ 14,892,457
Connecticut State Treasurer's Short-Term Investment Fund	50,154,627
Total cash and cash equivalents	$ 65,047,084

NOTE 3 – CASH AND CASH EQUIVALENTS AND OTHER SECURITY (CONTINUED)

CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents are presented on the statement of net position at June 30, 2013 as follows:

Unrestricted cash and cash equivalents	$ 43,338,189
Restricted cash and cash equivalents	21,708,895
	$ 65,047,084

DEPOSITS WITH FINANCIAL INSTITUTIONS

On June 30, 2013, the carrying amount of the Corporation's deposits with financial institutions (including checking accounts, certificates of deposit and escrow accounts) was $14,892,457, and the bank balance was $15,406,216.

All cash maintained by the Connecticut Capital Access Fund is restricted until the related obligations are paid in full, and all cash that relates to a specific revenue or General Obligation Bond is restricted until the related obligation is paid in full (Note 1). Total restricted cash and cash equivalents was $21,708,895 as of June 30, 2013.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

The Connecticut State Treasurer's Short-Term Investment Fund (STIF) is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27c through 3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

INVESTMENT MATURITIES

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

CUSTODIAL CREDIT RISK

Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Corporation will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Corporation's policy is to deposit any funds in obligations issued or guaranteed by the United States of America or the State of Connecticut and in other obligations which are legal investments for savings banks in Connecticut.

NOTE 3 – CASH AND CASH EQUIVALENTS AND OTHER SECURITY (CONTINUED)

CUSTODIAL CREDIT RISK (CONTINUED)

On June 30, 2013 $12,882,276 of the Corporation's bank balance was uninsured and uncollateralized and therefore exposed to 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. On June 30, 2013, the Corporation had no reportable credit risk. The Connecticut State Treasurer's Short-Term Investment Fund is not subject to this disclosure.

OTHER SECURITY

On June 30, 2013, the Corporation held one Guaranteed Investment Contract for $3,008,395, having a maturity date of November 15, 2013 bearing interest at 5.85%. This marketable security is a restricted asset required as special capital reserve under the 1993A General Obligation bond indenture.

INTEREST RATE RISK

Unrestricted Investments - 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.

Restricted Investments - The Corporation's investment policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures and with applicable Connecticut General Statutes. Whenever possible, restricted investments are to be held to maturity and be invested in an appropriate manner as to ensure the availability for specified payment dates and other intended purposes as set forth in the relevant trust indentures and agreements, and to ensure a rate of return at least equal to the restricted bond yield, all with minimal risk to capital.

CREDIT RISK

Pursuant to the General Statutes of the State of Connecticut, the Corporation may only invest funds in obligations issued or guaranteed by the United States of America or the State of Connecticut, including its instrumentalities and agencies, and the STIF. The STIF is available for use by the State's funds and agencies, public authorities and municipalities. State statutes authorized these pooled investment funds to be invested in United States Government and agency obligations, United States Postal Service obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, banker acceptances, student loans, and repurchase agreements.

NOTE 3 – CASH AND CASH EQUIVALENTS AND OTHER SECURITY (CONTINUED)

CREDIT RISK (CONTINUED)

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

For restricted and unrestricted investments, the Corporation places no limits on the amount of investment in any one investment vehicle. The Corporation does not have a policy on credit risk concentration. The State Treasurer's Investment Fund is not subject to this disclosure.

NOTE 4 – PORTFOLIO INVESTMENTS

Investments as of June 30, 2013 are summarized as follows:

	June 30, 2013		
CI Fund	Equity Securities	Debt Securities	Total
Eli Whitney investments	$ 44,145,808	$ 6,148,325	$ 50,294,133
BioScience Facilities investments	--	1,106,346	1,106,346
Seed Fund investments	3,475,007	2,110,933	5,585,940
Clean Tech investments	1,185,001	1,093,363	2,278,364
Mezzanine Fund investments	--	1,892,406	1,892,406
Other investments	736,940	3,113,724	3,850,664
Totals	$ 49,542,756	$ 15,465,097	$ 65,007,853

NOTE 4 – PORTFOLIO INVESTMENTS (CONTINUED)

The following is a summary of Eli Whitney Investments by industry as of June 30, 2013:

	June 30, 2013	%
Bioscience	$ 15,775,108	31.4
IT Software	8,426,798	16.8
IT Infrastructure	8,189,393	16.3
Medical Devices	4,825,574	9.6
Clean Technology	3,878,860	7.7
IT Communications	1	--
IT Services	5,959,899	11.8
Photonics	3,238,500	6.4
	$ 50,294,133	100.0

CI 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, 2013, the Corporation owned warrants in several portfolio companies with various exercise dates and at exercise prices that range from $.0001 to $35,000 per share. Warrants held at June 30, 2013 represented investments in 21 companies.

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, 2013, the five largest investments comprised 26.3% of the carrying value of the Corporation's total investments.

NOTE 5 – LOANS

The Corporation extends commercial loans to customers located within Connecticut to advance certain economic development objectives consistent with their corporate mission and contractual obligations with the State of Connecticut. Loans are collateralized by assets acquired with the proceeds of the related loans. These loans have original terms of one to twenty-five years and bear interest as follows:

	Interest Rates (Percentages)
Growth Fund	3.0% - 8.219%
Connecticut Works Fund ("A")	2.0% - 7.0%
Operating Fund	5.04%
CBRA	5.5% - 6.0%

The Corporation’s direct loan portfolio is comprised of 106 loans totaling $62,865,841. Of this amount, 99 loans totaling $50,441,939 (80%) are in the Growth and Connecticut Works Fund (“A”). The remaining $12,423,902 (20%) is comprised of 8 loans in the CBRA subsidiary and Operating Fund.

The ability of the borrowers to honor their contracts may be affected by a downturn in the State’s economy, which may ultimately limit the funds available to repay interest and principal, thus the Authority provides for an allowance for loan losses (Note 6).

Nonperforming loans include loans that are over 61 days past due on June 30, 2013.

NOTE 6 – ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses has been provided through charges against operations based upon management's evaluation of the loan portfolio for each fund and is maintained at a level believed adequate to absorb potential losses in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly in Connecticut.

Changes in the allowance for possible loan and guarantee losses by individual fund during the years ended were as follows:

	June 30, 2013							
	Loans				Guarantees			
	CBRA Subsidiary/ Insurance Fund	Growth Fund	Connecticut Works Fund (A)	Direct Loan Totals	Connecticut Works Fund (A) Guarantees	Connecticut Capital Access Fund	Guarantee Totals	Total Loans and Guarantees
Beginning balance	$ 656,627	$ 357,441	$ 7,884,756	$ 8,898,824	$ 150,000	$ 428,024	$ 578,024	$ 9,476,848
Other	1	1	--	2	--	170,001	170,001	170,003
Provision	100,000	375,000	1,925,000	2,400,000	972,500	--	972,500	3,372,500
Charge-offs	--	(341,360)	(1,119,629)	(1,460,989)	--	--	--	(1,460,989)
Guarantee fees	--	--	--	--	(637,500)	(32,120)	(669,620)	(669,620)
Recoveries	--	1,900	--	1,900	--	--	--	1,900
Ending balance	$ 756,628	$ 392,982	$ 8,690,127	$ 9,839,737	$ 485,000	$ 565,905	$ 1,050,905	$ 10,890,642
Loan balances/exposure	$ 12,423,902	$ 10,161,114	$ 40,280,825	$ 62,865,841	$ 1,207,048	$ 2,666,568	$ 3,873,616	$ 66,739,457
Allowance balance as a percent of loans/ exposure	6.1%	3.9%	21.6%	15.7%	40.2%	21.2%	27.1%	16.3%

NOTE 6 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

At June 30, 2013, the Corporation had a recorded balance in impaired loans of $14,300,184 in the CBRA Subsidiary, Insurance Program, Growth Fund and Connecticut Works Fund (A), collectively. A loan is impaired when, based on current circumstances and events, a creditor expects to be unable to collect all amounts contractually due in accordance with the terms of the loan agreement.

All impaired loans have a specific allowance for possible loan losses included in the overall allowance for loan losses totaling $7,250,885 on June 30, 2013.

The average recorded investment in impaired loans for the year ended June 30, 2013 was $14,505,410, and income recorded on loans identified as being impaired totaled $205,168, of which $203,021 was recorded as revenue when received.

NOTE 7 – 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).

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 $880,741 for the year ended June 30, 2013 on behalf of CEFIA, for which the Corporation was reimbursed.

Pursuant to an agreement entered into as of March 21, 2013, a limited liability company, CEIFA Holdings LLC was established and CI became a member with a .1% membership interest with a $1,000 initial capital contribution. CEFIA holds a 99.9% membership interest with an initial capital contribution of $99,000.

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.

NOTE 7 – RELATED PARTY TRANSACTIONS (CONTINUED)

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 reimbursement for fiscal year 2013 totaled of gross salaries.

Amounts due from various related parties are as follows:

Due from the Clean Energy Finance and Investment Authority	$ 21,396
Due from the Department of Economic and Community Development, net	$ 160,071
Membership Interest - CEFIA Holdings LLC	$ 1,000

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 is as follows:

	Balance, July 1, 2012	Additions	Deletions	Balance, June 30, 2013
Capital assets being depreciated:				
Furniture and equipment	$ 783,494	$ 79,771	$ (545,917)	$ 317,348
Computer hardware and software	574,983	72,927	(35,589)	612,321
Leasehold improvements (CI and CTech)	38,846,329	60,668	(38,784,847)	122,150
Construction in progress	18,333	322,399	(248,425)	92,307
	40,223,139	535,765	(39,614,778)	1,144,126
Less accumulated depreciation and amortization:				
Furniture and equipment	648,944	62,156	(448,498)	262,602
Computer hardware and software	341,792	125,116	(37,117)	429,791
Leasehold improvements (CI and CTech)	38,672,203	88,727	(38,723,746)	37,184
	39,662,939	275,999	(39,209,361)	729,577
Capital assets - net	$ 560,200	$ 259,766	$ (405,417)	$ 414,549

NOTE 9 – STATE FUNDING

In 2013 the Corporation received $50,997,285 from the State of Connecticut under approved bond fund authorizations to provide financial assistance to high technology companies. These funds were provided as follows: $1,570,000 through the PreSeed Fund; $20,000,000 to recapitalize CI's investment programs under PA 11-1, $23,357,785 for the Connecticut Bioscience Collaboration Program for facility and equipment loans and $6,069,500 for operating assistance to the Jackson Laboratory for Genomic Medicine. As of June 30, 2013, $261,183,605 remained available to the Corporation from bond fund authorizations as follows:

PreSeed Fund	$ 125,000
BioFacilities Fund	2,991,500
Connecticut Bioscience Collaboration Program:	
Loans	165,136,605
Operating Grant	92,930,500
	258,067,105
	$ 261,183,605

NOTE 10 – BONDS PAYABLE

The bonds of the General Operating Fund bear interest at 4.75 to 5.25 percent. The principal and interest payable as of June 30, 2013 are as follows:

Year ending June 30,	Principal General Obligation Bonds	Interest General Obligation Bonds
2014	$ 3,685,000	$ 344,396
2015	2,260,000	200,448
2016	500,000	131,775
2017	525,000	104,869
2018	555,000	76,519
2019 - 2020	1,180,000	62,213
	$ 8,705,000	$ 920,220

NOTE 10 – BONDS PAYABLE (CONTINUED)

Outstanding principal of the General Operating Fund's General Obligation Bonds is as follows:

	Original Amount	Outstanding Principal June 30, 2013
1993 Series A, 3.5 - 6.0 percent, $30,560,000 due serially from November 15, 1994 through November 15, 2013. Callable after November 15, 2009, at par.	$ 30,560,000	$ 1,525,000
2004 Series B, 2.37 - 5.25 percent, $6,725,000 with $3,965,000 in aggregate principal amount of serial bonds maturing on October 15 in the years 2005 through 2014, both inclusive; $2,760,000 in aggregate principal amount of term bonds maturing on October 15, 2019. Callable at par under special circumstances.	6,725,000	3,695,000
2004 Series C, 2.35 - 4.92 percent, $15,005,000 due serially from August 15, 2005 through August 15, 2014. Callable at par under special circumstances	15,005,000	3,485,000
	$ 52,290,000	8,705,000
Less: current portion		3,685,000
Long-term portion		$ 5,020,000

NOTE 11 – OPERATING LEASES

The Corporation leases its office and laboratory space from unrelated third parties under operating leases ending December, 2020, July, 2015 and June 2013, respectively.

Future minimum lease payments under these leases are as follows:

Years ending June 30,		
2014	$	424,415
2015		434,520
2016		379,780
2017		383,990
2018		394,095
Thereafter		1,028,184
	$	3,044,984

Until May, 2013, a portion of office rent was allocated to the Clean Energy Finance and Investment Authority (CEFIA) which shared space with the Corporation. For the year ended June 30, 2013, $142,733 was allocated to CEFIA. Additionally, prior to moving all employees of the Connecticut Development Authority as a result of the merger with Connecticut Innovations, CDA also rented office space. The move was completed in May, 2013 and CDA's lease was terminated as of May 31, 2013.

Rent expense for all facilities for the year ended June 30, 2013, was $512,840.

NOTE 12 – 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.

NOTE 12 - PENSION PLAN (CONTINUED)

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 four tiers. Tier I, Tier IIA and Tier III are contributory plans, and Tier II is a noncontributory plan. 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 and Tier III 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.

NOTE 12 – PENSION PLAN (CONTINUED)

The total payroll and the payroll for employees of the Corporation covered by SERS for the years ended June 30, 2013 was $5,241,997.

CONTRIBUTIONS MADE

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

Contributions made:		
By employees	$	117,973
Percent of current year covered payroll		2.3%
By the Corporation	$	2,587,513
Percent of current year covered payroll		49.4%

NOTE 13 – XL CENTER OPERATIONS

On September 1, 1993, the former CDA entered into a series of agreements centering around the lease of the XL Center from the City of Hartford, Connecticut (City). The principal agreements are summarized as follows:

- The lease agreement originally called for quarterly lease payments of $400,000 with 4 percent increases compounded annually; the first quarters and a one-time payment of $3,000,000 at the lease inception (total of $3,400,000) were paid to the City on September 1, 1993. The lease expires September 1, 2013.

- On March 21, 2007 the Board of Directors of the former CDA voted to award the contract relating to the management and operation of the XL Center to Northland/AEG. The scheduled term of the sublease and operating agreement began on July 1, 2007 and ends on August 30, 2013, subject to earlier termination under special circumstances. Under the terms of the agreement CDA granted and transferred to Northland/AEG the full and exclusive managerial, operational and financial responsibility for the facility.

NOTE 13 – XL CENTER OPERATIONS (CONTINUED)

Northland/AEG will be fully responsible for all obligations and requirements binding upon the Tenant under the City Lease and CDA including (i) the payment to CDA of all City Rent; (ii) maintenance and repair of the Facilities and changes, alterations and improvements, including responsibility for all capital expenditures; (iii) taxes and utilities; (iv) the use and continued operation of the Facilities; (v) indemnification and insurance; (vi) damage or deterioration of the Facilities; (vii) the condition of the Facilities upon surrender at the scheduled expiration of the City lease; and the hiring of residents of the City and affirmative action and equal opportunity covenants.

- Effective on June 30, 2013, the Sublease and operating agreement was terminated and the CI and AEG Entities shall have no further rights, liabilities or obligations in connection with the Sublease arising subsequent to the Termination Date.

In consideration of the early termination of the Sublease, (CRDA) Capital Region Development Authority shall pay (AEGM), AEG Management CT, LLC (formerly known as Northland / AEG), the amount of $500,000 as fair and reasonable compensation for the loss of expected revenue over the remainder of the scheduled term of the Sublease. In consideration of the mutual representations, warranties and agreements set forth AEGM shall pay CI, without set off or reduction $500,000 to fully and finally settle and satisfy any and all obligations of AEGM under Section 6.04 of the Sublease.

NOTE 14 – 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.

NOTE 14 – 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.

For the year ended June 30, 2013, $74,809 was charged to the plan as a result of the combination of realized and net unrealized 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 2013.

NOTE 15 – HARTFORD WHALERS TRANSACTION

In connection with the XL Center transaction (Note 13), the Corporation, as successor to the Authority, obtained the right of first refusal to acquire the Hartford Whalers National Hockey League franchise (Whalers) for $47,500,000. The Authority exercised such right on June 27, 1994 and simultaneously sold the Whalers to KTR Hockey Limited Partnership (Partnership) for cash of $22,000,000 and a package of deferred payments with an estimated value of $25,500,000 as determined by the Authority after performing a review of the Whalers' projected operating results.

On June 18, 1997, the Corporation, as successor to the Authority, and the Whalers entered into a "Settlement Agreement." Under the terms of the agreement, the Whalers were permitted to relocate their hockey franchise and in return, the Whalers agreed to pay the Authority $20,500,000 plus interest on a portion of such principal. The principal payments commenced on July 1, 1997 with the payment of $5,000,000. Future installments of principal ranging from $1,000,000 to $1,050,000 were due annually on July 1, 1998 through July 1, 2012. The payment stream along with all XL Center revenues is pledged to cover the annual debt service of the Corporation's 1993 Series A and 2004 C General Obligation bonds. On July 21, 2010, a modification to the payment terms was granted extending the last three annual payments commencing July 1, 2010 to six annual payments in exchange for a personal guarantee of $2.1 million that was acceptable to management and CDA's general counsel. The Corporation, as successor to the Authority, expects to recognize the installment of principal due and the modification of the three additional years through July 1, 2015, as income when the payments are received.

In addition, the Whalers and the Corporation, as successor to the Authority, each have granted the other party a mutual release of all claims. The Corporation also retains the rights to the Whalers' name, logo, and NHL Franchise Area.

NOTE 16 – STATE GRANT PROGRAMS

For the year ended June 30, 2013 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, 2013		
	DPH	DECD	Total
Funds received	$ 58,901,711	$ 2,323,543	$ 61,225,254
Funds awarded	58,901,711	1,732,518	60,634,229
Balance	$ --	$ 591,025	$ 591,025

NOTE 17 – CT BIOSCIENCE COLLABORATION PROGRAM

In 2011, the Connecticut General Assembly enacted Public Act 11-2 to support the establishment of a bioscience cluster anchored by a research laboratory housed in Farmington, CT. The Act provides that CI shall work with an organization to develop, construct and equip a structure for use as a research laboratory. The Act also authorized CI to make loans to this organization to complete the project. To fund this project the Act provides that the State Bond Commission shall authorize the issuance of bonds in the amount not to exceed $290,685,000. The Board of CI then approved an application from Jackson Laboratories and entered into a funding agreement with Jackson Laboratories (Jax) on January 5, 2012 to develop, construct and equip a 189,000 square foot laboratory and operate a genomics medicine research program in Farmington, CT.

The funding agreement provides for 1) a maximum $145 million loan to Jax to design and construct the facility 2) a maximum loan of $46.7 million loan to Jax for furniture, fixtures and equipment and 3) provide $99 million in development grants for annual operating expenses and bioscience medical research. The loans accrue simple interest at 1% per year.

NOTE 17 – JACKSON LABORATORIES (CONTINUED)

The loans and accrued interest will be forgiven if Jax meets an employment goal of 300 employees for a period of 6 months, including a minimum of 90 senior scientists within 10 years. As of June 30, 2013, the loan amount outstanding is $25,946,965.

Based upon compliance reporting, reviewed by CI management, the reporting shows that Jax is on target to meet its employment goals to make the loans forgivable. CI has therefore elected to reserve in full for the outstanding loans. Interest is not being accrued.

In consideration of the loans and the Grants, CI is entitled to a share of all net royalty revenue received. Jax shall pay to CI ten percent (10%) of the first $3,000,000 of all net royalty revenue received and fifty percent (50%) of all net royalty revenue received over $3,000,000 in any calendar year. No net royalty revenue was received for the year ending June 30, 2013.

NOTE 18 – 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.

NOTE 19 – RESTRICTED NET ASSETS

At June 30, 2013, restricted net position consisted of funds restricted for the following:

CT Bioscience Collaboration Program	$ 617,486
Loan Guarantees	1,264,414
Bonding Resolution Compliance	7,555,013
Urbank Enabling Legislation	3,158,458
	$ 12,595,371

NOTE 20 – RESTATEMENT OF NET POSITION

During 2013, management determined that the earnings on deposits to a bond related fund related to the 1993 Connecticut Development Authority tax-exempt debt pertaining to the XL Center (Hartford Whalers) should have been included in arbitrage calculations. Previously, it was thought that this fund was excluded from such calculations in accordance with the tax regulatory compliance certificate. As a result, beginning net position has been reduced by $775,135 for arbitrage payable not previously recognized.

The effect of this correction on the net position at July 1, 2012 is as follows:

	Total Liabilities	Unrestricted Net Position	Total Net Position
June 30, 2012 - as originally reported	$ 24,907,709	$ 72,075,045	$ 84,775,933
Arbitrage liability	777,135	(777,135)	(777,135)
July 1, 2012 - as restated	$ 25,684,844	$ 71,297,910	$ 83,998,798

NOTE 21 – OFF-BALANCE SHEET RISK, CONCENTRATION OF CREDIT RISK AND COMMITMENTS

OFF-BALANCE-SHEET RISK

The Corporation is a party to off-balance-sheet financial transactions in the normal course of business. These may expose the Corporation to credit risks in excess of the amounts recognized on the balance sheet.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the off-balance-sheet financial transactions is represented by the contractual amount of those instruments. Total credit exposure related to these items at June 30, 2013 is summarized below:

	Contract Amount
Loan commitments:	
Growth Fund	$ 3,456,127
Connecticut Redevelopment Authority	1,100,000
Connecticut Works Fund ("A")	10,043,528
	$ 14,599,655

NOTE 21 – OFF-BALANCE SHEET RISK, CONCENTRATION OF CREDIT RISK AND COMMITMENTS (CONTINUED)

	Contract Amount
Equity commitments:	
Eli Whitney Fund	$ 4,806,047
Preseed Fund	1,051,100
Clean Tech Fund	24,636
Venture Debt and Mezzanine Fund	850,000
BioFacilities Fund	1,225,000
LeanLaunch	99,000
	$ 8,055,783
Loan guarantees:	
Connecticut Works Fund ("A")	$ 1,207,048
Connecticut Capital Access Fund	2,666,568
	$ 3,873,616

Loan commitments, equity commitments, commitments to guarantee, and guarantees are generally made using the same underwriting standards as those funded and recorded on the statement of net position.

CONCENTRATIONS OF CREDIT RISK

The Corporation has granted commercial loans, equity investments, and loan guarantees to customers in Connecticut. The majority of the Corporation's loan portfolio is comprised of commercial mortgage loans secured by business assets located principally in Connecticut. Certain customers of the Corporation also transact business with the State or its agencies.

NOTE 22 – LITIGATION

The Corporation is involved in litigation arising from its operations. After review of all significant matters with counsel, management believes that the resolution of these matters will not materially affect the Corporation's financial position or results of operations.

MARCUM
ACCOUNTANTS ▲ ADVISORS

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, in accordance with the 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 financial statements of Connecticut Innovations, Inc. (CI) (a component unit of the State of Connecticut) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise CI's basic financial statements, and have issued our report thereon dated December 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CI'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 CI's internal control. Accordingly, we do not express an opinion on the effectiveness CI'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 that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify a deficiency in internal control described below that we considered to be a significant deficiency:

Condition: Connecticut Innovations, Incorporated (CI) had made final payment on a Connecticut Development Authority (CDA) 1993 bond issue during 2013. A review of the bonds activity found arbitrage in connection with investment earnings on bond proceeds had not been recorded or paid in CI financial statements during the life of the bond issue.

Criteria: The nature of the bond proceeds investment required periodic calculation and payment of arbitrage over the life of the 1993 bond issue.

Cause: Unclear language within the tax certificate resulted in a misinterpretation as to the types of investments that would be included in arbitrage calculation on their earnings.

Questioned Costs: None

Effect: The financial statements through June 30, 2012 did not include a liability for unpaid arbitrage through that date which resulted in a restatement of liabilities and net position of the CDA portion of balances transferred into CI effective July 1, 2012.

Recommendation: All future bond proceeds investments should be reviewed for any arbitrage requirement.

Management Response: CI management is in agreement with the above recommendation.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, 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 CI's financial statements are free from 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 of our testing of internal control and compliance and the 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.

Marcum LLP

Hartford, CT
December 23, 2013