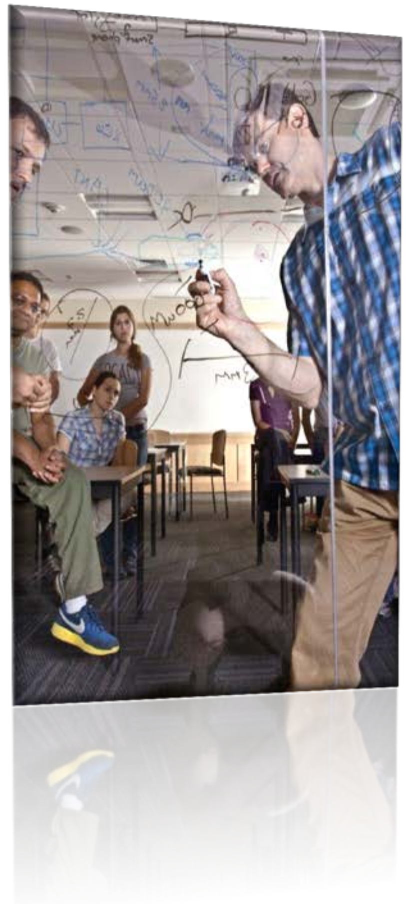

2012 Annual Report

The Maine Technology Institute

2012 Annual Report

The Maine Technology Institute

Purpose:

Shane Beckim, Martha Bentley, Bob Martin, Joe Migliaccio, Jim Fecteau, John Voltz, Jessica Watson, Roger Brooks, Vanessa Frey, Catherine Marin, Leslie Hunter, Deb Cook, Patti Sutter.

The Maine Technology Institute (MTI) was established to encourage, promote, stimulate and support research and development activities leading to the commercialization of new products and services in the State's technology-intensive sectors; to enhance the competitive position of those sectors; and, increase the growth of clusters of industrial activity within those sectors, thereby generating new jobs for Maine people. The MTI is critical to the State's economic development strategy and a significant driver to the long-term expansion of research, development assets resulting in the creation of new ventures.

Organization:

MTI is organized as a nonprofit corporation, consistent with the provisions of the Federal Internal Revenue Code. By-laws were drafted and corporation documents filed in September of 1999. A Board of Directors consisting of thirteen voting members and two non-voting members governs MTI. The Governor appoints ten directors, eight represent the targeted technologies and two have demonstrated finance, lending or venture capital experience. The Commissioner of Economic and Community Development, The Chancellor of the University of Maine System and the President of the Maine Community College System, or their designees, are ex officio members. The MTI Director is a non-voting director. Seven subsidiary boards, each representing a targeted technology sector, were formed, and function to advise and support the MTI Board. Approximately 100 domain experts comprise the membership of these Tech Boards.

Program:

MTI pursues its mission by making direct investments in ventures pursuing promising technologies, providing targeted commercialization assistance to Maine companies and strengthening Maine's technology clusters. MTI works closely with other organizations and individuals focused on expanding the State's entrepreneurial ecosystem to stimulate the formation of new ventures. MTI is regarded as the leader and dominant player in this effort. All MTI programs require at least a 1:1 matching contribution from the award recipient. Awards are made based on scientific or technical merit, commercial feasibility and potential for economic impact to the State.

MTI offers several awards programs:

TechStart Grants, awarded up to twelve times per year, are competitive grants of up to $5,000 per project, to support business plan development, intellectual property filings, market analysis, or planning and preparation activities related to the submission of Federal SBIR/STTR Phase I grants or Federal Broad Agency Announcement for technology development. In FY2012, MTI received 81 TechStart Grant applications and approved 28 awards, representing $126,000 (matched by $161,000).

Seed Grants, awarded three times per year, are competitive grants of up to $25,000 per project, and are designed to support very early activities for product development, commercialization, or business planning and development. In FY2012, MTI received 104 Seed Grant applications and approved 53 awards, representing $939,000 (matched by $1.5 million).

Business Accelerator Grants are available to companies that have won Federal SBIR Phase I and Phase II grants or start-up or early stage companies that win Development Loans. The grants support commercialization and business development or capacity activities to establish or increase the scope and sustainability of the business enterprise. In FY2012, MTI received 4 Business Accelerator Grant applications and approved 3 awards for $95,000 (matched by $1.2 million).

Development Loans (formerly Development Awards) are competitive awards of up to $500,000 per project and are awarded three times per year. In FY2012, MTI received 18 development loan applications and funded 5 awards for $1.5 million (matched by $3.4 million).

The **Equity Capital Fund** (formerly the Accelerated Commercialization Fund) provides investment capital to companies that have received Development Awards or Loans to help them leverage venture fund and individual equity investor capital. In FY2012, MTI made 3 investments totaling $170,000 (matched by $890,000), on the same terms as lead venture capital funds and individual investors.

Cluster Initiative Program awards are competitive grants aimed to accelerate the strength and scale of Maine's high-potential technology intensive clusters. Clusters are concentrations of companies and other organizations that serve similar customers or business interests and draw on similar knowledge and workforce skills in the development of innovative products and services. The program offers planning/feasibility awards of up to $50,000 and implementation awards of up to $500,000. In FY2012, MTI received 15 applications and approved funding for 8 awards for approximately $2.2 million (matched by over $3 million).

MTI administers the **Maine Technology Asset Fund**, a highly competitive bond-funded program that provides investments for facilities construction and renovation, as well as equipment, that advance emerging technologies along the research, development and commercialization pathway to help Maine companies, university centers and nonprofit research institutions secure further investment. As of FY2011, the program was fully invested.

Audited Financial Statements

BerryDunn

Maine Technology Institute

Investing in Innovation

FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

June 30, 2012 and 2011

With Independent Auditors' Report

BerryDunn

INDEPENDENT AUDITORS' REPORT

Board of Directors
Maine Technology Institute

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

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Technology Institute as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting standards require that the management's discussion and analysis on pages 2 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, 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 on 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting, and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
October 11, 2012

MAINE TECHNOLOGY INSTITUTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

As management of the Maine Technology Institute ("the Institute" or "MTI"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Institute for the fiscal year ended June 30, 2012 ("FY2012" or "Fiscal 2012"). We encourage readers to consider the information presented here together with the basic financial statements as a whole.

Financial Highlights

- MTI received $7,012,517 from a State appropriation through the Department of Economic and Community Development ("DECD") for general programs and $12.4 million of the $53 million of State bond funds for research, development and commercialization via the Maine Technology Asset Fund ("MTAF").
- MTI approved for funding 100 projects totaling just over $5 million, a decrease of $1.4 million in core program awards over the previous year. No awards were approved this year under the MTAF Program as the bond fund was fully awarded during Fiscal 2011.
- MTI disbursed $18.6 million according to agreed-upon project award milestones, $1.7 million less than the previous fiscal year. Development loan and cluster award payments declined $1.4 million and $700K, respectively. Payments under the Biomedical Research Bond Fund fell $800K as the program ended in FY2012. Offsetting these declines, MTAF disbursements rose $1.1 million.
- MTI's outstanding commitments for its core awards comprise $5.7 million, including approximately $2.8 million in approved awards with unexecuted contracts as of June 30, 2012. MTAF outstanding commitments total $14.2 million at June 30, 2012; all contracts have been executed as of June 30, 2012.
- MTI received $389,878 in Development Award repayments, approximately $1.0 million less than in fiscal year 2011.
- $259,997 was realized from interest during FY2012, an increase of approximately $13,000 compared to the previous year, due to an increase in the average invested cash balance and higher payments from program loans.
- The bonds that funded the MTAF, which MTI was directed to administer by the Legislature, were approved by Maine voters in November 2007 and June 2010. In prior fiscal years, MTI received General Funds to cover ongoing monitoring and administration costs of this fund. During FY2011, $176,754 was expended on MTAF operating costs, including a $23,250 administration fee to MTI and the residual General Fund appropriation of $46,453 was carried over into FY2012. Operating costs declined to $80,057 during FY2012, including an administration fee of $7,289, and the $33,604 excess of costs over residual appropriation was paid for by MTI out of its accumulated net assets. FY2013 MTAF operating costs are projected to decline further, and will again be paid for out of MTI net assets.
- MTI played a leading role in obtaining a $3 million, three-year grant from the Blackstone Charitable Foundation. The initiative will create a support system for entrepreneurs across Maine that leverages Maine's natural resources, skilled and hard-working talent, R&D assets and innovation and entrepreneur support programs. Among responsibilities, MTI serves as the fiduciary agent for the Blackstone Accelerates Growth initiative and recorded $391,826 in grant income and matching special grant expense.

- FY2012 administrative and operating costs were approximately $1.1 million, a decrease of approximately $7,000 (1%) over the previous year. Increases in salaries, wages and benefit costs ($35K due to the addition of a staff position) were offset by reductions in MTAF legal, consulting and award review costs (no award grants during FY2012). Operating expenses, including the costs to monitor and administer MTAF, are paid from administration fees of 7% of the State appropriation and development award repayments, plus interest earnings.
- Fiscal 2012's usage of net assets for its operations increased to $149,000, compared to $19,000 for the previous fiscal year, due to declines in MTAF administrative fees (discussed above) and royalties (administrative fees collected on award repayments).

Overview of the Institute

MTI was created by the Maine legislature in 1999 to "encourage, promote, stimulate and support research and development activity leading to the commercialization of new products and services in the State's technology-intensive industrial sectors..." (5MRSA ch. 407). MTI is funded primarily by the State from a direct appropriation that is granted to MTI from the Department of Economic and Community Development (DECD). To maximize the benefits of a public-private partnership, MTI is a private, nonprofit 501(c)(3) organization governed by a Governor-appointed, private-sector led, Board of Directors. The Director of the Institute is appointed by the Governor, is an employee of the DECD, and is President of the Institute as elected by the Board of Directors.

The Institute has functioned with a lean staff of eight employees who report to the Director, a decrease of two full-time employees since its high in February 2009. MTI is limited by statute to using only up to 7% of its State appropriation for administration, with the exception of the funds that MTI receives to administer the MTAF. There are no statutory restrictions on the use of other income the Institute may receive.

Overview of the Financial Statements

This discussion is intended to serve as an introduction to the Institute's financial statements, which are comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Institute finances, in a manner similar to a private-sector business.

The balance sheets present information on the Institute's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indication of whether the financial position of the Institute is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities result in increased net assets, which may indicate an improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Institute's net assets changed during the fiscal year. Changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future periods. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life.

The statements of cash flows present information related to cash inflows and outflows summarized by operating and capital financing activities, and help measure the ability to meet financial obligations as they mature.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis: 2012 Compared to 2011

Net assets may serve, over time, as a useful indicator of the Institute's financial position. In the case of the Institute, its assets exceed liabilities by $1,061,312 on June 30, 2012, compared with $1,210,665 on June 30, 2011.

The Institute's financial position and operations as of and for fiscal years 2012 and 2011 are summarized below based on information included in the financial statements:

	2012	2011
Cash and cash equivalents	**$ 30,779,890**	$ 27,588,193
Cash held as fiscal agent for Maine Biomedical Research Board	**1,677**	4,962
Loans receivable and investments, net of allowances	**843,582**	1,053,562
Capital assets, net of depreciation	**56,211**	68,680
Other assets	**346,900**	376,450
Total assets	**32,028,260**	29,091,847
Deferred revenue	**24,485,483**	24,203,926
Amounts held as fiscal agent for Maine Biomedical Research Board	**1,677**	4,962
Other liabilities	**6,479,788**	3,672,294
Total liabilities	**30,966,948**	27,881,182
Net assets, all unrestricted	**$ 1,061,312**	$ 1,210,665

MAINE TECHNOLOGY INSTITUTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Cash and cash equivalents comprise the vast majority of MTI's assets. The amount of funding received from the State, as well as any funding carried over from previous years, is included in this line. Some loans held by MTI were transferred from the Maine Science and Technology Foundation (no longer in existence), and terms have been renegotiated as the payments have come due. In FY2012, MTI made three Equity Capital Fund (formerly Accelerated Commercialization Fund) investments to companies that had previously completed Development Award-funded projects; two were made in FY2011. Increasingly, MTI's loan and investment portfolio reflects convertible notes which, if converted, will provide MTI the opportunity to participate in any equity appreciation that will accrue to a successful enterprise.

Deferred revenue indicates all funding on-hand for use in MTI programs. Funding is disbursed according to achievement of milestones by the recipients and $5.7 million was committed for MTI's core awards at the close of FY2012, but not yet disbursed. MTAF outstanding commitments total $14.2 million.

	2012	2011
Operating revenues:		
State of Maine funding	**$19,658,884**	$20,558,221
Grant income – other	**399,717**	-
Other operating revenues	**32,940**	113,735
Total operating revenues	**20,091,541**	20,671,956
Operating expenses:		
Program grants	**18,910,316**	19,715,008
Special grants	**491,026**	115,457
Salaries and wages	**468,111**	448,241
Other operating expenses	**629,782**	657,083
Total operating expenses	**20,499,235**	20,935,789
Net operating loss	**(407,694)**	(263,833)
Nonoperating revenues, net	**258,341**	245,131
Decrease in net assets	**$ (149,353)**	$ (18,702)

Operating revenues – State of Maine funding reflects MTI's State appropriations and grants made. The decrease in FY2012 stems primarily from lower development loan program award payments.

The following table shows the relationship between the appropriation and revenues recognized:

	2012	2011
State appropriation received	**$ 7,012,517**	$ 6,580,814
Marine Research Fund	**150,000**	250,000
Maine Technology Asset Fund	**12,400,000**	22,015,600
Accrual basis accounting effect	**96,367**	(8,288,193)
Revenues recognized	**$ 19,658,884**	$ 20,558,221

The "accrual basis accounting effect" reflects appropriations received that are being deferred or recognized as revenues in periods when corresponding award payments are made, and reflects payments to the State for appropriation curtailments (Fiscal 2011).

MTI's operating expenses (which include award disbursements and accruals) were 2% lower in FY2012. Program grants were 4% lower due to a decline in development award payments. Special grants increased due to the Blackstone Accelerates Growth program funded during FY2012. Salaries and wages were 4% higher due to the addition of a staff position for the Business Innovation Program. Other operating expenses decreased 4%, as there were no MTAF awards granted during FY2012 and, accordingly, no award review costs and lower consulting and legal expenses were incurred.

Looking Ahead

Beginning September 10, 2012, MTI welcomed Bob Martin as its new President. A change in leadership inevitably results in two related sets of actions. First, it affords an opportunity to review and assess existing structure, programs, methods and objectives, in order to determine which should continue to be pursued or maintained and which should be revised. Second, new directions may be set or different opportunities pursued. Each set of actions will occur under Bob's leadership.

During FY2012, MTI revised its core Business Innovation Programs, participated in the launch of the Blackstone Accelerates Growth initiative and expanded its staff resources. In the coming year, we will build on these initiatives in order to assist Maine's technology companies and research institutions to bring innovative products, services and processes to market in order to secure new customers, penetrate new markets and increase profitability. We will continue to expand our outreach by engaging the banking and finance community as well as other service providers to build awareness of MTI-funded companies and its programs in order to both support our constituents' needs and build our program pipeline. We will also continue our effort to seek out partnerships within Maine and regionally that will help MTI to advance its mission of stimulating Maine companies to develop new, globally competitive technologies for the market, contributing to their growth and to the growth of vibrant industry clusters across Maine.

Request for Information

This financial report is designed to provide a general overview of the Institute's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to MTI's President.

MAINE TECHNOLOGY INSTITUTE

Balance Sheets

June 30, 2012 and 2011

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents (Note 2)	$ 30,779,890	$ 27,588,193
Grant income receivable	264,150	152,471
Other receivables, net of allowance for doubtful accounts of $3,290 in 2011	58,588	207,758
Prepaid expenses	24,162	16,221
Loans receivable - current, net of allowance for losses of $761,921 in 2012 and $481,941 in 2011 (Note 3)	518,000	307,000
Cash held as fiscal agent for the Maine Biomedical Research Board (Notes 2 and 7)	1,677	4,962
Total current assets	31,646,467	28,276,605
Property and equipment, at cost		
Leasehold improvements	9,858	5,500
Equipment	113,635	107,632
Computer software	106,027	102,746
	229,520	215,878
Less accumulated depreciation	(173,309)	(147,198)
Net property and equipment	56,211	68,680
Loans receivable and investments, excluding current portion, net of allowance for losses of $70,000 in 2012 (Note 3)	325,582	746,562
	$ 32,028,260	$ 29,091,847

LIABILITIES AND NET ASSETS

	2012	2011
Current liabilities		
Accounts and awards payable and accrued expenses (Note 8)	$ 6,464,707	$ 3,652,929
Current portion of obligations under capital lease (Note 6)	4,709	4,284
Deferred revenue	24,485,483	24,203,926
Amounts held as fiscal agent for the Maine Biomedical Research Board (Note 7)	1,677	4,962
Total current liabilities	30,956,576	27,866,101
Obligations under capital lease, net of current portion (Note 6)	10,372	15,081
Total liabilities	30,966,948	27,881,182
Commitments (Notes 6, 7 and 8)		
Unrestricted net assets		
Undesignated	161,312	310,665
Board-designated (Note 4)	900,000	900,000
Total unrestricted net assets	1,061,312	1,210,665
	$ 32,028,260	$ 29,091,847

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

MAINE TECHNOLOGY INSTITUTE

Balance Sheets

June 30, 2012 and 2011

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents (Note 2)	**$ 30,779,890**	$ 27,588,193
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Commitments (Notes 6, 7 and 8)		
Unrestricted net assets		
Undesignated	**161,312**	310,665
Board-designated (Note 4)	**900,000**	900,000
Total unrestricted net assets	**1,061,312**	1,210,665
	$ 32,028,260	$ 29,091,847

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

MAINE TECHNOLOGY INSTITUTE

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues		
State of Maine funding		
Program grants (Note 9)	$ 18,910,316	$ 19,681,896
Administrative grants	655,055	753,091
Matching grants	93,513	123,234
Total State of Maine funding	19,658,884	20,558,221
Grant income - other	399,717	-
Royalties	27,291	100,423
Other income	5,649	13,312
Total operating revenues	20,091,541	20,671,956
Operating expenses (Note 5)		
Program grants (Notes 8 and 9)	18,910,316	19,715,008
Special grants	491,026	115,457
Salaries and wages	468,111	448,241
Benefits and payroll taxes	163,970	148,781
Travel	7,041	12,412
Depreciation	31,611	33,060
Other (Notes 5 and 6)	427,160	462,830
Total operating expenses	20,499,235	20,935,789
Net operating loss	(407,694)	(263,833)
Nonoperating revenues (expenses)		
Investment income	259,997	247,173
Interest expense	(1,656)	(2,042)
Nonoperating revenues (expenses), net	258,341	245,131
Decrease in net assets	(149,353)	(18,702)
Net assets at beginning of year	1,210,665	1,229,367
Net assets at end of year	$ 1,061,312	$ 1,210,665

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

MAINE TECHNOLOGY INSTITUTE

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
State of Maine funding	**$ 19,311,585**	$ 28,925,336
Grants received	**447,270**	-
Award repayments	**536,742**	1,422,621
Royalties received	**27,291**	100,423
Other receipts	**5,649**	13,312
Grants paid	**(16,246,749)**	(19,335,420)
Paid to employees, including benefits	**(517,863)**	(506,259)
Paid to vendors	**(442,143)**	(477,934)
Loans/investments funded	**(170,000)**	(134,231)
Net cash provided by operating activities	**2,951,782**	10,007,848
Cash flows from investing activities		
Net investment income received	**264,997**	270,323
Cash flows from capital and related financing activities		
Purchase of equipment	**(19,142)**	(10,970)
Lease obligation payments	**(4,284)**	(3,898)
Interest payments	**(1,656)**	(2,042)
Net cash used by capital and related financing activities	**(25,082)**	(16,910)
Net increase in cash and cash equivalents	**3,191,697**	10,261,261
Cash and cash equivalents, beginning of year	**27,588,193**	17,326,932
Cash and cash equivalents, end of year	**$ 30,779,890**	$ 27,588,193
Reconciliation of net operating loss to net cash provided by operating activities		
Net operating loss	**$ (407,694)**	$ (263,833)
Adjustment to reconcile net operating loss to net cash provided by operating activities		
Depreciation	**31,611**	33,060
Changes in operating assets and liabilities		
Grant income receivable and other receivables	**32,491**	994,004
Prepaid expenses	**(7,941)**	(2,182)
Loans receivable	**209,980**	94,216
Accounts payable and other accrued expenses	**2,811,778**	294,881
Deferred revenue	**281,557**	8,857,702
Net cash provided by operating activities	**$ 2,951,782**	$ 10,007,848
Noncash activities		
Decrease in cash held as fiscal agent for the Maine Biomedical Research Board	**$ (3,285)**	$ (279,374)

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

Nature of Organization

Maine Technology Institute (the Institute), a nonprofit corporation which commenced operations in November 1999, was established to encourage, promote, stimulate and support research and development activity leading to commercialization of new products and services in the State's technology intensive sectors. Businesses, non-profit organizations, academic institutions and entrepreneurs are eligible for funding under the Institute's programs.

The programs the Institute operates are as follows:

- TechStart Grant Program – grants up to $5,000 to support technology-based innovation, business plan development, intellectual property filings, market analysis and activities related to planning and submission of Federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) grants.
- Seed Grant Program – grants up to $25,000 to fund small, early-stage research and development projects and development activities leading to commercialization.
- Development Loan Program – awards ranging from $30,000 to $500,000 to fund new and/or enhanced technologies or tech transfer leading to market sales. If a product is successfully commercialized, the award becomes repayable.
- Business Accelerator Grants – grants to support commercialization and business development/capacity activities not eligible for SBIR or Development Loan funding but required to advance new technology to market and to firmly establish and increase the scope and sustainability of the business enterprise.
- Equity Capital Fund – helps eligible Seed Grant, SBIR and Development Loan recipients bridge the financing gap between product development and sales, moving them toward the market by providing equity or near-equity capital.
- SBIR Awards – help support SBIR/STTR proposal submissions and technology commercialization.
- Cluster Initiative Awards – awards up to $50,000 for industry-driven cluster-initiative planning or feasibility activity, and up to $500,000 to strengthen Maine's technology clusters.
- Maine Technology Asset Fund (MTAF) – funded by a $53,000,000 bond approved by State of Maine voters; this program helps fund capital expenditures supporting research, development and commercialization.

The Institute awards funds to applicants in the State of Maine who submit proposals, which are reviewed and approved by the Institute. Grants are distributed in stages upon the successful completion of certain milestones. The Institute is governed by a voluntary statewide Board of Directors appointed by the Governor of the State of Maine.

The financial statements of the Institute include the activities of the Maine Marine Research Fund. The Institute is a component unit of the State of Maine for financial reporting purposes.

The Institute is also the fiscal agent for the Maine Biomedical Research Board (MBRB). Accordingly, the Institute's financial statements reflect the cash held for MBRB and an offsetting liability owed MBRB. See Note 7 for more information.

The Institute is also the program lead for the Blackstone Accelerates Growth program, a $3 million initiative that aims to help Maine transition to an innovative economy that supports sustained economic growth in years to come. The Institute is the fiscal agent for the program and is responsible for distributing grant funds to program partners. Amounts remaining after disbursement to program partners are used by the Institute to cover administrative expenses under the program.

The Institute is considered a business-type activity because of royalty payments and interest charged to award recipients.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accounts of the Institute are maintained in accordance with the principles of fund accounting with the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Auditing Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Reporting Entity

The financial reporting entity consists of the primary government (the Institute), as well as its component unit, Maine Technology Holdings (MTH).

MTH is a legally separate component unit of the Institute that was formed in 2011. MTH holds an investment in a privately-held company that was granted an award from the Institute and reached successful commercialization. Because the Institute is the sole shareholder of MTH and the intent of owning MTH is to directly enhance its ability to fulfill its mission, MTH is considered a component unit of the Institute.

MTH's balance sheet at June 30, 2012 and 2011 is as follows:

	2012	2011
ASSETS		
Investments	$ 155,639	$ 155,639
LIABILITIES AND NET ASSETS		
Due to Maine Technology Institute	$ 662	$ -
Deferred revenue	150,000	150,000
Total liabilities	150,662	150,000
Net assets	4,977	5,639
	$ 155,639	$ 155,639

MTH's operating activities in 2012 consist of $662 of legal expenses. There were no operating revenues or expenses in 2011.

Accounting Standards

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds* and GASB Statement No. 29, *Other Governmental Entities That Use Proprietary Fund Accounting*, the Institute has elected not to comply with the relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid savings deposits and investments with maturities of three months or less when purchased are considered to be cash equivalents, except those held as fiscal agent for other entities.

Loans Receivable and Investments

Loans receivable are reported at their outstanding unpaid principal balances adjusted for charge-offs, net of the allowance for losses. Investments are stated at their cost, net of the allowance for losses. These loans and investments are with closely-held small companies and there is no readily available market or fair value.

Interest and dividend income on loans and investments is recognized when received due to the uncertainty of collection.

Allowance for Loan and Investment Losses

An allowance for losses is established when it is probable that loans receivable and investments will be uncollectible. Loans and investments are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for losses is evaluated regularly based upon management's periodic review of the collectibility of the loans and investments in light of the companies' current financial position situations. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Credit Risk

Financial instruments which subject the Institute to credit risk consist of cash equivalents and loans receivable and investments. The risk with respect to cash equivalents is mitigated by the Institute's policy of investing in financial instruments with short-term maturities issued by highly-rated financial institutions. The risk with respect to loans and investments is reduced by establishing limits on the amounts loaned to, or invested in, any one company.

Property and Equipment

Property and equipment is stated at cost. The provision for depreciation is determined by straight-line and accelerated methods to amortize the cost of assets over their estimated useful lives. Expenditures for repairs and maintenance which do not extend the useful lives of the assets are charged to operations.

Revenues

The Institute's programs are primarily funded by the State of Maine. This funding is to support operations and programs; 93% is required by legislation to support programs and 7% can be used for administration. The program support amounts received are classified as deferred revenue until the related qualifying grants are made or expenses have been incurred to match other grants; the amounts used for administration of core programs are recognized as revenue upon receipt. The amounts used for administration of the MTAF are held as deferred revenue until expended, as the money is required to be expended for MTAF administration only.

Certain grants awarded by the Institute have provisions requiring the recipient to make repayments to the Institute if certain conditions are met. Because of the requirement that 93% of State funding be used for program support, the Institute has treated repayment of awards in the same manner and classified 93% of those repayments as deferred revenue upon receipt; the remaining 7% is recognized as royalties revenue. When awards enter repayment status and notes receivable are signed or investments are made, the entire carrying balance of the note or investment is offset by deferred revenue; when payments are received, 7% of the payments are recognized as royalties revenue.

The Institute has recognized $107,053 and $103,567 in 2012 and 2011, respectively, of revenue and expense for salary and benefits paid by the State of Maine Department of Economic and Community Development.

The Institute considers State of Maine funding, grant income and royalties to be operating revenues.

Retirement Benefits

In 2011, the Institute sponsored an Internal Revenue Code (the Code) Section 403(b) defined contribution plan. In 2012, the Institute updated the plan to a Code Section 401(k) defined contribution plan. Under both plans, retirement benefits are provided to substantially all employees who meet certain age and service requirements. Employee contributions are limited to the maximum yearly limit as determined by the Code or 100% of the employee's compensation. The Institute contributes 5% of gross salary. Employer contributions vest 100% to the employees immediately. Retirement expense was $18,811 and $17,941 for the years ended June 30, 2012 and 2011, respectively.

Risk Management

The Institute is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Income Taxes

The Institute is exempt from taxation under Code Section 501(c)(3). Only unrelated business income, defined by Section 512(a)(1) of the Code, is subject to federal income tax.

Reclassifications

Certain amounts have been reclassified in the prior year financial statements to conform with the current year presentation.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, the Institute has considered transactions or events occurring through October 11, 2012, which was the date that the financial statements were available to be issued.

2. Cash and Cash Equivalents

The Institute's cash and cash equivalents, for account balances over $10,000, are invested in repurchase agreements, collateralized by securities held by the financial institution in its name and assigned to the Institute. The accounts had bank balances of $30,898,753 and $28,162,684 at June 30, 2012 and 2011, respectively. The cash held as fiscal agent for MBRB had bank balances of $1,760 and $4,992 at June 30, 2012 and 2011, respectively.

The Institute maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. It has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and cash equivalents. The Institute considers liquidity and safety in its investing decisions, and manages custodial credit risk by investing in repurchase agreements. There are no legal restrictions on the investments of the Institute.

3. Loans Receivable and Investments

The Institute's loans receivable and investments consist of the following at June 30, 2012 and 2011:

	2012	2011
Loans receivable	$ 1,329,864	$ 1,309,864
Investments in privately held companies	345,639	225,639
	1,675,503	1,535,503
Allowance for losses	(831,921)	(481,941)
	843,582	1,053,562
Less current portion	(518,000)	(307,000)
	$ 325,582	$ 746,562

Loans receivable have a variety of terms and due dates based on the structure of the agreement and are generally collateralized by the general business assets of the borrower. Interest rates on loans receivable range from 5-14%. The loans and investments are held by the Institute; thus, there is no custodial credit risk.

The allowance for losses was increased $349,980 and $213,447 in 2012 and 2011, respectively; the offsetting charge was to deferred revenue.

4. Board-Designated Net Assets

The Institute's Board of Directors has designated $900,000 of the unrestricted net assets for the following three purposes:

1. One-time program investments, such as special studies and reports.
2. High-quality program award projects that would not otherwise be funded due to lack of funds (e.g., at the end of a fiscal year).
3. One time infrastructure or capacity investments, such as data management systems.

5. Expenses

The Institute's other expenses include the following for the years ended June 30, 2012 and 2011:

	2012	2011
Program award review process	$ 5,982	$ 8,574
Other operating	421,178	454,256
	$ 427,160	$ 462,830

Expenses are comprised of the following:

	2012	2011
Direct program services	$ 19,865,322	$ 20,274,737
General and administrative, including nonoperating expense	635,569	663,094
	$ 20,500,891	$ 20,937,831

6. Leases

Operating Leases

The Institute leases office space under an operating lease with a five-year term and an option to renew for an additional five-year period. The initial lease term expires September 30, 2016. Rent expense is calculated on a square footage basis, excluding certain occupancy charges, and increases 2% each year. Rent expense under the lease was $31,037 in 2012.

Future minimum lease payments due in the years subsequent to June 30, 2012 are as follows:

2013	$ 28,824
2014	29,392
2015	29,960
2016	30,563
2017	7,679

In 2011, the Institute leased office space under an operating lease that expired in 2011 and was renewed on a month-to-month basis. Rent expense under the lease was $39,766 for 2011.

Capital Lease

The Institute is leasing assets with an amortized cost of $11,315 and $18,858 at June 30, 2012 and 2011, respectively, under a capital lease with an interest rate of 9.50%. The leased assets are included on the balance sheet in equipment and amortization of the leased assets is included in depreciation expense. Total annual payments, including interest, are $5,940.

Future minimum lease payments due in the years subsequent to June 30, 2012 are as follows:

2013	$ 5,940
2014	5,940
2015	5,445
	17,325
Less: amount representing interest	(2,244)
Obligation under capital lease	15,081
Less: current portion	(4,709)
Obligation under capital lease, net of current portion	$ 10,372

7. Maine Biomedical Research Board

During 2002, MBRB was created by the State of Maine Legislature, and the Institute was designated as its fiscal agent. The fiscal agent contract between MBRB and the Institute provides for MBRB to pay an annual amount up to $20,000 for the direct labor expense of a grant administrator and related direct and indirect costs required to carry out the activities of the Maine Biomedical Research Program. The contract expired December 30, 2011, however the Institute is still in the process of closing the program. For the years ended June 30, 2012 and 2011, such direct expenses and overhead totaled $6,955 and $13,223, respectively.

8. Grant Commitments

The Institute recognizes a liability and corresponding expense for awards in the amount expected to be paid when awards are approved by the Board of Directors and awardees submit required documentation and incur costs under the awards. Awards payable were $6,340,934 and $3,608,805 at June 30, 2012 and 2011, respectively. Conditional awards approved by the Board of Directors are recorded when the recipient organizations meet the conditions of the awards.

The Institute had commitments to fund awards, if recipients meet certain milestones, as follows:

	2012	2011
Marine Research awards	$ 2,000	$ 273,000
Phase Zero awards*	6,000	16,000
Pre-Phase II awards*	-	4,000
Seed grants	130,000	185,000
TechStart grants	20,000	-
Development awards	1,485,000	2,876,000
Cluster awards	1,235,000	1,262,000
Business Accelerator grants	19,000	-
Maine Technology Asset Fund awards	14,194,000	24,202,000
	$ 17,091,000	$ 28,818,000

* In 2012, the Institute discontinued these programs.

The Institute had approved awards to recipients pending executed award contracts as follows:

	2012	2011
Seed grants	$ 304,000	$ 13,000
TechStart grants	7,000	-
Development awards	595,000	1,761,000
Cluster awards	1,915,000	700,000
Maine Technology Asset Fund awards	-	2,192,000
	$ 2,821,000	$ 4,666,000

9. Maine Technology Asset Fund

In November 2007, State of Maine voters approved a $50 million bond issue for research, development, and commercialization of projects in certain technology sectors. These funds are administered and awarded by the Institute under a program called the MTAF. In June 2010, voters approved an additional $3 million under the program. The Institute drew $12,400,000 and $22,015,600 of funds for program expenses in 2012 and 2011, respectively. Amounts were fully-drawn under the $50 million bond fund as of June 30, 2012. No amounts were drawn from the $3 million bond fund as of June 30, 2012 and 2011.

10. Marine Research and Maine Biomedical Research Funds

In 2011, the Institute was notified that interest earned on amounts drawn on the Maine Biomedical Research and Marine Research funds was due to the State of Maine. Included in deferred revenue at June 30, 2011 were approximately $180,000 of amounts due for interest income earned on Marine Research funds. These amounts were repaid in 2012. Because the Institute serves as the fiscal intermediary for MBRB, there is no liability for amounts due for interest income earned on Maine Biomedical Research funds of $556,000 included on the balance sheet. MBRB received certain funds from the State of Maine in 2012 which were used to repay amounts due for interest income earned.

SUPPLEMENTARY INFORMATION

Schedule 1

MAINE TECHNOLOGY INSTITUTE

Cash Basis - Assets and Equity - Maine Biomedical Research Board

Years Ended June 30, 2012 and 2011

ASSETS

	2012	2011
Cash held by Maine Technology Institute	$ 1,677	$ 4,962

EQUITY

Cumulative excess of receipts over disbursements*	$ 1,677	$ 4,962

* Included in cumulative excess of receipts over disbursements is $120,000 due to Maine Technology Institute for funds advanced to Maine Biomedical Research Board in June 2011.

Schedule 2

MAINE TECHNOLOGY INSTITUTE

Schedule of Receipts and Disbursements

Maine Biomedical Research Board

Years Ended June 30, 2012 and 2011

	2012	2011
Receipts		
State of Maine	$ 750,000	$ 500,000
Advance from Maine Technology Institute	-	120,000
Interest	835	4,656
Total receipts	750,835	624,656
Disbursements		
Grants	70,910	890,107
Administration fee and other program expenses*	563,210	13,923
Repayment of advance from Maine Technology Institute	120,000	-
Total disbursements	754,120	904,030
Excess of disbursements over receipts	(3,285)	(279,374)
Cumulative excess of receipts over disbursements at beginning of year	4,962	284,336
Cumulative excess of receipts over disbursements at end of year	$ 1,677	$ 4,962

* Included in administration fee and other program expenses are amounts paid to the State of Maine in 2012 for approximately $556,000 in interest earned on bond funds drawn from the State of Maine.

Schedule 3

MAINE TECHNOLOGY INSTITUTE

Statement of Activities

Year Ended June 30, 2012

	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Net Expense and Changes in Net Assets
Business-type activities	$ 20,500,891	$ 27,291	$ 20,058,601	$ (414,999)
Total	$ 20,500,891	$ 27,291	$ 20,058,601	(414,999)
General revenues				
Unrestricted interest and investment earnings				259,997
Miscellaneous income				5,649
Total general revenues				265,646
Change in net assets				(149,353)
Net assets, beginning of year				1,210,665
Net assets, end of year				$ 1,061,312