

MAINE STATE LEGISLATURE

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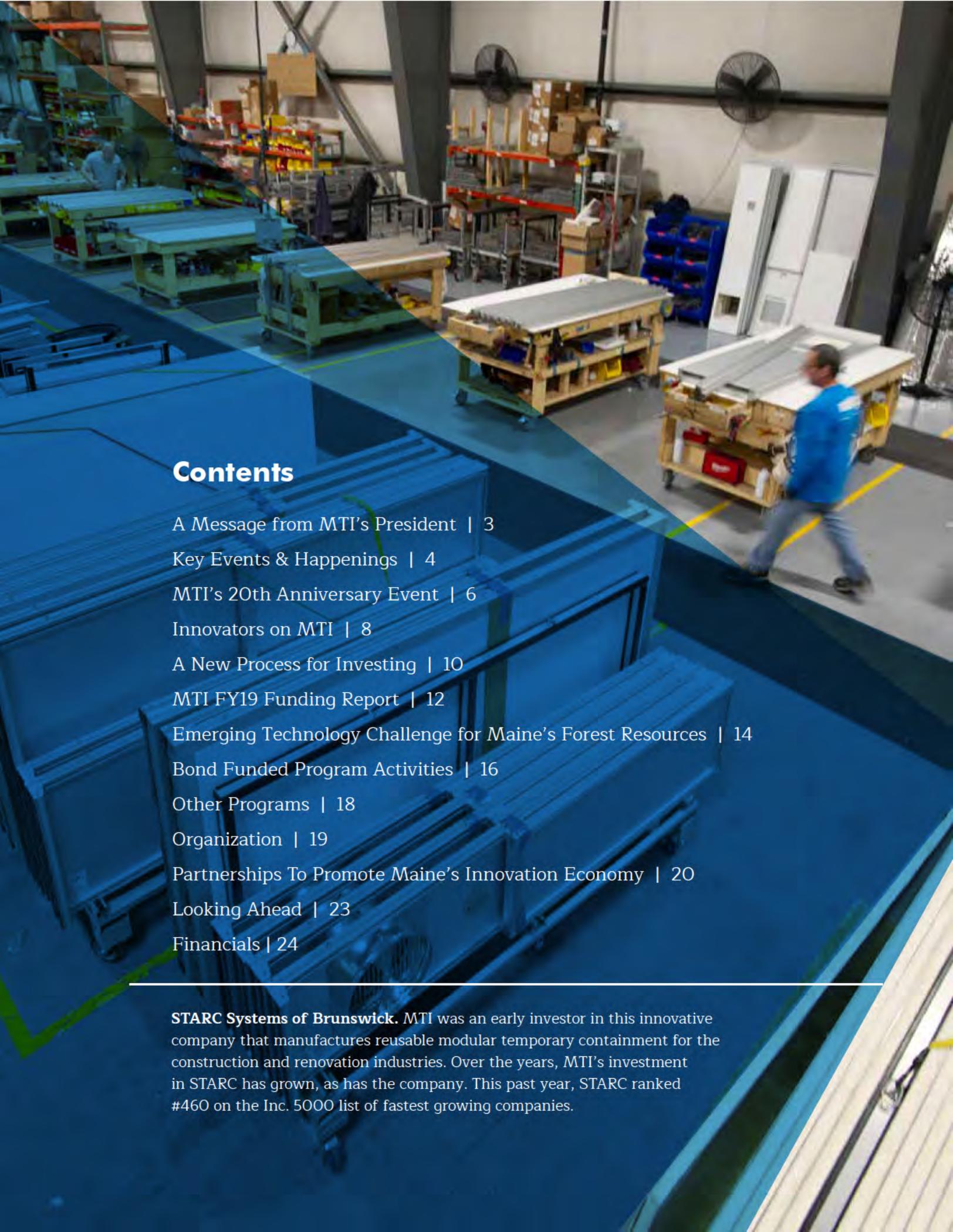


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ANNUAL REPORT **2019**





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STARC Systems of Brunswick. MTI was an early investor in this innovative company that manufactures reusable modular temporary containment for the construction and renovation industries. Over the years, MTI's investment in STARC has grown, as has the company. This past year, STARC ranked #460 on the Inc. 5000 list of fastest growing companies.



A Message from MTI's President

DEAR FRIENDS:

Thank you for taking the time to review the annual report of the Maine Technology Institute, Maine's industry-led, publicly funded, nonprofit corporation whose core mission is to diversify and grow Maine's economy by encouraging, promoting, stimulating, and supporting innovation and its transformation into new products, services and companies, leading to the creation and retention of quality jobs in Maine.

It's hard to fathom that MTI has been providing early stage capital and commercialization assistance, as well as entrepreneurial guidance and mentorship, for 20 years now.

Created by the Legislature and Governor in 1999, MTI has now disbursed over \$270 million across 2,800 distinct projects throughout the State of Maine, and that funding has leveraged well over \$1 billion in private sector matching investment.

As you'll discover in the following pages, the work we accomplished this past year has built on that legacy of supporting and growing innovation here in Maine. In this most recent fiscal year (ending June 30), **MTI disbursed over \$9.3 million across 191 different projects, and that funding leveraged almost \$33 million in private sector matching investment.**

But behind the immense and impactful numbers is a broader story of how we approach innovation. After years of planning and strategizing, FY19 was the first full year with our new operational system in place. This fluid approach to investing allows us to tailor services to the innovation, and allows us to better meet the needs of our clients, our ecosystem partners and the people of Maine who benefit from a diversified economy.

We hope this shift in perspective shows the same extraordinary foresight and vision lawmakers demonstrated in 1999 when they created MTI. Twenty years later, it's clear that the organization has exceeded all expectations and has truly become a beacon for economic optimism in the State of Maine. Similarly, our hope is that our efforts today echo into the future and set our State up for the next 20 years of innovation.

Thank you again for all your support. Please enjoy this year's MTI Annual Report.

Sincerely,

A handwritten signature in blue ink, appearing to read "Brian Whitney". The signature is stylized and fluid, with a large loop at the beginning.

Brian Whitney, President

Key Events & Happenings

In addition to investing \$9.3 million across 191 different projects in FY19, MTI was actively involved in Maine's talented and thriving community of thinkers, doers, and creators. Here are some of the major experiences MTI was proud to be part of this past year.



Startup Maine

For the 6th year in a row, MTI had the pleasure of sponsoring and supporting Maine's marquee entrepreneurial event. Top innovators from across the state, country and even the world gathered at the Maine College of Art from June 19-21 to share stories of innovation, exchange ideas and network. Joe Migliaccio, MTI's Director of Business Development, spoke about MTI's Venture Investment Readiness Assessment Levels (VIRAL), joining many other MTI partners and portfolio clients who presented to Maine's growing startup community.

Small Business Administration award

In March, MTI was honored by the Small Business Administration as the 2019 Maine



U.S. Small Business Administration

Financial Services Champion of the Year. In its presentation, the SBA lauded MTI for "the amount and quality of assistance given to small businesses to obtain financing, advocacy for changes to assist small companies, encouragement of the flow of investment capital to small ventures, and measurable accomplishments to advance small business interests."

Greenlight Maine Collegiate Challenge

As the oldest state in the country, Maine needs to work at retaining and attracting young talent to help diversify and grow our economy. It's a reason why MTI sponsored this televised competition where



college students pitched their innovative business plans. Eventual winner KinoTek would go on to secure MTI funding this year, as they've shown amazing growth potential (read their story on the next page).

Top Gun

MTI once again partnered with the Maine Center for Entrepreneurs to sponsor their impactful and intensive business accelerator. The program selects the state's most promising businesses and provides them with mentorships, workshops, pitch development classes, an opportunity to showcase their idea to top investors and a chance of winning \$25,000 to grow their innovative business.



SBIR Road Tour

SEEDING AMERICA'S FUTURE INNOVATIONS™

SBIR Road Tour

MTI hosted Maine's stop on the nationwide SBIR Road Tour. The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs offer \$2.5 billion in annual early stage funding, and this coveted opportunity allowed local innovators to hear directly from federal agency program managers and meet one-on-one with decision makers.

SUCCESS STORY



KinoTek

RACKING UP AS MANY WINS AS THE ATHLETES THEY HELP

Grant | \$60k

MTI always encourages young startups to engage with as many organizations and resources as they can. Doing so not only increases their knowledge, experience and network, it significantly increases their likelihood of success, which is a great sign for Portland-based KinoTek.

Barely a year old, this athletic training and fitness software company has already connected with (and impressed) MTI and several of our partners. In March, they won the \$25,000 grand prize at the MTI-sponsored Greenlight Maine Collegiate Challenge. A few months later, they were named a finalist for Launchpad's Emerging Ideas award. They followed that up by joining Startup Maine's select group of Maine technology companies to attend TechCrunch's Disrupt conference in San Francisco. Then, in October, they were one of four companies named to Scratchpad Accelerator's 2019 cohort.

Now, MTI is investing in the company that began as a research project at the University of Maine. With further development of their augmented reality, virtual reality and motion capture technology, KinoTek will bring to market an increased understanding of how the human body moves to help reduce the chance of sports related injuries.

"Having watched the company emerge as the winner of Greenlight Maine's first collegiate series and engage in various business accelerators to help scale the company, it's clear that KinoTek's impressive multidisciplinary team is well-positioned to make an impact in the market."

Brian Whitney, MTI President

17

unique sensors

360

degree range of motion tracking

20 YEARS OF INNOVATION

MTI's 20th Anniversary Event

To mark our 20th year of supporting innovation and economic diversification in Maine, MTI hosted a celebration in Freeport on October 7. We invited past and present clients, organizational partners, lawmakers and brilliant innovators from around Maine to thank them for their invaluable contributions in our shared successes. It was an amazing night that reminded us how unique, collaborative and talented our entrepreneurial community is.



First 37 awards totaling \$3 million

500 awards total

Nearly \$50 million in total investments

1500+ total projects funded

\$169 million in total investments

1999
Creation of MTI

2000
Makes first awards

2007
Creation of \$50 million Maine Technology Asset Fund (MTAF)

2008
Overall Maine employment increases 0.8%. MTI-assisted companies employment increases 2.6%.

2010
Completes distribution of \$52.85 million in MTAF funds

2011
Begins administering \$3 million Blackstone Accelerates Growth initiative to foster entrepreneurship

2014
Battelle study identifies technology clusters in Maine well-positioned for growth



Hits \$270 million in aggregate funding across 2,800 projects

\$195 million in total investments

Over \$200 million in total investments

2015
Administers \$10 million Maine Cancer and Aging Research Bond & \$3 million Maine Biomedical research bond

2016
Blackstone Accelerates Growth initiative ends successfully and inspires the creation of Maine Accelerates Growth to support Maine's innovation, startup and creative technology community

2017
MTI launches a new strategic plan that lists priorities to catalyze growth

MTI and the Maine Innovation Economy Advisory Board partner to develop Maine's five-year Science & Technology Action Plan

2018
Awards \$45 million in MTAF 2.0 funds to 18 projects, matched by \$192 million in private investment

2019
Maine Office of the U.S. Small Business Administration recognizes MTI as *Financial Services Champion*

Maine's top innovators share their thoughts on MTI

Our hope for innovation in Maine is to continue to see our State take the lead in generating new products from traditional natural resource-based industries.

CURT BROWN
Marine Biologist
Ready Seafood



With MTI, we've been able to make more informed decisions on lending to new companies and propelling technology forward in Maine.

JOHN EGAN
Chief Investment Officer
CEI



The generous support of MTI has been a game-changer.

HEATHER D. BLEASE
CEO
SaviLinx





Without their dedication and commitment, we would not be able to achieve our goals, attain top notch speakers, or reach the audiences who benefit from our programming.

KATIE SHOREY
President
Startup Maine



MTI's dedication to innovation is particularly important now as it helps to transform our State's heritage industries—food, seafood, forest products, and boat building—into competitive 21st century global industry leaders.

WADE MERRITT
President
Maine International
Trade Center



They have pushed us to become a better company, better leaders, and better community members. They have challenged us to step outside our comfort zone, aspire for more, and roll up our sleeves.

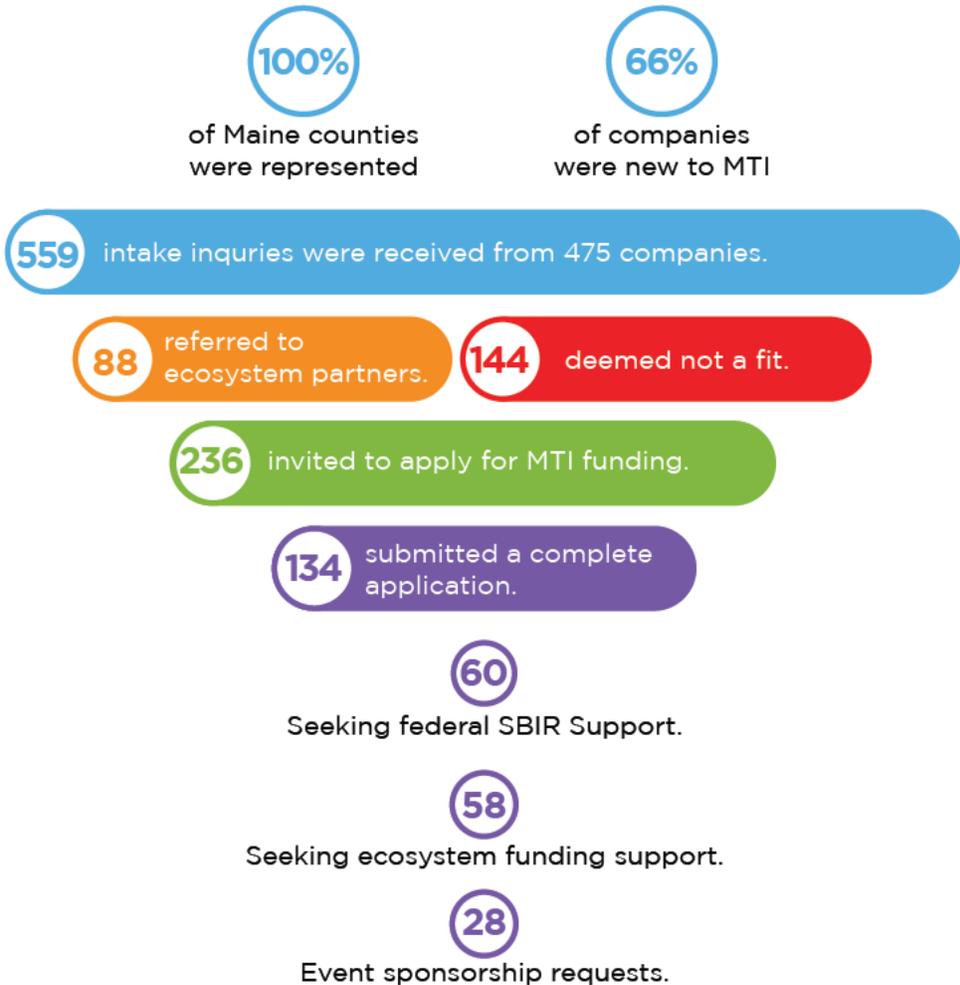
JAMES MORIN
Co-Owner & COO
Flowfold

A New Process for Investing

FY19 was the first full year in which MTI implemented its new operational approach to funding innovation. This more customizable & adaptable process improved the pool of applicants and better met their needs.

Interacting with various innovators

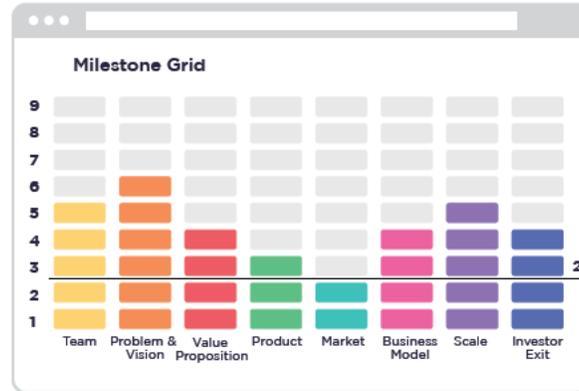
With more time dedicated to client support, MTI staff fielded 559 intake requests from potential clients. While not everyone was invited to apply, all of these meetings provided valuable opportunities to educate innovators and connect them with other ecosystem programs and partners.



VIRAL

The introduction of the Venture Investment Readiness Assessment Levels (VIRAL) as an evaluation tool enabled MTI to better screen and evaluate potential investments. VIRAL measures the maturity of an organization or business across eight different areas of development. MTI uses an applicant's VIRAL level to guide investment decisions. Enabling innovators to take a VIRAL assessment online freed MTI staff to focus more on client support, data collection and portfolio maintenance.

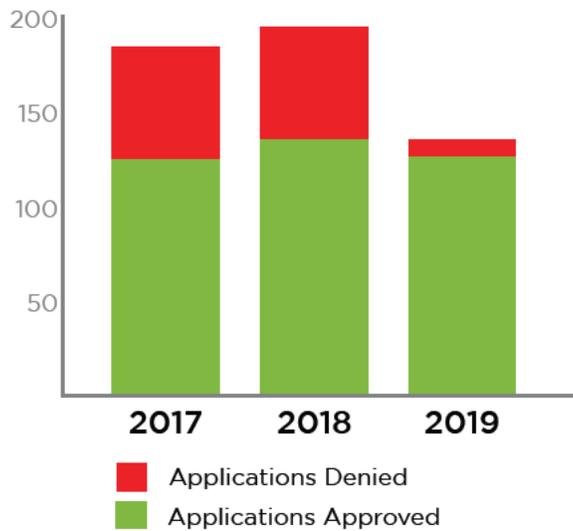
An example of a VIRAL assessment



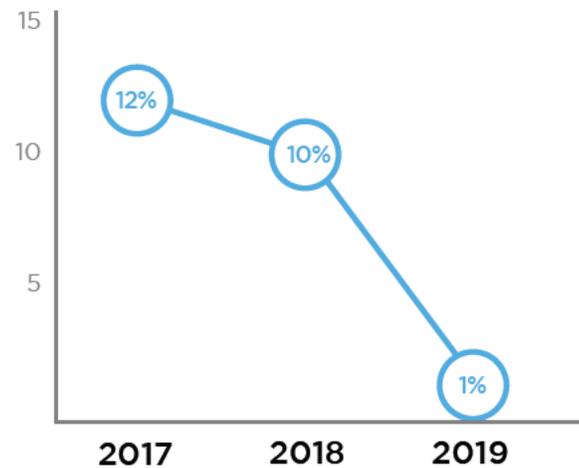
Attracting more qualified applicants

This approach resulted in a lower applicant denial rate and helped to drastically reduce award forfeiture compared to previous years.

Applications approved vs. denied



Forfeiture rate



MTI FY19 Funding Report



\$9.3M deployed



191 projects



\$33M private sector match

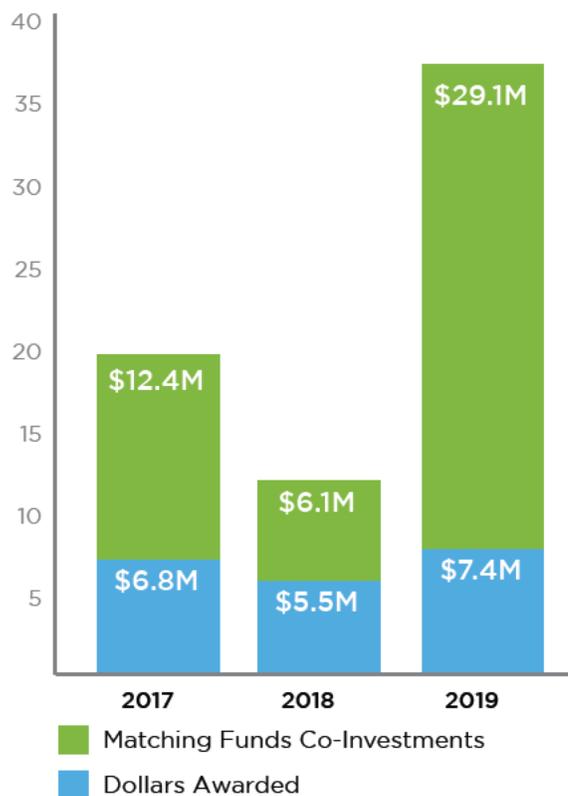
Increasing the impact of our investments

In FY19, MTI successfully deployed **\$9.3 million across 191 different projects**. And because our new process helped us identify and engage with a higher quality pool of applicants, innovators who received that funding were able to match those investments with **\$33 million in private sector funds** — a significant increase from years' past.

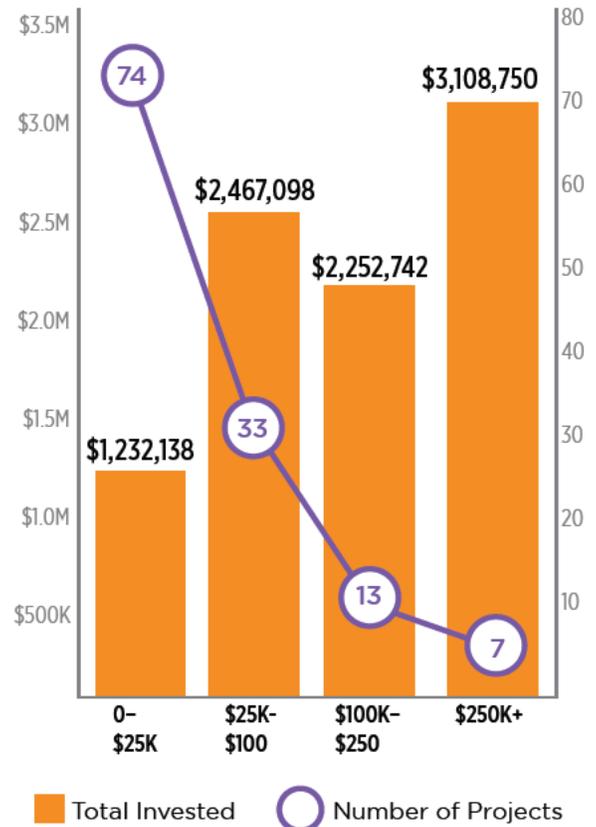
More flexible, fluid financial support

Every innovative journey is unique, and our new customizable and adaptable approach allows us to support entrepreneurs and ecosystem partners at all stages of growth. Generally, MTI invests across four ranges — funding more, lower level projects and then dedicating larger investments to fewer, more impactful projects.

Total dollars awarded / matches 2017-19



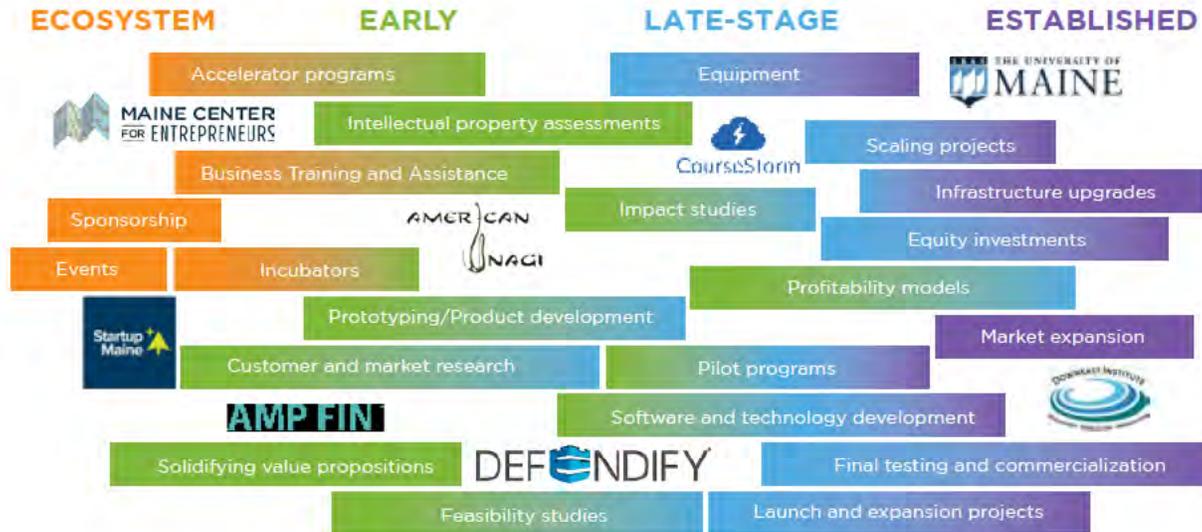
Investment by range



Investing across the ecosystem

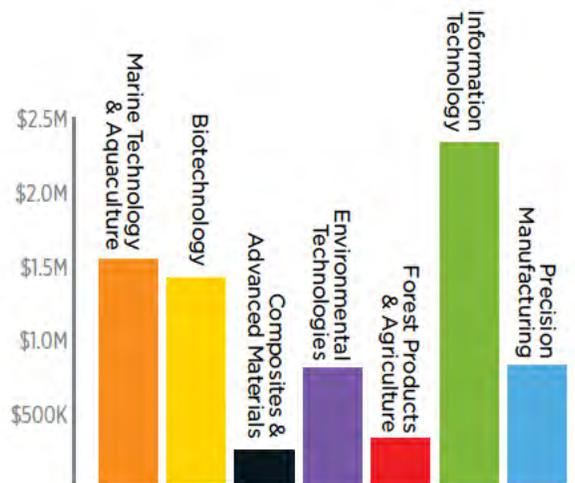
Small, early-stage innovators differ from larger, well-established businesses, so our new approach ensures the support we provide fits the needs of the individual clients. This increases the efficiency and impact of our investments.

Examples of projects MTI supports



Investing across all technology sectors

The State of Maine targets seven technology sectors that are uniquely positioned for growth and to benefit from the investment from organizations such as MTI. Our new approach allowed us to better identify opportunities and deploy investments within this mixture of mature and emerging industries.



SUCCESS STORY

Emerging Technology Challenge for Maine's Forest Resources

IMPROVING THE LONG-TERM VIABILITY OF MAINE'S RURAL, FOREST-BASED ECONOMY.

In December 2018, in collaboration with the Forest Opportunities Roadmap and Biobased Maine, MTI launched a challenge to actively attract emerging technology companies in the forest resource sector. The goal of this effort was to diversify and build more resilience into Maine's forest industry, and, in turn, bring economic security to the rural Maine communities who rely on it.

MTI awarded \$750,000 to each GO Lab, Inc and Biofine Developments Northeast. These two innovative enterprises represent different natural resource-based technologies that make use of Maine's abundant forest resources, infrastructure, workforce and supply chain.

While this past year's challenge was limited to forestry technology, the model served as a pilot program that MTI hopes to replicate across other sectors in hopes of solving some of Maine's most daunting economic challenges.



Not only is GO Lab tackling big picture problems like cutting down on greenhouse gas emissions, but it's also a story about new life for an industry in Maine that has been so critical.

Jay Field, Go Lab

GO Lab, Inc.

Go Lab's mission is innovative: to transform the building insulation market with a wood fiber alternative that is renewable, recyclable, nontoxic and outperforms less eco-friendly competitors. But their mission is also deeply personal. The Belfast-based company understands the importance of bringing quality jobs back to rural Maine. By opening in the former UPM paper mill in Madison, they look forward to restoring a source of civic pride and providing Maine people with an increased sense of ownership in their natural resources and economic future.

Biofine Developments Northeast

One way to create quality jobs in Maine is to attract out-of-state businesses to relocate here. That's MTI's strategy with its investment in Biofine Developments Northeast, which is expanding here from Massachusetts. For Biofine, Maine is an ideal location for commercializing their process that converts woody biomass to heating fuel. With the highest use of heating oil per capita, Maine provides market demand. And, with abundant forestry resources, a talented workforce, underutilized industrial infrastructure and goals to reduce greenhouse emissions, Maine has the elements to meet it.



MTI is very well respected in the state and beyond. Having their support makes what we're doing more attractive to other people.

Mike Cassata, Biofine

Bond Funded Program Activities

On occasion, the Maine Legislature passes research and development bond initiatives that are presented to Maine voters. Once approved by voters, MTI typically administers the funds on behalf of the State. The following bond initiatives are currently under active management by MTI.

Maine Technology Asset Fund 2.0 (MTAF 2.0)



In June 2017, voters approved the second Maine Technology Asset Fund 2.0 (MTAF 2.0) program. The initiative specified that “forty-five million dollars (\$45,000,000) would be distributed by the Maine Technology Institute in the form of grants to support infrastructure, equipment and technology upgrades in the following targeted

technology sectors: biotechnology, aquaculture and marine technology, composite materials technology, environmental technology, advanced technology for forestry and agriculture, information technology, and precision manufacturing technology. Funds were awarded to public and private entities in Maine through a competitive process, and recipients were required to match these State dollars with an equivalent amount of federal or private funds.”

MTI solicited proposals in the fall of 2017 and received 183 applications seeking, in aggregate, nearly \$400 million. These proposals flowed in from all 16 Maine counties and represented businesses of all levels of maturity from startups to publicly traded companies. MTI conducted extensive due diligence and ultimately made 18 funding awards in early 2018. MTI augmented the \$45 million in bond funds with an additional \$1,063,836 to further maximize the impact of the awards. In total, MTI awarded \$46,063,836 (matched by \$192,536,123). According to an independent economic impact analysis, the awards will directly result in 5,350 jobs and \$1.4 billion in economic impact over the next 3 years.

Marine Jobs Fund

In 2014, the Legislature authorized, and the voters of the State of Maine approved, (Public Law 2014, Chapter 592) a \$7,000,000 bond issue to facilitate the growth of marine businesses and commercial enterprises that create jobs and improve the sustainability of the State’s marine economy and related industries through capital investments. In May 2016, the newly formed Alliance for Maine’s Marine Economy, a consortium of Maine-based marine businesses, research institutions

and educational organizations, was selected by the State of Maine as the recipient of the \$7 million in funding and pledged to provide \$9.3 million in matching funds. The Alliance’s plan, spearheaded by



the University of Maine, called for immediate infrastructure investments in public and private institutions throughout Maine. The \$7 million award also included \$1.92 million to fund a competitive Marine Jobs Fund Small Capital Grants Program. MTI was asked to administer this competitive process and issued a request for proposals in July 2017. MTI received 39 letters of intent. The Alliance for Maine’s Marine Economy conducted the review and evaluations of the proposals and made recommendations to the MTI Board of Directors. Ultimately, in FY19, the MTI Board of Directors made 10 awards from the Marine Jobs Fund Small Capital Grants program totaling \$1,924,303 (matched by \$6,507,200).

Maine Cancer and Aging Resource Bond

In 2014, the Legislature authorized (Public Law 2014, Chapter 574), and the voters of the State of Maine approved, \$10 million in bond funds to build a research center, to discover genetic solutions for cancer and the diseases of aging, and to promote job growth and private sector investment in Maine. The funds were awarded through a competitive state process to expand



the state's research capabilities in the areas of mammalian genetics and murine biometric analytics, make the state a global resource for precision medicine, improve the state's capacity to attract and retain young professionals, and bring additional grant funding, private sector investment, job growth, and economic activity to the state. In July of 2015 (FY16), the Jackson Laboratory in Bar Harbor was announced as the highest scoring bidder and matched its \$10 million award with more than \$11 million in matching funds. The project remains under active management by MTI.

Maine Biomedical Research Bond

Also in 2014, the Legislature authorized (Public Law 2014, Chapter 568), and the voters of the State of Maine approved, a \$3,000,000 bond issue to modernize and expand infrastructure in a biological laboratory specializing in tissue repair and regeneration located in the state. The funds were awarded through a competitive process to modernize and expand infrastructure in a biological laboratory specializing in tissue repair and regeneration located in the state, in order to increase biotechnology workforce training, retain and recruit to the state multiple biomedical

research and development groups and create a drug discovery and development facility that will improve human health and stimulate biotechnology job growth and economic activity. In July of 2015 (FY16), the Mount Desert Island

Biological Laboratory was announced as the highest scoring bidder and matched its \$3 million award with more than \$5.7 million in matching funds. The project remains under active management by MTI.

Maine Technology Asset Fund (MTAF)

MTI also administers the Maine Technology Asset Fund (MTAF), a competitive bond-funded program providing investments for facilities construction, renovation, and equipment, which advance emerging technologies on the research, development and commercialization path to help Maine companies, university centers and non-profit research institutions secure further investment. MTAF was first approved by the Maine Legislature and the state's voters in 2007 and capitalized with \$50 million in bond funding focused on increasing research and development (R&D) facilities and resources in our state's seven targeted technology sectors. These monies were mostly disbursed in funding rounds in 2008, 2009 and 2010. The Legislature and voters approved an additional MTAF funding bill in the amount of \$3 million in 2009. MTI received the \$3M in MTAF funds in FY15. Those funds, including approximately \$900,000 not awarded from earlier rounds and augmented by another \$921,871 in MTI funding, were used to issue 8 new MTAF awards totaling approximately \$4.9 million and matched by \$12 million. While the funding awards were made in FY15, the projects are still under active MTI management.

Other MTI Programs of Assistance



E-Resident Program

MTI employs an E-Resident program to provide portfolio firms with direct access to experienced entrepreneurs who have taken big risks, founded companies, raised capital, and created jobs. One of the most powerful tools one can provide to start-ups or less experienced teams is access to network contacts and mentors to offer advice and support from experienced entrepreneurs. MTI's E-Resident program is intended, like other MTI programs, to improve the competitive position of Maine's technology-intensive sectors and ultimately lead to business growth and jobs for Maine people.

The SBIR/STTR Technical Assistance Program

The SBIR/STTR Technical Assistance Program fulfills MTI's statutory mandate that it operate a program that provides technical assistance to Maine small businesses to help them develop competitive Small Business Innovation Research (SBIR) and Small Business Technical Transfer (STTR) proposals for submission to federal agencies participating in the SBIR/STTR programs. MTI provides advice on how best to fashion



a competitive application for the estimated \$2.5 billion that is available each year from the eleven federal agencies that participate in the SBIR/STTR programs. The size of the individual federal grants can range from under \$100,000 to \$1 million. In FY19, with assistance from MTI, Maine businesses received over \$1.3 million in SBIR/STTR awards.

Of the 60 requests for federal SBIR Support, there are 11 currently working to submit a federal program application and 31 have already submitted proposals.

11

proposals in progress

31

have already submitted proposals





Organization

MTI leads the development of a strong culture of innovation in the State of Maine and is well-positioned for continued growth and effectiveness. It 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 representing the targeted technologies and two of whom have demonstrated finance, lending or venture capital experience. The Commissioner of the Maine Department of Economic and Community Development, the Chancellor of the University of Maine System, the President of the Maine Community College System and the

Director of the Office of Policy and Management, or their designees, are ex-officio members. The MTI President is a non-voting director. Seven subsidiary boards, each representing a targeted technology sector, were formed to support the MTI Board. Approximately 120 subject matter experts comprise the membership of these Tech Boards.

MTI operates from its office in Brunswick. The staff is composed of a director of investment operations, a director of innovation infrastructure, a director of business development, a director of finance and administration, three investment officers, two lending and grant associates, and a web communications manager. The MTI President is employed by the Maine Department of Economic and Community Development.

Partnerships To Promote Maine's Innovation Economy

In addition to direct support of innovators, MTI also supports programs and infrastructure that encourage innovation. Under its governing statute, MTI is instructed to cooperate with the Maine Department of Economic & Community Development (DECD), Manufacturing Extension Partnership (MEP), University of Maine (UMaine), and others to ensure a complementary system of support services is available to companies and research laboratories.

To foster this complementary system of support services, MTI works collaboratively with organizations across Maine to support programs and initiatives designed to assist entrepreneurs and small businesses and to promote and celebrate Maine's culture of ingenuity and its vibrant startup community.

Here are just some of the programs, events and organizations that have received MTI support:

- Our Katahdin (Millinocket & Medway)
- Engine Biddeford (Biddeford)
- Big Gig (Orono & Bangor)
- StartUp Maine (Portland)
- Top Gun (Lewiston-Auburn, Bangor, Midcoast and Portland)
- Maine Wood Innovator's Conference (Hiram)
- Greenlight Maine
- Innovate for Maine Fellows Internship Program
- TEDxDirigo

Active MTI Collaborations, Affiliations and Partnerships



SUCCESS STORY

Mousam Valley Mushrooms

COMBINING MYCOLOGY AND TECHNOLOGY TO
IMPROVE AGRICULTURAL GROWTH IN MAINE

Equity | \$150k

By breaking down organic matter and returning nutrients to the soil, mushrooms play a vital role in nature's ecosystem. In southwestern Maine, they're also playing a major role in the economic ecosystem.

Mousam Valley Mushrooms was started in 2012 by John Sharood and his son Robert. With support from numerous entrepreneurial organizations in Maine, they've since grown to 17 employees and now supply mushrooms to Hannaford, Whole Foods and food service distributors like Native Maine and Sysco. Beyond their own farm, they've created millions of dollars in economic impact through employment and working with local vendors and suppliers.

But none of this would be possible without an innovative, Internet of Things (IoT) climate control system developed by John and funded by MTI. This system allows the farm to remotely manage all the precise growing conditions their dozen different mushroom varieties require. Much more affordable than other agricultural control systems, John's technology shows commercialization potential in its own right — opening the door for other farmers in Maine to expand beyond farmers markets and compete with large-scale operations from out-of-state that currently dominate the market.

12+

varieties of
mushrooms

1

day to go from
farm to shelf



"We wouldn't have our business without that technology. You can't manually control conditions to a great enough degree of accuracy to produce the kind of yield you need to be commercially viable."

John Sharood,
Owner

SUCCESS STORY

Kennebec River Biosciences

Multiple Awards | \$367k+

1 of the first MTI award recipients

20 year partnership

Back in 2000, then-Governor Angus King helped hand out the very first MTI awards to 37 innovative Maine businesses. One of those recipients was Kennebec River Biosciences, a young company that provided diagnostic and regulatory laboratory services for the aquaculture industry.

Since then, MTI and Kennebec River Biosciences have worked closely and — not coincidentally — grown together. A two person operation when it received its first MTI award, the lab now employs 15 highly-skilled specialists. Over the years, Kennebec River Biosciences has expanded beyond finfish diagnostic to testing new species, offering new services, developing vaccines and attracting global clients as far as Vietnam and Panama.

Recently, nearly two decades after first crossing paths, now-U.S. Senator Angus King and Kennebec River Biosciences shared a stage again, this time at MTI's 20th anniversary event. It was a fitting reunion — one of MTI first champions and one of our first portfolio companies — and vivid reminder of how innovative thinking, paired with the right support and leadership, creates consistent, long lasting success.



Maine Technology Institute allowed us to develop new product lines and fund our research and development.

Bill Keleher,
Co-Founder

Looking Ahead

In addition to continuing our support, leadership and investment in innovation and research and development throughout Maine, MTI is excited to be part of several initiatives in Fiscal Year 2020.



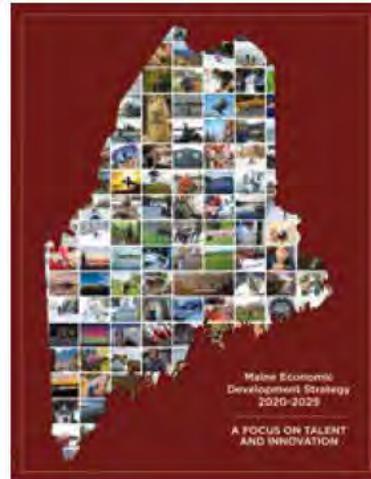
Maine's Bicentennial

As Maine celebrates 200 years of statehood, MTI is joining the effort to explore the people, places and events that have shaped our history. MTI is working hand-in-glove with the Bicentennial Commission to launch an Innovation Expo in October 2020. They're also working on a video project exploring Maine's entrepreneurial legacy and proud tradition of 'Yankee ingenuity' in an effort to inspire the next generation of Maine-based innovators.



Waterville Office

MTI is committed to supporting innovation throughout all of Maine's 16 counties. To further advance these efforts, we opened a remote office in Waterville early in FY20. This will provide even greater access to MTI's resources, increase MTI's profile in central Maine and help meet the needs of a growing entrepreneurial community in the region.



Strategic Statewide Economic Development Plan

Late in FY19, Governor Janet Mills released a ten-year strategic economic development plan for the State of Maine. The plan aims to enhance economic growth, particularly in rural Maine, and address Maine's workforce challenges — including attracting 75,000 people to Maine's labor pool. MTI will help the Maine Department of Economic Development to focus on encouraging innovation and creating quality jobs in the context of the plan's goals.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Maine Technology Institute

We have audited the accompanying financial statements of Maine Technology Institute (the Institute) (a component unit of the State of Maine), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Institute'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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 entity'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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Technology Institute as of June 30, 2019 and 2018, and the changes in net position and its cash flows for the years then ended in conformity with U.S. generally accepted

Correction of an Error

As discussed in Note 1 to the financial statements, certain misstatements of amounts previously reported as of and for the year ended June 30, 2018 were discovered by management of the Institute during 2019. Accordingly, amounts reported for loans receivable, allowance for losses, refundable advances, program grant operating revenue and program grant operating expense have been restated in the 2018 financial statements currently presented. There was no impact on net position as previously reported. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on Pages 3 through 10 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 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
October 11, 2019

MAINE TECHNOLOGY INSTITUTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

As management of the Maine Technology Institute (the "Institute" or "MTI"), we offer readers of the financial statements this narrative, overview and analysis of the financial activities of the Institute for the fiscal years ended June 30, 2019 and 2018 ("FY2019 and FY2018" or "Fiscal 2019 and 2018"). We encourage readers to consider the information presented here together with the basic financial statements as a whole.

Financial Highlights

- MTI received \$6,572,814 in FYs 2019 and 2018, from a State appropriation through the Department of Economic and Community Development ("DECD") for general programs. During FY2018, bond funds in the amount of \$25 million were received for the Maine Technology Asset Fund (MTAF). During FY2017, bond funds were received in the amount of \$2,825,000 for the Maine Human Health Research Bond Fund and \$7,000,000 for the Maine Marine Economy and Jobs Bond Fund.
- During FY2019 and FY2018, MTI's funding was curtailed by \$700,000 and \$750,000 per year respectively, due to State budget constraints, and the amounts were returned during June of each fiscal year.
- During FY2019, MTI implemented a new core award program. The siloed programs were replaced. MTI now uses a streamlined model to assist awardees in moving through the research and development continuum. This allows MTI to determine the appropriate resources needed for every intake situation, be it a funding award, other assistance, or a referral to one of MTI's ecosystem partners.
- In FY 2019, MTI approved funding for 120 projects totaling \$8.3 million, compared to 140 projects totaling \$7.5 million in FY2018 and 140 projects totaling just under \$6.9 million in FY2017. While total payments from FY2018 to FY2019 increased by \$775,000, FY2019 included an increase per award of almost \$15,500. In FY2019, no MTAF awards were approved. In FY2018, \$46 million in MTAF awards were approved and pending payment to awardees; \$400,000 in awards were pending FY2017 under the MTAF program. During FY2017, MTI began management of the Maine Marine Economy and Jobs Bond Fund for \$7 million.
- MTI expended \$25.4 million in FY2019 according to agreed-upon project award milestones, versus \$8.6 million and \$7.8 million during FY2018 and FY2017, respectively. During FY2019, core program award payments increased by \$4.6 million. During FY2018, core programs decreased by \$932,000 compared to FY2017 as a result of: decreases in Development Loan disbursements of \$33,000, Core payments of \$564,000, and bridge funding of \$450,000. These decreases were slightly offset by increases in Seed Grant payments of \$48,000, equity payments of \$50,000 and a combined increase of \$17,000 in TechStart, Phase Zero and Business Accelerator programs. In FY2019, MTAF payments increased by \$12.2 million. In FY2018, MTAF payments increased \$1.7 million from 20 expenditures as a new funding round was deployed. FY2019, the Maine Opportunity Growth Fund in its second year, disbursed \$20,000 compared to \$80,000 disbursed in FY2018. The Maine Human Health Research Fund and the Maine Biomedical Research Fund were both fully expended in FY2018. In FY2019, payments for the Maine Marine Economy and Jobs Bond were \$2.4 million. Payments for the Maine Human Health Research Fund, Maine Biomedical Research Fund and the Maine Marine Economy and Jobs Bond Fund were \$3.6 million in FY2018 and \$10 million in FY2017. FY2017 was the first year the Maine Marine Economy and Jobs Bond Fund issued payments.

MAINE TECHNOLOGY INSTITUTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

- MTI's outstanding commitments for its core awards for FY2019, totaled \$6.7 million, including approximately \$600,000 in approved awards without completed contracts. For FY2018, these totaled \$8.5 million, incorporating approximately \$3.1 million in approved awards without executed contracts. For FY2017, these commitments amounted to \$5.6 million, including approximately \$1.1 million in approved awards with unexecuted contracts. For FY2019, MTAF funds in the amount of \$27.4 million were committed, with all awards being contracted. For FY2018, combined MTAF outstanding commitments total \$45.6 million including \$18.4 million related to awards without executed contracts. For FY2017, the initial MTAF Program had \$2.3 million in commitments. There were no unexecuted contracts for MTAF FY2017. Outstanding commitments for the Maine Biomedical Research Fund and Maine Human Health Research Fund at June 30, 2017 were \$173,440 and \$1,069,647, respectively. There were no outstanding commitments under those funds at June 30, 2019 or 2018 as those funds were distributed completely in FY2018. For the Maine Marine Economy and Jobs Bond Fund outstanding commitments for FY2019 were \$2.1 million. As of June 30, 2018 and June 30, 2017, commitments for the Maine Marine Economy and Jobs Bond Fund were \$4.5 million and \$4.9 million, respectively.
- MTI received \$2,265,000 in Development Award repayments during FY2019, compared to \$785,000 in repayments during FY2018; \$1,028,000 was received in FY2017.
- The amount of \$600,000 was realized from interest in FY2019, similar to \$600,000 in FY2018. For FY2017, \$448,000 was received.
- The bonds that created the Maine Technology Asset Fund, which MTI was directed to administer by the Legislature, were approved by Maine voters in November 2007, June 2010, and June 2017. FY2019 MTAF operating costs were \$24,000 and paid out of net assets. FY2018 MTAF operating costs were \$162,000. FY2017 MTAF operating costs were \$8,900 and were paid out of net assets. FY2018 experienced an increase in MTAF expenses due to a new funding round approved by the voters.
- The bonds that created the Maine Biomedical Research Fund, the Maine Human Health Research Fund and the Maine Marine Economy and Jobs Bond Fund, which MTI was directed to administer, were approved by Maine voters in November 2014. No administration costs were approved with these bond funds, and so operating costs for these funds were paid out of net assets.
- During FY2017, MTI developed and promoted the Maine Accelerates Growth Initiative (MxG). This initiative accelerates the growth of companies, communities, and talent by funding, creating, and leveraging high impact entrepreneurship and innovation programs and events through a collaborative and complementary network of organizations and individuals propelling prosperity across Maine. Expenses for this program were \$4,600 for FY2019. For FY2018 and FY2017, those related expenses were \$70,000 and \$97,000, respectively.
- As good caretakers of the monies related to all bond funds which MTI administers, MTI returns all interest earned on the funds held to the Maine State Treasurer's Office on a quarterly basis. For FY2019, this amounted to a return of \$674,000, compared to \$209,000 for FY2018 and \$269,000 for FY2017.

MAINE TECHNOLOGY INSTITUTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

- FY2019 administrative and operating costs were \$2 million, an increase of \$355,000. Three contributing factors to this increase were marketing efforts, our strategic planning project and data administration costs. FY2018 administrative and operating costs were \$1.6 million, representing an increase of just \$100,000. FY2017 administrative and operating costs were \$1.5 million. Operating expenses, including the costs to monitor and administer the Maine Technology Asset Fund, are paid from administration fees of 10% of the State appropriation (7% during all FYs prior to 2014), fees on development award repayments and interest earnings.
- During FY2019, MTI continued its Entrepreneur-In-Residence program. The program consists of several consultants who are assigned to assist MTI-funded companies and their personnel on a variety of projects of particular significance to the recipients. During FY2019, \$171,000 was expended. Expenditures amounted to \$66,000 and \$167,000 for FY2018 and FY2017, respectively, and were paid through program funding. This program offers services to assist recipients in developing marketing channels and resources, identifying sources for growth funding, developing internet marketing strategies and solving production planning or process concerns, among other needs. MTI believes that expanding its resources beyond funding meets other critical client needs in the areas of growth planning and management and developing connections to required resources.
- We believe the operating procedures and policies of MTI demonstrate a record of outstanding stewardship of the public funds entrusted to it for investment in ventures pursuing the creation of technology-based economic development.
- FY 2019's surplus resulted in an increase in net position of \$360,000. FY2018's surplus resulted in an increase of \$439,000, compared to an increase of \$74,000 for FY2017.

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...” (5 MRSA, 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. 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 Department of Economic and Community Development, and is President of the Institute as elected by the Board of Directors.

The Institute has functioned with a staff of eleven full-time equivalent employees who report to the Director, an increase of one and one-half full-time employees since its previous high in February 2009. MTI is limited by statute to using only up to 10% of its State appropriation for administration, with the exception of the funds that MTI received to administer MTAf. There are no statutory restrictions on the use of other income which the Institute may receive.

MAINE TECHNOLOGY INSTITUTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

Overview of the Financial Statements

This discussion is intended to serve as an introduction to the Institute's financial statements, which include 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 position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Institute is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities result in increased net position, which may indicate an improved financial position.

The statements of revenues, expenses and changes in net position present information showing how the Institute's net position changed during the fiscal year. Changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement 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, investing, 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: 2019 Compared to 2018 and 2017

Net position 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 \$1,899,836 on June 30, 2019, compared with \$1,539,611 in 2018 and \$1,100,957 in 2017.

The Institute's financial position as of, and operations for, fiscal years 2019, 2018, and 2017 are summarized below based on information included in the financial statements.

MAINE TECHNOLOGY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 25,540,458	\$ 46,566,237	\$ 25,562,466
Loans and investments (net of allowances)	5,903,993	3,932,905	2,253,834
Capital assets, net of depreciation	90,260	97,186	143,258
Other assets	<u>10,144,147</u>	<u>80,434</u>	<u>71,080</u>
 Total assets	 <u>41,678,858</u>	 <u>50,676,762</u>	 <u>28,030,638</u>
 Refundable advances	 39,560,100	 48,884,073	 26,725,851
Other liabilities	<u>218,922</u>	<u>253,078</u>	<u>203,830</u>
 Total liabilities	 <u>39,779,022</u>	 <u>49,137,151</u>	 <u>26,929,681</u>
 Net position, all unrestricted	 <u>\$ 1,899,836</u>	 <u>\$ 1,539,611</u>	 <u>\$ 1,100,957</u>

Cash and equivalents compose a significant 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 until expended. 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 FY2019, MTI made four Equity Capital Fund investments to companies that had previously received Development Award funding; one was made in FY2018 and two in FY2017. MTI's loan and investment portfolio increasingly comprises preferred stock units and convertible notes which, if converted, will provide MTI the opportunity to participate in any equity appreciation that will accrue to a successful enterprise. Other assets increased from Fiscal 2018 to 2019 due to amounts receivable from the State of Maine at June 30, 2019.

Refundable advances indicates all funding on hand for use in MTI programs. Funding is disbursed according to achievement of milestones by the recipients. As noted earlier, \$6.7 million and \$8.5 million were committed but not yet disbursed for MTI's core awards at the close of June 2019 and 2018, respectively. MTAF outstanding commitments total \$27.4 million and \$45.6 million at June 30, 2019 and 2018, respectively. Also, as noted earlier, there was a new round of MTAF awards totaling \$46 million at June 30, 2018, and one new award of \$400,000 in the MTAF program at June 30, 2017.

Other liabilities are comprised primarily of accounts and awards payable which, combined, decreased by \$34,000 from 2018 to 2019 and increased by \$49,000 from 2017 to 2018.

MAINE TECHNOLOGY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues			
State of Maine funding	\$ 34,411,446	\$ 14,562,021	\$ 10,227,187
Other operating revenues	<u>602,828</u>	<u>327,003</u>	<u>248,365</u>
Total operating revenues	<u>35,014,274</u>	<u>14,889,024</u>	<u>10,475,552</u>
Operating expenses			
Program grants	33,150,015	13,495,872	9,116,505
Special grants	215,175	276,509	258,439
Salaries and wages	867,089	836,260	788,455
Other operating expenses	<u>1,103,252</u>	<u>778,787</u>	<u>711,897</u>
Total operating expenses	<u>35,335,531</u>	<u>15,387,428</u>	<u>10,875,296</u>
Net operating loss	(321,257)	(498,404)	(399,744)
Nonoperating revenues, net	<u>681,482</u>	<u>937,058</u>	<u>474,161</u>
Increase in net position	<u>\$ 360,225</u>	<u>\$ 438,654</u>	<u>\$ 74,417</u>

Operating revenues – State of Maine funding reflects MTI's State appropriations and bond funds received and grants made. The changes in FY2019 and FY2018 reflect the change each year in awards funded.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
State appropriation received	\$ 6,572,814	\$ 6,572,814	\$ 6,612,756
State bond funds received	-	25,000,000	-
Accrual basis accounting effect	<u>27,838,632</u>	<u>(17,010,793)</u>	<u>3,614,431</u>
Revenues recognized	<u>\$ 34,411,446</u>	<u>\$ 14,562,021</u>	<u>\$ 10,227,187</u>

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 curtailments.

MTI's operating expenses (which include award disbursements and accruals) were 130% higher in 2019 than 2018. Program grants were 146% higher due primarily to increased MTAF bond payment activity.

MAINE TECHNOLOGY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

Special grants decreased by 22% due to MxG changes. Salaries and wages were 4% higher due to changes in staffing. Other operating expenses increased 42% due to increases in technology, marketing and outreach and fees. Operating expenses were 41% higher in 2018 than 2017. Program grants were 48% higher due primarily to increased MTAF bond payment activity. Special grants increased 7% due to support activities. Salaries and wages were 6% higher due to additional staffing. Other operating expenses increased 9% due to increases in technology, marketing and outreach and fees.

Cash Flow Highlights

Cash and cash equivalents decreased \$21 million between FY2019 and FY2018 primarily due to the disbursement of MTAF bond funds during FY2019. This compares to an increase from FY2017 to FY2018 of \$21 million which was related to the receipt of the MTAF bond funds.

Looking Ahead

After engaging in a 15-month strategic planning process that was completed in 2017, MTI spent the better part of the next year implementing that plan. The process was thorough and exhaustive as we worked to scope out new programs and processes that reflected the new strategic direction of MTI. After spending considerable time listening to a wide variety of entrepreneurs, innovators, partners and other stakeholders, MTI launched a completely new approach to funding innovation in the State of Maine in August of 2018.

The new MTI Investment Process is more fluid and flexible than it was before. Our core mission, as defined by legislative statute, remains the same. The changes were designed to deliver more customer-focused and tailored service to maximize our impact in Maine by promoting and supporting innovation that leads to economic prosperity and quality jobs statewide.

Under the new approach, clients may apply for MTI funds at any time and we no longer have fixed programs with specific deadlines. Again, our goal is to provide more tailored support to our clients. We continue to offer grants, loans, equity investments, and services to businesses, organizations, and individuals that work within one or more of the state's seven targeted technology sectors or in building support systems for innovation in Maine.

Here's what potential applicants can expect, whether they are a new or returning MTI client.

Start

Those interested in accessing MTI funding or support will be asked to complete our Online Intake Form first. This may be done as part of a conversation the potential applicant has with one of our referral partners, or applicants can complete it on their own. Before getting started, we also encourage potential applicants to review our qualification guidelines and to complete a company self-assessment using Abaca, an online version of the VIRAL® framework MTI uses to help understand the enterprises we serve.

MAINE TECHNOLOGY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

Meet

Our goal is to be able to advise prospective applicants on what types of work are likely to be approved and how much MTI funding they are likely to qualify for. They will also learn about the expectations associated with MTI funding, and once ready, an MTI Investment Officer will provide access to the application materials.

Apply

The application is a mix of written questions and data about the prospective applicant's innovation, organization, and goals for the business. Once an application is submitted, a confirmation will be sent from the Investment Officer to the applicant and the MTI review process will commence.

Review

MTI's review timeline is fluid and depends on the amount of funding requested. After MTI receives the application documents online, the MTI Investment Officer provides a timeline for expectations regarding the review process.

Decision

The Investment Officer will contact the applicant once a decision, and any associated conditions, are rendered. The contract package will be prepared and emailed to the applicant for review and signature. On those occasions when MTI decides against funding a project, the applicant will be informed by the Investment Officer along with feedback regarding why the application was not approved. In some cases, the applicant will be able to reapply once specific factors have been addressed. In others, the decision on that project will be final. Applicants may also be referred to other programs or partners that may be a better fit than MTI.

Reporting

The Investment Officer will reach out to the awardee on a quarterly basis to monitor the project's progress. For larger projects, milestone reports may be required from awardees for each scheduled distribution of MTI funds (based on the original application). For all funded projects, a final report is required to confirm achievement of the original proposed Scope of Work. In addition, all MTI clients will be required to submit annual impact reports via our online portal for 5 years post-award.

Continuous Improvement

MTI, recognizing that modifications may be required from time to time to optimize the application process and client experience, will continuously monitor and evaluate the new funding approach and process and will test and implement improvements as needed to maximize MTI's performance and enhance the client's experience and impact.

Request for Information

This financial report is designed to provide a general overview of MTI'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, 2019 and 2018

ASSETS

	<u>2019</u>	<u>Restated 2018</u>
Current assets		
Cash and cash equivalents (Note 2)	\$ 25,540,458	\$ 46,566,237
Other receivables	10,010,121	5,934
Prepaid expenses	134,026	74,500
Loans receivable - current, net of allowance for losses of \$1,912,218 in 2019 and \$1,746,155 in 2018 (Note 3)	<u>789,468</u>	<u>972,290</u>
Total current assets	<u>36,474,073</u>	<u>47,618,961</u>
Property and equipment, at cost (Note 6)		
Leasehold improvements	20,568	20,568
Equipment	148,114	154,156
Computer software	<u>125,995</u>	<u>234,662</u>
	294,677	409,386
Less accumulated depreciation	<u>(204,417)</u>	<u>(312,200)</u>
Net property and equipment	<u>90,260</u>	<u>97,186</u>
Loans receivable, net of allowance for losses of \$4,456,665 in 2019 and \$943,579 in 2018, and investments, excluding current portion (Note 3)	<u>5,114,525</u>	<u>2,960,615</u>
Total assets	<u>\$ 41,678,858</u>	<u>\$ 50,676,762</u>

LIABILITIES AND NET POSITION

Current liabilities		
Accounts payable and accrued expenses	\$ 196,931	\$ 244,942
Current portion of obligations under capital lease (Note 6)	4,894	4,668
Current portion of refundable advances	<u>34,445,575</u>	<u>45,923,458</u>
Total current liabilities	34,647,400	46,173,068
Obligations under capital lease, net of current portion (Note 6)	17,097	3,468
Refundable advances, net of current portion	<u>5,114,525</u>	<u>2,960,615</u>
Total liabilities	<u>39,779,022</u>	<u>49,137,151</u>
Unrestricted net position		
Undesignated net position	931,567	550,561
Net investment in capital assets	68,269	89,050
Board-designated (Note 4)	<u>900,000</u>	<u>900,000</u>
Total unrestricted net position	<u>1,899,836</u>	<u>1,539,611</u>
Total liabilities and net position	<u>\$ 41,678,858</u>	<u>\$ 50,676,762</u>

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

MAINE TECHNOLOGY INSTITUTE

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>Restated 2018</u>
Operating revenues		
State of Maine funding		
Program grants (Notes 7 and 8)	\$ 32,981,437	\$ 13,352,260
Administrative grants	1,084,676	1,047,951
Matching grants	<u>345,333</u>	<u>161,810</u>
Total State of Maine funding	34,411,446	14,562,021
Royalties	578,828	112,846
Other income	<u>24,000</u>	<u>214,157</u>
Total operating revenues	<u>35,014,274</u>	<u>14,889,024</u>
Operating expenses (Note 5)		
Program grants (Notes 7 and 8)	33,150,015	13,495,872
Special grants (Note 7)	215,175	276,509
Salaries and wages	867,089	836,260
Benefits and payroll taxes	308,432	287,764
Travel	22,020	21,031
Depreciation	40,106	56,284
Marketing and advertising	132,440	10,816
Sponsorships	83,004	-
Consulting fees	134,859	69,806
Other (Note 6)	<u>382,391</u>	<u>333,086</u>
Total operating expenses	<u>35,335,531</u>	<u>15,387,428</u>
Net operating loss	<u>(321,257)</u>	<u>(498,404)</u>
Nonoperating revenues (expenses)		
Investment income	682,280	938,420
Interest expense (Note 5)	<u>(798)</u>	<u>(1,362)</u>
Nonoperating revenues, net	<u>681,482</u>	<u>937,058</u>
Increase in net position	360,225	438,654
Net position at beginning of year	<u>1,539,611</u>	<u>1,100,957</u>
Net position at end of year	<u>\$ 1,899,836</u>	<u>\$ 1,539,611</u>

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

MAINE TECHNOLOGY INSTITUTE

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>Restated 2018</u>
Cash flows from operating activities		
State of Maine funding	\$ 15,795,059	\$ 32,240,08€
Proceeds from sale of programmatic investments	1,034,641	1,693,122
Award repayments	2,265,313	863,627
Royalties received	578,828	112,84€
Other receipts	24,000	107,057
Grants paid	(33,365,190)	(12,176,030)
Paid to employees, including benefits	(1,305,133)	(1,090,95€)
Paid to vendors	<u>(732,638)</u>	<u>(421,487)</u>
Net cash (used) provided by operating activities	<u>(15,705,120)</u>	<u>21,328,26€</u>
Cash flows from investing activities		
Loans funded	(7,212,147)	(1,809,81€)
Loans repaid	1,479,330	562,57€
Net investment income received	932,280	938,420
Investments funded	<u>(499,996)</u>	<u>-</u>
Net cash used by investing activities	<u>(5,300,533)</u>	<u>(308,82€)</u>
Cash flows from capital and related financing activities		
Purchase of equipment	(7,165)	(10,21€)
Lease obligation payments	(12,163)	(4,09€)
Interest payments	<u>(798)</u>	<u>(1,36€)</u>
Net cash used by capital and related financing activities	<u>(20,126)</u>	<u>(15,67€)</u>
Net (decrease) increase in cash and cash equivalents	<u>(21,025,779)</u>	21,003,771
Cash and cash equivalents, beginning of year	<u>46,566,237</u>	<u>25,562,46€</u>
Cash and cash equivalents, end of year	<u>\$ 25,540,458</u>	<u>\$ 46,566,237</u>
Reconciliation of net operating loss to net cash provided by operating activities		
Net operating loss	\$ (321,257)	\$ (498,404)
Adjustments to reconcile net operating loss to net cash (used) provided by operating activities		
Depreciation	40,106	56,284
Provision for loan losses and investment impairment	4,011,726	430,512
Changes in operating assets and liabilities		
Other receivables	(10,004,188)	(2,330)
Prepaid expenses	(59,526)	(7,024)
Accounts payable and other accrued expenses	(48,010)	53,34€
Refundable advances	<u>(9,323,971)</u>	<u>21,295,87€</u>
Net cash (used) provided by operating activities	<u>\$ (15,705,120)</u>	<u>\$ 21,328,26€</u>
Noncash activities		
Equipment acquired through capital lease	<u>\$ 25,999</u>	<u>\$ -</u>

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

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

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 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 core programs the Institute operated until August 2018 were 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.

Beginning in August 2018, the Institute implemented a new funding model. Initial contact is made when those interested complete an intake form. Meetings are established with entities proposing projects. Using an assessment tool, the potential applicant and the Institute review eight different areas including: Team Ability, Innovation and Value Proposition, Customer and Market, Business/Organization Model, and Scope of Work/Budget. At this point the process may continue with

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

the Institute or may be referred to a business partner. If the determination is to apply for support, the appropriate level of funding request will be determined, and the application will be submitted. The funding level will also determine the level of due diligence needed with the application. Funding levels may also help to determine the nature of the award. The Institute awards grants, loans and equity investments. Successful applicants who receive funds are also required to submit reporting on their projects for five years post award.

Four funding levels are used in the application process, as follows:

Range One – Awards less than \$25,000

Range Two – Awards between \$25,000 and \$100,000

Range Three – Awards between \$100,000 and \$250,000

Range Four – Awards over \$250,000

In addition to the core program(s) listed, the Institute also is asked, on occasion, to administer bond funds on behalf of the State. The application, review and award process on these activities is not necessarily handled in the same manner as the core offerings. This process is often dictated by the terms of the bond itself.

During the years ended June 30, 2019 and 2018, two such instances were in place.

- Maine Technology Asset Fund (MTAF) – funded by bonds totaling \$98,000,000 approved by State of Maine voters; this program helps fund capital expenditures supporting research, development, and commercialization.
- Maine's Marine Economy and Jobs Bond – funded by a \$7,000,000 bond approved by State of Maine voters to facilitate the growth of marine businesses and commercial enterprises that create jobs and improve the sustainability of the State's marine economy and related industries.

The Institute is a component unit of the State of Maine for financial reporting purposes. 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 Accounting Standards Board. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

Reporting Entity

The financial reporting entity consists of the primary government (the Institute) and 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 blended component unit of the Institute.

MTH's balance sheet at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
ASSETS		
Investments	\$ <u>48,539</u>	\$ <u>48,539</u>
LIABILITIES AND NET POSITION		
Due to Maine Technology Institute	\$ 643	\$ 643
Refundable advances	<u>42,900</u>	<u>42,900</u>
Total liabilities	43,543	43,543
Net position	<u>4,996</u>	<u>4,996</u>
	<u>\$ 48,539</u>	<u>\$ 48,539</u>

In 2018, MTH recognized an investment impairment charge of \$107,100. MTH had no operating revenues and no other operating expenses in either 2019 or 2018.

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.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

Reporting Entity

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Cash and Cash Equivalents

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MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

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. These loans and investments are with closely-held small companies and there is no readily available market or fair value. When indicators of impairment of investments are noted, they are written down to fair value, if below carrying amount, via an impairment charge.

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

Allowance for Losses

An allowance for losses is established when it is probable that loans receivable will be uncollectible. Loans 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 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, 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; 90% is required by legislation to support programs and 10% can be used for administration. The program support amounts received are classified as refundable advances 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 refundable advances until expended, as the money is required to be expended for MTAF administration only.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

Certain grants awarded by the Institute have provisions requiring the recipient to make repayments to the Institute if certain conditions are met. The Institute classifies 80% of award repayments as refundable advances upon receipt; the remaining 20% are 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 refundable advances; when payments are received, 20% of the payments is recognized as royalties revenue. Refundable advances are reduced as additions to the allowances for loan losses and investment impairments are recorded. At the same time program grant revenue is also recorded with an offsetting program grant expense. The amount of these revenues and expenses recognized during 2019 and 2018 were \$5,245,005 and \$2,026,863, respectively.

The Institute has recognized \$162,661 and \$155,738 in 2019 and 2018, 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

The Institute sponsors an Internal Revenue Code (the Code) Section 401(k) defined contribution plan. Under the plan, 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 \$37,605 and \$35,527 for the years ended June 30, 2019 and 2018, 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.

Restatement

The Institute previously issued awards with various terms stating these amounts would convert to loans receivable if certain triggering events occurred. During 2019, the Institute determined that certain companies had met these terms prior to June 30, 2018. As a result, the previously issued

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

2018 financial statements understated loans receivable, allowance for loan losses, refundable advances, program grant operating revenue and program grant operating expense. Accordingly, the accompanying financial statements for 2018 have been restated to reflect this correction of an error. The Institute's total assets and total liabilities increased by \$862,341, net of an increase in the allowance for loan losses of \$1,596,350. State of Maine program grant funding revenue and program grants expense were both increased by \$1,596,350. There was no impact on the 2018 net position or change in net position.

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, 2019, which was the date that the financial statements were available to be issued.

2. Cash and Cash Equivalents

Cash and cash equivalents, for account balances over \$10,000, are invested in repurchase agreements, collateralized by securities held by the financial institution and assigned to the Institute. The Institute's cash and cash equivalent accounts had bank balances of \$25,581,485 and \$46,924,824 at June 30, 2019 and 2018, respectively.

3. Loans Receivable and Investments

The Institute's loans receivable and investments consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	Restated <u>2018</u>
Loans receivable	\$ 11,372,109	\$ 5,639,291
Investments in privately-held companies	<u>900,767</u>	<u>983,348</u>
	12,272,876	6,622,639
Allowance for losses	<u>(6,368,883)</u>	<u>(2,689,734)</u>
	5,903,993	3,932,905
Less current portion	<u>(789,468)</u>	<u>(972,290)</u>
	<u>\$ 5,114,525</u>	<u>\$ 2,960,615</u>

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 4-6%. The loans and investments are held by the Institute; thus, there is no custodial credit risk.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

4. Board-Designated Net Position

The Institute's Board of Directors has designated \$900,000 of the unrestricted net position 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

Expenses are comprised of the following:

	<u>2019</u>	Restated <u>2018</u>
Direct program services	\$ 34,206,173	\$14,582,018
General and administrative, including nonoperating expense	<u>1,130,156</u>	<u>806,772</u>
	<u>\$ 35,336,329</u>	<u>\$15,388,790</u>

6. Leases

Operating Lease

The Institute leases office space under an operating lease with a five-year term expiring September 30, 2021. Rent expense is calculated on a square footage basis, excluding certain occupancy charges, and increases 2% each year. Rent expense under the lease was \$33,237 and \$31,810 in 2019 and 2018, respectively.

Future minimum lease payments due in the years subsequent to June 30, 2019 are as follows:

2020	\$ 39,906
2021	40,705
2022	<u>10,266</u>
	<u>\$ 90,877</u>

Capital Lease

At June 30, 2018, the Institute was leasing an asset with an amortized cost of \$16,563 under a capital lease with an interest rate of 13.09%. In September 2018, the Institute disposed of the asset under this lease prior to the completion of the lease commitment resulting in a loss on disposal of \$420 and a balance remaining on the capital lease commitment related to the disposed asset.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

In September of 2018, the Institute entered into a new capital lease commitment with an interest rate of 4.69% maturing August 2023. The accumulated amortization for equipment under capital lease was \$4,333 and \$16,563 at June 30, 2019 and 2018, respectively. The leased assets are included on the balance sheet in equipment and amortization of the leased assets is included in depreciation expense.

Future minimum lease payments due in the years subsequent to June 30, 2019 are as follows:

2020	\$ 5,820
2021	5,820
2022	5,820
2023	5,820
2024	<u>970</u>
	24,250
Less: amount representing interest	<u>(2,259)</u>
Obligation under capital lease	21,991
Less: current portion	<u>(4,894)</u>
Obligation under capital lease, net of current portion	<u>\$ 17,097</u>

7. 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. There were no awards payable at June 30, 2019 or 2018. 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 at June 30, if recipients meet certain milestones, as follows:

	<u>2019</u>	<u>2018</u>
Range 1	\$ 5,000	\$ -
Range 2	137,000	-
Range 3	215,000	-
Range 4	80,000	-
Business plan prizes	-	2,000
Phase Zero awards	2,000	10,000
SBIR	52,000	-
Seed grants	170,000	773,000
TechStart grants	10,000	24,000
Development awards	832,000	1,683,000
Cluster awards	1,970,000	2,329,000
Business Accelerator grants	47,000	78,000
MTAF awards	27,428,000	27,216,000
Marine Jobs Bond	1,736,000	4,046,000
Bridge loans and notes	<u>1,535,000</u>	<u>505,000</u>
	<u>\$ 34,219,000</u>	<u>\$ 36,666,000</u>

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

The Institute had approved awards to recipients pending executed award contracts at June 30 as follows:

	<u>2019</u>	<u>2018</u>
Range 1	\$ 110,000	\$ -
Range 2	294,000	-
Range 3	200,000	-
Seed grants	-	126,000
TechStart grants	-	15,000
Business Accelerator grants	-	20,000
Bridge loans	-	3,000,000
Maine Technology Asset Fund awards	-	18,438,000
Marine Jobs Bond	<u>400,000</u>	<u>467,000</u>
	<u>\$ 1,004,000</u>	<u>\$ 22,066,000</u>

8. 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 MTAF. In June 2010, voters approved an additional \$3 million under the program. The \$3 million bond fund was received in full during fiscal year 2015.

In June 2017, State of Maine voters approved another \$50 million bond issue for research, development, and commercialization equipment, infrastructure and technology upgrades to drive innovation and produce nationally and globally competitive products and services in Maine. The amount of \$45 million was earmarked for awards to be made by MTI. In 2018, the Institute launched the program (MTAF 2.0) and awarded the funds. In April of 2018, \$25 million in bond funds were received from the State of Maine, with the remainder to be transmitted at a later date.

SUPPLEMENTARY SCHEDULE

Schedule 1

MAINE TECHNOLOGY INSTITUTE

Statement of Activities

Year Ended June 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u>		
		Charges for Services	Operating Grants and Contributions	
			<u>Net Expense and Changes in Net Position</u>	
Business-type activities	\$ <u>35,336,329</u>	\$ <u>578,828</u>	\$ <u>34,411,446</u>	\$ <u>(346,055)</u>
Total	\$ <u>35,336,329</u>	\$ <u>578,828</u>	\$ <u>34,411,446</u>	<u>(346,055)</u>
General revenues				
Unrestricted interest and investment earnings				682,280
Other income				<u>24,000</u>
Total general revenues				<u>706,280</u>
Change in net position				360,225
Net position, beginning of year				<u>1,539,611</u>
Net position, end of year				\$ <u>1,899,836</u>

MTI is committed to serving the wide-ranging innovation needs of Maine businesses and entrepreneurs. MTI plans to continue as a leading-edge organization known throughout Maine as the driving force behind our state's thriving private-sector innovation economy. MTI is pleased to play a pivotal role in helping to bolster and support Maine's innovation economy and looks forward to building on past commitments and launching new initiatives to help build a more robust economic climate across the State of Maine.



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