2013 Annual Report

The Maine Technology Institute

2013 ANNUAL REPORT

The Maine Technology Institute

Overview:

2013 Tibbetts Award Presentation at The White House: Karl Tripp, Luke Doucette, Dean Smith, all of Orono Spectral Solutions; Roland Tibbetts; Karen Mills, SBA Administrator; Chris Sauer, Ocean Renewable Power Co.; Bob Martin, President of MTI; Karen West, Director Technical Assistance Program.

Since its creation by the Legislature in 1999, the Maine Technology Institute has invested almost $169 million into emerging ventures (early and later-stage), non-profit research and development institutions, along with various industry cluster initiatives designed to enhance economic, scientific, and technological development in seven targeted sectors. MTI's suite of funding opportunities includes direct grants and loans, with a one-to-one match required from the enterprise. On average, MTI ventures provide a $1.34 match to the MTI investment dollar. This means that MTI portfolio ventures have matched their award with an additional $226.5 million, resulting in $395.5 million total investment through the MTI portfolio since 1999. Over the past 13 years, MTI has funded 1,774 technology projects in Maine. Today, MTI enjoys a national reputation as a leading example of best practices for a technology-based economic development organization. More importantly, MTI's investments have strengthened Maine's scientific and high-technology infrastructure and helped many organizations achieve world-class status in terms of assets and accomplishment. MTI leads the development of a strong culture of innovation in the state and is poised for continued growth and effectiveness as it builds its capacity to support ventures in their growth. Currently, MTI manages a portfolio of approximately $105 million.

MTI's investments focus on the sectors of Aquaculture & Marine Technology; Biotechnology; Composites & Advanced Materials; Environmental Technologies; Forest Products & Agriculture; Information Technology; and, Precision Manufacturing. The funding process is robust and rigorous: applications are reviewed independently by the American Academy for the Advancement of Science (AAAS); internal staff analysis; and by the appropriate Tech Board for each sector. There are almost 100 volunteer members of the Tech Boards, each of whom is appointed because of their deep expertise in the sector gained from either business or academic experience. Once the AAAS review is complete, the members of the Tech Boards meet to analyze the round of applications and select those worthy of funding to present and discuss their proposals with the staff and Technology Review Board. Final selections are moved to the MTI Board of Directors for approval. This same process is followed with the Cluster Initiative Program.

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 President 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. With the exception of the President, MTI staff members are not State employees. MTI receives an annual appropriation for its work. It also allocates and manages investments in the State's technology assets as provided through voter-approved bonds.

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 a robust suite of funding opportunities:

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 FY2013, MTI received 94 TechStart Grant applications and approved 47 awards, representing $186,000 (matched by $370,000).

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 FY2013, MTI received 75 Seed Grant applications and approved 31 awards, representing $631,000 (matched by $1.0 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 FY2013, MTI received 7 Business Accelerator Grant applications and approved 4 awards for $95,000 (matched by $800,000).

Development Loans (formerly Development Awards) are competitive awards of up to $500,000 per project and are awarded three times per year. In

FY2013, MTI received 23 development loan applications and funded 11 awards for $2.8 million (matched by $4.4 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 FY2013, MTI made 2 investments totaling $128,000 (matched by $6.4 million), 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 FY2013, MTI received 7 applications and approved funding for 1 award for approximately $68,000 (matched by over $82,000).

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, 2013 and 2012

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Maine Technology Institute

We have audited the accompanying financial statements of Maine Technology Institute (a component unit of the State of Maine) which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the 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 audit 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 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, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Board of Directors
Maine Technology Institute

Other Matters

Required Supplementary Information

U.S. generally accepted accounting standards require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 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 as a whole.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
September 11, 2013

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 years ended June 30, 2013 and 2012 ("FY2013 and FY2012" or "Fiscal 2013 and 2012"). We encourage readers to consider the information presented here together with the basic financial statements as a whole.

Financial Highlights

- MTI received $6,737,973 and $7,012,517 in FY's 2013 and 2012, respectively, from a State appropriation through the Department of Economic and Community Development ("DECD") for general programs. No bond funds were received for the Maine Technology Asset Fund ("MTAF") during FY2013; $12.4 million was received during FY2012, fully drawing down the $50 million bond.

- MTI returned $300,000 in FY2013 to the State of Maine as a dividend funded by award repayments.

- In FY2013, MTI approved for funding 97 projects totaling just under $3.9 million, compared to 100 projects for $5.0 million in FY2012 and 113 projects for $6.4 million in FY2011. FY2013's decline in the amount of projects funded was tied to decreased Cluster Initiative Program activity while FY2012 saw a decrease in Development Loan awards. No awards were approved in the past two years under the MTAF Program; 10 awards for $7.3 million were approved in FY2011, fully committing available funds.

- MTI expended $5.6 million in FY2013 according to agreed-upon project award milestones, versus $18.6 million and $20.3 million during FY2012 and FY2011. FY2013 MTAF payments declined by $12.6 million as many awards were fully disbursed during FY2012. Development Loan payments declined $900,000. Offsetting these declines, Cluster Award payments rose $560,000. Compared to FY2011, FY2012 payments declined $1.7 million, primarily due to a decrease in Development Award payments.

- MTI's outstanding commitments for its core awards amount to $5.2 million, including approximately $1.7 million in approved awards with unexecuted contracts as of June 30, 2013. At the close of FY2012, these values were $5.7 million and $2.8 million, respectively. MTAF outstanding commitments total $7.1 million at June 30, 2013, a decline from $14.2 million at FY2012; all contracts were executed at the end of each FY.

- MTI received $1,453,000 in Development Award repayments during FY2013, compared to $390,000 and $1,434,000 in FY's 2012 and 2011, respectively.

- $351,000 was realized from interest in FY2013, an increase of approximately $91,000 compared to the previous year, due to an increase in the average invested cash balance and higher payments from program loans. For FY2012, $260,000 was received, an increase of $13,000 over FY2011, for similar reasons.

- The bonds that funded the Maine Technology Asset Fund, which MTI was directed to administer by the Legislature, were approved by Maine voters in November 2007 and June 2010. In FY's 2008 and 2009, MTI received General Funds to cover ongoing monitoring and administration costs of this fund. During FY2012, $80,057 was expended on MTAF operating costs, including a $7,289 administration fee to MTI. These costs were funded by the residual General Fund appropriation of $46,453 and the remaining $33,604 was paid by MTI out of accumulated net assets. Operating costs declined 51% to $38,922 during FY2013, all of which was paid by MTI out of accumulated net assets. FY2014 MTAF operating costs are projected to decline further and will again be paid out of net assets.

- MTI played a leading role in obtaining a $3.0 million, three-year grant from the Blackstone Charitable Foundation, early in FY2012. The initiative is designed to stimulate the creation of a strong culture of innovation in Maine that will accelerate more jobs in high-growth firms. Among responsibilities, MTI serves as the fiduciary agent for the Blackstone Accelerates Growth initiative and recorded $557,000 and $392,000 in grant income and matching special grant expense for fiscal years 2013 and 2012, respectively.

- FY2013 administrative and operating costs were $1.19 million, an increase of $88,000 (8%) over the previous year. The increase in the number of awards under management and the need to negotiate more complex investment and award workouts lead to additional staff costs and higher legal expenses. FY2012 costs were $1.10 million, a decrease of $7,000 compared to FY2011, due to a decline in MTAF operating costs. Operating expenses, including the costs to monitor and administer the Maine Technology Asset Fund, are paid from administration fees of 7% of the State appropriation and development award repayments plus interest earnings. While 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, management strongly believes that the administrative budget cap imposed on it is a significant impediment to its ability to fully accomplish its mission. MTI is the only statutory entity with such a restriction. As MTI's portfolio becomes larger and more complex, and as the organization engages to meet its responsibilities, it will require more resources. For FY2014, we were able to increase the administrative cap from 7% to 10% of appropriated funds, but it is clear that the issue will require further action.

- Fiscal 2013's usage of net assets for MTI's activities increased to $169,000, compared to $149,000 for FY2012, due to the addition of a staff position to manage an increasing workload in assets under management and higher legal expenses. The usage of net assets in FY2012 increased $130,000 compared to FY2011 due to income declines (MTAF administrative fees and royalties tied to 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. 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 lean staff of eight and one-half full-time equivalent employees who report to the Director, a decrease of one and one-half 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 MTAF. There are no statutory restrictions on the use of other income which 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 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 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: 2013 Compared to 2012 and 2011

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 $892,678 on June 30, 2013, compared with $1,061,312 in 2012 and $1,210,665 in 2011.

The Institute's financial position as of, and operations for, fiscal years 2013, 2012 and 2011 are summarized below based on information included in the financial statements.

	2013	2012	2011
Cash and cash equivalents	**$ 26,695,011**	$ 30,779,890	$ 27,588,193
Cash held as fiscal agent for Maine Biomedical Research Board	**-**	1,677	4,962
Loans and investments (net of allowances)	**878,496**	843,582	1,053,562
Capital assets, net of depreciation	**45,699**	56,211	68,680
Other assets	**605,576**	346,900	376,450
Total assets	**28,224,782**	32,028,260	29,091,847
Deferred revenue	**26,313,058**	24,485,483	24,203,926
Amounts held as a fiscal agent for Maine Biomedical Research Board	**-**	1,677	4,962
Other liabilities	**1,019,046**	6,479,788	3,672,294
Total liabilities	**27,332,104**	30,966,948	27,881,182
Net position, all unrestricted	**$ 892,678**	$ 1,061,312	$ 1,210,665

Cash and equivalents compose 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 FY2013, MTI made three Equity Capital Fund (formerly Accelerated Commercialization Fund) investments to companies that had previously completed Development Award-funded projects; three were also made in FY2012, compared to two in FY2011. 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.

Deferred revenue indicates all funding on hand for use in MTI programs. Funding is disbursed according to achievement of milestones by the recipients. As noted earlier, $5.2 million and $5.7 million were committed but not yet disbursed for MTI's core awards at the close of June 2013 and 2012, respectively. MTAF outstanding commitments total $7.1 million and $14.2 million at June 30, 2013 and 2012, respectively.

Other liabilities is comprised primarily of awards payable which decreased $5.4 million from 2012 to 2013 and increased $2.7 million from 2011 to 2012. The 2011 and 2012 awards payable included significant amounts payable under the MTAF program which were paid in subsequent years. As mentioned above, there were no new awards in the MTAF program in 2012 and 2013.

	2013	2012	2011
Operating revenues:			
State of Maine funding	**$ 6,546,571**	$ 19,658,884	$ 20,558,221
Grant income – other	**600,580**	399,717	-
Other operating revenues	**112,586**	32,940	113,735
Total operating revenues	**7,259,737**	20,091,541	20,671,956
Operating expenses:			
Program grants	**5,835,701**	18,910,316	19,715,008
Special grants	**756,752**	491,026	115,457
Salaries and wages	**520,244**	468,111	448,241
Other operating expenses	**665,150**	629,782	657,083
Total operating expenses	**7,777,847**	20,499,235	20,935,789
Net operating loss	**(518,110)**	(407,694)	(263,833)
Nonoperating revenues, net	**349,476**	258,341	245,131
Increase (decrease) in net position	**$ (168,634)**	$ (149,353)	$ (18,702)

Operating revenues – State of Maine funding reflects MTI's State appropriations and grants made. The decreases noted in FY2013 and FY2012 stem primarily from lower MTAF award payments.

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

	2013	2012	2011
State appropriation received	**$ 6,737,973**	$ 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	**(191,402)**	96,367	(8,288,193)
Revenues recognized	**$ 6,546,571**	$ 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 repayment dividends (Fiscal 2013) or curtailments (Fiscal 2011).

MTI's operating expenses (which include award disbursements and accruals) were 62% lower in 2013. Program grants were 69% lower due to a decline in MTAF and development award payments. Special grants increased due to the Blackstone Accelerates Growth program funding in FY2013. Salaries and wages were 11% higher due to the addition of a staff position. Other operating expenses increased 6% due to higher legal expenses. FY2012 expenses were 2% lower than FY2011 due to a decline in program grant payments and MTAF program payments and MTAF related administrative costs (legal, consulting, award review costs).

Looking Ahead

This year, MTI has significantly increased its efforts to provide more in-depth support to the ventures in its portfolio. The organization now manages nearly $102 million of active awards and loans, including various MTAF projects. We anticipate the portfolio will grow to $108 million in the next year with additional awards, grants, loans and equity investments. MTI will continue to play the primary leadership role in the continued expansion of Maine's entrepreneurial ecosystem, both through its own programs as well as being the managing partner of the Blackstone Accelerates Growth initiative. We will expand our impact on Maine's economy by increasing awareness and utilization of our investment programs and accelerating the rate of portfolio venture commercialization. During FY 2012, the rate of commercialization of portfolio companies was 36%. In FY 2013, the rate increased to 39%. Over the next two years, our goal is to move 50% of our portfolio ventures to market with sustainable sales revenues. This will require an increase in MTI resources and further collaboration and partnerships with organizations active in the innovation ecosystem. Through our own strategies and with the assistance of the Blackstone initiative, we are well on our way.

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, 2013 and 2012

ASSETS

	2013	2012
Current assets		
Cash and cash equivalents (Note 2)	**$ 26,695,011**	$ 30,779,890
Grant income receivable	**81,617**	264,150
Other receivables	**506,436**	58,588
Prepaid expenses	**17,523**	24,162
Loans receivable - current, net of allowance for losses of $220,000 in 2013 and $761,921 in 2012 (Note 3)	**22,000**	518,000
Cash held as fiscal agent for the Maine Biomedical Research Board (Notes 2 and 7)	**-**	1,677
Total current assets	**27,322,587**	31,646,467
Property and equipment, at cost		
Leasehold improvements	**9,858**	9,858
Equipment	**88,665**	113,635
Computer software	**106,027**	106,027
	204,550	229,520
Less accumulated depreciation	**(158,851)**	(173,309)
Net property and equipment	**45,699**	56,211
Loans receivable and investments, excluding current portion (Note 3)	**856,496**	325,582
Total assets	**$ 28,224,782**	$ 32,028,260

LIABILITIES AND NET POSITION

	2013	2012
Current liabilities		
Accounts and awards payable and accrued expenses (Note 8)	**$ 1,008,674**	$ 6,464,707
Current portion of obligations under capital lease (Note 6)	**5,177**	4,709
Deferred revenue	**26,313,058**	24,485,483
Amounts held as fiscal agent for the Maine Biomedical Research Board (Note 7)	**-**	1,677
Total current liabilities	**27,326,909**	30,956,576
Obligations under capital lease, net of current portion (Note 6)	**5,195**	10,372
Total liabilities	**27,332,104**	30,966,948
Commitments (Notes 6 and 8)		
Unrestricted net position		
Undesignated (deficit)	**(7,322)**	161,312
Board-designated (Note 4)	**900,000**	900,000
Total unrestricted net position	**892,678**	1,061,312
Total liabilities and net position	**$ 28,224,782**	$ 32,028,260

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, 2013 and 2012

	2013	2012
Operating revenues		
State of Maine funding		
Program grants (Note 9)	**$ 5,836,139**	$ 18,910,316
Administrative grants	**556,540**	655,055
Matching grants	**153,892**	93,513
Total State of Maine funding	**6,546,571**	19,658,884
Grant income - other	**600,580**	399,717
Royalties	**109,346**	27,291
Other income	**3,240**	5,649
Total operating revenues	**7,259,737**	20,091,541
Operating expenses (Note 5)		
Program grants (Notes 8 and 9)	**5,835,701**	18,910,316
Special grants	**756,752**	491,026
Salaries and wages	**520,244**	468,111
Benefits and payroll taxes	**181,707**	163,970
Travel	**29,333**	7,041
Depreciation	**29,987**	31,611
Other (Notes 5 and 6)	**424,123**	427,160
Total operating expenses	**7,777,847**	20,499,235
Net operating loss	**(518,110)**	(407,694)
Nonoperating revenues (expenses)		
Investment income	**350,707**	259,997
Interest expense	**(1,231)**	(1,656)
Nonoperating revenues (expenses), net	**349,476**	258,341
Decrease in net position	**(168,634)**	(149,353)
Net position at beginning of year	**1,061,312**	1,210,665
Net position at end of year	**$ 892,678**	$ 1,061,312

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

MAINE TECHNOLOGY INSTITUTE

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
State of Maine funding	**$ 6,693,844**	$ 19,311,585
Grants received	**556,830**	447,270
Award repayments	**1,849,975**	536,742
Royalties received	**109,346**	27,291
Other receipts	**3,240**	5,649
Grants paid	**(11,926,702)**	(16,246,749)
Paid to employees, including benefits	**(620,876)**	(517,863)
Paid to vendors	**(491,971)**	(442,143)
Loans funded	**(130,000)**	(50,000)
Net cash (used) provided by operating activities	**(3,956,314)**	3,071,782
Cash flows from investing activities		
Net investment income received	**350,707**	264,997
Investments funded	**(453,857)**	(120,000)
Net cash (used) provided by investing activities	**(103,150)**	144,997
Cash flows from capital and related financing activities		
Purchase of equipment	**(19,475)**	(19,142)
Lease obligation payments	**(4,709)**	(4,284)
Interest payments	**(1,231)**	(1,656)
Net cash used by capital and related financing activities	**(25,415)**	(25,082)
Net (decrease) increase in cash and cash equivalents	**(4,084,879)**	3,191,697
Cash and cash equivalents, beginning of year	**30,779,890**	27,588,193
Cash and cash equivalents, end of year	**$ 26,695,011**	$ 30,779,890
Reconciliation of net operating loss to net cash (used) provided by operating activities		
Net operating loss	**$ (518,110)**	$ (407,694)
Adjustment to reconcile net operating loss to net cash (used) provided by operating activities		
Depreciation	**29,987**	31,611
Changes in operating assets and liabilities		
Grant income receivable and other receivables	**(265,315)**	32,491
Prepaid expenses	**6,639**	(7,941)
Loans receivable	**418,943**	329,980
Accounts payable and other accrued expenses	**(5,456,033)**	2,811,778
Deferred revenue	**1,827,575**	281,557
Net cash (used) provided by operating activities	**$ (3,956,314)**	$ 3,071,782
Noncash activities		
Decrease in cash held as fiscal agent for the Maine Biomedical Research Board	**$ (1,677)**	$ (3,285)

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, which ended activities in 2013. 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. Activities of MBRB ended in 2013. 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 Accounting 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 blended component unit of the Institute.

MTH's balance sheet at June 30, 2013 and 2012 is as follows:

ASSETS

Investments	$ 155,639

LIABILITIES AND NET POSITION

Due to Maine Technology Institute	$ 662
Deferred revenue	150,000
Total liabilities	150,662
Net position	4,977
	$ 155,639

MTH had no operating revenues or expenses in 2013. Operating activities in 2012 consisted of $662 of legal expenses.

Recently Issued Accounting Pronouncements

In 2013, the Institute adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. The adoption of Statement No. 61 did not impact the Institute's financial position or results of operations.

In 2013, the Institute adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standard Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. FASB Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure.

Pursuant to the provisions of Statement No. 62, the Institute has updated references in its financial statements issued for the year ended June 30, 2013. The adoption of Statement No. 62 did not impact the Institute's financial position or results of operations.

In 2013, the Institute adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* retroactive to July 1, 2011. Pursuant to the provisions of Statement No. 63, the Institute has updated its financial statements to reflect the residual measure in the balance sheet as net position, rather than net assets. The adoption of Statement No. 63 did not impact the Institute's financial position or results of operations.

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. 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 Loan 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 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 $81,074 and $107,053 in 2013 and 2012, 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 $23,624 and $18,811 for the years ended June 30, 2013 and 2012, 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 September 11, 2013, 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 $26,854,133 and $30,898,753 at June 30, 2013 and 2012, respectively. The MBRB program ended in 2013, therefore having no bank balance at June 30, 2013. Cash held as fiscal agent for MBRB had a bank balance of $1,760 at June 30, 2012.

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, 2013 and 2012:

	2013	2012
Loans receivable	**$ 550,000**	$ 1,329,864
Investments in privately held companies	**548,496**	275,639
	1,098,496	1,605,503
Allowance for losses	**(220,000)**	(761,921)
	878,496	843,582
Less current portion	**(22,000)**	(518,000)
	$ 856,496	$ 325,582

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 5-8%. The loans and investments are held by the Institute; thus, there is no custodial credit risk.

The allowance for losses decreased $541,921 and increased $279,980 in 2013 and 2012, respectively; the offsetting charge was to deferred revenue.

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

The Institute's other expenses include the following for the years ended June 30, 2013 and 2012:

	2013	2012
Program award review process	**$ 4,705**	$ 5,982
Other operating	**419,418**	421,178
	$ 424,123	$ 427,160

Expenses are comprised of the following:

	2013	2012
Direct program services	**$ 7,055,484**	$ 19,863,310
General and administrative, including nonoperating expense	**723,594**	637,581
	$ 7,779,078	$ 20,500,891

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 $26,224 and $31,037 in 2013 and 2012, respectively.

Future minimum lease payments due in the years subsequent to June 30, 2013 are as follows:

2014	$ 29,392
2015	29,960
2016	30,563
2017	7,679
	$ 97,594

Capital Lease

The Institute is leasing assets with an amortized cost of $6,836 and $11,315 at June 30, 2013 and 2012, 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, 2013 are as follows:

2014	$ 5,940
2015	5,445
	11,385
Less: amount representing interest	(1,013)
Obligation under capital lease	10,372
Less: current portion	(5,177)
Obligation under capital lease, net of current portion	$ 5,195

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. MTI had a fiscal agent contract with MBRB providing 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, and the Institute closed the project in 2013. For the years ended June 30, 2013 and 2012, such direct expenses and overhead totaled $277 and $6,955, 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 $930,055 and $6,340,934 at June 30, 2013 and 2012, 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 at June 30, if recipients meet certain milestones, as follows:

	2013	2012
Marine Research awards	$ -	$ 2,000
Phase Zero awards*	2,000	6,000
Seed grants	183,000	130,000
TechStart grants	17,000	20,000
Development awards	1,660,000	1,485,000
Cluster awards	1,663,000	1,235,000
Business Accelerator grants	23,000	19,000
Maine Technology Asset Fund awards	7,071,000	14,194,000
	$ 10,619,000	$ 17,091,000

* In 2012, the Institute discontinued this program.

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

	2013	2012
Seed grants	$ 94,000	$ 304,000
TechStart grants	15,000	7,000
Development awards	1,526,000	595,000
Business Accelerator grants	15,000	-
Cluster awards	-	1,915,000
	$ 1,650,000	$ 2,821,000

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 MTAF. In June 2010, voters approved an additional $3 million under the program. The Institute drew $12,400,000 in 2012 of the funds for program expenses in 2012. 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, 2013 and 2012.

SUPPLEMENTARY INFORMATION

Schedule 1

MAINE TECHNOLOGY INSTITUTE

Cash Basis - Assets and Equity - Maine Biomedical Research Board

Years Ended June 30, 2013 and 2012

ASSETS

	2013	2012
Cash held by Maine Technology Institute	$ -	$ 1,677

EQUITY

Cumulative excess of receipts over disbursements	$ -	$ 1,677

MAINE TECHNOLOGY INSTITUTE

Schedule of Receipts and Disbursements

Maine Biomedical Research Board

Years Ended June 30, 2013 and 2012

	2013	2012
Receipts		
State of Maine	$ -	$ 750,000
Advance from Maine Technology Institute	-	-
Interest	-	835
Total receipts	-	750,835
Disbursements		
Grants	-	70,910
Administration fee and other program expenses*	277	563,210
Repayment of advance from Maine Technology Institute	-	120,000
Return of funds to State of Maine	1,400	-
Total disbursements	1,677	754,120
Excess of disbursements over receipts	(1,677)	(3,285)
Cumulative excess of receipts over disbursements at beginning of year	1,677	4,962
Cumulative excess of receipts over disbursements at end of year	$ -	$ 1,677

* 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.

MAINE TECHNOLOGY INSTITUTE

Statement of Activities

Year Ended June 30, 2013

	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Net Expense and Changes in Net Position
Business-type activities	$ 7,779,078	$ 109,346	$ 7,147,151	$ (522,581)
Total	$ 7,779,078	$ 109,346	$ 7,147,151	(522,581)
General revenues				
Unrestricted interest and investment earnings				350,707
Miscellaneous income				3,240
Total general revenues				353,947
Change in net position				(168,634)
Net position, beginning of year				1,061,312
Net position, end of year				$ 892,678

BerryDunn