2014 ANNUAL REPORT

The Maine Technology Institute

Maine Technology Institute

Investing in Innovation

PURPOSE:

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

ORGANIZATION:

MTI is organized as a nonprofit corporation, consistent with the provisions of the Federal Internal Revenue Code. By-laws were drafted and corporation documents filed in September of 1999. A Board of Directors consisting of thirteen voting members and two non-voting members governs MTI. The Governor appoints ten directors, eight represent the state's targeted technology sectors 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, 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 Director is a non-voting director. Seven subsidiary boards, each representing a targeted technology sector, were formed and function to advise and support the MTI Board. Approximately 100 domain experts comprise the membership of these Tech Boards.

MTI operates from one office located in Brunswick. Its staff is composed of one full-time program director, three portfolio managers, two program assistants, a director of business development, a finance and administration director, a director of marketing and analytics and an office manager. The MTI Director is employed by the Maine Department of Economic and Community Development. Currently, MTI manages a portfolio of $104 million in direct investments in approximately 300 companies and non-profit research and development organizations.

PROGRAM:

MTI makes direct investment in ventures pursuing promising technologies, providing targeted commercialization assistance to Maine companies and strengthening Maine's technology clusters. MTI works with organizations and individuals focused on expanding the State's entrepreneurial ecosystem to stimulate new venture formation. Regarded as the leader and dominant player in this effort, MTI programs require at least a 1:1 matching contribution from award recipients. Based on scientific or technical merit, commercial feasibility and economic impact potential to the State, MTI award programs include:

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 fiscal year 2014, MTI received 89 TechStart Grant applications and approved 49 awards, representing $215,000 (matched by $250,000).

Seed Grants, awarded three times per year, are competitive grants up to $25,000 per project designed to support early activities for product development, commercialization, or business planning and development. In 2014, MTI received 84 Seed Grant applications and approved 46 awards, representing $917,000 (matched by $1.2 million).

Business Accelerator Grants are available to companies that won Federal SBIR (Small Business Innovation Research) Phase I and Phase II grants or start-up/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 2014, MTI received nine applications and awarded nine Business Accelerator Grants for $213,000 (matched by $2.2 million).

Development Loans are competitive awards of up to $500,000 per project and are awarded three times per year. In fiscal year 2014, MTI received 22 development loan applications and funded 12 awards for $3.5 million (matched by $4.0 million).

The **Equity Capital 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 fiscal year 2014, MTI made four investments totaling $252,000 (matched by $1.3 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. In fiscal year 2014, MTI received seven applications and approved seven awards for approximately $1.5 million (matched by $1.8 million).

MTI administers the **Maine Technology Asset Fund**, a competitive bond-funded program providing investments for facilities construction and 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. As of fiscal year 2011, the program was fully invested.

BerryDunn

mti
Maine Technology Institute
Investing in Innovation

FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

June 30, 2014 and 2013

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, 2014 and 2013, 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 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, 2014 and 2013, 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 9 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 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 15, 2014

MAINE TECHNOLOGY INSTITUTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014 and 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, 2014 and 2013 ("FY2014 and FY2013" or "Fiscal 2014 and 2013"). We encourage readers to consider the information presented here together with the basic financial statements as a whole.

Financial Highlights

- MTI received $6,777,973 and $6,737,973 in FY's 2014 and 2013, 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 Fiscal 2014 or 2013. The $50 million bond was fully received during FY2012 when $12.4 million was drawn; the $3 million bond was requested during late Fiscal 2014 but not yet received.

- During FY2014, MTI's funding was curtailed by $1 million and this amount was returned in December. MTI returned $300,000 in FY2013 to the State of Maine as a dividend funded by award repayments.

- In FY2013, MTI approved for funding 131 projects totaling just under $6.7 million, compared to 97 projects for $3.9 million in FY2012 and 100 projects for $5.0 million in FY2012. FY2014's $2.8 million increase included $1.3 million in Cluster Initiative Program (CIP) awards, $750,000 in Development Loans (DL), $300,000 in Seed Grants and $400,000 in other programs. CIP awards fell sharply during FY2013. No awards were approved in the past three years under the MTAF Program; available funding was fully committed in FY2011.

- MTI expended $6.5 million in FY2014 according to agreed-upon project award milestones, versus $5.6 million and $18.6 million during FY2013 and FY2012, respectively. During FY2014, Development Loan disbursements rose $1.3 million reflecting the level of DL award activity during the past two FY's. MTAF payments increased $300,000 as awards closed; CIP payments fell nearly $700,000 reflecting the sharp decline in new awards during FY2013. Many MTAF awards were closed out during FY2012, leading to a $12.6 million fall in disbursements from Fiscal 2012 to 2013.

- MTI's outstanding commitments for its core awards amount to $7.2 million, including approximately $2.0 million in approved awards with unexecuted contracts as of June 30, 2014. At the close of FY2013, these values were $5.2 million and $1.7 million, respectively. MTAF outstanding commitments total $5.1 million at June 30, 2014, a decline from $7.1 million at FY2013; all contracts were executed at the end of each FY.

- MTI received $929,000 in Development Award repayments during FY2014, compared to $1,453,000 and $390,000 in FY's 2013 and 2012, respectively.

- $318,000 was realized from interest in FY2014, a decrease of approximately $33,000 compared to the previous year, due to a decline in payments from program loans. For FY2013, $351,000 was received, an increase of $91,000 over FY2012, due to an increase in the average invested cash balance and higher payments from program loans.

- 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 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 and a further 54% to \$18,093 during FY2014, all of which was paid by MTI out of accumulated net assets. FY2015 MTAF operating costs are projected to be comparable to FY2014 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 other responsibilities, MTI serves as the fiduciary agent for the Blackstone Accelerates Growth initiative and recorded \$843,000, \$557,000 and \$392,000 in grant income and matching special grant expense during the past three fiscal years.

- FY2014 administrative and operating costs were \$1.36 million, an increase of \$170,000 (14%) over the previous year. Cost increases occurred in personnel (principally due to an addition to staff), marketing and promotion, and consulting fees (efficiency and process review project). These commitments, in addition to those of the prior year, helped drive the significant increase in awards discussed above. FY2013 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. 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 FY's prior to 2014), fees on development award repayments and interest earnings.

- During FY2014, MTI significantly expanded its Entrepreneur-In-Residence program. The program consists of five consultants who are assigned to assist MTI-funded companies and their personnel on a variety of projects of particular significance to the recipients. Expenditures amounted to \$58,000, paid through program funding. This program offers services that will 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. We also believe that MTI's record of accomplishments and successes stands for itself. 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 we feel that the limitation will require further consideration. MTI is the only statutory entity with such a restriction and management continues to believe that the administrative budget cap imposed on it is an impediment to its ability to fully accomplish its mission.

- Fiscal 2014's usage of net assets for MTI's activities decreased to $25,000, compared to $169,000 for FY2013, driven by the increase in the cap on administrative fees. The usage of net assets in FY2013 increased $20,000 compared to FY2012 due to the addition of a staff position to manage an increasing workload in assets under management and higher legal expenses.

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 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.

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: 2014 Compared to 2013 and 2012

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 $868,101 on June 30, 2014, compared with $892,678 in 2013 and $1,061,312 in 2012.

The Institute's financial position as of, and operations for, fiscal years 2014, 2013 and 2012 are summarized below based on information included in the financial statements.

	2014	2013	2012
Cash and cash equivalents	**$ 25,661,195**	$ 26,695,011	$ 30,779,890
Cash held as fiscal agent for Maine Biomedical Research Board	**-**	-	1,677
Loans and investments (net of allowances)	**1,055,246**	878,496	843,582
Capital assets, net of depreciation	**76,332**	45,699	56,211
Other assets	**3,907,903**	605,576	346,900
Total assets	**30,700,676**	28,224,782	32,028,260
Refundable advances	**28,616,822**	26,313,058	24,485,483
Amounts held as a fiscal agent for Maine Biomedical Research Board	**-**	-	1,677
Other liabilities	**1,215,753**	1,019,046	6,479,788
Total liabilities	**29,832,575**	27,332,104	30,966,948
Net position, all unrestricted	**$ 868,101**	$ 892,678	$ 1,061,312

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 FY2014, MTI made four Equity Capital Fund investments to companies that had previously completed Development Award-funded projects; three were also made in both FY2013 and FY2012.

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 by $3.3 million from Fiscal 2013 to 2014 due to $3 million in MTAF bond funds receivable and $522,000 due from the Blackstone Charitable Foundation at June 30, 2014.

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, $7.2 million and $5.2 million were committed but not yet disbursed for MTI's core awards at the close of June 2014 and 2013, respectively. MTAF outstanding commitments total $5.1 million and $7.1 million at June 30, 2014 and 2013, respectively.

Other liabilities are comprised primarily of awards payable which decreased $5.4 million from 2012 to 2013 and increased $200,000 from 2013 to 2014. Fiscal 2012 awards payable included significant amounts payable under the MTAF program which were paid during Fiscal 2013. As mentioned above, there were no new awards in the MTAF program in 2012 and 2013.

	2014	2013	2012
Operating revenues:			
State of Maine funding	**$ 7,949,192**	$ 6,546,571	$ 19,658,884
Grant income – other	**847,040**	600,580	399,717
Other operating revenues	**233,257**	112,586	32,940
Total operating revenues	**9,029,489**	7,259,737	20,091,541
Operating expenses:			
Program grants	**7,004,762**	5,835,701	18,910,316
Special grants	**1,011,403**	756,752	491,026
Salaries and wages	**575,980**	520,244	468,111
Other operating expenses	**779,276**	665,150	629,782
Total operating expenses	**9,371,421**	7,777,847	20,499,235
Net operating loss	**(341,932)**	(518,110)	(407,694)
Nonoperating revenues, net	**317,355**	349,476	258,341
Increase (decrease) in net position	**$ (24,577)**	$ (168,634)	$ (149,353)

Operating revenues – State of Maine funding reflects MTI's State appropriations and grants made. The increase in FY2014 reflects the increase in awards funded while the decrease noted in FY2013 stems primarily from lower MTAF award payments.

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

	2014	2013	2012
State appropriation received	**$ 6,777,973**	$ 6,737,973	$ 7,012,517
Marine Research Fund	-	-	150,000
Maine Technology Asset Fund	-	-	12,400,000
Accrual basis accounting effect	**1,171,219**	(191,402)	96,367
Revenues recognized	**$ 7,949,192**	$ 6,546,571	$ 19,658,884

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 (Fiscal 2014) or repayment dividends (Fiscal 2013).

MTI's operating expenses (which include award disbursements and accruals) were 20% higher in 2014. Program grants were 20% higher due to an increase in MTAF and development loan payments. Special grants increased due to Blackstone Accelerates Growth program funding. Salaries and wages were 11% higher due to the full year effect of a late FY2013 position upgrade and to normal inflationary increases. Other operating expenses increased 17% due to marketing and promotion programs, and consulting expenses related to a process review study. FY2013 expenses were 62% lower than FY2012. 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.

Looking Ahead

In August 2014, Brian Whitney, Director of Business Development and Innovation at the Maine Department of Economic & Community Development (DECD), assumed the acting directorship of MTI, succeeding Robert Martin. Mr. Whitney brings extensive experience in economic development and legislative matters at both the state and federal level and, in his capacity at DECD, leads the experienced and professional Governor's Account Executive Team as they work one-on-one with Maine businesses to help them succeed and grow. He will assist MTI's staff, Board of Directors, and consultants in continuing to provide superior service to clients and addressing market demands. Given his breadth of experience, extensive professional contacts, and collaborative approach, Mr. Whitney is well qualified to lead MTI's exceptional staff during this transition period.

FY2014 marked a high water mark for MTI in terms of funded awards and provision of support services to Maine companies. Total commitments exceeded $7.2 million, including $6.6 million in program awards. In the coming year, the MTI team anticipates building upon this record by establishing a target of $8.0 million in total commitments. The new fiscal year is off to a tremendous start with $2.6 million in new awards, through mid-September. Additionally, MTI maintains a program to provide technical assistance to small business that wish to apply for federal funding under the Small Business Innovation Research (SBIR) and similar programs. Through its consulting team, the Technical Assistance Program was instrumental in helping Maine businesses win an estimated $5.0 million in federal grants (including $2.0 million, conservatively, in negotiation), providing a 30:1 return on the program investment. The

SBIR "Summer Session," held during July 2014, attracted representatives from seven federal agencies and over 80 Maine business executives and service providers. This event should serve as a catalyst to another productive year under this valuable program. Finally, during FY2014, MTI commissioned Battelle Memorial Institute to undertake a study of Maine's economic position, innovation ecosystem and prospects for growth in its technology-intensive industry clusters. Battelle was charged with assessing the current position and recent trends in Maine's technology clusters using industry performance and innovation capacity data; identifying Maine's potential areas of growth in specific market niches relating to these clusters; and assessing how the current innovation ecosystem in Maine is advancing and/or supporting technology clusters. In FY2015, MTI will report the results of this study and develop action recommendations based on Battelle's assessments.

MTI's commitment to serving the variety of needs of Maine businesses and entrepreneurs is strong. We look forward to building on past commitments and launching new initiatives to help build a more robust business climate within the State.

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, 2014 and 2013

ASSETS

	2014	2013
Current assets		
Cash and cash equivalents (Note 2)	$ 25,661,195	$ 26,695,011
Grants receivable	3,565,888	81,617
Other receivables	260,605	506,436
Prepaid expenses	81,410	17,523
Loans receivable - current, net of allowance for losses of $195,000 in 2014 and $220,000 in 2013 (Note 3)	165,000	22,000
Total current assets	29,734,098	27,322,587
Property and equipment, at cost		
Leasehold improvements	9,858	9,858
Equipment	110,605	88,665
Computer software	133,971	106,027
	254,434	204,550
Less accumulated depreciation	(178,102)	(158,851)
Net property and equipment	76,332	45,699
Loans receivable and investments, excluding current portion (Note 3)	890,246	856,496
Total assets	$ 30,700,676	$ 28,224,782

LIABILITIES AND NET POSITION

	2014	2013
Current liabilities		
Accounts and awards payable and accrued expenses (Note 7)	$ 1,210,558	$ 1,008,674
Current portion of obligations under capital lease (Note 6)	5,195	5,177
Refundable advances	28,616,822	26,313,058
Total current liabilities	29,832,575	27,326,909
Obligations under capital lease, net of current portion (Note 6)	-	5,195
Total liabilities	29,832,575	27,332,104
Commitments (Notes 6 and 7)		
Unrestricted net position (deficit)		
Undesignated (deficit)	(31,899)	(7,322)
Board-designated (Note 4)	900,000	900,000
Total unrestricted net position	868,101	892,678
Total liabilities and net position	$ 30,700,676	$ 28,224,782

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, 2014 and 2013

	2014	2013
Operating revenues		
State of Maine funding		
Program grants	$ 6,989,002	$ 5,836,139
Administrative grants	795,827	556,540
Matching grants	164,363	153,892
Total State of Maine funding	7,949,192	6,546,571
Grant income - other	847,040	600,580
Royalties	232,497	109,346
Other income	760	3,240
Total operating revenues	9,029,489	7,259,737
Operating expenses (Note 5)		
Program grants (Notes 7 and 8)	7,004,762	5,835,701
Special grants	1,011,403	756,752
Salaries and wages	575,980	520,244
Benefits and payroll taxes	175,090	181,707
Travel	33,666	29,333
Depreciation	25,476	29,987
Other (Note 6)	545,044	424,123
Total operating expenses	9,371,421	7,777,847
Net operating loss	(341,932)	(518,110)
Nonoperating revenues (expenses)		
Investment income	318,118	350,707
Interest expense	(763)	(1,231)
Nonoperating revenues (expenses), net	317,355	349,476
Decrease in net position	(24,577)	(168,634)
Net position at beginning of year	892,678	1,061,312
Net position at end of year	$ 868,101	$ 892,678

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

MAINE TECHNOLOGY INSTITUTE

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
State of Maine funding	**$ 5,704,299**	$ 6,693,844
Grants received	**843,237**	556,830
Award repayments	**1,096,718**	1,849,975
Royalties received	**232,497**	109,346
Other receipts	**760**	3,240
Grants paid	**(7,852,434)**	(11,926,702)
Paid to employees, including benefits	**(635,084)**	(620,876)
Paid to vendors	**(501,852)**	(491,971)
Loans funded	**(20,000)**	(130,000)
Net cash used by operating activities	**(1,131,859)**	(3,956,314)
Cash flows from investing activities		
Net investment income received	**318,118**	350,707
Investments funded	**(156,750)**	(453,857)
Net cash provided (used) by investing activities	**161,368**	(103,150)
Cash flows from capital and related financing activities		
Purchase of equipment	**(57,384)**	(19,475)
Lease obligation payments	**(5,177)**	(4,709)
Interest payments	**(764)**	(1,231)
Net cash used by capital and related financing activities	**(63,325)**	(25,415)
Net decrease in cash and cash equivalents	**(1,033,816)**	(4,084,879)
Cash and cash equivalents, beginning of year	**26,695,011**	30,779,890
Cash and cash equivalents, end of year	**$ 25,661,195**	$ 26,695,011
Reconciliation of net operating loss to net cash used by operating activities		
Net operating loss	**$ (341,932)**	$ (518,110)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation	**25,476**	29,987
Loss on disposal of assets	**1,273**	-
Changes in operating assets and liabilities		
Grant income receivable and other receivables	**(3,238,440)**	(265,315)
Prepaid expenses	**(63,886)**	6,639
Loans receivable	**(20,000)**	418,943
Accounts payable and other accrued expenses	**201,886**	(5,456,033)
Refundable advances	**2,303,764**	1,827,575
Net cash used by operating activities	**$ (1,131,859)**	$ (3,956,314)
Noncash activities		
Decrease in cash held as fiscal agent for the Maine Biomedical Research Board	**$ -**	$ (1,677)

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 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. 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, 2014 and 2013 is as follows:

ASSETS	
Investments	$ 155,639
LIABILITIES AND NET POSITION	
Due to Maine Technology Institute	$ 662
Refundable advances	150,000
Total liabilities	150,662
Net position	4,977
	$ 155,639

MTH had no operating revenues or expenses in either 2014 or 2013.

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, 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; effective July 1, 2013, 90% is required by legislation to support programs and 10% can be used for administration. Prior to that date, 93% was required to support programs and 7% was available 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.

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 90% of State funding be used for program support, the Institute has treated repayment of awards in the same manner and classified 90% of those repayments as refundable advances upon receipt; the remaining 10% 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 refundable advances; when payments are received, 10% of the payments is recognized as royalties revenue.

The Institute has recognized $115,987 and $81,074 in 2014 and 2013, 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 $24,637 and $23,624 for the years ended June 30, 2014 and 2013, 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.

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 15, 2014, 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 $25,783,382 and $26,854,133 at June 30, 2014 and 2013, respectively.

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

3. Loans Receivable and Investments

The Institute's loans receivable and investments consist of the following at June 30, 2014 and 2013:

	2014	2013
Loans receivable	**$ 625,000**	$ 550,000
Investments in privately held companies	**625,246**	548,496
	1,250,246	1,098,496
Allowance for losses	**(195,000)**	(220,000)
	1,055,246	878,496
Less current portion	**(165,000)**	(22,000)
	$ 890,246	$ 856,496

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 $25,000 and $541,921 in 2014 and 2013, respectively; the offsetting charge was to refundable advances.

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, 2014 and 2013:

	2014	2013
Program award review process	**$ -**	$ 4,705
Other operating	**545,044**	419,418
	$ 545,044	$ 424,123

Expenses are comprised of the following:

	2014	2013
Direct program services	**$ 8,431,921**	$ 7,055,484
General and administrative, including nonoperating expense	**940,263**	723,594
	$ 9,372,184	$ 7,779,078

6. Leases

Operating Lease

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 $27,607 and $26,224 in 2014 and 2013, respectively.

Future minimum lease payments due in the years subsequent to June 30, 2014 are as follows:

2015	$ 36,113
2016	36,840
2017	9,256
	$ 82,209

Capital Lease

At June 30, 2013, the Institute was leasing assets with an amortized cost of $6,836 under a capital lease with an interest rate of 9.50%. In December 2013, the Institute disposed of one of the assets under this lease prior to the completion of the lease commitment resulting in a loss on disposal of $1,273 and a balance remaining on the capital lease commitment related to the disposed asset. The remaining leased asset under the capital lease had an amortized cost of $2,732 at June 30, 2014. 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 year ended June 30, 2015 are as follows:

Total payments	$ 5,445
Less: amount representing interest	(250)
Obligation under capital lease	5,195
Less: current portion	(5,195)
Obligation under capital lease, net of current portion	$ -

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. Awards payable were $992,472 and $930,055 at June 30, 2014 and 2013, 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:

	2014	2013
Phase Zero awards*	**$ 3,000**	$ 2,000
Seed grants	**135,000**	183,000
TechStart grants	**21,000**	17,000
Development awards	**2,975,000**	1,660,000
Cluster awards	**2,003,000**	1,663,000
Business Accelerator grants	**61,000**	23,000
MTAF awards	**5,146,000**	7,071,000
	$ 10,344,000	$ 10,619,000

* In 2012, the Institute discontinued this program.

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

	2014	2013
Seed grants	**$ 406,000**	$ 94,000
TechStart grants	**42,000**	15,000
Development awards	**1,361,000**	1,526,000
Business Accelerator grants	**-**	15,000
Cluster awards	**184,000**	-
	$ 1,993,000	$ 1,650,000

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 drawn down and receivable as of June 30, 2014.

SUPPLEMENTARY INFORMATION

MAINE TECHNOLOGY INSTITUTE

Statement of Activities

Year Ended June 30, 2014

		Program Revenues		
	Expenses	Charges For Services	Operating Grants and Contributions	Net Expense and Changes in Net Position
Business-type activities	$ 9,372,184	$ 232,497	$ 8,796,232	$ (343,455)
Total	$ 9,372,184	$ 232,497	$ 8,796,232	(343,455)
General revenues				
Unrestricted interest and investment earnings				318,118
Miscellaneous income				760
Total general revenues				318,878
Change in net position				(24,577)
Net position, beginning of year				892,678
Net position, end of year				$ 868,101

BerryDunn