

MAINE STATE LEGISLATURE

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ANNUAL REPORT **2018**



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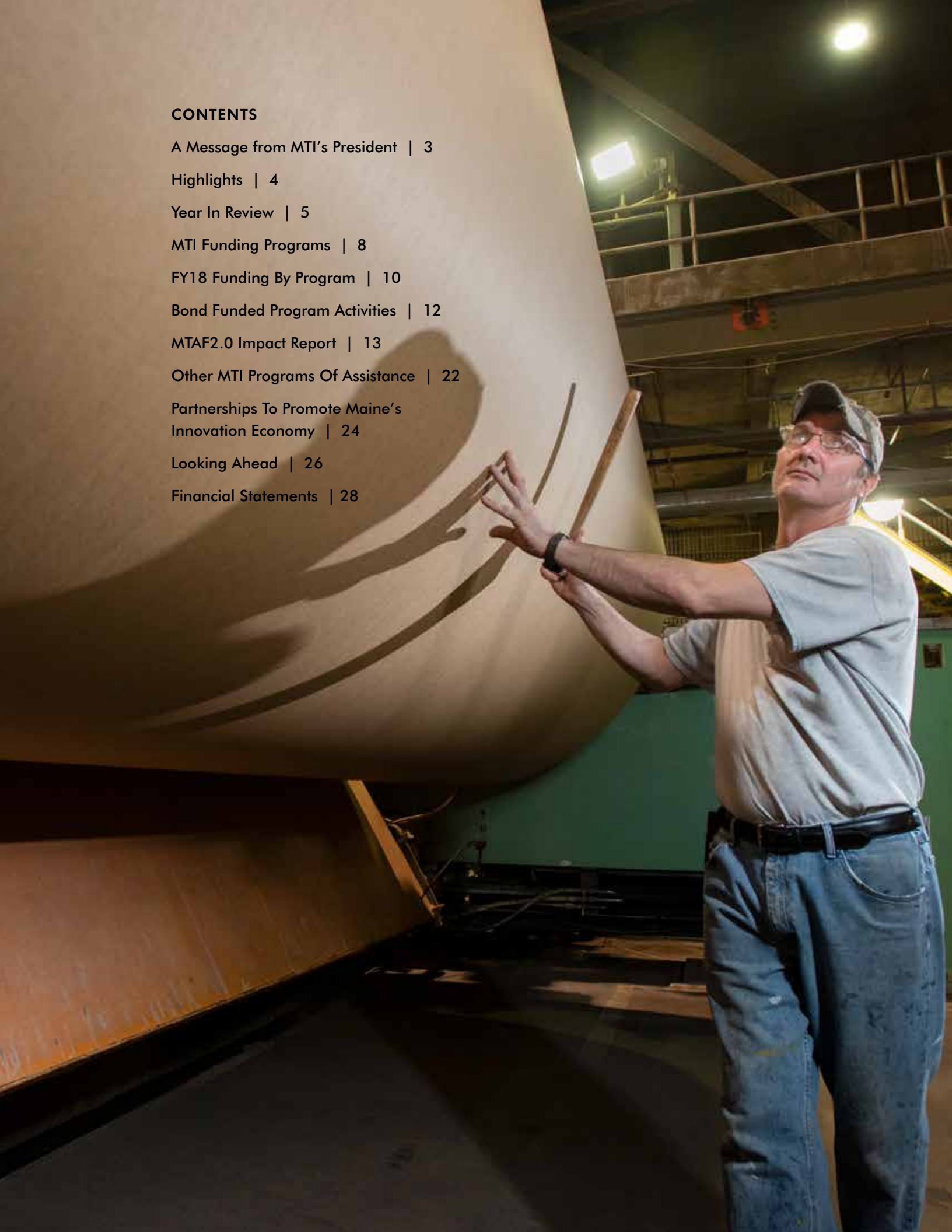
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A Message from MTI's President



DEAR FRIENDS,

It's been an exciting year of change and growth at the Maine Technology Institute.

Thanks to the Maine Technology Asset Fund 2.0 bond, MTI had its most impactful year to date. We put over \$57 million to work and supported 175 innovative projects in almost every corner of the State of Maine. Plus, we have begun implementing our 2017 strategic plan and completely changed our approach to funding innovation.

MTI is Maine's industry-led, publicly funded, nonprofit corporation whose core mission is to diversify and grow Maine's economy. We do this by encouraging, promoting, stimulating, and supporting innovation and its transformation into new products, services, and companies, leading to the creation and retention of quality jobs in Maine.

Fiscal Year 2018, which ended June 30, 2018, was truly one for the record books. In a normal year, MTI is able to put \$6-10 million to work across Maine. The influx of funding from the MTAF2.0 bond multiplied that exponentially. This second MTAF was designed to catalyze private sector innovation. It helped generate \$240 million in private sector matching funds, and according to an independent analysis, will generate 5,350 jobs and \$1.4 billion in economic impact over the next 3 years alone.

In addition, as MTI deployed this extraordinary level of funding, MTI's board and staff also

worked tirelessly to implement changes stemming from our new strategic plan adopted in June 2017. This process was very thorough and has led to MTI launching a new approach to funding innovation in Maine. This new approach, focused on the customer and tailored to their individual needs, has begun as of FY19.

The stories behind these investments are compelling; you'll find some of them in this report and in the accompanying insert that recaps the MTAF2.0 process and awardees. From 120 new jobs at a paper mill in Jay, to a state-of-the-art mouse vivarium in Ellsworth that will lead to both more jobs and advances in medical research, to creating new prospects and expanding markets around the world. MTI's investments will generate meaningful economic impact that will benefit Maine companies, workers, and taxpayers for years to come.

Each month, I write more about Maine's innovation economy from my view as the President of MTI in our newsletter. You can read previous editions of my blog on the website and join the newsletter distribution list for all the latest updates from me and MTI.

I hope you enjoy this year's Annual Report as much as we enjoyed supporting the projects behind it.

A stylized, handwritten signature in blue ink, appearing to read 'Brian Whitney'.

Brian Whitney
President, Maine Technology Institute

FY18 Highlights

175

Awards

\$57M

Funds Distributed

\$240M

Private Sector Matching Funds



Year In Review

Mainers have always been inventive, clever, resourceful, and creative. We even have a name for it: Yankee ingenuity. Without question, Maine workers and entrepreneurs enjoy a well-earned reputation for originality, and possess an unrivaled and legendary work-ethic. Since 1999, MTI has funded innovations developed by Maine inventors in garages all the way up to large public companies, world renowned research organizations, and academic institutions. We have funded diverse projects leading to innovations in gene sequencing and ocean microbial systems, oyster farming in a former lobster pound, melting furnaces for reactive and refractive metal alloys, and innovative, reusable construction and renovation materials, to name but a few.

MTI's programs help innovators accelerate progress to the market, help leverage additional private and public investment, help create quality jobs in Maine, and ultimately, have a positive economic impact across all of Maine. Since its inception, MTI has provided careful stewardship and investment of over \$260 million in public funds across more than 2,500 projects throughout Maine that helped leverage well-over \$1 billion in private sector co-investment.

MTI is critical to the state's economic development strategy and a significant driver in the long-term expansion of research and development assets resulting in the creation of new ventures. In FY18, MTI had its most impressive year in its nearly 20-year history. MTI made 175 awards totaling, in aggregate, \$57,045,269 (matched by \$240,570,345 in private sector funding). According to an independent economic impact analysis, the funding will generate over 5,350 jobs and \$1.4 billion in economic impact in Maine over the next three years.

TOTAL IMPACT HISTORIC TO DATE

\$260M

Stewardship and investment

2,500+

Projects across Maine

\$1B+

Private sector co-investment

FY18 INVESTMENTS WILL PRODUCE

5,350+

Jobs across Maine

\$1.4B

Economic impact in Maine
over the next three years

SUCCESS STORY

”

MTI helped us with both funding and connections. MTI is really putting a stake in the ground around innovation.

Bruce Bickford
Co-Founder & COO

STARC Systems, Inc.

Development Loan | \$500,000

STARC Systems is a fast-growing, innovative building materials manufacturer in Brunswick. MTI has been part of the STARC Systems story from the beginning—in fact, the two co-founders met at an MTI event. Now in a high-growth phase, STARC has hired more employees, increased the quality of its highly competitive benefits package and is bringing Maine-made building products to the national and international stage.

The most recent award from MTI allowed STARC to purchase more machinery to increase capacity and add an additional manufacturing shift. This directly led to hiring staff for these high-quality manufacturing jobs. STARC provides a competitive benefits package for their employees and seeks to improve it each year. STARC expects to employ 25 people for its manufacturing team by the end of 2019.

10

Additional
manufacturing jobs

60%

Growth year-over-year

\$3.5M

Amount of add-on outside
investment

A Year of Internal Change: Implementation of MTI's Strategic Plan

In 2018, MTI embarked on a year-long process to operationalize its recently adopted strategic plan. The implementation plan was completed in the fall of 2018 and included the following changes to MTI's approach to funding innovation in Maine:

- Improvements to application, review and monitoring processes that create an improved customer experience and efficiencies for innovators and staff.
- Improvements to the reporting and monitoring processes that offer a clear understanding of MTI's investments' geographic distribution, impact and performance.
- A tailored and fluid approach to delivering funding and services to innovators and innovation ecosystem partners.

Key Events and Happenings



STARTUP MAINE took place June 21-23 at the Maine College of Art in Portland. The 3-day event brought together inspirational speakers, featured valuable discussion panels, and integrated exhilarating and entertaining evening networking events. The Maine Technology Institute was proud to be a sponsor of Startup Maine and particularly enjoyed the many beneficial stories that were conveyed by Maine's dreamers, doers, and risk takers.



STATE OF THE ENTREPRENEURIAL ECOSYSTEM 2018 was held in Augusta on March 28, celebrating all the things that are occurring in Maine's innovation and entrepreneurship ecosystem. It provided a recap and celebration of the things that happened in 2017 and offered a glimpse into the happenings for 2018. The event, hosted by Maine Accelerates Growth—an MTI-funded initiative—featured short presentations on different topics and offered an opportunity for attendees from organizations across Maine to connect and learn more about the work being done to expand opportunity and prosperity across Maine. Maine Accelerates Growth also released the second year of the Maine Ecosystem Metrics. That document can be found at <http://bit.ly/EcosystemMetrics>



MAINE STARTUP INSIDER COLLABORATION In 2017 and 2018, MTI entered into a sponsored content agreement with Maine Startups Insider (MSI), a website and weekly newsletter focused on Maine's startup community. The goal of this online content marketing series is to share the stories of Maine entrepreneurs and, in particular, companies that have received funding from MTI. The stories can be found here: <http://bit.ly/MSIMTicollab>

Organization

MTI leads the development of a strong culture of innovation in the State of Maine and is well-positioned for continued growth and effectiveness. It is organized as a nonprofit corporation, consistent with the provisions of the Federal Internal Revenue Code. By-laws were drafted and corporation documents filed in September of 1999. A Board of Directors consisting of thirteen voting members and two non-voting members governs MTI. The Governor appoints ten directors, eight representing the targeted technologies and two of whom have demonstrated finance, lending or venture capital experience. The Commissioner of the Maine Department of Economic and Community Development, the Chancellor of the University of Maine System, the President of the Maine Community College System and the Director



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

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

MTI Funding Programs

MTI makes direct investments in ventures pursuing promising technologies, providing targeted commercialization assistance to Maine companies and strengthening Maine's technology clusters. 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.

Funding from MTI signals a critical validation or endorsement of an idea, product or service. The MTI application process requires a disciplined approach, demanding that the entrepreneur attempt to define a business model and build a business case for his or her idea, product or service. That validation helps lend credibility and better positions the product or process for

success in the marketplace and with investors and traditional lenders.

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. MTI award programs are based on scientific or technical merit, commercial feasibility and economic impact potential to the state.

Descriptions and summaries of the award programs follow on the succeeding pages. As a result of implementing our 2017 Strategic Plan, FY18 was the final year for these award programs. Starting in FY19, our funding is more customer-focused and tailored to individual needs.



A grant from MTI helped us improve our product and scale our business. Our business growth means job security and higher wages for employees in rural, Western Maine.

Beth Weisberger, Owner

SUCCESS STORY

Gneiss Spice

Grant | \$25,000

Gneiss Spice, founded in 2009, produces magnetic spice jars in Albany Township and sells primarily online to an out of state market. MTI funds were used to develop prototypes and determine feasibility of a more durable lid design. With the improved lid, Gneiss Spice expects the new design to be a catalyst to scale the business to the next level and to the international marketplace.

Much of the Maine economy is fueled by small businesses, especially in rural Western Maine. Creating a sustainable business with reliable wages is helping Gneiss Spice employees to invest in their own financial security. Additionally, the company donates 5% of their profits to fighting food insecurity in the state. As Gneiss Spice expands, they expect a bigger impact in the local community.

60

Number of spice jars that can fit on an extra large plate

416

Unique spice and seasonings sold

FY18 Funding By Program

SIMPLE NOTES

were used in FY18 to fund four noteworthy projects. Those four FY18 awards totaled \$3,500,000 (matched by \$29,325,000).

4

Awards

\$3,500,000

Investment

\$29,325,000

Match

DEVELOPMENT

LOANS, competitive awards of up to \$500,000 per project, were awarded to support the conversion of innovative research into new products, processes and companies. In FY18, MTI funded 9 awards for \$2,513,674 (matched by \$7,518,040).

9

Awards

\$2,513,674

Investment

\$7,518,040

Match

SEED GRANTS were offered three times in FY2018 to support the conversion of innovative research into new products, processes, and companies. Funded activities could include proof of concept work, prototype development, field trials, prototype testing, pilot studies, or technology transfer activities. MTI offered Seed Grants as direct investments in companies that are pioneering Maine's future through their technology innovations. In FY18, MTI approved 76 awards, representing \$1,643,958 (matched by over \$2,084,071).

76

Awards

\$1,643,958

Investment

\$2,084,071

Match

CLUSTER INITIATIVE PROGRAM

awards were competitive grants aimed to accelerate the strength and scale of Maine's high-potential technology intensive clusters. The Cluster Initiative Program supported the success of Maine businesses through joint work of companies, service providers, research laboratories and educational institutions by funding infrastructure or common programs that help them collectively to be more competitive, develop new products and services and reach new markets. In FY18, MTI approved three awards for \$742,672 (matched by \$897,113).

3

Awards

\$742,672

Investment

\$897,113

Match

ACCELERATOR

GRANTS were available to startup/early stage companies that had been awarded MTI Development Loans (DLs) and to companies that had recently been chosen for a federal Small Business Innovation Research /Small Business Technology Transfer (SBIR/STTR) Phase I or Phase II grant and/or a Broad Agency Announcement (BAA) award. Funds were to be used to advance the new technology to market and to firmly establish or increase the scope and sustainability of the business enterprise. In FY18, MTI awarded 15 Business Accelerator Grants for \$379,508 (matched by \$1,224,384).

15
Awards

\$379,508
Investment

\$1,224,384
Match

TECHSTART GRANTS

were awarded monthly and could be used to support specific activities such as business plan development, intellectual property filings, market analysis, or technology transfer activities out of research institutions. In FY18, MTI approved 31 awards, representing \$138,118, (matched by \$254,983).

31
Awards

\$138,118
Investment

\$254,983
Match

THE EQUITY CAPITAL FUND

provided investment capital to companies to help them leverage venture funds and individual equity investor capital. In FY18, MTI made one equity investment of \$100,000 (matched by \$1,400,000), on the same terms as lead venture capital funds and individual investors.

1
Award

\$100,000
Investment

\$1,400,000
Match

PHASE 0 KICKSTARTER

GRANTS were offered to individuals and companies seeking to submit federal Small Business Innovation Research and Small Business Technical Transfer (SBIR/STTR) Phase I proposals to one of the eleven participating government agencies. Awards of up to \$5,000 were offered to support competitive federal proposal submissions from Maine applicants. Funds could be used for external direct costs associated with preparing a proposal, such as hiring grant writers, subject matter experts, other consultants or purchasing market research reports needed to inform a proposal. In FY18, MTI awarded 8 Phase Zero Grants for \$39,200 (matched by over \$47,815). These investments and the technical assistance offered by MTI helped secure nearly \$4 million in federal grants in FY18.

8
Awards

\$39,200
Investment

\$47,815
Match



SUCCESS STORY

Community Shellfish

Award: Marine Bond | \$100,000

” Introduction of aquaculture to a traditional working waterfront culture has benefits for all involved; the company, our employees and our fishermen. –Boe Marsh, CEO

Community Shellfish is primarily a seafood wholesaler and dealer in Bremen, Maine. A grant from MTI allowed them to rehabilitate and repurpose a grandfathered, unused lobster pound enclosure for development as a dynamic and innovative aquaculture habitat to grow shellfish. Community Shellfish then started an oyster farm, where the “Cora Cressy Oyster” is grown and then sold to retailers and restaurant distributors up and down the East Coast.

By repurposing an area once used exclusively for commercial fishing, Community Shellfish is creating diversification of income for fishermen and the community—while preserving the working waterfront. This project allowed the company to hire local construction firms and workers, retain seasonal employees throughout the year and add hours for current part-time employees.

50,000

Number of oysters they started with

450,000

Current harvest

800,000

Expected oysters next year

Bond Funded Program Activities

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

Marine Jobs Fund

In 2014, the Legislature authorized, and the voters of the State of Maine approved, (Public Law 2014, Chapter 592) a \$7,000,000 bond issue to facilitate the growth of marine businesses and commercial enterprises that create jobs and improve the sustainability of the State's marine economy and related industries through capital investments. In May 2016, the newly formed Alliance for Maine's Marine Economy, a consortium of Maine-based marine businesses, research institutions and educational organizations, was selected by the State of Maine as the recipient of the \$7 million in funding and pledged to provide \$9.3 million in matching funds. The Alliance's plan, spearheaded by the University of Maine, called for immediate infrastructure investments in public and private institutions throughout Maine. The \$7 million award also included \$1.92 million to fund a competitive Marine Jobs Fund Small Capital Grants Program. MTI was asked to administer this competitive process and issued a request for proposals in July 2017. MTI received 39 letters of intent. The Alliance for Maine's Marine Economy conducted the review and evaluations of the proposals and made recommendations to the MTI Board of Directors. Ultimately, in FY18, the MTI Board of Directors made 10 awards from the Marine Jobs Fund Small Capital Grants program totaling \$1,924,303 (matched by \$6,507,200).

MTAF 2.0

Maine Technology Asset Fund 2.0

IMPACT REPORT

\$46M

Total Funds Awarded

\$1.4B

Economic Impact

5,350

Expected Jobs

About

In June 2017, voters approved the second Maine Technology Asset Fund 2.0 (MTAF2.0) program. The initiative specified that “forty-five million dollars (\$45,000,000) would be distributed by the Maine Technology Institute in the form of grants to support infrastructure, equipment and technology upgrades in the following targeted technology sectors: biotechnology, aquaculture and marine technology, composite materials technology, environmental technology, advanced technologies for forestry and agriculture, information technology, and precision manufacturing technology. Funds were to be awarded to public and private entities in Maine through a competitive process, and recipients were required to match these State dollars with an equivalent amount of federal or private funds.”

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

Recipient Information

18

Recipients

\$193M

Private Sector Match

7

Targeted Sectors



SUCCESS STORY

”

Almost all of our competitors outsource their manufacturing to Asia. We need to develop the most efficient and effective American-based manufacturing operation we can. Our new CNC cutting machine significantly increases our yields on high-tech fabrics that are 7-15 times more expensive than traditional alternatives.

—Dan St. Pierre, Co-Founder & COO

Hyperlite Mountain Gear

Grant | \$177,760

A young outdoor industry company with high growth, Hyperlite Mountain Gear is challenging the status quo. Manufacturing their products at an 1880's era mill in Biddeford, Hyperlite is competing with entrenched brands producing overseas with lower costs and using lower-tech materials. The company is driven to produce a premium product despite these constraints and prides itself on their minimalist high performance gear. The MTAF2.0 award is allowing Hyperlite to focus on efficiency and automation to accelerate production growth and increase market share.

130

Age of their repurposed mill space

0

Nonessential features in their high performance gear

The Awards



vetsfirstchoice



VETS FIRST CHOICE

Location: Portland

Award Amount: \$9,000,000

Total Project Cost: \$20,000,000

Vets First Choice plans to build a new corporate facility on the peninsula in Portland, Maine. This multi-million dollar project will include an automated fulfillment center, state-of-the-art specialty pharmacy, and a world-class science, technology, engineering and math center. This major expansion will create hundreds of high-quality jobs in Maine. Vets First Choice has formed a strategic collaboration with the University of New England College of Pharmacy for residency, training and development programs. Vets First Choice is a leading provider of technology-enabled healthcare services for companion and equine veterinary practitioners. Founded in 2010, the company partners with veterinarians to create insight into gaps in patient care and offers professionalized proactive prescription management to drive client engagement and improve compliance.

JACKSON LABORATORY

Location: Bar Harbor

Award Amount: \$12,500,000

Total Project Cost: \$60,000,000

The Jackson Laboratory (JAX) is constructing a state-of-the-art research mouse production facility in Ellsworth, Maine. The facility will include innovative, automated systems for handling

production materials. These systems will significantly increase production safety and efficiency and enhance product quality and consequently will advance the Laboratory's position as the global leader in research mouse production. JAX has committed \$75 million to phase 1 of the 3-phase project and will match the \$12.5 million grant from MTAF2.0 with an additional \$47.5 million, to complete the project's second phase.

C & L AEROSPACE HOLDINGS, LLC

Location: Bangor

Award Amount: \$2,634,500

Total Project Cost: \$5,669,000

The C&L Aviation Group award will lead to additional on-site manufacturing and aircraft modification. These funds will allow expansion of the current facility and purchase of necessary equipment to support the increased engineering and production efforts. Company revenue is expected to grow 50% over the next three years and new jobs to be generated at the Bangor, Maine headquarters.

GOOD TO-GO LLC

Location: Kittery

Award Amount: \$150,000

Total Project Cost: \$300,000

Creating and manufacturing gourmet dehydrated meals in Maine since 2014, Good To-Go had hit a bottleneck in packaging

their product efficiently. This award is going to build a USDA compliant packaging room housing a semi-automatic filler/bagging machine. This will increase their packaging capacity by 300%, meeting existing consumer demand, increasing sales, and allowing the company to keep growing.

HYPERLITE MOUNTAIN GEAR

Location: Biddeford

Award Amount: \$177,670

Total Project Cost: \$355,341

Hyperlite Mountain Gear, based in Biddeford, is a manufacturer of 100% USA-made ultralight outdoor equipment using high-tech material technologies and designs. The company's MTAF 2.0 award is for a production automation and efficiency project that will help further commercialize manufacturability and market competitiveness of their high-tech, high-quality, high-performance gear line.

ARCAST

Location: Oxford

Award Amount: \$187,500

Total Project Cost: \$500,000

Arcast Inc., based in Oxford Maine, is a relatively young company, but one that has made its mark in the field of metallurgical processing. The company has built an international portfolio of customers for its process equipment, which includes arc-melting systems and inert-gas-atomizers

**SMARTLAM****Bristol**
Seafood You Can Trust**SaviLinx**
CONTACT CENTER EXPERTS

for the production of high purity metal powders. Arcast is now expanding operations into powder production, employing its own technological developments. The MTAF2.0 funding will greatly accelerate that ambition at the cutting edge of manufacturing technology, such as additive layer manufacturing (3D printing).

READY SEAFOOD COMPANY

Location: Saco

Award Amount: \$2,250,000

Total Project Cost: \$6,000,000

Ready Seafood will be developing a Maine Lobster Full Utilization Campus in order to maximize the value of Maine's lobster resource by collaborating with Maine's top lobster scientists. This new facility will create 40 new full-time positions and generate tens of millions of dollars in additional revenue. The campus will include an innovative lobster holding mechanism, a new lobster processing plant, a research lab, a lobster shell dehydration plant and a logistics hub.

SAVILINX

Location: Brunswick

Award Amount: \$95,000

Total Project Cost: \$245,239

SaviLinx was founded by Maine native Heather Blease in 2013 as a HUBZone Certified, Woman Owned Small Business providing business process outsourcing contact services to the public and

private sectors. The MTAF2.0 grant enables SaviLinx to create an innovative system called the SaviLinx Enterprise Information Management System ("SEIMS") that will enable the delivery of enhanced professional services providing strategic information and analytics to their clients.

SEA BAGS

Location: Portland

Award Amount: \$1,000,000

Total Project Cost: \$4,000,000

Sea Bags has been handcrafting totes and accessories from recycled sails on Custom House Wharf in Portland since 1999. The company's MTAF 2.0 award will be used to develop new precision manufacturing capabilities to build capacity and accelerate growth in customized products, which are already the top seller and competitive differentiator at the company.

SMARTLAM

Location: Site to be determined

Award Amount: \$3,000,000

Total Project Cost: \$22,500,000

Founded in 2012, SmartLam is the first manufacturer of Cross-Laminated Timber (CLT) in the United States. CLT is an engineered wood building material and sustainable alternative to traditional building materials like steel, concrete and masonry. With demand for CLT growing, SmartLam is expanding

their operations from their Montana base to build a new manufacturing facility in Maine. Site selection for the facility is in progress and will create manufacturing employment opportunities.

VERSO CORPORATION

Location: Jay

Award Amount: \$4,000,000

Total Project Cost: \$17,000,000

The MTAF2.0 grant has allowed the Verso Androscoggin Mill to do capital upgrades to the shuttered pulp line and No. 3 Paper Machine and allowing this equipment to restart for the manufacture of packaging grades. This increase in production will create approximately 120 full-time jobs at the Androscoggin Mill and additional jobs throughout the Maine forest products supply chain.

BRISTOL SEAFOOD

Location: Portland

Award Amount: \$743,698

Total Project Cost: \$4,859,243

This grant along with capital committed by the company will support continued growth of Bristol Seafood through better product quality, innovative packaging capabilities, and new verticals. As a result of these investments, the company expects to create over 40 new jobs over the next five years.



120

Expected jobs

450K

Tons of paper to be produced per year

”

The restart of the No. 3 paper machine positions the mill for future success that is expected to benefit loggers and other suppliers in the state, local businesses, and the broader economy in Franklin County and beyond.

Kathi Rowzie,
Vice President,
Communications
and Public Affairs

SUCCESS STORY

Verso Corporation

Grant | \$4,000,000

Founded in 1965, Verso currently has seven mills across the United States, including the Androscoggin Mill in Jay, Maine. In 2017, Verso cut production at the mill, first idling and then closing down the No. 3 paper machine. Both the State of Maine and Verso were interested in finding ways to bring back these jobs and the economy the mill supports in Franklin County and beyond.

The MTAF 2.0 award was able to supplement Verso's investment to upgrade and restart the No. 3 machine. The upgrade will allow Verso to enter the growing global containerboard market. The annual paper production from the mill is expected to almost double, and 120 new jobs to be created.



ON Semiconductor®



HUSSEY SEATING

Location: North Berwick

Award Amount: \$2,812,500

Total Project Cost: \$8,200,000

A 6th generation family-owned business founded in 1835, Hussey has operated continuously in North Berwick, Maine for over 182 years, where it currently employs 280 people. The multi-phased innovation project supported by the MTAF2.0 award will have an immediate impact on preservation of market share and job retention, and is ultimately expected to have a significant positive impact on revenue and full-time employment.

J.S. MCCARTHY

Location: Augusta

Award Amount: \$1,500,000

Total Project Cost: \$5,600,000

J.S. McCarthy Printers, headquartered in Augusta, Maine, was awarded \$1.5 Million from the MTAF2.0 Program to assist in the purchase of a Heidelberg printing press as part of a \$6 million investment. J.S. McCarthy and Heidelberg collaborated to develop innovative proprietary technology which will be 50% more productive than the Company's current equipment. The purchase will allow J.S. McCarthy to increase overall capacity to substantially grow sales, creating new jobs in Maine. For over 60 years, J.S. McCarthy has grown to be one of the largest sheetfed printing operations on the East Coast with 230 full-time employees operating 24/7.

DEEPWATER BUOYANCY, INC.

Location: Biddeford

Award Amount: \$187,500

Total Project Cost: \$500,000

DeepWater Buoyancy, Inc. is the world's largest producer of subsea buoyancy products for the oceanographic industry and has a vast line of buoyancy solutions for offshore oil & gas and other marine companies. The MTAF2.0 grant supports a substantial capital investment to upgrade facilities, add equipment, and introduce new processes. The result should be an increase in revenues and the addition of numerous technical, professional and production jobs.

PLEASANT RIVER LUMBER COMPANY

Location: Dover Foxcroft

Award Amount: \$4,226,000

Total Project Cost: \$12,000,000

Pleasant River Lumber is a Maine business employing more than 300 people throughout the State. They will be expanding and modernizing their Dover-Foxcroft facility with the addition of a new planer mill, continuous dry kiln, and high speed small log sawing line. Utilizing the latest technology, they will be able to efficiently process small logs and balsam fir, both of which currently lack sufficient markets in Maine. This will help meet the needs of Maine landowners and also provide by-products for the recovering

paper mill industry and lumber for the growing Cross Laminated Timber markets.

ON SEMICONDUCTOR

Location: South Portland

Award Amount: \$1,000,000

Total Project Cost: \$23,200,000

ON Semiconductor plans to invest \$23.2M of capital for equipment and facilities infrastructure to enable the introduction and volume manufacturing of two new technologies at the South Portland Maine Wafer Fabrication Facility. The introduction of the new technologies will advance factory capability, improve factory utilization and create more than 25 jobs. The \$1 million MTAF2.0 grant will be used to support capital costs.

TILSON

Location: Portland

Award Amount: \$602,737.50

Total Project Cost: \$1,607,300

Tilson is a high-growth, 400 employee technology professionals company headquartered in Portland, Maine. Tilson's project invests in mission critical assets to equip its Portland engineering center of excellence to increase its global competitiveness, reduce cost and add engineering jobs in Maine, by building systems to automate broadband network engineering, ultimately capturing additional market in network design-build projects across the country.



SUCCESS STORY

Jackson Lab

Grant | \$12,500,000

85%

of operating budget
spent in Maine

28%

of new employees move
from outside the state

A true Maine success story, Jackson Labs (JAX) was founded almost 90 years ago in Bar Harbor, Maine. In the business of producing lab mice almost as long, JAX has seen demand constantly increase as research expands. Used by researchers in 75 countries and 27,000 laboratories, Jackson mice are the gold standard. Expanding the production facilities in Maine was a priority as the existing facilities were stretched to the breaking point. From a macro viewpoint, JAX was eager to expand the mouse business in Maine, and mill closures were releasing good Maine employees that JAX could take advantage of.

In 2012, JAX was able to purchase the Lowes space in Ellsworth and make plans to create a state of the art mouse vivarium. The MTAF 2.0 grant allowed JAX to accelerate the build out of the Ellsworth facility. While the full build-out will take 8 to 10 years, the new facility will allow JAX to continue hiring and staying on the forefront of mouse production.

”

JAX has, for decades, worked with the state and MTI. It is a great public-private relationship that has continued to grow the infrastructure of the Jackson Laboratories, along with the program support from federal agencies, philanthropists and other agencies.

LuAnn Ballesteros,
VP External and
Government Affairs

Maine Cancer and Aging Resource Bond

In 2014, the Legislature authorized (Public Law 2014, Chapter 574), and the voters of the State of Maine approved, \$10 million in bond funds to build a research center, to discover genetic solutions for cancer and the diseases of aging, and to promote job growth and private sector investment in Maine. The funds were awarded through a competitive state process to expand the state's research capabilities in the areas of mammalian genetics and murine biometric analytics, make the state a global resource for precision medicine, improve the state's capacity to attract and retain young professionals, and bring additional grant funding, private sector investment, job growth, and economic activity to the state. In July of 2015 (FY16), the Jackson Laboratory in Bar Harbor was announced as the highest scoring bidder and matched its \$10 million award with more than \$11 million in matching funds. The project remains under active management by MTI.

Maine Biomedical Research Bond

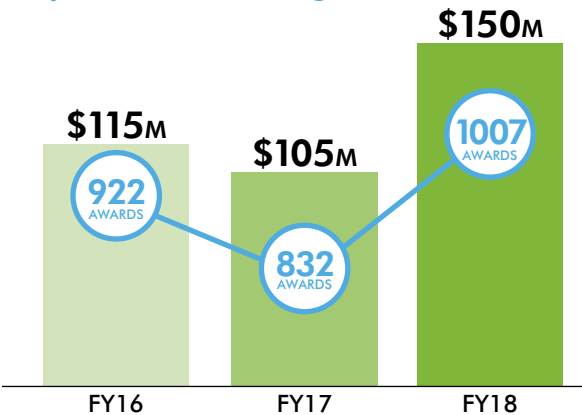
Also in 2014, the Legislature authorized (Public Law 2014, Chapter 568), and the voters of the State of Maine approved, a \$3,000,000 bond issue to modernize and expand infrastructure in a biological laboratory specializing in tissue repair and regeneration located in the state. The funds were awarded through a competitive process to modernize and expand infrastructure in a biological laboratory specializing in tissue repair and regeneration located in the state, in order to increase biotechnology workforce training, retain and recruit to the state multiple biomedical research and development groups and create a drug discovery and development facility that will improve human health and stimulate biotechnology job growth and economic activity. In July of 2015 (FY16), the Mount Desert Island Biological Laboratory was announced as the highest scoring bidder and matched its \$3 million award with

more than \$5.7 million in matching funds. The project remains under active management by MTI.

Maine Technology Asset Fund

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

Funds Under Management Projects Under Management



Other MTI Programs Of Assistance

E-Resident Program

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



SUCCESS STORY

CourseStorm

Loan | Award: \$99,582

” MTI has been instrumental in helping us grow the company—the connections, the encouragement and the mentoring has been a huge benefit. I tell a lot of people about MTI. —Brian Rahill, CEO

CourseStorm is an exciting software startup based in Orono, offering a turnkey, online registration and marketing system built specifically for noncredit education organizations to list their classes online and process registration and payments. CourseStorm has seen excellent traction in the small to medium sized education market but needed additional product investment to scale the software to continue their fast-paced growth.

A Development Loan from MTI helped CourseStorm develop their product for new markets and automate processes to improve efficiency. MTI's funding has also helped CourseStorm attract significant outside investment from out-of-state investors and angel investors. Taken together, CourseStorm has hired more people—often recent University of Maine system graduates—for quality, technical jobs. These are the types of jobs that keep young people in the state and make for a vibrant entrepreneurial community in the Bangor region.



People who have used CourseStorm to register for a class

The SBIR/STTR Technical Assistance Program

The SBIR/STTR Technical Assistance Program fulfills MTI's statutory mandate that it operate a program that provides technical assistance to Maine small businesses to help them develop competitive Small Business Innovation Research (SBIR) and Small Business Technical Transfer (STTR) proposals for submission to federal agencies participating in the SBIR/STTR programs. MTI provides advice on how best to fashion a competitive application for the estimated \$2.5 billion that is available each year from the eleven federal agencies that participate in the SBIR/STTR programs. The size of the individual federal grants can range from under \$100,000 to \$1 million. In FY18, with assistance from MTI, Maine businesses received over \$4 million in SBIR/STTR awards.



SUCCESS STORY

Montalvo

Grant | \$5,000



Know your market as well as you know your technology. One of the common reasons companies fall short is they are focused too much on the technology and not nearly enough on the market.

—Robin Goodwin, CEO

Montalvo, of Gorham, specializes in manufacturing superior web control products and offering complete web control services and support. They have received both a Phase I and a Phase II award from the National Science Foundation. The Phase I grant cut a potential 4-year development window in half and gave them the ability to make process changes, connect with potential customers, and raise their visibility for future partners. The Phase II grant, which is focused on commercialization, allowed Montalvo to invest in capital improvements and develop prototypes to show to customers.

\$225,000

National Science Foundation Phase I grant

\$748,000

National Science Foundation Phase II grant

Partnerships To Promote Maine's Innovation Economy

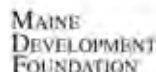
In addition to direct support of innovators, MTI also supports programs and infrastructure that encourage innovation. Under its governing statute, MTI is instructed to cooperate with the Maine Department of Economic & Community Development (DECD), Manufacturing Extension Partnership (MEP), University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

To foster this complementary system of support services, MTI works collaboratively with organizations across Maine to support programs and initiatives designed to assist entrepreneurs and small businesses and to promote and celebrate Maine's culture of ingenuity and its vibrant startup community. One of MTI's most celebrated collaborations is with Maine Accelerates Growth (MxG).

MxG helps accelerate the growth of companies, communities, and talent by funding, creating, and leveraging high impact entrepreneurship and innovation programs and events through a collaborative and complementary network of organizations and individuals propelling prosperity across Maine. Recognizing that it takes an amazing amount of work, skilled employees, training, education, capital, and luck to build a company that makes a positive contribution to its stakeholders and the economy, MTI originally seeded this effort with a \$200,000 challenge grant, matching contributions to MxG on a one-to-one basis.

MxG has created events and programs to grow Maine's innovation community and has been supported all over our State, with thousands of people participating in those events and programs.

Active MTI Collaborations, Affiliations and Partnerships



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

Our Katahdin
(Millinocket & Medway)

Engine Biddeford
(Biddeford)

Big Gig (Orono & Bangor)

StartUp Maine (Portland)

Midcoast Magnet (Rockland)

Top Gun (Lewiston-Auburn,
Bangor, Midcoast and
Portland)

Maine Wood Innovator's
Conference (Hiram)

Greenlight Maine

Maine House of Genius

Innovate for Maine Fellows
Internship Program

TEDxDirigo

SUCCESS STORY

Maine Science Festival

Event Sponsorship | \$8,000

40K Attendees

70 Events



” Having MTI as a sponsor is like having a validation that we’re doing something innovative and meeting their mission.

—Kate Dickerson, Founder & Director

The Maine Science Festival (MSF) is an independently funded program of the Maine Discovery Museum. The MSF weekend, launched in 2015, is a celebration and exploration of Maine science, engineering, technology and innovation. Through sponsorships, almost all weekend events are available free-of-charge to ensure that learning about and celebrating Maine science, research and innovation is available to all Mainers.

The goal of the MSF is for attendees to leave amazed and delighted at the impact science is having in Maine. The MSF seeks to celebrate what’s happening in Maine and to educate Mainers that you don’t have to leave the state to be a part of groundbreaking, innovative work happening here. In the past four years, MSF mission has reached over 40,000 attendees.

Beyond the financial sponsorship, the MSF event organizers leverage MTI connections and network for event programming, ideas and content.

Looking Ahead

The new MTI Investment Process will be more fluid than before. Clients may apply for funds at any time and we no longer have fixed programs with specific deadlines. Our goal is to provide more tailored support, more customer-centric service, and to maximize MTI's impact in Maine.



INITIAL CONTACT

No matter how a client comes to MTI, they will be asked to complete MTI's new online intake form first. Within a week, an MTI staff member will schedule an initial meeting. This staff member will serve as the client's advisor and primary contact going forward.



MEETING

During the initial meeting, the advisor will learn about their goals and conduct a VIRAL[®] assessment. This tool is a way to measure the maturity of an organization or business across eight different areas including the development of the product, team, business model, scalability, value proposition and market size.

Our goal is to advise on what types of work are likely to be approved and how much MTI funding they are likely to qualify for. If the client is not a good match for MTI right now, we may refer them to one of our partner organizations.



APPLICATION

MTI has gotten rid of application deadlines. Clients may complete MTI's online application on their own schedule and they may save the application and come back to it later. The application is a mix of written questions and data about the innovation, company, and goals for the business.

The New MTI Investment Process

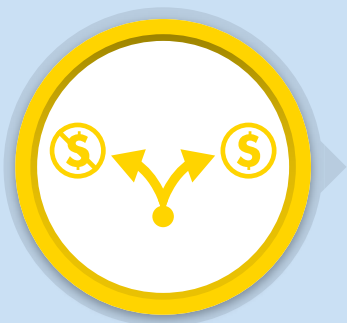
In Fiscal Year 2019, MTI anticipates playing a leading role in many noteworthy innovation and research and development initiatives.

The organization will continue its efforts to operationalize its strategic plan by launching a new funding approach to catalyze innovation in Maine.



REVIEW

MTI's review timeline is fluid and depends on the amount of funding requested, but is generally 2 to 9 weeks. The review includes an evaluation of the technology, market, team financials, and projected Maine impact.



FUNDING DECISION

The applicant's MTI advisor will contact them with a funding decision and any conditions associated with it. The contract package will be prepared and emailed to them for review and signature.

If MTI decides against funding a project, applicants will receive feedback regarding why the application was not approved. They may be able to reapply once specific factors have been addressed. Applicants may also be referred to other programs or partners that would be a better fit for the project than MTI.



REPORTING AND ONGOING SUPPORT

MTI will reach out to awardees on a quarterly basis to review progress. For larger projects, milestone reports may be required from awardees for each scheduled distribution of MTI funds (based on the original application). For all funded projects, a final report is required to confirm achievement of the original proposed Scope of Work. In addition, all MTI clients will be required to submit annual impact reports via our online portal for 3 years post-award.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Maine Technology Institute

We have audited the accompanying financial statements of the business-type activities and the fiduciary funds of Maine Technology Institute (the Institute) (a component unit of the State of Maine), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary fund information of Maine Technology Institute as of June 30, 2018 and 2017, and the changes in net position and cash flows of its business-type activities for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Berry Dunn McNeil & Parker, LLC

Portland, Maine
November 5, 2018

MAINE TECHNOLOGY INSTITUTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

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, 2018 and 2017 ("FY2018 and FY2017" or "Fiscal 2018 and 2017"). We encourage readers to consider the information presented here together with the basic financial statements as a whole.

Financial Highlights

- MTI received \$6,572,814 and \$6,612,756 in FY's 2018 and 2017, respectively, from a State appropriation through the Department of Economic and Community Development ("DECD") for general programs. During FY2018, bond funds in the amount of \$25 million were received for the Maine Technology Asset Fund (MTAF). During FY2017, bond funds in the amount of \$2,825,000 for the Maine Human Health Research Bond Fund and \$7,000,000 for the Maine Marine Economy and Jobs Bond Fund were received.
- During FY2018 and FY2017, MTI's funding was curtailed by \$750,000 and \$1.5 million per year respectively due to State budget constraints, and the amounts were returned during June of each fiscal year.
- In FY 2018, MTI approved funding for 140 projects totaling \$7.5 million, compared to 140 projects totaling just under \$6.9 million in FY2017 and 150 projects totaling \$7.5 million in FY2016. FY2018's \$640,000 increase included increases of \$450,000 in Development Loan awards, \$400,000 in Seed Grants, \$96,000 in Business Accelerator Grants, \$50,000 in Equity funding and \$1 million in Bridge Funding, offset by decreases of \$56,000 in TechStart Grants and Phase Zero awards, and \$1.3 million in Cluster Initiative Program (CIP) awards.
- In FY2018, \$46 million in MTAF awards were approved. \$400,000 in awards were approved in FY2017 under the MTAF program. No awards were made under the MTAF program during FY2016.
- During FY2017, MTI began management of the Maine Marine Economy and Jobs Bond Fund for \$7 million. During FY2016, MTI began management of both the Maine Human Health Research Fund and the Maine Biomedical Research Fund, at \$3 million and \$10 million, respectively.
- MTI expended \$8.6 million in payments in FY2018 according to agreed-upon project award milestones, versus \$7.8 million in FY2017 and FY2016. During FY2018, Development Loan disbursements fell \$33,000, CIP payments fell \$564,000 and Seed Grant payments rose \$48,000. Equity payments increased \$50,000. Bridge funding decreased by \$455,000. MTAF payments increased \$1.7 million as a new funding round was deployed. The TechStart, Phase Zero and Business Accelerator programs combine to account for a \$17,000 increase. FY2018 also marked the first year of the Maine Opportunity Growth Fund, which disbursed \$80,000. Payments for the Maine Human Health Research Fund, Maine Biomedical Research Fund and the Maine Marine Economy and Jobs Bond Fund were \$3.6 million in FY2018, \$10 million in FY2017 and \$1.9 million in FY2016. FY2016 was the first year the Maine Human Health Research Fund and Maine Biomedical Research Fund issued payments. FY2017 was the first year the Maine Marine Economy and Jobs Bond Fund issued payments.

MAINE TECHNOLOGY INSTITUTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

- MTI's outstanding commitments for its core awards for FY2018 amount to \$8.5 million, incorporating approximately \$3.1 million in approved awards without executed contracts. For FY2017, these commitments amounted to \$5.6 million, including approximately \$1.1 million in approved awards with unexecuted contracts. Combined MTAF outstanding commitments total \$45.6 million including \$18.4 million related to awards without executed contracts. For FY2017, the initial MTAF Program had \$2.3 million in commitments. There were no unexecuted contracts for MTAF at the end of FY2017. Outstanding commitments for the Maine Biomedical Research Fund at June 30, 2018 and June 30, 2017 were \$0 and \$173,440, respectively, as those funds were distributed completely in FY2018. For the Maine Human Health Research Fund at June 30, 2018 and June 30, 2017 outstanding commitments were \$0 and \$1,069,647, respectively, as those funds were also completely distributed. In FY2018, the Maine Marine Economy and Jobs Bond Fund outstanding commitments as of June 30, 2018 and June 30, 2017 were \$4.5 million and \$4.9 million, respectively.
- MTI received \$785,000 in Development Award repayments during FY2018, compared to \$1,028,000 in repayments during FY2017. For FY2016, \$844,000 was received.
- Approximately \$600,000 was realized from interest income in FY2018, versus \$448,000 in FY2017, an increase of approximately \$152,000, due to favorable interest rate changes. MTI realized approximately \$350,000 of a gain on sale of investment in FY2018 versus no realized gains on sales of investments in FY2017. For FY2016, \$392,000 of interest income was received.
- The bonds that created the Maine Technology Asset Fund, which MTI was directed to administer by the Legislature, were approved by Maine voters in November 2007, June 2010 and June 2017. 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. While operating costs declined 51% to \$38,922 during FY2013 and a further 54% to \$18,093 during FY2014, these costs continued to be paid by MTI out of accumulated net assets. FY2015 MTAF operating costs, also paid out of net assets, were \$105,000 due to the final round of MTAF funding. In FY 2018, FY2017 and FY2016, MTAF operating costs were \$162,000, \$8,872 and \$23,700, respectively, and continue to be paid out of net assets. FY2018 saw an increase in MTAF expenses due to a new funding round approved by the voters.
- The bonds that created the Maine Biomedical Research Fund, the Maine Human Health Research Fund and the Maine Marine Economy and Jobs Bond Fund, which MTI was directed to administer, were approved by Maine voters in November 2014. No administration costs were approved with these bond funds, and so operating costs for these funds were paid out of net assets.
- As good stewards of the monies related to all bond funds which MTI administers, MTI returns all interest earned on the funds held to the Maine State Treasurer's Office on a quarterly basis. For FY 2018, this amounted to a return of \$209,000, compared to \$269,000 in FY2017 and \$122,000 in FY2016.

MTI played a leading role in obtaining a \$3.0 million, three-year grant from the Blackstone Charitable Foundation, early in FY2012. The initiative was designed to stimulate the creation of a strong culture of innovation in Maine that will accelerate more jobs in high-growth firms. Among its responsibilities, MTI has served as the fiduciary agent for the Blackstone Accelerates Growth initiative and recorded

MAINE TECHNOLOGY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

\$313,000 and \$843,000 in grant income and matching special grant expense during FY2016 and FY2015, respectively. This project was completed in FY2016.

- During FY2017, MTI developed and promoted the Maine Accelerates Growth Initiative. This initiative accelerates the growth of companies, communities, and talent by funding, creating, and leveraging high impact entrepreneurship and innovation programs and events through a collaborative and complementary network of organizations and individuals propelling prosperity across Maine. Expenses for this program were \$97,000 for FY2017. For FY2018, those related expenses were \$70,000.
- FY2018 administrative and operating costs were \$1.6 million. FY2017 administrative and operating costs were \$1.5 million, representing an increase of \$100,000 (6.7%). Factors contributing to this increase include consulting fees related to strategic planning efforts and outreach and marketing, as well as increased technology costs. FY2017 administrative and operating costs increase \$160,000 (12%) from the previous year. Notable cost increases occurred in personnel and outreach/marketing, the most notable decrease is found in consulting fees. 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, fees on development award repayments and interest earnings.
- During FY2018, MTI continued its E-Residence program. The program consists of several consultants who are assigned to assist MTI-funded companies and their personnel on a variety of projects of particular significance to the recipients. During FY2018, \$66,000 was expended. Expenditures amounted to \$167,000 and \$209,000 for FY2017 and FY2016, respectively, and were paid through program funding. This program offers services to assist recipients in developing marketing channels and resources, identifying sources for growth funding, developing internet marketing strategies and solving production planning or process concerns, among other needs. MTI believes that expanding its resources beyond funding meets other critical client needs in the areas of growth planning and management and developing connections to required resources.
- We believe the operating procedures and policies of MTI demonstrate a record of outstanding stewardship of the public funds entrusted to it for investment in ventures pursuing the creation of technology-based economic development.
- Fiscal Year 2018's surplus resulted in an increase in net assets of \$439,000. FY2017's surplus resulted in an increase of \$74,000, compared to an increase of \$148,000 for FY2016.

Overview of the Institute

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

MAINE TECHNOLOGY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

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

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Financial Analysis: 2018 Compared to 2017 and 2016

Net position may serve, over time, as a useful indicator of the Institute's financial position. In the case of the Institute, its assets exceed liabilities by \$1,539,611 on June 30, 2018, compared with \$1,100,957 in 2017 and \$1,026,540 in 2016.

MAINE TECHNOLOGY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

The Institute's financial position as of, and operations for, fiscal years 2018, 2017 and 2016 are summarized below based on information included in the financial statements.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$46,566,237	\$25,562,466	\$21,638,369
Loans and investments (net of allowances)	3,070,564	2,253,834	2,313,605
Capital assets, net of depreciation	97,186	143,258	160,156
Other assets	<u>80,434</u>	<u>71,080</u>	<u>64,067</u>
 Total assets	 <u>49,814,421</u>	 <u>28,030,638</u>	 <u>24,176,197</u>
 Refundable advances	 48,021,732	 26,725,851	 23,016,436
Other liabilities	<u>253,078</u>	<u>203,830</u>	<u>133,221</u>
 Total liabilities	 <u>48,274,810</u>	 <u>26,929,681</u>	 <u>23,149,657</u>
 Net position, all unrestricted	 <u>\$ 1,539,611</u>	 <u>\$ 1,100,957</u>	 <u>\$ 1,026,540</u>

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 FY2018, MTI made one Equity Capital Fund investment to a company that had previously received Development Award funding; two were made in FY2017 and two in FY2016. 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 \$9,000 from Fiscal 2017 to 2018 due to changes in prepaid amounts at June 30, 2018.

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, \$8.5 million and \$5.6 million were committed but not yet disbursed for MTI's core awards at the close of June 2018 and 2017, respectively. MTAF outstanding commitments total \$45.6 million and \$2.3 million at June 30, 2018 and 2017, respectively.

Other liabilities are comprised primarily of accounts and awards payable and, combined, increased by \$50,000 from 2017 to 2018 and increased by \$71,000 from 2016 to 2017.

MAINE TECHNOLOGY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

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

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

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

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

Notes to the Financial Statements

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

Financial Analysis: 2018 Compared to 2017 and 2016

Net position may serve, over time, as a useful indicator of the Institute's financial position. In the case of the Institute, its assets exceed liabilities by \$1,539,611 on June 30, 2018, compared with \$1,100,957 in 2017 and \$1,026,540 in 2016.

MAINE TECHNOLOGY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

Cash Flow Highlights

Cash and cash equivalents increased \$21 million between FY2018 and FY2017 primarily due to the \$25 million received in 2018 for MTAF.

Looking Ahead

In 2016, MTI embarked on the process to develop a new strategic plan to replace the Strategic Plan issued in 2010: seeking to clarify MTI's purpose, provide guidance for the Board and staff, provide a framework for deciding new opportunities, and clarify roles for implementation. The Strategic Planning Committee reviewed internal data, engaged more than 120 stakeholders in its discovery process and analyzed the collected information. The process resulted in three Strategic Goal Areas, and the completion of a Strategy for Portfolio Investments.

Strategic Goal #1: MTI will invest for impact by using the Strategy for Portfolio Investments.

5 Key Components of the Strategy

- Overall guidance for the Strategy of Portfolio Investments
- The stated relevance of the seven targeted technology sectors to the portfolio
- The strategy for risk tolerance, including assessing risk
- The strategy for diversifying MTI revenue sources
- Aligning MTI's resources to the strategy

Strategic Goal #2: MTI will measure and monitor impact to influence decision making and direction setting, and communicate results.

- Measure the Impact of MTI Investments
- Monitor the Health of the Innovation Ecosystem
- Measure the Performance of MTI

Strategic Goal #3: MTI will continue to be a leader in Maine's Innovation Economy and build a complementary system of supports.

- Through engaging, convening and supporting public-private partnerships,
- By identifying gaps in the innovation ecosystem, and
- Shaping innovation ecosystem alignment.

This Strategic Plan was approved by the Board of Directors in June 2017 and is currently being implemented.

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, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents (Note 2)	\$ 46,566,237	\$ 25,562,466
Other receivables	5,934	3,604
Prepaid expenses	74,500	67,476
Loans receivable - current, net of allowance for losses of \$943,384 in 2018 and \$769,971 in 2017 (Note 3)	<u>573,345</u>	<u>219,580</u>
Total current assets	<u>47,220,016</u>	<u>25,853,126</u>
Property and equipment, at cost (Note 6)		
Leasehold improvements	20,568	20,568
Equipment	154,156	143,944
Computer software	<u>234,662</u>	<u>234,662</u>
	409,386	399,174
Less accumulated depreciation	<u>(312,200)</u>	<u>(255,916)</u>
Net property and equipment	<u>97,186</u>	<u>143,258</u>
Loans receivable and investments, excluding current portion (Note 3)	<u>2,497,219</u>	<u>2,034,254</u>
Total assets	<u>\$ 49,814,421</u>	<u>\$ 28,030,638</u>

LIABILITIES AND NET POSITION

Current liabilities		
Accounts and awards payable and accrued expenses (Note 7)	\$ 244,942	\$ 191,596
Current portion of obligations under capital lease (Note 6)	4,668	4,098
Current portion of refundable advances	<u>45,524,513</u>	<u>25,042,614</u>
Total current liabilities	45,774,123	26,921,545
Obligations under capital lease, net of current portion (Note 6)	3,468	8,136
Refundable advances, net of current portion	<u>2,497,219</u>	<u>2,034,254</u>
Total liabilities	<u>48,274,810</u>	<u>28,963,935</u>
Unrestricted net position		
Undesignated net position	550,561	69,933
Net investment in capital assets	89,050	131,024
Board-designated (Note 4)	<u>900,000</u>	<u>900,000</u>
Total unrestricted net position	<u>1,539,611</u>	<u>1,100,957</u>
Total liabilities and net position	<u>\$ 49,814,421</u>	<u>\$ 28,030,638</u>

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

MAINE TECHNOLOGY INSTITUTE

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
State of Maine funding		
Program grants (Note 8)	\$ 11,755,909	\$ 9,219,764
Administrative grants	1,047,951	823,919
Matching grants	<u>161,810</u>	<u>183,504</u>
Total State of Maine funding	12,965,670	10,227,187
Royalties	112,846	236,886
Other income	<u>214,157</u>	<u>11,479</u>
Total operating revenues	<u>13,292,673</u>	<u>10,475,552</u>
Operating expenses (Note 5)		
Program grants (Note 7)	11,899,521	9,116,505
Special grants (Note 7)	276,509	258,439
Salaries and wages	836,260	788,455
Benefits and payroll taxes	287,764	260,366
Travel	21,031	25,906
Depreciation	56,284	34,916
Other (Note 6)	<u>413,708</u>	<u>390,709</u>
Total operating expenses	<u>13,791,077</u>	<u>10,875,296</u>
Net operating loss	<u>(498,404)</u>	<u>(399,744)</u>
Nonoperating revenues (expenses)		
Investment income	938,420	476,023
Interest expense (Note 5)	<u>(1,362)</u>	<u>(1,862)</u>
Nonoperating revenues, net	<u>937,058</u>	<u>474,161</u>
Increase in net position	438,654	74,417
Net position at beginning of year	<u>1,100,957</u>	<u>1,026,540</u>
Net position at end of year	<u>\$ 1,539,611</u>	<u>\$ 1,100,957</u>

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

MAINE TECHNOLOGY INSTITUTE

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
State of Maine funding	\$ 32,240,086	\$ 13,546,307
Proceeds from sale of programmatic investment	1,693,122	-
Award repayments	863,627	1,062,877
Royalties received	112,846	236,886
Other receipts	107,057	11,478
Grants paid	(12,176,030)	(9,351,275)
Paid to employees, including benefits	(1,090,956)	(1,048,821)
Paid to vendors	<u>(421,487)</u>	<u>(375,707)</u>
Net cash provided by operating activities	<u>21,328,265</u>	<u>4,081,745</u>
Cash flows from investing activities		
Loans funded	(1,809,815)	(700,000)
Loans repaid	562,573	256,996
Net investment income received	938,420	476,023
Investments funded	<u>-</u>	<u>(167,188)</u>
Net cash used by investing activities	<u>(308,822)</u>	<u>(134,169)</u>
Cash flows from capital and related financing activities		
Purchase of equipment	(10,212)	(18,019)
Lease obligation payments	(4,098)	(3,598)
Interest payments	<u>(1,362)</u>	<u>(1,862)</u>
Net cash used by capital and related financing activities	<u>(15,672)</u>	<u>(23,479)</u>
Net increase in cash and cash equivalents	21,003,771	3,924,097
Cash and cash equivalents, beginning of year	<u>25,562,466</u>	<u>21,638,369</u>
Cash and cash equivalents, end of year	<u>\$ 46,566,237</u>	<u>\$ 25,562,466</u>
Reconciliation of net operating loss to net cash provided by operating activities		
Net operating loss	\$ (498,404)	\$ (399,744)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	56,284	34,916
Provision for loan losses and investment impairment	430,512	669,964
Changes in operating assets and liabilities		
Grant income receivable and other receivables	(2,330)	2,620
Prepaid expenses	(7,024)	(9,633)
Accounts payable and other accrued expenses	53,348	74,207
Refundable advances	<u>21,295,879</u>	<u>3,709,415</u>
Net cash provided by operating activities	<u>\$ 21,328,265</u>	<u>\$ 4,081,745</u>

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

MAINE TECHNOLOGY INSTITUTE

MAINE BIOMEDICAL RESEARCH BOND FUND
Statements of Fiduciary Net Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents (Note 2)	\$ _____ -	\$ <u>1,081,165</u>
Total assets	<u> </u> -	<u>1,081,165</u>
Liabilities		
Refundable advances	<u> </u> -	<u>1,081,165</u>
Total liabilities	<u> </u> -	<u>1,081,165</u>
Net position held in fund (Note 9)	\$ <u> </u> -	\$ <u> </u> -

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

MAINE TECHNOLOGY INSTITUTE
MAINE HUMAN HEALTH RESEARCH BOND FUND
Statements of Fiduciary Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents (Note 2)	\$ _____ -	\$ <u>175,509</u>
Total assets	_____ -	<u>175,509</u>
Liabilities		
Refundable advances	_____ -	<u>175,509</u>
Total liabilities	_____ -	<u>175,509</u>
Net position held in fund (Note 9)	\$ <u>_____</u> -	\$ <u>_____</u> -

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

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2018 and 2017

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.
- Maine's Marine Economy and Jobs Bond – funded by a \$7,000,000 bond approved by State of Maine voters to facilitate the growth of marine businesses and commercial enterprises that create jobs and improve the sustainability of the State's marine economy and related industries.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2018 and 2017

The Institute also functions as the fiscal agent for two fiduciary funds:

- **Maine Biomedical Research Bond Fund** – funded by a \$10,000,000 bond approved by State of Maine voters and awarded to Jackson Laboratories; the Institute administers this program to help expand research capabilities in the areas of mammalian genetics and murine biometric analytics, make the State a global resource for precision medicine, improve the State's capacity to attract and retain young professionals and bring additional grant funding, private sector investment, job growth, and economic activity to Maine. The activity for this fiduciary fund is not included in the entity-wide financial statements of the Institute.
- **Maine Human Health Research Bond Fund** – funded by a \$3,000,000 bond approved by State of Maine voters and awarded to MDI Biological Laboratory; the Institute administers this program to modernize and expand infrastructure in a biological laboratory specializing in tissue repair and regeneration in order to increase biotechnology workforce training, retain and recruit to the State multiple biomedical research and development groups and create a drug discovery and development facility that will improve human health and stimulate biotechnology job growth and activity. The activity for this fiduciary fund is not included in the entity-wide financial statements of the Institute.

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 Institute is a component unit of the State of Maine for financial reporting purposes. The Institute is considered a business-type activity because of royalty payments and interest charged to award recipients.

1. Summary of Significant Accounting Policies

Basis of Presentation

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

Reporting Entity

The financial reporting entity consists of the primary government (the Institute), its component unit, Maine Technology Holdings (MTH), the Maine Human Health Research Bond Fund, and the Maine Biomedical Research Bond Fund. Activity in the two Bond Funds is described in Note 9.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
ASSETS		
Investments	\$ <u>48,539</u>	\$ <u>155,639</u>
LIABILITIES AND NET POSITION		
Due to Maine Technology Institute	\$ 643	\$ 662
Refundable advances	<u>42,900</u>	<u>150,000</u>
Total liabilities	43,543	150,662
Net position	<u>4,996</u>	<u>4,977</u>
	\$ <u>48,539</u>	\$ <u>155,639</u>

In 2018, MTH recognized an investment impairment charge of \$107,100. MTH had no operating revenues or expenses in either 2018 or 2017.

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.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2018 and 2017

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; 90% is required by legislation to support programs and 10% can be used for administration. The program support amounts received are classified as refundable advances until the related qualifying grants are made or expenses have been incurred to match other grants; the amounts used for administration of core programs are recognized as revenue upon receipt. The amounts used for administration of the MTAF are held as refundable advances until expended, as the money is required to be expended for MTAF administration only.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2018 and 2017

Certain grants awarded by the Institute have provisions requiring the recipient to make repayments to the Institute if certain conditions are met. The Institute classifies 80% of award repayments as refundable advances upon receipt; the remaining 20% are recognized as royalties revenue. When awards enter repayment status and notes receivable are signed or investments are made, the entire carrying balance of the note or investment is offset by refundable advances; when payments are received, 20% of the payments is recognized as royalties revenue.

The Institute has recognized \$155,738 and \$151,078 in 2018 and 2017, 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 \$35,527 and \$32,454 for the years ended June 30, 2018 and 2017, 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 November 5, 2018, which was the date that the financial statements were available to be issued.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2018 and 2017

2. Cash and Cash Equivalents

Cash and cash equivalents, for account balances over \$10,000, are invested in repurchase agreements, collateralized by securities held by the financial institution and assigned to the Institute. The Institute's cash and cash equivalent accounts had bank balances of \$46,924,824 and \$25,752,716 at June 30, 2018 and 2017, respectively. The fiduciary fund's cash and cash equivalent accounts had bank balances of \$1,249,259 at June 30, 2017.

3. Loans Receivable and Investments

The Institute's loans receivable and investments consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Loans receivable	\$ 3,229,139	\$ 1,801,589
Investments in privately-held companies	<u>784,809</u>	<u>1,222,216</u>
	4,013,948	3,023,805
Allowance for losses	<u>(943,384)</u>	<u>(769,971)</u>
	3,070,564	2,253,834
Less current portion	<u>(573,345)</u>	<u>(219,580)</u>
	<u>\$ 2,497,219</u>	<u>\$ 2,034,254</u>

Loans receivable have a variety of terms and due dates based on the structure of the agreement and are generally collateralized by the general business assets of the borrower. Interest rates on loans receivable range from 4-6%. The loans and investments are held by the Institute; thus, there is no custodial credit risk.

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.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2018 and 2017

5. Expenses

Expenses are comprised of the following:

	<u>2018</u>	<u>2017</u>
Direct program services	\$ 12,985,667	\$ 9,952,041
General and administrative, including nonoperating expense	<u>806,772</u>	<u>925,117</u>
	<u>\$ 13,792,439</u>	<u>\$ 10,877,158</u>

6. Leases

Operating Lease

The Institute leases office space under an operating lease with a five-year term expiring September 30, 2021. Rent expense is calculated on a square footage basis, excluding certain occupancy charges, and increases 2% each year. Rent expense under the lease was \$31,810 and \$31,837 in 2018 and 2017, respectively.

Future minimum lease payments due in the years subsequent to June 30, 2018 are as follows:

2019	\$ 39,122
2020	39,906
2021	40,705
2022	<u>10,266</u>
	<u>\$ 129,999</u>

Capital Lease

In March of 2015, the Institute entered into a new capital lease commitment with an interest rate of 13.09%. The accumulated amortization for equipment under capital lease was \$16,563 and \$14,169 at June 30, 2018 and 2017, respectively. The leased assets are included on the balance sheet in equipment and amortization of the leased assets is included in depreciation expense.

Future minimum lease payments due in the years subsequent to June 30, 2018 are as follows:

2019	\$ 5,460
2020	<u>3,640</u>
	9,100
Less: amount representing interest	<u>(964)</u>
Obligation under capital lease	8,136
Less: current portion	<u>(4,668)</u>
Obligation under capital lease, net of current portion	<u>\$ 3,468</u>

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2018 and 2017

7. Grant Commitments

The Institute recognizes a liability and corresponding expense for awards in the amount expected to be paid when awards are approved by the Board of Directors and awardees submit required documentation and incur costs under the awards. There were no awards payable at June 30, 2018 or 2017. Conditional awards approved by the Board of Directors are recorded when the recipient organizations meet the conditions of the awards.

The Institute had commitments to fund awards at June 30, if recipients meet certain milestones, as follows:

	<u>2018</u>	<u>2017</u>
Business plan prizes	\$ 2,000	\$ 2,000
Phase Zero awards	10,000	13,000
Biomedical Research Bond	-	1,070,000
Human Health Research Bond	-	173,000
Seed grants	773,000	313,000
TechStart grants	24,000	39,000
Development awards	1,683,000	1,678,000
Cluster awards	2,329,000	2,288,000
Business Accelerator grants	78,000	97,000
MTAF awards	27,216,000	2,267,000
Marine Jobs Bond	4,046,000	4,916,000
Bridge loans and notes	<u>505,000</u>	<u>-</u>
	<u>\$ 36,666,000</u>	<u>\$ 12,856,000</u>

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

	<u>2018</u>	<u>2017</u>
Seed grants	\$ 126,000	\$ 444,000
TechStart grants	15,000	-
Development awards	-	703,000
Business Accelerator grants	20,000	-
Bridge loans	3,000,000	250,000
Maine Technology Asset Fund awards	18,438,000	-
Marine Jobs	<u>467,000</u>	<u>-</u>
	<u>\$ 22,066,000</u>	<u>\$ 1,397,000</u>

8. Maine Technology Asset Fund

In November 2007, State of Maine voters approved a \$50 million bond issue for research, development, and commercialization of projects in certain technology sectors. These funds are administered and awarded by the Institute under a program called MTAF. In June 2010, voters approved an additional \$3 million under the program. The \$3 million bond fund was received in full during fiscal year 2015.

MAINE TECHNOLOGY INSTITUTE

Notes to Financial Statements

June 30, 2018 and 2017

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

9. Agency Funds

Changes in assets and liabilities of the agency funds were as follows for the years ended June 30, 2018 and 2017.

MAINE HUMAN HEALTH RESEARCH BOND FUND

	<u>Cash</u>	<u>Accounts Receivable</u>	<u>Cash Overdraft</u>	<u>Refundable Advances</u>
Balances, July 1, 2016	\$ -	\$ 64,251	\$ (64,251)	\$ -
Additions	2,825,000	(64,251)	64,251	2,825,000
Deductions	<u>(2,649,491)</u>	-	-	<u>(2,649,491)</u>
Change in balance	<u>175,509</u>	<u>(64,251)</u>	<u>64,251</u>	<u>175,509</u>
Balances, June 30, 2017	175,509	-	-	175,509
Deduction	<u>(175,509)</u>	-	-	<u>(175,509)</u>
Change in balance	<u>(175,509)</u>	-	-	<u>(175,509)</u>
Balances, June 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MAINE BIOMEDICAL RESEARCH BOND FUND

	<u>Cash</u>	<u>Refundable Advances</u>
Balances, July 1, 2016	\$ 8,418,219	\$ 8,418,219
Deductions	<u>(7,337,054)</u>	<u>(7,337,054)</u>
Change in balance	<u>(7,337,054)</u>	<u>(7,337,054)</u>
Balances, June 30, 2017	1,081,165	1,081,165
Deductions	<u>(1,081,165)</u>	<u>(1,081,165)</u>
Change in balance	<u>(1,081,165)</u>	<u>(1,081,165)</u>
Balances, June 30, 2018	<u>\$ -</u>	<u>\$ -</u>

MAINE TECHNOLOGY INSTITUTE

Statement of Activities

Year Ended June 30, 2018

		<u>Program Revenues</u>		<u>Net Expense and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business-type activities	\$ <u>13,792,439</u>	\$ <u>112,846</u>	\$ <u>12,965,670</u>	\$ <u>(713,923)</u>
Total	\$ <u>13,792,439</u>	\$ <u>112,846</u>	\$ <u>12,965,670</u>	<u>(713,923)</u>
General revenues				
Unrestricted interest and investment earnings				938,420
Miscellaneous income				<u>214,157</u>
Total general revenues				<u>1,152,577</u>
Change in net position				438,654
Net position, beginning of year				<u>1,100,957</u>
Net position, end of year				\$ <u>1,539,611</u>



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

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