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Minnesota Technology, Inc

2004 Annual Report

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

INDEPENDENT AUDITORS' REPORT

Board of Directors
Minnesota Technology, Incorporated
Minneapolis, Minnesota

We have audited the accompanying balance sheet of Minnesota Technology, Incorporated, a component unit of the State of Minnesota (the Organization) as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Technology, Incorporated as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10 to the financial statements, the Organization restated unrestricted net assets at June 30, 2003, to properly reflect loans receivable.

Larson, Allen, Weishair + Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
October 1, 2004

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
BALANCE SHEET
JUNE 30, 2004

ASSETS

CURRENT ASSETS		
Cash and Cash Equivalents	$	3,095,729
Receivables:		
Accounts Receivable		169,884
Federal Government		803,534
Loans Receivable		443,440
Total Current Assets		4,512,587
CAPITAL ASSETS		
Equipment and Leasehold Improvements		270,793
Less: Accumulated Depreciation		121,715
Total Capital Assets		149,078
Total Assets	$	4,661,665

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	$	161,176
Accrued Expenses		165,027
Total Current Liabilities		326,203
NET ASSETS		
Unrestricted		4,186,384
Invested in Capital Assets		149,078
Total Net Assets		4,335,462
Total Liabilities and Net Assets	$	4,661,665

See accompanying Notes to Financial Statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004

OPERATING REVENUES	
Federal Awards	$ 2,015,970
Charges for Services and Publications	1,275,890
Other Operating Revenues	108,870
Total Operating Revenues	3,400,730
OPERATING EXPENSES	
Program Expenses:	
Business Services	3,425,095
Communications and Publications	462,339
Special Initiatives	99,015
Supporting Expenses:	
Management and General	1,273,700
Depreciation	44,897
Development	27,516
Total Operating Expenses	5,332,562
OPERATING LOSS	(1,931,832)
NONOPERATING REVENUES	
State Appropriation	3,000,000
Interest Income	51,668
Loss on Sale of Equipment	(5,301)
Total Nonoperating Revenues	3,046,367
CHANGE IN NET ASSETS	1,114,535
Net Assets - Beginning of Year as Previously Reported	2,286,756
Prior Period Adjustment	934,171
Net Assets - Beginning of Year as Restated	3,220,927
NET ASSETS - END OF YEAR	$ 4,335,462

See accompanying Notes to Financial Statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Federal Awards	$ 1,713,500
Other Cash Receipts	1,375,948
Cash Paid for Salaries and Benefits	(3,403,232)
Cash Paid to Suppliers and Others	(2,100,802)
Net Cash Used by Operating Activities	(2,414,586)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	3,000,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(20,926)
Loss on Sale of Equipment	5,301
Proceeds on Sale of Equipment	4,888
Net Cash Used by Capital and Related Financing Activities	(15,625)
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments Received on Loan Receivable	519,079
Interest Income	51,668
Net Cash Provided by Investing Activities	570,747
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,140,536
Cash and Cash Equivalents - Beginning of Year	1,955,193
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,095,729
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (1,931,832)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	44,897
Provision for Uncollectible Accounts	7,087
Change in Operating Assets and Liabilities:	
Increase in Accounts Receivable	(15,899)
Increase in Due from Federal Government	(302,470)
(Increase) Decrease in Accounts Payable	76,280
Decrease in Accrued Expenses	(292,649)
Net Cash Used by Operating Activities	$ (2,414,586)

See accompanying Notes to Financial Statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Minnesota Technology, Incorporated (the Organization) was created by the 1991 Minnesota Legislature as a nonprofit public corporation to promote economic growth and job creation through applied research, technology transfer, and product development. It is empowered to form partnerships in education, business, labor, and agriculture to focus on Minnesota's applied research and development efforts on new products, businesses, and jobs for industries of the future. The primary focus of the Organization's efforts must be to benefit new or existing small- and medium-sized businesses in greater Minnesota.

Relevant statutory notions and limitations are found in Minnesota Statutes, Chapter 1160. The Organization is a nonprofit public corporation of the State of Minnesota and is governed by a board of directors. The term of each director ranges from two to six years. The Organization is a component unit of the State of Minnesota. During the year ended June 30, 2004, the Organization received $3,000,000 in "transition" funding from the State of Minnesota, which represents 35% of total operating and nonoperating revenues for the year ended June 30, 2004.

During the 2003 legislative session, the Minnesota State Legislature amended a portion of the state statutes pertaining to the Organization so that the selection, membership terms, compensation, removal, and filing of vacancies of the members of the board of directors is determined pursuant to the Organization's bylaws. Previously, the composition and appointment of the Organization's board of directors was specified in state statute. The Organization's board of directors in place at June 30, 2003 amended the Organization's bylaws such that before August 1, 2003, the board of directors was to elect at least four directors to serve as the new board of directors for the Organization. Those elections became effective on August 1, 2003.

The Organization generates revenue from a variety of sources to conduct its program and supporting services, including state appropriations, federal awards, and investment income. Indirect costs are allocated using a federally approved indirect cost rate.

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statutes Section 290.05. The Organization is subject to income taxes on unrelated business income.

Basis of Presentation

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues and expenses are recognized when earned or incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Organization has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, amounts due from the Federal government, grants receivable, interest receivable, accounts payable, accrued compensation and benefits, and deferred revenue approximate fair value because of the short maturity of those instruments.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Receivables

Accounts receivable, due from federal government, and grants receivable are stated at net realizable value. Accordingly, bad debts are provided for on the reserve method based upon prior experience and management's assessment of the collectibility of existing specific accounts. Management reviews the receivable listing periodically and is in communication with customers monthly. Interest income is not recognized on delinquent accounts. Accounts are placed into an allowance account periodically based on management's decision. An allowance for doubtful accounts on accounts receivable of $28,941 has been recorded as of June 30, 2004.

Capital Assets

Capital assets consist of equipment and leasehold improvements, which are capitalized at cost. Depreciation is calculated using the mid-month convention on a straight-line basis, and the estimated useful life of three to five years for equipment and leasehold improvements.

Interest Income

Interest income is recorded using the accrual method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operations

Operations consist of revenues and expenses that directly result from the provision of goods and services directly related to the overall purposes of the Organization. Federal awards are considered operating revenues because they are for the purpose of supporting the operations of the Organization and to reimburse the Organization for operating expenses. Interest income, loss on sale of equipment, and state appropriations are considered nonoperating income.

NOTE 2 FEDERAL AWARDS

The Organization established the Manufacturing Extension Partnership (MEP), formerly the Upper Midwest Manufacturing Technology Center, through a cooperative agreement with the U.S. Department of Commerce's National Institute of Standards and Technology (NIST). On a cumulative basis, the agreement has provided the Organization approximately $12 million in federal awards through June 30, 2004. The agreement has required a 67% matching contribution by the Organization of which 50% can be from in-kind contributions.

NOTE 3 CASH AND CASH EQUIVALENTS

At June 30, 2004, the Organization had cash and cash equivalent balances as follows:

	2004	
	Deposits	Carrying Amount
FDIC Insured	$ 110,304	$ 105,708
In Excess of FDIC Limit	3,005,782	2,988,002
Held by the State of Minnesota	2,019	2,019
Total	$ 3,118,105	$ 3,095,729

NOTE 4 LOANS RECEIVABLE

The Organization has entered into various Technology Partnership Fund agreements with start up manufacturers. The purpose of these agreements is to stimulate and strengthen relationships between the industry and Minnesota's post secondary educational institutions and certain other objectives determined within each agreement. The Organization has recorded loans receivables in the amount of $886,042 which are due in various terms, with the majority due in the next 2 years. An allowance of $442,602 has been established against certain balances as management believes not all will be collected.

NOTE 5 CAPITAL ASSETS

Capital asset activity and balances are summarized below:

	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Capital Assets:				
Equipment and Leasehold Improvements at Cost	$2,653,728	$ 20,763	$2,403,698	$ 270,793
Less: Accumulated Depreciation:				
Equipment and Leasehold Improvements	(2,470,077)	(44,897)	(2,393,259)	(121,715)
Net Book Value	$ 183,651	$ (24,134)	$ 10,439	$ 149,078

During the year ended June 30, 2004, the Organization took a physical inventory of all capital assets and retired from the capital asset listings all items no longer being used or existing at the time of the observation. Prior to this physical observation, many of the individual items which were on the listing no longer existed and were disposed of in prior years. The majority of the retirements were fully depreciated items and their was no material gain or loss from these retirements.

NOTE 6 LEASES

The Organization leases building space under operating leases which expire in various years through 2006. The rent expense for the year ended June 30, 2004 totaled $132,697. The following is a schedule of future minimum lease payments for operating leases as of June 30, 2004:

Fiscal Year	Amount
2005	$ 116,771
2006	80,786
2007	79,810
2008	13,300
Total	$ 290,667

NOTE 7 PENSION PLANS AND EMPLOYEE BENEFITS

Minnesota State Retirement System (MSRS)

Employees of the Organization are covered by the MSRS, a system established to provide retirement benefits to state employees. Employees of the Organization participate in the MSRS' Unclassified Employee Plan (the Plan), a defined contribution plan authorized by Minnesota Statutes, Chapter 352D. Benefits under the Plan consist of the employee's account balance or an annuity benefit based on the account balance and employee's age. Vesting occurs immediately and normal retirement age is 55. Statutory contribution rates are 4% for employees and 6% for the employer. The Organization contributions to the Plan were $124,892 for the year ended June 30, 2004. Employee contributions to the Plan were $83,609 for the year ended June 30, 2004.

NOTE 8 RELATED PARTY

The State of Minnesota is considered to be a related party to the Organization. All transactions with the State of Minnesota have been disclosed in these financial statements. Total amount due to the State of Minnesota at June 30, 2004 is $63,068.

NOTE 9 COMMITMENTS

Subsequent to year end the Organization renewed publishing agreements that require payments to be made by MTI over the course of the next fiscal year. Payments will be based on a percentage of sales generated by the publishing company.

NOTE 10 RESTATEMENT

As of June 30, 2003 no amounts were recorded as loan receivables. The Organization has $1,376,773 of loan receivables at June 30, 2003 with $442,602 estimated to be uncollectible. The net effect of the loans receivable has been restated in beginning net assets.

NOTE 11 RISK MANAGEMENT

Minnesota Technology, Inc. is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota Technology, Inc. manages most of these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund and through purchased insurance coverage.

NOTE 11 RISK MANAGEMENT (CONTINUED)

The Minnesota Risk Management Fund provides these limits and coverages:

Property (Deductible $1,000)	
Real and Personal Property	$275,000
Business Income (Per Occurrence)	500,000
Boiler and Machinery	Included in Property
Crime (Deductible $1,000)	25,000
Commercial General Liability	
Bodily Injury and Property Damage per Occurrence	1,000,000
Bodily Injury and Property Damage per Person	300,000

Minnesota Technology, Inc. did not have any settlements in excess of coverage in the last three years. The Minnesota Risk Management Fund purchases other insurance on the open market. These generally include professional liability, and Directors and Officer's coverage. Minnesota Technology, Inc. carries Director's and Officer's Liability with limits of $1,000,000 per claim and aggregate. This insurance is carried through Monitor Liability Manager, Inc.

Minnesota Technology, Inc. participates in the State Employee Group Insurance Plan, which provides life insurance, hospital, medical and dental benefits coverage through provider organizations.

Workers' compensation is covered through a State of Minnesota insurance program, which pays workers' compensation claims. Annual premiums are based on salary dollars. Premiums for the period from November 24, 2003 to November 24, 2004 were $11,728 and are subject to audit.