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Minnesota Technology, Inc

2005 Annual Report

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

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(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Minnesota Technology, Incorporated
Minneapolis, Minnesota

We have audited the accompanying balance sheets of Minnesota Technology, Incorporated, a component unit of the State of Minnesota (the Organization) as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Organization has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, and is required to be part of, the basic financial statements.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
September 2, 2005

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
BALANCE SHEETS
JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,651,933	$ 3,095,729
Receivables:		
Accounts Receivable	165,188	169,884
Federal Government	174,758	803,534
Loans Receivable	177,825	443,440
Prepaid Assets	15,122	-
Total Current Assets	2,184,826	4,512,587
CAPITAL ASSETS		
Equipment and Leasehold Improvements	302,588	270,793
Less: Accumulated Depreciation	181,456	121,715
Total Capital Assets	121,132	149,078
NONCURRENT ASSETS		
Investments	1,708,790	-
Loans Receivable, Noncurrent	45,852	-
Total Noncurrent Assets	1,754,642	-
Total Assets	$ 4,060,600	$ 4,661,665
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 86,232	$ 161,176
Accrued Expenses	243,208	165,027
Capital Lease Obligation	11,414	-
Deferred Income	103,052	-
Total Current Liabilities	443,906	326,203
NONCURRENT LIABILITIES		
Capital Lease Obligation	17,720	-
Total Liabilities	461,626	326,203
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	91,998	149,078
Unrestricted	3,506,976	4,186,384
Total Net Assets	3,598,974	4,335,462
Total Liabilities and Net Assets	$ 4,060,600	$ 4,661,665

See accompanying Notes to Financial Statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Federal Awards	$ 1,948,059	$ 2,015,970
Charges for Services and Publications	1,237,388	1,275,670
Other Operating Revenues	92,552	109,090
Total Operating Revenues	3,277,999	3,400,730
OPERATING EXPENSES		
Program Expenses:		
Business Services	2,417,282	3,425,095
Communications and Publications	446,882	462,339
Special Initiatives	5,638	99,015
Supporting Expenses:		
Management and General	1,047,693	1,273,700
Depreciation	63,932	44,897
Development	99,765	27,516
Total Operating Expenses	4,081,192	5,332,562
OPERATING LOSS	(803,193)	(1,931,832)
NONOPERATING REVENUES		
State Appropriation	-	3,000,000
Interest Income	62,966	51,668
Gain (Loss) on Sale of Equipment	3,739	(5,301)
Total Nonoperating Revenues	66,705	3,046,367
CHANGE IN NET ASSETS	(736,488)	1,114,535
Net Assets - Beginning of Year	4,335,462	3,220,927
NET ASSETS - END OF YEAR	$ 3,598,974	$ 4,335,462

See accompanying Notes to Financial Statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Federal Awards	$ 2,576,835	$ 1,713,500
Other Cash Receipts	1,087,562	1,375,948
Cash Paid for Salaries and Benefits	(2,427,086)	(3,403,232)
Cash Paid to Suppliers and Others	(1,602,059)	(2,100,802)
Net Cash Used by Operating Activities	(364,748)	(2,414,586)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments on Long-Term Debt	(7,233)	-
State Appropriations	-	3,000,000
Net Cash Provided (Used) by Noncapital Financing Activities	(7,233)	3,000,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	-	(25,814)
Loss on Sale of Equipment	3,739	5,301
Proceeds on Sale of Equipment	-	4,888
Net Cash Provided (Used) by Capital and Related Financing Activities	3,739	(15,625)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments Received on Loan Receivable	569,889	519,079
Purchase of Investments	(2,109,355)	-
Proceeds from Sale of Investments	400,946	-
Interest Income	62,966	51,668
Net Cash Provided (Used) by Investing Activities	(1,075,554)	570,747
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,443,796)	1,140,536
Cash and Cash Equivalents - Beginning of Year	3,095,729	1,955,193
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,651,933	$ 3,095,729

See accompanying Notes to Financial Statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (803,193)	$ (1,931,832)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	63,932	44,897
Provision for Uncollectible Accounts	(350,126)	7,087
Change in Operating Assets and Liabilities:		
Accounts Receivable	4,696	(15,899)
Due from Federal Government	628,776	(302,470)
Prepaid Assets	(15,122)	-
Accounts Payable	(74,944)	76,280
Accrued Expenses	78,181	(292,649)
Deferred Revenue	103,052	-
Net Cash Used by Operating Activities	$ (364,748)	$ (2,414,586)
NONCASH ITEM		
Capital Lease Asset	$ 36,367	$ -

See accompanying Notes to Financial Statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 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 years ended June 30, 2005 and 2004, the Organization received $-0- and $3,000,000 in "transition" funding from the State of Minnesota, which represents 0% and 47% of total operating and nonoperating revenues for the years ended June 30, 2005 and 2004, respectively.

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 client service fees, 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) issued on or before 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 $12,375 and $28,941 has been recorded as of June 30, 2005 and 2004, respectively.

Capital Assets

Capital assets consist of equipment and leasehold improvements, which are capitalized at cost. Assets are capitalized using a threshold of $4,000. 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.

Investments

Investments are valued at fair market value.

Net Assets

The difference between assets and liabilities is net assets. Net assets are furthered classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

- Restricted expendable: Net assets subject to externally-imposed stipulations.
- Unrestricted: Net assets that are not subject to externally-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors. As of June 30, 2005 and 2004, the Organization's Board of Directors had designated $2,000,000 and $-0-, respectively, for cash operating reserves.

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.

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.

New Accounting Pronouncements

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, was effective for the Organization for the year ending June 30, 2005. The Organization was required to address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. This statement also requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The Organization was also required to disclose its deposit and investment policies.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement is effective for the Organization for the year ending June 30, 2006. The effect GASB Statement No. 42 will have on the fiscal year 2006 basic financial statements has not yet been determined.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employees for Postretirement Benefits Other than Pensions.* This statement is effective for the Organization for the year ending June 30, 2008. The effect GASB Statement No. 45 will have on the fiscal year 2008 basic financial statements has not yet been determined.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation.* This statement is effective for the Organization for the year ending June 30, 2006. The effect that GASB Statement No. 46 will have on the fiscal year 2006 basic financials statements has not yet been determined.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits.* This statement is effective for the Organization for the year ending June 30, 2006. The effect that GASB Statement No. 47 will have on the fiscal year 2006 basic financial statements has not yet been determined.

NOTE 2 FEDERAL AWARDS

The Organization established the Minnesota 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 $17 million in federal awards through June 30, 2005. 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

Minnesota Statute, Section 118A requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state.

The statute further requires that such insurance and collateral shall be in amounts at least ten percent more than the amount of the deposit.

Management believes that the Organization is not exposed to any significant credit risk related to these holdings.

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

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

	2005	
	Deposits	Carrying Amount
FDIC Insured	$ 100,000	$ 100,000
In Excess of FDIC Limit	1,551,933	1,551,933
Held by the State of Minnesota	-	-
Total	$ 1,651,933	$ 1,651,933

	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 INVESTMENTS

Minnesota Statute, Section 118A, broadly restricts investments to obligations and stocks of United States and Canadian governments, their agencies and registered corporations, other international securities, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and the restricted participation in registered mutual funds.

As of June 30, 2005, the Organization had the following investments:

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
CD's	$ 102,000	$ 102,000	$ -
US Treasuries	597,865	597,865	-
Mutual Funds	1,008,925	-	1,008,925
Total	$ 1,708,790	$ 699,865	$ 1,008,925

Interest rate risk: In accordance with its investment policy, the Organization manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to less than 370 days.

Credit risk: In accordance with its investment policy, the Organization manages its exposure to credit risk as follows. Individual issues to be purchased will have achieved short-term credit ratings of A-1 or better by Standard & Poors Corporation or P-1 by Moody's, or equivalent, shall be used. Issuers who have received "split" ratings, however, i.e. A-1/P-2 or A-2/P-1, are not permitted. The mutual funds have a three-star rating according to Morningstar.

NOTE 4 INVESTMENTS (CONTINUED)

Concentration of credit risk: In accordance with its investment policy, the Organization manages its exposure to credit risk by limiting holdings as follows. Except for the current Freedom Investor's Fund or instruments issued or guaranteed by the US government or its agencies or instrumentalities, or fully collateralized by the same as to principal and interest, no more than 20% of the cash reserves shall be invested in the instruments of any one obligor or maker.

NOTE 5 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. As of June 30, 2005 and 2004, the Organization has recorded loans receivables in the amount of $411,153 and $886,042, respectively, which are due in various terms, with the majority due in the next two years. As of June 30, 2005 and 2004, an allowance of $187,476 and $442,602, respectively, has been established against certain balances as management believes not all will be collected.

NOTE 6 CAPITAL ASSETS

Capital asset activity and balances are summarized below:

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Capital Assets:				
Equipment and Leasehold Improvements at Cost	$ 270,793	$ 36,367	$ 4,572	$ 302,588
Less: Accumulated Depreciation:				
Equipment and Leasehold Improvements	(121,715)	(63,932)	(4,191)	(181,456)
Net Book Value	$ 149,078	$ (27,565)	$ 381	$ 121,132

NOTE 6 CAPITAL ASSETS (CONTINUED)

	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

NOTE 7 LEASES

The Organization leases building space under operating leases which expire in various years through 2008. The rent expense for the years ended June 30, 2005 and 2004 totaled $133,936 and $132,697, respectively. The following is a schedule of future minimum lease payments for operating leases as of June 30, 2005:

Fiscal Year	Amount
2006	$ 97,117
2007	83,186
2008	13,302
Total	$ 193,605

The Organization also leases equipment under a capital lease. Activity and balances are summarized below.

	2005	2004
Cost of Equipment	$ 36,367	$ -
Less: Accumulated Depreciation	(9,092)	-
Total	$ 27,275	$ -

	Balance June 30, 2004	Additions	Payments	Balance June 30, 2005
Capital Lease Obligation	$ -	$ 36,367	$ (7,233)	$ 29,134

NOTE 7 LEASES (CONTINUED)

Future minimum lease payments under the capital leases as of June 30, 2005 are as follows:

Year	Amount
2006	$ 16,071
2007	16,071
2008	4,018
Total Minimum Lease Payments	36,160
Less: Amount Representing Interest	(7,026)
Present Value of Minimum Lease Payments	29,134
Less: Current Maturities	(11,414)
Non Current Portion of Obligation under Capital Lease	$ 17,720

NOTE 8 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 $112,897 and $124,892 for the years ended June 30, 2005 and 2004, respectively. Employee contributions to the Plan were $75,149 and $86,609 for the years ended June 30, 2005 and 2004, respectively.

NOTE 9 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, 2005 and 2004 is $-0- and $63,068, respectively.

NOTE 10 COMMITMENTS

Subsequent to year end, the Organization renewed publishing agreements that require payments to be made by MTI for services delivered to MTI over the course of the next fiscal year.

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.

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, property, 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, with coverage through an insurance company separate from the State of Minnesota.

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, 2004 to November 24, 2005 were $11,655.