

**MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION**

**A COMPONENT UNIT OF THE STATE OF MARYLAND**

**COLUMBIA, MARYLAND**

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**OMB CIRCULAR A-133 FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**OMB Circular A-133 Financial Report**  
**June 30, 2010**

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## Independent Auditors' Report

The Board of Directors  
Maryland Technology Development Corporation  
Columbia, Maryland

We have audited the accompanying financial statements of Maryland Technology Development Corporation (TEDCO), a non-major component unit of the State of Maryland, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of TEDCO'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Maryland Technology Development Corporation as of June 30, 2010, and the changes in its net assets 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 1, Basis of Accounting, to the financial statements, TEDCO changed the presentation of its activities from a governmental statement of activities format to a proprietary fund statement of revenues, expenses, and changes in net assets format and added a statement of cash flows.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2010, on our consideration of TEDCO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Board of Directors  
Maryland Technology Development Corporation

Management's discussion and analysis on pages 1 through 8 is not a required part of the basic financial statements but is supplementary information required by governmental accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Maryland Technology Development Corporation taken as a whole. The accompanying supplementary schedule of governmental activities is presented for purposes of additional analysis and is not a required part of the basic financial statements of Maryland Technology Development Corporation. The accompanying supplementary schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Maryland Technology Development Corporation. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Councilor, Buchanan + Mitchell, P.C.*

Bethesda, Maryland  
September 16, 2010

Certified Public Accountants

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Management's Discussion and Analysis**  
**June 30, 2010**  
**(Unaudited)**

**Brief Discussion of the Basic Financial Statements**

Maryland Technology Development Corporation (TEDCO) is a body corporate and politic and is constituted as a public instrumentality of the State of Maryland (the "State"). TEDCO assists in transferring to the private sector and commercializing the results and products of scientific research and development conducted by colleges and universities; assists in the commercialization of technology developed in the private sector; and fosters commercialization of the research and development described above to create and sustain businesses throughout all regions of the State. TEDCO also administers the Maryland Technology Incubator Program, which promotes entrepreneurship and the creation of jobs in technology-related industry by establishing and operating effective incubators throughout the State that provide adequate physical space designed, and programs intended, to increase or accelerate business success in the field of technology. TEDCO also administers the Maryland Stem Cell Research Fund, which promotes state-funded stem cell research and cures through grants to public and private entities in the State.

This annual report consists of the statement of net assets, the statement of revenues, expenses, and changes in net assets, the statement of cash flows, and notes to financial statements, which provide information about the activities of TEDCO.

The statement of net assets presents the financial position of TEDCO on a full accrual basis. TEDCO's net assets are the difference between what TEDCO owns and what TEDCO owes. Increases or decreases in TEDCO's net assets are one indicator of whether financial health is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents the results of the activities over the course of the year showing how the net assets changed during the year.

The statement of cash flows presents the amounts of cash provided by and used in TEDCO's operating activities, investing activities, and, when applicable, financing activities.

The notes to financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the financial statements.

The discussion and analysis that follows presents a general overview of the financial performance and activities of TEDCO from July 1, 2009, through June 30, 2010. As required supplementary information, the analysis should be used in conjunction with the financial statements and related notes to assess the overall financial condition and reported results of operations of TEDCO.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Management's Discussion and Analysis**  
**June 30, 2010**  
**(Unaudited)**

**Condensed Comparative Financial Statements**

Condensed Statements of Net Assets

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash, Investments, and Other Assets	\$ 26,124,673	\$ 28,782,553
Capital Assets	<u>23,044</u>	<u>40,295</u>
<b>Total Assets</b>	<b><u>\$ 26,147,717</u></b>	<b><u>\$ 28,822,848</u></b>
<b>Liabilities</b>		
Current Liabilities	\$ 21,460,788	\$ 23,867,328
Other Liabilities	<u>90,376</u>	<u>85,883</u>
<b>Total Liabilities</b>	<b><u>\$ 21,551,164</u></b>	<b><u>\$ 23,953,211</u></b>
<b>Net Assets</b>		
Unrestricted Net Assets	\$ 4,573,509	\$ 4,829,342
Invested in Capital Assets	<u>23,044</u>	<u>40,295</u>
<b>Total Net Assets</b>	<b><u>\$ 4,596,553</u></b>	<b><u>\$ 4,869,637</u></b>

The largest portions of TEDCO's total assets as of June 30, 2010, are accounts receivable of \$15,408,205, investments of \$6,095,146, and cash and cash equivalents of \$4,287,136.

The largest portion of total liabilities as of June 30, 2010, is Stem Cell and Other Grants Payable of \$19,632,073.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Management's Discussion and Analysis**  
**June 30, 2010**  
**(Unaudited)**

**Condensed Comparative Financial Statements (Continued)**

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	<u>2010</u>	<u>2009</u>
Operating Revenues - Grant and Other Revenues	<u>\$ 20,905,794</u>	<u>\$ 22,014,140</u>
Operating Expenses		
Stem Cell Program	\$ 15,524,146	\$ 16,166,974
Tech Transfer	4,650,410	4,950,505
Business Incubation	599,142	758,078
Program Development and Outreach	230,855	329,033
General Administration	<u>529,930</u>	<u>445,085</u>
Total Operating Expenses	<u>\$ 21,534,483</u>	<u>\$ 22,649,675</u>
Net Operating Loss	\$ (628,689)	\$ (635,535)
Investment Earnings	<u>355,605</u>	<u>443,889</u>
Change in Net Assets	<u>(273,084)</u>	<u>(191,646)</u>
Total Revenues	<u>\$ 21,261,399</u>	<u>\$ 22,458,029</u>

**Analysis of Overall Financial Position and Results of Operations**

TEDCO's noncurrent assets decreased 36% from \$9,757,889 as of June 30, 2009, to \$6,249,305 as of June 30, 2010. The decrease was primarily due to a decrease in investments as a result of the Maryland Stem Cell Research Fund. In fiscal year 2008, TEDCO received all funds for the fiscal year 2007 grants which were to be completed during the years ended June 30, 2008, 2009, and 2010. Held in a separate account in order to track interest and dividends to the fund, as required by statute, some investments were liquidated in fiscal year 2010 and the funds were used to pay year three of the fiscal year 2007 grant awards.

TEDCO's current assets increased 4% from \$19,064,959 as of June 30, 2009, to \$19,898,412 as of June 30, 2010. This increase was primarily due to an increase in cash as a result of receiving the funds for the NAVAIR Technical Insertion Initiative program.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Management's Discussion and Analysis**  
**June 30, 2010**  
**(Unaudited)**

**Analysis of Overall Financial Position and Results of Operations (Continued)**

TEDCO's current liabilities decreased 10% from \$23,867,328 as of June 30, 2009, to \$21,460,788 as of June 30, 2010, primarily due to a decrease in liabilities associated with the Maryland Stem Cell Research Fund.

TEDCO's revenues are derived primarily from federal and State operating grants, the Maryland Stem Cell Research Fund Grant, sponsorships and royalties, other grants, and investment earnings. TEDCO's revenues decreased by approximately 5% from \$22,458,029 to \$21,261,399 from the year ended June 30, 2009, to the year ended June 30, 2010. This decrease was primarily due to the decrease in State grant funding for the operating budget and the decrease in funding for the Maryland Stem Cell Research Fund Grant.

The State grant revenue decreased by approximately 20% from \$4,227,000 to \$3,393,191 from the year ended June 30, 2009, to the year ended June 30, 2010. This resulted in a decrease in related activity conducted during the year ended June 30, 2010.

Operating expenses decreased 5% from \$22,649,675 to \$21,534,483 from the year ended June 30, 2009, to the year ended June 30, 2010. This was primarily due to the decrease in State grant funding for the operating budget and the decrease in funding for the Maryland Stem Cell Research Fund Grant.

Net assets decreased 6% from \$4,869,637 as of June 30, 2009, to \$4,596,553 as of June 30, 2010. Due to the downturn in the economy, funding from the State has been significantly reduced over the past several years and has required more programs to be funded by TEDCO's net assets.

The Board has approved specific programs and projects on a "carried forward" basis for expenditure in fiscal year 2011 in Reserve Accounts, which represent designated net assets. On September 16, 2010, the Board approved \$4,561,725 in designated and unrestricted Reserve Accounts. This amount decreased 6% from \$4,838,274 as of June 30, 2009.



**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Management's Discussion and Analysis**  
**June 30, 2010**  
**(Unaudited)**

**Analysis of Significant Budgetary Variations**

The TEDCO Board of Directors approves the annual budget. It is then submitted to the State of Maryland for consideration in the State budget process. The Maryland General Assembly determines TEDCO's final budget when it approves the State budget in April for the following fiscal year. This budget only includes those funds provided by the State.

<u>Operating Expenses</u>	<u>FY10 Actual Results</u>	<u>FY10 Final State Budget</u>	<u>FY09 Actual Results</u>	<u>FY09 Final State Budget</u>
Maryland Stem Cell Research Fund	\$ 15,524,146	\$ 12,350,000	\$ 16,166,974	\$ 18,000,000
Technology Transfer Programs and Services	4,650,410	2,164,183	4,950,505	3,025,400
Business Incubation	599,142	638,413	758,078	614,400
Program Development and Outreach	230,855	233,085	329,033	233,400
General Administration	512,679	357,510	421,131	353,800
Depreciation and Amortization (1)	<u>17,251</u>	<u>-</u>	<u>23,954</u>	<u>-</u>
Total Operating Expenses	<u>\$ 21,534,483</u>	<u>\$ 15,743,191</u>	<u>\$ 22,649,675</u>	<u>\$ 22,227,000</u>

NOTES

- (1) Depreciation and amortization is a generally accepted non-cash accounting principle that is required for financial statement purposes but is not part of the budget process.

*Discussion of Fiscal Year 2010 Significant Variations*

There was a negative variance of \$3,174,146 (26%) in the Maryland Stem Cell Research Fund when comparing the final State budget to the actual results. The nature of the arrangements with the State for the Maryland Stem Cell Research Fund are as follows: direct administrative expenses are paid quarterly on a reimbursable basis; new grants, which will not exceed the annual appropriation for a given fiscal year, are ratified in June of each year and the State is invoiced for year one of new grants, and subsequent years on prior grants. This is the case for all grant awards, with the exception of the fiscal year 2007 multiple-year performance awards, ratified in 2008, whereby TEDCO received all funds for the multi-year grants. The State budget will always be quite different than the actual results in any given fiscal year due to the nature of the arrangements with the State.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Management's Discussion and Analysis**  
**June 30, 2010**  
**(Unaudited)**

**Analysis of Significant Budgetary Variations (Continued)**

*Discussion of Fiscal Year 2010 Significant Variations (Continued)*

There was a negative variance of \$2,486,227 (115%) in Technology Transfer Programs and Services when comparing the final State budget to the actual results. This is due primarily to fiscal year 2009 funds carried forward in a restricted reserve account for Technology Transfer and Commercialization Awards that were used in fiscal year 2010.

There was a negative variance of \$155,169 (43%) in General Administration when comparing the final State budget to the actual results. The budget for fiscal year 2010 was based on actual fiscal year 2009 General Administration activity and did not anticipate additional direct executive search expenses.

The total net expenses as reflected on the statement of revenues, expenses, and changes in net assets (page 10) were funded from TEDCO's Reserve Account because of mid-year funding reductions by the State.

**Description of Capital Asset and Long-Term Debt Activity**

TEDCO did not have any additions or disposals for the year ended June 30, 2010. Depreciation and amortization expense was \$17,251 for the year ended June 30, 2010, and \$23,954 for the year ended June 30, 2009. For the year ended June 30, 2009, TEDCO had \$9,161 of additions and no disposals.

TEDCO does not have any long-term debt.

**Discussion of Currently Known Facts, Decisions, or Conditions**

*Fiscal Year 2011 State Operating Budget*

TEDCO's State-approved fiscal year 2011 Program and Operating Budget will increase by 1.9% (\$65,000) from \$3,393,191 in fiscal year 2010 to \$3,458,192 in fiscal year 2011. This includes a pass-through of \$500,000 from TEDCO to the University System of Maryland (USM) to support USM's Maryland Industrial Partnerships Program (MIPS). In fiscal year 2010, the MIPS funding appropriation was \$750,000. In order to receive these funds, TEDCO entered into a Grant Agreement with the Maryland Department of Budget and Management. Under the agreement, TEDCO is to be paid in two installments, the first of which was received and deposited in August 2010. TEDCO subsequently entered into an Inter-agency Agreement with USM to pass through USM's MIPS funding in the same manner (two installments).

**Maryland Technology Development Corporation  
A Component Unit of the State of Maryland**

**Management's Discussion and Analysis  
June 30, 2010  
(Unaudited)**

**Discussion of Currently Known Facts, Decisions, or Conditions (Continued)**

*Fiscal Year 2011 State Operating Budget (Continued)*

In addition, TEDCO received a State appropriation of \$10,400,000 for the Maryland Stem Cell Research Fund (the "Fund") for fiscal year 2011 (down from \$12,350,000 in fiscal year 2010). The purpose of the Fund is to promote State-funded stem cell research and cures through grants to public and private entities in the State. The Fund is a special, nonlapsing fund that is not subject to the State Finance and Procurement Article. The Maryland Stem Cell Commission ("Commission"), established by the Maryland General Assembly, will establish an independent scientific peer review committee composed of nationally-recognized scientific experts in the field of stem cell research. The committee will review, rank, and rate research proposals for State-funded stem cell research based on procedures and guidelines established by the Commission and in a manner that gives due consideration to the scientific, medical, and ethical implications of the research. The committee will then make recommendations to the Commission, based on the ranking and ratings awarded to each research proposal according to its scientific merit. The Commission acts within TEDCO.

The total State appropriation to TEDCO for fiscal year 2011 is \$13,858,192, an overall decrease of \$1,885,000 (12.0%) from fiscal year 2010.

*Joint Technology Transition Initiative (JTTI)*

During fiscal year 2009, TEDCO secured a federal appropriation of \$1,500,000 for a Joint Technology Transition Initiative (JTTI). Originally "earmarked" as the BioDefense Technology Transfer Initiative, this expanded program will work jointly with the U.S. Department of Homeland Security (DHS) and the U. S. Army Medical Research and Materiel Command (USAMRMC).

The primary goal is to find small, private technology companies capable of meeting the defined technology needs of both DHS and USAMRMC, and then provide a mechanism for such companies to demonstrate whether they can in fact meet these needs and provide seed funding for development/demonstration projects. The project will also strive to make federal government technology acquisition managers aware of these projects and their level of success so that the government can more confidently decide whether to acquire technology from the company or provide further development funding to mature these technologies for acquisition and deployment.

**Maryland Technology Development Corporation  
A Component Unit of the State of Maryland**

**Management's Discussion and Analysis  
June 30, 2010  
(Unaudited)**

**Discussion of Currently Known Facts, Decisions, or Conditions (Continued)**

*Joint Technology Transition Initiative (JTTI) (Continued)*

The Maryland Congressional Delegation specifically identified \$1,500,000 for this JTTI program. An anticipated 12 company project awards of up to \$75,000 per company will be provided over a two-year period. TEDCO staff has worked with U.S. Army personnel throughout fiscal year 2010 to secure these funds and now anticipates receiving them in the first quarter of fiscal year 2011.

*Technology Showcases for Sustainable Development*

During fiscal year 2009, TEDCO secured a federal appropriation of \$98,257 from the U.S. Small Business Administration (SBA) to support Technology Showcases for Sustainable Development. TEDCO staff will work with regional agricultural specialists, economic development officials, and U.S. Department of Agriculture, Agricultural Research Service, (USDA-ARS) staff to identify technologies relevant to the five rural areas of Maryland. Showcases will be held in each of the five regions and will include as attendees technology company executives, agricultural producers, financial lenders, investors, and economic development officials. The showcases will include technologies available for commercialization and the research capacity from all of the USDA-ARS locations throughout the country, as well as Maryland universities, in the relevant areas of research. It is important to hold the showcases in the specific regions. Often business owners and farmers do not have time available to travel long distances. Each region of the State has differing issues and needs.

The anticipated outcome of the showcases is to stimulate dialog, create research collaborations and funding opportunities, and provide an additional tool to work with the TEDCO/USDA-ARS Partnership Intermediary Agreement.

Update: Dates for the first four Maryland regional agriculture showcases are: September 2010 (Western Maryland), December 2010 (Lower Eastern Shore), January 2011 (Southern Maryland), and April 2011 (Upper Eastern Shore).

**Contacting TEDCO**

Interested parties can contact TEDCO at 5565 Sterrett Place, Suite 214, Columbia, Maryland, 21044.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Statement of Net Assets**  
**June 30, 2010**

**Assets**

**Current Assets**

Cash and Cash Equivalents	\$ 4,287,136
Accounts Receivable	15,408,205
Grants Receivable	19,030
Current Portion of Working Capital Loan Fund	79,443
Prepaid Expenses	<u>104,598</u>

Total Current Assets \$ 19,898,412

**Noncurrent Assets**

Investments	6,095,146
Working Capital Loan Fund (Net of Allowance of \$34,309)	110,346
Deposits	20,769
Capital Assets (Net of Accumulated Depreciation and Amortization of \$143,874)	<u>23,044</u>

Total Noncurrent Assets 6,249,305

**Total Assets** 26,147,717

**Liabilities**

**Current Liabilities**

Accounts Payable and Accrued Expenses	217,075
Stem Cell Grants Payable	17,473,301
Other Grants Payable	2,158,772
Deferred Grant Revenue	<u>1,611,640</u>

Total Current Liabilities 21,460,788

**Other Liabilities**

Deferred Rent	<u>90,376</u>
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Total Liabilities 21,551,164

**Net Assets**

Unrestricted Net Assets	4,573,509
Invested in Capital Assets	<u>23,044</u>

**Total Net Assets** \$ 4,596,553

*See accompanying Notes to Financial Statements.*

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2010**

<b>Operating Revenues</b>	
State of Maryland Grants	
Maryland Stem Cell Research	\$ 15,524,339
TEDCO Operations	<u>3,462,071</u>
Total State of Maryland Grants	18,986,410
Federal Grants	1,488,090
Sponsorships	16,000
Royalties	379,023
Other Revenues	<u>36,271</u>
Total Operating Revenues	<u>20,905,794</u>
<b>Operating Expenses</b>	
Stem Cell Program	15,524,146
Tech Transfer	4,650,410
Business Incubation	599,142
Program Development and Outreach	230,855
General Administration	<u>529,930</u>
Total Operating Expenses	<u>21,534,483</u>
Net Operating Loss	<u>(628,689)</u>
<b>Nonoperating Revenues</b>	
Investment Earnings	<u>355,605</u>
Decrease in Net Assets	(273,084)
Net Assets, Beginning of Year	<u>4,869,637</u>
Net Assets, End of Year	<u><u>\$ 4,596,553</u></u>

*See accompanying Notes to Financial Statements.*

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Statement of Cash Flows**  
**For the Year Ended June 30, 2010**

<b>Cash Flows from Operating Activities</b>	
Cash Received from Operations	\$ 20,891,094
Cash Paid for Operations	<u>(23,471,605)</u>
Net Cash Used in Operating Activities	<u>(2,580,511)</u>
 <b>Cash Flows from Investing Activities</b>	
Purchases of Investments	(5,067,461)
Sale of Investments	8,536,920
Investment Earnings	275,831
Interest Received on Loan	24,477
Loan Payments Received	<u>141,149</u>
Net Cash Provided by Investing Activities	<u>3,910,916</u>
Net Increase in Cash	1,330,405
Net Cash and Cash Equivalents, Beginning of Year	<u>2,956,731</u>
Net Cash and Cash Equivalents, End of Year	<u><u>\$ 4,287,136</u></u>
 <b>Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities</b>	
Net Operating Loss	(628,689)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities	
Depreciation and Amortization	17,251
Changes in Operating Assets and Liabilities	
Grants and Other Receivables	513,504
Prepaid Expenses	(80,532)
Accounts Payable and Accrued Expenses	(309,369)
Grants Payable	(1,568,965)
Deferred Grant Revenue	(528,204)
Deferred Rent	<u>4,493</u>
Net Cash Used in Operating Activities	<u><u>\$ (2,580,511)</u></u>

*See accompanying Notes to Financial Statements.*

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

Maryland Technology Development Corporation (TEDCO) was established as a body corporate and politic and a public instrumentality of the State of Maryland (the "State"). TEDCO's Board of Directors consists of 15 individuals, the Secretary of the Department of Business and Economic Development, and 14 members appointed by the Governor with the advice and consent of the State Senate. TEDCO works to:

Assist in transferring to the private sector and commercializing the results and products of scientific research and development conducted by colleges and universities.

Assist in the commercialization of technology developed in the private sector.

Foster commercialization of the research and development described above to create and sustain businesses throughout all regions of the State.

Administer the Maryland Technology Incubator Program by promoting entrepreneurship and the creation of jobs in technology-related industry by establishing and operating effective incubators throughout the State that provide adequate physical space designed, and programs intended, to increase or accelerate business success in the field of technology.

Administer the Maryland Stem Cell Research Fund. The purpose of the Fund is to promote state-funded stem cell research and cures through grants to public and private entities in the State. The Fund is a special, nonlapsing fund that is not subject to the State Finance and Procurement Article.

The State of Maryland has granted TEDCO an operating grant of \$3,393,192 for fiscal year 2010. The State of Maryland also granted TEDCO \$12,350,000 for Maryland Stem Cell Research for fiscal year 2010.

**Basis of Accounting**

TEDCO prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources. Under this basis, revenues are recognized when earned and expenses are recognized when incurred.



**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting (Continued)**

TEDCO uses for its statement of revenues, expenses, and changes in net assets the format for proprietary funds prescribed by GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASBS 34). The State of Maryland includes TEDCO's financial statements as a non-major component unit in the statement of activities in the Comprehensive Annual Financial Report (CAFR) of the State of Maryland.

TEDCO has changed the presentation of its activities from a governmental statement of activities format to a proprietary fund statement of revenues, expenses, and changes in net assets format and added a statement of cash flows. The revised presentation of activities is permitted and the statement of cash flows is required by GASBS 34 for governmental non-profit organizations. The prior year presentation of a governmental statement of activities is required by GASBS 34 to be accompanied by a fund statement of revenues, expenses, and changes in net assets using the modified accrual basis of accounting, which is not relevant for the management of TEDCO. This change in presentation had no effect on net assets or change in net assets for either 2010 or 2009.

**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.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in bank accounts, overnight investment accounts, certificates of deposit, and money market funds invested in federal government obligations. TEDCO considers all short-term securities purchased with maturities of three months or less to be cash equivalents. Certain grants require that TEDCO hold the grant monies in separate bank accounts.

Accounts at commercial banking institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Account balances are frequently in excess of \$250,000.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Accounts receivable represent amounts appropriated from the State of Maryland. Accounts receivable are reported at their outstanding balances. Based on past experience with accounts receivable from the State of Maryland, TEDCO's management believes that no allowance for doubtful accounts is necessary.

**Grants Receivable**

Grants receivable consist of amounts due from granting agencies resulting from allowable expenditures incurred that have not been recovered as of the end of the fiscal year. Grants receivable are reported at their outstanding balances, reduced by an allowance for uncollectible amounts, if any. TEDCO expects its grants receivable to be fully realized and has not recorded an allowance for uncollectible amounts.

Management periodically evaluates the adequacy of the allowance for uncollectible amounts by considering TEDCO's past grants receivable loss experience, known and inherent risks in the grants receivable population, adverse situations that may affect a grantor's ability to pay, and current economic conditions.

The allowance for uncollectible amounts is increased by charges to bad debts expense and decreased by charge offs of the grants receivable balances. Grants receivable are considered past due when no payments have been received by their contractual due dates, varying with different grantors. Grants receivable are charged off based on management's case-by-case determination that they are uncollectible.

**Working Capital Loan Fund**

TEDCO provides funding to various borrowers from its Working Capital Loan Fund. The funds are used by the borrowers as working capital in the operations of their respective technology businesses. TEDCO reports these loans receivable at their outstanding balances reduced by an allowance for doubtful accounts.

Management periodically evaluates the adequacy of the allowance for doubtful accounts by considering TEDCO's past loans receivable loss experience, known and inherent risks in the loans receivable population, adverse situations that may affect a borrower's ability to pay, and current economic conditions.

The allowance for doubtful accounts is increased by charges to bad debts expense and decreased by charge offs of the loans receivable balances. Loans receivable are considered past due when no payments have been received by their contractual due dates, varying with different borrowers. Loans receivable are charged off based on management's case-by-case determination that they are uncollectible. As of June 30, 2010, TEDCO determined the allowance for doubtful accounts to be \$34,309.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

Investments consist of certificates of deposit, government securities mutual funds, and certain equity securities.

The certificates of deposit at commercial banking institutions are insured by the FDIC up to \$250,000. These investments are presented at readily determinable fair values.

TEDCO, through the Maryland Technology Transfer Fund program, has made certain reimbursable investments in companies to assist them in collaborating with Maryland colleges and universities or federal laboratories located in Maryland to develop and commercialize new services and products. In order to reimburse TEDCO for its initial investment, the arrangement allows each of these companies, with TEDCO's concurrence, to exercise the option of exchanging the amounts owed to TEDCO for an equitable share in the respective company's equity. These investments are recorded at cost since the securities do not have readily determinable fair values and are not required to be presented under the equity method of accounting.

**Investment Risk Management**

TEDCO manages investment risk by following the Board-approved policy governing the investment of funds. These regulations require that funds be invested only in high grade securities, such as obligations backed by the full faith and credit of the United States government, or obligations that a federal agency/instrumentality has issued in accordance with an act of Congress, or money market mutual funds that contain only specifically authorized obligations.

Custodial credit risk is managed by requiring that all cash in depositories be fully insured by FDIC. Balances exceeding FDIC limits are collateralized by the respective financial institutions to fully protect TEDCO from any losses.

TEDCO has a program for providing seed capital to start-up technology companies. With Board approval, the investments can be converted into preferred equity investments. As privately held securities, there are certain risks that cannot be mitigated.

Interest rate risk is managed by only investing in government securities mutual funds and certificates of deposit.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deposits**

Deposits consist of amounts that TEDCO has paid in conjunction with certain leases. These amounts are not insured.

**Capital Assets**

Capital assets are recorded at cost. Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the respective assets (10 years for leasehold improvements and 3 years for all other capital assets). All purchases of capital assets over \$1,000 are capitalized. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of capital assets are retired, the related cost and accumulated depreciation and amortization are removed from the accounts, and any gain or loss is included in the statement of revenues, expenses, and changes in net assets.

**Deferred Grant Revenue**

Deferred grant revenue results from federal and non-federal grants. TEDCO recognizes grant revenue when related expenses are incurred. All unexpended grants at fiscal year-end are deferred and recognized as revenue when the related expenses are incurred.

**Deferred Rent**

A deferred rent liability has been recorded to reflect the benefit of lease incentives included in the office space lease. The benefits of these incentives, including free rent, will be recognized equally over the term of the lease.

**Revenue Recognition**

Revenues are recognized when earned. Grants received from the State for operating purposes are recognized as revenue on receipt. Grants received from the State for business incubation facility development are deferred until TEDCO commits these funds and the funds are payable. Other grants are recorded on the cost-reimbursement method of recognizing revenue when the expenses have been incurred by TEDCO.

Stem cell funding is recorded as revenue when TEDCO commits these funds and the funds are payable.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Functional Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of revenues, expenses, and changes in net assets. Expenses that can be directly identified with a particular function are assigned to that function. Expenses that can be allocated among the various functions using a reasonable allocation method are allocated among the functions benefited.

TEDCO distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with TEDCO's operating charter. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Significant Concentration**

TEDCO receives a substantial portion of its grant revenue from the State. If the State were to discontinue funding to TEDCO, and if alternative funding sources could not be obtained, operations could cease or be significantly curtailed.

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

**Investments Authorized**

TEDCO's investment policy states that cash and cash equivalents consist of cash in bank accounts, overnight investment accounts, and money market funds invested in federal government obligations and that investments consist of government backed debt securities, certificates of deposits, certain equity securities, and mutual funds.

Cash and cash equivalents as of June 30, 2010, consisted of the following:

Deposits With Financial Institutions	<u>\$ 4,287,136</u>
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Investments as of June 30, 2010, consisted of the following:

Certificates of Deposit	\$ 1,091,257
Government Securities Mutual Funds	4,891,474
Equity Securities	<u>112,415</u>
	<u>\$ 6,095,146</u>

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk**

Custodial credit risk for cash and cash equivalents and certificates of deposit is the risk that TEDCO will not be able to recover deposits in the event of the failure of a depository financial institution or will not be able to recover collateral securities that are in the possession of an outside party. At June 30, 2010, TEDCO's carrying value of cash and cash equivalents and certificates of deposit included in investments on the statement of net assets was \$5,378,393 and the underlying bank and brokerage account balances totaled \$4,441,519. The difference between the carrying value on the statement of net assets and the underlying bank and brokerage account balances is due to outstanding checks and deposits in transit at June 30, 2010. Of the bank and brokerage account balances of \$4,441,519, \$2,830,271 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ -
Uninsured and Collateral Held by Pledging Bank	-
Uninsured and Collateral Held by Third Party for TEDCO	<u>2,830,271</u>
	<u>\$ 2,830,271</u>

The money market funds included in cash and cash equivalents have not been credit rated.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of TEDCO's investment in a single issuer. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this determination.

As of June 30, 2010, 18% of TEDCO's investments is allocated to various certificates of deposit issued by eight different banks. An additional 80% of TEDCO's investments is allocated to government securities mutual funds. Another 2% is allocated to certain investments in preferred stock of four different companies (see Note 1, Investments).

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. Generally, the fair values of investments with longer maturities have greater sensitivity to changes in market interest rates.

For certificates of deposit, TEDCO manages its exposure to fair value loss arising from interest rate changes by reviewing the portfolio on an ongoing basis for changes in effective yield amounts.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to TEDCO. As of June 30, 2010, all of TEDCO's government securities mutual funds invest in U.S. Government securities and in repurchase agreements collateralized by such securities.

The primary investment objectives for certificates of deposit are safety, liquidity, and return on investment. Credit risk with respect to certain investments in equity securities is deemed insignificant to the overall operations of TEDCO, although management does perform due diligence on the companies seeking venture capital.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**3. CAPITAL ASSETS**

Changes in components of capital assets are summarized as follows for the year ended June 30, 2010:

	<u>Balance,</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance,</u> <u>June 30, 2010</u>
<b>Assets</b>				
Computer Equipment	\$ 76,456	\$ -	\$ -	\$ 76,456
Software	57,913	-	-	57,913
Office Furniture	6,704	-	-	6,704
Leasehold Improvements	<u>25,845</u>	<u>-</u>	<u>-</u>	<u>25,845</u>
Total Assets	<u>\$ 166,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 166,918</u>
<b>Accumulated Depreciation and Amortization</b>				
Computer Equipment	\$ 62,054	\$ 11,287	\$ -	\$ 73,341
Software	53,741	1,728	-	55,469
Office Furniture	5,055	1,648	-	6,703
Leasehold Improvements	<u>5,773</u>	<u>2,588</u>	<u>-</u>	<u>8,361</u>
Total Accumulated Depreciation and Amortization	<u>\$ 126,623</u>	<u>\$ 17,251</u>	<u>\$ -</u>	<u>\$ 143,874</u>
Net Book Value	<u>\$ 40,295</u>			<u>\$ 23,044</u>

The depreciation and amortization expense for the year ended June 30, 2010, was \$17,251.

**4. STAFF CONTRACTS**

TEDCO recruits each individual staff member, who is then required to contract with Administaff for employee services and benefits.

**5. STAFF BENEFIT PLAN**

TEDCO maintains a defined contribution, tax deferred "profit sharing" plan that covers all eligible contract employees. All contract employees who have completed six consecutive months of service with TEDCO and have attained age 21 are eligible for the Plan. Participants are 100% vested at all times. Under the provisions of the Plan, TEDCO shall contribute 8% of an employee's base compensation. Contract employees do not contribute to this plan.



**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**5. STAFF BENEFIT PLAN (CONTINUED)**

Contribution expense for the Plan was \$83,839 for the year ended June 30, 2010, which is allocated among programs and general administration expenses in the statement of revenues, expenses, and changes in net assets.

**6. OPERATING LEASE**

TEDCO has a 10-year agreement for office space, which expires on August 31, 2017. The lease requires minimum annual rentals of \$124,614 (base rent) increasing to approximately \$163,000 by the year 2017, plus a pro rata share of increases in operating expenses and real estate taxes, as defined in the lease agreement.

Future minimum lease payments for this operating lease are as follows:

For the Years Ending June 30,

2011	\$ 135,508
2012	139,573
2013	143,761
2014	148,073
2015	152,516
2016-2018	<u>345,994</u>
	<u>\$ 1,065,425</u>

Total lease expense for the year ended June 30, 2010, was \$136,565.

**7. INCOME TAXES**

TEDCO was created by the Maryland General Assembly and is exempt from state and federal income taxes. Accordingly, no tax provision has been included in the accompanying financial statements.

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Financial Statements**  
**June 30, 2010**

**8. ENTITY RISK MANAGEMENT**

TEDCO, as a public instrumentality of the State of Maryland, benefits from sovereign immunity. As such, it is liable for, and exposed to risk of loss from, causes of action arising in tort (including, *inter alia*, causes of action alleging errors and omissions) only to the limited extent provided in the Maryland Tort Claims Act (Title 12, State Government Article, Annotated Code of Maryland).

TEDCO is exposed to various risks of loss related to theft of, damage to, and destruction of assets, including, *inter alia*, those caused by natural disasters. During the year ended June 30, 2010, TEDCO carried insurance through various commercial carriers to cover such risks of loss. TEDCO has had no settled claims resulting from these risks that exceeded its commercial insurance coverage in any of the prior three fiscal years.

**9. SUBSEQUENT EVENTS**

TEDCO has evaluated subsequent events through September 16, 2010, the date on which the financial statements were available to be issued.

**Supplementary Information**

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Schedule of Governmental Activities**  
**For the Year Ended June 30, 2010**

Functions	Expenses	Program Revenues		Net (Expenses) Revenues and Change in Net Assets
		Operating Grants	Sponsorships and Royalties	
Stem Cell Program	\$ 15,524,146	\$ 15,524,339	\$ -	\$ 193
Tech Transfer	4,650,410	3,645,742	203,951	(800,717)
Business Incubation	599,142	713,824	191,072	305,754
Program Development and Outreach	230,855	233,085	-	2,230
General Administration	529,930	357,510	-	(172,420)
	<u>\$ 21,534,483</u>	<u>\$ 20,474,500</u>	<u>\$ 395,023</u>	<u>(664,960)</u>
<b>General Revenues</b>				
				36,271
				355,605
				<u>391,876</u>
				(273,084)
				<u>4,869,637</u>
				<u>\$ 4,596,553</u>

**Maryland Technology Development Corporation  
A Component Unit of the State of Maryland**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
<b>Research and Development Cluster</b>		
<b>U.S. Small Business Administration</b>		
Technology Showcases for Sustainable Development	59.000	\$ 19,030
Maryland Minority R&D Initiative (MMRDI)	59.SBAHQ	<u>108,382</u>
Total U.S. Small Business Administration		<u>127,412</u>
<b>U.S. Department of Defense</b>		
NAVAIR Technical Insertion Initiative (NAVTI)	12.N00421	533,773
Fort Detrick Technology Transfer Initiative (FDTTI)	12.420	263,862
Maryland Research and Applied Sciences Coalition (MRASC)	12.420	<u>563,043</u>
Total U.S. Department of Defense		<u>1,360,678</u>
<b>Total Expenditures of Research and Development Federal Awards</b>		<u><u>\$ 1,488,090</u></u>

*See accompanying Notes to Schedule of Expenditures of Federal Awards.*

**Maryland Technology Development Corporation**  
**A Component Unit of the State of Maryland**

**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2010**

**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of Maryland Technology Development Corporation (TEDCO) under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of TEDCO, it is not intended to and does not present the financial position or changes in net assets of TEDCO.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



**Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

The Board of Directors  
Maryland Technology Development Corporation  
Columbia, Maryland

We have audited the financial statements of Maryland Technology Development Corporation (TEDCO), a non-major component unit of the State of Maryland, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered TEDCO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TEDCO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TEDCO's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The Board of Directors  
Maryland Technology Development Corporation

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether TEDCO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of TEDCO in a separate letter dated September 16, 2010.

This report is intended solely for the information and use of the board of directors, the audit committee, management, others within TEDCO, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Councilor, Buchanan + Mitchell, P.C.*

Bethesda, Maryland  
September 16, 2010

Certified Public Accountants





**Independent Auditors' Report on Compliance With Requirements  
Applicable to Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

The Board of Directors  
Maryland Technology Development Corporation  
Columbia, Maryland

**Compliance**

We have audited the compliance of Maryland Technology Development Corporation (TEDCO), a non-major component unit of the State of Maryland, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2010. TEDCO's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of TEDCO's management. Our responsibility is to express an opinion on TEDCO's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about TEDCO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of TEDCO's compliance with those requirements.

In our opinion, Maryland Technology Development Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

### **Internal Control Over Compliance**

The management of TEDCO is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered TEDCO's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TEDCO's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, the audit committee, management, others within TEDCO, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Councilor, Buchanan + Mitchell, P.C.*

Bethesda, Maryland  
September 16, 2010

Certified Public Accountants

**Maryland Technology Development Corporation  
A Component Unit of the State of Maryland**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

**Summary of Auditors' Results**

1. The auditors' report expresses an unqualified opinion on the financial statements of Maryland Technology Development Corporation.
2. The audit disclosed no instances of noncompliance material to the financial statements of Maryland Technology Development Corporation that are required to be reported in accordance with *Government Auditing Standards*.
3. The auditors' report on compliance for the major federal award program for Maryland Technology Development Corporation expresses an unqualified opinion on the major federal program.
4. The audit disclosed no audit findings relative to the major federal award program of Maryland Technology Development Corporation that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
5. The program tested as a major program includes:

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures
<b>Research and Development Cluster</b>		
<b>U.S. Small Business Administration</b>		
Technology Showcases for Sustainable Development	59.000	\$ 19,030
Maryland Minority R&D Initiative (MMRDI)	59.SBAHQ	<u>108,382</u>
Total U.S. Small Business Administration		<u>127,412</u>
<b>U.S. Department of Defense</b>		
NAVAIR Technical Insertion Initiative (NAVTI)	12.N00421	533,773
Fort Detrick Technology Transfer Initiative (FDTTI)	12.420	263,862
Maryland Research and Applied Sciences Coalition (MRASC)	12.420	<u>563,043</u>
Total U.S. Department of Defense		<u>1,360,678</u>
<b>Total Expenditures of Research and Development Federal Awards</b>		<b><u>\$ 1,488,090</u></b>

6. The threshold for distinguishing Type A and Type B programs was \$300,000.
7. Maryland Technology Development Corporation was determined to be a low-risk auditee.