

**MARYLAND TECHNOLOGY
DEVELOPMENT CORPORATION**
A Component Unit of the State of Maryland
Columbia, Maryland

FINANCIAL STATEMENTS
June 30, 2011

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
Management's Discussion and Analysis	3
FINANCIAL STATEMENTS	9
Statement of Net Assets	11
Statement of Revenues, Expenses, and Changes in Net Assets	12
Statement of Cash Flows	13
Notes to Financial Statements	14
SUPPLEMENTARY INFORMATION	24
Schedule of Governmental Activities	25

Independent Auditor's Report

Board of Directors
Maryland Technology Development Corporation
Columbia, Maryland

We have audited the accompanying financial statements of Maryland Technology Development Corporation (TEDCO), a component unit of the State of Maryland, as of and for the year ended June 30, 2011, 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 TEDCO as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2011, 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.

Management's discussion and analysis on pages 3 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 inquires 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 TEDCO 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 TEDCO. 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.

Clifton Gunderson LLP

Baltimore, Maryland
August 19, 2011

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011
(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 providing adequate physical space and assisting programs 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 through grants to public and private entities in the State.

Fiscal Year 2011 was a productive period for TEDCO. Demand for our programs was strong as evidenced by a 13% increase in applications for funding from last year.

- 42 applications were received and nineteen (19) companies were funded (\$1,425,000) under the Maryland Technology Transfer & Commercialization Fund (MTTCF), TEDCO's signature program. Since the inception of this program in Fiscal Year 2002, for every MTTCF dollar that was awarded to a company, those companies went on to secure over \$43 in follow-on funding, resulting in a 43-1 leverage ratio on TEDCO's initial investment
- 18 applications were received under the University Technology Development Fund program and seven (7) awards were made (\$350,000)
- 8 applications were received under the TechStart program and three (3) awards were made (\$45,000)
- 23 white papers were received under the Joint Technology Transfer Initiative and two (2) awards were made (\$150,000)

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, capital financing and non-capital financing activities.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011
(Unaudited)

Brief Discussion of the Basic Financial Statements (Continued)

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, 2010 through June 30, 2011. 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.

Comparative Financial Statements

Condensed statements of net assets

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 4,406,312	\$ 4,287,136
Investments	6,111,614	-
Accounts receivable	11,155,963	15,408,205
Grants receivable	35,157	19,030
Current portion of notes receivable	210,550	75,000
Current portion of Working Capital Loan Fund	68,959	79,443
Prepaid Expenses	<u>32,759</u>	<u>104,598</u>
Total current assets	<u>22,021,314</u>	<u>19,973,412</u>
Investments	212,415	6,095,146
Notes receivable	570,000	650,000
Working Capital Loan Fund	118,576	110,346
Deposits	20,769	20,769
Capital Assets	<u>33,063</u>	<u>23,044</u>
Total noncurrent assets	<u>954,823</u>	<u>6,899,305</u>
Total assets	<u>\$ 22,976,137</u>	<u>\$ 26,872,717</u>
Liabilities		
Current Liabilities	\$ 17,756,794	\$ 21,460,788
Other Liabilities	<u>90,921</u>	<u>90,376</u>
Total liabilities	<u>\$ 17,847,715</u>	<u>\$ 21,551,164</u>
Net Assets		
Invested in capital assets	\$ 33,063	\$ 23,044
Restricted net assets	184,550	189,788
Unrestricted net assets	<u>4,910,809</u>	<u>5,108,721</u>
Total net assets	<u>\$ 5,128,422</u>	<u>\$ 5,321,553</u>

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011
(Unaudited)

Comparative Financial Statements (Continued)

The largest portions of TEDCO's total assets as of June 30, 2011, are accounts receivable of \$11,155,963, investments of \$6,324,029, and cash and cash equivalents of \$4,406,312.

The largest portion of total liabilities as of June 30, 2011, are Stem Cell and Other Grants Payable of \$16,221,533.

Condensed statements of revenues, expenses and changes in net assets:

	<u>2011</u>	<u>2010</u>
Operating revenues - grants and other revenues	\$ 16,401,893	\$ 20,905,794
Operating expenses:		
Stem cell program	11,211,823	15,524,146
Tech transfer	3,693,111	4,650,410
Business incubation	768,614	599,142
Program development and outreach	151,293	230,855
General administration	<u>979,038</u>	<u>529,930</u>
Total operating expenses	<u>16,803,879</u>	<u>21,534,483</u>
Net operating loss	(401,986)	(628,689)
Investment earnings	<u>208,855</u>	<u>355,605</u>
Decrease in net assets	<u>\$ (193,131)</u>	<u>\$ (273,084)</u>
Total revenues	<u>\$ 16,610,748</u>	<u>\$ 21,261,399</u>

Analysis of Overall Financial Position and Results of Operations

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 22% from \$21,261,399 as of June 30, 2010, to \$16,610,748 as of June 30, 2011. This decrease was primarily due to the decrease in funding for the Maryland Stem Cell Research Fund Grant.

TEDCO's Programs & Operations revenue (non-Stem Cell) from the State of Maryland increased by approximately 2% from \$3,393,191 as of June 30, 2010, to \$3,458,192 as of June 30, 2011.

TEDCO's current assets increased 10% from \$19,973,412 as of June 30, 2010, to \$22,021,314 as of June 30, 2011. This change was primarily due to an increase in current investments netted with an decrease in accounts receivable as a result of a decrease in funding for the Maryland Stem Cell Research Fund Grant. Stem Cell funding is recorded as revenue when TEDCO commits these funds and the funds are payable. During the year ended June 30, 2011, the State of Maryland granted TEDCO \$10,400,000 for Maryland Stem Cell research funding. These funds are committed for the next three years and will be recognized as revenue when payable. Stem Cell funding recognized as revenue for the year ended June 30, 2011 totaled \$11,208,602.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011
(Unaudited)

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

TEDCO's noncurrent assets decreased 86% from \$6,899,305 as of June 30, 2010, to \$954,823 as of June 30, 2011. This decrease was primarily due to the decrease of noncurrent investments in the current year, resulting from the full deployment of the first-year Stem Cell allocation.

TEDCO's current liabilities decreased 17% from \$21,460,788 as of June 30, 2010, to \$17,756,794 as of June 30, 2011, primarily due to a decrease in liabilities associated with the Maryland Stem Cell Research Fund.

Operating expenses decreased 22% from \$21,534,483 as of June 30, 2010, to \$16,803,879 as of June 30, 2011. This decrease is directly attributable to the reduction in funding for the Maryland Stem Cell Research Fund Grant.

Net assets decreased 4% from \$5,321,553 as of June 30, 2010, to \$5,128,422 as of June 30, 2011. Funding from the State has been reduced over the past several years and has required more programs to be funded by TEDCO's net assets.

Description of Capital Asset and Long-Term Debt Activity

At the end of fiscal year 2011, TEDCO purchased new computers and telephone software in the amount of \$17,888. TEDCO's disposals amounted to \$5,747. Depreciation and amortization expense was \$7,869 for the year ended June 30, 2011, and \$17,251 for the year ended June 30, 2010. For the year ended June 30, 2010, TEDCO did not have any additions or disposals.

TEDCO does not have any long-term debt.

Discussion of Currently Known Facts, Decisions, or Conditions

Fiscal Year 2012 State Operating Budget

TEDCO's State-approved fiscal year 2012 Program and Operating Budget will decrease by 5% (\$185,000) from \$3,458,192 in fiscal year 2011 to \$3,273,192 in fiscal year 2012. This includes a pass-through of \$400,000 (down from \$500,000 in fiscal year 2011) from TEDCO to the University System of Maryland (USM) to support USM's Maryland Industrial Partnerships Program (MIPS). 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. 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, 2011
(Unaudited)

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

Fiscal Year 2012 State Operating Budget (Continued)

In addition, TEDCO received a State appropriation of \$12,400,000 for the Maryland Stem Cell Research Fund (the Fund) for fiscal year 2012 (up from \$10,400,000 in fiscal year 2011). 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, non-lapsing fund that is not subject to the State Finance and Procurement Article. The Maryland Stem Cell Commission (the 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 2012 is \$15,673,192, an overall increase of \$1,815,000 (13%) from fiscal year 2011.

Joint Technology Transition Initiative (JTTI)

During fiscal year 2009, TEDCO was awarded 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 Material 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.

It is anticipated that 11 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 did not receive them until the first quarter of fiscal year 2011.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011
(Unaudited)

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

Rural Business Innovation Initiative

The US Small Business Administration has funded a grant for \$220,000 to support the Rural Business Innovation Initiative on Maryland's Eastern Shore. The funding supports business mentoring and technical assistance to small technology-based companies and entrepreneurial training in the region.

Contacting TEDCO

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

FINANCIAL STATEMENTS

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
STATEMENT OF NET ASSETS
June 30, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	4,406,312	
Investments		6,111,614	
Accounts receivable		11,155,963	
Grants receivable		35,157	
Current portion of notes receivable		210,550	
Current portion of working capital loan fund		68,959	
Prepaid expenses		<u>32,759</u>	
Total current assets			<u>\$ 22,021,314</u>

NONCURRENT ASSETS

Investments		212,415	
Notes receivable		570,000	
Working capital loan fund (net of allowance of \$38,859)		118,576	
Deposits		20,769	
Capital assets (net of accumulated depreciation and amortization of \$145,997)		<u>33,063</u>	
Total noncurrent assets			<u>954,823</u>

TOTAL ASSETS			<u><u>\$ 22,976,137</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	265,366	
Stem cell grants payable		14,557,692	
Other grants payable		1,663,841	
Restricted deferred grant revenue		<u>1,269,895</u>	
Total current liabilities			17,756,794

OTHER LIABILITIES

Deferred rent		<u>90,921</u>	
Total liabilities			<u>17,847,715</u>

NET ASSETS

Invested in capital assets		33,063	
Restricted for:			
Working Capital Loan Fund		184,550	
Unrestricted net assets		<u>4,910,809</u>	
Total net assets			<u>5,128,422</u>

TOTAL LIABILITIES AND NET ASSETS			<u><u>\$ 22,976,137</u></u>
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The accompanying notes are an integral part of the financial statements.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

OPERATING REVENUES

State of Maryland grants	
Maryland Stem Cell research	\$ 11,208,602
TEDCO operations	<u>3,538,281</u>
 Total State of Maryland grants	 <u>14,746,883</u>
 Federal grants	 698,207
Sponsorships	75,750
Royalties	438,870
Other revenues	<u>442,183</u>
 Total operating revenues	 <u>16,401,893</u>

OPERATING EXPENSES

Stem Cell Program	11,211,823
Tech transfer	3,693,111
Business incubation	768,614
Program development and outreach	151,293
General administration	<u>979,038</u>
 Total operating expenses	 <u>16,803,879</u>

Net operating loss (401,986)

NONOPERATING REVENUES

Investment earnings	<u>208,855</u>
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DECREASE IN NET ASSETS (193,131)

NET ASSETS, BEGINNING OF YEAR, AS RESTATED 5,321,553

NET ASSETS, END OF YEAR \$ 5,128,422

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

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from operations	\$ 20,296,263
Cash paid for operations	<u>(20,047,016)</u>
Net cash provided by operating activities	<u>249,247</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	4,988,947
Purchases of investments	(5,217,830)
Investment earnings	208,855
Loan distributions	(100,000)
Principal loan payments received	63,395
Increase in notes receivable	(55,550)
Purchases of property and equipment	<u>(17,888)</u>
Net cash used in investing activities	<u>(130,071)</u>
NET INCREASE IN CASH	119,176
NET CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,287,136</u>
NET CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,406,312</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net operating loss	(401,986)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation and amortization	7,869
Provision for bad debt	38,859
Effects of changes in operating assets and liabilities:	
Accounts receivable	4,252,242
Grants receivable	(16,127)
Prepaid expenses	71,839
Accounts payable and accrued expenses	48,291
Stem Cell payable	(2,915,609)
Grants payable	(494,931)
Deferred grant revenue	(341,745)
Deferred rent	<u>545</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 249,247</u>

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

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 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, non-lapsing fund that is not subject to the State Finance and Procurement Article.

Basis of Accounting

All of TEDCO's activities are reported as an enterprise fund as defined by GASB Statement No. 34. Financial reporting for enterprise funds conforms to accounting principles generally applicable to the transactions of similar commercial enterprises and utilizes the full accrual method of accounting.

TEDCO prepares its financial statements using the "economic resources" measurement focus and 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). Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

TEDCO applies all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The GASB is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements in accordance with GASB No. 20. The State of Maryland includes TEDCO's financial statements as a component unit in the statement of activities in the Comprehensive Annual Financial Report (CAFR) of the State of Maryland.

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, and money market funds invested in federal government obligations. TEDCO considers all short-term securities with maturities of three months or less at the date of purchase 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 specified limits. Account balances are frequently in excess of those limits.

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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Receivable (Continued)

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. TEDCO expects its grants receivable to be fully realized and has not recorded an allowance for uncollectible amounts for the year ended June 30, 2011.

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, 2011, TEDCO determined the allowance for doubtful accounts to be \$38,859.

Investments

Investments consist of government securities mutual funds and certain equity securities.

TEDCO, through the Maryland Technology Transfer and Commercialization 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 which approximates fair value.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

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. Computer software purchases are recorded as capital assets and depreciated based on the useful life of the asset. TEDCO does not have any internally developed software.

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.

Restricted Deferred Grant Revenue

Restricted deferred grant revenue results from unexpended federal and non-federal grant advances. TEDCO recognizes grant revenue when related expenses are incurred. Certain unexpended federal and non-federal grant advances are considered restricted until recognized as grant revenue. As of June 30, 2011, \$970,000 was restricted for the Incubator Development Fund, \$275,000 was restricted for the Johnson & Johnson grant, and \$24,895 was restricted for Fort Detrick Technology.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and annual rent increases, will be recognized equally over the term of the lease.

Revenue Recognition

During the year ended June 30, 2011, revenues were recognized when earned. The State of Maryland has granted TEDCO an operating grant of \$3,458,192 for the year ended June 30, 2011.

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. During the year ended June 30, 2011, the State of Maryland granted TEDCO \$10,400,000 for Maryland Stem Cell Research. These funds are committed for the next three years and will be recognized as revenue when payable. Stem cell funding recognized as revenue for the year ended June 30, 2011 totaled \$11,208,602.

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. During the year ended June 30, 2011, TEDCO changed its indirect cost allocation methodology. Several overhead expenses including rent, legal, accounting, insurance, utilities, and other office expenses are now allocated to functions based on labor hours.

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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 – CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents as of June 30, 2011, consisted of the following:

Deposits with financial institutions	\$ 4,023,984
Money market funds	<u>382,328</u>
Total	<u>\$ 4,406,312</u>

Investments as of June 30, 2011, consisted of the following:

Government securities mutual funds	\$ 6,111,614
Equity securities	<u>212,415</u>
Total	<u>\$ 6,324,029</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, TEDCO's deposits may not be returned. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in TEDCO's name.

At year-end, the carrying amount of TEDCO's deposits was \$4,023,984 and the corresponding bank balances were \$4,147,800. The difference between the carrying value on the statement of net assets and the underlying bank balances is due to outstanding checks and deposits in transit at June 30, 2011. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and \$3,897,800 was covered by collateral held in the pledging bank's trust department in TEDCO's name. TEDCO had a contractual arrangement with a bank for funds to be transferred daily from overnight investments to cover checks as presented. This arrangement ended during the year ended June 30, 2011.

All deposits of TEDCO are held in accordance with the formal deposit policy for custodial credit risk and are not exposed to custodial credit risk as defined by Governmental Accounting Standards Board Statement No. 40.

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, 2011, 97% of TEDCO's investments are allocated to government securities mutual funds. Another 3% is allocated to certain investments in preferred stock of three different companies (see Note 1, Investments).

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 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 fair value of an investment. Generally, the fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. Investments subject to interest rate risk consist of mutual funds which have no determinable maturity date.

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, 2011, all of TEDCO's government securities mutual funds invest in U.S. Government securities and in repurchase agreements collateralized by such securities.

The government securities mutual funds held by TEDCO invest at least 80% of net assets in securities issued or guaranteed by the U.S. government, its agencies, instrumentalities or sponsored enterprises. The underlying investments in these funds are AAA rated. The money market funds included in cash and cash equivalents have not been credit rated.

Credit risk with respect to the 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.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of the investment. TEDCO's government securities mutual funds invest in U.S. Government securities and are not considered to have foreign currency risk exposure.

NOTE 3 – NOTES RECEIVABLE

TEDCO has a note receivable due from UMB Health Sciences Research Park Corporation. This is a non-interest bearing note with an original balance of \$1,000,000 at December 2007, and calls for quarterly principal payments of \$25,000 through November 1, 2017. At June 30, 2011, the principal balance is \$650,000.

In February 2011, TEDCO obtained a note receivable due from Mobio Identify Systems (Mobio). The agreement calls for a \$30,550 payment due within 5 days after Mobio acquires Cryptotex, and additional payments of \$20,000 are due every 90 days thereafter. At June 30, 2011, the principal balance is \$130,550.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 – CAPITAL ASSETS

Changes in components of capital assets are summarized as follows for the year ended June 30, 2011:

	Balance,		Balance,	
	July 1, 2010	Additions	Deletions	June 30, 2011
Assets:				
Computer equipment	\$ 76,456	\$ 17,888	\$ -	\$ 94,344
Software	57,914	-	5,747	52,167
Office furniture	6,704	-	-	6,704
Leasehold improvements	<u>25,845</u>	<u>-</u>	<u>-</u>	<u>25,845</u>
Total assets	<u>166,919</u>	<u>17,888</u>	<u>5,747</u>	<u>179,060</u>
Accumulated depreciation and amortization:				
Computer equipment	73,341	3,553	-	76,894
Software	55,469	1,728	5,747	51,450
Office furniture	6,704	-	-	6,704
Leasehold improvements	<u>8,361</u>	<u>2,588</u>	<u>-</u>	<u>10,949</u>
Total accumulated depreciation and amortization	<u>143,875</u>	<u>7,869</u>	<u>5,747</u>	<u>145,997</u>
Net book value	<u>\$ 23,044</u>	<u>\$ 10,019</u>	<u>\$ -</u>	<u>\$ 33,063</u>

The depreciation and amortization expense for the year ended June 30, 2011 was \$7,869. This amount is included in general administrative under Operating Expenses on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

NOTE 5 – STAFF CONTRACTS

TEDCO recruits each individual staff member, who is then required to contract with Administaff for employee services and benefits. Under this arrangement, employees are legally employed by Administaff and are leased by TEDCO.

NOTE 6 – PROFIT SHARING 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. Each Plan year, TEDCO may, in its sole discretion, make a contribution to be allocated to the accounts of eligible participants. For the year ended June 30, 2011, TEDCO made an 8% contribution of each employee's base compensation. Contract employees do not contribute to this plan.

Contribution expense for the Plan was \$81,188 for the year ended June 30, 2011, which is allocated among programs and general administration expenses in the Statement of Revenues, Expenses, and Changes in Net Assets.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 – 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:

Years ending June 30,		
2012	\$	139,573
2013		143,761
2014		148,073
2015		152,516
2016		157,091
Thereafter through August 2017		188,903
Total	\$	929,917

Total lease expense was \$145,693 for the year ended June 30, 2011.

NOTE 8 – 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.

NOTE 9 – RELATED PARTIES

Prior to his appointment to the Board, in the ordinary course of business, TEDCO had a transaction with a member of the Board. In the opinion of management, this transaction was on substantially the same terms as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to TEDCO.

NOTE 10 – 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, 2011, 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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 – PRIOR PERIOD ADJUSTMENT AND RESTATEMENT OF BEGINNING BALANCE

The June 30, 2010 financial statements were restated to correct an error in accounting for notes receivable. The effect of this restatement is as follows:

Net assets as of June 30, 2010, before restatement	\$ 4,596,553
Prior period adjustment	<u>725,000</u>
Net assets as of June 30, 2010, restated	<u>\$ 5,321,553</u>

NOTE 12 – RISKS AND UNCERTAINTIES

TEDCO invests in various investment securities, which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect investment balances.

NOTE 13 – SUBSEQUENT EVENTS

Management evaluated subsequent events through August 19, 2011, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to August 19, 2011 that provided additional evidence about conditions that existed at June 30, 2011, have been recognized in the financial statements for the year ended June 30, 2011. Events or transactions that provided evidence about conditions that did not exist at June 30, 2011, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2011. No such subsequent events have been recorded in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
SCHEDULE OF GOVERNMENTAL ACTIVITIES
Year Ended June 30, 2011

Functions	Expenses	Program Revenues		Net (Expenses) Revenues and Change in Net Assets
		Operating Grants	Sponsorships and Royalties	
Stem cell program	\$ 11,211,823	\$ 11,208,602	\$ -	\$ (3,221)
Tech transfer	3,693,111	2,734,515	493,174	(465,422)
Business incubation	768,614	640,121	20,696	(107,797)
Program development and outreach	151,293	103,609	-	(47,684)
General administration	<u>979,038</u>	<u>758,243</u>	<u>750</u>	<u>(220,045)</u>
Total	<u>\$ 16,803,879</u>	<u>\$ 15,445,090</u>	<u>\$ 514,620</u>	<u>(844,169)</u>
General revenues				
				442,183
				<u>208,855</u>
				<u>651,038</u>
				(193,131)
				<u>5,321,553</u>
				<u>\$ 5,128,422</u>

This information is an integral part of the accompanying financial statements.