



Maryland Technology Development Corporation (TEDCO)

Annual Report and Financial Report

Fiscal Year 2012

Maryland Technology Development Corporation
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Introduction

Technology continues to be the driving force for the New Economy and is critical to Maryland's future. Maryland is richly endowed with technology assets – the largest concentration of federal laboratories of any State in the nation, nationally recognized research universities, a federal contractor base with a specialty in science, security and communications, and an emergent biotechnology cluster.

The Maryland Technology Development Corporation (TEDCO) was created by the General Assembly 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; and foster the commercialization of research and development to create and sustain businesses throughout all regions of the State.” TEDCO 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 programs and physical space designed and intended to increase or accelerate business success in the field of technology.

TEDCO, a “body politic and corporate and constituted as a public instrumentality of the State,” is governed by a 15-member Board of Directors, appointed by the Governor with the approval of the Senate and includes the Secretary of the Department of Business and Economic Development as an ex-officio member.

Mission

To facilitate the creation and foster the growth of businesses throughout all regions of the State through the commercialization of technology. To be Maryland's leading source of funding for technology transfer and development programs and entrepreneurial business assistance.

Vision

Maryland will become internationally recognized as one of the premier 21st century locations for technology and technology-based economic development.

Technology Transfer and Commercialization

Maryland Technology Transfer and Commercialization Fund

TEDCO's primary initiative in technology transfer and commercialization is the Maryland Technology Transfer and Commercialization Fund (MTTCF). MTTCF supports technology and product development by start-up companies often deemed too early in their development to gain the interest of traditional venture capital investments. MTTCF's investments of up to \$75,000 per project are intended to defray the cost of the additional research and development activities that would move a specific technology or technology package to the threshold of commercialization. Since MTTCF companies must be collaborating with federal laboratories or universities, be tenants of Maryland's technology incubator system or be participants in TEDCO's Rural Business Innovation Initiative to be eligible for this fund, they are in a unique position to avail themselves of the expertise and infrastructure of those institutions which would otherwise be unavailable to them. Under certain circumstances, second rounds of funding may be available. This inherent capitalization aspect of the program, in conjunction with its focus on economically viable but underdeveloped projects, sets MTTCF apart, for example, from DBED's Challenge and Enterprise programs and the University of Maryland's Maryland Industrial Partnership (MIPS) Program.

FY2012 MTTCF Statistics

- # of proposals-49
- # of awards-18
- \$ awarded-\$1,350,000
- Total funding awarded for projects completed since program inception-\$11.34M
- Total downstream funding of completed projects since program inception-\$488.3M
- Leverage ratio-\$43:\$1

These numbers indicate that TEDCO continues to fill a need in the economic landscape of commercialization that has been traditionally overlooked.

TEDCO's primary metric of success has been the downstream funding that awardees have raised since the completion of their projects. MTTCF awardees have attracted external downstream funding at a rate of **\$43 for every dollar of their MTTCF award**. The external funding originates, for example, from a mixture of venture and angel investors, government Small Business Innovative Research grants (SBIR), private placements and other investments. The capacity of MTTCF firms to attract such investment from external investors is demonstrative of the benefit of the networking facilitated by TEDCO.

University Technology Development Fund

The University Technology Development Fund (UTDF) facilitates commercialization of university technologies by providing early-stage funding up to \$50,000 for the express purpose of helping university innovators increase the attractiveness of their research to outside companies that may be interested in licensing the technology at a later stage. The funds approved can be used by university researchers for activities such as additional experimentation, prototype

development and limited patent related activities. This fund can also be used for proof of concept studies and to broaden patent claims.

FY2012 UTDF Statistics

- # of proposals-22
- # of awards-6
- \$ awarded-\$300,000
- Total licensees since program inception-43 (35 in Maryland)
- Total Maryland start-up companies created since program inception-29

TechStart

Maryland universities are below the national average in spinning out new companies. TEDCO has been working closely with the various university technology licensing offices to identify barriers to new business formation and has identified specific needs, including sophisticated market analysis and business strategy development.

The TechStart program was developed to increase the number of companies commercializing university-developed technologies. TechStart provides funding to universities to evaluate whether selected technologies or technology packages would have sufficient scope and potential to be the basis of a start-up company formed to commercialize the technology.

FY2012 TechStart Statistics

- # of proposals-16
- # of awards-6
- \$ awarded-\$90,000
- Total Maryland start-up companies created since program inception-23

Maryland Innovation Initiative

The General Assembly passed HB442 during its 2012 legislative session creating the Maryland Innovation Initiative. This program is intended to increase the rate of commercializing technologies developed in Maryland's research universities (Johns Hopkins, Morgan State, University of Maryland-College Park, University of Maryland-Baltimore, and University of Maryland-Baltimore County).

Funding for this program became available July 1, 2012 and planning is currently underway. A full report on the activities of this initiative will be reported in the FY2013 Annual Report.

Coordinating Emerging Nanobiotechnology Research in Maryland Fund

The General Assembly passed HB1409/SB735 during its 2008 legislative session creating the Coordinating Emerging Nanobiotechnology Research in Maryland Fund. This program has never received an appropriation, and as such there is no program activity to report.

Federal Laboratory Technology Initiatives

Ft. Detrick Technology Transfer Initiative

TEDCO completed its congressionally-funded Ft. Detrick Technology Transfer Initiative (FDTTI) in FY2012. FDTTI provided companies with up to \$50,000 to transfer medical technology from innovative high-tech small businesses into the U.S. Army Medical Research and Materiel Command (USAMRMC) to meet Army needs and technology originating from innovations of the USAMRMC to the public sector. Assisting with the implementation of this initiative were TEDCO's local partners, the Frederick County Office of Economic Development and the Ft. Detrick Business Development Office. Both spin-in projects that meet USAMRMC needs and spin-out projects that entertain the licensing and commercialization of Army inventions were considered for funding. Funds were used to defray some of the direct costs of developing early-stage technologies. A total of 26 awards were made to companies under this program.

Joint Technology Transfer Initiative

TEDCO was awarded a congressional earmark to implement the Joint Technology Transfer Initiative (JTTI) with the Department of Homeland Security (DHS) and the U.S. Army Medical Research and Materiel Command (USAMRMC) to facilitate the transfer of technology for these federal labs. Technology development projects will be considered within the scope of the JTTI if the company can show how the proposed technology will meet the needs of DHS and/or USAMRMC (Spin-In) and/or the commercialization of DHS or USAMRMC technologies (Spin-Out). JTTI awards of up to \$75,000 will be made to for-profit small businesses in support of technology development projects that fall within the scope of the JTTI. Assistance in identifying whether or not a technology meets DHS or USAMRMC needs and in forming technology transfer collaborations is available from TEDCO.

Technology Incubator Program

Incubator Development Fund

On June 1, 2001, TEDCO's enabling legislation was modified to create the Incubator Development Fund (IDF). To date, capital appropriations for the fund total \$8,267,500. No projects were funded in FY2012.

The IDF summary is shown below:

Incubator	Funding Awarded
techcenter@UMBC	\$1,000,000
Silver Spring Innovation Center	\$1,000,000
ETC@Johns Hopkins Eastern	\$1,000,000
Frederick Innovative Technology Center@Hood	\$425,000
Prince George's County Technology Assistance Center	\$230,000
Rockville Innovation Technology Center	\$1,000,000
Frederick Innovative Technology Center@Monocacy	\$562,500
Hagerstown Technical Innovation Center	\$450,000
University of Maryland-Baltimore	\$1,000,000
Germantown Innovation Center	\$600,000
Eastern Shore*	\$1,000,000
Subtotals	\$8,267,500

*Reserved

Incubator Feasibility Studies

In order to identify appropriate opportunities for the creation of new or expanded incubator facilities, TEDCO will partner to sponsor independent, professional studies of the feasibility of potential incubator projects. Each study is sponsored by a local government, college, university, or non-profit corporation, and provides at least a 1:1 cash match.

No feasibility studies were performed in FY2012.

Business Assistance Fund

To support the incubator network in Maryland, TEDCO provides business assistance funding to their tenant and affiliate companies. The individual incubator grant amounts are pursuant to a formula developed in conjunction with the Maryland Business Incubation Association.

The funding is used for a variety of business assistance services that these incubators would not have been able to provide in-house. This includes but is not limited to the following types of assistance:

- negotiating strategic investments or partnerships
- raising venture funding
- recruiting top management
- reviewing business plans
- analyzing cash flow projections
- developing marketing strategies
- reviewing budget assumptions, cost structure and financial statements
- discussing potential public relations opportunities and researching media coverage
- identifying business opportunities with the federal government

Working Capital Loan Fund

The Working Capital Loan Fund was terminated in FY2012

2012 Maryland Incubator Company of the Year

TEDCO continued the tradition of recognizing the achievements of incubator tenants and graduates by hosting the eleventh annual Maryland Incubator Company of the Year Awards with co-sponsors Saul Ewing LLC, RSM McGladrey and the Maryland Department of Business and Economic Development, with additional support from the Maryland Business Incubation Association.

The thirty-five member selection committee for the awards is comprised of both private venture capital and public investment managers. The review process has the unique aspect of granting newly-emerged technology startups the undivided attention of the investment community.

This year the awards were held on June 14, 2012 at the Center Club in Baltimore. Over 150 guests were in attendance.

2012 Incubator Company of the Year Awards

- Best Life Sciences Company: Noxilizer
- Best Information Technology: 6th Street Commerce
- Best Technology Professional Service Company: Meridian BioGroup
- Best Cyber/Homeland Security Company: StormCenter Communications, Inc.
- Best Green Company: SemaConnect, Inc.
- Best New Incubator Company: Subject7 LLC
- Best Graduate Company: LiveHealthier
- Robert A. Spar Hall of Fame Inductee: Millennial Media

Rural Business Initiative and Entrepreneurial Programs

Rural Business Initiative

Studies conducted by the United States Small Business Administration (SBA) have shown that high-tech companies based in rural areas are often impeded by the absence of infrastructure necessary to support technical commercial enterprises, and the inability to recruit critical masses of people with the appropriate education and skill sets to fully staff such enterprises. However, the same studies show that when rural policy initiatives are enacted to provide small business assistance through non-profits and rural development centers, economic development in those areas is enhanced.

To this end, the Maryland Congressional delegation supported a federal SBA award to TEDCO to address the needs of small businesses in the rural areas of Maryland (Western MD, Southern MD, Northeastern MD, Upper Eastern Shore and Lower Eastern Shore) through the Rural Business Innovation Initiative (RBI). This funding was augmented by TEDCO funds to ensure a complete reach of the rural parts of the State. TEDCO brought on Business Mentors from the local areas to enhance technology commercialization activities by providing technical and business assistance to incubator-stage companies and incubators in the targeted counties.

The RBI program has been well-received by the rural businesses and elected officials and has been successful in providing technical assistance to the entrepreneurs in the rural areas. The hands-on involvement of the Business Mentors and the technical assistance of third-party consultants have been key factors in furthering the growth of these start-up companies.

In FY2012, Business Mentors have actively supported, with on-going mentoring, 108 companies resulting in 1635 hours of mentoring, and 17 companies have received third-party technical assistance awards.

Examples of business assistance included:

- Marketing strategy development
- Contract analysis
- Funding source identification assistance
- Funding for infrastructure development
- Funding for technical assistance
- Funding for product development

Maryland Stem Cell Research Fund

On April 6, 2006 the Maryland Stem Cell Research Act of 2006 was signed into law. TEDCO was designated the Administrator of the Fund. The Maryland Stem Cell Research Commission (Commission) was established and operates within TEDCO.

In FY2012 the Commission received 179 applications in response to its three Requests for Applications. Following the scientific peer review and the recommendations by the Commission, the TEDCO Board of Directors approved 9 Investigator-Initiated grants, 17 Exploratory grants and 14 Fellowship grants. All grant agreements were executed in FY2012 and the research has begun.

A more detailed report regarding the project summary and financial support will be provided in the 2012 Stem Cell Annual Report to the Governor as indicated in section § 5-2B-09 of the 2006 Stem Cell Research Act.

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

FINANCIAL STATEMENTS
June 30, 2012 and 2011

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Independent Auditor's Report

Board of Directors
Maryland Technology Development Corporation
Columbia, Maryland

We have audited the accompanying basic financial statements of Maryland Technology Development Corporation (TEDCO), a component unit of the State of Maryland, as of and for the years ended June 30, 2012 and 2011, which collectively comprise TEDCO's basic financial statements 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 audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TEDCO as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years 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 September 12, 2012, 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 audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements, such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise TEDCO's basic financial statements. The schedule of governmental activities listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedules of governmental activities are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
September 12, 2012

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 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 was created to capitalize on the vast underutilized technology assets in the state's research universities through commercialization. TEDCO's mission has since been expanded to include business incubation, entrepreneurship and community building. TEDCO's program activity includes grants and investments focused on technology commercialization, financial support for incubators, and educational and coaching activities for entrepreneurs. 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 and most recently was tasked with administering the Maryland Innovation Initiative which is focused on supporting technology proof of concept and commercialization projects for known market needs.

Fiscal Year 2012 was another productive period for TEDCO. Demand for our programs was strong as evidenced by a 25% increase in applications for funding from last year in spite of funding less than 1/3 of all applications received. TEDCO's success is undeniable and demonstrated by job creation (approximately 2.5 first year jobs for every company funded), follow-on funding of more than \$43 for every TEDCO dollar invested and attendance at our events, including more than 350 attendees at the inaugural Entrepreneur Expo. Some specific program statistics follow:

- Maryland Technology Transfer & Commercialization Fund (MTTCF)
 - 49 applications, 18 companies funded, \$1,350,000 deployed
- University Technology Development Fund
 - 22 applications, 6 projects funded, \$300,000 deployed
- TechStart Program
 - 16 applications, 6 projects funded, \$90,000 deployed
- Joint Technology Transfer Initiative
 - 27 white papers submitted, 6 projects funded, \$450,000 deployed
- Maryland Stem Cell Research Fund
 - 179 applications, 40 projects funded, \$11,561,038 deployed.

The numbers, however, only tell part of the story. TEDCO is one of the most active players in the innovation and entrepreneurship community in the state. Examples of this activity includes active board roles on more than 25 incubator, tech council and industry groups, being a lead sponsor of two of the region's largest community events (the Incubator Company of the Year Awards and the Entrepreneur Expo), being an organizing member of the Startup Maryland region of the Startup America Partnership and the only statewide organization with a program dedicated to bringing technology solutions to the rural communities of the state.

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Brief Discussion of the Basic Financial Statements (Continued)

All of this success does not come easily nor can it be achieved in a vacuum. A key ingredient to TEDCO's success is its partnerships. These partnerships take many forms. Examples include those with tech transfer offices in university and federal labs focused on commercialization efforts, other community members on programs and grant applications, state and local economic development agencies on community building and state and federal legislators through testimonial support of policy and program initiatives. Finally, possibly the most unexpected partnership developed this year is with private sector investors. TEDCO is currently managing a small investment fund focused on Baltimore City and is well into efforts to launch two additional funds. The two new funds will be focused on U.S. military veterans and cyber security products and services. These fund partnerships will lead to further partnerships in the form of co-investing and syndication with other investment funds such as the Maryland Venture Fund.

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

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

The statements of cash flows present 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.

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, 2012. 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
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Comparative Financial Statements

Condensed statements of net assets:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012 / 2011</u> Change	<u>2011 / 2010</u> Change
Assets					
Cash and cash equivalents	\$ 13,652,252	\$ 4,406,312	\$ 4,287,136	\$ 9,245,940	\$ 119,176
Investments	6,359,090	6,111,614	-	247,476	6,111,614
Accounts receivable	397,626	11,155,963	15,408,205	(10,758,337)	(4,252,242)
Grants receivable	44,199	35,157	19,030	9,042	16,127
Current portion of notes receivable	147,393	210,550	75,000	(63,157)	135,550
Current portion of Working Capital Loan Fund	59,625	68,959	79,443	(9,334)	(10,484)
Prepaid expenses and other current assets	57,403	32,759	104,598	24,644	(71,839)
Total current assets	<u>20,717,588</u>	<u>22,021,314</u>	<u>19,973,412</u>	<u>(1,303,726)</u>	<u>2,047,902</u>
Investments	212,415	212,415	6,095,146	-	(5,882,731)
Notes receivable	679,692	570,000	650,000	109,692	(80,000)
Working Capital Loan Fund	94,932	118,576	110,346	(23,644)	8,230
Deposits	20,769	20,769	20,769	-	-
Capital assets	<u>28,594</u>	<u>33,063</u>	<u>23,044</u>	<u>(4,469)</u>	<u>10,019</u>
Total noncurrent assets	<u>1,036,402</u>	<u>954,823</u>	<u>6,899,305</u>	<u>81,579</u>	<u>(5,944,482)</u>
Total assets	<u>\$ 21,753,990</u>	<u>\$ 22,976,137</u>	<u>\$ 26,872,717</u>	<u>\$ (1,222,147)</u>	<u>\$ (3,896,580)</u>
Liabilities					
Current liabilities	\$ 14,771,690	\$ 17,756,794	\$ 21,460,788	\$ (2,985,104)	\$ (3,703,994)
Other liabilities	<u>87,401</u>	<u>90,921</u>	<u>90,376</u>	<u>(3,520)</u>	<u>545</u>
Total liabilities	<u>\$ 14,859,091</u>	<u>\$ 17,847,715</u>	<u>\$ 21,551,164</u>	<u>\$ (2,988,624)</u>	<u>\$ (3,703,449)</u>
Net Assets					
Invested in capital assets	\$ 28,594	\$ 33,063	\$ 23,044	\$ (4,469)	\$ 10,019
Restricted net assets	154,557	184,550	189,788	(29,993)	(5,238)
Unrestricted net assets	<u>6,711,748</u>	<u>4,910,809</u>	<u>5,108,721</u>	<u>1,800,939</u>	<u>(197,912)</u>
Total net assets	<u>\$ 6,894,899</u>	<u>\$ 5,128,422</u>	<u>\$ 5,321,553</u>	<u>\$ 1,766,477</u>	<u>\$ (193,131)</u>

The largest portions of TEDCO's total assets as of June 30, 2012, are cash and cash equivalents of \$ 13,652,252, investments of \$6,571,505, and notes receivable of \$827,085.

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 TEDCO's total liabilities as of June 30, 2012 are stem cell and other grants payable of \$13,338,314.

The largest portion of TEDCO's total liabilities as of June 30, 2011 are stem cell and other grants payable of \$16,221,533.

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Comparative Financial Statements (Continued)

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012 / 2011</u> <u>Change</u>	<u>2011 / 2010</u> <u>Change</u>
Operating revenues - grants and other	\$ 18,580,952	\$ 16,401,893	\$ 20,905,794	\$ 2,179,059	\$ (4,503,901)
Operating expenses:					
Stem cell program	12,800,735	11,211,823	15,524,146	1,588,912	(4,312,323)
Tech transfer	2,347,102	3,693,111	4,650,410	(1,346,009)	(957,299)
Business incubation	785,613	768,614	599,142	16,999	169,472
Angel fund investments	59,099	-	-	59,099	-
Program development and outreach	-	151,293	230,855	(151,293)	(79,562)
General administration	1,111,458	979,038	529,930	132,420	449,108
Total operating expenses	<u>17,104,007</u>	<u>16,803,879</u>	<u>21,534,483</u>	<u>300,128</u>	<u>(4,730,604)</u>
Net operating gain (loss)	1,476,945	(401,986)	(628,689)	1,878,931	226,703
Investment earnings	<u>289,532</u>	<u>208,855</u>	<u>355,605</u>	<u>80,677</u>	<u>(146,750)</u>
Increase (decrease) in net assets	<u>\$ 1,766,477</u>	<u>\$ (193,131)</u>	<u>\$ (273,084)</u>	<u>\$ 1,959,608</u>	<u>\$ 79,953</u>
Total revenues	<u>\$ 18,870,484</u>	<u>\$ 16,610,748</u>	<u>\$ 21,261,399</u>	<u>\$ 2,259,736</u>	<u>\$ (4,650,651)</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 increased approximately 14% from \$16,610,748 as of June 30, 2011, to \$18,870,484 as of June 30, 2012. This increase was primarily due to the increase in funding for the Maryland Stem Cell Research Fund Grant.

TEDCO's revenues decreased approximately 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 decreased by approximately 5% from \$3,458,192 as of June 30, 2011, to \$3,273,192 as of June 30, 2012.

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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
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Analysis of Overall Financial Position and Results of Operations (Continued)

TEDCO's current assets decreased approximately 6% from \$22,021,314 as of June 30, 2011, to \$20,717,588 as of June 30, 2012. This change was primarily due to a decrease in accounts receivable netted against an increase in cash and cash equivalents as a result of receiving the FY'12 Stem Cell funding from the State prior to June 30, 2012. Stem Cell funding is recorded as revenue when TEDCO commits these funds and the funds are payable. During the year ended June 30, 2012, the State of Maryland granted TEDCO \$12,400,000 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, 2012 totaled \$12,800,601.

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 a 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.

TEDCO's noncurrent assets increased 9% from \$954,824 as of June 30, 2011, to \$1,036,403 as of June 30, 2012. This increase was primarily due to the increase of noncurrent notes receivable in the current year, resulting from a change in the MTTCF program from a grant to a convertible note receivable.

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 \$17,756,794 as of June 30, 2011, to \$14,771,691 as of June 30, 2012, primarily due to a decrease in liabilities associated with the Maryland Stem Cell Research Fund.

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 increased 2% from \$16,803,879 as of June 30, 2011, to \$17,104,007 as of June 30, 2012. This increase is primarily attributable to the increase in funding for the Maryland Stem Cell Research Fund Grant.

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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011
(Unaudited)

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

Net assets increased 34% from \$5,128,422 as of June 30, 2011, to \$6,894,899 as of June 30, 2012. This increase is primarily attributable to rescinded grants and royalty payments.

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

During fiscal year 2012, TEDCO purchased a new server in the amount of \$5,120. Depreciation and amortization expense was \$9,589 for the year ended June 30, 2012.

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.

TEDCO does not have any long-term debt.

Discussion of Currently Known Facts, Decisions, or Conditions

Fiscal Year 2013 State Operating Budget

TEDCO's State-approved fiscal year 2013 Program and Operating Budget will decrease by 3% (\$100,000) from \$3,273,192 in fiscal year 2012, to \$3,173,192 in fiscal year 2013. This includes a pass-through of \$400,000 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).

In addition, TEDCO received a State appropriation of \$10,400,000 for the Maryland Stem Cell Research Fund (the Fund) for fiscal year 2013 (down from \$12,400,000 in fiscal year 2012). 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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011
(Unaudited)

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

Fiscal Year 2013 State Operating Budget (Continued)

The fiscal year 2013 appropriation includes \$5,000,000 for the Maryland Innovation Initiative (MII), a new program designed to accelerate the rate of commercializing university-developed technologies in Maryland. The MII will partner with the University of Maryland-College Park, the University of Maryland-Baltimore, the University of Maryland-Baltimore County, Morgan State University and Johns Hopkins University.

The total State appropriation to TEDCO for fiscal year 2013 is \$18,573,192, an overall increase of \$2,900,000 (19%) from fiscal year 2012.

Joint Technology Transition Initiative (JTII)

During fiscal year 2009, TEDCO was awarded a federal appropriation of \$1,500,000 for a Joint Technology Transition Initiative (JTII). 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.

Rural Business Innovation Initiative

The U.S. 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
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,652,252	\$ 4,406,312
Investments	6,359,090	6,111,614
Accounts receivable	397,626	11,155,963
Grants receivable	44,199	35,157
Current portion of notes receivable	147,393	210,550
Current portion of working capital loan fund	59,625	68,959
Prepaid expenses and other current assets	57,403	32,759
Total current assets	20,717,588	22,021,314
NONCURRENT ASSETS		
Investments	212,415	212,415
Notes receivable - noncurrent (net of allowance of \$287,624 for 2012 and \$0 for 2011)	679,692	570,000
Working capital loan fund (net of allowance of \$38,859 for 2012 and 2011)	94,932	118,576
Deposits	20,769	20,769
Capital assets (net of accumulated depreciation and amortization of \$155,586 for 2012 and \$145,997 for 2011)	28,594	33,063
Total noncurrent assets	1,036,402	954,823
TOTAL ASSETS	\$ 21,753,990	\$ 22,976,137
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 188,376	\$ 265,366
Stem cell grants payable	12,645,217	14,557,692
Other grants payable	693,097	1,663,841
Unearned grant revenue	1,245,000	1,269,895
Total current liabilities	14,771,690	17,756,794
OTHER LIABILITIES		
Deferred rent	87,401	90,921
Total liabilities	14,859,091	17,847,715
NET ASSETS		
Invested in capital assets	28,594	33,063
Restricted for:		
Working Capital Loan Fund	154,557	184,550
Unrestricted net assets	6,711,748	4,910,809
Total net assets	6,894,899	5,128,422
TOTAL LIABILITIES AND NET ASSETS	\$ 21,753,990	\$ 22,976,137

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

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
State of Maryland grants		
Maryland stem cell research	\$ 12,800,601	\$ 11,208,602
TEDCO operations	<u>3,273,192</u>	<u>3,458,192</u>
Total State of Maryland grants	<u>16,073,793</u>	<u>14,666,794</u>
Federal grants	543,786	698,207
Sponsorships	96,993	75,750
Royalties	726,424	438,870
Other revenues	<u>1,139,956</u>	<u>522,272</u>
Total operating revenues	<u>18,580,952</u>	<u>16,401,893</u>
OPERATING EXPENSES		
Stem cell program	12,800,735	11,211,823
Tech transfer	2,347,102	3,693,111
Business incubation	785,613	768,614
Angel fund investments	59,099	-
Program development and outreach	-	151,293
General administration	<u>1,111,458</u>	<u>979,038</u>
Total operating expenses	<u>17,104,007</u>	<u>16,803,879</u>
Net operating income (loss)	1,476,945	(401,986)
NONOPERATING REVENUES		
Investment earnings	<u>289,532</u>	<u>208,855</u>
INCREASE (DECREASE) IN NET ASSETS	1,766,477	(193,131)
NET ASSETS, BEGINNING OF YEAR	<u>5,128,422</u>	<u>5,321,553</u>
NET ASSETS, END OF YEAR	<u>\$ 6,894,899</u>	<u>\$ 5,128,422</u>

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

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations	\$ 29,305,352	\$ 20,296,263
Cash paid for operations	(19,795,167)	(20,047,016)
Net cash provided by operating activities	9,510,185	249,247
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,601,721	4,988,947
Purchases of investments	(1,849,197)	(5,217,830)
Investment earnings	289,532	208,855
Working capital loan distributions	(50,000)	(100,000)
Working capital loan principal payments received	82,978	63,395
Advances of notes receivable	(560,691)	(130,550)
Payments on notes receivable	226,532	75,000
Purchases of property and equipment	(5,120)	(17,888)
Net cash used in investing activities	(264,245)	(130,071)
NET INCREASE IN CASH	9,245,940	119,176
NET CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,406,312	4,287,136
NET CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 13,652,252	\$ 4,406,312
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income (loss)	\$ 1,476,945	\$ (401,986)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,589	7,869
Provision for bad debt	287,624	38,859
Effects of changes in operating assets and liabilities:		
Accounts receivable	10,758,337	4,252,242
Grants receivable	(9,042)	(16,127)
Prepaid expenses and other current assets	(24,644)	71,839
Accounts payable and accrued expenses	(76,990)	48,291
Stem cell grants payable	(1,912,475)	(2,915,609)
Grants payable	(970,744)	(494,931)
Unearned grant revenue	(24,895)	(341,745)
Deferred rent	(3,520)	545
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,510,185	\$ 249,247

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, 2012 and 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, universities and federal labs.
- 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, 2012 and 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 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.

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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Receivable (Continued)

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 years ended June 30, 2012 and 2011.

Notes Receivable

TEDCO provides funding to various borrowers from its Maryland Technology Transfer & Commercialization Fund. The funds are used by the borrowers to develop and commercialize new technology services and products. TEDCO reports these notes 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 notes receivable loss experience, known and inherent risks in the notes 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 notes receivable balances. Notes receivable are considered past due when no payments have been received by their contractual due dates, varying with different borrowers. Notes receivable are charged off based on management's case-by-case determination that they are uncollectible. As of June 30, 2012 and 2011, TEDCO determined the allowance for doubtful accounts to be \$287,624 and \$0, respectively.

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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Working Capital Loan Fund (Continued)

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 both June 30, 2012 and 2011, TEDCO determined the allowance for doubtful accounts to be \$38,859.

During the year ended June 30, 2012, TEDCO stopped offering the Working Capital Loan Fund program.

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 equity 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.

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

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 individual 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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Grant Revenue

Unearned 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, 2012 and 2011, unearned grant income consisted of \$970,000 for the Incubator Development Fund and \$275,000 for the Johnson & Johnson grant. As of June 30, 2011, there was also unearned grant income of \$24,895 for the Fort Detrick Technology Transfer Initiative.

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 years ended June 30, 2012 and 2011, revenues were recognized when earned. The State of Maryland has granted TEDCO an operating grant of \$3,273,192 and \$3,458,192 for the years ended June 30, 2012 and 2011, respectively.

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 where revenue is recognized 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 years ended June 30, 2012 and 2011, the State of Maryland granted TEDCO \$12,400,000 and \$10,400,000, respectively, 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 years ended June 30, 2012 and 2011 totaled \$12,800,601 and \$11,208,602, respectively.

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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reclassifications

Certain amounts in 2011 have been reclassified to conform with the 2012 presentation. The reclassifications did not affect total net assets or changes therein.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

	<u>2012</u>	<u>2011</u>
Deposits with financial institutions	\$ 13,222,736	\$ 4,023,984
Money market funds	<u>429,516</u>	<u>382,328</u>
Total	<u>\$ 13,652,252</u>	<u>\$ 4,406,312</u>

Investments as of June 30, consisted of the following:

	<u>2012</u>	<u>2011</u>
Government securities mutual funds	\$ 6,359,090	\$ 6,111,614
Equity securities	<u>212,415</u>	<u>212,415</u>
Total	<u>\$ 6,571,505</u>	<u>\$ 6,324,029</u>

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, 2012 and 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).

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.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of the investment. TEDCO does not invest in foreign currency denominated investments and is not exposed to foreign currency risk.

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, 2012, 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.

At June 30, 2012, TEDCO had the following investment and ratings:

	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>	<u>Percent of Portfolio</u>
Mutual funds - government securities	\$ 6,359,090	AAA	100.00%
Total	<u>\$ 6,359,090</u>		<u>100%</u>

At June 30, 2011, TEDCO had the following investment and ratings:

	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>	<u>Percent of Portfolio</u>
Mutual funds - government securities	\$ 4,903,502	AAA	80.23%
Mutual funds - other	1,208,112	AAA	19.77%
Total	<u>\$ 6,111,614</u>		<u>100%</u>

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

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 June 30, 2012, the carrying amount of TEDCO's deposits was \$13,222,736 and the corresponding bank balances were \$13,241,759. 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, 2012. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and \$12,991,759 was covered by collateral held in the pledging bank's trust department in TEDCO's name.

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, 2012 and 2011, the principal balance is \$550,000 and \$650,000, respectively.

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, 2012 and 2011, the principal balance is \$20,018 and \$130,550, respectively.

In October 2011, TEDCO obtained a note receivable due from AudioEye, Inc. This is a non-interest bearing note with an original balance of \$149,800 and calls for monthly principal payments of \$2,000 through January 2018. At June 30, 2012, the principal balance is \$133,800.

During the year ended June 30, 2012, TEDCO began obtaining convertible promissory notes in exchange for TEDCO's agreement to invest in these companies. The convertible promissory notes do not have set repayment terms, but accrue interest at a rate of 8% on the unpaid principal balance until the maturity date, 5 years after the date of the note. Upon the occurrence of any deemed conversion event, TEDCO has the sole discretion to accelerate amounts due under the note or exchange the entire outstanding principal amount, together with accrued interest, for an equity investment in the Company. At June 30, 2012, the total balance outstanding on these convertible promissory notes is \$410,891, which includes accrued interest of \$11,250.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – NOTES RECEIVABLE (CONTINUED)

A summary of notes receivable as of June 30 is as follows:

	<u>2012</u>	<u>2011</u>
Convertible promissory notes principal advanced	\$ 399,641	\$ -
Convertible promissory notes interest accrued	11,250	-
Allowance for uncollectible balances	<u>(287,624)</u>	<u>-</u>
Subtotal - convertible promissory notes	<u>123,267</u>	<u>-</u>
UMB Health Science Research Park Corporation	550,000	650,000
Mobio Identify Solutions	20,018	130,550
AudioEye, Inc.	<u>133,800</u>	<u>-</u>
Total notes receivable	<u>\$ 827,085</u>	<u>\$ 780,550</u>
Notes receivable - current	\$ 147,393	\$ 210,550
Notes receivable - noncurrent	<u>679,692</u>	<u>570,000</u>
Total	<u>\$ 827,085</u>	<u>\$ 780,550</u>

NOTE 4 – CAPITAL ASSETS

Changes in components of capital assets are summarized as follows for the year ended June 30, 2012:

	<u>Balance, July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2012</u>
Capital assets being depreciated:				
Computer equipment	\$ 94,344	\$ 5,120	\$ -	\$ 99,464
Software	52,167	-	-	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>179,060</u>	<u>5,120</u>	<u>-</u>	<u>184,180</u>
Accumulated depreciation and amortization:				
Computer equipment	76,894	6,285	-	83,179
Software	51,450	719	-	52,169
Office furniture	6,704	-	-	6,704
Leasehold improvements	<u>10,949</u>	<u>2,585</u>	<u>-</u>	<u>13,534</u>
Total accumulated depreciation and amortization	<u>145,997</u>	<u>9,589</u>	<u>-</u>	<u>155,586</u>
Net book value	<u>\$ 33,063</u>	<u>\$ (4,469)</u>	<u>\$ -</u>	<u>\$ 28,594</u>

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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

	<u>Balance, July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2011</u>
Capital assets being depreciated:				
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 years ended June 30, 2012 and 2011 was \$9,589 and \$7,869, respectively. This amount is included in general administration under Operating Expenses on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

NOTE 5 – 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 years ended June 30, 2012 and 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 \$103,995 and \$81,188 for the years ended June 30, 2012 and 2011, respectively, 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, 2012 and 2011

NOTE 6 – STAFF CONTRACTS

TEDCO recruits each individual staff member, who is then required to contract with Insperity, an outsourced full service HR department, for employee services and benefits. Under this arrangement, employees are legally employed by Insperity and are leased by TEDCO.

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,		
2013	\$	143,761
2014		148,073
2015		152,516
2016		157,091
2017		161,804
Thereafter		<u>27,099</u>
Total	\$	<u>790,344</u>

Total lease expense was \$144,106 and \$147,585 for the years ended June 30, 2012 and 2011, respectively.

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

A Board member of TEDCO is also the CEO of a company in which TEDCO has an equity investment. The investment comprises 1% of TEDCO's investments and TEDCO has a 3% ownership interest in the Company at both June 30, 2012 and 2011.

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).

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
A Component Unit of the State of Maryland
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 10 – ENTITY RISK MANAGEMENT (CONTINUED)

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 years ended June 30, 2012 and 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.

NOTE 11 – 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 12 – SUBSEQUENT EVENTS

Management evaluated subsequent events through September 12, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to September 12, 2012, that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, 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, 2012. 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, 2012

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Change in Net Assets</u>
		<u>Operating Grants</u>	<u>Sponsorships and Royalties</u>	
Stem cell program	\$ 12,800,735	\$ 12,800,601	\$ 20,000	\$ 19,866
Tech transfer	2,347,102	2,321,045	668,535	642,478
Business incubation	785,613	609,180	134,882	(41,551)
Angel fund investments	59,099	-	-	(59,099)
General administration	<u>1,111,458</u>	<u>886,753</u>	<u>-</u>	<u>(224,705)</u>
Total	<u>\$ 17,104,007</u>	<u>\$ 16,617,579</u>	<u>\$ 823,417</u>	<u>336,989</u>
General revenues				
				1,139,956
				<u>289,532</u>
				1,429,488
				<u>1,766,477</u>
				<u>5,128,422</u>
				<u>\$ 6,894,899</u>

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

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Change in Net Assets</u>
		<u>Operating Grants</u>	<u>Sponsorships and Royalties</u>	
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				
				522,272
				<u>208,855</u>
				731,127
				<u>(113,042)</u>
				<u>5,321,553</u>
				<u>\$ 5,208,511</u>

**Maryland Technology Development Corporation
Baltimore, Maryland**

**SINGLE AUDIT REPORT
June 30, 2012**

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Independent Auditor's 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*

Audit Committee
Maryland Technology Development Corporation
Baltimore, Maryland

We have audited the statements of Net Assets, Revenues, Expenses and Changes in Net Assets, and Cash Flows of the Maryland Technology Development Corporation (the Corporation), a component unit of the State of Maryland as of and for the year ended June 30, 2012, and have issued our report thereon dated September 12, 2012. 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 the Corporation'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 the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that might be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 the Corporation in a separate letter dated September 12, 2012.

This report is intended solely for the information and use of management, the Audit Committee, others within the Corporation, Department of Defense, 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.

The image shows a handwritten signature in black ink that reads "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

Baltimore, Maryland
September 12, 2012



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**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance and Schedule of Expenditures of Federal Awards in
Accordance with OMB Circular A-133**

Board of Directors
Maryland Technology Development Corporation
Columbia, Maryland

Compliance

We have audited the compliance of Maryland Technology Development Corporation (the Corporation) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Maryland Technology Development Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation'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 the Corporation'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 the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2012-01.

Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation'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 the entity'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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as items 2012-01. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Maryland Technology Development Corporation as of and for the year ended June 30, 2012, and have issued our report thereon dated September 12, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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.

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, U.S. Department of Defense, 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.

CliftonLarsonAllen LLP

Baltimore, Maryland
September 12, 2012

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

<u>Federal Grant or/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Small Business Administration		
Direct		
Agriculture Research Services	59.000	\$ 491
Small Business Administration Eastern Shore	59.000	100,267
Research and Development		
U.S. Department of Defense		
Direct		
Joint Technology Transition Initiative (JTTI)	12.420	<u>430,503</u>
Total		<u>\$ 531,261</u>

**MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Maryland Technology Development Corporation (the Corporation) and is presented on the accrual basis of accounting.

The information in this Schedule is also presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Expenditures of federal award grant funds are made for the purposes specified by the grantor, and are subject to certain restrictions. Expenditures are also subject to audit by the relevant federal agency. In the opinion of management, disallowed costs, if any, from such audits will not have a material effect on this Schedule or the financial position of the County.

NOTE 2 – SUBRECIPIENTS

Of the federal expenditures present in the accompanying schedule, the Corporation provided federal awards to subrecipients as follows, for the year ended June 30, 2012:

Program Title	Federal CFDA Number	Amount Provided to Subrecipient
Research and Development		
U.S. Department of Defense		
Joint Technology Transition Initiative (JTTI)	12.420	
BioFactura Inc.		\$ 75,000
Emerging Science & Technology Group		75,000
ES&T		7,154
GenArraytion		75,000
QuickSilver Analytics Inc.		75,000
Smart Imaging Systems Inc.		<u>43,135</u>
Total		<u>\$ 350,289</u>

**MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X None

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes No

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number(s)
------------------------------------	----------------

Research and Development Cluster: Joint Technology Transition Initiative (JTTI)	12.420
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Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

**MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

II. Financial Statement Findings

None noted

III. Federal Awards Findings and Questioned Costs

Finding Reference: 2012-01

Federal Agency: Department of Defense (DOD)

Federal Program: Joint Technology Transition Initiative (JTTI)

Compliance Requirement: Reporting

Type of Finding: Significant Deficiency in Internal Control, Noncompliance

Condition

The Corporation failed to follow Federal Funding Accountability and Transparency Act reporting requirements for their newly awarded subrecipients who were granted \$25,000 or more. The proper Federal Funding Accountability and Transparency Act reports were not submitted to the USASpending.gov website.

Context

Subrecipient payments for the year ended June 30, 2012 summed \$345,425 out of grant total expenditures of \$430,503.

Criteria

Per OMB A-133 Compliance Supplement, Part 3, "Starting March 1, 2011, any newly awarded subcontract of \$25,000 or more must be reported if the value of the Federal prime contract award under which that subcontract was awarded was \$25,000 or more. Grant and cooperative agreement recipients and contractors are required to register in FSRS and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<http://www.usaspending.gov/subaward-advanced-search>). Compliance testing of the Transparency Act reporting requirements shall include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements: Subaward Date, Subawardee DUNS #, Amount of Subaward, Subaward Obligation/Action Date, Date of Report Submission, Subaward Number."

Cause

The Corporation was not aware of the newly implemented Federal Funding Accountability and Transparency Act reporting requirements.

MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Effect

The Corporation is not in compliance with Federal regulations related to Federal Funding Accountability and Transparency Act reporting.

Questioned Costs

There are no questioned costs related to this finding.

Recommendation

We recommend that the Corporation review the Federal Funding Accountability and Transparency Act (FFATA) and contact their awarding agency to determine the applicable requirements. In addition, we recommend that the Corporation immediately implement procedures and controls to ensure compliance with FFATA.

Management's Response:

TEDCO will contact the awarding agency to determine the applicable requirements. TEDCO will then immediately implement procedures and controls to ensure compliance with FFATA.

**MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION
SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2012**

Finding Reference:	2011-01
Federal Agency:	Department of Defense (DOD)
Federal Program:	Fort Detrick Technology Initiative (FDTTI)
Compliance Requirement:	Cash Management
Type of Finding:	Compliance and Significant Deficiency in Internal Control over Compliance

Condition

Interest earned in excess of \$250 on federal advance payments was not remitted to the federal grantor agency in accordance with the grant agreement.

The Corporation was unaware of the requirement to monitor the cumulative interest earned on advanced federal funds in order to determine if funds should be remitted to the grantor agency.

FDTTI program earned \$374 on advanced federal funds. The grant award requires annual interest earned in excess of \$250 to be remitted to DHHS.

Recommendation

We recommend that the Corporation implement procedures and internal controls to ensure that annual interest earned in excess of \$250 is remitted to the grantor in accordance with the grantor.

Current Year Status

TEDCO instituted a procedure that remits federal interest earned in excess of \$250. For fiscal year 2012, the total amount of federal interest earned was \$85, so no remittance was required.