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Minnesota Technology, Inc

2003 Annual Report

Minnesota Technology, Inc.

a NIST MEP | Network Affiliate

MINNESOTA TECHNOLOGY, INCORPORATED
(A Component Unit of the State of Minnesota)

Balance Sheets

June 30, 2003 and 2002

Assets		**2003**	**2002**
Current assets:			
Cash and cash equivalents	$	1,955,193	2,420,808
Receivables:			
Accounts receivable, net of allowance for uncollectible accounts of $21,854 and $39,439 for 2003 and 2002, respectively		186,846	104,409
Federal government		501,064	460,452
State of Minnesota		—	40,000
Interest receivable		2,574	5,468
Total current assets		2,645,677	3,031,137
Capital assets:			
Equipment and leasehold improvements		2,653,728	2,544,625
Less accumulated depreciation		(2,470,077)	(2,389,731)
Total capital assets		183,651	154,894
Total assets	$	2,829,328	3,186,031
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	84,896	125,329
Accrued expenses		457,676	466,742
Deferred revenue		—	50,000
Total current liabilities		542,572	642,071
Contingency (note 8)		—	—
Net assets:			
Unrestricted		2,103,105	2,389,066
Invested in capital assets		183,651	154,894
Total net assets		2,286,756	2,543,960
Total liabilities and net assets	$	2,829,328	3,186,031

See accompanying notes to financial statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A Component Unit of the State of Minnesota)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

	2003	2002
Operating revenues:		
Federal awards	$ 2,016,002	2,000,000
Charges for services and publications	717,545	630,513
Other operating revenues	453,163	256,212
Total operating revenues	3,186,710	2,886,725
Operating expenses:		
Program expenses:		
Regional offices	4,492,537	5,327,920
Communications and publications	884,019	1,010,774
Special initiatives	20,096	136,050
Supporting expenses:		
Management and general	2,363,205	2,695,305
Depreciation	80,346	141,847
Total operating expenses	7,840,203	9,311,896
Operating loss	(4,653,493)	(6,425,171)
Nonoperating revenues:		
State appropriation	5,358,360	5,005,000
Interest income	108,929	183,136
Total nonoperating revenues	5,467,289	5,188,136
Change in net assets before transfers	813,796	(1,237,035)
Transfer to the State of Minnesota	(1,071,000)	(900,000)
Change in net assets	(257,204)	(2,137,035)
Total net assets, beginning of year	2,543,960	4,680,995
Total net assets, end of year	$ 2,286,756	2,543,960

See accompanying notes to financial statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A Component Unit of the State of Minnesota)

Statements of Cash Flows

Years ended June 30, 2003 and 2002

		2003	2002
Cash flows from operating activities:			
Cash received from federal awards	$	2,015,389	2,649,304
Other cash receipts		1,088,272	974,597
Cash paid for salaries and benefits		(5,326,390)	(6,165,832)
Cash paid to suppliers and others		(2,532,966)	(2,987,897)
Net cash used in operating activities		(4,755,695)	(5,529,828)
Cash flows from noncapital financing activities:			
State appropriations		5,358,360	5,005,000
Transfer to the State of Minnesota		(1,071,000)	(900,000)
Net cash provided by non-capital financing activities		4,287,360	4,105,000
Cash flows from capital and related financing activities:			
Purchase of capital assets		(109,103)	(45,983)
Net cash used in capital and related financing activities		(109,103)	(45,983)
Cash flows from investing activities:			
Interest income		111,823	193,719
Net cash provided by investing activities		111,823	193,719
Net decrease in cash and cash equivalents		(465,615)	(1,277,092)
Cash and cash equivalents:			
Beginning of year		2,420,808	3,697,900
End of year	$	1,955,193	2,420,808
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(4,653,493)	(6,425,171)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation		80,346	141,847
Provision for uncollectible accounts		21,854	39,439
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable		(104,291)	37,872
(Increase) decrease in due from Federal government		(40,612)	649,304
Decrease (increase) in amounts due from the State of Minnesota		40,000	(40,000)
Decrease in accounts payable		(40,433)	(59,698)
Increase in accrued expenses		(9,066)	76,579
(Decrease) increase in deferred revenue		(50,000)	50,000
Net cash used in operating activities	$	(4,755,695)	(5,529,828)

See accompanying notes to financial statements.

MINNESOTA TECHNOLOGY, INCORPORATED
(A Component Unit of the State of Minnesota)

Notes to Financial Statements

June 30, 2003 and 2002

(1) Description of Organization

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

Relevant statutory notions and limitations are found in Minnesota Statutes, Chapter 116O. The Company is a nonprofit public corporation of the State of Minnesota and is governed by a board of 15 directors. The term of each director ranges from two to six years. The Company is a component unit of the State of Minnesota. For the years ended June 30, 2003 and 2002, the Company received $5,358,360 and $5,005,000, respectively, in funding from the State of Minnesota, which represents 62% of total operating and nonoperating revenues for the years ended June 30, 2003 and 2002.

The Company generates revenue from a variety of sources to conduct its program and supporting services, including state appropriations, federal awards, and investment income.

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

(b) Use of Estimates in the Preparation of Financial Statements

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 expenditures during the reporting period. Actual results could differ from those estimates.

(c) ***Fair Value of Financial Instruments***

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

(d) ***Cash and Cash Equivalents***

The cash and cash equivalents of the Company are held by the Treasurer of the State of Minnesota. These funds are invested by the State Board of Investments, as required by the 1989 Minnesota Legislature. The funds are primarily invested in "AAA"-rated treasury bills, repurchase agreements, discount notes, and other governmental obligations. The Company does not control the investing policies and, therefore, considers all these funds to be cash and cash equivalents for financial statement presentation.

(e) ***Interest Income***

Interest income is recorded using the accrual method.

(f) ***Capital Assets***

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

(g) ***Operations***

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

(3) Federal Awards

The Company established the Upper Midwest Manufacturing Technology Center through a cooperative agreement with the U.S. Department of Commerce's National Institute of Standards and Technology (NIST). On a cumulative basis, the agreement has provided the Company approximately $22 million in federal awards through June 30, 2003. The agreement has required a 50% to 67% matching contribution by the Company.

(4) Cash and Cash Equivalents

At June 30, 2003 and 2002, the Company had cash and cash equivalent balances as follows:

		Deposits	Carrying amount
2003:			
FDIC insured	$	3,792	(517)
Held by the State of Minnesota		1,955,710	1,955,710
	$	1,959,502	1,955,193
2002:			
FDIC insured	$	9,923	5,432
Held by the State of Minnesota		2,415,376	2,415,376
	$	2,425,299	2,420,808

(5) Capital Assets

Capital asset activity and balances are summarized below:

		Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Capital assets:					
Equipment and leasehold improvements at cost	$	2,544,625	109,103	—	2,653,728
Less accumulated depreciation:					
Equipment and leasehold improvements		(2,389,731)	(80,346)	—	(2,470,077)
Net book value	$	154,894			183,651

		Balance June 30, 2001	Additions	Retirements	Balance June 30, 2002
Capital assets:					
Equipment and leasehold improvements at cost	$	2,498,642	45,983	—	2,544,625
Less accumulated depreciation:					
Equipment and leasehold improvements		(2,247,884)	(141,847)	—	(2,389,731)
Net book value	$	250,758			154,894

(6) Leases

The Company leases building space under operating leases which expire in various years through 2005. The rent expense for the years ended June 30, 2003 and 2002 totaled $302,090 and $359,909, respectively. The following is a schedule of future minimum lease payments for operating leases as of June 30, 2003:

Fiscal year:		
2004	$	63,873
2005		34,181
	$	98,054

(7) Pension Plans and Employee Benefits

Minnesota State Retirement System (MSRS)

Employees of the Company are covered by the MSRS, a system established to provide retirement benefits to state employees. Employees of the Company participate in the MSRS' Unclassified Employee Plan (the Plan), a defined contribution plan authorized by Minnesota Statutes, Chapter 352D. Benefits under the Plan consist of the employee's account balance or an annuity benefit based on the account balance and employee's age. Vesting occurs immediately and normal retirement age is 55. Statutory contribution rates are 4% for employees and 6% for the employer. The Company contributions to the Plan were $228,430 and $277,470 for the years ended June 30, 2003 and 2002, respectively. Employee contributions to the Plan were $157,331 and $188,262 for the years ended June 30, 2003 and 2002, respectively.