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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

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

Board of Directors
Minnesota Technology, Incorporated
Minneapolis, Minnesota

We have audited the accompanying balance sheets of Minnesota Technology, Incorporated, a component unit of the State of Minnesota (the Organization) as of June 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Technology, Incorporated as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Larson, Allen, Weishair + Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
October 16, 2006

MINNESOTA TECHNOLOGY, INCORPORATED
(A COMPONENT UNIT OF THE STATE OF MINNESOTA)
BALANCE SHEETS
JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 787,966	$ 1,651,933
Receivables:		
Accounts Receivable	252,168	165,188
Federal Government	167,694	174,758
Loans Receivable	57,386	177,825
Prepaid Assets	35,807	15,122
Total Current Assets	1,301,021	2,184,826
CAPITAL ASSETS		
Equipment and Leasehold Improvements	302,588	302,588
Less: Accumulated Depreciation	240,896	181,456
Total Capital Assets	61,692	121,132
NONCURRENT ASSETS		
Investments	2,765,368	1,708,790
Loans Receivable, Noncurrent	41,992	45,852
Total Noncurrent Assets	2,807,360	1,754,642
Total Assets	$ 4,170,073	$ 4,060,600
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 77,419	$ 86,232
Accrued Expenses	173,803	243,208
Capital Lease Obligation	13,828	11,414
Deferred Income	378,707	103,052
Total Current Liabilities	643,757	443,906
NONCURRENT LIABILITIES		
Capital Lease Obligation	3,892	17,720
Total Liabilities	647,649	461,626
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	43,972	91,998
Unrestricted	3,478,452	3,506,976
Total Net Assets	3,522,424	3,598,974
Total Liabilities and Net Assets	$ 4,170,073	$ 4,060,600

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, 2006 AND 2005

	2006	2005
OPERATING REVENUES		
Federal Awards	$ 2,083,942	$ 1,948,059
Charges for Services and Publications	1,652,067	1,237,388
Other Operating Revenues	38,274	92,552
Total Operating Revenues	3,774,283	3,277,999
OPERATING EXPENSES		
Program Expenses:		
Business Services	2,467,538	2,417,282
Communications and Publications	477,306	446,882
Special Initiatives	21,780	5,638
Supporting Expenses:		
Management and General	898,440	1,047,693
Depreciation	59,440	63,932
Development	64,328	99,765
Total Operating Expenses	3,988,832	4,081,192
OPERATING LOSS	(214,549)	(803,193)
NONOPERATING REVENUES		
Interest Income	137,999	62,966
Gain on Sale of Equipment	-	3,739
Total Nonoperating Revenues	137,999	66,705
CHANGE IN NET ASSETS	(76,550)	(736,488)
Net Assets - Beginning of Year	3,598,974	4,335,462
NET ASSETS - END OF YEAR	$ 3,522,424	$ 3,598,974

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, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Federal Awards	$ 2,091,006	$ 2,576,835
Other Cash Receipts	1,785,289	1,087,562
Cash Paid for Salaries and Benefits	(2,567,503)	(2,427,086)
Cash Paid to Suppliers and Others	(1,460,792)	(1,602,059)
Net Cash Used by Operating Activities	(152,000)	(364,748)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments on Long-Term Debt	(11,414)	(7,233)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Equipment	-	3,739
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments Received on Loan Receivable	218,026	569,889
Purchase of Investments	(1,856,508)	(2,109,355)
Proceeds from Sale of Investments	799,930	400,946
Interest Income	137,999	62,966
Net Cash Used by Investing Activities	(700,553)	(1,075,554)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(863,967)	(1,443,796)
Cash and Cash Equivalents - Beginning of Year	1,651,933	3,095,729
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 787,966	$ 1,651,933
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (214,549)	$ (803,193)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	59,440	63,932
Provision for Uncollectible Accounts	(93,727)	(350,126)
Change in Operating Assets and Liabilities:		
Accounts Receivable	(86,980)	4,696
Due from Federal Government	7,064	628,776
Prepaid Assets	(20,685)	(15,122)
Accounts Payable	(8,813)	(74,944)
Accrued Expenses	(69,405)	78,181
Deferred Revenue	275,655	103,052
Net Cash Used by Operating Activities	$ (152,000)	$ (364,748)
NONCASH ITEM		
Capital Lease Asset	$ -	$ 36,367

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

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

Relevant statutory notions and limitations are found in Minnesota Statutes, Chapter 1160. The Organization is governed by a board of directors. The term of each director ranges from two to six years. The Organization is a component unit of the State of Minnesota.

During the 2003 legislative session, the Minnesota State Legislature amended a portion of the state statutes pertaining to the Organization so that the selection, membership terms, compensation, removal, and filing of vacancies of the members of the board of directors is determined pursuant to the Organization's bylaws. Previously, the composition and appointment of the Organization's board of directors was specified in state statute. The Organization's board of directors in place at June 30, 2003 amended the Organization's bylaws such that before August 1, 2003, the board of directors was to elect at least four directors to serve as the new board of directors for the Organization. Those elections became effective on August 1, 2003.

The Organization generates revenue from a variety of sources to conduct its program and supporting services, including client service fees, state appropriations, federal awards, and investment income. Indirect costs are allocated using a federally approved indirect cost rate.

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

Basis of Presentation

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

Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Organization follows all applicable GASB pronouncements issued after November 30, 1989.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Receivables

Accounts receivable, due from federal government, and grants receivable are stated at net realizable value. Accordingly, bad debts are provided for on the reserve method based upon prior experience and management's assessment of the collectibility of existing specific accounts. Management reviews the receivable listing periodically and is in communication with customers monthly. Interest income is not recognized on delinquent accounts. Accounts are placed into an allowance account periodically based on management's decision. An allowance for doubtful accounts on accounts receivable of $9,110 and $12,375 has been recorded as of June 30, 2006 and 2005, respectively.

Capital Assets

Capital assets consist of equipment and leasehold improvements, which are capitalized at cost. Assets are capitalized using a threshold of $4,000. Depreciation is calculated using the mid-month convention on a straight-line basis, and the estimated useful life of three to five years for equipment and leasehold improvements.

Investments

Investments are valued at fair market value.

Net Assets

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

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted: Net assets subject to externally-imposed stipulations.
- Unrestricted: Net assets that are not subject to externally-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors. As of June 30, 2006 and 2005, the Organization's Board of Directors had designated $2,000,000 for cash operating reserves.

Interest Income

Interest income is recorded using the accrual method.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operations

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

New Accounting Pronouncements

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement is effective for the Organization for the year ending June 30, 2006. The adoption of GASB Statement No. 42 had no impact on the fiscal year 2006 basic financial statements.

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

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation.* This statement is effective for the Organization for the year ending June 30, 2006. The adoption of GASB Statement No. 46 had no impact on the fiscal year 2006 basic financials statements.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits.* This statement is effective for the Organization for the year ending June 30, 2006. The adoption of GASB Statement No. 47 had no impact on the fiscal year 2006 basic financial statements.

NOTE 2 FEDERAL AWARDS

The Organization established the Minnesota Manufacturing Extension Partnership (MEP), formerly the Upper Midwest Manufacturing Technology Center through a cooperative agreement with the U.S. Department of Commerce's National Institute of Standards and Technology (NIST).

On a cumulative basis, the agreement has provided the Organization approximately $8 million in federal awards through June 30, 2006. The agreement has required a 67% matching contribution by the Organization of which 50% can be from in-kind contributions.

NOTE 3 CASH, CASH EQUIVALENTS AND DEPOSITS

Minnesota Statute, Section 9.031 requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state.

The statute further requires that such insurance and collateral shall be in amounts sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amount and the fair value of the collateral.

Custodial Credit Risk: Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. The Organization does not have a policy to address custodial credit risk. The amount of uninsured and uncollateralized bank deposit balances totaled $720,733 and $1,308,395 at June 30, 2006 and 2005, respectively. Management believes that the Organization is not exposed to any significant credit risk related to these holdings.

NOTE 4 INVESTMENTS

Minnesota Statute, Section 11A, broadly restricts investments to obligations and stocks of United States and Canadian governments, their agencies and registered corporations, other international securities, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and the restricted participation in registered mutual funds.

NOTE 4 INVESTMENTS (CONTINUED)

The Organization had the following investments as of June 30:

	2006		
		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
Mutual Funds	$ 1,065,368	$ -	$ 1,065,368

	2005		
		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
US Treasuries	$ 597,865	$ 597,865	$ -
Mutual Funds	1,008,925	-	1,008,925

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

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

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

NOTE 5 LOANS RECEIVABLE

The Organization has entered into various Technology Partnership Fund agreements with start up manufacturers. The purpose of these agreements is to stimulate and strengthen relationships between the industry and Minnesota's post secondary educational institutions and certain other objectives determined within each agreement. As of June 30, 2006 and 2005, the Organization has recorded loans receivables in the amount of $193,127 and $411,153, respectively, which are due in various terms, with the majority due in the next two years. As of June 30, 2006 and 2005, an allowance of $93,749 and $187,476, respectively, has been established against certain balances as management believes not all will be collected.

NOTE 6 CAPITAL ASSETS

Capital asset activity and balances are summarized below:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Capital Assets:				
Equipment and Leasehold Improvements at Cost	$ 302,588	$ -	$ -	$ 302,588
Less: Accumulated Depreciation:				
Equipment and Leasehold Improvements	(181,456)	(59,440)	-	(240,896)
Net Book Value	$ 121,132	$ (59,440)	$ -	$ 61,692

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

NOTE 7 LEASES

The Organization leases building space under operating leases which expire in various years through 2008. The rent expense for the years ended June 30, 2006 and 2005 totaled $116,604 and $133,936, respectively. The following is a schedule of future minimum lease payments for operating leases as of June 30, 2006:

Fiscal Year	Amount
2007	$ 88,836
2008	14,502
Total	$ 103,338

NOTE 7 LEASES (CONTINUED)

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

	2006	2005
Cost of Equipment	$ 36,367	$ 36,367
Less: Accumulated Depreciation	(21,214)	(9,092)
Total	$ 15,153	$ 27,275

	Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
Capital Lease Obligation	$ 29,134	$ -	$ (11,414)	$ 17,720

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

Future minimum lease payments under the capital leases as of June 30, 2006 are as follows:

Year	Amount
2007	$ 16,071
2008	4,018
Total Minimum Lease Payments	20,089
Less: Amount Representing Interest	(2,369)
Present Value of Minimum Lease Payments	17,720
Less: Current Maturities	(13,828)
Non Current Portion of Obligation under Capital Lease	$ 3,892

NOTE 8 PENSION PLANS AND EMPLOYEE BENEFITS

Minnesota State Retirement System (MSRS)

Employees of the Organization are covered by the MSRS, a system established to provide retirement benefits to state employees. Employees of the Organization participate in the MSRS' Unclassified Employee Plan (the Plan), a defined contribution plan authorized by Minnesota Statutes, Chapter 352D. Benefits under the Plan consist of the employee's account balance or an annuity benefit based on the account balance and employee's age.

NOTE 8 PENSION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

Minnesota State Retirement System (MSRS) (Continued)

Vesting occurs immediately and normal retirement age is 55. Statutory contribution rates are 4% for employees and 6% for the employer. The Organization contributions to the Plan were $118,851 and $112,897 for the years ended June 30, 2006 and 2005, respectively. Employee contributions to the Plan were $79,355 and $75,149 for the years ended June 30, 2006 and 2005, respectively.

NOTE 9 COMMITMENTS

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

NOTE 10 RISK MANAGEMENT

Minnesota Technology, Inc. is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Minnesota Technology, Inc. manages most of these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund and through purchased insurance coverage.

The Minnesota Risk Management Fund provides these limits and coverages:

Property (Deductible $1,000)	
Real and Personal Property	$275,000
Business Income (Per Occurrence)	500,000
Boiler and Machinery	Included in Property
Crime (Deductible $1,000)	25,000
Commercial General Liability	
Bodily Injury and Property Damage per Occurrence	1,000,000
Bodily Injury and Property Damage per Person	300,000

Minnesota Technology, Inc. did not have any settlements in excess of coverage in the last three years. The Minnesota Risk Management Fund purchases other insurance on the open market. These generally include professional liability, property, and Directors and Officer's coverage. Minnesota Technology, Inc. carries Director's and Officer's Liability with limits of $1,000,000 per claim and aggregate, with coverage through an insurance company separate from the State of Minnesota.

NOTE 10 RISK MANAGEMENT (CONTINUED)

Minnesota Technology, Inc. participates in the State Employee Group Insurance Plan, which provides life insurance, hospital, medical and dental benefits coverage through provider organizations.

Workers' compensation is covered through a State of Minnesota insurance program, which pays workers' compensation claims. Annual premiums are based on salary dollars. Premiums for the period from November 24, 2005 to November 24, 2006 were $5,074.