Ann Arbor SPARK and Affiliates

Annual Financial Statements and Auditors' Report

December 31, 2008

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Independent Auditors' Report

Management and Board of Directors
Ann Arbor SPARK and Affiliates
Ann Arbor, Michigan

We have audited the combined statement of financial position of Ann Arbor SPARK and Affiliates, (the "Organization") as of December 31, 2008 and the related combined statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2007 combined financial statements, which were audited by other auditors, whose report thereon, dated September 22, 2008, expressed an unqualified opinion for the year ended December 31, 2007.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of December 31, 2008 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information presented on pages 18 through 20 is for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
May 20, 2009

Ann Arbor SPARK and Affiliates
Combined Statement of Financial Position
December 31, 2008 and 2007

	2008	2007
Current Assets		
Cash	$ 1,759,683	$ 1,926,408
Accounts receivable		
Municipal service contracts - net	20,883	17,888
Other - net	298,664	255,386
Prepaid expenses	8,493	11,585
Unconditional promises to give, current portion, net	27,500	37,900
Total current assets	2,115,223	2,249,167
Property and equipment - net	6,008,777	745,814
Other Assets		
Michigan Pre-Seed Capital Fund Portfolio Investments		
Preferred stock	1,479,694	1,414,380
Convertible promissory notes	4,396,000	3,285,329
Deposits	27,000	22,000
Prepaid insurance	74,485	-
Unconditional promises to give, net	-	19,756
Total other assets	5,977,179	4,741,465
Total assets	$ 14,101,179	$ 7,736,446
Current Liabilities and Net Assets		
Line of credit	$ 50,923	$ 50,923
Accounts payable	271,362	67,822
Accrued liabilities	163,496	261,556
Contract advance	-	64,286
Note payable	250,000	-
Deferred revenue	1,800,126	1,688,750
Total current liabilities	2,535,907	2,133,337
Net assets		
Unrestricted	11,537,772	5,558,353
Temporarily restricted	27,500	44,756
Total net assets	11,565,272	5,603,109
Total liabilities and net assets	$ 14,101,179	$ 7,736,446

See Accompanying Notes to the Financial Statements

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Ann Arbor SPARK and Affiliates
Combined Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2008
(With Comparative Totals for December 31, 2007)

	Unrestricted	Temporarily Restricted	Total 2008	Total 2007
Revenues and Support				
Revenue				
Accelerator grants and revenue	$ 5,325,740	$ -	**$ 5,325,740**	$ 6,056,232
Municipal service contracts	75,538	-	**75,538**	364,938
Facility revenue	1,041,952	-	**1,041,952**	91,963
Portfolio income (loss)	(486,810)	-	**(486,810)**	392,709
Interest income	28,986	-	**28,986**	53,475
Total revenue	5,985,406	-	**5,985,406**	6,959,317
Support				
Contributions	2,497,554	-	**2,497,554**	493,602
In-kind rent	233,004	-	**233,004**	173,655
Donated property and equipment	2,925,474	-	**2,925,474**	-
Net assets released from restriction	17,256	(17,256)	**-**	-
Total support	5,673,288	(17,256)	**5,656,032**	667,257
Total revenues and support	11,658,694	(17,256)	**11,641,438**	7,626,574
Expenses				
Program services	4,907,953	-	**4,907,953**	2,780,397
Supporting services				
Management and general	661,283	-	**661,283**	937,974
Fundraising	110,039	-	**110,039**	94,548
Total supporting services	771,322	-	**771,322**	1,032,522
Total expenses	5,679,275	-	**5,679,275**	3,812,919
Change in net assets	5,979,419	(17,256)	**5,962,163**	3,813,655
Net assets - beginning of year	5,558,353	44,756	**5,603,109**	1,789,454
Net assets - end of year	$ 11,537,772	$ 27,500	**$ 11,565,272**	$ 5,603,109

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Ann Arbor SPARK and Affiliates
Combined Statement of Cash Flows
For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	$ 5,962,163	$ 3,813,655
Items not requiring cash		
Depreciation	1,333,902	405,805
Unrealized and realized losses (gains) on investments	486,810	(376,954)
Accrued interest converted to preferred stock	-	(15,755)
Donated property and equipment	(2,925,474)	-
Changes in operating assets and liabilities		
Accounts receivable	(46,273)	(154,784)
Prepaid expenses	(71,393)	(33,586)
Unconditional promises to give	30,156	322,064
Deposits	(5,000)	-
Accounts payable	203,540	28,485
Accrued liabilities	(98,060)	103,738
Contract advance	(64,286)	(10,714)
Deferred revenue	111,376	1,680,417
Net cash provided by operating activities	4,917,461	5,762,371
Cash flows from investing activities		
Purchase of preferred stock	(292,499)	(750,000)
Redemption of convertible promissory notes	105,704	-
Purchase of common stock	(200,000)	-
Purchase of convertible promissory notes	(1,276,000)	(3,557,000)
Purchase of property and equipment	(3,671,391)	(74,131)
Net cash used in investing activities	(5,334,186)	(4,381,131)
Cash flows from financing activities		
Proceeds from note payable	250,000	75,000
Net activity on line of credit	-	50,923
Net cash provided by financing activities	250,000	125,923
Net change in cash	(166,725)	1,507,163
Cash - beginning of year	1,926,408	419,245
Cash - end of year	$ 1,759,683	$ 1,926,408
Supplemental information		
Cash paid during the year for interest	$ 3,237	$ 674
Cash interest received during the year	$ 5,704	$ 37,720
Supplemental disclosure of non-cash investing activities		
Donated property and equipment	$ 2,925,474	$ -
Conversion of promissory note and accrued interest into preferred stock in portfolio company	$ -	$ 414,380
Preferred stock received in exchange for cash	$ 95,704	$ -

See Accompanying Notes to the Financial Statements

Ann Arbor SPARK and Affiliates

Combined Statement of Functional Expenses
For the Year Ended December 31, 2008
(With Comparative Totals for December 31, 2007)

		Supporting Services				
	Program	Management and General	Fund-Raising	Subtotal	**2008**	2007
Functional Expenses						
Personnel expenses	$ 1,283,286	$ 313,166	$ 110,039	$ 423,205	**$ 1,706,491**	$ 1,252,597
Professional services	495,212	138,256	-	138,256	**633,468**	1,224,071
Marketing	295,228	5,566	-	5,566	**300,794**	299,332
Operating expenses	1,551,919	152,701	-	152,701	**1,704,620**	631,114
Depreciation expense	1,282,308	51,594	-	51,594	**1,333,902**	405,805
	$ 4,907,953	$ 661,283	$ 110,039	$ 771,322	**$ 5,679,275**	$ 3,812,919

See Accompanying Notes to the Financial Statements

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Note 1 - Organization

Ann Arbor SPARK was formerly known as the Washtenaw Development Council. Effective August 8, 2006, Ann Arbor SPARK merged with Washtenaw Development Council. The former Washtenaw Development Council is the surviving corporation and assumed all assets, liabilities, contracts and programs of Ann Arbor Spark. The name of the surviving corporation was changed to Ann Arbor SPARK ("SPARK"). SPARK is the operating entity and is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code.

The Ann Arbor SPARK Foundation (the "Foundation") was formerly known as the Washtenaw Development Council Foundation. The Foundation is an affiliated 501(c)(3) nonprofit organization designed to solicit contributions and promote charitable purposes of SPARK. The Foundation is a special purpose entity formed by SPARK. The Foundation primarily provides support to SPARK, and its board of directors consists entirely of the members of SPARK's executive committee.

In October 2008, the Foundation set up an limited liability corporation called Michigan Life Science and Innovation Center (the "MLSIC") and became its sole member. The MLSIC was formed to purchase and operate a research facility in Plymouth, Michigan. This facility will house entrepreneur start up companies and wet lab facilities.

SPARK, the Foundation, and the MLSIC (collectively the "Organization") are organized to operate a centralized cooperative, publicly and privately supported economic development program that attracts, expands and retains jobs within Washtenaw County, Michigan. The Organization also provides an ongoing communication mechanism between leaders of government and the private sector to address the economic development needs of the Washtenaw County area.

Both economic interest and control exist through a majority voting interest in the Foundation's board, as defined in Statement of Position 94-3, Reporting of Related Entities by Not-for-Profit Organizations. As a result, SPARK is required to combine the results of the Foundation for its financial statements.

Contributions to the Foundation qualify as deductible charitable contributions as provided in Section 170(b) (1) (A) (VI) of the Internal Revenue Code. SPARK provides administrative support including staff time, use of facilities and other indirect expenses related to the activities of the Foundation and the MLSIC on an ongoing basis without charge.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The basic combined financials statements have been prepared in accordance with accounting principles generally accepted in the United Sates of America and in accordance with the Audit and Accounting Guide for Not-for-Profit Organizations issued by the American Institute of Certified Public Accountants.

The Organization's net assets are categorized and reported as follows:

Unrestricted Net Assets
These net assets are available for general operations and are not subject to donor-imposed restrictions.

Temporarily Restricted
These net assets are limited to uses specified by donor-imposed restrictions. When donor restrictions expire or the nature and purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

Permanently Restricted
These net assets would include the principal amount accepted by the Organization with the donor's stipulation that the principal be maintained in perpetuity. The Organization does not have any permanently restricted net assets as of December 31, 2008 and 2007.

Principles of Combination

The 2008 combined financial statements include the financial information of SPARK, the Foundation, and the MLSIC. The MLSIC was formed in 2008. All inter-entity balances and transactions have been eliminated.

Revenue Recognition

Under its business accelerator program, SPARK provides funding for consulting services and other development-stage costs to start-up companies in the greater Ann Arbor region. Revenue is recognized when the companies submit in writing that deliverables have been satisfactorily achieved. SPARK provides its funding under agreements which typically stipulate that the companies will repay SPARK the amount of funding within twelve months from the date of agreement and that repayment will include simple interest at prime as reported in the Wall Street Journal on the date of agreement. If a company is unable to raise funds or generate adequate cash flow to repay their obligation within twelve months, SPARK will negotiate a revised payment plan or waive the loan obligation. If a company raises a round of funding and the investors, the company and SPARK agree, the outstanding obligation and any accrued interest will convert to equity on substantially the same terms as the investors in the new round of financing.

Support Revenue

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the restrictions. When a restriction expires, generally with the passage of time, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization accounts for unconditional promises to give at fair value based on the present value of the future cash flows the Organization expects to collect.

The Organization reports gifts and pledges of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Deferred Revenue

Deferred revenue represents unearned revenues generated from the advance payments received for the Michigan Pre-Seed Capital Fund, Michigan Economic Development Corporation (MEDC), Michigan Department of Treasury, and the Michigan Strategic Fund (MSF). These revenues are earned as the terms of the grants are met.

Cash

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

Accounts Receivable

Accounts receivable consist of amounts that have been expended for intended grant purposes and not yet reimbursed by the granting agency, and amounts due under the business accelerator program. Business accelerator accounts receivable are recorded at the time the client company submits in writing that contracted deliverables have been achieved. Because the repayment of business accelerator funding is contingent on future events, a reserve for 100% of the unpaid balance of these amounts, which have not begun repayment as of year-end, has been recorded in the allowance account. The amount of this allowance was $163,550 and $221,617 at December 31, 2008 and 2007, respectively.

Investments

Michigan Pre-Seed Capital Fund

In January 2007, as part of the State of Michigan's 21st Century Jobs Fund Initiative. The Organization was provided a grant in the amount of $8,000,000 by The Strategic Economic Investment and Commercialization Board (the "SEIC Board") in order to establish and manage a Michigan Pre-Seed Capital Fund (the "Fund"). The purpose of the Fund is to provide funding to high-tech start-up companies within the State of Michigan at their earliest stages. The grant is payable in five installments through December 31, 2008. Payment of each installment is contingent upon the Organization achieving certain milestones and materially complying with requirements as defined in the agreement with the SEIC Board. As of December 31, 2008, the Organization had received $7,925,000 in payments under the grant and made expenditures and investments in the amount of $7,382,533.

In October 2008, as part of the State of Michigan's 21st Century Jobs Fund Initiative, the Organization was provided an additional grant in the amount of $1,500,000 by The Michigan Economic Development Corporation ("MEDC") in order to continue to manage the Michigan Pre-Seed Capital Fund (the "Fund"). The grant has an initial payment of $500,000 and additional payments may be received upon the Organization achieving certain milestones and materially complying with requirements as defined in the agreement with the MEDC. As of December 31, 2008, the Organization had received $500,000 in payments under the grant and made expenditures and investments in the amount of $0.

Valuation of Michigan Pre-Seed Capital Fund Investments

Fund investments are recorded at fair value as determined in good faith by Fund management. Initial transaction cost is used as the best estimate of fair value at inception. Fair value is subsequently adjusted as changes in economic and other performance indicators provide. Since no public market exists for the securities, fair value is determined by taking into consideration factors such as: the cost of the securities; prices of recent significant placements of securities of the same issuer with sophisticated, unrelated new investors; subsequent developments concerning the companies to which the securities relate; any financial data and projections of such companies provided to Fund management; and such other factors as the Fund management may deem relevant. The values determined for these investments are based on available information at the time the good faith valuations are made and may not necessarily represent the amounts that might ultimately be realized, which could be higher or lower than the reported values. These investments are in high-tech start-up companies where the capital market and business environment is highly volatile. The valuation of these investments can be subject to rapid change due to business and market conditions and the valuation is therefore inherently uncertain. Because of this inherent uncertainty, the estimated fair values of the investments may differ significantly from the values that would have been used had a ready market for the investments existed. Any appreciation or depreciation of an investment's value is reported as an unrealized gain or loss in the financial statements.

Warrants of private companies are not valued due to the inherent uncertainty of such valuation.

Interest on convertible promissory notes is recognized when earned. Collectability is evaluated periodically by Fund management based on the circumstances of each company to which the notes relate and a corresponding reserve established for estimated uncollectible amounts. Accrued interest was $405,000 and $90,239 at December 31, 2008 and 2007, respectively. The allowance against the accrued interest was $135,000 and $90,239 at December 31, 2008 and 2007, respectively.

Fair value measurement - definition and hierarchy

The Organization adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157") for its Fund investments, effective January 1, 2007. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organization uses various valuation approaches, including market, income and/or cost approaches. SFAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs include the Fund management's efforts to best reflect the perceptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1

Valuations based on quoted prices in active markets for identical assets or liabilities that the Fund management has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2

Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3

Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from business to business and is affected by a wide variety of factors, including, for example, the type of business, whether the business is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Fund management in determining fair value is greatest for instruments categorized in level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy.

In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is market-based measure liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. Fund management uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from level 1 to level 2 or Level 2 to Level 3. See Note 6 to the combined financial statements for further information about the Organization's Fund investments that are accounted for at fair value.

Property and Equipment
Property and equipment are recorded at cost when purchased, or at fair market value when received as a donation. Depreciation of property placed in service is calculated on a straight-line basis over the estimated useful lives of the assets. Property and equipment are capitalized when the cost exceeds $500. Property and equipment not meeting these criteria are expensed in the period of acquisition. The Organization estimates the useful life of its property and equipment between 3 and 40 years.

Planned Major Maintenance
The Organization uses the direct expensing method to account for planned major maintenance activities.

Long-Lived Assets
The Organization evaluates long-lived assets for impairment using a discounted cash flow method whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with accounting principles generally accepted in the Unites States of America.

Donated Materials and Services
Donated materials which have an objective measurable basis for determining fair market value have been recorded. Donated services for which the value is clearly measurable and that the Organization would otherwise need to purchase have been recorded in the combined financial statements. As discussed in Note 7, the Organization received donated equipment which amounted to $2,925,474 and $0 for the years ended December 31, 2008 and 2007, respectively. As discussed in Note 11, the Organization receives an in-kind contribution of donated space for it's wet lab facility which amounted to $233,004 and $173,655 for the years ended December 31, 2008 and 2007, respectively.

Functional Expenses
Direct identifiable expenses are charged to programs and supporting services accordingly. Occupancy costs are allocated among program and supporting service activities on the basis of square footage of the facilities and other common costs are allocated among program and supporting service activities on the basis of planned resource usage established by management.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

As further discussed above under Investments, there are no readily ascertainable fair values for portfolio investments. In these instances, Fund management estimates fair value using its investment valuation policy as described above. Because of this inherent uncertainty, the estimated air values of the investments may differ significantly from the values that would have been used had a ready market for the investments existed.

Reclassifications
Certain amounts in the prior year financial statements have been reclassified for comparative purposes to confirm to the presentation in the current year financial statements.

Comparative Financial Statements
The amounts shown for the year ended December 31, 2007 in the accompanying financial statements are included to provide a basis for comparison with 2008 and present summarized totals only. Accordingly, the 2007 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's combined financial statements for the year ended December 31, 2007, from which the summarized information was derived. MLSIC was not included in the 2007 presentation as it was not formed until October 2008.

Advertising Costs
The Organization expenses advertising production costs as they are incurred and advertising communication costs for programs the first time the advertising takes place. Advertising costs for the years ended December 31, 2008 and 2007 were $300,794 and $299,332, respectively.

Recent Accounting Pronouncements
FASB Interpretation No. FIN 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements based on the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's tax returns and whether those tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. FASB Staff Position No. FIN 48-3 permits nonpublic enterprises to, and management has elected to, defer the effective date of Interpretation 48 until fiscal years beginning after December 15, 2008.

The Organization presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies.*

Note 3 - Concentrations and Credit Risks

The Organization has cash accounts at two banks. Accounts at these financial institutions are insure by the FDIC up to $250,000. At December 31, 2008, cash account balances were in excess of the FDIC coverage limit by $1,457,907.

Note 4 - Unconditional Promises to Give

Unconditional promises to give are summarized as follows at December 31:

	2008	2007
Pledges due in less than one year	$ 34,000	$ 43,400
Pledges due in one to five years	-	25,000
Total unconditional promises to give	34,000	68,400
Less: unmortized discount for present value	-	(5,244)
Less: allowance for doubtful pledges	(6,500)	(5,500)
Net unconditional promises to give	27,500	57,656
Less: current portion	(27,500)	(37,900)
Unconditional promises to give - non current	$ -	$ 19,756

The Organization recognizes promises to give that are expected to be collected within one year at their net realizable value. Promises that are expected to be collected in the future years are recognized at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rate used in determining the net present value of multi-year promises to give was 0% and 3.22% at December 31, 2008 and 2007, respectively.

Note 5 - Investments

The Organization received convertible promissory notes, preferred stock or common stock in exchange for its investments in portfolio companies. Unless earlier converted or converted upon maturity, principal and interest from the promissory notes are due upon the earlier of (a) two to five years after the date of the note, (b) a change in control, or (c) an event of default. The notes will be converted into shares of the portfolio company's preferred stock upon the closing of a qualified financing. A qualified financing is defined as a minimum of $1 million or $2 million in new gross proceeds from investors that occurs on or before the maturity date.

Portfolio investment income consists of the following for the year ended December 31:

	2008	2007
Interest earned, convertible promissory notes	$ 314,671	$ 90,329
Unrealized gain, preferred stock	115,314	414,380
Realized loss, preferred stock	(250,000)	-
Realized loss, common stock	(292,499)	-
Realized gain, convertible promissory notes	5,704	-
Realized loss, convertible promissory notes	(357,000)	-
Unrealized loss, convertible promissory notes	(23,000)	(112,000)
	$ (486,810)	$ 392,709

Note 6 - Fair Value Disclosures

The Organization's Fund investments recorded at fair market value have been categorized based upon a fair value hierarchy in accordance with SFAS 157. See Note 2 for a discussion of the Organization's policies regarding this hierarchy. The Fund investments of the Organization are all included in the Level 3 of the fair value hierarchy because they trade infrequently or not at all, and therefore, the fair value is unobservable.

The following fair value hierarchy tables present information about the Organization's Fund investments measured at fair value on a recurring basis as of December 31, 2008 and 2007, respectively:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
December 31, 2008				
Portfolio investments in preferred stock, convertible promissory notes and accrued unpaid interest	$ -	$ -	$ 5,875,694	$ 5,875,694
December 31, 2007				
Portfolio investments in preferred stock and convertible promissory notes and accrued unpaid interest	$ -	$ -	$ 4,699,709	$ 4,699,709

The following table presents changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2008 and 2007, respectively:

	Beginning Balance	Principal Transactions Investments	Income and Realized and Unrealized Gains (losses)	Ending Balance
December 31, 2008				
Portfolio investments in preferred stock, convertible promissory notes and accrued unpaid interest	$ 4,699,709	$ 1,662,795	$ (486,810)	$ 5,875,694
December 31, 2007				
Portfolio investments in preferred stock and convertible promissory notes	$ -	$ 4,307,000	$ 392,709	$ 4,699,709

Note 7 - Property and Equipment

The components of property and equipment are as follows at December 31:

	2008	2007
Furniture and fixtures	$ 114,018	$ 108,458
Office equipment	172,058	122,764
Leasehold improvements	139,133	47,046
Land	1,600,000	-
Building	1,886,785	-
Donated equipment (MIED Program)	4,000,099	1,074,625
	7,912,093	1,352,893
Less accumulated depreciation	(1,903,316)	(607,079)
	$ 6,008,777	$ 745,814

Donated equipment for the MIED (Michigan Innovation Equipment Depot) Program consists of previously used laboratory equipment which the Organization leases to life science start-up companies throughout Michigan at significantly below-market rates as part of its mission to encourage the development of new businesses in Michigan. Lease agreements vary by lessee and are typically for an average term of three years. Revenue under lease agreements for the years ended December 31, 2008 and 2007 was $17,304 and $1,700, respectively.

Note 8 - Line of Credit

The Organization has a revolving line of credit with a bank and may borrow up to $100,000 with interest at the bank's prime rate plus 1/2% (3.75% at December 31, 2008). Interest accrues and is due monthly. The note is collateralized by substantially all assets of the SPARK. At December 31, 2008 and 2007, the line of credit outstanding was $50,923.

Note 9 - Note Payable

In September 2008, the Organization received a $250,000 loan from the Michigan Economic Development Corporation. This loan is at 0% interest and is due one year from the date of issuance. This loan is unsecured.

Note 10 - Retirement Plan

The Organization has established a 457(b) deferred compensation plan for eligible employees. Employees may elect to defer a certain percentage of qualified compensation through voluntary contributions to the 457(b) plan. The Organization may make discretionary contributions to the 457(b) plan as determined by the Board of Directors. The Organization did not make a contribution to the plan for the years ended December 31, 2008 and December 31, 2007, respectively.

The Organization has also established a 401(k) defined contribution plan for eligible employees who have attained the age of 21 and completed three months of service. Employees may elect to defer a certain percentage of qualified compensation through voluntary contributions to the 401(k) plan. The Organization may make discretionary contributions to the 401(k) plan as determined by the Board of Directors. Employees eligible for employer contributions must have completed 12 months of service. The Organization contributions for the years ended December 31, 2008 and 2007, were $43,942 and $34,203, respectively.

Note 11 - Commitments

Total rent paid during the years ended December 31, 2008 and 2007 was $402,344 and $306,910, respectively. The Organization leases three office facilities (referred to as "SPARK HQ", "SPARK Central", and "SPARK East"), and an equipment warehouse. The SPARK HQ facility has a lease expiring September 30, 2012, with monthly payments of $4,099 in the first year, increasing by approximately 3% each year thereafter. The SPARK Central facility has a lease expiring December 31, 2011, with payments of $6,407 in the first year, increasing by approximately 3% each year thereafter. The SPARK East facility has a 5 year lease expiring November 30, 2013, with payments of $6,225 in the first year, increasing to $6,917 for years 2-5. The equipment warehouse lease expired May 31, 2007, but has continued on a month-to-month basis with monthly payments of $1,667.

In November 2006, the Organization received a grant of $1,000,000 from the Michigan Department of Treasury to support the expenses associated with leasing existing space to run a life sciences wet lab incubator. Total payments of $500,000 were received during the years ended December 31, 2008 and December 31, 2007, respectively. The wet lab incubator space has a lease expiring December 30, 2010. Under this lease, the Organization receives an in-kind contribution of donated space which amounted to $233,004 and $173,655 for the years ended December 31, 2008 and 2007.

At December 31, future minimum rentals under these leases are as follows:

For the years ending		
2009	$	201,813
2010		212,755
2011		216,194
2012		123,158
2013		76,083
	$	830,003

Note 12 - Rental Income

The Organization subleases space in its wet lab incubator facility, SPARK Central and MLSIC to various organizations. Currently, the subleases range from month to month to 5 years. Monthly payments range from $95 to $6,371.

Total rental income under all subleases included in revenue for the years ended December 31, 2008 and 2007 was $294,793 and $91,962, respectively.

Note 13 - Related Party Transactions

The Organization received a multi-year pledge from a company who's president is also a member of the Board of Directors. The contribution was $25,000 for 2008 and 2007. The related pledge receivable outstanding as of December 31, 2008 and 2007 was $25,000 and $50,000, respectively.

The Organization incurred legal fees of $115,204 and $95,900 for the years ended December 31, 2008 and 2007, respectively. A current member of the Organization's Board of Directors is also partner of the firm which the Organization incurred the expense.

Supplementary Information

Ann Arbor SPARK and Affiliates
Schedule of Michigan Pre-Seed Capital Fund Portfolio Investments
December 31, 2008 and 2007

	2008		2007	
	Cost	Valuation	Cost	Valuation
Preferred Stock:				
Pixel Velocity Inc.	$ 250,000	$ 664,380	$ 250,000	$ 664,380
Avidimer Therapeutics Inc.	-	-	250,000	250,000
VENOMIX Inc.	250,000	269,610	250,000	250,000
Functional Brands Company	250,000	250,000	250,000	250,000
Fulcrum Composites	200,000	200,000	-	-
Ultrasound Medical Devices	-	95,704	-	-
	$ 950,000	$ 1,479,694	$ 1,000,000	$ 1,414,380

	Interest Rate	Cost	Valuation	Interest Rate	Cost	Valuation
Convertible Promissory Notes:						
Parking Carma	8%	$ 250,000	$ 250,000	8%	$ 250,000	$ 250,000
OTO Medicine	-	-	-	8.5%	107,000	107,000
SensiGen LLC	10%	250,000	250,000	10%	250,000	250,000
EADevices Inc.	-	-	-	9%	250,000	228,329
Danotek Motion Technologies LLC	-	-	-	6%	100,000	100,000
MedElute	8%	250,000	250,000	8%	250,000	250,000
Phrixus Pharmaceuticals	8%	100,000	100,000	8%	100,000	100,000
XG Sciences Inc.	8%	250,000	250,000	8%	250,000	250,000
Hybra-Drive Systems LLC	8%	250,000	250,000	8%	250,000	250,000
Saleztrack	8%	250,000	250,000	8%	250,000	250,000
RazorThreat	8%	250,000	250,000	8%	250,000	250,000
Compendia Bioscience Inc.	10%	250,000	250,000	10%	250,000	250,000
Cielo MedSolutions	12%	250,000	250,000	12%	250,000	250,000
Accord Biomaterial	8%	250,000	250,000	8%	250,000	250,000
JADI Inc.	8%	250,000	250,000	8%	250,000	250,000
ERT Systems	15%	126,000	126,000	-	-	-
Emiliem	10%	250,000	250,000	-	-	-
Global Energy	8%	250,000	250,000	-	-	-
Afid Therapeutics	8.25%	200,000	200,000	-	-	-
Armune Bioscience	8%	200,000	200,000	-	-	-
Arbor Photonics	9%	250,000	250,000	-	-	-
		4,126,000	4,126,000		3,307,000	3,285,329
Accrued unpaid interest earned		405,000	270,000		90,329	-
		$ 4,531,000	$ 4,396,000		$ 3,397,329	$ 3,285,329

Ann Arbor SPARK and Affiliates
Combining Statement of Financial Position
December 31, 2008

	Ann Arbor Spark	Ann Arbor SPARK Foundation	Michigan Life Science and Innovation Center	Eliminations	2008 Total
Current Assets					
Cash	$ 1,681,488	$ 78,195	$ -	$ -	$ 1,759,683
Accounts receivable					
Municipal service contracts - net	20,883	-	-	-	20,883
Other - net	298,664	-	-	-	298,664
Prepaid expenses	8,493	-	-	-	8,493
Unconditional promises to give, current portion, net	25,000	2,500	-	-	27,500
Total current assets	2,034,528	80,695	-	-	2,115,223
Property and equipment - net	172,939	2,348,291	3,487,547	-	6,008,777
Due from (to)	274,063	23,932	(297,995)	-	-
Other Assets					
Michigan Pre-Seed Capital Fund Portfolio Investments					
Preferred stock	1,479,694	-	-	-	1,479,694
Convertible promissory notes	4,396,000	-	-	-	4,396,000
Deposits	27,000	-	-	-	27,000
Prepaid insurance	-	-	74,485	-	74,485
Total other assets	5,902,694	-	74,485	-	5,977,179
Total assets	$ 8,384,224	$ 2,452,918	$ 3,264,037	$ -	$ 14,101,179
Current Liabilities and Net Assets					
Line of credit	$ 50,923	$ -	$ -	$ -	$ 50,923
Accounts payable	270,212	1,150	-	-	271,362
Accrued liabilities	162,246	1,250	-	-	163,496
Note payable	-	250,000	-	-	250,000
Deferred revenue	1,800,126	-	-	-	1,800,126
Total current liabilities	2,283,507	252,400	-	-	2,535,907
Net assets					
Unrestricted	6,073,217	2,200,518	3,264,037	-	11,537,772
Temporarily restricted	27,500	-	-	-	27,500
Total net assets	6,100,717	2,200,518	3,264,037	-	11,565,272
Total liabilities and net assets	$ 8,384,224	$ 2,452,918	$ 3,264,037	$ -	$ 14,101,179

Ann Arbor SPARK and Affiliates
Combining Statement of Activities
For the Year Ended December 31, 2008

	Ann Arbor SPARK			Ann Arbor SPARK Foundation	Michigan Life Science & Innovation Center		Total		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Unrestricted	Eliminations	Unrestricted	Temporarily Restricted	Total
Revenues and Support									
Revenue									
Accelerator grants and revenue	$ 5,325,740	$ -	$ 5,325,740	$ -	$ -	$ -	$ 5,325,740	$ -	$ 5,325,740
Municipal service contracts	75,538	-	75,538	-	-	-	75,538	-	75,538
Facility revenue	954,587	-	954,587	-	87,365	-	1,041,952	-	1,041,952
Portfolio income (loss)	(486,810)	-	(486,810)	-	-	-	(486,810)	-	(486,810)
Interest income	28,325	-	28,325	382	279	-	28,986	-	28,986
Total revenue	5,897,380	-	5,897,380	382	87,644	-	5,985,406	-	5,985,406
Support									
Contributions	824,554	-	824,554	1,801,000	-	(128,000)	2,497,554	-	2,497,554
In-kind rent	233,004	-	233,004	-	-	-	233,004	-	233,004
Donated property and equipment	-	-	-	2,925,474	-	-	2,925,474	-	2,925,474
Net assets released from restriction	17,256	(17,256)	-	-	-	-	17,256	(17,256)	-
Total support	1,074,814	(17,256)	1,057,558	4,726,474	-	(128,000)	5,673,288	(17,256)	5,656,032
Total revenue and support	6,972,194	(17,256)	6,954,938	4,726,856	87,644	(128,000)	11,658,694	(17,256)	11,641,438
Expenses									
Program services	3,403,536	-	3,403,536	1,308,810	323,607	(128,000)	4,907,953	-	4,907,953
Supporting services									
Management and general	661,283	-	661,283	-	-	-	661,283	-	661,283
Fundraising	110,039	-	110,039	-	-	-	110,039	-	110,039
Total supporting services	771,322	-	771,322	-	-	-	771,322	-	771,322
Total expenses	4,174,858	-	4,174,858	1,308,810	323,607	(128,000)	5,679,275	-	5,679,275
Change in net assets	2,797,336	(17,256)	2,780,080	3,418,046	(235,963)	-	5,979,419	(17,256)	5,962,163
Net assets - beginning of year	4,899,881	44,756	4,944,637	658,472	-	-	5,558,363	44,756	5,603,109
Intercompany transfers	(1,624,000)	-	(1,624,000)	(1,876,000)	3,500,000	-	-	-	-
Net assets - end of year	$ 6,073,217	$ 27,500	$ 6,100,717	$ 2,200,518	$ 3,264,037	$ -	$ 11,537,772	$ 27,500	$ 11,565,272