ANN ARBOR SPARK and
ANN ARBOR SPARK FOUNDATION

FINANCIAL REPORT

For the Year Ended December 31, 2006

ANN ARBOR SPARK and
ANN ARBOR SPARK FOUNDATION

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INDEPENDENT AUDITORS' REPORT

January 16, 2008

Board of Directors
Ann Arbor SPARK and Ann Arbor SPARK Foundation
Ann Arbor, Michigan

We have audited the accompanying combined statement of financial position of Ann Arbor SPARK and Ann Arbor SPARK Foundation (collectively, "SPARK") as of December 31, 2006, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of SPARK's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

As discussed in Note 1 to the financial statements, the statements of activities and cash flows present the combined activity of entities merging under the pooling of interests method beginning from the merger date rather than from the beginning of the period presented. The effect of this departure from accounting principles generally accepted in the United States of America on the accompanying combined financial statements has not been determined.

In our opinion, except for the effects of the presentation discussed in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor SPARK and Ann Arbor SPARK Foundation as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Wright Griffin Davis and Co.

WRIGHT GRIFFIN DAVIS AND CO., PLLC

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2006

CURRENT ASSETS	
Cash	$ 419,245
Accounts receivable	
Municipal service contracts	23,075
Other, net of allowance	95,415
Unconditional promises to give, current, net of allowance	311,500
Total current assets	849,235
PROPERTY AND EQUIPMENT, less accumulated depreciation	1,077,488
OTHER ASSETS	
Unconditional promises to give, non-current	68,220
TOTAL ASSETS	$ 1,994,943
CURRENT LIABILITIES	
Accounts payable	$ 39,337
Accrued liabilities	157,819
Deferred revenue	8,333
Total current liabilities	205,489
NET ASSETS	
Unrestricted	1,545,954
Temporarily restricted	243,500
	1,789,454
TOTAL LIABILITIES AND NET ASSETS	$ 1,994,943

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

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION
COMBINED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Revenue			
Accelerator grants and revenue	$ 412,354		$ 412,354
Municipal service contracts	199,200		199,200
Facility revenue	28,948		28,948
Interest income	5,189		5,189
Total revenue	645,691		645,691
Support			
Contributions	376,388	$ 8,743	385,131
Donated property and equipment	1,074,625	-	1,074,625
Net assets released from restriction	278,918	(278,918)	-
Total support	1,729,931	(270,175)	1,459,756
Total revenue and support	2,375,622	(270,175)	2,105,447
OPERATING EXPENSES			
Program services	1,023,063	-	1,023,063
Supporting services			
Management and general	387,112	-	387,112
Fund-raising	60,915	-	60,915
Total supporting services	448,027	-	448,027
Total operating expenses	1,471,090	-	1,471,090
CHANGE IN NET ASSETS	904,532	(270,175)	634,357
NET ASSETS, beginning of period	343,075	129,198	472,273
ADJUSTMENT FOR NET ASSETS OF NEWLY-MERGED ENTITY AS OF AUGUST 8, 2006 (Note 1)	298,347	384,477	682,824
NET ASSETS, end of period	$ 1,545,954	$ 243,500	$ 1,789,454

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

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2006

		Supporting Services			
	Program	Management and General	Fund Raising	Subtotal	Total
FUNCTIONAL EXPENSES					
Personnel expenses	$ 476,571	$ 190,476	$ 60,915	$ 251,391	$ 727,962
Professional services	184,849	44,531	-	44,531	229,380
Marketing	133,635	2,878	-	2,878	136,513
Operating expenses	104,171	129,592	-	129,592	233,763
Depreciation expense	123,837	19,635	-	19,635	143,472
	$ 1,023,063	$ 387,112	$ 60,915	$ 448,027	$ 1,471,090

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

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION
COMBINED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 634,357
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	143,472
Donated property and equipment	(1,074,625)
Decrease in accounts receivable	71,068
Decrease in pledges receivable	133,955
Decrease in other current assets	8,479
Decrease in accounts payable	(16,478)
Increase in other liabilities	122,296
Increase in deferred revenue	8,333
Net cash provided by operating activities	30,857
CASH FLOWS FROM INVESTING ACTIVITIES	
Beginning balance of cash of newly-merged entity	130,941
Purchase of property and equipment	(3,035)
Net cash provided by investing activities	127,906
CASH FLOWS FROM FINANCING ACTIVITIES	
Net activity on line of credit	(40,836)
Net cash used in financing activities	(40,836)
NET INCREASE IN CASH	117,927
CASH, beginning of year	301,318
CASH, end of year	$ 419,245
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES	
Donated property and equipment	$ 1,074,625
Net non-cash assets of newly-merged entity	$ 551,883

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

1. Summary of Significant Accounting Policies

a) Reporting Entity

Ann Arbor SPARK was formerly known as the Washtenaw Development Council. Effective August 8, 2006, the Washtenaw Development Council merged with another nonprofit corporation, Ann Arbor SPARK. 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. The Washtenaw Development Council Foundation is combined with the Washtenaw Development Council. The name of the Washtenaw Development Council Foundation was changed to the Ann Arbor SPARK Foundation ("AASF").

The merger of Ann Arbor SPARK into the Washtenaw Development Council has been accounted for as a pooling of interests. Accordingly, the merged entity has recognized assets and liabilities in conformity with generally accepted accounting principles by the separate entities at the date the merger was consummated and the net assets of the merged entity have been credited to the net assets of the surviving entity. No consideration was exchanged in the merger.

The combined statements of activities, functional expenses and cash flows present the combined activity of the merged entities beginning with the merger date of August 8, 2006. Under accounting principles generally accepted in the United States of America, a pooling of interests requires that results of operations for the period in which the combination occurs should be reported as though the combining entities had been combined since the beginning of the period presented.

Ann Arbor SPARK and the Ann Arbor SPARK Foundation (collectively, "SPARK") are Michigan nonprofit corporations organized to operate a centralized cooperative, publicly and privately supported economic development program that attracts, expands and retains jobs within Washtenaw County, Michigan. SPARK 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.

Ann Arbor SPARK is the operating entity and is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code. AASF primarily provides support to SPARK and its board of directors consists entirely of the members of SPARK's executive committee. The AASF is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

b) Basis of Presentation

The basic combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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.

1. Summary of Significant Accounting Policies (continued)

b) Basis of Presentation (continued)

SPARK'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 SPARK and the AASF with the donor's stipulation that the principal be maintained in perpetuity. SPARK and the AASF do not have any permanently restricted funds as of December 31, 2006.

c) Principles of Combination

The 2006 combined financial statements include the financial information of Ann Arbor SPARK and the Ann Arbor SPARK Foundation.

d) Cash and Cash Equivalents

For the purpose of the combined statement of cash flows, SPARK considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

1. Summary of Significant Accounting Policies (continued)

e) Revenue and Support 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 12 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 12 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

Contributions are recognized when the donor makes a promise to give to SPARK 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. SPARK accounts for unconditional promises to give at fair value based on the present value of the future cash flows SPARK expects to collect.

SPARK 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, SPARK reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

f) 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 owed 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 has been recorded in the allowance account. The amount of this allowance was $238,246 at December 31, 2006.

1. Summary of Significant Accounting Policies (continued)

g) 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.

SPARK estimates the useful life of office equipment and furniture is between three to seven years, depending on the asset, and the useful life of leasehold improvements is between two to four years, depending on the years remaining in the term of the lease at the time leasehold improvements are placed in service.

h) 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 SPARK would otherwise need to purchase have been recorded in the combined financial statements. There were no such services recorded for the year ended December 31, 2006.

i) Expense Allocation

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.

j) Advertising Costs

SPARK 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 year ended December 31, 2006 were $136,513.

k) Use of Estimates

The preparation of combined 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.

2. Unconditional Promises to Give

Promises to give consist mainly of multi-year pledges received from universities, corporate donors, and local governments. The following is a schedule of promises to give as of December 31, 2006.

2007	$ 375,525
2008	25,000
2009	25,000
2010	25,000
2011	-
Gross unconditional promises to give	450,525
Less: discounts for the time-value of money	(6,780)
allowance for uncollectible amounts	(64,025)
Unconditional promises to give, net	379,720
Less: current portion	(311,500)
Unconditional promises to give, non-current	$ 68,220

SPARK 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 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 3.22% at December 31, 2006.

3. Property and Equipment

The components of property and equipment are as follows:

Furniture & Fixtures	$ 73,107
Office Equipment	88,485
Leasehold Improvements	42,546
Donated Equipment (MIED Program)	1,074,625
	1,278,763
Less accumulated depreciation	(201,275)
	$ 1,077,488

Donated equipment for the MIED (Michigan Innovation Equipment Depot) Program consists of previously used laboratory equipment which SPARK 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 arrangements vary by lessee and are typically for an average term of three years. Revenue under lease agreements for the year ended December 31, 2006 was $5,021.

4. Line of Credit

SPARK 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%. The bank's prime rate was 8.25% at December 31, 2006. Payments of accrued interest are due and payable monthly. The note is collateralized by substantially all assets of SPARK. At December 31, 2006, no amounts were outstanding against the line of credit.

5. Net Assets

Temporarily restricted net assets at December 31, 2006 consist of:

Promises to give, restricted for periods after December 31, 2006:	$ 243,500

6. Defined Contribution Plans

SPARK has established a 457(b) deferred compensation plan for eligible employees of SPARK. Employees may elect to defer a certain percentage of qualified compensation through voluntary contributions to the 457(b) plan. SPARK may make discretionary contributions to the 457(b) plan as determined by the Board of Directors. SPARK contributions for the year ended December 31, 2006 were $7,000.

SPARK 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. SPARK 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. SPARK contributions for the year ended December 31, 2006 were $10,668.

7. Commitments

Total rent paid during the year ending December 31, 2006 was $91,948. SPARK leases two office facilities, and an equipment warehouse. The SPARK Central facility has a lease expiring December 31, 2008. The MITC office facility has a lease expiring November 30, 2007, with options to renew for two additional three-year terms at market rates. The equipment warehouse lease expires May 31, 2007. At December 31, future minimum rentals under these leases are as follows:

Year Ending	Amount
December 31, 2007	$ 123,407
December 31, 2008	75,012
	$ 198,419

8. Rental Income

SPARK subleases space in its office facilities to three other organizations. Rental income included in revenue for the year ending December 31, 2006 is $28,947. Currently, the subleases are on a month to month basis and call for monthly payments of $1,500 and $2,500 for two of the leases, respectively. The third organization pays $25,000 annually.

9. Concentration of Credit Risk

SPARK has cash accounts at two banks. Accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At December 31, 2006, cash account balances were in excess of the Federal Deposit Insurance Corporation (FDIC) coverage limit by $132,431.

10. Subsequent Events

a) 21st Century Jobs Fund

In October 2006, Ann Arbor SPARK was notified that it had been selected by the State of Michigan to receive $8,000,000 from the State's 21st Century Jobs Fund Initiative to establish a Michigan pre-seed capital fund. An initial payment of $2,482,000 was received in January 2007.

b) Wet Lab Incubator

In November 2006, SPARK 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. The terms of the grant call for an initial payment of $375,000 followed by additional payments of $125,000 twice a year through June 2009. Initial payment of $375,000 was received in May 2007.

c) Office facility lease

In June 2007, SPARK entered into a five-year lease agreement for an office facility. Monthly rent payments are $3,793 for the first year of the lease and will increase by 3% each year thereafter.