Ann Arbor SPARK and Affiliates

Annual Financial Statements
and Auditors' Report

December 31, 2010

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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, 2010 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 2009 financial statements, and in our report dated May 2, 2010, we expressed an unqualified opinion on those financial statements.

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, 2010, 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 2010 basic combined financial statements taken as a whole. The supplementary information as identified in the table of contents 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
April 22, 2011

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Ann Arbor SPARK and Affiliates
Combined Statement of Financial Position
December 31, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash	$ 551,228	$ 487,436
Restricted Cash	773,564	985,103
Accounts receivable, net	1,579,535	1,902,926
Prepaid expenses	21,919	3,161
Unconditional promises to give, net	42,739	6,480
Total current assets	2,968,985	3,385,106
Property and equipment, net	3,733,585	4,904,905
Investments		
Michigan Pre-Seed Capital Fund Portfolio Investments	11,106,643	9,099,232
Micro Loans	1,771,850	668,343
Total investments	12,878,493	9,767,575
Other Assets		
Deposits	37,000	37,000
Prepaid insurance	43,665	59,077
Total other assets	80,665	96,077
Total assets	$ 19,661,728	$ 18,153,663
Liabilities and Net Assets		
Current Liabilities		
Lines of credit	$ 510,000	$ 430,000
Accounts payable	403,149	340,482
Accrued liabilities	207,404	179,869
Escrow liabilities	-	109,914
Notes payable	40,020	47,991
Deferred revenue	501,846	2,306,295
Total current liabilities	1,662,419	3,414,551
Note payable, net of current portion	202,186	205,666
Net assets		
Unrestricted	17,797,123	14,505,150
Temporarily restricted	-	28,296
Total net assets	17,797,123	14,533,446
Total liabilities and net assets	$ 19,661,728	$ 18,153,663

See Accompanying Notes to the Financial Statements

Ann Arbor SPARK and Affiliates
Combined Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2010
(With Comparative Totals for December 31, 2009)

	Unrestricted	Temporarily Restricted	Total 2010	Total 2009
Revenues and Support				
Program service fee revenue				
Accelerator grants and revenue	$ 4,694,043	$ -	**$ 4,694,043**	$ 4,763,852
LDFA revenue	1,284,319	-	**1,284,319**	1,056,165
Municipal service contracts	549,388	-	**549,388**	527,094
Facility revenue	1,455,905	-	**1,455,905**	1,123,009
Portfolio income (loss)	(59,251)	-	**(59,251)**	665,656
Gain (loss) on sale of fixed assets	-	-	**-**	164,197
Interest income	10,233	-	**10,233**	8,738
Total revenue	7,934,637	-	**7,934,637**	8,308,711
Public support				
Contributions	2,184,466	-	**2,184,466**	761,915
In-kind	304,254	-	**304,254**	283,004
Net assets released from restriction	28,296	(28,296)	**-**	-
Total support	2,517,016	(28,296)	**2,488,720**	1,044,919
Total revenues and support	10,451,653	(28,296)	**10,423,357**	9,353,630
Expenses				
Program services	6,488,349	-	**6,488,349**	6,368,088
Supporting services				
Management and general	621,787	-	**621,787**	655,559
Fundraising	49,544	-	**49,544**	111,809
Total supporting services	671,331	-	**671,331**	767,368
Total expenses	7,159,680	-	**7,159,680**	7,135,456
Change in net assets	3,291,973	(28,296)	**3,263,677**	2,218,174
Net assets - beginning of year	14,505,150	28,296	**14,533,446**	12,315,272
Net assets - end of year	$ 17,797,123	$ -	**$ 17,797,123**	$ 14,533,446

Ann Arbor SPARK and Affiliates
Combined Statement of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	$ 3,263,677	$ 2,218,174
Items not requiring cash		
Depreciation	1,171,320	1,394,231
Losses (gains) on investments	91,609	(665,656)
Bad debt expense	6,496	24,019
Loss (gain) on sale of fixed asset	-	(164,197)
Changes in operating assets and liabilities		
Accounts receivable	316,895	(1,607,398)
Prepaid expenses	(18,758)	20,740
Unconditional promises to give	(36,259)	771,020
Deposits	-	(10,000)
Prepaid insurance	15,412	-
Accounts payable	62,667	69,120
Accrued liabilities	27,535	32,002
Escrow liabilities	(109,914)	109,914
Deferred revenue	(1,804,449)	506,169
Net cash provided by operating activities	2,986,231	2,698,138
Cash flows from investing activities		
Redemption of convertible promissory notes	507,173	456,275
Redemption of micro loans	17,300	-
Purchase of preferred stock	(250,000)	(550,000)
Purchase of common stock	(500,000)	(500,000)
Purchase of micro loans	(1,102,000)	(661,500)
Purchase of convertible promissory notes	(1,875,000)	(1,971,000)
Proceeds of sale of property and equipment	-	164,197
Purchase of property and equipment	-	(290,359)
Net cash used in investing activities	(3,202,527)	(3,352,387)
Cash flows from financing activities		
Payments on note payable	(11,451)	(11,972)
Net activity on line of credit	80,000	379,077
Net cash provided by financing activities	68,549	367,105
Net change in cash	(147,747)	(287,144)
Cash - beginning of year	1,472,539	1,759,683
Cash - end of year	$ 1,324,792	$ 1,472,539
Supplemental information		
Cash paid during the year for interest	$ 36,723	$ 5,452
Cash interest received during the year	$ 56,278	$ 62,731

See Accompanying Notes to the Financial Statements

Ann Arbor SPARK and Affiliates
Combined Statement of Functional Expenses
For the Year Ended December 31, 2010
(With Comparative Totals for December 31, 2009)

		Supporting Services				
	Program	Management and General	Fund-Raising	Subtotal	**2010**	2009
Functional Expenses						
Personnel expenses	$ 1,381,409	$ 331,544	$ 49,544	$ 381,088	**$ 1,762,497**	$ 1,642,295
Professional services	617,198	85,219	-	85,219	**702,417**	1,000,488
Marketing	354,565	7,436	-	7,436	**362,001**	350,062
Operating expenses	3,000,608	160,837	-	160,837	**3,161,445**	2,748,380
Depreciation expense	1,134,569	36,751	-	36,751	**1,171,320**	1,394,231
	$ 6,488,349	$ 621,787	$ 49,544	$ 671,331	**$ 7,159,680**	$ 7,135,456

See Accompanying Notes to the Financial Statements

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, which was incorporated on June 3, 1998. 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.

On July 25, 2008, the Foundation incorporated a limited liability corporation called the Michigan Life Science and Innovation Center LLC ("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's mission is to advance the economic development of innovation-based businesses in the Ann Arbor region by offering programs, resources, and proactive support to business at every stage, from start-ups to large organizations looking for expansion opportunities. Programs and services offered by the Organization are as follows:

- Business incubator services
- Wet lab facilities
- Entrepreneur Boot Camp Program
- Online Business Planning or Cantillon services
- Financing

Both economic interest and control exist through a majority voting interest in the Foundation's board. 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 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.

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.

Principles of Combination
The 2010 combined financial statements include the financial information of SPARK, the Foundation, and the MLSIC. All inter-entity balances and transactions have been eliminated.

Revenue Recognition
Under its business accelerator program, the Organization 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.

The Organization provides its funding under agreements which typically stipulate that the companies will repay the Organization 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, the Organization 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 the Organization 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.

Donated Materials and Services
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 11, the Organization receives an in-kind contribution of donated space for its wet lab facility and other services which amounted to $304,254 and $283,004 for the years ended December 31, 2010 and 2009.

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 $187,569 at December 31, 2010 and 2009. Grant and other receivables are deemed fully collectible, therefore no allowance has been recorded at December 31, 2010 and 2009.

Investments

Michigan Pre-Seed Capital Fund

In July 2009, as part of the State of Michigan's 21st Century Jobs Fund Initiative, the Organization was provided an additional grant in the amount of $6,800,000 by The Michigan Strategic Fund ("MSF") in order to continue to manage the Michigan Pre-Seed Capital Fund. The term of this grant agreement is July 15, 2009 through June 30, 2012. The grant has an initial payment of $1,700,000 and additional payments may be received upon the Organization achieving certain milestones and materially complying with requirements as defined in the agreement with the MSF. As of December 31, 2010, the Organization had received $3,200,000 in payments under the grant and made expenditures and investments in the amount of $2,777,401.

Micro Loans

The $1.5 million Michigan Microloan Fund Program currently includes three distinct microloan funds. Through the Michigan Microloan Fund Program, $200,000 is available to start-ups via the Eastern Washtenaw Microloan Fund, $1 million is available through the Michigan Pre-Seed Capital Fund and $275,000 is available for companies located in the City of Ann Arbor via funding from the Ann Arbor/Ypsilanti Local Development Financing Authority (LDFA).

Microloans available through the Michigan Microloan Fund Program range from $10,000 to $50,000. To qualify, companies must be a small business located in Michigan, have the rights (ownership or license) to innovative technology, and be privately held.

Michigan Pre-Seed Capital Fund micro loans have the same requirements as the Michigan Microloan Fund Program, however funding is to be used for the development of a business that is focused on the commercialization of technology of interest to the 21st Century Jobs Fund.

Accrued interest was $166,702 and $13,687 at December 31, 2010 and 2009, respectively. The allowance against the accrued interest was $83,352 and $6,844 at December 31, 2010 and 2009, respectively.

Valuation of Michigan Pre-Seed Capital Fund Investments and Micro Loans

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 $735,615 and $596,781 at December 31, 2010 and 2009, respectively. The allowance against the accrued interest was $294,247 and $238,712 at December 31, 2010 and 2009, respectively.

Fair value measurement - definition and hierarchy

Fair Value Measurements 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. Fair Value Measurements 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 Organization'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 $1,000. 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.

Deferred Revenue
Deferred revenue represents unearned program service 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), Eastern Micro Loan Program and the LDFA Micro Loan Program. These revenues are earned as the terms of the agreements are met.

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.

Marketing Costs
The Organization expenses marketing production costs as they are incurred and marketing communication costs for programs the first time the marketing takes place. Marketing costs for the years ended December 31, 2010 and 2009, were $362,001 and $350,062, respectively.

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 fair values of the investments may differ significantly from the values that would have been used had a ready market for the investments existed.

Comparative Financial Statements

The amounts shown for the year ended December 31, 2009, in the accompanying financial statements are included to provide a basis for comparison with 2010 and present summarized totals only. Accordingly, the 2009 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, 2009, from which the summarized information was derived.

Income tax status

SPARK, is classified as a Section 501(c)(6) organization under the Federal Internal Revenue Code, and is exempt from federal and state income taxes. The Foundation, is classified as a Section 501(c)(3) organization under the Federal Internal Revenue Code, and is exempt from federal and state income taxes. MLSIC is incorporated as a limited liability corporation whose sole member is the Foundation. Under the Federal Internal Revenue Code, MLSIC is treated as a disregarded entity and is exempt from federal and state income taxes.

The Organization files informational returns in the U.S. federal jurisdiction. The statute of limitations is generally three years for federal returns.

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.

Subsequent Events

Management has evaluated subsequent events through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.

Note 3 - Concentrations and Credit Risks

The Organization has cash accounts at various local banks. Accounts at these financial institutions are insured by the FDIC up to $250,000. At December 31, 2010, cash account balances were in excess of the FDIC coverage limit by $156,426.

Note 4 - Unconditional Promises to Give

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

	2010	2009
Unconditional promises to give	$ 42,739	$ 6,480
Less allowance for doubtful accounts	-	-
Unconditional promises to give, net	$ 42,739	$ 6,480

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. All of the Organization's promises to give as of December 31, 2010 and 2009 are due within one year.

Note 5 - Investments

The Organization received convertible promissory notes, preferred stock or common stock in exchange for its investments in portfolio companies under the Michigan Pre-Seed Capital Fund Program. 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.

Michigan Pre-Seed Capital Fund Portfolio Investments consist of the following at December 31, 2010 and 2009, respectively:

	2010	2009
Preferred stock	$ 2,709,860	$ 2,554,762
Common stock	2,017,639	1,320,541
Convertible promissory notes	6,379,144	5,223,929
	$ 11,106,643	$ 9,099,232

Portfolio investment income (loss) consists of the following for the years ended December 31:

	2010	2009
Interest earned, convertible promissory notes	$ 202,464	$ 108,578
Interest earned, micro loans	108,865	6,843
Realized loss, micro loans	(57,700)	-
Realized loss, preferred stock	(250,000)	-
Unrealized gain, preferred stock	242,319	25,068
Unrealized loss, preferred stock	(144,610)	
Realized gain, common stock	156,725	
Unrealized gain, common stock	435,082	320,541
Realized gain, convertible promissory notes	-	42,222
Realized loss, convertible promissory notes	(752,396)	-
Unrealized gain, convertible promissory notes	-	162,404
	$ (59,251)	$ 665,656

Note 6 - Fair Value Disclosures

The Organization's Fund investments recorded at fair market value have been categorized based upon a fair value hierarchy. 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, 2010 and 2009:

December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Michigan Pre-Seed Capital Fund Portfolio Investments	$ -	$ -	$ 11,106,643	$ 11,106,643
Micro loans	-	-	1,771,850	1,771,850
Total	$ -	$ -	$ 12,878,493	$ 12,878,493

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
December 31, 2009				
Michigan Pre-Seed Capital Fund Portfolio Investments	$ -	$ -	$ 9,099,232	$ 9,099,232
Micro loans	-	-	668,343	668,343
Total	$ -	$ -	$ 9,767,575	$ 9,767,575

Total assets at fair value classified within level 3 were $12,878,493 and $9,797,575, as of December 31, 2010 and 2009, which consists of Michigan Pre-Seed Capital Fund Portfolio Investments and Micro Loans. Such amounts were approximately 65% and 54% of total assets on the Organization's statement of net assets available as of December 31, 2010 and 2009, respectively. Inputs used to value the Level 3 investments include the economic status of each entity and a yearend review of each entities financial position.

Level 3 Gains and Losses

The following table presents changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2010 and 2009:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	2010	2009
Balance at January 1,	$ 9,767,575	$ 5,875,694
Invested in preferred stock	250,000	550,000
Invested in common stock	500,000	500,000
Invested in promissory notes	1,875,000	1,971,000
Invested in micro loans	1,102,000	661,500
Net investment gain or (loss)	(123,967)	665,656
Cash received	(492,115)	(456,275)
Balance at December 31,	$ 12,878,493	$ 9,767,575

Note 7 - Property and Equipment

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

	2010	2009
Furniture and fixtures	**$ 135,134**	$ 135,134
Office equipment	**416,632**	416,632
Leasehold improvements	**163,804**	163,804
Land	**1,600,000**	1,600,000
Building	**1,886,785**	1,886,785
Donated equipment (MIED Program)	**3,835,901**	3,835,901
	8,038,256	8,038,256
Less accumulated depreciation	**(4,304,671)**	(3,133,351)
	$ 3,733,585	$ 4,904,905

Depreciation expense was $1,171,320 and $1,394,231 for the years ended December 31, 2010 and 2009, respectively.

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, 2010 and 2009 was $0 and $1,321, respectively.

Note 8 - Lines of Credit

SPARK has a revolving line of credit with a bank and may borrow up to $200,000 with interest at the bank's prime rate (4.25% at December 31, 2010). Interest accrues and is due monthly. The note is collateralized by substantially all assets of SPARK. At December 31, 2010 and 2009, the line of credit outstanding was $0.

MLSIC has a revolving line of credit with a bank and may borrow up to $550,000 with interest at the bank's prime rate (4.25% at December 31, 2010). Interest accrues and is due monthly. The note is collateralized by substantially all assets of MLSIC. This line of credit expires June 25, 2011. At December 31, 2010 and 2009, the line of credit outstanding was $510,000 and $430,000, respectively.

Note 9 - Note Payable

Note payable consisted of the following at December 31:

	2010	2009
Note payable, unsecured, requiring monthly installments of $4,954, including interest at 5%, through September 2014.	$ 242,206	$ 253,657
Less current portion	40,020	47,991
Long term portion	$ 202,186	$ 205,666

The terms of the note payable stipulated that if not paid back within one year, accrued interest of 5% would be added to the face of the note. As of September 1, 2009, the face value of the note payable increased to $262,500.

Maturities of the note payable are as follows:

Year ending December 31	
2011	$ 40,020
2012	50,273
2013	52,845
2014	55,549
2015	43,519
	$ 242,206

Interest expense was $21,094 and $22,270 for the years ended December 31, 2010 and 2009, respectively.

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, 2010 and 2009, 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. In order to be eligible for matching contributions, employees must be making contributions to the Plan. The Organization contributions for the years ended December 31, 2010 and 2009, were $60,613 and $38,174, respectively.

Note 11 - Commitments

Total rent paid during the years ended December 31, 2010 and 2009 was $499,742 and $462,428, 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 associated with leasing existing space to run a life sciences wet lab incubator. 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 for the years ended December 31, 2010 and 2009.

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

For the years ending	
2011	$ 216,194
2012	123,158
2013	76,083
	$ 415,435

Note 12 - Rental Income

The Organization subleases space in its wet lab incubator facility, SPARK Central, SPARK East and MLSIC to various organizations. Currently, the subleases range from month to month to 5 years. Monthly payments range from $95 to $6,371. The following is a schedule by years of future minimum rental income under the leases at December 31, 2010.

For the years ending	
2011	$ 232,933
2012	192,672
2013	176,033
2014	129,141
2015	51,031
	$ 781,810

Total rental income under all subleases included in revenue for the years ended December 31, 2010 and 2009 was $1,198,143 and $824,636, respectively.

Note 13 - Temporary Restricted Net Assets

	2010	2009
Ann Arbor Community Foundation Grant	$ -	$ 21,816
Other	-	6,480
	$ -	$ 28,296

Note 14 - Related Party Transactions

A current member of the Organization's Administrative Committee is also a partner of the firm with which the Organization incurred approximately $21,000 and $70,500 of legal fees for the years ended December 31, 2010 and 2009, respectively.

Note 15 - Conditional Promises to Give

The Organization is aware of certain local entities who have indicated they would provide support in future years, but dependent on their own financial resources. This determination will be made each year by the donor. Since these pledges do not meet the criteria for revenue recognition under accounting principles generally accepted in the United States of America, they are not reflected as contributions in the statement of activities until the pledges are collected. Total conditional intentions to give as of December 31, 2010, totaled $379,500.

Supplementary Information

Ann Arbor SPARK and Affiliates
Schedule of Michigan Pre-Seed Capital Fund Portfolio Investments
December 31, 2010 and 2009

	2010 Cost	2010 Valuation	2009 Cost	2009 Valuation
Preferred Stock:				
Pixel Velocity Inc.	$ 250,000	$ 664,380	$ 250,000	$ 664,380
Arbor Photonics	250,000	275,068	250,000	275,068
Vestaron Inc.	250,000	125,000	250,000	269,610
Functional Brands Company	-	-	250,000	250,000
Accord Biomaterial	250,000	307,389	250,000	250,000
Fulcrum Composites	200,000	200,000	200,000	200,000
Michelle's Miracle, Inc.	250,000	250,000	250,000	250,000
Nymirum	250,000	250,000	250,000	250,000
Epsilon/Ultrasound Medical Devices	50,000	382,190	50,000	145,704
Intervention Insights	250,000	255,833	-	-
	$ 2,000,000	$ 2,709,860	$ 2,000,000	$ 2,554,762

	2010 Cost	2010 Valuation	2009 Cost	2009 Valuation
Common Stock:				
Sequenom	$ -	$ -	$ 250,000	$ 237,984
XG Sciences Inc.	250,000	725,140	250,000	290,058
3IS	92,499	92,499	92,499	92,499
Aursos	200,000	200,000	200,000	200,000
SenSounds, LLC	250,000	250,000	250,000	250,000
Biotectix, LLC	250,000	250,000	250,000	250,000
Innovative Surgical Solutions, LLC	250,000	250,000	-	-
Inventure Enterprises, Inc	250,000	250,000	-	-
	$ 1,542,499	$ 2,017,639	$ 1,292,499	$ 1,320,541

	Interest Rate	Cost	Valuation	Interest Rate	Cost	Valuation
Convertible Promissory Notes:						
Parking Carma	8.00%	$ 250,000	$ 250,000	8.00%	$ 250,000	$ 250,000
OTO Medicine	-	-	-	8.50%	107,000	116,404
Phrixus Pharmaceuticals	8.00%	100,000	100,000	8.00%	100,000	100,000
MedElute	-	-	-	8.00%	250,000	250,000
Saleztrack	-	-	-	8.00%	250,000	250,000
RazorThreat	8.00%	250,000	292,499	8.00%	250,000	250,000
Compendia Bioscience Inc.	-	-	-	10.00%	106,456	106,456
Cielo MedSolutions	12.00%	250,000	296,000	12.00%	250,000	296,000
JADI Inc.	8.00%	250,000	250,000	8.00%	250,000	250,000
ERT Systems	15.00%	126,000	126,000	15.00%	126,000	126,000
Emiliem	10.00%	250,000	250,000	10.00%	250,000	250,000
Global Energy	8.00%	250,000	250,000	8.00%	250,000	250,000
Afid Therapeutics	8.25%	200,000	200,000	8.25%	200,000	200,000
Armune Bioscience	8.00%	200,000	200,000	8.00%	200,000	200,000
Creative Byline	7.00%	180,000	180,000	7.00%	180,000	180,000
White Pine Systems	6.25%	225,000	225,000	6.25%	225,000	225,000
RealKidz, Inc.	-	-	-	10.00%	142,000	142,000
OcuSciences, Inc.	10.00%	250,000	250,000	10.00%	250,000	250,000
3D Biomatrix	8.00%	250,000	250,000	8.00%	250,000	250,000
Mandy & Pandy	10.00%	244,000	244,000	10.00%	244,000	244,000
Axenic Dental	8.00%	250,000	269,277	8.00%	250,000	250,000
Algal Scientific	8.00%	180,000	180,000	8.00%	180,000	180,000
RealBio Technology	10.00%	250,000	250,000	10.00%	250,000	250,000
NextCAT, Inc.	8.00%	300,000	300,000	-	-	-
Info Ready Corporation	8.00%	250,000	250,000	-	-	-
InPore Technologies, Inc.	8.00%	100,000	100,000	-	-	-
Downstreem, LLC	8.00%	100,000	75,000	-	-	-
Tangent Medical Tech	12.00%	250,000	250,000	-	-	-
InPore Technologies, Inc.	8.00%	150,000	150,000	-	-	-
Curemt Motor Co, LLC	6.00%	250,000	250,000	-	-	-
Armune BioScience	8.00%	250,000	250,000	-	-	-
Advanced Battery Concepts, LLC	6.00%	250,000	250,000	-	-	-
		5,855,000	5,937,776		4,810,456	4,865,860
Accrued unpaid interest earned		735,615	441,368		596,781	358,069
		$ 6,590,615	$ 6,379,144		$ 5,407,237	$ 5,223,929
Total		$ 10,133,114	$ 11,106,643		$ 8,699,736	$ 9,099,232

Ann Arbor SPARK and Affiliates
Schedule of Micro Loans
December 31, 2010

	Interest Rate	2010 Cost	2010 Valuation
Micro Loans:			
Allinova	12%	$ 10,000	$ 10,000
MemCatch	12%	25,000	25,000
Procuit, Inc.	12%	30,000	30,000
The Whole Brain Group	12%	50,000	50,000
New Eagle	12%	39,000	39,000
Advanced Battery Concepts	12%	50,000	50,000
BeholzTech, Inc.	12%	40,000	40,000
CTC Holdings	12%	45,000	45,000
Diesel Reformer	12%	50,000	50,000
Motor City Wipers	12%	50,000	50,000
RealBio Technology, Inc.	12%	37,500	37,500
Research Essential Services	12%	50,000	50,000
Solarflex	12%	35,000	35,000
FreeStride Therapeutics, Inc.	12%	50,000	50,000
Energy Management Devices	12%	50,000	50,000
Local Orbit	12%	10,000	10,000
Buycentives	12%	35,000	35,000
AviCenna Medical	12%	20,000	20,000
Cimple Integrations	12%	50,000	50,000
Shepherd Intelligent Systems	12%	35,000	35,000
Ix Innovations	12%	35,000	35,000
Current Motor	12%	50,000	50,000
CYJ Enterprises	12%	30,000	30,000
TRIG Tires & Wheels	12%	50,000	50,000
LED Optical Solutions	12%	50,000	50,000
Inventure Enterprises	12%	46,000	46,000
Procuit, Inc.	12%	20,000	20,000
Waste Waterheat Transfer	12%	25,000	25,000
Blaze Medical Devices	12%	42,000	42,000
Ellison Corporation	12%	40,000	40,000
Akervall Technologies	12%	15,000	15,000
Terra-Telesis	12%	50,000	50,000
Digital Knowledge Corporation	12%	29,000	29,000
Road to Road, LLC	12%	25,000	25,000
Local Orbit, LLC	12%	40,000	40,000
Detroit Electric	12%	50,000	50,000
Ergun Technologies	12%	50,000	50,000
MyBandStock Corporation	12%	45,000	45,000
GreenSand Corporation	12%	50,000	50,000
Applied Computer Technologies	12%	15,000	15,000
Family Mint, Inc.	12%	50,000	50,000
Shepherd Intelligent Systems	12%	45,000	45,000
Fusion Coolant Systems	12%	50,000	50,000
Auto Harvest Foundation	12%	25,000	25,000
		$ 1,688,500	$ 1,688,500
Accrued unpaid interest earned		166,702	83,350
		$ 1,855,202	$ 1,771,850

Ann Arbor SPARK and Affiliates
Combining Statement of Financial Position
December 31, 2010

	Ann Arbor Spark	Ann Arbor SPARK Foundation	Michigan Life Science and Innovation Center LLC	Eliminations	Total
Assets					
Current Assets					
Cash	$ 185,682	$ 330,726	$ 34,820	$ -	$ 551,228
Restricted Cash	773,564	-	-	-	773,564
Accounts receivable, net	1,481,246	1,500	153,039	(56,250)	1,579,535
Prepaid expenses	21,919	-	-	-	21,919
Unconditional promises to give, net	6,000	36,739	-	-	42,739
Total current assets	2,468,411	368,965	187,859	(56,250)	2,968,985
Property and equipment, net	69,718	159,170	3,504,697	-	3,733,585
Due from (to)	179,579	90,267	(269,846)	-	-
Investments					
Michigan Pre-Seed Capital Fund Portfolio Investments	11,106,643	-	-	-	11,106,643
Micro loans	1,771,850	-	-		1,771,850
Total investments	12,878,493	-	-	-	12,878,493
Other Assets					
Deposits	37,000	-	-	-	37,000
Prepaid insurance	-	-	43,665	-	43,665
Total other assets	37,000	-	43,665	-	80,665
Total assets	$ 15,633,201	$ 618,402	$ 3,466,375	$ (56,250)	$ 19,661,728
Liabilities and Net Assets					
Current Liabilities					
Lines of credit	$ -	$ -	$ 510,000	$ -	$ 510,000
Accounts payable	105,980	186,073	167,346	(56,250)	403,149
Accrued liabilities	158,474	-	48,930	-	207,404
Escrow liabilities	-	-	-	-	-
Note payable	-	40,020	-	-	40,020
Deferred revenue	501,846	-	-	-	501,846
Total current liabilities	766,300	226,093	726,276	(56,250)	1,662,419
Note payable, net of current portion	-	202,186	-	-	202,186
Net assets					
Unrestricted	14,866,901	190,123	2,740,099	-	17,797,123
Total liabilities and net assets	$ 15,633,201	$ 618,402	$ 3,466,375	$ (56,250)	$ 19,661,728

Ann Arbor SPARK and Affiliates
Combining Statement of Activities
For the Year Ended December 31, 2010

	Ann Arbor SPARK			Ann Arbor SPARK Foundation	Michigan Life Science & Innovation Center LLC				Total		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Unrestricted	Temporarily Restricted	Total	Eliminations	Unrestricted	Temporarily Restricted	Total
Revenues and Support											
Program service fee revenue											
Accelerator grants and revenue	$ 4,691,238	$ -	$ 4,691,238	$ -	$ 2,805	$ -	$ 2,805	$ -	$ 4,694,043	$ -	$ 4,694,043
LDFA revenue	1,284,319	-	1,284,319	-	-		-	-	1,284,319	-	1,284,319
Municipal service contracts	549,388	-	549,388	-	-	-	-	-	549,388	-	549,388
Facility revenue	362,043	-	362,043	85,519	1,087,651	-	1,087,651	(79,308)	1,455,905	-	1,455,905
Portfolio income (loss)	(59,251)	-	(59,251)	-	-	-	-	-	(59,251)	-	(59,251)
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-	-
Interest income	6,935	-	6,935	55	3,243	-	3,243	-	10,233	-	10,233
Total revenue	6,834,672	-	6,834,672	85,574	1,093,699	-	1,093,699	(79,308)	7,934,637	-	7,934,637
Public Support											
Contributions	1,028,500	-	1,028,500	1,245,750	122,716	-	122,716	(212,500)	2,184,466	-	2,184,466
In-kind	304,254	-	304,254	-	-	-	-	-	304,254	-	304,254
Net assets released from restriction	28,296	(28,296)	-	-	-	-	-	-	28,296	(28,296)	-
Total support	1,361,050	(28,296)	1,332,754	1,245,750	122,716	-	122,716	(212,500)	2,517,016	(28,296)	2,488,720
Total revenue and support	8,195,722	(28,296)	8,167,426	1,331,324	1,216,415	-	1,216,415	(291,808)	10,451,653	(28,296)	10,423,357
Expenses											
Program services	3,126,124	-	3,126,124	2,132,976	1,521,057	-	1,521,057	(291,808)	6,488,349	-	6,488,349
Supporting services											
Management and general	621,787	-	621,787	-	-	-	-	-	621,787	-	621,787
Fundraising	49,544	-	49,544	-	-	-	-	-	49,544	-	49,544
Total supporting services	671,331	-	671,331	-	-	-	-	-	671,331	-	671,331
Total expenses	3,797,455	-	3,797,455	2,132,976	1,521,057	-	1,521,057	(291,808)	7,159,680	-	7,159,680
Change in net assets	4,398,267	(28,296)	4,369,971	(801,652)	(304,642)	-	(304,642)	-	3,291,973	(28,296)	3,263,677
Net assets - beginning of year	10,468,634	28,296	10,496,930	991,775	3,044,741	-	3,044,741	-	14,505,150	28,296	14,533,446
Net assets - end of year	$ 14,866,901	$ -	$ 14,866,901	$ 190,123	$ 2,740,099	$ -	$ 2,740,099	$ -	$ 17,797,123	$ -	$ 17,797,123