

Ann Arbor SPARK and Affiliates

**Annual Financial Statements
and Auditors' Report**

December 31, 2011

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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, 2011 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 2010 financial statements, and in our report dated April 22, 2011, 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, 2011, 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 financial statements as a whole. The accompanying supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
April 18, 2012

Ann Arbor SPARK and Affiliates
Combined Statement of Financial Position
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash	\$ 955,559	\$ 551,228
Restricted cash	2,508,675	773,564
Accounts receivable, net	354,748	1,579,535
Prepaid expenses	18,180	21,919
Unconditional promises to give, net	9,000	42,739
Total current assets	<u>3,846,162</u>	<u>2,968,985</u>
Property and equipment, net	<u>3,465,172</u>	<u>3,733,585</u>
Investments		
Michigan Pre-Seed Capital Fund Portfolio Investments	13,417,844	11,106,643
Micro loans	1,881,446	1,771,850
Total investments	<u>15,299,290</u>	<u>12,878,493</u>
Other Assets		
Deposits	17,000	37,000
Prepaid insurance	28,255	43,665
Total other assets	<u>45,255</u>	<u>80,665</u>
Total assets	<u><u>\$ 22,655,879</u></u>	<u><u>\$ 19,661,728</u></u>
Liabilities and Net Assets		
Current Liabilities		
Lines of credit	\$ 550,000	\$ 510,000
Accounts payable	823,865	403,149
Accrued liabilities	136,061	207,404
Notes payable	51,769	40,020
Deferred revenue	2,048,482	501,846
Total current liabilities	<u>3,610,177</u>	<u>1,662,419</u>
Note payable, net of current portion	<u>151,912</u>	<u>202,186</u>
Unrestricted net assets	<u>18,893,790</u>	<u>17,797,123</u>
Total liabilities and net assets	<u><u>\$ 22,655,879</u></u>	<u><u>\$ 19,661,728</u></u>

See Accompanying Notes to the Financial Statements

Ann Arbor SPARK and Affiliates
Combined Statement of Activities and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues and Support		
Program service fee revenue		
Accelerator grants and revenue	\$ 2,508,632	\$ 4,694,043
LDFA revenue	1,164,082	1,284,319
Municipal service contracts	387,888	549,388
Facility revenue	1,218,117	1,455,905
Portfolio income (loss)	286,955	(59,251)
Interest income	4,200	10,233
Total revenue	<u>5,569,874</u>	<u>7,934,637</u>
Public support		
Contributions	1,349,507	2,184,466
In-kind	40,000	304,254
Total support	<u>1,389,507</u>	<u>2,488,720</u>
Total revenues and support	<u>6,959,381</u>	<u>10,423,357</u>
Expenses		
Program services	5,300,515	6,488,349
Supporting services		
Management and general	513,453	621,787
Fundraising	48,746	49,544
Total supporting services	<u>562,199</u>	<u>671,331</u>
Total expenses	<u>5,862,714</u>	<u>7,159,680</u>
Change in net assets	1,096,667	3,263,677
Net assets - beginning of year	<u>17,797,123</u>	<u>14,533,446</u>
Net assets - end of year	<u><u>\$ 18,893,790</u></u>	<u><u>\$ 17,797,123</u></u>

See Accompanying Notes to the Financial Statements

Ann Arbor SPARK and Affiliates
Combined Statement of Cash Flows
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 1,096,667	\$ 3,263,677
Items not requiring cash		
Depreciation	315,973	1,171,320
Losses (gains) on investments	(286,962)	91,609
Bad debt expense	27,860	6,496
Changes in operating assets and liabilities		
Accounts receivable	1,196,927	316,895
Prepaid expenses	3,739	(18,758)
Unconditional promises to give	33,739	(36,259)
Deposits	20,000	-
Prepaid insurance	15,410	15,412
Accounts payable	420,716	62,667
Accrued liabilities	(71,343)	27,535
Escrow liabilities	-	(109,914)
Deferred revenue	1,546,636	(1,804,449)
Net cash provided by operating activities	<u>4,319,362</u>	<u>2,986,231</u>
Cash flows from investing activities		
Redemption of convertible promissory notes	421,440	507,173
Redemption of micro loans	89,185	17,300
Purchase of preferred stock	-	(250,000)
Purchase of common stock	(1,075,000)	(500,000)
Purchase of micro loans	(259,460)	(1,102,000)
Purchase of convertible promissory notes	(1,310,000)	(1,875,000)
Purchase of property and equipment	(47,560)	-
Net cash used in investing activities	<u>(2,181,395)</u>	<u>(3,202,527)</u>
Cash flows from financing activities		
Payments on note payable	(38,525)	(11,451)
Net activity on line of credit	40,000	80,000
Net cash provided by financing activities	<u>1,475</u>	<u>68,549</u>
Net change in cash	2,139,442	(147,747)
Cash - beginning of year	<u>1,324,792</u>	<u>1,472,539</u>
Cash - end of year	<u>\$ 3,464,234</u>	<u>\$ 1,324,792</u>
Supplemental information		
Cash paid during the year for interest	<u>\$ 32,048</u>	<u>\$ 36,723</u>

See Accompanying Notes to the Financial Statements

Ann Arbor SPARK and Affiliates
Combined Statement of Functional Expenses
For the Year Ended December 31, 2011
(With Comparative Totals for December 31, 2010)

	Program	Supporting Services			Subtotal	2011	2010
		Management and General	Fund-Raising				
Functional Expenses							
Personnel expenses	\$ 1,321,330	\$ 326,206	\$ 48,746	\$ 374,952	\$ 1,696,282	\$ 1,762,497	
Professional services	574,895	62,980	-	62,980	637,875	702,417	
Marketing	344,013	7,386	-	7,386	351,399	362,001	
Operating expenses	2,747,845	113,340	-	113,340	2,861,185	3,161,445	
Depreciation expense	279,222	36,751	-	36,751	315,973	1,171,320	
	<u>\$ 5,267,305</u>	<u>\$ 546,663</u>	<u>\$ 48,746</u>	<u>\$ 595,409</u>	<u>\$ 5,862,714</u>	<u>\$ 7,159,680</u>	

See Accompanying Notes to the Financial Statements

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
December 31, 2011

Note 1 - Organization

Ann Arbor 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") 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.

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 economy of the Ann Arbor Region by establishing that area as a desired place for business expansion and location, by identifying and meeting the needs of business at every stage, from those that are established to those working to successfully commercialize innovations. Programs and services offered by the Organization are as follows:

- Business incubator services
- Wet lab facilities
- Entrepreneurial services
- Business 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.

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
December 31, 2011

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 2011 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

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
December 31, 2011

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 \$40,000 and \$304,254 for the years ended December 31, 2011 and 2010.

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 \$159,709 and \$187,569 at December 31, 2011 and 2010, respectively. Grant and other receivables are deemed fully collectible, therefore no allowance has been recorded at December 31, 2011 and 2010.

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 Michigan Strategic Fund ("MSF") in order to start and manage the Michigan Pre-Seed Capital Fund. The term of this grant agreement was January 15, 2007 through December 31, 2009. As of December 31, 2011, the Organization had received \$7,953,000 in payments under the grant and made expenditures and investments in the same amount.

In July 2009, the Organization was provided an additional grant in the amount of \$6,800,000 by the MSF in order to continue to manage the Michigan Pre-Seed Capital Fund. The term of this

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grant agreement is July 15, 2009 through June 30, 2012. As of December 31, 2011, the Organization had received \$6,500,000 in payments under the grant and made expenditures and investments in the same amount.

In October 2011, the MSF provided another grant in the amount of \$9,170,000 for the same purpose. The term of this agreement is October 1, 2011 through December 31, 2014. The grant has an initial payment of \$2,150,000 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, 2011, the Organization had received initial payment of \$2,150,000 and made expenditures and investments in the amount of \$291,268.

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 \$336,970 and \$166,702 at December 31, 2011 and 2010, respectively. The allowance against the accrued interest was \$168,485 and \$83,352 at December 31, 2011 and 2010, 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

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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 \$1,078,536 and \$735,615 at December 31, 2011 and 2010, respectively. The allowance against the accrued interest was \$431,414 and \$294,247 at December 31, 2011 and 2010, 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

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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 United 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.

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
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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, 2011 and 2010, were \$351,399 and \$362,001, 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, 2010, in the accompanying financial statements are included to provide a basis for comparison with 2011 and present summarized totals only. Accordingly, the 2010 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, 2010, 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 conform 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.

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
December 31, 2011

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, 2011, cash account balances were not in excess of the FDIC coverage limit.

Note 4 - Unconditional Promises to Give

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

	<u>2011</u>	<u>2010</u>
Unconditional promises to give	\$ 9,000	\$ 42,739
Less allowance for doubtful accounts	-	-
Unconditional promises to give, net	<u>\$ 9,000</u>	<u>\$ 42,739</u>

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, 2011 and 2010 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, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
Preferred stock	\$ 3,513,884	\$ 2,979,137
Common stock	3,092,639	2,017,639
Convertible promissory notes	6,811,321	6,109,867
	<u>\$ 13,417,844</u>	<u>\$ 11,106,643</u>

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
December 31, 2011

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

	<u>2011</u>	<u>2010</u>
Interest earned, convertible promissory notes	\$ 261,994	\$ 202,464
Interest earned, micro loans	85,136	108,865
Realized loss, micro loans	(145,815)	(57,700)
Realized loss, preferred stock	-	(250,000)
Unrealized gain, preferred stock	-	242,319
Unrealized loss, preferred stock	(2,450)	(144,610)
Realized gain, common stock	-	156,725
Unrealized gain, common stock	-	435,082
Realized gain, convertible promissory notes	69,200	-
Realized loss, convertible promissory notes	(75,000)	(752,396)
Unrealized gain, convertible promissory notes	93,890	-
	<u>\$ 286,955</u>	<u>\$ (59,251)</u>

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 table presents information about the Organization's Fund investments measured at fair value on a recurring basis as of December 31, 2011 and 2010:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Balance</u>
<u>December 31, 2011</u>				
Michigan Pre-Seed				
Capital Fund Portfolio Investments	\$ -	\$ -	\$ 13,417,844	\$ 13,417,844
Micro loans	-	-	1,881,446	1,881,446
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,299,290</u>	<u>\$ 15,299,290</u>

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Notes to the Combined Financial Statements
December 31, 2011

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

Total assets at fair value classified within level 3 were \$15,299,290 and \$12,878,493, as of December 31, 2011 and 2010, which consists of Michigan Pre-Seed Capital Fund Portfolio Investments and Micro Loans. Such amounts were approximately 68% and 65% of total assets on the Organization's statement of net assets available as of December 31, 2011 and 2010, 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, 2011 and 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2011	2010
Balance at January 1,	\$ 12,878,493	\$ 9,767,575
Invested in preferred stock	-	250,000
Invested in common stock	1,075,000	500,000
Invested in promissory notes	1,310,000	1,875,000
Invested in micro loans	259,460	1,102,000
Net investment gain or (loss)	286,962	(123,967)
Cash received	(510,625)	(492,115)
Balance at December 31,	<u>\$ 15,299,290</u>	<u>\$ 12,878,493</u>

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
December 31, 2011

Note 7 - Property and Equipment

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

	<u>2011</u>	<u>2010</u>
Furniture and fixtures	\$ 147,270	\$ 135,134
Office equipment	452,058	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
	<u>8,085,818</u>	<u>8,038,256</u>
Less accumulated depreciation	<u>(4,620,646)</u>	<u>(4,304,671)</u>
	<u><u>\$ 3,465,172</u></u>	<u><u>\$ 3,733,585</u></u>

Depreciation expense was \$315,973 and \$1,171,320 for the years ended December 31, 2011 and 2010, 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.

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, 2011). Interest accrues and is due monthly. The note is collateralized by substantially all assets of SPARK. This line of credit expires August 25, 2012. At December 31, 2011 and 2010, 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, 2011). Interest accrues and is due monthly. The note is collateralized by substantially all assets of MLSIC. This line of credit expires August 25, 2012. At December 31, 2011 and 2010, the line of credit outstanding was \$550,000 and \$510,000, respectively.

SPARK has various credit cards with a bank for employee use with a total credit limit of \$90,000 and \$70,150 for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010 the credit amount used was \$5,745 and \$6,235, respectively.

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
December 31, 2011

Note 9 - Note Payable

Note payable consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Note payable, unsecured, requiring monthly installments of \$4,954, including interest at 5%, through September 2014.	\$ 203,681	\$ 242,206
Less current portion	<u>51,769</u>	<u>40,020</u>
Long term portion	<u>\$ 151,912</u>	<u>\$ 202,186</u>

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:

<u>Year ending December 31</u>	
2012	\$ 51,769
2013	52,845
2014	55,549
2015	<u>43,519</u>
	<u>\$ 203,681</u>

Interest expense was \$9,921 and \$21,094 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, were \$47,255 and \$60,613, respectively.

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
December 31, 2011

Note 11 - Commitments

Total rent paid during the years ended December 31, 2011 and 2010 was \$239,359 and \$499,742, 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 October 31, 2021, with monthly payments of \$9,222 in the first year, increasing by approximately 3% each year thereafter. The SPARK Central facility has a five year lease expiring December 31, 2016, with monthly payments of \$6,866 in the first year, increasing by approximately 2% 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 had a lease that expired December 31, 2010. Under this lease, the Organization received an in-kind contribution of donated space, which amounted to \$0 and \$233,004 for the years ended December 31, 2011 and 2010.

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

For the years ending	
2012	\$ 276,611
2013	274,676
2014	203,709
2015	208,965
2016	214,363
2017 and thereafter	659,742
	<u>\$ 1,838,066</u>

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, 2011.

For the years ending	
2012	\$ 193,242
2013	176,033
2014	129,141
2015	51,031
	<u>\$ 549,447</u>

Ann Arbor SPARK and Affiliates
Notes to the Combined Financial Statements
December 31, 2011

Total rental income under all subleases included in revenue for the years ended December 31, 2011 and 2010 was \$1,041,004 and \$1,198,143, respectively.

Note 13 - 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 \$21,327 and \$21,000 of legal fees for the years ended December 31, 2011 and 2010, respectively.

Note 14 - 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, 2011, totaled \$181,500.

Supplementary Information

Ann Arbor SPARK and Affiliates
Schedule of Michigan Pre-Seed Capital Fund Portfolio Investments
December 31, 2011 and 2010

	2011		2010	
	Cost	Valuation	Cost	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	122,550	250,000	125,000
Accord Biomaterial	250,000	307,389	250,000	307,389
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
Axenix Dental	250,000	269,277	250,000	269,277
Epsilon/Ultrasound Medical Devices	50,000	382,190	50,000	382,190
Intervention Insights	250,000	255,833	250,000	255,833
Current Motor Co, LLC	250,000	256,430	-	-
Tangent Medical Tech	250,000	280,767	-	-
	<u>\$ 2,750,000</u>	<u>\$ 3,513,884</u>	<u>\$ 2,250,000</u>	<u>\$ 2,979,137</u>
	2011		2010	
	Cost	Valuation	Cost	Valuation
Common Stock:				
XG Sciences Inc.	\$ 250,000	\$ 725,140	\$ 250,000	\$ 725,140
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
Biotechix, LLC	250,000	250,000	250,000	250,000
Innovative Surgical Solutions, LLC	250,000	250,000	250,000	250,000
Inventure Enterprises, Inc	250,000	250,000	250,000	250,000
Arbor Plastics	250,000	250,000	-	-
Xtrapickup Corp	200,000	200,000	-	-
Law Enforcement	250,000	250,000	-	-
Estrakon, Inc	250,000	250,000	-	-
Ix Innovations, LLC	125,000	125,000	-	-
	<u>\$ 2,617,499</u>	<u>\$ 3,092,639</u>	<u>\$ 1,542,499</u>	<u>\$ 2,017,639</u>
	2011		2010	
	Interest Rate	Cost	Interest Rate	Cost
Convertible Promissory Notes:				
Parking Carma	8.00%	\$ 250,000	8.00%	\$ 250,000
Phrixus Pharmaceuticals	8.00%	100,000	8.00%	100,000
RazorThroat	8.00%	250,000	8.00%	250,000
Cielo MedSolutions	-	-	12.00%	250,000
JADI Inc.	8.00%	250,000	8.00%	250,000
ERT Systems	15.00%	126,000	15.00%	126,000
Emliem	10.00%	250,000	10.00%	250,000
Global Energy	8.00%	250,000	8.00%	250,000
Afid Therapeutics	8.25%	200,000	8.25%	200,000
Armuna Bioscience	8.00%	200,000	8.00%	200,000
Creative Byline	7.00%	180,000	7.00%	180,000
White Pine Systems	6.25%	225,000	6.25%	225,000
OcuSciences, Inc.	10.00%	250,000	10.00%	250,000
3D Biomatrix	8.00%	250,000	8.00%	250,000
Mandy & Pandey	10.00%	244,000	10.00%	244,000
Algal Scientific	8.00%	180,000	8.00%	180,000
RealBio Technology	10.00%	250,000	10.00%	250,000
NextCAT, Inc.	8.00%	300,000	8.00%	300,000
Info Ready Corporation	8.00%	250,000	8.00%	250,000
InPore Technologies, Inc.	8.00%	100,000	8.00%	100,000
Downstream, LLC	-	-	8.00%	100,000
Tangent Medical Tech	-	-	12.00%	250,000
InPore Technologies, Inc.	8.00%	150,000	8.00%	150,000
Current Motor Co, LLC	-	-	6.00%	250,000
Armuna BioScience	8.00%	250,000	8.00%	250,000
Advanced Battery Concepts, LLC	8.00%	250,000	8.00%	250,000
Retrosense Therapy	8.00%	250,000	6.00%	250,000
Reveal Design	10.00%	250,000	-	-
ArborWind, LLC	8.00%	250,000	-	-
Practical EHR Solutions	8.00%	250,000	-	-
Seedus LLC aka Syzygy	8.00%	100,000	-	-
Clean Emission	7.00%	210,000	-	-
		<u>6,065,000</u>		<u>5,605,000</u>
Accrued unpaid interest earned		<u>1,078,536</u>		<u>735,615</u>
		<u>\$ 7,143,536</u>		<u>\$ 6,340,615</u>
Total		<u>\$ 12,511,035</u>		<u>\$ 10,133,114</u>
		<u>\$ 13,417,844</u>		<u>\$ 11,108,643</u>

Ann Arbor SPARK and Affiliates
Schedule of Micro Loans
December 31, 2011 and 2010

	Interest Rate	2011		Interest Rate	2010	
		Cost	Valuation		Cost	Valuation
Micro Loans:						
Allinova	12%	\$ 10,000	\$ 10,000	12%	\$ 10,000	\$ 10,000
MemCatch	-	-	-	12%	25,000	25,000
ProcuIt, Inc.	12%	30,000	30,000	12%	30,000	30,000
The Whole Brain Group	12%	25,000	25,000	12%	50,000	50,000
New Eagle	12%	39,000	39,000	12%	39,000	39,000
Advanced Battery Concepts	12%	50,000	50,000	12%	50,000	50,000
BeholzTech, Inc.	12%	40,000	40,000	12%	40,000	40,000
CTC Holdings	12%	45,000	45,000	12%	45,000	45,000
Diesel Reformer	12%	50,000	50,000	12%	50,000	50,000
Motor City Wipers	12%	50,000	50,000	12%	50,000	50,000
RealBio Technology, Inc.	12%	37,500	37,500	12%	37,500	37,500
Research Essential Services	-	-	-	12%	50,000	50,000
Solarflex	12%	35,000	35,000	12%	35,000	35,000
FreeStride Therapeutics, Inc.	12%	50,000	50,000	12%	50,000	50,000
Energy Management Devices	12%	50,000	50,000	12%	50,000	50,000
Local Orbit	12%	10,000	10,000	12%	10,000	10,000
Buycentives	12%	35,000	35,000	12%	35,000	35,000
AviCenna Medical	12%	20,000	20,000	12%	20,000	20,000
Cimple Integrations	12%	50,000	50,000	12%	50,000	50,000
Shepherd Intelligent Systems	12%	35,000	35,000	12%	35,000	35,000
Ix Innovations	12%	35,000	35,000	12%	35,000	35,000
Current Motor	12%	50,000	50,000	12%	50,000	50,000
CYJ Enterprises	12%	30,000	30,000	12%	30,000	30,000
TRIG Tires & Wheels	-	-	-	12%	50,000	50,000
LED Optical Solutions	12%	50,000	50,000	12%	50,000	50,000
Inventure Enterprises	12%	46,000	46,000	12%	46,000	46,000
ProcuIt, Inc.	12%	20,000	20,000	12%	20,000	20,000
Waste Waterheat Transfer	12%	25,000	25,000	12%	25,000	25,000
Blaze Medical Devices	12%	42,000	42,000	12%	42,000	42,000
Ellison Corporation	12%	40,000	40,000	12%	40,000	40,000
Akervall Technologies	-	-	-	12%	15,000	15,000
Terra-Telesis	12%	50,000	50,000	12%	50,000	50,000
Digital Knowledge Corporation	12%	29,000	29,000	12%	29,000	29,000
Road to Road, LLC	12%	25,000	25,000	12%	25,000	25,000
Local Orbit, LLC	12%	40,000	40,000	12%	40,000	40,000
Detroit Electric	12%	50,000	50,000	12%	50,000	50,000
Ergun Technologies	12%	50,000	50,000	12%	50,000	50,000
MyBandStock Corporation	-	-	-	12%	45,000	45,000
GreenSand Corporation	12%	50,000	50,000	12%	50,000	50,000
Applied Computer Technologies	12%	15,000	15,000	12%	15,000	15,000
Family Mint, Inc.	12%	50,000	50,000	12%	50,000	50,000
Shepherd Intelligent Systems	12%	45,000	45,000	12%	45,000	45,000
Fusion Coolant Systems	12%	50,000	50,000	12%	50,000	50,000
Auto Harvest Foundation	12%	25,000	25,000	12%	25,000	25,000
Ix Innovations	12%	15,000	15,000	-	-	-
Therapy Charts	12%	47,000	47,000	-	-	-
BuyCentives	12%	25,000	25,000	-	-	-
OpenWorld Energy	12%	25,000	25,000	-	-	-
Free Stride Therapeutics	12%	28,000	28,000	-	-	-
CareCheq	12%	10,237	10,237	-	-	-
Reveal Design Automation	12%	45,000	45,000	-	-	-
My Repair Facts	12%	15,000	15,000	-	-	-
CareCheq #2	12%	9,224	9,224	-	-	-
GeLo	12%	15,000	15,000	-	-	-
		1,712,961	1,712,961		1,688,500	1,688,500
Accrued unpaid interest earned		336,970	168,485		166,702	83,350
		<u>\$ 2,049,931</u>	<u>\$ 1,881,446</u>		<u>\$ 1,855,202</u>	<u>\$ 1,771,850</u>

Ann Arbor SPARK and Affiliates
Combining Statement of Financial Position
December 31, 2011

	Ann Arbor Spark	Ann Arbor SPARK Foundation	Michigan Life Science and Innovation Center LLC	Eliminations	Total
Assets					
Current Assets					
Cash	\$ 416,020	\$ 528,054	\$ 11,485	\$ -	\$ 955,559
Restricted Cash	2,508,675	-	-	-	2,508,675
Accounts receivable, net	238,611	19,895	153,907	(57,665)	354,748
Prepaid expenses	18,180	-	-	-	18,180
Unconditional promises to give, net	-	9,000	-	-	9,000
Total current assets	3,181,486	556,949	165,392	(57,665)	3,846,162
Property and equipment, net	67,325	-	3,397,847	-	3,465,172
Due from (to)	195,000	37,664	(232,664)	-	-
Investments					
Michigan Pre-Seed Capital Fund Portfolio Investments	13,417,844	-	-	-	13,417,844
Micro loans	1,881,446	-	-	-	1,881,446
Total investments	15,299,290	-	-	-	15,299,290
Other Assets					
Deposits	17,000	-	-	-	17,000
Prepaid insurance	-	-	28,255	-	28,255
Total other assets	17,000	-	28,255	-	45,255
Total assets	\$ 18,760,101	\$ 594,613	\$ 3,358,830	\$ (57,665)	\$ 22,655,879
Liabilities and Net Assets					
Current Liabilities					
Lines of credit	\$ -	\$ -	550,000	\$ -	\$ 550,000
Accounts payable	146,809	344,779	389,942	(57,665)	823,865
Accrued liabilities	103,641	-	32,420	-	136,061
Note payable	-	51,769	-	-	51,769
Deferred revenue	2,048,482	-	-	-	2,048,482
Total current liabilities	2,298,932	396,548	972,362	(57,665)	3,610,177
Note payable, net of current portion	-	151,912	-	-	151,912
Net assets					
Unrestricted	16,461,169	46,153	2,386,468	-	18,893,790
Total liabilities and net assets	\$ 18,760,101	\$ 594,613	\$ 3,358,830	\$ (57,665)	\$ 22,655,879

Ann Arbor SPARK and Affiliates
Combining Statement of Activities
For the Year Ended December 31, 2011

	Ann Arbor SPARK	Ann Arbor SPARK Foundation	Michigan Life Science and Innovation Center LLC	Eliminations	Total
Revenues and Support					
Program service fee revenue	\$ 2,037,632	\$ 600,000	\$ 100,000	\$ (229,000)	\$ 2,508,632
Accelerator grants and revenue	1,164,082	-	-	-	1,164,082
LDFA revenue	387,888	-	-	-	387,888
Municipal service contracts	273,167	37,013	994,434	(86,497)	1,218,117
Facility revenue	286,955	-	-	-	286,955
Portfolio income (loss)	4,200	-	-	-	4,200
Interest income					
Total revenue	4,153,924	637,013	1,094,434	(315,497)	5,569,874
Public Support					
Contributions	669,800	676,150	3,557	-	1,349,507
In-kind	40,000	-	-	-	40,000
Total support	709,800	676,150	3,557	-	1,389,507
Total revenue and support	4,863,724	1,313,163	1,097,991	(315,497)	6,959,381
Expenses					
Program services	2,707,257	1,457,133	1,451,622	(315,497)	5,300,515
Supporting services					
Management and general	513,453	-	-	-	513,453
Fundraising	48,746	-	-	-	48,746
Total supporting services	562,199	-	-	-	562,199
Total expenses	3,269,456	1,457,133	1,451,622	(315,497)	5,862,714
Change in net assets	1,594,268	(143,970)	(353,631)	-	1,096,667
Net assets - beginning of year	14,866,901	190,123	2,740,099	-	17,797,123
Net assets - end of year	\$ 16,461,169	\$ 46,153	\$ 2,386,468	\$ -	\$ 18,893,790

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