ANN ARBOR SPARK and
ANN ARBOR SPARK FOUNDATION

FINANCIAL REPORT

For the Years Ended December 31, 2007 and 2006

ANN ARBOR SPARK and
ANN ARBOR SPARK FOUNDATION

CONTENTS

WGD
Wright Griffin Davis and Co.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 22, 2008

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

We have audited the accompanying consolidated statements of financial position of Ann Arbor SPARK and Ann Arbor SPARK Foundation (collectively, "SPARK") as of December 31, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of SPARK's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As discussed in Note 1 to the financial statements, the statements of activities and cash flows for the year ended December 31, 2006 present the combined activity of entities merging under the pooling of interests method beginning from the merger date rather than from the beginning of the period presented. The effect of this departure from accounting principles generally accepted in the United States of America on the accompanying consolidated financial statements has not been determined.

In our opinion, except for the effects of the presentation discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor SPARK and Ann Arbor SPARK Foundation as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Wright Griffin Davis and Co.

WRIGHT GRIFFIN DAVIS AND CO., PLLC

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2007 and 2006

	2007	2006
CURRENT ASSETS		
Cash	$ 1,926,408	$ 419,245
Accounts receivable		
Municipal service contracts	17,888	23,075
Other, net of allowance	255,386	95,415
Deposits	22,000	-
Prepaid expenses	11,585	-
Unconditional promises to give, current, net of allowance	37,900	311,500
Total current assets	2,271,167	849,235
PROPERTY AND EQUIPMENT, less accumulated depreciation	745,814	1,077,488
OTHER ASSETS		
Michigan Pre-Seed Capital Fund portfolio investments:		
Preferred stock	1,414,380	-
Convertible promissory notes	3,285,329	-
Unconditional promises to give, non-current	19,756	68,220
Total other assets	4,719,465	68,220
TOTAL ASSETS	$ 7,736,446	$ 1,994,943
CURRENT LIABILITIES		
Line of credit	$ 50,923	$ -
Accounts payable	67,822	39,337
Accrued liabilities	261,556	157,819
Note payable in less than one year, non-interest bearing	64,286	-
Deferred revenue	1,688,750	8,333
Total current liabilities	2,133,337	205,489
NET ASSETS		
Unrestricted	5,558,353	1,545,954
Temporarily restricted	44,756	243,500
Total net assets	5,603,109	1,789,454
TOTAL LIABILITIES AND NET ASSETS	$ 7,736,446	$ 1,994,943

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

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2007 and 2006

	Unrestricted	Temporarily Restricted	2007 Total
REVENUE AND SUPPORT			
Revenue			
Accelerator grants and revenue	$ 6,056,232		$ 6,056,232
Municipal service contracts	364,938		364,938
Facility revenue	265,618		265,618
Interest income	53,475		53,475
Total revenue	6,740,263		6,740,263
Support			
Contributions	492,066	$ 1,536	493,602
Donated property and equipment	-	-	-
Net assets released from restriction	200,280	(200,280)	-
Total support	692,346	(198,744)	493,602
Total revenue and support	7,432,609	(198,744)	7,233,865
OPERATING EXPENSES			
Program services	2,780,397	-	2,780,397
Supporting services			
Management and general	937,974	-	937,974
Fund-raising	94,548	-	94,548
Total supporting services	1,032,522	-	1,032,522
Total operating expenses	3,812,919	-	3,812,919
EXCESS (DEFICIT) OF REVENUE AND SUPPORT OVER OPERATING EXPENSES	3,619,690	(198,744)	3,420,946
PORTFOLIO INVESTMENT INCOME	392,709	-	392,709
CHANGE IN NET ASSETS	4,012,399	(198,744)	3,813,655
NET ASSETS, beginning of period	1,545,954	243,500	1,789,454
ADJUSTMENT FOR NET ASSETS OF NEWLY-MERGED ENTITY AS OF AUGUST 8, 2006 (Note 1)	-	-	-
NET ASSETS, end of period	$ 5,558,353	$ 44,756	$ 5,603,109

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

Unrestricted	Temporarily Restricted	2006 Total
$ 412,354		$ 412.354
199,200		199,200
28,948		28,948
5.189		5.189
645,691		645,691
376,388	$ 8,743	385,131
1,074,625	-	1,074,625
278,918	(278,918)	-
1,729,931	(270,175)	1,459,756
2,375,622	(270,175)	2,105,447
1,023,063	-	1,023,063
387,112	-	387,112
60,915	-	60,915
448,027	-	448,027
1,471,090	-	1,471,090
904,532	(270,175)	634,357
-	-	-
904,532	(270,175)	634,357
343,075	129,198	472,273
298,347	384,477	682,824
$ 1,545,954	$ 243,500	$ 1,789,454

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2007 and 2006

	2007				
		Supporting Services			
	Program	Management and General	Fund Raising	Subtotal	Total
FUNCTIONAL EXPENSES					
Personnel expenses	$ 846,221	$ 311,828	$ 94,548	$ 406,376	$ 1,252,597
Professional services	999,952	224,119	-	224,119	1,224,071
Marketing	292,809	6,523	-	6,523	299,332
Operating expenses	283,207	347,907	-	347,907	631,114
Depreciation expense	358,208	47,597	-	47,597	405,805
	$ 2,780,397	$ 937,974	$ 94,548	$ 1,032,522	$ 3,812,919

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

2006									
		Supporting Services							
	Program		Management and General		Fund Raising		Subtotal		Total
$	476,571	$	190,476	$	60,915	$	251,391	$	727,962
	184,849		44,531		-		44,531		229,380
	133,635		2,878		-		2,878		136,513
	104,171		129,592		-		129,592		233,763
	123,837		19,635		-		19,635		143,472
$	1,023,063	$	387,112	$	60,915	$	448,027	$	1,471,090

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,813,655	$ 634,357
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized gain on portfolio investments	(376,954)	-
Accrued interest converted to preferred stock	(15,755)	-
Depreciation	405,805	143,472
Donated property and equipment	-	(1,074,625)
(Increase) decrease in accounts receivable	(154,784)	71,068
Decrease in unconditional promises to give	322,064	133,955
(Increase) decrease in other current assets	(33,586)	8,479
Increase (decrease) in accounts payable	28,485	(16,478)
Increase in other current liabilities	103,738	122,296
Increase in deferred revenue	1,680,417	8,333
Net cash provided by operating activities	5,773,085	30,857
CASH FLOWS FROM INVESTING ACTIVITIES		
Beginning balance of cash of newly-merged entity	-	130,941
Purchase of preferred stock	(750,000)	-
Purchase of convertible promissory notes	(3,557,000)	-
Purchase of property and equipment	(74,131)	(3,035)
Net cash (used in) provided by investing activities	(4,381,131)	127,906
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	75,000	-
Payments on note payable	(10,714)	-
Net activity on line of credit	50,923	(40,836)
Net cash provided by (used in) financing activities	115,209	(40,836)
NET INCREASE IN CASH	1,507,163	117,927
CASH, beginning of year	419,245	301,318
CASH, end of year	$ 1,926,408	$ 419,245
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 674	$ -
Cash interest received during the year	$ 37,720	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Donated property and equipment	$ -	$ 1,074,625
Net non-cash assets of newly-merged entity	$ -	$ 551,883
Conversion of promissory note and accrued interest into preferred stock in portfolio company	$ 393,695	$ -

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

1. Summary of Significant Accounting Policies

a) Reporting Entity

Ann Arbor SPARK was formerly known as the Washtenaw Development Council. Effective August 8, 2006, the Washtenaw Development Council merged with another nonprofit corporation, Ann Arbor SPARK. The former Washtenaw Development Council is the surviving corporation and assumed all assets, liabilities, contracts and programs of Ann Arbor SPARK. The name of the surviving corporation was changed to Ann Arbor SPARK. The Washtenaw Development Council Foundation is consolidated with the Washtenaw Development Council. The name of the Washtenaw Development Council Foundation was changed to the Ann Arbor SPARK Foundation ("AASF").

The merger of Ann Arbor SPARK into the Washtenaw Development Council was accounted for as a pooling of interests. Accordingly, the merged entity was created by combining the assets and liabilities of the separate entities at the date the merger was consummated and the net assets of the merged entity were credited to the net assets of the surviving entity. No consideration was exchanged in the merger.

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

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

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

b) Basis of Presentation

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

1. Summary of Significant Accounting Policies (continued)

b) Basis of Presentation (continued)

SPARK's net assets are categorized and reported as follows:

- **Unrestricted Net Assets**

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

- **Temporarily Restricted**

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

- **Permanently Restricted**

  These net assets would include the principal amount accepted by Ann Arbor SPARK and the AASF with the donor's stipulation that the principal be maintained in perpetuity. Ann Arbor SPARK and the AASF do not have any permanently restricted funds as of December 31, 2007 and 2006.

c) Principles of Combination

The 2007 and 2006 consolidated financial statements include the financial information of Ann Arbor SPARK and the Ann Arbor SPARK Foundation.

d) Cash and Cash Equivalents

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

e) Revenue and Support Recognition

Under its Business Accelerator program, SPARK provides funding for consulting services and other development-stage costs to start-up companies in the greater Ann Arbor region. Revenue is recognized when the companies submit in writing that deliverables have been satisfactorily achieved. SPARK provides its funding under agreements which typically stipulate that the companies will repay SPARK the amount of funding within 12 months from the date of agreement and that repayment will include simple interest at prime as reported in the Wall Street Journal on the date of agreement. If a company is unable to raise funds or generate adequate cash flow to repay their obligation within 12 months, SPARK will negotiate a revised payment plan or waive the loan obligation. If a company raises a round of funding and the investors, the company and SPARK agree, the outstanding obligation and any accrued interest will convert to equity on substantially the same terms as the investors in the new round of financing.

1. Summary of Significant Accounting Policies (continued)

e) Revenue and Support Recognition (continued)

Support

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

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

f) Accounts Receivable

Accounts receivable consist of amounts that have been expended for intended grant purposes and not yet reimbursed by the granting agency and amounts 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 $221,617 and $238,246 at December 31, 2007 and 2006, respectively.

g) Property and Equipment

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

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

1. Summary of Significant Accounting Policies (continued)

h) Investments

Michigan Pre-Seed Capital Fund

In January 2007, as part of the State of Michigan's 21st Century Jobs Fund Initiative, SPARK was provided a grant in the amount of $8,000,000 by The Strategic Economic Investment and Commercialization Board ("SEIC Board") in order to establish and manage a Michigan Pre-Seed Capital Fund (the "Fund"). The purpose of the Fund is to provide funding to high-tech start-up companies within the State of Michigan at their earliest stages. The grant is payable in five installments through December 31, 2008. Payment of each installment is contingent upon SPARK achieving certain milestones and materially complying with requirements as defined in the agreement with the SEIC Board. As of December 31, 2007, SPARK had received $6,398,000 in payments under the grant and made expenditures and investments in the amount of $5,032,000.

Valuation of Michigan Pre-Seed Capital Fund investments

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

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

Interest on convertible promissory notes is recognized when earned. Collectability is evaluated periodically by Fund management based on the circumstances of each company to which the notes relate and a corresponding reserve established for estimated uncollectible amounts.

Fair value measurement - definition and hierarchy

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

1. Summary of Significant Accounting Policies (continued)

h) Investments (continued)

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

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

- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from business to business and is affected by a wide variety of factors, including, for example, the type of business, whether the business is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Fund management in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. Fund management uses prices and inputs that are current as of the measurement date, including during periods of market dislocation In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3. See Note 5 to the consolidated financial statements for further information about SPARK's Fund investments that are accounted for at fair value.

1. Summary of Significant Accounting Policies (continued)

i) Donated Materials and Services

Donated materials which have an objective measurable basis for determining fair market value have been recorded. Donated services for which the value is clearly measurable and that SPARK would otherwise need to purchase have been recorded in the consolidated financial statements. There were no such services recorded for the years ended December 31, 2007 and 2006.

j) Expense Allocation

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

k) Advertising Costs

SPARK expenses advertising production costs as they are incurred and advertising communication costs for programs the first time the advertising takes place. Advertising costs for the years ended December 31, 2007 and 2006 were $299,332 and $136,513, respectively.

l) 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.

2. Unconditional Promises to Give

Promises to give consist of multi-year pledges received from corporate donors. The following is a schedule of promises to give as of December 31, 2007.

2008	$ 43,400
2009	25,000
Gross unconditional promises to give	68,400
Less: discounts for the time-value of money	(5,244)
allowance for uncollectible amounts	(5,500)
Unconditional promises to give, net	57,656
Less: current portion	(37,900)
Unconditional promises to give, non-current	$ 19,756

2. Unconditional Promises to Give (continued)

The following is a schedule of promises to give as of December 31, 2006.

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

SPARK recognizes promises to give that are expected to be collected within one year at their net realizable value. Promises that are expected to be collected in future years are recognized at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rate used in determining the net present value of multi-year promises to give was 3.22% at December 31, 2007 and 2006.

3. Property and Equipment

The components of property and equipment are as follows:

	2007	2006
Furniture & Fixtures	$ 108,458	$ 73,107
Office Equipment	122,764	88,485
Leasehold Improvements	47,046	42,546
Donated Equipment (MIED Program)	1,074,625	1,074,625
	1,352,893	1,278,763
Less accumulated depreciation	(607,079)	(201,275)
	$ 745,814	$ 1,077,488

Donated equipment for the MIED (Michigan Innovation Equipment Depot) Program consists of previously used laboratory equipment which SPARK leases to life science start-up companies throughout Michigan at significantly below-market rates as part of its mission to encourage the development of new businesses in Michigan. Lease arrangements vary by lessee and are typically for an average term of three years. Revenue under lease agreements for the years ended December 31, 2007 and 2006 was $1,700 and $5,021, respectively.

4. Michigan Pre-Seed Capital Fund Portfolio Investments

As of December 31, 2007, SPARK had Fund investments as follows:

	Cost	Valuation
Preferred Stock:		
Pixel Velocity, Inc.	$ 250,000	$ 664,380
Avidimer Therapeutics, Inc.	250,000	250,000
VENOMIX, Inc.	250,000	250,000
Functional Brands Company	250,000	250,000
	$1,000,000	$1,414,380

	Interest Rate	Cost	Valuation
Convertible Promissory Notes			
Parking Carma	8%	$ 250,000	$ 250,000
OTO Medicine	8.5%	107,000	107,000
SensiGen LLC	10%	250,000	250,000
EADevices, Inc.	9%	250,000	228,329
Danotek Motion Technologies, LLC	6%	100,000	100,000
MedElute	8%	250,000	250,000
Phrixus Pharmaceuticals	8%	100,000	100,000
XG Sciences, Inc.	8%	250,000	250,000
Hybra-Drive Systems, LLC	8%	250,000	250,000
Saleztrack	8%	250,000	250,000
RazorThreat	8%	250,000	250,000
Compendia Bioscience, Inc.	10%	250,000	250,000
Cielo MedSolutions	12%	250,000	250,000
Accord Biomaterial	8%	250,000	250,000
JADI, Inc.	8%	250,000	250,000
		3,307,000	3,285,329
Accrued unpaid interest earned		90,329	-
		$3,397,329	$3,285,329

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

Portfolio investment income consists of the following for the year ended December 31, 2007:

Interest earned, convertible promissory notes	$ 106,084
Unrealized gain, preferred stock	398,625
Unrealized loss, convertible promissory notes	(112,000)
	$ 392,709

5. Fair Value Disclosures

SPARK's Fund investments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS 157. See Note 1 for a discussion of SPARK's policies regarding this hierarchy. The Fund investments of SPARK are all included in 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 SPARK's Fund investments measured at fair value on a recurring basis as of December 31, 2007:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Portfolio investments in preferred stock and convertible promissory notes	$ -	$ -	$ 4,699,709	$ 4,699,709

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

	Beginning Balance	Principal Transactions: Investments	Interest Income and Unrealized Gains	Ending Balance
Portfolio investments in preferred stock and convertible promissory notes	$ -	$ 4,307,000	$ 392,709	$ 4,699,709

6. Line of Credit

SPARK has a revolving line of credit with a bank and may borrow up to $100,000 with interest at the bank's prime rate plus 1/2%. The bank's prime rate was 7.50% and 8.25% at December 31, 2007 and 2006, respectively. Payments of accrued interest are due and payable monthly. The note is collateralized by substantially all assets of SPARK. At December 31, 2007, the line of credit had an outstanding balance of $50,923. At December 31, 2006, no amounts were outstanding against the line of credit.

7. Net Assets

Temporarily restricted net assets at December 31, 2007 and 2006 consist of:

Promises to give, restricted for periods after December 31, 2007:	$ 44,756
Promises to give, restricted for periods after December 31, 2006:	$243,500

8. Defined Contribution Plans

SPARK has established a 457(b) deferred compensation plan for eligible employees of SPARK. Employees may elect to defer a certain percentage of qualified compensation through voluntary contributions to the 457(b) plan. SPARK may make discretionary contributions to the 457(b) plan as determined by the Board of Directors. SPARK did not make a contribution to the plan for the year ended December 31, 2007. SPARK contributions for the year ended December 31, 2006 were approximately $7,000.

SPARK has also established a 401(k) defined contribution plan for eligible employees who have attained the age of 21 and completed three months of service. Employees may elect to defer a certain percentage of qualified compensation through voluntary contributions to the 401(k) plan. SPARK may make discretionary contributions to the 401(k) plan as determined by the Board of Directors. Employees eligible for employer contributions must have completed 12 months of service. SPARK contributions for the years ended December 31, 2007 and 2006 were $34,203 and $10,668, respectively.

9. Commitments

Total rent paid during the years ended December 31, 2007 and 2006 was $333,412 and $91,948, respectively. SPARK leases three office facilities (referred to as "SPARK HQ", "SPARK Central", and "MITC") , an equipment warehouse, and a wet lab incubator space. The SPARK HQ facility has a lease expiring September 30, 2012 with monthly payments of $3,985 through October 1, 2008, increasing by approximately 3% each year thereafter. The SPARK Central facility has a lease expiring December 31, 2008. The MITC facility lease expired November 30, 2007, but was extended on a month-to-month basis through December 31, 2007, after which it was not renewed. 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, SPARK received a grant of $1,000,000 from the Michigan Department of Treasury to support the expenses associated with leasing existing space to run a life sciences wet lab incubator. The terms of the grant call for an initial payment of $375,000 followed by additional payments of $125,000 twice a year through June 2009. Total payments of $500,000 were received during the year ended December 31, 2007. The wet lab incubator space has a lease expiring December 30, 2010. Under this lease, SPARK receives an in-kind contribution of donated space which amounted to $173,655 for the year ended December 31, 2007.

9. Commitments (continued)

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

Year Ending	Amount
December 31, 2008	$123,176
December 31, 2009	49,537
December 31, 2010	50,951
December 31, 2011	52,422
December 31, 2012	40,158
	$316,244

10. Rental Income

SPARK subleased space in its office facilities to three organizations during 2007. Two of the leases expired in 2007 and the third expired in April 2008.

SPARK subleases space in its wet lab incubator facility to various organizations. Currently, the subleases are for one year and call for monthly payments ranging from $1,175 to $6,318.

Total rental income under all subleases included in revenue for the years ended December 31, 2007 and 2006 was $93,224 and $28,947, respectively.

11. Concentration of Credit Risk

SPARK has cash accounts at two banks. Accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At December 31, 2007, cash account balances were in excess of the Federal Deposit Insurance Corporation (FDIC) coverage limit by $1,592,468.

12. Subsequent Events

a) Small Business Administration Grant

In 2008, Ann Arbor SPARK was notified that it had been approved by the Small Business Administration to receive $282,000 to support a program for economic development in Washtenaw County. The funds are earmarked to support the SPARK East business incubator, established in 2008 in Ypsilanti, Michigan.

b) Donated Property & Equipment

In 2008, Ann Arbor SPARK is receiving additional used laboratory equipment for the benefit of the Michigan Innovation Equipment Depot (MIED) Program. The total estimated value of donated equipment is expected to be approximately $2,500,000.

12. Subsequent Events (continued)

c) Contingencies

In September 2008, a funding agency conducted an audit of SPARK's compliance with the terms of SPARK's contract with the funding agency from June 2007 through June 2008. The audit identified potential timing issues involving certain match billings, which SPARK management is working to resolve. Management believes that the effects of this audit, if any, would be immaterial to the financial statements at December 31, 2007.

WGD
Wright Griffin Davis and Co.
CERTIFIED PUBLIC ACCOUNTANTS

Rodney W. Byrne
Cynthia L. Cattran
Richard D. Hendricks
Michael F. McCarthy
Scott W. Price
Frederick I. Davis
Christopher C. Vaughan
V. Keith Ludwig

INDEPENDENT AUDITORS' REPORT ON THE SUPPLEMENTARY INFORMATION

September 22, 2008

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

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Wright Griffin Davis and Co.

WRIGHT GRIFFIN DAVIS AND CO., PLLC

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2007

	Ann Arbor SPARK	Ann Arbor SPARK Foundation	Eliminations	Total
CURRENT ASSETS				
Cash	$ 1,861,197	$ 65,211		$ 1,926,408
Accounts receivable				
Municipal service contracts	17,888	-		17,888
Other, net	255,386	-		255,386
Deposits	22,000	-		22,000
Prepaid expenses	11,585	-		11,585
Unconditional promises to give, current, net	35,400	2,500		37,900
Total current assets	2,203,456	67,711		2,271,167
PROPERTY AND EQUIPMENT, less accumulated depreciation	148,800	597,014		745,814
OTHER ASSETS				
Michigan Pre-Seed Capital Fund portfolio investments:				
Preferred stock	1,414,380	-		1,414,380
Convertible promissory notes	3,285,329	-		3,285,329
Unconditional promises to give, non-current	19,756	-		19,756
Total other assets	4,719,465	-		4,719,465
TOTAL ASSETS	$ 7,071,721	$ 664,725		$ 7,736,446
CURRENT LIABILITIES				
Line of credit	$ 50,923			$ 50,923
Accounts payable	62,819	$ 5,003		67,822
Accrued liabilities	260,306	1,250		261,556
Note payable in less than one year	64,286	-		64,286
Deferred revenue	1,688,750	-		1,688,750
Total current liabilities	2,127,084	6,253		2,133,337
NET ASSETS				
Unrestricted	4,899,881	658,472		5,558,353
Temporarily restricted	44,756	-		44,756
	4,944,637	658,472		5,603,109
TOTAL LIABILITIES AND NET ASSETS	$ 7,071,721	$ 664,725		$ 7,736,446

See Independent Auditors' Report on the Supplementary Information.

ANN ARBOR SPARK AND ANN ARBOR SPARK FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

	Ann Arbor SPARK			Ann Arbor SPARK Foundation				Total		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Eliminations	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT										
Revenue										
Accelerator grants and revenue	$ 6,056,232		$ 6,056,232					$ 6,056,232		$ 6,056,232
Municipal service contracts	364,938		364,938					364,938		364,938
Facility revenue	265,618		265,618					265,618		265,618
Interest income	53,291		53,291	$ 184		$ 184		53,475		53,475
Total revenue	6,740,079		6,740,079	184		184		6,740,263		6,740,263
Support										
Contributions	704,887	$ 1,536	706,423	57,179		57,179	$ (270,000)	492,066	$ 1,536	493,602
Net assets released from restriction	280	(280)	-	200,000	$ (200,000)	-	-	200,280	(200,280)	-
Total support	705,167	1,256	706,423	257,179	(200,000)	57,179	(270,000)	692,346	(198,744)	493,602
Total revenue and support	7,445,246	1,256	7,446,502	257,363	(200,000)	57,363	(270,000)	7,432,609	(198,744)	7,233,865
OPERATING EXPENSES										
Program services	2,407,180	-	2,407,180	643,217	-	643,217	(270,000)	2,780,397	-	2,780,397
Supporting services										
Management and general	934,091	-	934,091	3,883	-	3,883	-	937,974	-	937,974
Fund-raising	94,548	-	94,548	-	-	-	-	94,548	-	94,548
Total supporting services	1,028,639	-	1,028,639	3,883	-	3,883	-	1,032,522	-	1,032,522
Total operating expenses	3,435,819	-	3,435,819	647,100	-	647,100	(270,000)	3,812,919	-	3,812,919
EXCESS (DEFICIT) OF REVENUE AND SUPPORT OVER OPERATING EXPENSES	4,009,427	1,256	4,010,683	(389,737)	(200,000)	(589,737)	-	3,619,690	(198,744)	3,420,946
PORTFOLIO INVESTMENT INCOME	392,709	-	392,709	-	-	-	-	392,709	-	392,709
CHANGE IN NET ASSETS	4,402,136	1,256	4,403,392	(389,737)	(200,000)	(589,737)	-	4,012,399	(198,744)	3,813,655
NET ASSETS, beginning of period	497,745	43,500	541,245	1,048,209	200,000	1,248,209	-	1,545,954	243,500	1,789,454
NET ASSETS, end of period	$ 4,899,881	$ 44,756	$ 4,944,637	$ 658,472	$ -	$ 658,472	$ -	$ 5,558,353	$ 44,756	$ 5,603,109

See Independent Auditors' Report on the Supplementary Information.