Ann Arbor SPARK and Affiliate

Financial Statements

December 31, 2016
(With Summarized Comparative Information for 2015)

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YEO & YEO
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Independent Auditors' Report

Management and Board of Directors
Ann Arbor SPARK and Affiliate
Ann Arbor, MI

We have audited the accompanying consolidated financial statements of Ann Arbor SPARK and Affiliate which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ann Arbor SPARK and Affiliate as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Ann Arbor SPARK and Affiliate's December 31, 2015, consolidated financial statements, and our report dated May 9, 2016 expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2016 consolidated financial statements as a whole. The 2016 consolidating statement of financial position, consolidating statement of activities and consolidating statement of cash flows 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2016 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
April 19, 2017

Ann Arbor SPARK and Affiliate
Consolidated Statement of Financial Position
December 31, 2016
(With Summarized Comparative Information for December 31, 2015)

	2016	2015
Assets		
Current assets		
Cash	**$ 902,299**	$ 725,904
Restricted cash	**2,574,860**	1,943,903
Accounts receivable, net	**296,567**	245,491
Prepaid expenses	**113,697**	90,331
Total current assets	**3,887,423**	3,005,629
Property and equipment, net	**338,845**	438,504
Investments		
Michigan Pre-Seed Capital Fund Portfolio Investments, net	**8,462,452**	10,363,217
Micro loans, net	**1,229,958**	1,944,766
Total investments	**9,692,410**	12,307,983
Other assets		
Deposits	**85,819**	48,623
Total assets	**$ 14,004,497**	$ 15,800,739
Liabilities and Net Assets		
Current liabilities		
Accounts payable	**$ 157,426**	$ 170,632
Accrued liabilities	**312,852**	247,987
Deferred revenue	**224,212**	90,290
Total current liabilities	**694,490**	508,909
Net assets		
Unrestricted net assets	**13,310,007**	15,291,830
Total liabilities and net assets	**$ 14,004,497**	$ 15,800,739

Ann Arbor SPARK and Affiliate
Consolidated Statement of Activities
For the Year Ended December 31, 2016
(With Summarized Comparative Information for December 31, 2015)

	2016	2015
Program Service Fee Revenues and Public Support		
Program service fee revenue		
Accelerator grants and revenue	**$ 914,494**	$ 898,144
Local Development Finance Authority revenue	**2,218,466**	2,371,057
Municipal service contracts	**882,264**	829,844
Facility revenue	**508,796**	271,570
Total program service fee revenue	**4,524,020**	4,370,615
Public support		
Contributions	**976,700**	959,750
In-kind	**538,959**	476,130
Total public support	**1,515,659**	1,435,880
Total program service fee revenues and public support	**6,039,679**	5,806,495
Expenses		
Program services	**5,466,216**	4,446,465
Supporting services		
Management and general	**776,911**	1,152,141
Fundraising	**142,856**	116,034
Total expenses	**6,385,983**	5,714,640
Other Income (Expense)		
Interest income	**11,444**	2,930
Interest earned on investments	**366,571**	626,847
Realized gain on investments	**1,412,161**	198,321
Realized loss on investments	**(3,498,328)**	(3,303,270)
Unrealized gain (loss) on investments based on company performance	**145,822**	(474,188)
Valuation allowance on investments based on projected performance	**(71,876)**	(1,322,309)
Loss on sale of property and equipment	**(1,313)**	(2,325)
Total other income (expense)	**(1,635,519)**	(4,273,994)
Change in net assets	**(1,981,823)**	(4,182,139)
Net assets - beginning of year	**15,291,830**	19,473,969
Net assets - end of year	**$ 13,310,007**	$ 15,291,830

See Accompanying Notes to the Consolidated Financial Statements

Ann Arbor SPARK and Affiliate
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2016
(With Summarized Comparative Information for December 31, 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	$ (1,981,823)	$ (4,182,139)
Items not requiring cash		
Depreciation	120,066	74,575
Unrealized interest, (gains) and losses on investments, net	1,573,774	3,243,452
Bad debt expense	5,000	-
Loss on sale of property and equipment	1,313	2,325
Valuation allowance	71,876	1,322,309
Changes in operating assets and liabilities		
Restricted cash	(630,957)	(775,151)
Accounts receivable	(56,076)	35,634
Prepaid expenses	(23,366)	22,361
Deposits	(37,196)	(33,623)
Accounts payable	(13,206)	38,572
Accrued liabilities	64,865	74,885
Deferred revenue	133,922	52,860
Net cash used by operating activities	(771,808)	(123,940)
Cash flows from investing activities		
Redemption of convertible promissory notes	1,286,829	585,989
Redemption of micro loans	88,094	333,957
Purchase of micro loans	(155,000)	(105,000)
Purchase of convertible promissory notes	(250,000)	(15,894)
Purchase of property and equipment	(21,720)	(390,690)
Net cash provided by investing activities	948,203	408,362
Change in cash	176,395	284,422
Cash - beginning of year	725,904	441,482
Cash - end of year	$ 902,299	$ 725,904

See Accompanying Notes to the Consolidated Financial Statements

Ann Arbor SPARK and Affiliate
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Summarized Comparative Information for December 31, 2015)

		Supporting Services				
	Program	Management and General	Fund-Raising	Subtotal	**2016**	2015
Personnel expenses	$ 2,078,257	$ 249,460	$ 132,362	$ 381,822	**$ 2,460,079**	$ 2,183,657
Professional expenses	1,306,645	133,234	-	133,234	**1,439,879**	1,376,821
Operating expenses	1,605,720	331,511	4,902	336,413	**1,942,133**	1,644,473
Marketing expenses	370,592	47,642	5,592	53,234	**423,826**	435,114
Depreciation expense	105,002	15,064	-	15,064	**120,066**	74,575
	$ 5,466,216	$ 776,911	$ 142,856	$ 919,767	**$ 6,385,983**	$ 5,714,640

See Accompanying Notes to the Consolidated Financial Statements

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.

SPARK and the Foundation are organized to operate a centralized cooperative, publicly and privately supported economic development program that attracts, expands and retains jobs within Washtenaw County and Livingston 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
Business accelerator services
Business development – local business expansion, retention & referrals
Business attraction
Talent Connections

SPARK has both an economic interest and control that exist through a majority voting interest in the Foundation's board. As a result, SPARK is required to consolidate 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 on an ongoing basis.

Note 2 - Summary of Significant Accounting Policies

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.

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 consolidated statement of activities as net assets released from restrictions.

Permanently Restricted
These net assets would include the principal amount accepted by the Organization with the donor's stipulation that the principal be maintained in perpetuity.

The Organization only has unrestricted net assets.

Principles of Consolidation
The 2016 consolidated financial statements include the financial information of SPARK and the Foundation. 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.

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

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

Donated Materials and Services
Donated services for which the value is clearly measurable and that the Organization would otherwise need to purchase have been recorded in the consolidated financial statements.

Cash and Restricted Cash
The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash. Restricted cash is Pre-Seed and Microloan cash that is required to be held in a separate account.

Accounts Receivable
Accounts receivable consist of amounts that have been expended for intended grant purposes and not yet reimbursed by the granting agency, business incubator rent payments due and donations not yet paid. Grant and other receivables are valued at what is believed to be collected, an allowance of $9,521 and $4,122 has been recorded for the year ended December 31, 2016 and 2015, respectively.

Prepaid Expenses
Prepaid expenses consist of amounts paid in advance for future expenses. All amounts are expected to be utilized.

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, 2016, the Organization had received $8,000,000 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 grant agreement is July 15, 2009 through June 30, 2012. As of December 31, 2016, the Organization had received $6,800,000 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 $10,170,000 for the same purpose. The term of this agreement is October 1, 2011 through December 31, 2014. The grant had an initial payment of $2,150,000 and additional payments were received upon the Organization achieving certain milestones and materially complying with requirements as defined in the agreement with the MSF. As of December 31, 2016, the Organization had received payments of $10,128,000 and made expenditures and investments in the amount of $10,128,000.

Microloans
The Michigan Microloan Fund Program currently includes three distinct microloan funds. Through the Michigan Microloan Fund Program, $264,000 is available to start-ups via the Eastern Washtenaw Microloan Fund and $1,050,000 is available for companies located in the City of Ann Arbor via funding from the Ann Arbor/Ypsilanti Local Development Financing Authority (LDFA). Included above in the Michigan Pre-Seed Capital Fund amounts $1,000,000 of the 2009 funds and $1,734,800 of the 2011 funds are designated for microloans.

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 microloans 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 on microloans originated by either program noted above was $583,382 and $645,619 at December 31, 2016 and 2015, respectively.

The valuation allowance on the microloans was $937,127 and $925,047 at December 31, 2016 and 2015, respectively. The allowance is based on historical collection rates of the microloans over the life of the program.

Valuation of Michigan Pre-Seed Capital Fund Investments and Microloans

Investments are recorded at fair value as determined in good faith by 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 management; and such other factors as the 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 and performance of such companies vary dramatically over time and performance has a significant effect on valuation. 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 management based on the circumstances of each company to which the notes relate and a corresponding reserve established for estimated uncollectible amounts.

Accrued interest earned from convertible notes was $996,457 and $1,690,146 at December 31, 2016 and 2015, respectively.

The valuation allowance on the investments was $6,361,601 and $6,301,805 at December 31, 2016 and 2015, respectively. The allowance is based on historical collection rates of the investments over the life of the program.

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

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

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

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

In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is market-based measure liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Organization’s own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. 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 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 10 years.

Deferred Revenue
Deferred revenue represents unearned program service revenues generated from the advance payments received for the Michigan Pre-Seed Capital Fund, Washtenaw County Incentive Program and unearned rental income. 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 and other common costs are allocated among program and supporting service activities on the basis of planned resource usage established by management.

Marketing Costs
The Organization expenses marketing production costs as they are incurred and marketing communication costs for programs the first time the marketing takes place. Marketing costs for the years ended December 31, 2016 and 2015, were $909,951 and $911,244, respectively. These totals include in-kind donations of advertising.

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, 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, 2015 in the accompanying financial statements are included to provide a basis for comparison with 2016 and present summarized totals only. Accordingly, the 2015 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 consolidated financial statements for the year ended December 31, 2015, 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.

Subsequent Events
Management has evaluated subsequent events through April 19, 2017, which is the date the financial statements were available to be issued.

Note 3 - Concentrations and Credit Risks

The Organization has cash accounts at various local banks. Accounts at these financial institutions are insured by the FDIC up to $250,000 per institution. At December 31, 2016, cash account balances that were in excess of the FDIC coverage limit were $590,687.

The Organization’s investments are all in start-up companies located in the State of Michigan.

Note 4 - 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, states at fair value, consist of the following at December 31, 2016 and 2015, respectively:

	2016	2015
Preferred stock	$ 7,255,645	$ 7,598,130
Common stock	4,684,452	4,995,872
Convertible promissory notes and accrued interest	2,883,956	4,071,020
Valuation allowance on investments based on projected performance	(6,361,601)	(6,301,805)
	$ 8,462,452	$ 10,363,217

Portfolio investment income (loss) consists of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Interest earned, convertible promissory notes	$ 177,000	$ 359,068
Interest earned, micro loans	189,571	267,779
Realized gain on prior investments	-	289,579
Realized loss, micro loans	(851,955)	(1,102,099)
Unrealized loss, micro loans	(107,250)	-
Realized gain, preferred stock	1,233,712	185,043
Realized loss, preferred stock	(352,902)	(307,819)
Unrealized gain, preferred stock	316,170	552,385
Unrealized loss, preferred stock	(262,967)	(695,694)
Realized gain, common stock	178,449	-
Realized loss, common stock	(814,738)	(400,000)
Unrealized gain, common stock	324,869	590,948
Unrealized loss, common stock	-	(242,846)
Realized gain, convertible promissory notes	-	13,278
Realized loss, convertible promissory notes	(1,478,733)	(1,782,931)
Unrealized gain, convertible promissory notes	-	125,000
Unrealized loss, convertible promissory notes	(125,000)	(803,981)
Change in valuation allowance on investments based on projected performance	(71,876)	(1,322,309)
Total portfolio investment income (loss)	$ (1,645,650)	$ (4,274,599)

Note 5 - 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, 2016 and 2015:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
December 31, 2016				
Michigan Pre-Seed Capital Fund Portfolio Investments, net	$ -	$ -	$ 8,462,452	$ 8,462,452
Micro loans, net	-	-	1,229,958	1,229,958
Total	$ -	$ -	$ 9,692,410	$ 9,692,410

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
December 31, 2015				
Michigan Pre-Seed Capital Fund Portfolio Investments, net	$ -	$ -	$ 10,363,217	$ 10,363,217
Micro loans, net	-	-	1,944,766	1,944,766
Total	$ -	$ -	$ 12,307,983	$ 12,307,983

Total assets at fair value classified within level 3 were $9,692,410 and $12,307,983, as of December 31, 2016 and 2015, which consists of Michigan Pre-Seed Capital Fund Portfolio Investments and Microloans. Such amounts were approximately 69% and 78% of total assets on the Organization's consolidated statement of activities available as of December 31, 2016 and 2015, respectively. Michigan Pre-Seed Capital Fund Portfolio Investments and Microloans are recorded at fair value as determined in good faith by the investment committee. 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 the investment committee; and such other factors as the committee 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. 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.

Quantitative Information about Level 3 Fair Value Measurements

	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range (weighted Average)
Michigan Pre-Seed Capital Fund Portfolio Investments, net and Micro loans, net	$ 9,692,410	Valuation Committee Assessments	Recent stock issuance by entity	50%
			Economic status of entity	50%

Quantitative Information about Level 3 Fair Value Measurements

	Fair Value at December 31, 2015	Valuation Technique	Unobservable Input	Range (weighted Average)
Michigan Pre-Seed Capital Fund Portfolio Investments, net and Micro loans, net	$ 12,307,983	Valuation Committee Assessments	Recent stock issuance by entity	50%
			Economic status of entity	50%

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, 2016 and 2015:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	2016	2015
Balance at January 1,	$ 12,307,983	$ 17,672,796
Invested in promissory notes	250,000	15,894
Invested in micro loans	155,000	105,000
Net investment loss	(1,573,774)	(3,243,452)
Cash received	(1,374,923)	(919,946)
Valuation allowance	(71,876)	(1,322,309)
Balance at December 31,	$ 9,692,410	$ 12,307,983

Note 6 - Property and Equipment

The components of property and equipment are as follows at December 31, 2016 and 2015:

	2016	2015
Furniture and fixtures	$ 345,578	$ 334,939
Office equipment	210,988	210,185
Leasehold improvements	368,606	368,606
	925,172	913,730
Less accumulated depreciation	(586,327)	(475,226)
	$ 338,845	$ 438,504

Depreciation expense was $120,066 and $74,575 for the years ended December 31, 2016 and 2015, respectively.

Note 7 - Lines of Credit

SPARK has a revolving line of credit with a bank and may borrow up to $400,000 with interest at the bank's prime rate (3.75% at December 31, 2016). Interest accrues and is due monthly. The note is collateralized by substantially all assets of SPARK. This line of credit expires June 5, 2018. At December 31, 2016 and 2015, the line of credit outstanding was $0.

SPARK has various credit cards with a bank for employee use with a total credit limit of $177,000 and $162,000 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015 the credit amount used was $5,939 and $9,918, respectively.

Note 8 - Retirement Plan

The Organization has 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, 2016 and 2015, were $72,513 and $65,672, respectively.

The Organization made a contribution to a deferred compensation plan under an employment contract of $34,075 and $30,238 for the years ended December 31, 2016 and 2015, respectively. The funds are a prepaid asset to the Organization until the period of performance is complete.

Note 9 - Commitments

Total rent paid during the years ended December 31, 2016 and 2015 was $599,529 and $471,489, respectively. The Organization leases three office facilities (referred to as "SPARK HQ", "SPARK Central", and "SPARK East"). 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 lease expiring December 31, 2016, with monthly payments of $6,866 in the first year, increasing by approximately 2% each year thereafter. Additional space at SPARK Central facility was rented with a five year lease expiring September 30, 2018, with monthly payments starting of $6,536 in the first year and increasing by approximately 2% each year thereafter. SPARK Central expanded again in 2015 with a 5 year lease expiring July 31, 2020 with payments of $13,378 in the first year, increasing approximately 2% each year thereafter. The SPARK East facility has a 5 year lease expiring December 31, 2018, with monthly payments of $7,841.

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

For the year ending December 31,	
2017	$ 510,623
2018	521,105
2019	437,761
2020	370,960
2021	221,784
	$ 2,062,233

Note 10 - Rental Income

The Organization subleases space in SPARK Central and SPARK East to various organizations. Currently, the subleases range from month to month to 5 years. Monthly payments range from $95 to $1,500. The following is a schedule by years of future minimum rental income under the leases at December 31, 2016.

For the year ending December 31,	
2017	$ 60,658
2018	30,173
2019	5,029
	$ 95,860

Total rental income under all subleases is included in the facility revenue line on the statement of activities.

Note 11 - Related Party Transactions

The Board of Directors, Executive Committee and Finance Committee include management of various municipalities, public institutions, not for profits and for profit companies. The related organizations of these members contribute sponsorship and grant revenues to Ann Arbor SPARK. The total amounts received by Ann Arbor SPARK for the year ended December 31, 2016 and 2015 was $682,500 and $606,000 for sponsorships and $575,000 and $390,000 for municipal contracts, respectively.

A current officer of the Organization's Board of Directors is also a partner of the firm with which the Organization incurred approximately $26,193 and $67,068 of legal fees for the years ended December 31, 2016 and 2015, respectively. A current member of the Organization's Board of Directors is the CEO of the company of which certain rental expenses are incurred. For the years ended December 31, 2016 and 2015 approximately $151,277 and $134,897, respectively was paid for rental expenses. A current member of the Organization's Board of Directors is the President of the company of which certain consulting expenses are incurred for SPARK and the investment entities. For the years ended December 31, 2016 and 2015 approximately $9,800 and $43,862, respectively was paid for consulting fees.

Employees of the Organization provide services to the Michigan Angel Fund (1 & 2), Limited Liability Companies. The Michigan Angel Fund's managing member is an entity, MAF, of which the Organization has control of. Revenues are derived from unrelated grant sources specifically designated for the purpose of Michigan Angel Fund administrative expenses. Expenses related to administrative services performed for the Michigan Angel Fund were $223,735 and $221,551 for the years ended December 31, 2016 and 2015, respectively.

Note 12 – Subsequent Events

Subsequent to year end the LDFA is discontinuing the microloan program. Any return of funds received relating to the $727,211 of LDFA microloans held by the Organization at year end, will be remitted back to the LDFA. Previously, any return of funds were reinvested back into the microloan program. This event does not change the value or operations of the microloans or their effect on the financial statements.

Supplementary Information

Ann Arbor SPARK and Affiliate
Consolidating Statement of Financial Position
December 31, 2016

	Ann Arbor SPARK - Operations	SPARK - PreSeed Investment and Microloan	Ann Arbor SPARK - Total	Ann Arbor SPARK Foundation	Eliminations	**Total**
Assets						
Current assets						
Cash	$ 798,793	$ -	$ 798,793	$ 103,506	$ -	**$ 902,299**
Restricted cash	-	2,574,860	2,574,860	-	-	**2,574,860**
Accounts receivable, net	271,567	-	271,567	25,000	-	**296,567**
Prepaid expenses	113,697	-	113,697	-	-	**113,697**
Total current assets	1,184,057	2,574,860	3,758,917	128,506	-	**3,887,423**
Property and equipment, net	338,845	-	338,845	-	-	**338,845**
Due from (to)	35,794	-	35,794	(35,794)	-	**-**
Investments						
Michigan Pre-Seed Capital Fund Portfolio Investments, net	-	8,462,452	8,462,452	-	-	**8,462,452**
Micro loans, net	-	1,229,958	1,229,958	-	-	**1,229,958**
Total investments	-	9,692,410	9,692,410	-	-	**9,692,410**
Other assets						
Deposits	85,819	-	85,819	-	-	**85,819**
Total assets	$ 1,644,515	$ 12,267,270	$ 13,911,785	$ 92,712	$ -	**$ 14,004,497**
Liabilities and Net Assets						
Current liabilities						
Accounts payable	$ 157,426	$ -	$ 157,426	$ -	$ -	**$ 157,426**
Accrued liabilities	312,852	-	312,852	-	-	**312,852**
Deferred revenue	184,212	25,000	209,212	15,000	-	**224,212**
Total current liabilities	654,490	25,000	679,490	15,000	-	**694,490**
Net assets						
Unrestricted net assets	990,025	12,242,270	13,232,295	77,712	-	**13,310,007**
Total liabilities and net assets	$ 1,644,515	$ 12,267,270	$ 13,911,785	$ 92,712	$ -	**$ 14,004,497**

Ann Arbor SPARK and Affiliate
Consolidating Statement of Activities
For the Year Ended December 31, 2016

	Ann Arbor SPARK - Operations	SPARK - PreSeed Investment and Microloan Program	Ann Arbor SPARK - Total	Ann Arbor SPARK Foundation	Eliminations	**Total**
Program Service Fee Revenues and Public Support						
Program service fee revenue						
Accelerator grants and revenue	$ 750,494	$ 14,000	$ 764,494	$ 150,000	$ -	**$ 914,494**
Local Development Finance Authority revenue	2,018,466	200,000	2,218,466	-	-	**2,218,466**
Municipal service contracts	832,264	-	832,264	50,000	-	**882,264**
Facility revenue	508,796	-	508,796	-	-	**508,796**
Total program service fee revenue	4,110,020	214,000	4,324,020	200,000	-	**4,524,020**
Public support						
Contributions	933,200	-	933,200	43,500	-	**976,700**
In-kind	538,959	-	538,959	-	-	**538,959**
Total public support	1,472,159	-	1,472,159	43,500	-	**1,515,659**
Total program service fee revenues and public support	5,582,179	214,000	5,796,179	243,500	-	**6,039,679**
Expenses						
Program services	4,852,137	393,285	5,245,422	220,794	-	**5,466,216**
Supporting services						
Management and general	776,911	-	776,911	-	-	**776,911**
Fundraising	142,856	-	142,856	-	-	**142,856**
Total expenses	5,771,904	393,285	6,165,189	220,794	-	**6,385,983**
Other Income (Expense)						
Interest income	7,446	3,998	11,444	-	-	**11,444**
Interest earned on investments	113,679	252,892	366,571	-	-	**366,571**
Realized gain on investments	-	1,412,161	1,412,161	-	-	**1,412,161**
Realized loss on investments	-	(3,498,328)	(3,498,328)	-	-	**(3,498,328)**
Unrealized gain on investments based on company performance	-	145,822	145,822	-	-	**145,822**
Valuation allowance on investments based on projected performance	-	(71,876)	(71,876)	-	-	**(71,876)**
Loss on sale of assets	(1,313)	-	(1,313)	-	-	**(1,313)**
Total other income (expense)	119,812	(1,755,331)	(1,635,519)	-	-	**(1,635,519)**
Change in net assets	(69,913)	(1,934,616)	(2,004,529)	22,706	-	**(1,981,823)**
Net assets - beginning of year	1,059,938	14,176,886	15,236,824	55,006	-	**15,291,830**
Net assets - end of year	$ 990,025	$ 12,242,270	$ 13,232,295	$ 77,712	$ -	**$ 13,310,007**

Ann Arbor SPARK and Affiliate
Consolidating Statement of Cash Flows
For the Year Ended December 31, 2016

	Ann Arbor SPARK - Operations	Ann Arbor SPARK - PreSeed Investment and	Ann Arbor SPARK - Total	Ann Arbor SPARK Foundation	Eliminations	Total
Cash flows from operating activities						
Change in net assets	$ (69,913)	$ (1,934,616)	$ (2,004,529)	$ 22,706	$ -	**$ (1,981,823)**
Items not requiring cash						
Depreciation	120,066	-	120,066	-	-	**120,066**
Unrealized interest, (gains) and losses on investments, net	-	1,573,774	1,573,774	-	-	**1,573,774**
Bad debt expense	5,000	-	5,000	-	-	**5,000**
Loss on sale of property and equipment	1,313	-	1,313	-	-	**1,313**
Valuation allowance	-	71,876	71,876	-	-	**71,876**
Changes in operating assets and liabilities						
Restricted cash	-	(630,957)	(630,957)	-	-	**(630,957)**
Accounts receivable	(31,076)	-	(31,076)	(25,000)	-	**(56,076)**
Prepaid expenses	(23,366)	-	(23,366)	-	-	**(23,366)**
Deposits	(37,196)	-	(37,196)	-	-	**(37,196)**
Due from (to)	(35,271)	-	(35,271)	35,271	-	**-**
Accounts payable	(13,206)	-	(13,206)	-	-	**(13,206)**
Accrued liabilities	64,865	-	64,865	-	-	**64,865**
Deferred revenue	168,922	(50,000)	118,922	15,000	-	**133,922**
Net cash provided (used) by operating activities	150,138	(969,923)	(819,785)	47,977	-	**(771,808)**
Cash flows from investing activities						
Redemption of convertible promissory notes	-	1,286,829	1,286,829	-	-	**1,286,829**
Redemption of micro loans	-	88,094	88,094	-	-	**88,094**
Purchase of micro loans	-	(155,000)	(155,000)	-	-	**(155,000)**
Purchase of convertible promissory notes	-	(250,000)	(250,000)	-	-	**(250,000)**
Purchase of property and equipment	(21,720)	-	(21,720)	-	-	**(21,720)**
Net cash provided (used) by investing activities	(21,720)	969,923	948,203	-	-	**948,203**
Change in cash	128,418	-	128,418	47,977	-	**176,395**
Cash - beginning of year	670,375	-	670,375	55,529	-	**725,904**
Cash - end of year	**$ 798,793**	**$ -**	**$ 798,793**	**$ 103,506**	**$ -**	**$ 902,299**