Ann Arbor SPARK and Affiliate

Financial Statements

December 31, 2021
(With Summarized Comparative
Information for 2020)

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Independent Auditors' Report

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

Opinion
We have audited the accompanying consolidated financial statements of Ann Arbor SPARK and Affiliate (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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, 2021, 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.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ann Arbor SPARK and Affiliate and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ann Arbor SPARK and Affiliate's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Ann Arbor SPARK and Affiliate's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ann Arbor SPARK and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information
We have previously audited the Ann Arbor SPARK and Affiliate's December 31, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 13, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The December 31, 2021 consolidating statement of financial position, consolidating statement of activities and consolidating statement of cash flows are presented for purposes of additional analysis and are not a required part of the consolidated 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 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

May 12, 2022

Ann Arbor SPARK and Affiliate
Consolidated Statement of Financial Position
December 31, 2021
(With Summarized Comparative Information for December 31, 2020)

	2021	2020
Assets		
Current assets		
Cash	$ 1,738,592	$ 1,676,676
Restricted cash - capital funding	6,903,179	8,502,999
Accounts receivable, net	834,102	829,450
Prepaid expenses	183,836	59,018
Total current assets	9,659,709	11,068,143
Property and equipment, net	234,807	321,694
Investments		
Michigan Pre-Seed Capital Fund Portfolio Investments, net	5,295,376	4,534,759
Microloans, net	515,428	671,714
Total investments	5,810,804	5,206,473
Other assets		
Deposits	94,080	55,043
Total assets	$ 15,799,400	$ 16,651,353
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 266,734	$ 427,419
Accrued liabilities	354,934	308,563
Deferred revenue	16,557	23,221
Total current liabilities	638,225	759,203
Net assets		
Without donor restrictions		
Undesignated	14,084,541	15,228,202
Board designated	200,000	-
Total without donor restrictions	14,284,541	15,228,202
With donor restrictions		
Purpose restrictions	876,634	663,948
Total net assets	15,161,175	15,892,150
Total liabilities and net assets	$ 15,799,400	$ 16,651,353

Ann Arbor SPARK and Affiliate
Consolidated Statement of Activities
For the Year Ended December 31, 2021
(With Summarized Comparative Information for December 31, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total 2021	Total 2020
Program Service Fee Revenue and Public Support				
Program service fee revenue				
Facility revenue	$ 449,236	$ -	**$ 449,236**	$ 451,291
Public support				
Contributions	877,148	400,000	**1,277,148**	1,426,697
Accelerator grants	6,591,660	-	**6,591,660**	4,498,870
Federal grants	-	-	**-**	8,545,455
Local Development Finance Authority revenue	3,920,240	-	**3,920,240**	3,939,950
Municipal service contracts	799,951	-	**799,951**	1,047,748
In-kind	285,692	-	**285,692**	200,236
Net assets released from restriction	187,314	(187,314)	**-**	-
Total public support	12,662,005	212,686	**12,874,691**	19,658,956
Total program service fee revenue and public support	13,111,241	212,686	**13,323,927**	20,110,247
Expenses				
Program services	11,931,700	-	**11,931,700**	19,149,093
Supporting services				
Management and general	1,292,563	-	**1,292,563**	1,004,654
Fundraising	251,767	-	**251,767**	243,141
Total expenses	13,476,030	-	**13,476,030**	20,396,888
Other Income (Expense)				
Interest income	6,528	-	**6,528**	17,010
Interest earned on investments	210,611	-	**210,611**	170,440
Dividend income	11,887	-	**11,887**	-
Distribution from capital fund	(438,115)	-	**(438,115)**	-
Realized gain (loss) on investments	(1,307,140)	-	**(1,307,140)**	2,514,692
Realized loss on microloans	(209,416)	-	**(209,416)**	(320,612)
Unrealized gain (loss) on investments based on company performance	2,093,797	-	**2,093,797**	(413,733)
Valuation allowance on investments based on projected performance	(1,029,616)	-	**(1,029,616)**	1,286,555
Return on prior investments	147,585	-	**147,585**	8,821
Payment to MEDC	(28,990)	-	**(28,990)**	(124,889)
Return of funds	(36,003)	-	**(36,003)**	(9,004)
Total other income (expense)	(578,872)	-	**(578,872)**	3,129,280
Change in net assets	(943,661)	212,686	**(730,975)**	2,842,639
Net assets - beginning of year	15,228,202	663,948	**15,892,150**	13,049,511
Net assets - end of year	$ 14,284,541	$ 876,634	**$ 15,161,175**	$ 15,892,150

Ann Arbor SPARK and Affiliate
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2021
(With Summarized Comparative Information for December 31, 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	$ (730,975)	$ 2,842,639
Items not requiring cash		
Depreciation	111,988	174,628
Unrealized and realized interest, gains on investments, net	(786,216)	(1,951,510)
Bad debt expense	9,069	32,132
Valuation allowance	1,029,616	(1,286,555)
Changes in operating assets and liabilities		
Accounts receivable	(13,721)	(530,586)
Prepaid expenses	(124,818)	80,425
Deposits	(39,037)	(38,224)
Accounts payable	(160,685)	(102,599)
Accrued liabilities	46,371	14,758
Deferred revenue	(6,664)	(11,529)
Net cash used by operating activities	(665,072)	(776,421)
Cash flows from investing activities		
Redemption of preferred stock, common stock, and convertible promissory notes	322,268	4,117,551
Redemption of microloans	160,000	27,745
Purchase of preferred stock	(249,999)	-
Purchase of convertible promissory notes	(1,080,000)	(590,000)
Purchase of property and equipment	(25,101)	(70,138)
Net cash provided (used) by investing activities	(872,832)	3,485,158
Change in cash	(1,537,904)	2,708,737
Cash and restricted cash - beginning of year	10,179,675	7,470,938
Cash and restricted cash - end of year	$ 8,641,771	$ 10,179,675
Cash and restricted cash		
Cash	$ 1,738,592	$ 1,676,676
Restricted cash - capital funding	6,903,179	8,502,999
Total cash and restricted cash	$ 8,641,771	$ 10,179,675

See Accompanying Notes to the Consolidated Financial Statements

Ann Arbor SPARK and Affiliate

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2021
(With Summarized Comparative Information for December 31, 2020)

		Supporting Services			Total	
	Program Services	Management and General	Fund-Raising	Subtotal	**2021**	2020
Personnel expenses	$ 2,527,879	$ 663,387	$ 216,503	$ 879,890	**$ 3,407,769**	$ 3,301,598
Professional expenses	7,303,405	155,271	-	155,271	**7,458,676**	14,607,598
Operating expenses	1,206,581	51,570	26,653	78,223	**1,284,804**	1,322,539
Marketing expenses	823,676	380,506	8,611	389,117	**1,212,793**	990,525
Depreciation expense	70,159	41,829	-	41,829	**111,988**	174,628
	$ 11,931,700	$ 1,292,563	$ 251,767	$ 1,544,330	**$ 13,476,030**	$ 20,396,888

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 the 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 (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 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
Marketing the region

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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

<u>Net assets without donor restrictions</u> – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

<u>Net assets with donor restrictions</u> – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Principles of Consolidation
The 2021 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 earned. Program service fees are deferred to the applicable period in which the performance obligations are met, that is, when the companies submit, in writing, that deliverables have been satisfactorily achieved. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and Goods
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 collectable, an allowance of $43,370 and $45,359 has been recorded for the years ended December 31, 2021 and 2020, respectively.

Promises to Give
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.

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, 2021, 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 was July 15, 2009 through June 30, 2012. As of December 31, 2021, 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 was 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, 2021, the Organization had received payments of $10,170,000 and made expenditures and investments in the amount of $10,170,000.

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 $482,448 and $542,722 at December 31, 2021 and 2020, respectively.

The valuation allowance on the microloans was $591,352 and $719,630 at December 31, 2021 and 2020, respectively. The allowance is based on historical collection rates of the microloans over the life of the program.

In the year ending 2017 the LDFA discontinued the microloan program. Any return of funds received relating to the 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.

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 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 $386,127 and $603,696 at December 31, 2021 and 2020, respectively.

The valuation allowance on the investments was $6,069,829 and $4,911,933 at December 31, 2021 and 2020, 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 define 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 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 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.

Gifts of land, buildings, equipment and other long-lived assets are also reported as revenue without donor restrictions and net assets, unless subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Deferred Revenue
Deferred revenue represents unearned rental income. These revenues are earned as the terms of the agreements are met.

Functional Expenses
The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those expenses include salaries and benefits, depreciation and amortization, occupancy and information technology. Salaries and benefits are allocated based on a time and cost study of where efforts are made, occupancy, depreciation and amortization are allocated based on a square footage basis, and information technology is allocated based on a cost study of specific technology utilized.

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, 2021 and 2020, were $1,212,793 and $990,525, respectively. These totals include in-kind donations of Google AdWords for the years ended December 31, 2021 and 2020, of $232,060 and $172,967, 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, 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, 2020 in the accompanying consolidated financial statements are included to provide a basis for comparison with 2021 and present summarized totals only. Accordingly, the 2020 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, 2020, 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 May 12, 2022, which is the date the financial statements were available to be issued.

Note 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2021	2020
Cash	$ 1,738,592	$ 1,676,676
Accounts receivable, net	834,102	829,450
Total financial assets - end of year	2,572,694	2,506,126
Less: Financial assets unavailable for general expenditures within one year, due to:		
Board designated for programs	(200,000)	-
Contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(876,634)	(663,948)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,496,060	$ 1,842,178

As part of the Organization's liquidity management plan, management projects cash flow through the end of the fiscal year. The projection is approved by the finance committee annually and targets a reserve of approximately 4 months operating cash on hand. The Organization is in the process of extending their line of credit.

Note 4 - 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, 2021, cash account balances that were in excess of the FDIC coverage limit were $1,389,083.

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

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 accrued 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, stated at fair value, consist of the following at December 31, 2021 and 2020, respectively:

	2021	2020
Preferred stock	$ 7,249,385	$ 5,948,376
Common stock	1,831,193	1,852,520
Convertible promissory notes and accrued interest	2,284,627	1,645,796
Valuation allowance on investments based on projected performance	(6,069,829)	(4,911,933)
	$ 5,295,376	$ 4,534,759

Portfolio investment income (loss) consists of the following for the years ended December 31, 2021 and 2020:

	2021	2020
Interest earned, convertible promissory notes	$ 124,123	$ 69,028
Interest earned, microloans	86,488	101,412
Dividend income	11,887	-
Realized loss, microloans	(211,052)	(320,612)
Realized gain, microloans	1,636	-
Realized gain, preferred stock	68,817	2,519,016
Realized loss, preferred stock	(846,982)	(332)
Unrealized gain, preferred stock	2,119,497	317,898
Unrealized loss, preferred stock	(4,373)	(309,736)
Unrealized gain, common stock	-	13,189
Unrealized loss, common stock	(21,327)	(435,084)
Realized loss, convertible promissory notes	(528,975)	(3,992)
Change in valuation allowance on investments based on projected performance	(1,029,616)	1,286,555
Total portfolio investment income (loss)	$ (229,877)	$ 3,237,342

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, 2021 and 2020:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
December 31, 2021				
Michigan Pre-Seed Capital Fund Portfolio Investments, net	$ -	$ -	$ 5,295,376	$ 5,295,376
Microloans, net	-	-	515,428	515,428
Total	$ -	$ -	$ 5,810,804	$ 5,810,804

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
December 31, 2020				
Michigan Pre-Seed Capital Fund Portfolio Investments, net	$ -	$ -	$ 4,534,759	$ 4,534,759
Microloans, net	-	-	671,714	671,714
Total	$ -	$ -	$ 5,206,473	$ 5,206,473

Total assets at fair value classified within level 3 were $5,810,804 and $5,206,473, as of December 31, 2021 and 2020, which consists of Michigan Pre-Seed Capital Fund Portfolio Investments and Microloans. Such amounts were approximately 37% and 31% of total assets on the Organization's consolidated statement of activities available as of December 31, 2021 and 2020, 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 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, 2021	Valuation Technique	Unobservable Input	Range (weighted Average)
Michigan Pre-Seed Capital Fund Portfolio Investments, net and Micro loans, net	$ 5,810,804	Valuation Committee or SPARK Staff 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, 2020	Valuation Technique	Unobservable Input	Range (weighted Average)
Michigan Pre-Seed Capital Fund Portfolio Investments, net and Micro loans, net	$ 5,206,473	Valuation Committee or SPARK Staff 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, 2021 and 2020:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	2021	2020
Balance at January 1,	$ 5,206,473	$ 5,523,704
Invested in promissory notes	1,080,000	590,000
Invested in preferred stock	249,999	-
Net investment gain	786,216	1,951,510
Cash received	(482,268)	(4,145,296)
Valuation allowance	(1,029,616)	1,286,555
Balance at December 31,	$ 5,810,804	$ 5,206,473

Note 7 - Property and Equipment

The components of property and equipment are as follows at December 31, 2021 and 2020:

	2021	2020
Furniture and fixtures	$ 259,566	$ 258,279
Office equipment	215,265	343,170
Leasehold improvements	597,641	734,728
	1,072,472	1,336,177
Less accumulated depreciation	(837,665)	(1,014,483)
	$ 234,807	$ 321,694

Depreciation expense was $111,988 and $174,628 for the years ended December 31, 2021 and 2020, respectively.

Note 8 - Lines of Credit

SPARK had a revolving line of credit with a bank for up to $400,000 with a variable interest rate of 5.0% at December 31, 2021 and 2020. Interest accrued and was due monthly. The note was collateralized by substantially all assets of SPARK. This line of credit matures in May 2023. At December 31, 2021 and 2020, the line of credit outstanding was $0.

SPARK has various credit cards with a bank for employee use with a total credit limit of $135,000 and $118,000 for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020 the credit amount used was $17,921 and $16,152, respectively.

Note 9 - 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, 2021 and 2020, were $91,596 and $102,667, respectively.

The Organization made a contribution to a deferred compensation plan under an employment contract of $77,580 and $38,543 for the years ended December 31, 2021 and 2020, respectively. The funds are a prepaid asset to the Organization until the period of performance is complete.

Note 10 - Commitments

Total rent paid during the years ended December 31, 2021 and 2020 was $591,136 and $590,922, respectively. The Organization leased two office facilities (referred to as "SPARK Central", and "SPARK East"). The SPARK Central third floor lease expires December 31, 2024 with current monthly payments of $14,996, increasing by approximately 3% each year thereafter. The SPARK Central facility has a fourth floor lease with current monthly payments of $15,955 expiring July 31, 2025 and a first floor lease expiring December 31, 2026, with current monthly payments of $10,460, increasing by approximately 2% each year thereafter. The SPARK East facility has a 6 year lease expiring December 31, 2023, with monthly payments of $8,076. Additionally, SPARK has a copier lease expiring in November 9, 2024 with monthly payments of $2,614.

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

For the year ending December 31,	Building	Copier
2022	$ 603,747	$ 31,365
2023	616,701	31,365
2024	533,086	28,751
2025	256,138	-
2026	138,576	-

Note 11 - 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 $75 to $3,025. The following is a schedule by year of future minimum rental income under the leases at December 31, 2021.

For the year ending December 31,		
2022	$	110,257
2023		9,915
2024		230

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

Note 12 - Related Party Transactions

The Board of Directors 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, 2021 and 2020 was $50,210 and $20,000 for sponsorships and $1,241,605 and $1,200,565 for donations, respectively.

A current officer of the Organization's Board of Directors is also a partner of the firm with which the Organization incurred approximately $21,310 and $29,240 of legal fees for the years ended December 31, 2021 and 2020, respectively.

Employees of the Organization provide services to the Michigan Angel Fund (1, 2 & 3), Limited Liability Companies. The Michigan Angel Fund's managing member is an entity, MAF, of which the Organization has control. Revenues are derived from management fees paid to SPARK by the funds. Expenses related to administrative services performed for the Michigan Angel Fund were $44,182 and $62,633 for the years ended December 31, 2021 and 2020, respectively. Revenues related for these services were $40,000 and $67,482 for the years ended December 31, 2021 and 2020, respectively.

The Organization performs business development and accounting functions for the American Center for Mobility, of which the CEO of SPARK sits on the Board of Directors. For the years ended December 31, 2021 and 2020 approximately $73,289 and $92,500, respectively was generated in revenues for these services and $105,000 and $65,865 was generated in related expenses.

Note 13 - Board Designated Net Assets

The Board of Directors of the Organization has voluntarily designated $200,000 and $0 as of December 31, 2021 and 2020, respectively, whose purpose is to be held as the Organization's match contribution for a upcoming program.

Note 14 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and periods at December 31:

	2021	2020
Subject to expenditure for specified purpose:		
Ypsilanti business development	$ 237,448	$ 663,948
Washtenaw-area infrastructure and equipment	639,186	-
	$ 876,634	$ 663,948

Note 15 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	2021	2020
Satisfaction of purpose restrictions:		
Ypsilanti business development	$ 59,000	$ 40,000
Washtenaw-area infrastructure and equipment	128,314	-
	$ 187,314	$ 40,000

Supplementary Information

December 31, 2021

	Ann Arbor SPARK - Operations	Ann Arbor SPARK - PreSeed Investment and Microloan Program	Ann Arbor SPARK - Total	Ann Arbor SPARK Foundation	Eliminations	Total
Assets						
Current assets						
Cash	$ 1,637,886	$ -	$ 1,637,886	$ 100,706	$ -	$ 1,738,592
Restricted cash - capital funding	2,905	6,900,274	6,903,179	-	-	6,903,179
Accounts receivable, net	801,220	-	801,220	100,000	(67,118)	834,102
Prepaid expenses	183,836	-	183,836	-	-	183,836
Total current assets	2,625,847	6,900,274	9,526,121	200,706	(67,118)	9,659,709
Property and equipment, net	234,807	-	234,807	-	-	234,807
Investments						
Michigan Pre-Seed Capital Fund Portfolio Investments, net	-	5,295,376	5,295,376	-	-	5,295,376
Microloans, net	-	515,428	515,428	-	-	515,428
Total investments	-	5,810,804	5,810,804	-	-	5,810,804
Other assets						
Deposits	94,080	-	94,080	-	-	94,080
Total assets	$ 2,954,734	$ 12,711,078	$ 15,665,812	$ 200,706	$ (67,118)	$ 15,799,400
Liabilities and Net Assets						
Current liabilities						
Accounts payable	$ 266,734	$ -	$ 266,734	$ 67,118	$ (67,118)	$ 266,734
Accrued liabilities	354,934	-	354,934	-	-	354,934
Deferred revenue	16,557	-	16,557	-	-	16,557
Total current liabilities	638,225	-	638,225	67,118	(67,118)	638,225
Net assets						
Without donor restrictions						
Undesignated	1,239,875	12,711,078	13,950,953	133,588	-	14,084,541
Board designated	200,000	-	200,000	-	-	200,000
Total without donor restrictions	1,439,875	12,711,078	14,150,953	133,588	-	14,284,541
With donor restrictions						
Purpose restrictions	876,634	-	876,634	-	-	876,634
Total net assets	2,316,509	12,711,078	15,027,587	133,588	-	15,161,175
Total liabilities and net assets	$ 2,954,734	$ 12,711,078	$ 15,665,812	$ 200,706	$ (67,118)	$ 15,799,400

	Ann Arbor SPARK - Operations	Ann Arbor SPARK - PreSeed Investment and Microloan Program	Ann Arbor SPARK - Total	Ann Arbor SPARK Foundation	Eliminations	Total
Program Service Fee Revenue and Public Support						
Program service fee revenue						
Facility revenue	$ 449,236	$ -	$ 449,236	$ -	$ -	$ 449,236
Public support						
Contributions	1,126,998	-	1,126,998	150,150	-	1,277,148
Accelerator grants	6,627,660	-	6,627,660	100,000	(136,000)	6,591,660
Local Development Finance Authority revenue	3,920,240	-	3,920,240	-	-	3,920,240
Municipal service contracts	799,951	-	799,951	-	-	799,951
In-kind	285,692	-	285,692	-	-	285,692
Total public support	12,760,541	-	12,760,541	250,150	(136,000)	12,874,691
Total program service fee revenue and public support	13,209,777	-	13,209,777	250,150	(136,000)	13,323,927
Expenses						
Program services	11,402,330	419,003	11,821,333	246,367	(136,000)	11,931,700
Supporting services						
Management and general	1,292,563	-	1,292,563	-	-	1,292,563
Fundraising	251,767	-	251,767	-	-	251,767
Total expenses	12,946,660	419,003	13,365,663	246,367	(136,000)	13,476,030
Other Income (Expense)						
Interest income	519	6,009	6,528	-	-	6,528
Interest earned on investments	-	210,611	210,611	-	-	210,611
Dividend income	-	11,887	11,887	-	-	11,887
Distribution from capital fund	-	(438,115)	(438,115)	-	-	(438,115)
Realized loss on investments	-	(1,307,140)	(1,307,140)	-	-	(1,307,140)
Realized loss on microloans	-	(209,416)	(209,416)	-	-	(209,416)
Unrealized gain on investments based on company performance	-	2,093,797	2,093,797	-	-	2,093,797
Valuation allowance on investments based on projected performance	-	(1,029,616)	(1,029,616)	-	-	(1,029,616)
Return on prior investments	-	147,585	147,585	-	-	147,585
Payment to MEDC	-	(28,990)	(28,990)	-	-	(28,990)
Return of funds	-	(36,003)	(36,003)	-	-	(36,003)
Total other (expense)	519	(579,391)	(578,872)	-	-	(578,872)
Change in net assets	263,636	(998,394)	(734,758)	3,783	-	(730,975)
Net assets - beginning of year	2,052,873	13,709,472	15,762,345	129,805	-	15,892,150
Net assets - end of year	$ 2,316,509	$ 12,711,078	$ 15,027,587	$ 133,588	$ -	$ 15,161,175

Ann Arbor SPARK and Affiliate
Consolidating Statement of Cash Flows
For the Year Ended December 31, 2021

	Ann Arbor SPARK - Operations	Ann Arbor SPARK - PreSeed Investment and Microloan Program	Ann Arbor SPARK - Total	Ann Arbor SPARK Foundation	Eliminations	Total
Cash flows from operating activities						
Change in net assets	$ 263,636	$ (998,394)	$ (734,758)	$ 3,783	$ -	$ (730,975)
Items not requiring cash						
Depreciation	111,988	-	111,988	-	-	111,988
Unrealized and realized interest, gains on investments, net	-	(786,216)	(786,216)	-	-	(786,216)
Bad debt expense	9,069	-	9,069	-	-	9,069
Valuation allowance	-	1,029,616	1,029,616	-	-	1,029,616
Changes in operating assets and liabilities						
Accounts receivable	3,543	-	3,543	(75,000)	57,736	(13,721)
Prepaid expenses	(124,818)	-	(124,818)	-	-	(124,818)
Deposits	(39,037)	-	(39,037)	-	-	(39,037)
Accounts payable	(160,685)	-	(160,685)	57,736	(57,736)	(160,685)
Accrued liabilities	46,371	-	46,371	-	-	46,371
Deferred revenue	(6,664)	-	(6,664)	-	-	(6,664)
Net cash provided (used) by operating activities	103,403	(754,994)	(651,591)	(13,481)	-	(665,072)
Cash flows from investing activities						
Redemption of convertible promissory notes	-	322,268	322,268	-	-	322,268
Redemption of microloans	-	160,000	160,000	-	-	160,000
Purchase of preferred stock	-	(249,999)	(249,999)	-	-	(249,999)
Purchase of convertible promissory notes	-	(1,080,000)	(1,080,000)	-	-	(1,080,000)
Purchase of property and equipment	(25,101)	-	(25,101)	-	-	(25,101)
Net cash used by investing activities	(25,101)	(847,731)	(872,832)	-	-	(872,832)
Change in cash	78,302	(1,602,725)	(1,524,423)	(13,481)	-	(1,537,904)
Cash and restricted cash - beginning of year	1,562,489	8,502,999	10,065,488	114,187	-	10,179,675
Cash and restricted cash - end of year	**$ 1,640,791**	**$ 6,900,274**	**$ 8,541,065**	**$ 100,706**	**$ -**	**$ 8,641,771**
Cash and restricted cash						
Cash	$ 1,637,886	$ -	$ 1,637,886	$ 100,706	$ -	$ 1,738,592
Restricted cash - capital funding	2,905	6,900,274	6,903,179	-	-	6,903,179
Total cash and restricted cash	**$ 1,640,791**	**$ 6,900,274**	**$ 8,541,065**	**$ 100,706**	**$ -**	**$ 8,641,771**