Ann Arbor SPARK and Affiliates

Annual Financial Statements
and
Independent Auditors' Report

December 31, 2013

Table of Contents

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CPAs & BUSINESS CONSULTANTS

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ann Arbor SPARK and Affiliates, (the "Organization") which comprise the consolidated statement of financial position as of December 31, 2013 and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses 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 Affiliates as of December 31, 2013, 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 Affiliates' December 31, 2012, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 25, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited 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 consolidated financial statements as a whole. The accompanying supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 16, 2014

Ann Arbor SPARK and Affiliates
Consolidated Statement of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash	**$ 506,148**	$ 488,680
Restricted cash	**951,313**	1,523,796
Accounts receivable, net	**479,766**	453,862
Prepaid expenses	**107,249**	31,154
Total current assets	**2,044,476**	2,497,492
Property and equipment, net	**160,252**	66,418
Investments		
Michigan Pre-Seed Capital Fund Portfolio Investments, net	**16,040,282**	14,493,234
Micro loans, net	**3,045,631**	2,118,587
Total investments	**19,085,913**	16,611,821
Other Assets		
Deposits	**15,000**	17,000
Prepaid insurance	**-**	12,845
Total other assets	**15,000**	29,845
Total assets	**$ 21,305,641**	$ 19,205,576
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	**$ 349,636**	$ 221,408
Accrued liabilities	**165,417**	121,875
Deferred revenue	**805,654**	919,019
Total current liabilities	**1,320,707**	1,262,302
Net assets		
Unrestricted net assets	**19,984,934**	17,943,274
Total liabilities and net assets	**$ 21,305,641**	$ 19,205,576

Ann Arbor SPARK and Affiliates
Consolidated Statement of Activities and Changes in Net Assets
For the Years Ended December 31, 2013 and 2012

	2013	2012
Revenues and Support		
Program service fee revenue		
Accelerator grants and revenue	**$ 5,418,066**	$ 8,179,967
Local Development Finance Authority revenue	**1,630,772**	1,452,352
Municipal service contracts	**821,260**	719,268
Facility revenue	**170,546**	959,382
Interest income	**1,834**	71,625
Interest earned on investments	**1,107,866**	881,884
Realized gain on investments	**173,472**	-
Total revenue	**9,323,816**	12,264,478
Public support		
Contributions	**1,122,200**	1,016,247
In-kind	**135,618**	126,931
Total support	**1,257,818**	1,143,178
Total revenues and support	**10,581,634**	13,407,656
Expenses and Losses		
Program services	**5,261,910**	5,720,698
Supporting services		
Management and general	**645,891**	677,798
Fundraising	**48,029**	148,896
Realized loss on investments	**-**	874,652
Unrealized loss on investments based on company performance	**1,199,458**	596,995
Valuation allowance on investments based on projected performance	**1,384,686**	3,553,057
Loss on sale of property and equipment	**-**	2,786,076
Total expenses and losses	**8,539,974**	14,358,172
Change in net assets	**2,041,660**	(950,516)
Net assets - beginning of year	**17,943,274**	18,893,790
Net assets - end of year	**$ 19,984,934**	$ 17,943,274

See Accompanying Notes to the Financial Statements

Ann Arbor SPARK and Affiliates
Consolidated Statement of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	**$ 2,041,660**	$ (950,516)
Items not requiring cash		
Depreciation	**42,199**	99,173
Losses (gains) on investments	**176,927**	584,396
Bad debt expense	**32,123**	-
Loss on sale of fixed asset	**-**	2,786,076
Michigan Economic Development Corp. loan forgiveness	**-**	(192,167)
Valuation allowance	**1,384,686**	3,553,057
Changes in operating assets and liabilities		
Accounts receivable	**(58,027)**	(99,114)
Prepaid expenses	**(76,095)**	(12,974)
Unconditional promises to give	**-**	9,000
Deposits	**2,000**	-
Prepaid insurance	**12,845**	15,410
Accounts payable	**128,228**	(602,457)
Accrued liabilities	**43,542**	(14,186)
Deferred revenue	**(113,365)**	(1,129,463)
Net cash provided by operating activities	**3,616,723**	4,046,235
Cash flows from investing activities		
Redemption of convertible promissory notes	**121,442**	346,361
Redemption of micro loans	**169,973**	534,816
Purchase of preferred stock	**(750,000)**	(1,503,173)
Purchase of common stock	**-**	(150,000)
Purchase of micro loans	**(977,120)**	(1,210,480)
Purchase of convertible promissory notes	**(2,600,000)**	(3,467,508)
Proceeds of sale of property and equipment	**-**	550,000
Purchase of property and equipment	**(136,033)**	(36,495)
Net cash used in investing activities	**(4,171,738)**	(4,936,479)
Cash flows from financing activities		
Payments on note payable	**-**	(11,514)
Net activity on line of credit	**-**	(550,000)
Net cash used by financing activities	**-**	(561,514)
Net change in cash	**(555,015)**	(1,451,758)
Cash - beginning of year	**2,012,476**	3,464,234
Cash - end of year	**$ 1,457,461**	$ 2,012,476
Supplemental information		
Cash paid during the year for interest	**$ -**	$ 24,311

See Accompanying Notes to the Financial Statements

Ann Arbor SPARK and Affiliates
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2013
(With Comparative Totals for December 31, 2012)

		Supporting Services				
	Program	Management and General	Fund-Raising	Subtotal	**2013**	2012
Functional Expenses						
Personnel expenses	$ 1,877,323	$ 353,433	$ 47,920	$ 401,353	**$ 2,278,676**	$ 2,056,737
Professional services	1,406,112	97,453	-	97,453	**1,503,565**	1,384,452
Operating expenses	1,604,103	103,863	109	103,972	**1,708,075**	2,534,639
Marketing	334,283	89,032	-	89,032	**423,315**	472,391
Depreciation expense	40,089	2,110	-	2,110	**42,199**	99,173
	$ 5,261,910	$ 645,891	$ 48,029	$ 693,920	**$ 5,955,830**	$ 6,547,392

See Accompanying Notes to the 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, 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
Entrepreneurial services
Business financing
Business development
Talent Connections

Both economic interest and control 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 2013 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
The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash.

Accounts Receivable
Accounts receivable consist of amounts that have been expended for intended grant purposes and not yet reimbursed by the granting agency, rent payments due and donations not yet paid. Grant and other receivables are valued at what is believed to be collected, an allowance of $11,404 and $8,033 has been recorded for the year ended December 31, 2013 and 2012, respectively.

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, 2013, 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, 2013, 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 may 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, 2013, the Organization had received payments of $10,161,433 and made expenditures and investments in the amount of $9,611,432.

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

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

Michigan Pre-Seed Capital Fund micro loans have the same requirements as the Michigan Microloan Fund Program, however funding is to be used for the development of a business that is focused on the commercialization of technology of interest to the 21st Century Jobs Fund. Accrued interest was $653,459 and $426,284 at December 31, 2013 and 2012, respectively.

The allowance against the micro loans was $734,997 and $533,022 at December 31, 2013 and 2012, respectively. The allowance is based on historical collection rates of the micro loans over the life of the program.

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

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. 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 was $2,122,531 and $1,495,491 at December 31, 2013 and 2012, respectively.

The allowance against the investments was $4,802,645 and $3,619,934 at December 31, 2013 and 2012, 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 of 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, Michigan Economic Development Corporation (MEDC), Michigan Department of Treasury, and the Michigan Strategic Fund (MSF), Eastern Micro Loan Program and the LDFA Micro Loan Program. These revenues are earned as the terms of the agreements are met.

Functional Expenses
Direct identifiable expenses are charged to programs and supporting services accordingly. Occupancy costs 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, 2013 and 2012, were $423,315 and $472,391, 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, 2012, in the accompanying financial statements are included to provide a basis for comparison with 2013 and present summarized totals only. Accordingly, the 2012 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, 2012, 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.

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

Subsequent Events
Management has evaluated subsequent events through May 16, 2014, which is the date the financial statements were available to be issued.

Note 3 - Concentrations and Credit Risks

The Organization has cash accounts at various local banks. Accounts at these financial institutions are insured by the FDIC up to $250,000. At December 31, 2013 and 2012, cash account balances were in excess of the FDIC coverage limit of $1,029,301 and $140,828, respectively.

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 consist of the following at December 31, 2013 and 2012, respectively:

	2013	2012
Preferred stock	**$ 6,089,752**	$ 5,508,077
Common stock	**3,096,957**	3,431,207
Convertible promissory notes	**11,656,218**	9,173,884
Valuation allowance on investments based on projected performance	**(4,802,645)**	(3,619,934)
	$ 16,040,282	$ 14,493,234

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

	2013	2012
Interest earned, convertible promissory notes	**$ 768,809**	$ 618,780
Interest earned, micro loans	**339,057**	263,104
Realized loss, micro loans	**(18,404)**	(323,590)
Realized loss, preferred stock	**-**	(298,982)
Unrealized gain, preferred stock	**-**	63,855
Unrealized loss, preferred stock	**(201,860)**	-
Realized loss, common stock	**-**	(250,000)
Unrealized loss, common stock	**(334,250)**	-
Realized gain, convertible promissory notes	**191,876**	337,900
Realized loss, convertible promissory notes	**-**	(339,980)
Unrealized loss, convertible promissory notes	**(663,348)**	(660,850)
Valuation allowance on investments based on projected performance	**(1,384,686)**	(3,553,057)
Total portfolio investment income (loss)	**$ (1,302,806)**	$ (4,142,820)

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, 2013 and 2012:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
December 31, 2013				
Michigan Pre-Seed Capital Fund Portfolio Investments, net	$ -	$ -	$ 16,040,282	$ 16,040,282
Micro loans, net	-	-	3,045,631	3,045,631
Total	$ -	$ -	$ 19,085,913	$ 19,085,913

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
December 31, 2012				
Michigan Pre-Seed Capital Fund Portfolio Investments, net	$ -	$ -	$ 14,493,234	$ 14,493,234
Micro loans, net	-	-	2,118,587	2,118,587
Total	$ -	$ -	$ 16,611,821	$ 16,611,821

Total assets at fair value classified within level 3 were $19,085,913 and $16,611,821, as of December 31, 2013 and 2012, which consists of Michigan Pre-Seed Capital Fund Portfolio Investments and Micro Loans. Such amounts were approximately 90% and 86% of total assets on the Organization's statement of net assets available as of December 31, 2013 and 2012, respectively. Michigan Pre-Seed Capital Fund Portfolio Investments and Micro Loans 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, 2013	Valuation Technique	Unobservable Input	Range (weighted Average)
Michigan Pre-Seed Capital Fund Portfolio Investments, net and Micro loans, net	$ 19,085,913	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, 2013 and 2012:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	2013	2012
Balance at January 1,	$ 16,611,821	$ 15,299,290
Invested in preferred stock	750,000	1,503,173
Invested in common stock	-	150,000
Invested in promissory notes	2,600,000	3,467,508
Invested in micro loans	977,120	1,210,480
Net investment gain or (loss)	(176,927)	(584,396)
Cash received	(291,415)	(881,177)
Valuation allowance	(1,384,686)	(3,553,057)
Balance at December 31,	$ 19,085,913	$ 16,611,821

Note 6 - Property and Equipment

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

	2013	2012
Furniture and fixtures	**$ 194,846**	$ 125,479
Office equipment	**209,621**	231,339
Leasehold improvements	**175,253**	134,437
	579,720	491,255
Less accumulated depreciation	**(419,468)**	(424,837)
	$ 160,252	$ 66,418

Depreciation expense was $42,199 and $99,173 for the years ended December 31, 2013 and 2012, 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 (3.25% at December 31, 2013). Interest accrues and is due monthly. The note is collateralized by substantially all assets of SPARK. This line of credit expires December 10, 2014. At December 31, 2013 and 2012, the line of credit outstanding was $0.

SPARK has various credit cards with a bank for employee use with a total credit limit of $111,000 and $109,000 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012 the credit amount used was $11,585 and $12,276, respectively.

Note 8 - Retirement Plan

The Organization has established a 457(b) deferred compensation plan for eligible employees. Employees may elect to defer a certain percentage of qualified compensation through voluntary contributions to the 457(b) plan. The Organization may make discretionary contributions to the 457(b) plan as determined by the Board of Directors. The Organization did not make a contribution to the plan for the years ended December 31, 2013 and 2012, respectively.

The Organization has also established a 401(k) defined contribution plan for eligible employees who have attained the age of 21 and completed three months of service. Employees may elect to defer a certain percentage of qualified compensation through voluntary contributions to the 401(k) plan. The Organization may make discretionary contributions to the 401(k) plan as determined by the Board of Directors. In order to be eligible for matching contributions, employees must be making contributions to the Plan. The Organization contributions for the years ended December 31, 2013 and 2012, were $62,746 and $63,727, respectively.

Note 9 - Commitments

Total rent paid during the years ended December 31, 2013 and 2012 was $303,385 and $292,148, 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 five year 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. The SPARK East facility has a 5 year lease expiring November 30, 2013, with payments of $6,225 in the first year, increasing to $6,917 for years 2-5.

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

For the years ending		
2014	$	377,302
2015		384,066
2016		362,357
2017		307,320
2018		291,232
2019 and thereafter		375,321
	$	2,097,598

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, 2013.

For the year ending		
2014	$	49,639

Total rental income under all subleases included in revenue for the years ended December 31, 2013 and 2012 was $115,732 and $875,542, respectively.

Note 11 - Related Party Transactions

A current member of the Organization's Administrative Committee is also a partner of the firm with which the Organization incurred approximately $96,530 and $41,987 of legal fees for the years ended December 31, 2013 and 2012, respectively.

Supplementary Information

Ann Arbor SPARK and Affiliates
Consolidating Statement of Financial Position
December 31, 2013

	Ann Arbor Spark	Ann Arbor SPARK Foundation	Eliminations	**Total**
Assets				
Current Assets				
Cash	$ 472,070	$ 34,078	$ -	**$ 506,148**
Restricted cash	951,313	-	-	**951,313**
Accounts receivable, net	246,444	233,322	-	**479,766**
Prepaid expenses	107,249	-	-	**107,249**
Total current assets	1,777,076	267,400	-	**2,044,476**
Property and equipment, net	160,252	-	-	**160,252**
Due from (to)	11,584	(11,584)	-	**-**
Investments				
Michigan Pre-Seed Capital Fund Portfolio Investments, net	16,040,282	-	-	**16,040,282**
Micro loans, net	3,045,631	-	-	**3,045,631**
Total investments	19,085,913	-	-	**19,085,913**
Other Assets				
Deposits	15,000	-	-	**15,000**
Total assets	$ 21,049,825	$ 255,816	$ -	**$ 21,305,641**
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 207,669	$ 141,967	$ -	**$ 349,636**
Accrued liabilities	165,417	-	-	**165,417**
Deferred revenue	805,654	-	-	**805,654**
Total current liabilities	1,178,740	141,967	-	**1,320,707**
Net assets				
Unrestricted	19,871,085	113,849	-	**19,984,934**
Total liabilities and net assets	$ 21,049,825	$ 255,816	$ -	**$ 21,305,641**

Ann Arbor SPARK and Affiliates
Consolidating Statement of Activities
For the Year Ended December 31, 2013

	Ann Arbor SPARK	Ann Arbor SPARK Foundation	Eliminations	**Total**
Revenues and support				
Program service fee revenue				
Accelerator grants and revenue	$ 4,802,066	$ 706,250	$ (90,250)	**$ 5,418,066**
Local Development Finance Authority revenue	1,630,772	-	-	**1,630,772**
Municipal service contracts	821,260	-	-	**821,260**
Facility revenue	145,530	25,016	-	**170,546**
Interest income	1,834	-	-	**1,834**
Interest earned on investments	1,107,866	-	-	**1,107,866**
Realized gain on investments	173,472	-	-	**173,472**
Total revenues	8,682,800	731,266	(90,250)	**9,323,816**
Public Support				
Contributions	811,000	311,200	-	**1,122,200**
In-kind	135,618	-	-	**135,618**
Total support	946,618	311,200	-	**1,257,818**
Total revenues and support	9,629,418	1,042,466	(90,250)	**10,581,634**
Expenses and losses				
Program services	4,366,502	985,658	(90,250)	**5,261,910**
Supporting services				
Management and general	629,647	16,244	-	**645,891**
Fundraising	48,029	-	-	**48,029**
Unrealized loss on investments based on company performance	1,199,458	-	-	**1,199,458**
Valuation allowance on investments based on projected performance	1,384,686	-	-	**1,384,686**
Total expenses and losses	7,628,322	1,001,902	(90,250)	**8,539,974**
Change in net assets	2,001,096	40,564	-	**2,041,660**
Net assets - beginning of year	17,869,989	73,285	-	**17,943,274**
Net assets - end of year	$ 19,871,085	$ 113,849	$ -	**$ 19,984,934**