City of Troy

CITY COUNCIL REPORT

TO: John Szerlag, Acting City Manager

FROM: Brian Murphy, Assistant City Manager/Economic Development Services

SUBJECT: Automation Alley Audit Report

Background:

Attached is a copy of Automation Alley's Annual Audit Report, as requested by City Council. Please let me know if you need any further information.

AUTOMATION ALLEY
Troy, Michigan

FINANCIAL STATEMENTS

For the Years Ended
August 31, 2008 and 2007

AUTOMATION ALLEY
Troy, Michigan

FINANCIAL STATEMENTS

For the Years Ended
August 31, 2008 and 2007

AUTOMATION ALLEY

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Rehmann

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February 10, 2009

Board of Directors
Automation Alley
Troy, Michigan

We have audited the accompanying statements of financial position of ***Automation Alley*, **(the "Organization"), as of August 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Automation Alley*** as of August 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated February 10, 2009, on our consideration of ***Automation Alley's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Rehmann Robson

AUTOMATION ALLEY

STATEMENTS OF FINANCIAL POSITION

ASSETS	August 31 2008	August 31 2007
Current assets		
Cash and cash equivalents	$ 795,858	$ 822,020
Grants receivable	315,239	359,759
Memberships receivable	127,587	117,990
Prepaid expenses and other	240,125	258,375
Total current assets	**1,478,809**	**1,558,144**
Property and equipment, net	2,751,678	2,889,788
Seed fund investments	2,952,591	2,260,050
Deposit	100,000	100,000
Closing costs, net	4,283	6,620
Total assets	**$ 7,287,361**	**$ 6,814,602**
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 283,973	$ 389,099
Current portion of mortgage payable	26,376	25,187
Accrued payroll	32,622	32,207
Event deposits	135,170	162,432
Deferred grant revenues	231,269	172,510
Deferred membership dues	765,636	713,044
Total current liabilities	**1,475,046**	**1,494,479**
Mortgage payable, net of current portion	1,205,370	1,228,476
Total liabilities	**2,680,416**	**2,722,955**
Net assets		
Unrestricted	1,407,323	1,702,795
Temporarily restricted	3,199,622	2,388,852
Total net assets	**4,606,945**	**4,091,647**
Total liabilities and net assets	**$ 7,287,361**	**$ 6,814,602**

The accompanying notes are an integral part of these financial statements.

AUTOMATION ALLEY

STATEMENTS OF ACTIVITIES

	Year Ended August 31, 2008		
	Unrestricted	Temporarily Restricted	Total
Membership operations			
Public support and revenue			
Membership dues	$ 1,366,993	$ -	$ 1,366,993
Government grants	2,351,102	-	2,351,102
Events	279,127	-	279,127
Contributed services	291,264	-	291,264
Sponsorships	72,592	-	72,592
Total public support and revenue	**4,361,078**	**-**	**4,361,078**
Other revenue			
Interest income	31,164	-	31,164
Other revenue	170,376	-	170,376
Total other revenue	**201,540**	**-**	**201,540**
Net assets released from restrictions	-	-	-
Total public support and other revenue	**4,562,618**	**-**	**4,562,618**
Expenses			
Program services	2,659,012	-	2,659,012
General and administrative	1,848,991	-	1,848,991
Events	350,087	-	350,087
Total expenses	**4,858,090**	**-**	**4,858,090**
Net loss from membership operations	**(295,472)**	**-**	**(295,472)**
Seed fund revenue and expenses			
Seed fund revenues	-	1,309,987	1,309,987
Dividend and interest income from investments	-	18,229	18,229
Release of restrictions due to impairment and other losses	517,446	(517,446)	-
Loss on investments	(517,446)	-	(517,446)
Net seed fund revenue and expenses	-	810,770	810,770
Change in net assets	**(295,472)**	**810,770**	**515,298**
Net assets, beginning of year	1,702,795	2,388,852	4,091,647
Net assets, end of year	**$ 1,407,323**	**$ 3,199,622**	**$ 4,606,945**

The accompanying notes are an integral part of these financial statements.

Year Ended August 31, 2007		
Unrestricted	**Temporarily Restricted**	**Total**
$ 1,348,510	$ -	$ 1,348,510
2,233,698	-	2,233,698
232,320	-	232,320
295,077	-	295,077
81,213	-	81,213
4,190,818	**-**	**4,190,818**
39,763	-	39,763
-	-	-
39,763	**-**	**39,763**
10,162	(10,162)	-
4,240,743	**(10,162)**	**4,230,581**
2,589,101	-	2,589,101
1,684,818	-	1,684,818
325,075	-	325,075
4,598,994	**-**	**4,598,994**
(358,251)	**(10,162)**	**(368,413)**
-	1,629,800	1,629,800
-	-	-
12,500	(12,500)	-
(12,500)	-	(12,500)
-	1,617,300	1,617,300
(358,251)	**1,607,138**	**1,248,887**
2,061,046	781,714	2,842,760
$ 1,702,795	**$ 2,388,852**	**$ 4,091,647**

AUTOMATION ALLEY

STATEMENTS OF CASH FLOWS

	Year Ended August 31	
	2008	2007
Cash flows from operating activities		
Change in net assets	$ 515,298	$ 1,248,887
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	182,103	191,603
Loss on seed fund investments	517,446	12,500
Grant revenue received for investing activities	(1,309,987)	(1,629,800)
Changes in operating assets and liabilities which (used) provided cash		
Grants receivable	44,520	92,916
Memberships receivable	(9,597)	(97,990)
Prepaid expenses and other	18,250	7,678
Accounts payable	(105,126)	(95,044)
Accrued expenses	415	4,625
Event deposits	(27,262)	(23,254)
Deferred grant revenue	58,759	172,510
Deferred membership dues	52,592	26,297
Net cash used in operating activities	**(62,589)**	**(89,072)**
Cash flows from investing activities		
Acquisition of seed fund equity investments	(559,987)	-
Issuance of seed fund notes receivable	(750,000)	(1,629,800)
Repayment of seed fund notes receivable	100,000	-
Purchases of property and equipment	(41,656)	(62,225)
Net cash used in investing activities	**(1,251,643)**	**(1,692,025)**
Cash flows from financing activities		
Grant proceeds received for investing activities	1,309,987	1,629,800
Repayments of long-term debt	(21,917)	(22,599)
Net cash provided by financing activities	**1,288,070**	**1,607,201**
Net decrease in cash and cash equivalents	(26,162)	(173,896)
Cash and cash equivalents, beginning of year	822,020	995,916
Cash and cash equivalents, end of year	**$ 795,858**	**$ 822,020**

The accompanying notes are an integral part of these financial statements.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Automation Alley (the "Organization") is a regionally-focused technology organization integrating business, education and government to strengthen southeastern Michigan's economy. The purpose of the Organization is to act as a catalyst to enhance the image of southeastern Michigan and to help its members grow their businesses. The Organization provides products and services that stimulate and highlight the technological excellence and diversity of the regional economy. Membership is made up of technologically diverse, progressive businesses, educational institutions and government entities within an eight county area and the City of Detroit.

The Automation Alley Consortium (the "Consortium") was established in May 1998 to develop programs to support members in their efforts to attract world-class, high technology workers to southeastern Michigan. Working with government agencies, the Consortium is working to turn southeastern Michigan into an internationally-recognized economic powerhouse.

Concentrations

Approximately 52% and 53% in 2008 and 2007, respectively, of the Organization's public support and revenue is currently provided from grants received from the State of Michigan and United States Departments of Transportation. In addition, the Organization's memberships and related dues revenue are concentrated in business entities and individuals located principally in Southeastern Michigan.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks and cash on hand. For the purpose of the statement of cash flows, the Organization considers all unrestricted highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Organization has, at times throughout the year, bank balances that exceed federally insured limits. The Organization has not experienced any losses on such accounts, and management believes the Organization is not exposed to any unusual interest rate or credit risk on cash and cash equivalents.

Revenue Recognition, including Deferred Revenue

The Organization accounts for its public support and revenues in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, (SFAS No. 116) *Accounting for Contributions Received and Contributions Made.* Public support and revenues generally fall into the following categories:

Membership Dues

Revenues from memberships qualify as "exchange transactions" in accordance with SFAS No. 116. Membership dues, which typically are one year in duration, are initially recorded as deferred revenue in the statement of financial position and recognized ratably over the membership year. The membership year begins in the month the related dues are paid and expires over a 12 month period. Membership dues for renewals that are received prior to expiration of the existing membership are recorded as deferred revenue on the statement of financial position.

Sponsorships and Promises to Give

Event sponsorship revenues generally qualify as exchange transactions in accordance with SFAS No. 116 and are recognized in the period in which the related event occurs; they are recorded as deferred revenue if received in advance of such event. Depending on the nature of the sponsorship, such revenues may be considered "unconditional promises" in accordance with SFAS No. 116 and are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor imposed restrictions.

Sponsor and other contributions that are unconditional promises are recognized as unrestricted when the donor makes a promise to give to the Organization that is, in substance, unconditional. Sponsorships 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 nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Government Grants

Revenues from government grants are typically earned on a reimbursement basis whereby grant revenue and related receivables are recognized in the period in which qualifying grant expenditures are made, and are thus considered exchange transactions under SFAS No. 116. Any portion of such grants received in advance of the Organization incurring qualifying expenses is recorded as deferred revenue in the statement of financial position. Government grants that qualify as "unconditional promises" are accounted for as described under "Sponsorships", above.

In-Kind Contributions

The Organization recognizes the value (as revenue and related expense in the statement of activities) of contributed services, if the contributed service received creates or enhances non-financial assets or requires specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. Contributed services that do not meet these criteria are not recognized.

Grants and Memberships Receivable

The Organization receives grants on an annual basis from various funding sources. Certain grants are funded on a reimbursement basis, which can lead to a grant receivable amount at year end. As discussed above, such reimbursable grants are considered "exchange transactions" in accordance with SFAS No. 116. Accordingly, grant revenue and related receivables are recognized in the period in which qualifying grant expenditures are made. Any portion of such grants received in advance of the Organization incurring qualifying expenses is recorded as deferred revenue in the statement of financial position. Management does not consider allowances necessary at August 31, 2008 or 2007.

Memberships receivable result from unpaid membership renewals and are unsecured. Management assesses the collectability of such receivables by an analysis of the respective member's status, past payment history, length of time as a member, etc. Unpaid renewals that management does not expect to collect are written off to expense as management deems them uncollectible. Uncollectible memberships have historically been immaterial, and management does not believe allowances are required at August 31, 2008 or 2007.

Seed Fund Investments and Notes Receivable

The Organization accounts for its investments in accordance with Statement of Financial Accounting Standards No. 124 (SFAS No. 124) *Accounting for Certain Investments Held by Not-for-Profit Organizations*; the (AICPA) American Institute of Certified Public Accountants Accounting and Audit Guide, *Not-for-Profit Organizations*; and Financial Accounting Standards Board Staff Position FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP 115-1).

As part of its "Advanced Automotive Seed Fund" and "Automotive Technology Business Accelerator", the Organization receives funding from governmental entities affiliated with the State of Michigan to encourage the development of competitive-edge technologies through, among other activities, the creation of early stage "seed funds". The Organization uses such seed funding to make equity and debt (notes receivable) investments in various Michigan-based companies, which are typically high-tech, start-up companies or development stage enterprises.

Certain of the Organization's seed funds issued as notes receivable are accounted for as investments under SFAS No. 124 since they are either secured, convertible into equity securities, or both. Equity investments where the Organization exercises control or where its ownership interest is at least 20% but less than or equal to 50%, are accounted for under the equity method in accordance with Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Investments not accounted for under the equity method that also do not have readily determinable fair values are accounted for under the cost method and are evaluated annually for impairment, and to determine whether such impairment is temporary or other-than-temporary. If a cost method investment is deemed by management to be other-than-temporarily impaired, it is written down to its estimated fair value, which becomes the new carrying value, with subsequent recoveries in fair value, if any, not recognized.

As discussed above, the Organization's investments are made in companies that are typically start up or development stage in nature, and that are privately held. Accordingly, these investments do not have readily determinable fair values. As of August 31, 2008 and 2007, management has recorded impairments aggregating $539,800 and $112,500, respectively, on such investments where management has assessed the fair value impairment as other-than-temporary.

The Organization has three and one investments aggregating $649,987 and $100,000, which are accounted for under the equity method, as of August 31, 2008 and 2007. The Organization's share of the investees' accumulated losses is approximately $190,146 and $100,000 for these three and one investments, as of August 31, 2008 and 2007, respectively. The Organization's share of the investee's accumulated losses exceeds its initial investment for one of the companies, and is thus carried at zero on the statement of financial position. The Organization has not recorded losses on this investment in excess of its initial investment since management believes the Organization is not obligated to fund additional losses.

The underlying agreements, which provide funding for the seed fund investments do not require the Organization to repay the funding if and when the underlying notes are collected or equity investments are recouped; however, any such proceeds must be reinvested, including any interest collected, in accordance with the agreement. Accordingly, such funding is recorded as temporarily restricted net assets until such time (if ever) that the investments are written down below cost due to impairment or for recognition of equity method losses.

Deposit

The Organization has an agreement with an unrelated company whereby the Organization and the company are expected to form another new entity, with each having an ownership interest. The Organization has funds amounting to $100,000 that are held by the unrelated company in anticipation of the new entity being formed. As of August 31, 2008, this new entity has not been formed and management has recorded the $100,000 held by the unrelated company as a deposit.

Property and Equipment and Depreciation

Purchased property and equipment are stated at cost. Donated property and equipment is recorded at fair market value at the date of the donation. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these productive assets to determine whether carrying values have been impaired. Depreciation is computed annually using the straight-line and double declining balance methods over the estimated useful lives of the related assets, which range from 5 to approximately 40 years.

Non-Monetary Transactions

In the normal course of business, the Organization trades its membership dues for the services of some of its suppliers. These transactions are recorded at fair values when the goods and services are received, with fair value being equal to the value of the related membership provided to the supplier. Approximately $290,000 and $315,000 of membership dues revenue results from such transactions for the years ended August 31, 2008 and 2007, respectively, and relates principally to advertising placed and professional services received.

Advertising Costs

Advertising costs are expensed as such amounts are incurred. Advertising costs were $462,276 and $307,532 for the years ended August 31, 2008 and 2007, respectively. These amounts include $270,517 and $145,250 for fiscal 2008 and 2007, respectively, in advertising services that were received in exchange for membership dues.

Income Taxes

The Organization is a not-for-profit organization exempt from income tax under Section 501(c) (6) of the Internal Revenue Code and is exempt from similar state and local taxes.

Although the Organization was granted an income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income. The Organization has been classified as not a private foundation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. An Organization estimate that is particularly sensitive is its estimate of other-than-temporary impairment for certain seed fund investments.

2. GRANTS RECEIVABLE

Grants receivable consisted of the following amounts from the following sources at August 31:

	2008	2007
United States Department of Transportation	$211,255	$ 252,447
Facilities Grant	-	76,589
United States Department of Labor	4,525	30,723
United States Department of Defense	99,459	-
Total	**$ 315,239**	**$ 359,759**

3. SEED FUND INVESTMENTS

As discussed below, Seed Fund Investments consist of notes receivable and both equity method and cost method common stock equity investments. These investments are summarized as follows:

	2008	2007
Notes receivable	$2,482,550	$2,082,550
Common stock investments - equity method	649,987	100,000
Common stock investments - cost method	300,000	290,000
Investment in LLC	250,000	-
Total seed fund investments	3,682,537	2,472,550
Less impairment and equity method losses recorded	729,946	212,500
Net carrying value	**$2,952,591**	**$2,260,050**

Seed Fund Investments - Notes Receivable

Seed fund note investments consisted of the following amounts at August 31:

	2008	2007
NON-IMPAIRED NOTES:		
Note receivable, Saphan, Inc., due February 2009, bearing annual interest at 7.50%. Convertible and secured by substantially all assets of the debtor.	$ 100,000	$ 100,000
Note receivable, Electro Jet, Inc., due December 2008, bearing annual interest at 8.00%. Convertible and secured by substantially all assets of the debtor.	100,000	100,000
Note receivable, Hybra-Drive System, due December 2008, bearing annual interest at 8.00%. Convertible and secured by substantially all assets of the debtor.	250,000	250,000
Note receivable, Jadi, Inc., due November 2009, non-interest bearing.	92,750	92,750

Note receivable, Critical Signal Tech, due January 2010, bearing annual interest at 8.00%. Secured by substantially all assets of the debtor.	250,000	250,000
Note receivable, Danotek Motion Tech, due January 2009, bearing annual interest at 6.00%. Repaid in 2008.	-	100,000
Note receivable, Cielo Med, due December 2012, bearing annual interest at 12.00%. Convertible and secured by substantially all assets of the debtor.	250,000	250,000
Note receivable, Secure Com, due December 2008, bearing annual interest at 9.00%. Convertible and secured by substantially all assets of the debtor Converted in 2008 to a stock investment.	-	250,000
Note receivable, Parking Carma, due March 2009, bearing annual interest at 8.00%. Convertible.	250,000	250,000
Note receivable, Parking Carma, due April 2010, bearing annual interest at 8.00%. Convertible.	150,000	-
Note receivable, Global Energy Innovations, due September 2010, bearing annual interest at 9.00%. Convertible and secured by substantially all assets of the debtor.	250,000	-
Note receivable, Pure Entropy, due December 2009, bearing annual interest at 9.00%. Convertible and secured by substantially all assets of the debtor.	250,000	-
IMPAIRED NOTES		
Note receivable, Prezign, Inc., due January 2008, bearing annual interest at 7.50%. Convertible and secured by substantially all assets of the debtor.	100,000	100,000
Note receivable, Blizzard Boost, due February 2009, bearing annual interest at 8.25%. Convertible.	12,500	12,500

Note receivable, Check the Crib Corp., due December 2008, bearing annual interest at 8.00%. Convertible and secured by substantially all assets of the debtor.	77,300	77,300
Note receivable, Razor Threat, due January 2009, bearing annual interest at 8.00%. Convertible and secured by substantially all assets of the debtor. (see Note 10)	250,000	250,000
Note receivable, Cargo Solutions, due December 2010, bearing annual interest at 9.00%. Convertible and secured by substantially all assets of the debtor.	100,000	-
Total seed fund notes receivable	2,482,550	2,082,550
Less impairment	539,800	112,500
Net carrying value	**$ 1,942,750**	**$1,970,050**

Certain of the note agreements have various conversion features where the Organization has the option to convert the note receivable into shares of the debtor's common or preferred stock. For the year ended August 31, 2008, one such conversion occurred.

Future principal maturities of the notes, excluding impairment, are scheduled as follows for the years subsequent to August 31, 2008:

Year Ended August 31	Amount
2009	$1,139,800
2010	742,750
2011	350,000
2012	-
2013	250,000
Total	**$2,482,550**

Seed Fund Common Stock Investments - Equity Method

The Organization has made three seed fund investments in common stock amounting to $649,987 at August 31, 2008 and 2007 that are accounted for under the equity method. As discussed in Note 1, these investments are carried at $459,841 in the accompanying statements of financial position after recognition of its share of the investees' losses.

Seed Fund Common Stock Investments - Cost Method

The Organization has two and three common stock seed fund investments at August 31, 2008 and 2007 amounting to $300,000 and $290,000, respectively that are accounted for using the cost method as management believes the Organization has no readily determinable fair value, the percentage of ownership is less than 20%, and the Organization does not exercise significant influence.

Seed Fund Investment in LLC

The Organization has one seed fund investment in a limited liability company at August 31, 2008 amounting to $250,000 that is accounted for using the cost method, as management believes it does not have the ability to significantly influence the entity's operational or financial policies and its percentage of ownership is less than 20%.

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment are summarized as follows at August 31:

	2008	2007
Land and land improvements	$ 610,640	$ 610,640
Buildings and improvements	2,357,308	2,353,333
Equipment	450,267	412,587
Total property and equipment	3,418,215	3,376,560
Less accumulated depreciation	666,537	486,772
Property and equipment, net	**$2,751,678**	**$2,889,788**

5. MORTGAGE PAYABLE

Long-term debt consists of a mortgage on the Organization's operating facility that matures in June 2010, and requires monthly installments of $8,599 prior to a balloon payment, including interest at 6.28% per annum.

Scheduled principle maturities of this mortgage obligation are summarized as follows for each of the years succeeding August 31, 2008:

Year	Amount
2009	$ 26,376
2010	1,205,370
Total mortgage payable	1,231,746
Less current portion	26,376
Total mortgage payable, net of current portion	**$1,205,370**

Interest expense was $75,069 and $80,706 for the years ended August 31, 2008 and 2007, respectively.

6. OPERATING LEASES

The Organization leases office equipment under noncancelable operating lease agreements. The leases expire in January 2010 and require total monthly payments of $624.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of amounts having the following purpose or time restrictions at August 31:

	2008	2007
Seed fund investments	$3,152,591	$2,360,050
Investment income received from seed fund investments	18,229	-
Business forum	8,065	8,065
Entrepreneurs Forum Series	20,737	20,737
Total temporarily restricted net assets	**$3,199,622**	**$2,388,852**

8. 401(k) SAVINGS PLAN

The Organization has a defined contribution retirement plan covering all employees who meet certain eligibility requirements. Participants may make basic contributions of their compensation up to the legal limit prescribed by Section 401(k) of the Internal Revenue Code. Total retirement benefit expense was $13,610 and $11,482 for the years ended August 31, 2008 and 2007, respectively.

9. SUPPLEMENTAL CASH FLOWS INFORMATION

Cash paid for interest was $75,069 and $80,706 for the years ended August 31, 2008 and 2007, respectively.

10. RELATED PARTY TRANSACTIONS

Seed Fund Investments

Included in the seed fund investments for 2008 and 2007 (see Notes 1 and 3), is a note receivable for $250,000 from a company owned by a member of the Board of Directors. During 2008, this note was deemed by management as other than temporarily impaired and an impairment loss equal to the original note amount of $250,000 was recorded.

Related Party Purchases

The Organization purchased information technology services of approximately $82,000 and $78,000 for the years ended August 31, 2008 and 2007 from a company owned by a member of the Board of Directors.

* * * * *