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May 9, 2016

Management and the Board of Directors
Ann Arbor SPARK and Affiliates
Ann Arbor, MI

We have completed our audit of the financial statements of Ann Arbor SPARK and Affiliates as of and for the year ended December 31, 2015, and have issued our report dated May 9, 2016. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit.

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated December 15, 2015. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the organization are described in Note 2 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting Ann Arbor SPARK's financial statements were:

- Valuation of PreSeed and MicroLoan investments which are based on the valuation committee's interpretation of current company financial health and progress.
- The allowance of uncollectible loans which Management derived the estimates based on historical trends and current year facts.
- The functional expense allocation which is based on Management's estimate of staff time worked on each function and actual costs.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

- **Revenue Recognition**
  There is new revenue recognition (exchange transactions not contributions) standard that will be applicable for the fiscal year ending December 31, 2019. However, if comparative financial statements are presented, all years shown will need to follow the same guidance. Therefore for comparative financial statements, this new standard may need to be run side by side with the existing standard for the year ending December 31, 2018. The new standard has a five step process for recognizing revenue. 1) Identify the contract with the customer. 2) Identify the performance obligations within the contract. 3) Determine the transaction price. 4) Allocate the transaction price to the performance obligation. 5) Recognize revenue when the performance obligation is met. This standard aligns all revenue recognition to similar concepts, rather than industry specific standards. In addition, it discusses some concepts, such as material rights and performance obligations for "free" goods and services, that may not have been covered in previous standards. Look for additional guidance to be released in the future as the Financial Accounting Standards Board (FASB) wrestles with implementation of many nuances of this standard.

- **FASB Exposure Draft – Financial Reporting for Nonprofits**
  FASB has proposed changes to financial statement presentation for nonprofit entities that if implemented would be one of the largest overhauls in financial reporting for nonprofits in nearly two decades. These changes are still in draft form, and may have numerous changes before they are finalized or may never be finalized.

  Here are some key changes you should be aware are being proposed.

  - Net asset classifications will be reduced to "With donor restrictions" and "Without donor restrictions" and additional disclosures will be necessary.
  - Underwater endowments would be listed at the current value (underwater) in the donor restricted net assets and would have additional disclosures including policies for spending.
  - An operating income measurement would be required on the statement of activities. Operating would be defined as meeting both a mission and an availability requirement.
  - All not-for-profits will need to do a "statement" of functional expenses for operating expenses as either a basic statement or a disclosure.
  - A direct method statement of cash flows will be required. Definitions will differ from for-profit entities. Fixed asset purchases and sales will be operating.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

No material misstatements detected

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

The following immaterial misstatement for $40,667 of grant funds that were not recorded as revenue at year end was detected as a result of audit procedures and corrected by management.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Report on Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We discussed these matters with various personnel in the organization during the audit and have already met with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Directors, and others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Ann Arbor, Michigan