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April 19, 2017

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

We have completed our audit of the financial statements of Ann Arbor SPARK and Affiliate as of and for the year ended December 31, 2016, and have issued our report dated April 19, 2017.

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 20, 2016. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

*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 estimates affecting Ann Arbor SPARK and Affiliate's financial statements was 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 the estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

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

*Accounting Standards and Regulatory Updates*

- *Revenue Recognition*
  There is a 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 Update – Financial Reporting for Nonprofits*
  FASB has issued ASU 2016-14 detailing changes to financial statement presentation for nonprofit entities that will be one of the largest overhauls in financial reporting for nonprofits in nearly two decades. The changes will come in two rounds of issuance, with the second still in deliberations.

  Here are some key changes of which you should be aware:

  - Net asset classifications will be reduced to "With donor restrictions" and "Without donor restrictions" and additional disclosures will be necessary.
  - Underwater endowments will be listed at the current value (underwater) in the donor restricted net assets and will have additional disclosures including policies for spending.
  - Both a direct or indirect method statement of cash flows will be allowable. Definitions within the cash flow statement will differ from for-profit entities. Fixed asset purchases and sales will be operating.
  - Investment income will be reported net of investment expenses
  - Potentially all not-for-profits may need to do a "statement" of functional expenses for operating expenses as either a basic statement or a disclosure, regardless of entity type.

- *Cybersecurity and data backup best practices*
  The Organization's data is critically important. There are millions of ways data can be compromised. It is vitally important that all employees have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event an Organization's information is targeted by malware or a phishing attack. An Organization's vital information is always a moment away from being compromised. Encouraging and educating employees to pay attention to what they click on and what they do is the first step in keeping information safe.

  Having a proper data backup solution in place can mean the difference between an organization surviving a cyber-attack or going under. Every organization should know the answer to two questions when looking at data backup solutions.

  1. How long can my organization survive a network outage?
     Many organizations assume that they are properly backing up their network but how often are those backups tested? Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.

2. Does our organization understand the difference between a backup and disaster recovery? Management often assumes that simply backing up files is “good enough”. Backing up files is something all organizations should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all company data in the event of a disaster is another.

- *Leases*
  There is a new Accounting Standards Update which will significantly change accounting for leases by both lessors and lessees. The new guidance, requires the right of use model in accounting for all leases, with limited exceptions. As a result, lessees will be required to recognize assets and liabilities arising from operating leases. Lessees will recognize interest expense on the liability and amortization of the right-to-use asset in their results of operations. Capital lease accounting will also change due to changes in guidance related to options and contingent rentals. Rules may be simplified for leases with terms of twelve months or less but will be applied to all existing leases upon adoption. The guidance could have implications, not only for the Organization’s financial statements, but also for any applicable debt covenants. The standard that will be applicable for the fiscal year ending December 31, 2020. 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, 2019.

*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.

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.

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