

April 12, 2018

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, 2017, and have issued our report dated April 12, 2018.

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 November 16, 2017. 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 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

- *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, the first is effective December 31, 2018 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.
- Investment income will be reported net of investment expenses

- *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.

- *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.

- *Cybersecurity Posture*

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five US Companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your organization's overall cybersecurity posture. The National Institute of Standards and Technology published Framework for Improving Critical Infrastructure Cybersecurity, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your organization's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

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