

THE TECH MUSEUM OF INNOVATION

Report to Finance Committee Members

December 31, 1995

September 16, 1996

Finance Committee Members
The Tech Museum of Innovation

Grant Thornton 
GRANT THORNTON LLP Accountants and
Management Consultants
The U.S. Member Firm of
Grant Thornton International

Ladies and Gentlemen:

Professional standards require that we advise you of the following matters relating to our recently concluded audit. The matters discussed herein are those that we have noted as of August 23, 1996, and we have not updated our procedures regarding these matters since that date to the current date.

Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 26, 1996, our responsibility, as prescribed by generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants ("AICPA") and *Government Auditing Standards* issued by the Comptroller General of the United States, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards and *Government Auditing Standards* does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors, irregularities (or illegal acts), or noncompliance with the provisions of laws, regulations, contracts and grants, if existing, have not been detected. Such standards require that we obtain a sufficient understanding of The Tech Museum of Innovation's ("The Tech") internal control structure to plan the audit. However, such understanding and any tests performed with respect to such internal controls, or as to compliance with laws, regulations, contracts and grants, were for the purpose of expressing our opinion on The Tech's financial statements and not to opine or provide any assurance concerning such internal control structure or compliance. We could, however, as a separate engagement, be engaged to perform agreed-upon procedures or examine and report on management's written assertion about the internal control structure or that management complied with specific laws and regulations. Such engagements would be conducted in accordance with AICPA standards for attestation engagements.

As required by Office of Management and Budget ("OMB") Circular A-133 *Audits of Higher Education and Other Nonprofit Institutions* pertaining to The Tech, we performed the following additional testing of internal controls and compliance to supplement our financial statement and audit procedures:

OMB Circular A-133

- Internal Controls

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to The Tech's major federal financial assistance program.

- General Requirements

We applied procedures to test The Tech's compliance with the general requirements governing political activity; civil rights; cash management; relocation assistance and real property acquisition; federal financial reports; allowable costs/cost principles; drug-free workplace; and administrative requirements applicable to its federal financial assistance program.

- Specific Requirements

We have tested The Tech's compliance with the specific requirements governing types of services allowed or not allowed; reporting; special tests and provisions; and claims for advances and reimbursements that are applicable to its major federal financial assistance program.

Although such tests supplement our financial statement audit procedures, they were performed solely to meet the specified requirements of the aforementioned laws, regulations and requirements and do not constitute an examination directed toward the expression of an opinion with respect to the internal control structure or compliance with such laws, regulations, contracts or grants. Accordingly, no such opinion was expressed.

Management Judgments and Accounting Estimates

Accounting estimates, based upon management's judgments, are an integral part of an entity's financial statements. Those judgments are normally based on 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 markedly from management's current judgments.

The Tech's allowance for doubtful contributed support receivables of \$351,599 is a particularly significant estimate. The determination of the balance in the allowance for doubtful contributed support receivable is based on an analysis of the receivables and reflects an amount which, in management's judgment, is adequate to provide for potential losses after giving consideration to the character of the receivables, current economic conditions, past collection experience and such other factors that deserve current recognition in estimating losses.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments that were not recorded by The Tech because they are not material to the current financial statements but might be potentially material to future financial statements.

During our audit, adjustments totaling \$7,257,394 were recorded which impacted net assets. These adjustments were related primarily to the adoption of Statement of Financial Accounting Standards No. 116 discussed below.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter which could be significant to The Tech's financial statements or the audit report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Accountants

Management has informed us they have not consulted with other accountants during the year.

Difficulties Encountered in Performing the Audit

We are pleased to report that we encountered no difficulties in performing the audit.

Initial Adoption of Accounting Policies

The Tech has adopted, effective January 1, 1995, Statement of Financial Accounting Standards ("SFAS") No.'s 116, 117 and 124.

SFAS 116, *Accounting for Contributions Received and Made* requires that unconditional promises to give be recorded currently as receivables and revenue. Contributions are recorded by net asset category in accordance with donor-imposed restrictions. The cumulative effect of this change in accounting principle was to increase beginning net assets by \$6,679,617.

SFAS 117, *Financial Statements of Not-For-Profit Organizations* establishes standards for external financial reporting by not-for-profit organizations. Although the adoption of SFAS No. 117 does not affect the total net assets of The Tech, the format of the financial statements has changed significantly.

SFAS 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations* requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in the statement of activities. Adoption of this statement did not have a significant impact on the financial results of The Tech.

Should you desire further information concerning our these matters, we will be happy to meet with you at your convenience.

This letter is solely for the internal use of the Finance Committee, Board of Directors and management of The Tech Museum of Innovation and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

Grant Thornton LLP