

## **LDFFA Board Meeting**

June 16, 2009

8:15 am to 10:15 am

Ann Arbor SPARK

201 S. Division St., Suite 430

Ann Arbor, MI 48104

# **Agenda**

- I. Call to Order**
- II. Public Comment**

Public comment shall be allowed at all meetings. An individual may speak for up to three (3) minutes on any item listed on the Agenda. The Chair may extend an individual's speaking time in his/her discretion. Public comment on non-agenda items may be limited in the Chair's discretion.
- III. Approval of the Agenda**
- IV. Approval of the Minutes of the April 28, 2009 Regular Board Meeting**
- V. LDFFA Chair's Report**
- VI. Other Business**
  - a. Approval of the FY 2010 Final LDFFA Budget**
  - b. Report from Audit Committee – FY 2009 Interim Audit of SPARK**
  - c. Report from Budget/Contract Committee –**
    - 1) Draft FY 2010 Agreement Between the LDFFA and Ann Arbor SPARK (Handout)**
    - 2) FY 2010 Administrative Agreement Between the LDFFA and the City of Ann Arbor**
    - 3) Attachment C to FY 2009 Agreement Between the LDFFA and Ann Arbor SPARK**
  - d. Committee Appointments – Nominating Recommendation**
  - e. Report from Cantillon Committee**
- VII. Motion to Adjourn**



**MINUTES – REGULAR BOARD MEETING  
April 28, 2009**

**Ann Arbor-Ypsilanti SmartZone Local Development Finance Authority**

**SPARK Central Incubator  
330 E. Liberty Street, Ann Arbor, MI 48104**

---

**Members Present:** Richard King, Michael Korybalski, Rob Risser, Stephen Rapundalo, Theresa Carroll, Mark Maynard, Darryl Daniels, Richard Beedon, Lisa Kurek, Roselyn Zator-MEDC Ex-officio, Tom Crawford-Ex-officio, Skip Simms-Accelerator Ex-officio

**Members Excused:**

**Others Present:** Greg Fronizer-SPARK, Elizabeth Parkinson-SPARK, Kurt Riegger-SPARK, Amy Cell-SPARK, Sandi Bird-City of Ann Arbor-Finance, Helene Gidley-HSG Consulting, Ann Arbor Chronicle

---

**CALL TO ORDER:**

King called the meeting to order at 8:05am. A quorum was present.

**APPROVAL OF THE AGENDA:**

Maynard moved, seconded by Kurek, to approve the Agenda for this meeting in the form presented at this meeting, as amended per discussion. Motion approved unanimously.

**NEW BUSINESS:**

Kurek moved, seconded by Maynard, to create a non-voting Ex-officio member representative from the Accelerator as per Section 1(b) of the Agreement Between City of Ann Arbor and City of Ypsilanti, dated 12-12-02.

Roll call vote:

Korybalski - Yes  
Maynard - Yes  
Carroll - Yes  
Kurek - Yes  
Daniels - Abstained  
King - Yes  
Beedon - Abstained  
Risser - No  
Rapundalo - No

Motion passed – 5-2.

DRAFT

Korybalski moved, seconded by Kurek to accept Mike Finney's recommendation to appoint Skip Simms as a non-voting Ex-officio member representative from the Accelerator.

Roll call vote:

Korybalski - Yes  
Maynard - Yes  
Carroll - Yes  
Kurek - Yes  
Daniels - Abstained  
King - Yes  
Beedon - Yes  
Risser - No  
Rapundalo - No

Motion passed – 6-2.

**OTHER BUSINESS:**

**1. Strategic Planning**

Helene Gidley, HSG Consulting, facilitated a “Strategy Development Session” for board discussion of what the LDFA goals, strategies and plans should look like going into the future. The outcome of goals identified were:

- a) Establish strategic priorities of SmartZones.
- b) Determine/Identify tools, resources, and programs to implement the strategic priorities.
- c) Provide oversight that assures the effective and efficient use of the LDFA funds.

Next steps: Strategic Planning Committee and Contract/Budget Committee to evaluate/work on goals for next board meeting.

Beedon excused at 12:23 pm

Daniels excused at 2:35 pm

**MOTIONS & RESOLUTIONS:**

**1. Minutes of the April 2, 2009, Special Board Meeting:**

Kurek moved, seconded by Carroll, to approve the Minutes of the April 2, 2009 special board meeting in the form presented at this meeting. Motion approved unanimously.

**2. Minutes of the March 17, 2009, Regular Board Meeting:**

Maynard moved, seconded by Rapundalo, to approve the Minutes of the March 17, 2009 regular board meeting in the form presented at this meeting. Motion approved unanimously.

**REPORT FROM SERVICE PROVIDERS:**

**1. Ann Arbor SPARK Business Accelerator Report FY 2009 3rd Quarter Ended March 31, 2009:**

Risser moved, seconded by Maynard, to accept The Ann Arbor SPARK Business Accelerator Report for the FY 2009 3rd quarter ended March 31, 2009, in the form presented at this meeting and attached hereto and made a part thereof. After discussion and consideration of the report, motion approved unanimously.

**2. Budget Reallocation to Business Incubator:**

Rapundalo moved, seconded by Risser to authorize the increase in funding for the Business Incubator Lease Subsidy budget line item and the budget reallocation by reducing the unexpended Business Accelerator Phase III – Intensive Services budget line item, and to prepare Attachment C to the Agreement between the LDFA and Ann Arbor SPARK, dated June 30, 2008 and effective as of July 1, 2008, for this Contract amendment. Motion approved unanimously.

**LDFA TREASURER'S REPORT:**

**1. LDFA Financial Report – FY 2009 3rd Quarter Ended March 31, 2009:**

Korybalski moved, seconded by Risser, to approve the LDFA financial report for the FY 2009 3<sup>rd</sup> quarter ended March 31, 2009 in the form presented at this meeting and attached hereto and made a part hereof. After discussion and consideration of the report, motion approved unanimously.

**MOTION TO ADJOURN:**

Risser moved, seconded by Korybalski, to adjourn the meeting at 3:33 pm. Motion approved unanimously.

Respectfully Submitted,

Tom Crawford, Recording Secretary

# Ann Arbor/Ypsilanti SmartZone LDFA Recommended FY 2010 Budget

	Recommended	Amended - City of Ann Arbor 5/18/09	Final Approved
	<u>FY 2010</u>	<u>FY 2010</u>	<u>FY 2010</u>
<b>REVENUES</b>			
Tax Revenue	\$ 1,330,000		\$ 1,330,000
Miscellaneous Revenue	\$ -		\$ -
Investment Income	\$ -		\$ -
<b>Total Revenue</b>	<u>\$ 1,330,000</u>		<u>\$ 1,330,000</u>
<b>EXPENDITURES</b>			
<b><u>Business Accelerator Support Services</u></b>			
Business Accelerator Support	\$ (200,000)		\$ (200,000)
Phase II - Due Diligence	\$ (25,000)		\$ (25,000)
Phase III - Intensive Service	\$ (275,000)		\$ (275,000)
Sub-Total	<u>\$ (500,000)</u>		<u>\$ (500,000)</u>
<b>Micro Loan Program for Entrepreneurs</b>	\$ (275,000)		\$ (275,000)
<b>Angel Investment Group Support</b>	\$ (25,000)	\$ 25,000	\$ -
<b><u>Business Networking</u></b>			
Hosted Events	\$ (20,000)		\$ (20,000)
Sponsorships/Partnered Events/Trade Shows	\$ (20,000)		\$ (20,000)
Sub-Total	<u>\$ (40,000)</u>		<u>\$ (40,000)</u>
<b><u>Entrepreneur Education</u></b>			
Education Classes	\$ (25,000)		\$ (25,000)
BC Unrestricted Operating Grants	\$ (20,000)		\$ (20,000)
BCTuition Funding Match	\$ (20,000)		\$ (20,000)
Sub-Total	<u>\$ (65,000)</u>		<u>\$ (65,000)</u>
<b>Cantillon Web Based Education</b>	\$ (60,000)		\$ (60,000)
<b>SPARK Central Incubator Operating Exp</b>	\$ (140,000)		\$ (140,000)
<b>Marketing</b>	\$ (65,000)		\$ (65,000)
<b>Indirect Services</b>			
SPARK Accounting	\$ (45,000)		\$ (45,000)
Legal & Admin Support	\$ (65,000)		\$ (65,000)
LDFA Staff	\$ (50,000)	\$ 50,000	\$ -
Sub-Total	<u>\$ (160,000)</u>		<u>\$ (110,000)</u>
<b>Total Operating Expenditures</b>	<u>\$ (1,330,000)</u>		<u>\$ (1,255,000)</u>
<b>Net Increase/(Decrease)</b>	<u>\$ -</u>		<u>\$ 75,000</u>
<b>RESERVES</b>			
June 2008 Fund Balance	\$ 178,240		\$ 178,240
FY 2009 Projected Surplus	\$ 290,000		\$ 290,000
FYE 2009 Projected Fund Balance	\$ 468,240		\$ 468,240
FY 2010 Projected Surplus	\$ -		\$ 75,000
FYE 2010 Projected Fund Balance	<u>\$ 468,240</u>		<u>\$ 543,240</u>

**Ann Arbor-Ypsilanti SmartZone  
Local Development Finance Authority**

**Washtenaw County, Michigan**

**AUDIT OF THE ANN ARBOR SPARK  
ENTREPRENEURIAL SERVICES**

**Six Months Ended December 31, 2008**

**DRAFT**

Ann Arbor/Ypsilanti SmartZone  
Local Development Finance Authority

Audit of the Ann Arbor SPARK Entrepreneurial Services Contract

Six Months Ended December 31, 2008

Table of Contents

Report Letter	1
Executive Summary	2-3
General Contract Controls	4
Business Accelerator Services	4-6
Entrepreneurs Boot Camp	6-7
Business Networking Events	8
Cantillon Entrepreneurial Education Series	9
Business Incubator	9-10
Indirect Services	10-11

**DRAFT**

To the Members of the LDFA Board  
Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority  
Ann Arbor, Michigan

We are pleased to have the opportunity to assist you by offering recommendations to help you assess the internal controls of the Ann Arbor SPARK (SPARK) as they pertain to the contract to provide entrepreneurial services for the Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority (LDFA). In performing our procedures, we reviewed SPARK's current processes and procedures as they pertain to the administration of the contract for the six month period ended December 31, 2008.

Our procedures included interviewing and observing SPARK's management and accounting personnel to determine the flow of accounting information and controls placed in operation. The scope of our engagement also included testing certain aspects of the operating effectiveness of such controls.

Our engagement was not designed to express an opinion on the Ann Arbor SPARK's internal controls or financial statements and we do not express such an opinion. As you know, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. However, we noted certain areas where we believe internal control could be improved. Projections of any evaluation of the accounting system and controls to future periods are subject to the risk that the procedures may become inadequate because of changed conditions. Our observations and recommendations are provided throughout this report.

This report is intended solely for the use of management and the LDFA Board of the Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority and is not intended to be and should not be used for any other purpose. We wish to express our appreciation for the courtesy and cooperation extended to us during our engagement. We are available to discuss any or all of these recommendations with you and to provide assistance in the implementation of improvements.

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

\_\_\_\_\_, 2009



## **Executive Summary**

### **Background**

Because of their expertise, interest in stimulating economic growth in the Ann Arbor/Ypsilanti area, and contacts available to them, The Ann Arbor SPARK (SPARK) was contracted by the Ann Arbor/Ypsilanti SmartZone LDFA (LDFA) to provide entrepreneurial services to early-stage business owners. SPARK is a non-profit corporation whose mission is to advance the economic development of innovation-based businesses in the Ann Arbor region by offering programs, resources, and proactive support to business at every stage, from start-ups to large organizations looking for expansion opportunities.

In a contract (the "contract") dated June 30, 2008, SPARK agreed to provide services for the period of July 1, 2008 through June 30, 2009 in the areas of:

- Business Accelerator Services
- Entrepreneurs Boot Camp
- Business Networking Events
- Cantillon Entrepreneurial Education Series
- Business Incubator
- Indirect Services

Contracts for similar services exist for the 2006-07 and 2007-08 fiscal years, but those are not considered in this report.

We were previously retained to offer our recommendations regarding SPARK's processes and procedures as they related to the contract for the 2007-08 fiscal year. In our report dated September 16, 2008, we noted several deficiencies in SPARK's internal control which hindered their ability to fulfill their obligations under the 2007-08 contract.

Payments to SPARK are made based on monthly billings sent to the LDFA. SPARK is entitled to payment under the contract when consulting hours are expended, certain activities take place, certain deliverables are completed, or reimbursements. Each of these methods of earning the payments made, along with the internal controls necessary to provide a proper audit trail, are detailed in the contract. The contract also specifies that all aspects of these services are subject to outside audit.

Because the LDFA is only capturing property tax revenue from within the City of Ann Arbor at this time, the contract contains strict geographical restrictions in every area of performance. There is somewhat of an inherent conflict in this area as SPARK's service area extends beyond the boundaries of the City of Ann Arbor. SPARK has other funding sources that are used to finance its activities outside of the contract with the LDFA.

## Audit Scope and Procedures

In our engagement letter dated December 19, 2008, the LDFA contracted with Abraham & Gaffney, P.C. to:

1. Meet with the LDFA and SPARK to obtain an understanding of the process and to obtain the input of all parties.
2. Provide an independent evaluation of SPARK's:
  - Adequacy of internal control procedures that cover all key elements of the contract;
  - Ability to keep adequate records and produce accurate, complete, and useful reports as they relate to fulfilling SPARK's contractual obligations to the LDFA;
  - Monitoring processes to ensure internal control procedures are effective;
  - Procedures to check for defects in billing/reporting requirements or instances of contract non-compliance, with documentation of appropriate and corrective action where necessary;
  - Regular review protocols for individual processes and the internal control system itself for effectiveness.
3. Report to the LDFA on the results of our procedures, the internal controls currently in place, and our recommendations for improvements.

Our procedures consisted of inquiry, observation, and testing of the internal controls SPARK has put into operation with respect to the first six months of the 2008-09 contract with the LDFA. Our main contacts at SPARK for this project were:

Skip Simms, Managing Director of Entrepreneurial Business Development  
Greg Fronizer, Director of Finance and Administration  
Valerie Christofferson, Staff Accountant

We wish to thank Skip, Greg, and Valerie for their assistance during the procedures that we carried out.

## Audit Results

As a result of our auditing procedures, we determined that SPARK is generally in compliance with the requirements outlined in the contract with the LDFA. A few minor exceptions were noted during our audit procedures which are detailed in the applicable sections of the following report.

## **General Contract Controls**

### **Introduction**

The contract calls for certain general activities and controls that are necessary to in order for the LDFA to make monthly payments and assess project progress and contractor compliance.

### **Contract requirements and internal controls needed**

- SPARK must submit quarterly progress reports to the LDFA.
- Final program progress report due by August 31, 2009.
- Special Retrospective Report with respect to the 2007-08 contract must be submitted to the LDFA no later than sixty (60) days after the end of the contract.
- Monthly invoices for work performed shall be submitted no sooner than five (5) and no more than fifteen (15) business days of each month end.
- SPARK was required maintain insurance adequate and reasonable to support its services under the contract and to provide the LDFA a certificate of this insurance, naming the LDFA as an additional insured.

### **Audit results**

SPARK prepared monthly billings and met with the LDFA board on a quarterly basis to discuss the contract. We also noted the following:

- SPARK submitted quarterly progress reports in accordance with the terms of the contract.
- Final program progress report was not applicable to the period audited.
- Special Retrospective Report was generated September 17, 2008 and presented at the first subsequent LDFA board meeting on October 23, 2008.
- SPARK submitted all invoices within fifteen (15) business days of the end of the month.
- SPARK provided appropriate insurance certificates to the auditors and the LDFA in a timely fashion.

## **Business Accelerator Services**

### **Introduction**

Business Accelerator Services (BAS) is a program under which SPARK provides consulting services to start-up companies such as helping define their business model and formulating marketing plans. SPARK has employees who provide these services and they also contract with certain vendors who help provide these services. Services are billed based on "phases" of an engagement with an entrepreneurial entity. Phase I is billed as a flat monthly fee. Phase II and Phase III billings are based on actual time expended consulting with specific entrepreneurial entities.

## Contract agreement

The LDFA pays \$157,000 per year (billable in monthly installments of \$13,084) for Phase I staffing, plus \$100 per hour for BAS provided to eligible businesses in Phase II and Phase III engagements. Bills are submitted monthly with supporting documentation attached.

## Contract requirements and internal controls needed

- Tracking information to ensure that services are provided only to eligible businesses. In order to establish eligibility, the business must be located within the City of Ann Arbor during Phase II or Phase III. If an early-stage business has no primary location, the requirement can be temporarily satisfied by the client business becoming a member (virtual or physical) of the SPARK business incubator.
- Signed engagement letter from all clients that receive Phase II or Phase III services. The letter must also include the following items:
  - Engagement is non-exclusive, SPARK is free to provide similar services to other clients and clients are free to obtain similar services from another provider at their own expense.
  - LDFA may audit any services provided to the client, any confidentiality agreements notwithstanding.
  - Client has been informed of SPARK's conflict of interest policy.
- Time and billing records to support monthly billings to LDFA including:
  - Contemporaneous record of services performed.
  - Identification of service recipient or business purpose and recipients business location.
  - Date and duration of services.
  - Individual performing services on behalf of SPARK.

## Audit results

As a result of our audit procedures, we have determined that SPARK appears to have generally met the contractual requirements regarding the BAS program. We have noted three exceptions to required internal controls in the areas of time and billing reports and eligibility.

Specific audit findings were:

- We selected a sample of forty (40) time entries for thirty-four (34) different entities from the Billing Detail spreadsheet (see following narrative for description) and tested for applicable controls.
  - We found the following results with respect to time and billing records:
    - One (1) instance of the forty (40) sampled where the employees timesheet showed two (2) hours spent in Phase I and two (2) hours spent in Phase II but the billing spreadsheet submitted to the LDFA only had the two (2) hours for Phase I recorded.
    - One (1) instance where the invoice stated that the LDFA was only responsible for six (6) hours reimbursement but the billing sheet was submitted for seven (7) hours.

- We found the following results with respect to verification of geographical eligibility:
  - One (1) client in Phase II whose business location was outside the City of Ann Arbor.

### Current process

SPARK employees fill out a monthly timesheet, in the form of a spreadsheet that shows daily time by client worked on and then turn it into the staff accountant at the end of each month. The staff accountant compiles all of the employee spreadsheets and the consultant's invoices for the month into one spreadsheet called the "Billing Detail", which is used for billing the LDFA. The Billing Detail shows employees or contractors and which clients they worked on during the month and converts these hours to dollars that are billed. The total dollar billing for each month is invoiced to the LDFA.

The Billing Detail spreadsheet lists SPARK employees and contractors that provided services during the month. There are three employees listed. They are Scott Olson, Amy Cell, and Skip Simms. David Bloom is considered a half time employee which means he fills out a monthly time spreadsheet instead of an invoice like other consultants, but he is paid like a consultant not an employee. All other consultants send SPARK monthly invoices, which are in turn invoiced to the LDFA via the Billing Detail. SPARK usually pays less to the consultants than the hourly rate billed to the LDFA (the contract is more on this subject).

SPARK determines the place of business by inquiry and requesting business cards. If a company has no place of business then they are asked to join the business incubator. If a company is being operated out of a client's home then they are also asked to join the incubator. To establish incubator membership, clients are required to sign a "SPARK Central License Agreement."

### Entrepreneur's Boot Camp

#### Introduction

SPARK hosts an Entrepreneur's Boot Camp (EBC) twice each year. The EBC is a two day program during which entrepreneurs receive training on how to start and run a business. SPARK advertises for about 60 days prior to each EBC. This is usually done on the SPARK website or "Ignition", an entrepreneurial newsletter that is published periodically by SPARK. Some attendees are attracted through the Business Accelerator Services (BAS) provided by SPARK, some BAS clients are required by the agreement they sign with SPARK to attend the EBC. All applicants for the EBC are required to fill out a registration form online. During the EBC the attendees listen to lectures from successful entrepreneurs and college professors. After the lectures, firms are given the chance to practice some of the new skills they have learned during the lectures and discussions. Firms that attend the EBC are required to pay a tuition fee of \$995. This tuition fee entitles the firm to two seats at the EBC.

### Contract agreement

The LDFA pays SPARK \$10,000 (unrestricted) prior to each EBC and up to \$10,000 as a "tuition match" for qualified EBC attendees having their principal place of business within the City of Ann Arbor. A maximum of \$40,000 is set in the contract for the EBC. For the six month period ended December 31, 2008 \$19,453 was billed by SPARK to the LDFA.

### Contract requirements and internal controls needed

- Attendance at the workshops is limited to between eight (8) and fifteen (15) firms.
- The unrestricted payment from the LDFA is paid no more than thirty (30) days before the EBC.
- SPARK is to maintain copies of tuition checks received evidencing eligibility for tuition match payments.

### Audit results

Based on our auditing procedures, we have determined that SPARK had adequate controls over billings and tuition match payments and appears to be in compliance with all aspects of the contractual requirements. SPARK received \$12,930 in tuition payments from EBC attendees. The LDFA was billed for the \$9,453 for tuition match for attendees within the City of Ann Arbor as well as the \$10,000 unrestricted funds per the contract for sponsoring the event. There were five (5) companies in attendance at the EBC not located within the City of Ann Arbor. No tuition match was gained for these companies. The contract language does not specifically disallow attendees from outside Ann Arbor.

### Current process

SPARK sets the date of the EBC approximately five (5) months prior to the event occurring. This allows SPARK to determine which month to bill the \$10,000 of unrestricted funds to the LDFA. All firms must register prior to the event and Scott Olson determines if the firms meet the eligibility criteria according to their registration information. Some firms receive a "scholarship". These can be partial scholarships or "full ride" scholarship and the firms receiving these scholarships pay either a reduced amount of tuition or no tuition at all.

Some firms that are associated with the Office of Tech Transfer (part of the University of Michigan) are allowed to attend the EBC for free because SPARK has an agreement with the Office of Tech Transfer (OTT). The firms enrolled by the OTT provide no monetary compensation to SPARK for their attendance. Instead, the OTT pays the tuition for the boot camp on behalf of the firm.

SPARK bills the LDFA for tuition match in the first monthly billing after each boot camp. On the invoice a list of all of the firms that attended the EBC is included. The unrestricted amount is billed for the month before the event, which means payment is received generally around the time the EBC takes place.

## **Business Networking Events**

### **Introduction**

Business Networking Events are events that are hosted by SPARK, or sponsored by SPARK but hosted by other area entrepreneurial support organizations (e.g., Ann Arbor Area Chamber of Commerce, MI-SBTDC, and GLEQ) that service current and potential Business Accelerator clients. These events are similar to seminars for entrepreneurs and investors, and there is a speaker at each one who gives a presentation to the attendees.

### **Contract agreement**

SPARK may bill the LDFA for events held within the City of Ann Arbor, subject to annual maximums of \$19,200 for hosted events and \$24,000 per year for sponsored/partnered events.

### **Contract requirements and internal controls needed**

- SPARK is to maintain records on a "best efforts" basis of who attends these events, where the attendees' businesses are located, and what is the nature of the attendees' businesses.
- SPARK bills for business networking events based on reimbursement of actual expenses. SPARK is required to maintain certified invoices with supporting detail to backup these billings.

### **Audit results**

Based on our auditing procedures, SPARK appeared to comply with the contractual requirements in this area. For the six month period ended December 31, 2008, SPARK billed the LDFA a total of \$5,991 for hosted events and \$2,091 for sponsored/partnered events. We found SPARK's efforts to document attendees at the events to be reasonable and consistent with the "best efforts" basis specified in the contract. We sampled invoices claimed for reimbursement of various events, finding no exceptions or invoices that appeared to be unreasonable or unrelated to the applicable event.

### **Current process**

Normally there is no charge to attend business networking events. Attendees are asked to register for these events online through the SPARK website, but sometimes walk-ins are allowed to attend. Online registration consists of a standard form, which includes a place for attendees to check whether they are an entrepreneur or not, where their place of business is, and the nature of their business. Attendees are asked to sign in when they arrive at the event. SPARK usually hosts more of these events than they claim reimbursement for. Reimbursement is not claimed for all of these events because some of them are not located within the City of Ann Arbor, and in some calendar quarters more events take place than is allowable under the LDFA contract.

## **Cantillon Entrepreneurial Education Series**

### **Introduction**

Cantillon Entrepreneurial Education Series ("Cantillon") is a web based, interactive, high-tech entrepreneurship curriculum that is used to help users learn how to get their business started and be successful. The Cantillon Entrepreneurial Education Series was not part of the scope of the audit and therefore was not subjected to auditing procedures.

## **Business Incubator**

### **Introduction**

The Business Incubator is a program that provides office space and other services to companies that are just starting out for a reduced rate compared to the market average. The SPARK Business Incubator is located at 330 East Liberty Street in Ann Arbor.

### **Contract agreement**

SPARK submits monthly invoices for reimbursement of expenses related to operating the Business Incubator, up to a monthly maximum of \$16,000. The annual maximum for fees reimbursed by the LDFA for the Business Incubator is \$168,000. Expenses which are eligible for reimbursement include lease subsidy, administrative support, utilities and taxes, maintenance, internet services, advertising and promotion, insurance, and shared equipment purchases.

### **Contract requirements and internal controls needed**

- Amounts submitted for reimbursement are not to exceed the actual amount expended by SPARK and are subject to the submission of an approved operating plan.
- Each invoice from SPARK to the LDFA must include line item accounting for each of the elements being reimbursed.
- SPARK must maintain copies of all paid invoices and supporting documentation for all elements of the Business Incubator billings and agrees that these records are subject to independent audit and verification.

### **Audit results**

Based on our auditing procedures, we have determined that SPARK appeared to comply with the requirements established within the Business Incubator portion of the contract. We selected a sample of SPARK's monthly invoices to the LDFA and obtained support for the line items billed. We noted that the items billed and selected agreed to supporting documentation without exception. During our consideration of reasonableness of account classification it was noted that expenses are not always charged to the appropriate category (i.e. one instance where office supplies were charged to internet service line item, one instance where expenses classified as maintenance should have been promotional). No un-reimbursable or



inappropriate expenses were noted. Expenses billed to the LDFA for the six (6) month period ended December 31, 2008 totaled \$69,930. Maximum billing amounts were not exceeded in any one line item or in total.

### **Current process**

Monthly invoices sent to the LDFA by SPARK contain the line items to be reimbursed. A spreadsheet is maintained by Valerie Christofferson to verify each monthly bill does not exceed the maximum allowed. All invoices from vendors are maintained by Valerie, a separate class in the computer system is used to maintain incubator services. This separate class allows Valerie to separate the bills for the rest of SPARK and isolate the bills related to the Business Incubator so they can be submitted for reimbursement.

## **Indirect Services**

### **Introduction**

SPARK provides indirect services under the contract in the areas of Accounting and Marketing services. The Marketing services are provided under a marketing plan that was submitted by SPARK to the LDFA during performance of the prior year contract.

### **Contract agreement**

Accounting services are billed a flat amount each month. Marketing services are billed monthly based on reimbursement of actual expenses and is subject to a maximum of \$50,400 for the contract year.

### **Contract requirements and internal controls needed**

- No special controls are required for the Accounting services billings.
- For the Marketing services, SPARK is required to maintain copies of all paid invoices and supporting documentation. The contract also specifies these records are subject to independent audit and verification.

### **Audit results**

Based on our auditing procedures, we have determined that SPARK appeared to comply with the requirements established within the Indirect Services portion of the contract. We obtained a detail of all charges to the LDFA for the audit period and agreed these charges to the monthly invoices for Marketing services without exception. We sampled the expenditures claimed for reimbursement, noting that all were properly supported by applicable paid invoices and supporting documentation. We also noted that all items were reasonable and appeared to be consistent with the objectives of the contract. Accounting services were billed monthly in accordance with the contract amount. Annual maximums were not exceeded.

**Current process**

Monthly invoices sent to the LDFA by SPARK contain the line items to be reimbursed. As vendor invoices are paid, a separate class in the computer system is used to track Marketing services. This separate class allows Valerie to isolate the bills related to the Marketing services so they can be submitted for reimbursement.

**DRAFT**

## ADMINISTRATIVE SERVICES AGREEMENT

AGREEMENT is made this \_\_\_\_\_ day of \_\_\_\_\_, 2009, by the Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority ("LDFA") and the City of Ann Arbor, a municipal corporation, located at 100 N. Fifth Street, Ann Arbor, Michigan ("Ann Arbor").

Whereas, the City of Ann Arbor is willing to provide financial management, audit and required administrative/secretariat services for the Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority;

Whereas, under PA 281 of 1986, as amended, tax increment revenue eligible expenses include payment for contractual services for planning, administration or general services fulfilling the objectives of the LDFA Development Plan to public entities;

Now, therefore, in consideration of the promises below, the parties mutually agree as follows:

### Article I – Scope of Services

Ann Arbor shall perform the following duties ("Services") in connection with this Agreement:

- Secretariat Services, including preparation of and distribution of meeting agenda, notices and approved minutes; scheduling meeting locations, posting meeting notices in conformance with the Michigan Open Meetings Act, arranging for any accommodations necessary for public attendance at meetings, and the minute taking at meetings.
- Administrative Services, including acting as local office/registered agent for public contact, records depository for the public records of the LDFA and Freedom of Information Coordinator for public record inspection and distribution, planning and administration to assure the execution of LDFA adopted development plans and approved projects, (as requested) provision of administrative oversight/contract administration of contract professionals (attorneys, auditors, consultants and similar service providers)
- Financial Services, including the preparation of or coordination of the preparation of the Fiscal budget, annual report, audit and other financial reports required in connection with tax increment financing, grants or other funding sources.

## Article II – Term and Compensation

This Agreement shall be effective as of July 1, 2009 and continue in full force and effect for a period of one (1) year. The Agreement will renew automatically in one-year periods unless otherwise terminated as provided in Article III.

Ann Arbor shall be compensated for its Services under the Agreement. Ann Arbor shall invoice the LDFA prospectively on a monthly, quarterly or annual basis beginning July 1 each year the Agreement remains in effect for Services to be provided during the fiscal year period (July 1 to June 30). The fee for Services for the period July 1, 2009 to June 30, 2010 shall be \$25,500. The breakdown of costs computed for the fee for Services is provided in Attachment A.

## Article III – Breach and Termination

The LDFA may terminate this Agreement at any time if it determines that Ann Arbor has failed to comply with any material provision of this Agreement and Ann Arbor has not cured said breach within thirty (30) days notice thereof. The LDFA shall be required to notify Ann Arbor in writing of the termination.

Either party may terminate the Agreement by giving thirty (30) days written notice to the other party. The final billing for fee for services will be computed on a prorata basis.

## Article IV - Public Records Depository and FOIA Coordinator

It is understood the LDFA is a public body as defined by the Michigan Freedom of Information Act. All documents developed as a result of this agreement will be freely available to the public. During the performance of the services, the City will be responsible for retention of the public records of LDFA and act as the LDFA's Freedom of Information Coordinator for purposes of inspection and distribution of public records to requesting parties as required by the Michigan Freedom of Information Act

## Article V – Miscellaneous Provisions

The relationship between the LDFA and Ann Arbor is that of independent contractor. Neither of the Parties nor their respective officers, employees or agents shall under any circumstances be deemed to be employees, representatives, or agents of the other party and neither of the Parties shall enter into any contract or commitment in the nature or on behalf of the other party.

This Agreement will be governed and controlled in all respects by the laws of the State of Michigan, including interpretation, enforceability, validity and construction. The parties submit to the jurisdiction and venue of the Circuit Court for Washtenaw County, State of Michigan, or, if original jurisdiction can be established, the United States District Court for the Eastern District of Michigan, Southern Division, with respect to any action arising, directly or indirectly, out of this Agreement or the performance or breach of this Agreement. The parties stipulate that the venues referenced in this Agreement are convenient and waive any claim of non-convenience.

The LDFA and Ann Arbor agree to perform any further acts to execute and deliver any further documents, which may be reasonably necessary to carry out the provisions of this Agreement.

Ann Arbor shall perform its Services in compliance with all statutory, regulatory and contractual requirements now or hereafter in effect as may be applicable to the rights and obligations set forth in the Agreement.

All notices and submissions required under this Agreement shall be by personal delivery or by first-class mail, postage prepaid, to the address stated in this Agreement or such other address as either party may designate by prior written notice to the other. Notice shall be considered delivered under this Agreement to the City when personally delivered to the CFO for Ann Arbor or placed in the U.S. mail, postage prepaid to the Finance Services Area, care of the CFO. Notice shall be considered delivered under this Agreement to the LDFA when personally delivered to the Chair or placed in the U.S. mail, postage prepaid to 100 N. Fifth Avenue, Ann Arbor, Michigan 48107, care of the Chair, Local Development Finance Authority.

Ann Arbor shall not assign, transfer, convey or otherwise dispose of any duties or rights under this Agreement without the prior specific written consent of the LDFA. The LDFA reserves the right to require Ann Arbor to replace subcontractors who are found to be unacceptable.

Whenever possible, each provision of this Agreement will be interpreted in a manner as to be effective and valid under applicable law. However, if any provision of this Agreement or the application of any provision to any party or circumstance will be prohibited by or invalid under applicable law, that provision will be ineffective to the extent of the prohibition or invalidity without invalidating the remainder of the provisions of this Agreement or the application of the provision to other parties and circumstances.

This Agreement constitutes the entire understanding between the City and the Consultant with respect to the subject matter of the Agreement and it supersedes, unless otherwise incorporated by reference herein, all prior representations, negotiations, agreements or understandings whether written or oral. Neither party has relied on any prior representations, of any kind or nature, in entering into this Agreement. This Agreement may be altered, amended or modified only by written amendment signed by the LDFA and Ann Arbor.

The individual or officer signing this Agreement certifies by his/her signature that he/she is authorized to sign this Agreement on behalf of the responsible political entity.

LDFA

Ann Arbor/Ypsilanti Smartzone Local Development Finance Authority

By: \_\_\_\_\_ Dated: \_\_\_\_\_, 2009

Its: \_\_\_\_\_

CITY OF ANN ARBOR

a Michigan municipal corporation

By: \_\_\_\_\_ Dated: \_\_\_\_\_, 2009

Roger Fraser,  
City Administrator

## Administrative Services Agreement Attachment A

	Cost	Allocation	LDFA Cost
<b>DIRECT COSTS</b>			
Sandra Bird - Administrative Support Services:			
Wages	\$ 72,756	10%	\$ 7,276
Benefits	36,260	10%	3,626
Information Technology Charge	10,151	10%	1,015
Subtotal - Direct Costs			11,917
<b>INDIRECT COSTS</b>			
* City of Ann Arbor Central Services Cost Allocation Plan - MSC	13,631	100%	13,631
<b>TOTAL</b>			25,548
<b>TOTAL ROUNDED</b>			\$ 25,500

\* City of Ann Arbor Central Services includes Mayor/Council, City Administrator, City Clerk, Finance Administration, Accounting, Assessor & Treasury

## ATTACHMENT C

(Effective as of April 28, 2009)

By authority of the resolution passed by the LDFA's Board of Directors on April 28, 2009, this ATTACHMENT C amends certain provisions contained in ATTACHMENT A (as amended January 27, 2009 by Attachment B) to the Agreement dated June 30, 2008 and effective as of July 1, 2008 by and between the Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority ("LDFA") and Ann Arbor SPARK ("Contractor").

- The language contained in Section 1.1.4 of ATTACHMENT A to the Agreement dated June 30, 2008 and effective as of July 1, 2008, as modified by Attachment B, is stricken in its entirety and is replaced with the following:

1.1.4 Phase III. Phase III is defined as substantial Contractor investment for business development to advance client firms beyond the startup phase to the seed stage. This includes but is not limited to: (a) development or refinement of a plan, schedule, and budget for achievement of high value milestone(s), (b) addressing a strategic issue, (c) implementation of a milestone plan, (d) advancing the client on 1-3 strategic fronts, and (e) development of an extended plan at the end of the engagement. It is expected that the Cantillon Entrepreneurial Education Series will be utilized as part of the Phase III engagements (see Section 4). For most engagements, it is expected that Phase III will take less than 40 hours of consulting time per year, and Contractor will outsource 100% of all Phase III activities to qualified subcontractors. Phase III services eligible for reimbursement may include:

- Business plan, operational consulting, and business development assistance;
- Patent, licensing, and intellectual property rights consulting;
- Talent and recruitment assistance;
- Identification and development of bank, angel, venture capital, seed, pre-seed, customer, governmental or private grant funding sources.

Initial LDFA Initial Contractor





The maximum fee for subcontractor activity shall be \$281,500. Contractor and client for whom Phase III services are performed shall sign an engagement letter acknowledging:

- (i) That the engagement is non-exclusive, and Contractor is free to provide similar services to other clients, and client is free to obtain similar services from another provider at client's own expense;
  - (ii) LDFA may audit the services provided to client, any agreement regarding confidentiality notwithstanding; and
  - (iii) Client has been informed of Contractor's conflict of interest policies.
- The language contained in Section 1.5 of ATTACHMENT A to the Agreement dated June 30, 2008 and effective as of July 1, 2008, as modified by Attachment B, is stricken in its entirety and is replaced with the following:

1.5 Central Business Incubator. Qualifications for SPARK Central Business Incubator clients, including objective criteria for admission, the scope of services to be provided, and termination or exit criteria shall be established in a written plan of operations that has been formally adopted and approved by the Contractor's board or governing body prior to the start of SPARK Central Business Incubator operations or commencement of any payments by LDFA to Contractor for the SPARK Central Business Incubator. Contractor shall provide a copy of the approved operating plan (and any subsequent revisions) to the LDFA board at a regular or special board meeting of the LDFA. The maximum annual fee shall be \$160,420. The Contractor shall provide information related to SPARK Central Incubator clients in the same manner as that required for Phase III Business Accelerator clients as described in Sections 3.2 and 3.3.

**The effective date of this ATTACHMENT C shall be April 28, 2009. All other terms, conditions, rights, obligations, and provisions contained in ATTACHMENT A to the Agreement dated June 30, 2008 and effective as of July 1, 2008, as modified by Attachment B, that have not been expressly modified in this ATTACHMENT C shall survive intact.**

Initial  Initial   
LDFA Contractor

Agreed to and accepted this 28 day of April, 2009.

Authorized Agent for the LDFA:



By: 

Richard King, LDFA Chair

Authorized Agent for the Contractor:

By: 

Michael A. Finney, Ann Arbor SPARK

Initial  LDFA Initial  Contractor