September 2, 2016

To the Board of Directors
and Management
Fresh Air, Inc.
Minneapolis, Minnesota

We have audited the financial statements of Fresh Air, Inc. (the Organization) for the year ended December 31, 2015, and have issued our report thereon dated August 31, 2016. Professional standards require that we communicate to you certain matters related to our audit. In addition to required communications, we wish to make you aware of certain additional matters. The appendixes to this letter cover these topics as follows:

Appendix I – Required communications relating to internal control.

Appendix II – Communication of significant audit findings.

Appendix III – Additional comments and suggestions. We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience.

This information is intended solely for the information and use of the Board of Directors, management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

We thank management and staff for the courtesies extended to us during the course of our work. If there are any questions regarding our audit or this letter, we would be happy to discuss them with you.

Mahoney Ulbrich Christiansen Russ P.A.

Saint Paul, Minnesota
Appendix I – Internal Control

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In planning and performing our audit of the financial statements of Fresh Air, Inc. as of and for the year ended December 31, 2015, in accordance with U.S. generally accepted auditing standards, we considered Fresh Air, Inc.’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization’s financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Fresh Air, Inc.’s internal control to be significant deficiencies:

**Financial Reporting Process**

Management is responsible for establishing and maintaining effective internal controls. In designing internal controls, management weighs many factors, including the costs, benefits, and the degree of risk to be accepted. Even if management has made a conscious decision to accept a significant deficiency or material weakness in internal control, we are required by professional auditing standards to communicate those matters.

Management may choose to outsource certain accounting functions due to cost or training considerations. However management remains responsible for overseeing outsourced services, making all related decisions, evaluating the adequacy and results of the services, and accepting responsibility for them. That responsibility is not transferred to the service provider.

Management has requested our assistance in preparing year-end accounting adjustments and drafting the financial statements, including notes to the financial statements. Management reviewed, approved and accepted responsibility for those adjustments and financial statements before the financial statements were issued. The absence of in-house expertise is a control deficiency because a misstatement of financial statements could occur and not be prevented or detected.
Appendix I – Internal Control
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Lack of Segregation of Duties
Good internal control requires a segregation of duties and responsibilities such that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. The size of the Organization’s accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. Many nonprofit organizations must cope with budget constraints that make it difficult to separate duties. The lack of segregation could lead to a misappropriation of assets or a misstatement of the financial statements.

The general lack of segregation of controls dictates that the Board of Directors remain involved in the financial affairs of the Organization on a regular ongoing basis to provide oversight and independent review functions and mitigate the weakness created by the lack of segregation.
Appendix II – Significant Audit Findings

Page 4.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 11, 2016. Professional standards also require that we communicate to you the following information related to our audit.

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 current year. During 2015, the Organization changed its policy for vacation and no longer allows for vacation to accrue at year end. As a result, there is no accrued payroll recorded at December 31, 2015. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

During 2015, the Organization wrote off approximately $855,000 of fixed assets from the accounting records, resulting in a loss of $11,394. The Organization believes these write-offs are merited because the fixed assets are no longer being utilized in operations and/or no longer have any additional economic value.

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 the financial statements follow:

- Management’s estimate of the allowance for uncollectible accounts receivable is based on historical collection rates and an analysis of the collectability of individual accounts.
- The depreciation lives are based on experience with similar assets.
- Management’s valuation of donated materials and services is based on a comparison with outside sources and similar services.
- Management’s functional expense allocation is based on estimates of employee work efforts and dollars spent.

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

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.
Appendix II – Significant Audit Findings
Page 5.
Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 31, 2016.

Management Consultations with Other Independent 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.
Appendix III – Additional Comments and Suggestions
Page 6.

Depreciation Schedule – The Organization did not maintain a depreciation schedule for its property, equipment, and leasehold improvements in 2015. It is important for the Organization to be able to track its property, equipment, and leasehold improvements and properly record depreciation expense on a monthly basis.

Recommendation: We recommend that the Organization maintain a depreciation schedule that tracks property, equipment, and leasehold improvements and to record the related depreciation expense on a monthly basis.

Prepaid Expenses – The Organization does not currently track and reconcile prepaid expenses on a monthly basis. It is important for the Organization to be able to track and properly reconcile prepaid expenses to ensure expenses are recorded properly.

We recommend that the Organization maintain a schedule that tracks prepaid expenses and reconcile the prepaid expense balance on a monthly basis.

2015 Budget – The Organization did not prepare a budget for 2015. A budget is a plan for the future operations of a business. It is based on past experience and management’s intentions or expectations of future conditions that will affect the Organization. It allows management to plan the actions necessary for achieving desired or anticipated results and may also be an incentive for employee performance or a means for measuring performance.

We recommend that a budget be prepared for the Organization on an annual basis, with input from employees who will be responsible for meeting that budget, that budget information be compared to actual results of operations, and that the cause of significant variations be determined so that corrective action can be taken if necessary.

Temporarily Restricted Net Assets – The Organization does not currently track restricted contributions and related releases in one schedule. It is important for the Organization to be able to demonstrate to donors that all restrictions have been met.

Recommendation: We recommend that the Organization create a schedule that tracks restricted contributions and the related releases that occur during the year.

Deferred Revenue – The Organization does not currently track deferred revenue and related earned revenue for its underwriting contracts in one schedule. It is important for the Organization to be able to track and properly record underwriting revenue earned on a monthly basis.

Recommendation: We recommend that the Organization create a deferred revenue schedule that tracks underwriting contracts and reconcile revenue earned on a monthly basis.
Appendix III – Additional Comments and Suggestions

New Accounting Standards to be Implemented

ASU No. 2015-09 Revenue from Contracts with Customers Deferral of Implementation – The implementation of the new revenue recognition standards was delayed one year and will now take effect for fiscal years beginning after December 15, 2018. A revenue recognition task force is currently working on implementation guidance for nonprofit entities.

ASU No. 2016-02 Leases – The update replaces the existing accounting model for leases and requires that lessees put most leases on their balance sheets. The standard will take effect for fiscal years beginning after December 15, 2019. Early implementation is permitted.

ASU No. 2016-14 Amendments to Not-for-Profit Financial Statements - The Financial Accounting Standards Board (FASB) released a set of changes in accounting standards for nonprofit organizations in August 2016. The requirements will be effective for financial statements for fiscal years beginning after December 15, 2017.

Some of the highlights include:

- Nonprofits will continue to be allowed to use either the direct or indirect method for presenting operating cash flows. The current requirement to reconcile income (loss) to net operating cash flows when using the direct method is eliminated.
- Temporarily and permanently restricted net assets will be merged into one net asset class (named Net Assets with Donor Restrictions). Unrestricted net assets will be renamed Net Assets without Donor Restrictions.
- In the absence of explicit donor instructions, the placed-in-service approach for expirations of restrictions to acquire or construct long-lived assets must be used. The over-time approach is eliminated.
- Enhanced disclosures about:
  - governing board designations and appropriations.
  - composition of net assets with donor restrictions.
  - how a not-for-profit manages its liquid resources to meet cash needs.
  - the availability of financial assets at the balance sheet date to meet cash needs for general expenditures.
  - expenses by their natural and functional classification.
  - method(s) used to allocate costs by function.
  - underwater endowment funds.

New 990 and Tax Standards for Next Year

The IRS made no significant changes to the Form 990 for 2015.
<table>
<thead>
<tr>
<th>Description (Nature) of Audit Difference (AD)</th>
<th>Factual (F), Judgmental (J), or Projected (P)</th>
<th>Cause</th>
<th>Workpaper Reference</th>
<th>Financial Statements Effect—Amount of Over (Under) Statement of: $1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable balance per the schedule is greater than the amount on the TB.</td>
<td>F</td>
<td>Accounts receivable schedule has unreconciled differences at year-end.</td>
<td>41-6</td>
<td>-$1,702</td>
</tr>
<tr>
<td>Office space lease expense is not being recorded on a straight-line basis in accordance with GAAP.</td>
<td>F</td>
<td>KFAI is recording the lease expense on a cash basis and not following straight line basis</td>
<td>48-1</td>
<td>-$992</td>
</tr>
</tbody>
</table>

| Unadjusted Audit Differences - Current Year (Iron Curtain Method) | -$1,702 | -$992 | -$2,694 | -$1,702 | -$992 | $-710 | $0 |
| Effect of Unadjusted Audit Differences - Prior Years | -$16,915 | $16,915 |
| Combined Current and Prior Year Audit Differences (Rollover Method) | -$1,702 | -$992 | -$2,694 | -$1,702 | -$992 | $-710 | $0 |
| Financial Statement Caption Totals | $247,688 | $4,588 | $243,100 | $884,189 | $850,036 | $34,153 | $0 |
| Current AD as % of F/S Captions (Iron Curtain Method) | -0.59% | -21.62% | -1.11% | -0.19% | -0.12% | -2.08% | 0.00% |
| Current and Prior Year AD as % of F/S Captions (Rollover Method) | -0.59% | -21.62% | -1.11% | -0.19% | -2.11% | 47.45% | 0.00% |