



The Annual Audit Managing Expectations and Communications in an Uncertain Economy

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Agenda

- The Importance of Good Communications – All Year Long
 - Case Study: Property Gift
- What Do the Auditors Care About?
 - Case Study: Estate Gift
- Challenges in our Current Environment
 - Case Study: Underwater Endowments
- Wrap Up

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The Importance of Communications – All Year Long

- Development Office Communications – at what point do you involve the Accounting Office?
 - Types of gifts currently marketing
 - Gift agreements
 - New gifts
 - Unique or unusual gifts
 - Significant gifts
 - Complex gifts
 - Gifts in process
 - Changes in proposed terms
 - When is it complete?
 - Existing gifts
 - Changes in donor situations
 - Economic impact

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The Importance of Communications – All Year Long

- Accounting Office communications – at what point do you involve the Development Office?
 - Gifts in process
 - Identification of challenges to completing the gift
 - Legal review process – hurdles encountered
 - Valuation issues
 - Limit year-end surprises
 - Existing gifts
 - Investment performance (internal vs. external)
 - Regulatory changes
 - UPMIFA
 - Valuation issues

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The Importance of Communications – All Year Long

- Communications with Donors
 - Primary contact
 - Audit confirmation letters
- Productivity Reporting
 - PPP vs. FASB vs. GASB
- Pipeline Reporting

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Case Study: Property Gift

- Donor wishes to donate 26 unit apartment building in The Pearl to fund a CRT for which the charity will serve as trustee.
- Apartment is a mid-century building.
- There is a mortgage on the property.

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Case Study: Property Gift

- Case study discussion:
 - Who should be involved in accepting this gift of real property?
 - What factors should be considered in accepting this gift?
 - What communication must occur with donor?
 - What issues does this present for accounting?
 - What sort of issues does this present for the auditors?



What Do the Auditors Care About?

- Top five red flags from an auditor's perspective
 - Absence of appropriate documentation/clarity of purpose
 - Missed pledge payments or history of inability to collect
 - Inaccurate tracking of donor designations/conditions
 - Estimates used in determining valuation of contributions (non-monetary)
 - Reporting gift in inappropriate period



What Do the Auditors Care About?

- Confirmation of gift
- Estate gifts
 - Why, What, When
- Valuation of gift
 - Internal number used for reporting fundraising totals
 - Requirements per accounting rules
 - Productivity measurements
- Coordinated communications between Development and Accounting
 - Timing of gifts
 - Valuation of gifts
 - Uses most current information available



Case Study: Estate Gift

- Jo Anne met with Foundation staff on numerous occasions about including a bequest from her estate for our Cancer Institute.
- Jo Anne died January 30, 2009.
- At the funeral, staff were introduced to Louise, a neighbor and friend, who is acting as successor trustee.
- Foundation staff met with the successor trustee on March 2, 2009.
- On March 19, 2009, communication from legal counsel representing successor trustee, copies of will and 6 amendments were provided.
- The Estate is comprised of significant antiques and collectibles (buttons and dolls), personal residence in exclusive area, qualified plan assets, rental real estate, with fair market value estimated to exceed \$3.7 million.
- A lawsuit with former husband's child was settled in June of 2009.
- On September 22, 2009, staff requested update from trustee and legal counsel. "Everything OK" paperwork was promised to follow soon.
- No further contact as of January 4, 2010



Case Study: Estate Gift

- Case study discussion:
 - Why no communication?
 - Request preliminary distribution to instigate discussion
 - Who should initiate contact?
 - What information is the Foundation entitled to?
 - With your fiscal year ending June 30th, what does accounting, finance, and the outside auditor need to know?



Challenges in our Current Environment

- Underwater endowments
 - Valuation
 - Honoring donor intent
 - Availability of program support
 - Spending distributions and UPMIFA
- Trust Distributions
 - Annual variability
 - Managing the conversation
- New 990
 - Impact to the organization
 - Impact to donors



Case Study: Underwater Endowments

- A \$1,000,000 endowment fund was established on December 31, 2000.
- The endowment was established to provide consistent program support for a food bank that without this funding, would not be able to provide on-going meal assistance to local families.
- The endowment gift agreement specifies that the endowment fund is to exist into perpetuity and that only income shall be used to fund the spending distributions of the fund.
- With the economic decline in 2008/2009, the funds market value dropped below the original gift value and is currently valued at \$875,000.
- UPMIFA has been enacted in the state where the endowment is held.



Case Study: Underwater Endowments

- Case study discussion:
 - Who should be involved in determining if the spending distribution from the endowment can continue?
 - What factors need to be considered in determining whether or not to make spending distributions from the fund?
 - What sort of communications need to occur with the donor?
 - What sort of issues does this present for the accounting department?
 - What sort of communication should occur with audit team – prior to and during the audit?



Wrap Up

- Communication, education, and awareness between the Development Office and the Accounting Office is the key to a perfect audit!



Presenter Contact Information

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