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**Message from Terry Patton,
Midwestern State University
AAA GNP Section President**

Dear fellow GNP colleagues,

Thank you for allowing me to serve as the president of the Government and Nonprofit (GNP) Section. I look forward to the semi-annual gathering of my fellow GNP educators and researchers. I always hear something that helps me with my teaching or research—and usually both.

I fondly remember attending my first GNP meeting at the Governmental Accounting Standards Board’s office in 1996. I still remember details about the meeting and how welcome the section members made me feel. In particular, I remember meeting Penny Wardlow, Florence Sharp, W.T. Wrege, and Rita Cheng, who took a special interest in the research that I was doing for my dissertation. I remember meeting the authors of textbooks and papers that I had read and research that I admired, such as Earl Wilson, John Engstrom, and Don Deis. I also had a chance to meet the GASB staff, such as David Bean, Ken Schermann, Jay Fountain, and Suesan Catlett (now Patton), who later became co-workers and friends.

If you are new to the section, I only hope that you enjoy our 2014 midyear meeting at the GASB in Norwalk, Connecticut as much as I enjoyed that 1996 meeting. I believe that we have a good agenda planned, and more information about the meeting is included later in this newsletter. I appreciate the help of Kathryn Jervis, who is coordinating the paper submissions and reviews for the midyear meeting.

I also want to thank the many other section members, who are contributing to the continued success of the section. Alan Styles is coordinating our meeting sessions, paper submissions, and reviews for the annual meeting. Andy McLelland is busy with his secretary/treasurer duties. Alan and Andy have also written the latest edition of “Have You Seen” for this newsletter. I always enjoy their summaries of the latest governmental and nonprofit research.

Royce Burnett, president-elect, is already planning the 2015 midyear meeting. Karen Kitching, our newsletter editor, has been gently prodding me to get the information together for this newsletter. If you have anything that you believe would be of interest to the section for the Spring 2014 newsletter, please contact us as we want the newsletter to be helpful to section members.

Tammy Waymire (twaymire@niu.edu) is prepared to put together comment letters that include section member comments to GASB, FASB, FASAB, and GAO exposure documents. (Because the GASB is hosting our midyear meeting, the least that we could do is to provide them with a few comments to their exposure documents.) Ruth Epps was helpful in reviewing and sending out a survey to GNP members that

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did not renew this year. I also appreciate the hard work of all of our officers, committee chairpersons, regional coordinators, and editors.

I would be remiss to not thank the presidents that preceded me and have provided much help and council—Jackie Reck, Suzanne Lowensohn, Linda Parsons, and Thomas Vermeer. I continue to appreciate the help that Jackie, in particular, has given me this year. I hope that we can continue to make progress in developing the strategic plan that Jackie started last year.

Looking forward to seeing you in sunny Norwalk on March 28th for the midyear meeting!

Terry Patton
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GNP Section Mid-Year Meeting

If you have ever wanted to visit the place where the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) set the financial reporting standards that we teach, this is your lucky year. We are pleased that our **2014 GNP section mid-year meeting** will be held at the **Governmental Accounting Standards Board (GASB) headquarters in Norwalk, CT on March 28-29, 2014.**



If you have never visited the GASB offices, you are in for a treat. We will hold meetings in the GASB/FASB boardroom. You will have an opportunity to meet the chairman of the GASB, Mr. David Vaudt, and staff members from both the GASB and the FASB. We will have lunch with the GASB staff members. Mr. Vaudt is scheduled to be our lunch speaker.

Although the program is not yet finalized, we tentatively have a number of interesting sessions scheduled for Friday. Mr. David Bean, GASB

Director of Research and Technical Activities, will provide an update on GASB projects and activities. Mr. Jeff Markert, partner in KPMG's Department of Professional Practice in New York City, will discuss audit issues related to the new GASB pension standards. Mr. Jeff Mechanick, Assistant Director of the FASB, will provide an update on FASB not-for-profit activities. Mr. Dean Mead, Research Manager, will lead a research panel discussion of GASB and FASB staff. On Friday, we are planning to have dinner at the Oak + Almond restaurant. An article about the restaurant recently appeared in the New York Times: http://www.nytimes.com/2013/10/20/nyregion/a-review-of-oak-and-almond-in-norwalk.html?_r=0.

Of course, you will also have an opportunity to participate in the working paper presentations on Saturday. You are invited to stay through lunch at noon on Saturday for the executive committee meeting.

The website to register for the meeting should be working in early December:
<http://aaahq.org/gnp/meetings/2014/hotel.cfm>

2013 Lifetime Achievement Award

The 2013 winner of the Enduring Lifetime Achievement Award is Teresa Gordon. Teresa received her Ph.D. in accounting from the University of Houston and joined the faculty of the University of Idaho, where she spent the next 26 years. During her career, Teresa published over 30 articles and presented dozens of papers at conferences. Her work focuses primarily on accounting in nonprofit organizations, and has been influential to many scholars who do nonprofit research.

Our group is not the first to recognize the impact of Teresa's work on the field of nonprofit accounting. Her manuscript "Bridging the Credibility of GAAP: Individual Donors and the New Accounting Standards for Nonprofit Organizations" published with Saleha Khumawala in the September 1997 issue of *Accounting Horizons* was awarded "Citation of Excellence – Highest Quality Rating" from Anbar Electronic Intelligence for "outstanding contribution to the literature and body of knowledge." Later, her chapter in the last volume of *Research in Governmental and Nonprofit Accounting* entitled "Theories of Not-for-Profit Accounting: Comparison and Application of Current and Proposed Reporting Frameworks" (and also co-authored with Saleha Khumawala) was given the "Outstanding Author Contribution Award" by the Emerald Group publisher. The editor stated "Your paper has been selected as it was one of the most impressive pieces of work the editor has seen throughout 2009."

Teresa is now retired from the University of Idaho, but she continues to work (and even

publish!). In the forthcoming issue of the *Journal of Accounting Education* dedicated specifically to



government and nonprofit topics, Teresa has an invited article entitled "Not-for-Profit Accounting in a Changing World of Standard Setting: What Professors and Students Need to Know." This article draws on her experiences serving on the FASB's Not-for-Profit Advisory Committee, where she is still an active member.

Congratulations to Teresa Gordon on this well-deserved recognition.

GASAC Update – by Jackie Reck

The Governmental Accounting Standards Advisory Council (GASAC) met on October 28 and 29, 2013 in Boston, Massachusetts. This was the first GASAC meeting for the new GASB chair, Dave Vaudt. Dave presented a report on his first few months with GASB. As he indicated, the Financial Accounting Foundation (FAF) has somewhat of a unique situation in that both the

GASB and the FASB chair are new. The two chairs are working to determine what synergies can be obtained through collaboration.

FAF President and CEO Terri Polley provided an update on Foundation activities. She discussed the revised *GASB Scope of Authority* document that was issued for comment. The comment

deadline was September 30. There were far fewer comments on the revised document than had been received on the original document. In the revision the FAF addresses the numerous comments raised concerning GASB independence.

Over the course of the day-and-a-half meeting, GASAC members provided feedback to the Board on issues associated with several projects, including:

- The fiduciary responsibilities project
- Leases project
- OPEB project
- The generally accepted accounting principles (GAAP) hierarchy project and comprehensive implementation guide.

The primary purpose of the fiduciary responsibilities project is to provide the GASB with research on fiduciary reporting. Researchers are gathering data on whether guidance should be developed for the application of the fiduciary responsibility criterion when deciding whether and how governments should report fiduciary activities in their general purpose external financial reports. As part of the project, GASB researchers conducted interviews with users to determine the importance of the current fiduciary financial reports to them. The majority of those interviewed strongly believe that fiduciary financial reports are important in their assessment of a government's accountability for its fiduciary activities.

The GASB discussed lease accounting and measurement at the October meeting of the Board. The need to address lease accounting is precipitated by the change in lease accounting being proposed by the FASB. Given that current GAAP for governments relies on the FASB lease standard, it was determined that now is an appropriate time for GASB to address accounting for government leases. Prior to the October meeting the GASB made tentative decisions concerning the following lease related items: definition of a lease, scope of leases, classification of leases, lease terms, fiscal funding clauses, recognition of assets and liabilities for lessees.

GASAC members were provided an update related to tentative decisions concerning note disclosures and supplemental information for OPEB. When possible, the GASB intends to align the OPEB standard with the pension standard.

The GASB is currently evaluating the individual questions and answers in the *Comprehensive Implementation Guide* to prepare the guide for public exposure. Because the GASB has tentatively decided to move the content of the *Comprehensive Implementation Guide* into the GAAP hierarchy each question and answer must be evaluated to determine whether it is appropriate to consider it authoritative. Based on the evaluations conducted to date, it appears that about 80% of the questions and answers in the guide will be included as authoritative.

Have You Seen?

Andrew J. McLelland, Auburn University
Alan K. Styles, California State University - San Marcos

GNP research is published in a wide range of journals. Since you cannot read them all, this feature of the newsletter highlights some recent research that you may have missed.

“The Effects of Governance on the Accuracy of Charitable Expenses Reported by Nonprofit Organizations” by Michelle H Yetman and Robert J Yetman. *Contemporary Accounting Research*: (Volume 29, Issue 3, 2012): 738-767.

A significant body of research has examined the effects of governance on reporting quality in the for-profit setting, yet we know little of the relationship in the nonprofit setting. Our paper examines the extent to which various governance mechanisms improve nonprofit reporting quality

across a broad sample of nonprofit organizations. The financial disclosure we examine is the ratio of charitable expenses to total expenses, which is one of the most widely used financial metrics to measure nonprofit performance. Prior research shows that this ratio is manipulated upwards by overstated amounts of charitable expenses. Our comprehensive set of governance metrics includes various forms of internal and external oversight and monitoring, some of which have just become publicly available as a result of the recently enhanced nonprofit disclosure environment on governance policies. Our central research hypothesis is that stronger governance will result in more accurately reported charitable ratios. Our results show that the accuracy of reported charitable expenses is increasing in our proxies for the distance separating collective ownership and control, board of director monitoring, audit quality, capital provider monitoring, and regulatory oversight. These findings, many of which are the first of their kind in the nonprofit setting, are important for several reasons. First, they confirm that existing governance mechanisms improve nonprofit reporting quality. Second, users can have more confidence in the financial reports of more highly governed organizations. Finally, the results provide information to policy makers or boards of directors seeking to enhance overall nonprofit financial reporting quality.

“Audit report lags in the Belgian non-profit sector: an empirical analysis” by Anne-Mie Reheul, Tom Van Caneghem, and Sandra Verbruggen. *Accounting and Business Research*: (Volume 43, Issue 2, 2013): 138-158.

The authors investigate audit report lags (ARLs) in Belgian non-profit organizations. ARL is the time period between the organizations fiscal year end and the audit report date. Reheul et al. find ARLs of for-profit firms are substantially shorter than Belgian nonprofit firms due to differences in reporting incentives. Expanding on previous research they find the degree of reliance upon donations and or grants (the ways organizations are funded) are significantly related to the ARL. In addition, they examine if new accounting and financial reporting requirements introduced in 2006 reduce the ARLs. No decreases are observed in the two years after the new requirements became effective.

“Infrastructure Asset Reporting Options: A Stated Preference Experiment” by Stewart Jones, David A Hensher, John Rose, and Robert G Walker. *Accounting Horizons*: (Volume 26, Issue 3, 2012): 465-491.

This paper extends the limited literature on infrastructure reporting into the international arena and investigation of users reporting preferences. The authors provide a brief overview of infrastructure reporting in Australia. The main focus of the paper is examining users’ demand for more comprehensive infrastructure reporting. In contrast to US GASBS 34, Australian accounting standards and other reporting guidelines recommend current written down replacement cost, less depreciation reporting for infrastructure assets and do not require condition assessment. The stated preference experiment involved asking respondents to make choices on reporting options for infrastructure reporting under different attribute levels of political and economic constraints/environments. The subjects in the experiment were managers of local government and public trading enterprises from across Australia. All of the organizations report information on infrastructure assets. The managers were asked to choose a desired level of reporting comprehensiveness (dependent variable) given different economic and political environments for the reporting entity (independent variables). The results of the study suggest that managers/users of infrastructure reporting desire “more comprehensive and detailed financial and nonfinancial disclosures in circumstances where infrastructure has an important role in service delivery and where the performance of infrastructure is under threat.” Specifically, in an environment which favors new (as opposed to legacy infrastructure), physical condition is poor, high investment, the importance of service delivery is high, and high cost required maintenance expenditures.

“Management letter comments: Their determinants and their association with financial reporting quality in local government” by Laurence E. Johnson, Suzanne Lowensohn, Jacqueline L. Reck and Stephen P. Davies. *Journal of Accounting and Public Policy*: (Volume 31, Issue 6, 2012): 575-592.

Johnson et al. expand research into the content, determinants and utility of management letters issued by auditors as part of financial statement audits. They examined determining factors of management letters and financial quality for 426 general purpose local governments from 2002 to 2006 submitted to the Florida State Auditor General's Office. All local governments in Florida with revenues or expenses/expenditures in excess of \$300,000 are required to submit audited financial statements to the Auditor General's Office annually. Each of the audit reports accompanying the statements must include a management letter. The Auditor General's staff complete a checklist guided desk review for each of the submitted financial statements and management letters. These desk reviews provided a rich dataset for Johnson et al.'s investigation of determinants of management letters and the relationship between management letters and financial reporting quality. They find that determinants of management letters were characteristics of the local governments rather than characteristics of the auditors. Determinants included the size of the local government, type of audit opinion received and audit tenure. The comments provided insights into the government's financial management, internal control structure and operational efficiency. They also found a positive relationship between management letter comments and financial reporting for the following year.

“A Review and Assessment of Behavioral Accounting Research in Government” by Linda A Kidwell and Suzanne Lowensohn. *Journal of Accounting Literature*: (Volume 30, 2011): 41-67.

This paper is an invaluable resource for government accounting researchers, both in terms of prior literature, but also for identifying opportunities for future research. Kidwell and Lowensohn provide a comprehensive framework and review of government behavioral accounting research (GoBAR) from 1975 to 2007. An annotated bibliography at the end of their paper further enhances the coverage of the period. The authors draw on previous literature review papers for the period 1975 to 1991, but add value to previous papers by drawing on Cheng's (1994) conceptual framework. The main focus of their paper is the development and discussion of a taxonomy for the twenty-four issues of accounting

and public administration journals they reviewed from 1991 to 2007. They classify the 57 GoBAR papers into six topical areas: budgeting, auditing, performance measurement, decision making, decision usefulness, and organizational roles. In addition to the comprehensive discussion of these areas, for each topic the paper includes a table containing actors, research methodology and research findings. A section on gaps in the GoBAR literature and opportunities for future research provides direction for further enhancing the contribution of government accounting research to accounting academic discourse.

“Do Private Foundations Increase Current Distributions to Qualify for a 50 Percent Tax Rate Reduction?” by Timothy R Yoder and Brian P McAllister. *The Journal of the American Taxation Association*: (Volume 34, Issue 2, 2012): 45-66, 119-120

Yoder and McAllister investigate the current year distributions of private foundations and the federal excise tax. Private foundations pay an excise tax of 2% on net investment income. However, if they distribute an equal or greater percentage of total investment assets in the current year compared to the average rate paid in the preceding five years they only pay a 1% tax rate. The authors find that 50.7 percent of the time foundations choose to pay a higher tax rate rather than paying higher amounts of current distributions using a sample of 48,576 foundation-years from 7,949 individual foundations from the National Center for Charitable Statistics. They find this is particularly true when a foundations investment assets increase and when the current year increase in distributions needed to reduce the tax rate would be higher than distributions paid in the prior year. Consistent with Sansing and Yetman (2006) and Yoder et al. (2011) larger foundations are more likely to qualify for the 1% tax rate. The authors also find and believe that larger foundations facing a rate increase are less likely to increase their current distributions because they have sticky distribution policies that focus on maintaining stable distribution rates. In additional tests they find older foundations that have increased investment assets and those foundations with insufficient current resources are less willing to increase their current distributions to qualify for the reduced tax rate.

“The Spend-Save Decision: An Analysis of How Charities Respond to Revenue Changes” by Christopher Jones, Karen Kitching, Andrea Roberts, and Pamela Smith. *Accounting Horizons*: (Volume 27, Issue 1, 2013): 75-89.

The authors study how charities adjust spending when revenues change. Understanding the decision to spend or save revenues provides insights into management behavior and resource allocations. Their results indicate that, on average, the marginal change in overall spending is substantially less than the marginal change in revenue, indicating that charities smooth spending. Charities save a substantial portion of additional revenues and appear to mitigate reductions in revenues by using past savings, especially amounts saved in the previous year. We also find evidence that charities anticipate revenue declines and save for that purpose. Charities with fewer constraints, such as those with larger net assets and those with revenues from sources less likely to impose revenue spending restrictions, do more smoothing by adjusting spending less.

Also check out:

“Fiscal Illusion From Property Reassessment? An Empirical Test Of The Residual View” by Justin M Ross and Wenli Yan. *National Tax Journal*: (Volume 66, Issue 1, 2013): 7-32.

“Property Tax Incentive Pitfalls” by Daphne A Kenyon, Adam H Langley, and Bethany P Paquin. *National Tax Journal*: (Volume 65, Issue 4, 2012): 1011-1021.

Reports recently issued by the GAO of that may be of interest:

State and Local Governments' Fiscal Outlook, April 2013 Update - GAO-13-546SP, Apr 29, 2013

Federal Data Transparency: Opportunities Remain to Incorporate Recovery Act Lessons Learned - GAO-13-871T, Sep 18, 2013

Performance Auditing: The Experiences of the United States Government Accountability Office - GAO-13-868T, Sep 25, 2013

If you have seen any published research papers you think would be of interest to our members, please send them to Andy mclelaj@auburn.edu or Alan astyles@csusm.edu.

Let Us Hear From You

The deadline to submit items for inclusion in the next issue of **Government & Nonprofit News** is tentatively set for April 10, 2014. Submit newsletter items (maximum of 350 words per item) to:

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