CPA-Queen’s Centre for Governance

ANNUAL REPORT

STEVEN SALTERIO
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Mission Statement

To be the premier Centre for the thoughtful study of governance in Canada with a special emphasis on the roles of the public accountants and audit committees to whom they report.

Vision and Mandate

CA-Queen’s Centre for Governance (business.queensu.ca/centres/CA-QCG/) vision is to raise the bar on Canadian governance research with respect to transparency and financial accountability and convey that research’s implications to academics, students and the public at large. Situated at Queen’s School of Business (business.queensu.ca), one of the world’s premier business schools, the Centre’s mandate includes conducting cutting edge basic and applied research on governance dealing with such issues as fraud prevention and detection and improving the quality of Canadian securities’ regulation. The Centre’s premiere not for profit program mandate is the Voluntary Sector Reporting Awards that rewards voluntary sector organizations for transparent Annual Reports and financial accountability. The Centre is funded, in part, by the Institute of Chartered Accountants of Ontario.
Report on Centre’s Activities and Accomplishments 2010-11

Highlights:

Not for Profit Initiative:
The Voluntary Sector Reporting Awards were central to raising the profile of the Centre in 2010-11. The Centre Director was quoted in various print media during the year about the program, the Awards received extensive coverage in local print media in Ontario, and the Centre Director had an op-ed about not for profit organizations reporting transparency featured in the National Post (July 20, 2010 see article in Appendix A). In addition, the ICAO members’ magazine, Checkmark, featured the Voluntary Sector Reporting Awards twice in its pages with accompanying photos. The VSRA’s were also the subject of a feature article in The Philanthropist journal, the leading practitioner outlet for professional involved in philanthropic activity in Canada (see screenshot in Appendix B along with link to full article on the Centre’s Website). Further, in the paid media, the Centre advertising program associated with the VSRA lead to a quarter page advertisements in the Globe & Mail announcing the winners as well as banner advertisements being run on Charity Village, a key not for profit sector website, to encourage applicants.

The 3rd Annual Voluntary Sector Reporting Awards were presented at a celebratory lunch at the Novatel North York on Friday November 26, 2010. The awards are designed to reward best practices for accountability reporting in the not-for-profit sector, and are open to registered charities that produce annual reports in Ontario. Organizations compete in four categories:

- International and nationally focused organizations headquartered in Ontario and
- Organizations that only operated in Ontario (or part thereof) that are divided by size into three categories.
  - total revenues over $10 million,
  - total revenues from over $1 million to $10 million and
  - total revenues less than $1 million.

This year for the first time we recognized as “Exemplars” those organizations (United Way of Greater Toronto and Sarnia-Lambton Rebound – A Program for Youth) that had won the Award in their category for three successive years. In addition to the added recognition of being denoted an “Exemplar,” organizations will be required to take a two year break from the competition to allow others a chance.

Over 40 organizations were nominated of which 37 met the guidelines for this year’s competition. Over two-thirds of the entrants were new to the competition in 2010. PricewaterhouseCoopers Foundation is the sole sponsor of the Awards. Awards were given to annual reports demonstrating the highest levels of accountability and transparency and displaying highly-effective communication with beneficiaries, donors and stakeholders. A description of the awards process, the list of finalists and winners, and a list of judges with brief biographies is included as Appendix C to this report.

Plans for future of VSRA: In March and April 2011 the Centre Director, in consultation with the Co-Chairs of the Advisory Board, developed a plan for broadening the impact of the VSRA through engaging professional project management and marketing assistance. The goal is to
attract at least 80 entrants (double of the number of the 2010 competition) to the competition as well as to provide some relief for the extensive workload of the Centre Director on this project. The goal is for the Centre Director to be involved extensively in the judging process and have oversight only responsibility for other aspects of the program. This added expenditure effectively utilizes all surplus funds accumulated in the first three years of Centre operations in the Not-for-Profit Initiative (NPI) and funding will need to be found in the future to keep up this level of expenditure. Indeed, all funds in the NPI are now devoted to the VSRA program with no funds for any of the other initiatives proposed in the original grant application to the ICAO.

**Basic Research Grants:**
A fund of at least $30,000 a year is allocated to fund basic research on corporate governance with an emphasis on financial aspects thereof. The Centre runs three research grant programs, Small Grants (up to $4500), Main Grants (up to $15,000) and Infrastructure grants to support key research infrastructure to be used in governance research. All grants follow a similar application process.

All research grants are first reviewed by the Director for suitability and he makes a recommendation about their academic merit to the reviewers. If the Director is the grant applicant or the supervisor of the grant applicant then the other accounting area member of the advisory board deals with the project following the same guidelines. The Director selects two members of the Advisory Board to read and comment on the proposal to determine if they agree that funding should proceed and if so, do they agree with the proposed budget. The process is iterated until agreement is reached (or the full Advisory Board would be consulted if agreement could not be reached.)

- Small basic research grants were awarded as follows (see details in Appendix D)
  - Qiu Chen, PhD student supervised by Professor Steve Salterio, $2,500 for a project entitled “The Role of Board Directors in Nonprofit Organizations’ Expense Misallocation: Effects of Donors’ Evaluation Focus and Transparency of Expense Disclosures” STATUS: Completed August 2011.
  - Christine Hayne MSc/PhD Student supervised by Professor Clinton Free, $2,500 for a project entitled “Business Risk: Are we walking the talk?” STATUS: Completed 2011.
- Large research grants were awarded as follows (see details in Appendix E)
  - Professors Clinton Free and Pamela Murphy, $9,000 for a project entitled The Fraud Pyramid STATUS: In Progress
  - Professor Wei Wang, $8,200 for a project entitled KERP plans and the Provision of Incentives in Financially Distressed Firms. STATUS: In Progress
- Completed grant
As part of the basic research grants program, we also offer infrastructure grants to allow researchers to purchase equipment or access to data bases that will remain the property of the Centre. In 2010-11 we had one such request:

**Infrastructure Grant:** Professor Louis Gagnon, Associate Professor of Finance applied for $2000 to help support the acquisition of the CRSP-Compustat Merged database for one year. As Appendix F discusses, this is a vital resource for researchers carrying out archival research in corporate governance.

**Advisory Board:**

The Advisory Board members are:
- David Saunders, Dean QSB
- Richard Clark CA, Deloitte, Greater Toronto Area Audit Practice Leader, Queen’s alum with extensive public company client list
- Brian Leader FCA, Vice-President Learning, ICAO
- Tom O’Neill FCA, former CEO of PWG, Queen’s alum who is currently a board member and audit committee member for such Canadian companies as Loblaw and BCE.
- Steve Salterio FCA, Director, *ex officio*
- Teri Shearer CPA, Accounting Faculty Member, QSB (appointed in September 2010) who has been active at the Board and Board Chair level of a number of significant sized
  not for profits
- Ken Wong, Faculty Member, QSB and active board member of public and private companies. AMA “Marketing Legend” 2006.

The role of the Advisory Board is two-fold. First, to review applications for grant funding by contributing their subject matter expertise to the decision making process. Second, the Board is a source of advice for the Director on matters pertaining to running the Centre and its programs. This is achieved through formal Board meetings (the first held in May 2010) and individual advice to the Director.

**Financial Accountability Reports to the Dean and the ICAO:**

- Statement of Receipts and Expenditures including accruals for year ended April 30, 2011 (Table 1)
- Balance Sheet as of April 30, 2011 (Table 2)
- Details of accruals regarding research grants (Table 3)
- Proposed budget for 2011-12 (Table 4) including a schedule with the Voluntary Sector Reporting Awards Proposed Budget (Table 5)
Table 1: Annual Financial Report CA-
Queen’s Centre for Governance
Statement of Receipts and Expenditures
For year ended April 30, 2011

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Centre</th>
<th>Contemporary Accounting Research (CAR)</th>
<th>Total</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009-10</td>
<td></td>
<td></td>
<td></td>
<td>2010-11</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations - ICAO regular</td>
<td>$35,000</td>
<td>$35,000</td>
<td></td>
<td>$35,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Donations – ICAO Not for Profit</td>
<td>45,000</td>
<td>45,000</td>
<td></td>
<td>45,000</td>
<td>45,000</td>
</tr>
<tr>
<td>CAAA re CAR</td>
<td>2,083</td>
<td></td>
<td></td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Transfer from within QSB</td>
<td>$82,083</td>
<td>$89,990</td>
<td></td>
<td>$25,000</td>
<td>$114,990</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admin Prof &amp; Tech Salary</td>
<td>$8,974</td>
<td>$26,762</td>
<td></td>
<td>$26,762</td>
<td>$53,524</td>
</tr>
<tr>
<td>Research Director, Guest Speakers and RA’s</td>
<td>0</td>
<td></td>
<td></td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>Voluntary Sector Reporting Awards: Table 3</td>
<td>32,636</td>
<td>41,738</td>
<td></td>
<td>41,738</td>
<td>39,000</td>
</tr>
<tr>
<td>Research grants paid and accrued: Table 4</td>
<td>34,832</td>
<td>21,375</td>
<td></td>
<td>21,375</td>
<td>40,000</td>
</tr>
<tr>
<td>NPI case grant paid and accrued</td>
<td>2,500</td>
<td>0</td>
<td></td>
<td>0</td>
<td>5,000</td>
</tr>
<tr>
<td>Miscellaneous: postage, office supplies, parking passes for visitors etc.</td>
<td>936</td>
<td>2,942</td>
<td></td>
<td>2,942</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$79,878</td>
<td>$92,817</td>
<td>$26,762</td>
<td>$119,579</td>
<td>$137,500</td>
</tr>
<tr>
<td><strong>Net surplus(-deficit)</strong></td>
<td>$2,205</td>
<td>-$2,827</td>
<td>-$1,762</td>
<td>-$4,589</td>
<td>-$17,500</td>
</tr>
<tr>
<td>Opening account balance</td>
<td>$61,768</td>
<td></td>
<td></td>
<td>$63,973</td>
<td>$63,973</td>
</tr>
<tr>
<td>Closing account balance</td>
<td>$63,973</td>
<td></td>
<td></td>
<td>$59,385</td>
<td>$46,473</td>
</tr>
</tbody>
</table>

ICAO = Institute of Chartered Accountants of Ontario
CAAA = Canadian Academic Accounting Association
QSB = Queen’s School of Business
Table 2: Annual Financial Report
CA-Queen’s Centre for Governance
Statement of Financial Position
As at April 30, 2011

Assets
Cash $173,735
Prepaid Expenses 5,825

Total Assets $179,560

Equities and Accruals
- CAR grant received in advance $25,000
- ICAO grant received in advance 80,000
- Research grants accrued (see Table 3) 15,175
  Total $120,175

Surplus $59,385

Total Equities and accruals $179,560

Accounting notes:

1. The Centre follows an accrual basis of accounting. See list of accruals in Table 3.

2. Both the ICAO grant and the CAAA grant for the next fiscal year arrive shortly prior to the Centre’s April 30th year end. The revenues received in one year are matched with the expenditures that occur in the following year.

3. The surplus, in part, arises from the initial ICAO funding that allowed the Centre to have working capital in the amount of $35,000, the equivalent of one year’s revenue for the basic research part of the Centre. The remaining surplus has been accumulated mainly due to slower than expected start-up of research grants program. These accumulated amounts will be drawn down in future years given that grant applications now exceed the amount available on an annual funding basis. See proposed Centre Budget in Table 4.

4. Financial statements dated April 30, 2010 have been reformatted to reflect this year’s disclosure and presentation style.

5. The Centre Director receives no stipend for Centre activities; hence all funds granted are used to support Centre programs.
Table 3: Annual Financial Report
Accruals for Research Grants As at April 30, 2011

<table>
<thead>
<tr>
<th>Projects in Process</th>
<th>Accrued Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>The Fraud Pyramid</em>: Professors Free and Murphy</td>
<td>$4,629</td>
</tr>
<tr>
<td><em>KERP plans and the Provision of Incentives in Financially Distressed Firms</em>: Professor Wei Wang</td>
<td>5,135</td>
</tr>
<tr>
<td><em>Business Risk: Are we walking the talk?</em> Christine Hayne</td>
<td>1,895</td>
</tr>
<tr>
<td><em>The Role of Board of Directors in Nonprofit Organizations’ Expense Misallocation</em> Qiu Chen</td>
<td>1,516</td>
</tr>
<tr>
<td>Infrastructure grant: CRSP Compustat combined Louis Gagnon</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total Accruals: research grants per Statement of Financial Position</strong></td>
<td><strong>$15,175</strong></td>
</tr>
</tbody>
</table>
### Table 4: Annual Financial Report CA-
Queen's Centre for Governance
Proposed budget for fiscal year 2011-12
(May 1, 2011 to April 30, 2012)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Budget 2011-2012</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICAO research Centre</td>
<td>$35,000</td>
<td>In accordance with ICAO-QSB agreement</td>
</tr>
<tr>
<td>ICAO Not for Profit Initiative</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td>CAAA re CAR</td>
<td>25,000</td>
<td>CAAA grant to support to CAR Editor’s Assistant per CAAA-QSB agreement</td>
</tr>
<tr>
<td>Transfer from within QSB</td>
<td>15,000</td>
<td>QSB support for Centre Program Assistant</td>
</tr>
<tr>
<td></td>
<td>$120,000</td>
<td></td>
</tr>
</tbody>
</table>

**Expenses**

<table>
<thead>
<tr>
<th>Expense</th>
<th>Budget 2011-2012</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admin Prof &amp; Tech Salary</td>
<td>$57,000</td>
<td>Centre assistant salary and benefits; CAR Editor’s assistant salary and benefits</td>
</tr>
<tr>
<td>Travel and representational expenses</td>
<td>1,500</td>
<td>Travel regarding Centre</td>
</tr>
<tr>
<td>Voluntary Sector Reporting Awards 2011</td>
<td>56,950</td>
<td>See breakdown in Table 5. Increase is due to hiring on an outsourced basis professional marketing and project management skills</td>
</tr>
<tr>
<td>Research grants</td>
<td>30,000</td>
<td>Annual amount for research grants after Centre administrative expenses</td>
</tr>
<tr>
<td>Miscellaneous: office supplies, postage, parking passes for visitors etc.</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$147,450</td>
<td></td>
</tr>
</tbody>
</table>

**Net surplus(deficit)**

| Budget 2011-2012 | -$27,450          |

Opening net surplus

| Budget 2011-2012 | $59,385            | Surplus was built up due to slow start on research grants and Centre emphasis on launching VSRA program. |

**Closing projected net surplus**

| Budget 2011-2012 | $31,935            | ICAO allowed for an initial surplus of $35,000 providing Centre working capital. Amounts from that surplus of that can be drawn down as needed for research grants. |
### Table 5: VSRA 2011 Proposed Budget with Comparison to 2010
Actual and Budget

<table>
<thead>
<tr>
<th></th>
<th>2010 Proposed</th>
<th>2010 Actual</th>
<th>2011 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luncheon</td>
<td>$5,500</td>
<td>$6,412</td>
<td>$9,000</td>
</tr>
<tr>
<td>Plaques and misc. award expenses</td>
<td>$1,000</td>
<td>$1,639</td>
<td>$1,500</td>
</tr>
<tr>
<td>Honourable Mention Award*</td>
<td>$4,000</td>
<td>$4,000</td>
<td>$0</td>
</tr>
<tr>
<td>Publicity</td>
<td>$2,500</td>
<td>$2,184</td>
<td>$2,500</td>
</tr>
<tr>
<td>Award announcements (Globe &amp; Mail)</td>
<td>$10,000</td>
<td>$9,527</td>
<td>$10,000</td>
</tr>
<tr>
<td>Research assistants**</td>
<td>$3,000</td>
<td>$4,126</td>
<td>$4,000</td>
</tr>
<tr>
<td>Travel of judges</td>
<td>$4,000</td>
<td>$4,850</td>
<td>$4,000</td>
</tr>
<tr>
<td>VSRA Director of Technical Scoring (must be a CA) Honourium</td>
<td>$9,000</td>
<td>$9,000</td>
<td>$9,000</td>
</tr>
<tr>
<td>Coordinator of marketing and project management</td>
<td></td>
<td></td>
<td>$16,950</td>
</tr>
<tr>
<td><strong>Total Budget and Actual</strong></td>
<td>$39,000</td>
<td>$41,738</td>
<td>$56,950</td>
</tr>
</tbody>
</table>

NOTE: The PWC Foundation award sponsorship funds are not included in this budget.

PWC Foundation award sponsorship | $25,000 | $25,000 | $25,000

* Contingent liability in the amount of up to $4500 for 2008 award not billed for by QSB EDC. Payment made in 2010-11 for $4000 for the 2008 award. None were awarded in 2010.

** This does not include charges for time of a PhD student Research Assistants who put in 50 hours in administering program and paid for out of Director’s fellowship.

***Other costs not included in the above budget:
- Centre Director’s time to set up, supervise, aid with technical scoring and judging process, aid with press relations, lunch etc.
- ICAO time regarding administrative support, hosting judges’ day (including room breakfast and lunch) and press relations including both external and internal to ICAO publicity.
Appendix A: Example of Media Exposure of Centre for Governance

Accounting for non-profits
Tue Jul 20 2010
Byline: Steve Salterio, Queen's University

Successful public companies have long known that accurate and transparent financial reporting is a key factor in attracting and retaining investors, while presenting a compelling picture of the organization to a range of other interested stakeholders such as employees, customers and investors.

In the past, however, many organizations in the not-for-profit sector have skimped when it came to providing the type of organizational snapshot that gives the full story to donors, volunteers and the general public.

Some seemed to believe their good work would speak for itself and, because their intentions were positive, they did not have to be accountable for the funds entrusted to them for these good works.

This is of no small concern. The nonprofit sector in Canada is large and very diverse, ranging from religious groups and front-line charities to sport clubs and cultural organizations of all types and sizes.

A recent survey shows there are more than 160,000 nonprofit and voluntary organizations in Canada, 56% of which were registered charities.

As news organizations have reported in the past, not all of these voluntary sector organizations are above reproach: Some are less than forthcoming about their activities and accomplishments, while a small minority discredits the entire sector by engaging in dishonest practices.

Further, not-for-profits are often the targets of fraudulent activities by managers and those who seek to raise funds for them, as reported in a recent issue of The Philanthropist.
How do donors, volunteers, government overseers and the public know that a charitable organization is doing good works and is worth supporting?

How do they know that these organizations are protecting the assets that the public entrusts to them via either donations or tax-supported government grants?

While it is not a panacea, sound financial reporting constitutes an important first step for not-for-profits wishing to demonstrate their bona fides to stakeholders.

A superior annual report tells a story that engages readers and gives them sound reasons for supporting a charity and its work. But this is not just an opportunity for creative writing or an advertisement; it is an accountability document for an organization’s stakeholders.

An annual report should be easy to understand and readily available, with best practice being having it prominently on the organization’s website. While an annual report is much more than numbers, the accounting numbers must be there and be well integrated into the rest of the report.

The annual report must give the reader answers to several key questions, including the organization’s purpose -- what it hopes to achieve -- and how it plans to get that job done.

Unfortunately, some charities have vague explanations about what they’re trying to do and how they’re trying to go about doing it.

Wise investors would avoid investing in a company that can’t articulate a clear picture of its business, goals and strategies. If investors wouldn’t support it, why should donors and governments place time or money in a charity that can’t provide the equivalent information?

Many charities have problems translating those purposes and plans into financial and non-financial performance indicators and targets. Without that information, the reader cannot determine whether program outcomes have met goals and, in some cases, whether any people were actually helped.

Organizations are especially shy about fundraising methods and outcomes. It seems that many worry that the amount spent on fundraising versus spent on programs can be misleading without “context.”

That is unacceptable.

Sound financial reporting and transparency for donors demands revealing how much money was raised, where it was spent and why. A reasoned explanation as to why money was spent on something -- including fundraising -- should justify the expense. If it doesn’t, the money shouldn’t have been spent that way—period.

It's no exaggeration to say that in today’s tough economic times, the battle for the hearts and minds of potential donors and volunteers is tougher than ever.

Not-for-profits need to realize that opening the books can open wallets and bring eager supporters to their open arms.

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-Steve Salterio PhD, FCA, is a professor of business and the director of the CA-Queen’s Centre for Governance at the Queen’s School of Business. He co-founded the Queen’s Program "Fundamental of Governance for Crown Agencies and Not for Profit Boards” and the Voluntary Sector Reporting Awards.
Appendix B: Screenshot of front-page of VSRA article published in *The Philanthropist*-February 2011. Full text of the article is available on CA-Queen's Centre for Governance website.

**DEVELOPING A CULTURE OF REPORTING TRANSPARENCY AND ACCOUNTABILITY: THE LESSONS LEARNED FROM THE VOLUNTARY SECTOR REPORTING AWARDS FOR EXCELLENCE IN FINANCIAL REPORTING TRANSPARENCY**

Steven Salterio & Patrick Legresle

*HOW WE “CREDIT”*

A professor at one of Canada’s leading universities wanted to use a set of financial statements from a not-for-profit organization in class as an example for his students. He knew that to use a local example and therefore went to the website of a prominent university charity. He was headquartered in the city. He found a full colour glossy "annual report," but it contained little accounting information and little in the way of accountability in terms of how the funds raised were used. The website noted that audited financial statements were available on request, but email address provided, he requested them again for a copy of the financial statements because of his time constraints. A vice president of the organization called him and asked what he was "really" named with the financial statements.

**INFORMATION ABOUT THE VOLUNTARY SECTOR REPORTING AWARDS FOR EXCELLENCE IN FINANCIAL REPORTING TRANSPARENCY**

- Steven Salterio, PhD, FCA, is Professor of Business Administration at the University of British Columbia.
- Tom O'Neill, Faculty Fellow in Accounting and the Director of the Centre for Financial Reporting at Queen’s College of Business. He has extensive experience in the not-for-profit sector, having worked in both the private and public sectors.

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*Further information can be found at [VSRA website](http://www.vrsa.org).*
Appendix C: Voluntary Sector Reporting Awards 2010

In the first round of the competition, technical screeners evaluated the annual reports for technical merit (i.e. did they have the minimal elements that made it possible for them to be judged). The highest scoring annual reports then advanced to the second stage of the competition, where the reports were scrutinized by a panel of experts (see judges listed below). All entrants are provided with a copy of the technical screeners’ completed checklist so they can see where they met expectations or fell short and, hopefully, use that feedback to improve future annual reports. In addition all participants receive an overview of the judges’ general comments on finalists’ annual reports. Each finalist also received a tailored analysis of the judge’s comments about their report in addition to the technical checklist and general report.

Finalists with the **winners (co-winners) in bold text** are:

**National or international organizations headquartered in Ontario**
- Aphasia Institute*
- Ontario March of Dimes Rehabilitation Foundation for the Disabled
- **World Vision Canada**

**Total revenues over $10 million**
- Canadian Paraplegic Association Ontario
- *Community Foundation of Ottawa (Recipient of an Honourable Mention citation)*
- National Capital Region YMCA-YWCA
- **United Way of Greater Toronto (3rd time award winner denoted as an Exemplar)**
- Vita Community Living Services of Toronto

**Total revenues over $1 million and up to $10 million**
- DeafBlind Ontario Services
- Habitat for Humanity – National Capital Region
- **Kingston Literacy and Skills**
- The Royal Lifesaving Society of Canada, Ontario Branch

* Aphasia Institute was also considered in this category due to its small size relative to the other contenders in the National and International Organizations category.

**Total revenues up to $1 million**
- Hospice King (Operating as Hospice King-Aurora)
- **Sarnia-Lambton “Rebound” A Program for Youth (3rd time winner denoted as an Exemplar)**
Voluntary Sector Reporting Award Judges Panel 2010

We had two judges rotate off the panel this year, Philip Creighton FCA, noted author and practitioner in the not for profit area, and Martin Connell, philanthropist and Chair of the Toronto Community Foundation. Ideally judges serve two to three years before rotating off the Panel. This year’s judges are a distinguished group, knowledgeable about the voluntary sector from perspectives of accounting and auditing, philanthropy, research and marketing:

- Nancy Cheng FCA, Assistant Auditor General, Office of the Auditor General of Canada who audits making of Canada’s largest crown agencies and corporations;
- Dr. Vaughan Radcliffe, Associate Professor, Richard Ivey School of Business, University of Western Ontario who has research interests in the not for profit sector – Panel Chair;
- Don Bourgeois, has a private legal practice with focus on charitable and not-for-profit law in addition to being the Editor of The Philanthropist, the journal of record in the Canadian philanthropy sector (due to ill health he was only able to provide written comments).
- Dr. Cathy Barr, Vice-President, Operations at Imagine Canada who has carried out significant research on the not for profit sector as part of her responsibilities in this advocacy group’s activities.
- Monica Labarge, Assistant Professor of Marketing at Queen’s School of Business with a special interest in not for profit organizations.
- Dr. Morley Lemon FCA, Professor emeritus at the University of Waterloo’s School of Accounting and Finance, former school director, author, and lecturer in auditing with extensive experience in the not for profit sector.
Appendix D: Research Grants Approved – Small Grant Program

Applicant: Qiu Chen (supervised by Steven Salterio)

Title: The Role of Board Directors in Nonprofit Organizations’ Expense Misallocation: Effects of Donors’ Evaluation Focus and Transparency of Expense Disclosures

Summary
The board of directors in non-profit organizations is ultimately responsible for financial statements and is expected to oversee managers’ preparation of financial statements to ensure they are free from misreporting. This paper, through two experiments, addresses the directors’ role in reducing management’s expense misallocation in the context of fundraising; specifically, whether enhanced transparency of expense disclosure and being evaluated with a balanced set of performance metrics by donors can motivate directors to monitor management more diligently and thus reduce management’s expense misallocation. Experiment 1 provides the foundation to answer this research question by validating the assumption that directors perceive a balanced evaluation process adopted by donors including both financial and nonfinancial metrics to be procedurally fairer than an expense-centered evaluation process that focuses solely on a financial metric (i.e., the program ratio). Experiment 2 examines whether directors’ evaluation type interacts with transparency of expense disclosure to impact director oversight of management’s expense misallocation.

This paper contributes to a richer understanding of how and when transparency of expense disclosure and donors’ evaluation processes work together to enhance director oversight of management’s expense misallocation in nonprofit organizations and their implications for nonprofit governance.
Applicant: Christie Haynes (supervised by Clinton Free)

Title: Risk Business: Are we walking the talk on risk?

Summary
COSO (Committee of Sponsoring Organizations of the Treadway Commission) is a voluntary private-sector organization dedicated to guiding executive management and governance entities towards more effective, efficient and ethical business operations. COSO sponsors and disseminates frameworks and guidance in areas such as internal control, risk management, governance, ethics, fraud and financial reporting.

In 1992 (amended in 1994), COSO released an internal control model used by companies to assess their control systems. The report, titled Internal Control – Integrated Framework, offered a common definition of internal control and provided a framework to assess and improve systems of internal control. In 2001, COSO initiated a project and engaged PricewaterhouseCoopers to develop a framework, similar to the Internal Control – Integrated Framework, for managers to evaluate and improve their organizations’ enterprise risk management. Compared to the Internal Control – Integrated Framework, COSO’s Enterprise Risk Management – Integrated Framework expands on internal control and provides more extensive and robust enterprise risk management coverage. The principles-based framework defines important ERM components so that organizations can design and implement their own systems for risk management. COSO identifies their risk management framework as one that is “…now being used by organizations around the world to design and implement effective ERM processes”. Given that a variety of other risk frameworks and tools developed and proliferated at this same time, I am seeking to answer ‘why?’ and ‘how?’ COSO’s Enterprise Risk Management – Integrated Framework ascended as the preeminent risk framework.

For this research, I propose to conduct semi-structured interviews with key people involved in risk management, people engaged in the design and implementation of risk frameworks, and also people holding positions on risk management boards and associations. I hope to uncover how risk management frameworks, specifically the COSO model, have evolved to where they are today, and why the adoption of COSO’s Enterprise Risk Management – Integrated Framework has been more successful than others. Accordingly, this research proposal sets out to answer the following basic research question: How and why has COSO’s Enterprise Risk Management – Integrated Framework evolved to its present day status as the top risk framework?
Appendix E: Main Grant Proposal Approved

Project Title: The Fraud Pyramid (originally called “An Organizational Fraud Triangle”)

Authors: Clinton Free, Queen’s School of Business
        Pamela Murphy, Queen’s School of Business

Objective:
We intend to add a significant fourth element to the fraud triangle: organizational culture. The current fraud triangle is used by auditors to assess fraud risk within an organization, and is useful for boards of directors and audit committees to examine the likelihood of fraud occurring within their organizations. However, the three elements of the fraud triangle (opportunity, incentive / pressure, and attitude / rationalization) refer to individuals. Fraud occurs within an organizational context, and is often perpetrated by many individuals within an organization. The fraud pyramid will take into account important organizational elements such as ethical climate, culture, and leadership.

Purpose:
The fraud pyramid will provide a framework for considering important organizational elements that, heretofore, may have been ignored in assessing the possibility of fraud. This framework should help boards of directors, audit committees, and auditors assess fraud risk with greater ease and accuracy.

Relationship with Existing Research:
Fraud and ethics research both provide evidence of the importance of social, group, and organizational factors on individual behavior. Yet the fraud triangle is focused primarily at the individual level, not taking into account many of these factors. Organizational research has not, to our knowledge, provided a framework for understanding the effects of organizational elements on fraudulent behavior. We pull together these separate lines of study from organizational behavior, management accounting, auditing, criminology, social psychology, and sociology into one framework. The resulting framework – the fraud pyramid – will be useful for further academic enquiry.
Title: KERP plans and the Provision of Incentives in Financially Distressed Firms

Principal Investigator (PI): Wei Wang, Assistant Professor in Finance, Queen’s University
Co-Investigator (Co-I): Vidhan K. Goyal, Professor of Finance, HKUST

The CEO is hired by the board of directors and is generally regarded as a part of the corporate governance system. The corporate governance research that examines the effect of executive compensation on firm performance and managerial decisions continues to be highly contentious. Many scholars view CEO compensation contracts as an outcome of an optimal contracting process in a competitive market for managers. However, many critics argue that the high pay received by CEOs is a reflection of powerful managers setting their own pay and extracting rents from firms.

Prior studies document that both incumbent managers (Hotchkiss (1995)) and incumbent directors (Gilson (1990)) experience high turnover in bankruptcy reorganization. Many institutional investors enter the Chapter 11 cases as creditors with an intention to influence the whole restructuring process and obtain the ultimate ownership of the company. Jiang, Li, and Wang (2010) show that institutional investors such as hedge funds become actively involved in the restructuring process and take on corporate governance roles such as joining the board, firing CEOs while keeping key employees, and gaining majority of equity stake at case resolution. The board formed by these institutional investors and managers (both newly hired and retained) work closely with creditors to develop and implement plan of reorganization. Key insiders (or employees), including both managers and directors, become a vital component of successful reorganization of a company.

This project contributes to the corporate governance and compensation literature by focusing on the adoption of key employee retention plans (KERP) by firms in Chapter 11 bankruptcy process. The provision of incentives in financially distressed firms is potentially very interesting because standard compensation contracts become less useful just when agency problems become particularly severe. Top executives and directors are critical to the successful resolution of corporate bankruptcy and yet they suffer personal losses and take pay cuts when their firms become financially distressed. Earlier studies document that CEO turnover is extremely high in financially distressed firms (Gilson (1989)). With such a high risk of job loss and personal stress faced by managers of distressed firms, what is the nature of key employee retention plans that firms adopt to retain their key managers and directors? How does the structure of these plans affect the outcome of the bankruptcy process and the negotiation with creditors? How does the structure of the plan affect the value of payoffs to creditors? How does it affect the time firms spend in bankruptcy?
Appendix F: Infrastructure Grants

Applicant: Professor Louis Gagnon, Associate Professor of Finance

Proposal: Partial funding for the CRSP-Compustat Merged database for one year

Purpose and benefit to applicant:
The CRSP-Compustat Merged database has long been considered essential for Finance and Accounting researchers working with stock return time-series data from CRSP and with firm-level accounting data from the Compustat database. One of the most frustrating and costly challenges facing researchers who work with both datasets is the matching process required to blend the two datasets together in an error-free fashion. Without the CRSP-Compustat merged dataset, this challenge is nearly insurmountable. This is the reason why an overwhelming majority of research-intensive business schools subscribe to this resource. Although my own research program, which focuses on the factors impeding the Law of One Price in capital markets, is only tangentially related to Corporate Governance, several projects underpinning my current research (i.e. the impact of single stock futures listings on stock returns; the impact of short-sale constraints on price differences between cross-listed stocks, etc.) depend critically on both stock return data and firm-level characteristics, which can only be matched reliably with the CRSP-Compustat Merged Dataset.

Benefit to QSB:
If one considers the critical mass of active researchers in the area of Corporate Governance at QSB as well as QSB's broader Finance and Accounting research community, the cost savings that could be achieved by way of this acquisition are very significant. This resource would not only save money from the tens of hours in Research Assistance devoted each year by several faculty members to this dataset matching process but it would also enable researchers to deploy their scarce financial resources to potentially more enlightening tasks that would contribute to a higher degree to the quality of the learning experience and the training provided to their Research Assistants.