



Voluntary Sector
Reporting Awards 2012

CA-QUEEN'S CENTRE FOR GOVERNANCE

BEST PRACTICES IN CHARITY ANNUAL REPORTING

Lessons from the Voluntary Sector Reporting Awards

2012 EDITION



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INTRODUCTION

Every year, the CA-Queen's Centre for Governance, in partnership with the Institute of Chartered Accountants of Ontario, recognize Ontario's best charity annual reports with the Voluntary Sector Reporting Awards (VSRA). Now, in its fifth year, the VSRAs honour top charities in four categories with a \$5,000 prize. The awards are one of only a handful of their kind in the world. Part of the mandate of the VSRAs is to share the best practices recognized in each year's winning entries. This information is based on the work of the VSRA judges panel, who have reviewed hundreds of charity annual reports. Whether you work for a charity, volunteer at one or are interested in reporting issues for charities, please share this information with the charities you know. And if you are a charity in Ontario, don't forget to enter this year's VSRAs online at our website.

ENTER YOUR ANNUAL REPORT IN THE VOLUNTARY SECTOR REPORTING AWARDS.

Free information. Free feedback. Great prizes.

Now in its 5th year

Donors, funders and boards are all looking for more transparency and good governance. You can give them that and more by entering your Annual Report in the Voluntary Sector Reporting Awards (VSRA). The VSRAs, created by the CA-Queen's Centre for Governance in partnership with the Institute of Chartered Accountants of Ontario, annually recognize the Ontario's best non-profit Annual Reports. Your charity could win one of them.

Entry is simple and free. Winners in each category will receive a \$5,000 prize. Everyone who enters gets free information about best practices. Show your donors your commitment and vision by entering your Annual Report today.

Nominations open July 9 and close September 7, 2012*

*The number of entries are limited. For best results, submit your nomination as early as possible. Nominations will close when the maximum number of entries in each category has been reached or on September 7, whichever comes first.

For more information
WWW.ANNUALREPORTAWARD.CA



TOP TEN TIPS

The VSRA judges panel created this list of top ten best practices based on the 2011 VSRA competition. Nearly 100 charity annual reports from across Ontario were reviewed as part of the VSRA process.

#1: Provide a strong introduction

A concise summary of the organization and its activities should be provided within the first few pages of the annual report. The reader should be able to answer the following questions:

1. What is the vision/mission/purpose of the organization?
2. What is the strategy to achieve the vision/mission/purpose?
3. What are the current year objectives? What did the organization hope to accomplish?
4. What were some of the financial and non-financial highlights during the year?
5. What are the achievements, challenges, issues and risks?
6. What is the organization's plan moving forward?

Use short text, clear and concise paragraphs, graphical illustrations, bullet points and text boxes to summarize your report. Furthermore, the report should have a Table of Contents, include numbered pages and be clearly organized.

#2: Provide accurate & transparent financial information in the annual report

Organizations must provide accurate and transparent financial information in the annual report. The general problem here is that financial information is not well integrated into the broader annual report and, in some cases, the information is inaccurate.

#2a: Financial information in the annual report must agree with audited financial information

Judges have found numerous examples of finalist

reports that present financial information in the annual report that does not agree with the same information found in the audited financial statements. For example, the judges identified finalists that included total fundraising revenue raised in the annual report that could not be tied back to the audited financial statements. Another example includes presenting charts and graphs where the source data does not agree to the audited financial statements. This oversight quickly reduces the credibility of an organization given the information is misleading to the reader and potential donor.

The judges were unanimous that the most transparent disclosure is to include the full set of audited financial statements, including the auditor's report, in the annual report. This ensures the most accurate, transparent and independently verified financial results are disclosed in the annual report. Alternatively, the organization could include summarized financial statements with a separate audit opinion on the summarized financial statements. Speak to your auditor well in advance so that the right option for your organization can be developed. Financial statement like information that is not audited should be clearly stated as such if it is presented in the annual report.

#2b. Disclose relationships in the annual report

Organizations need to provide appropriate details of relationships with related parties in both the financial statements and the annual report. For example, we would expect organizations to provide details of the existence of a separate foundation (e.g., for fundraising or for holding endowments) or a for-profit subsidiary in the annual report.

Furthermore, the relationship between a franchise or a chapter of a national organization needs to be clearly defined. Some annual reports we reviewed seemed to report on activities of both the chapter and the national organization. It was difficult to interpret



the information presented in these reports give the relationship between the organizations was not clearly defined.

#3: State performance objectives

Most annual reports we review do not explicitly state the organization's financial and non-financial performance objectives and targets. Thus, readers are unable to assess the performance of the organization in the current year and in relation to the organization's multi-year strategic plan (which also is not often disclosed). The reader is unable to answer questions such as: How effective are the organization's fundraising efforts? Did their program outcomes meet their goals? How many people did they help this year and did they meet their targets?

#3a. Provide the budget

The budget is the financial tool most organizations use to identify the programs and activities to fund and to help control expenses. It is also a tool the Board can use to evaluate management's performance. The budget enables the organization to create a link between their financial resources and strategy. It is a basic financial benchmark used to evaluate how the organization's actual results compare to the plan. The budget should be a key planning tool for the organization. We recommend organizations include prior year actual results, current year budget, current year actual results and next year's budget along with a discussion and analysis of budget to actual results.

#3b. Include non-financial indicators

Organizations need to clearly state their performance targets and program goals or objectives in order for the reader to assess if the organization achieved their goals and objectives. Some winning annual reports measured their impact on the community with concrete numbers and targets, including a balanced scorecard.

#4: Disclose the risks, issues and challenges

Organizations need to do a much better job identifying, assessing, monitoring, and informing the reader of their key risks, issues and challenges. The risks, issues and challenges should be specific to your organization. You should also provide information on how your organization identifies and manages risk. Consider questions such as: is the organization susceptible to funding decisions (especially cuts) made by the federal, provincial or local government? What is the risk to the organization's programs if donations or government support decrease? What process is in place for the organization to review and manage their risks, both financial and non-financial? Does the organization have a contingency plan?

#5: Disclose the Governance Structure

The organizational and governance structure must be provided in the annual report. The reader must be provided with enough information to understand how decisions are made in the organization. A key piece of governance information is to disclose which types of decisions are made by the organization's board of directors and which are delegated to management. While a list of directors is a good start, more depth usually needs to be provided.

An organizational chart with the positions and the person's name for each position should also be provided. The organization should disclose major board committees including the committee's purpose, the committee members and the number of meetings during the year. The committee's individual directors should also be identified.

#6: Provide transparent fundraising information

The judges find there is a general lack of transparent fundraising information in the annual report and financial statements. Organizations need to disclose fundraising revenue, fundraising expenses and provide ratios such as fundraising expenses as a percentage of total budgeted expenses or revenue.



The judges are sympathetic that negative public perception of an organization that has large fundraising expenses as a percent of revenues may act as a deterrent to reporting the information. However, the judges believe that if other aspects of the report are improved, such as the provision of plans, budgets, performance targets, and measures of organizational program success, the potentially negative public reaction could be mitigated.

Furthermore, the judges note that there could be good reasons for fundraising expenses to be high and that the organization should state these reasons. For instance, when you have a new organization looking to start fundraising, you would expect larger up-front costs than in a mature organization using tried and true methods. The judges believe that public perception about fundraising costs could be improved if the organization:

- Clearly states their fundraising goals;
- Explains the rationale for the fundraising activity; and
- Reports actual fundraising results compared to the fundraising goal and comments on significant variances.

These steps would give the reader some perspective of the fundraising expenses in relation to the organization's fundraising goals and objectives. In addition to this, organizations should provide some discussion in the annual report about the effectiveness of its fundraising. After all, if you do not provide the context for your fundraising costs, others, such as the media, are more than willing to interpret your fundraising costs in ways that may be less than flattering.

#7: Include discussion and analysis of the organization's results

While the judges do not want to recommend for-profit approaches for voluntary sector organizations that are not warranted, the judges believe that management should be writing a short and concise discussion and analysis (D&A) of the year's activities. This does not need to be elaborate to be effective. Executive Director's (or other leaders) reports some-

times verge into this area, but due to the emphasis of those letters on reporting achievements and good news, the analysis is not comprehensive.

The D&A's purpose is to help the reader understand the significant changes and trends, as well as risks and uncertainties related to the results of operations, including the financial condition of the organization. The D&A should, at a minimum, include:

- Discussion, analysis, and interpretation of the financial information in light of the mission, objectives and budget/targets for the year;
- Key risks, such as funding risks including government and fundraising revenues; and
- Future plans of the organization in light of the current year's operational successes and shortcomings.

#8 Leverage reusable online content

It is evident that many not-for-profits find the task of producing the annual report onerous. Many of these same organizations have websites with content about their organization, their purpose, services, ways to donate, etc.

The judges commented that there is an opportunity for organizations to reduce the amount of time and effort to produce the annual report if the online content is produced in a reusable format or cross-referenced in the annual report. Some advantages of this approach include;

- Reducing the size of the annual report
- Leveraging information that has already been produced
- Reducing the time to compile the annual report
- Focusing the time and space used to write the annual report on value added information, such as in-year program results.

Organizations should include a minimum of three years of annual reports and audited financial statements online and they should be posted promptly.



The reports should be in an easy to find category, such as “About Us” or “Publications” and be accessible within three (3) clicks from the organization’s home page.

#9 Identify your audience

A key accessibility-of-information issue is deciding who the primary and secondary target audiences are for the annual report and financial statements. How the organization structures and writes the annual report is determined by the target audience(s). For example, the audience could be donors, funders (like government agencies), clients, volunteers, staff, etc. The primary audience is an explicit choice that needs to be carefully made and adhered to by all contributors to the report to ensure the consistency of language and presentation throughout the report. This is not to say that the needs of other users should be ignored as we found several annual reports this year that were entitled and actually were “Reports to Donors” and had little information about a broader accountability of the organization.

The judges specifically identified granting organizations, such as a United Way or community foundation, as a type of organization that needs to both inform their readers of the funds they manage and how to contribute as well as speaking to the impact these funds and grants have in their respective community. We found that the granting agency annual reports we reviewed often lacked the latter.

#10 Determine your communication strategy

The judges made a number of observations and recommendations with respect to the structure of the annual report. The structure addresses how this information is presented to the reader, not its content per se. Suggestions for improved structure include:

1.Communication Strategy – the judges commented that most organizations would benefit from having an overall communication strategy for the annual report. They recommended that each organization have a “point” person assigned with responsibility for the annual report’s overall content. This person’s

role is to accumulate the information from the board, management, committees, staff and volunteers and ensure that this information is presented in one clear, consistent and cohesive report.

The organization needs to consider the number, length, content and cohesiveness of the messages (i.e. the themes to be conveyed) included in the annual report. The communication role would also be responsible for ensuring consistent messages throughout the report. Based on four years of judging, it seems that no more than three messages can be effectively communicated.

2.Executive Summary – all annual reports should include an executive summary located at the beginning of the report. The purpose of the executive summary is to summarize the content included in the body of the report. The executive summary should only be one page in length.

3.Amount of Information – the judges highlighted two types of annual reports where the amount of information is a problem:

Type 1 “too much information” – this annual report tends to be long and dense. Although the report includes a lot of great content, the reader leaves mentally fatigued from the amount of information. One recommendation to reduce the size and density of the annual report is to include some detailed information (such as lists of contributors) as a separate appendix (or document) to the annual report. The organization then gives readers the option to access more detailed information if they wish.

Type 2 “lack of content” – this annual report lacks enough content to make sense of the organization. The report leaves the reader with many unanswered questions. Even for “member focused organizations” the annual report is an accountability document that may be used for many purposes and it should not be assumed that every reader knows exactly what the organization does and why. This report fails to answer the 5 W’s – who, what, when, where and why.

Finally, the judges stated that the reports were generally written in plain language, making it easy to read.



OVERALL STRATEGY

Based on several years of the VSRAs, the judges panel also noted several key overall strategies for annual report writing. These will help set the framework for the creation of your annual report.

Clarity

The judges could not readily determine the purpose of the organization in some of the annual reports. A fundamental requirement of the annual report is to provide the reader with a clear and concise purpose of the organization. What does the organization do? What is their charitable purpose? What have they done in the year to contribute to their community? A clear purpose gives the reader a sense of the social impact the organization has on the community. Without a clear purpose, the reader may find it difficult to determine how their donation, either directly or via tax dollars, will benefit their community.

The judges found that most organizations did not consistently weave their mission, vision and/or purpose throughout the report. Organizations often present the mission statement early in the report and never refer to it again in the report. Organizations should create a clear link between their mission, programs and activities.

User Friendliness

The judges commented that organizations should include both amounts and percentages in their graphs and tables. Most graphs and tables in the reports reviewed by the judges only included percentages. Including the amount gives the reader a sense of magnitude. Also, organizations need to define and include the source of information for tables and graphs.

The judges highlighted that organizations should take the time to include pictures of the organization in their annual report instead of stock images. The message delivered through pictures of the people, communities, volunteers and staff of the organization

can be a powerful messaging tool and, when used properly, can help unify the annual report. The judges said that use of stock images make the annual report look amateurish and is an opportunity missed to relay some information about the organization.

Impact

The judges commented several times that organizations' annual reports fail to create a link between their program objectives and meaningful performance measures. The judges noted a number of ways organizations could improve their performance measures:

1.Link performance measures to program objectives – the performance measure must have some context for it to be useful. The judges recommended organizations include their performance objectives and related measures in the same page or section of the annual report.

2.Link performance measures and program objectives to your strategy/goals/mission – Organizations should ensure that the measure and ratios in their report speak to their program objectives and are tied to achieving their strategy/goal/mission. The organization should provide some discussion and analysis when the metric's result is in conflict with the stated objective.

3.Avoid unexplained self-appraisal – the judges noted a report that included a grade for each of the programs they offer. The report did not describe how the grade was developed nor did it define it (ex. What is the difference between an A or B?). If an organization is to include a grading system in their report, we would recommend the following:

A. Explain the Grading Scale – the organization should state what must be achieved in order to earn each grade level. What is the difference between an A and a B? How did your organization determine that a program was performing at an A versus a B grade?



B. Explain the result of each grade - If the organization rates their program anything less than an A, presumably this means there is room for improvement. What are the necessary steps to move the program grade towards an A?

C. Be Critical – An organization should take a balanced approach when reviewing their programs and identify what is going well and what needs improvement.

D. Self-appraisal – While a good first step in evaluating an organization's achievement, self-appraisal needs to have rigor if it is to be more than self-congratulatory. Ideally, an independent third party, such as an accreditation organization, would review programs and provide a grade. Alternatively, if possible, an organization would benchmark their program results against similar organizations. We appreciate that both options above are not available to many organizations. However, organizations could reduce internal conflict of interest by appointing a committee of the board to review self appraisals by organization's management. The committee could be chaired by a board member and include other board members that are not directly involved in day-to-day operations of the program.

While some organizations may worry about having “too slick” of a report, given the availability of easy to use report writing templates, there is no reason for the report to look “amateurish”.

Accessibility & Availability

All award winners to date have had their annual report and audited financial statements posted online. An online presence gives the organization a global footprint, caters to those that use the internet as an information medium and is an environmentally friendly way to distribute information. An online strategy is required to do this effectively. The judges were sympathetic to organizations that may not have the budget or in-house expertise to develop their online presence but even a printer friendly, PDF downloadable version of the annual report and financial statements is a huge step forward in ease

of public accountability. For organizations with the resources, and likely the need to seek considerable amounts of donations to finance operations, the judges identified World Vision's website as an excellent benchmark for an organization's online presence. World Vision's online format puts the decision to access the enormous amount of information they have online squarely in the hands of the user by providing a structured approach to view the information.

The judges commented that the online reports need to be easy to read. For example, rather than having to scroll through a page, the report should be appropriately sized so that the full page fits entirely on a computer screen. This means that some reformatting of paper based annual reports may need to be done before converting to a pdf file. This could also be an opportunity to link various parts of the annual report to more information on the organization's website (i.e. embedded links).

Some things to consider when designing your organization's website include:

- Use appropriate Section Headings – use appropriate section headings to categorize your organization's information. A good section heading will make the contents of the section more obvious to the reader. For example, it is recommended organizations include at least three years of their annual reports and audited financial statements under the heading “About Us”.
- Number of Clicks matter – the judges recommended that the annual report and associated audit financial statements be available two to three clicks after accessing the website's main page.
- Active links – organizations should ensure all website links are active and only be linked to relevant information.

