



Voluntary Sector
Reporting Awards 2013

CPA-QUEEN'S CENTRE FOR GOVERNANCE



BEST PRACTICES IN CHARITY ANNUAL REPORTING 2013 EDITION

Based on Article by Patrick Legresley and Steve Salterio

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Voluntary Sector Reporting Awards 2013

CPA-QUEEN'S CENTRE FOR GOVERNANCE

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Your charity could win \$5,000

The Voluntary Sector Reporting Awards is growing. Now in its 6th year, the Ontario-based awards program for charity annual reports is expanding its rules to include more Canadian-based national and international charities than ever before. Whether you are a charity from Ontario or a charity that operates across Canada or overseas (with 10% of your revenues or expenditures in Ontario), your annual report could win a \$5,000 prize in one of five different categories.

Ontario Charities

Enter in one of three categories.

- Total revenues over \$10 million
- Total revenues from over \$1 million to \$10 million
- Total revenues up to \$1 million

National & International Charities

Enter in one of two categories

- National and International focussed charities headquartered in Canada with a significant presence in Ontario (must have at least 10% of your gross revenues or expenses from Ontario – see rules for details)
- National and International focussed charities headquartered in Ontario



NEW EXPANDED NATIONAL & INTERNATIONAL RULES

Nominations open July 29 and close September 13 at noon.

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 13, whichever comes first. Must be a registered charity that solicits funds from the public – charities run by or for municipalities, universities, hospitals or school boards are excluded. See VSRA rules to see if your charity qualifies.

**CHARITY
ACCOUNTABILITY
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Find Out More

Join the movement towards better charity reporting. Subscribe to our email. Connect with us on social media. Participate in our free webinar. Download our annual report guide.

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FOREWORD



Welcome to the 2013 edition of our Best Practices in Charity Annual Reporting. We're pleased to provide this free of charge for download. It's been read by charity leaders like you in Canada, the US and the UK. It's even been translated into Russian. We're proud that the lessons of the Voluntary Sector Reporting Awards have been shared so far and wide.

We launched CPA-Queen's Centre for Governance in 2007. The VSRA's followed a short time later. The Centre's goal is to improve corporate governance in Canada through a variety of research and teaching programs. One of our key initiatives is to assist Canada's not-for-profit sector, with grants for participants attending Queen's governance programs, case writing on governance problems unique to the sector, developing a comprehensive survey of training programs available for boards and, of course, the Voluntary Sector Reporting Awards.

We want to thank our partners and sponsors for helping us bring the knowledge of six years of the awards to the charity sector.

If you haven't already looked at entering the awards, please do so. It is a great program. And you could win \$5,000.

Please connect with us by subscribing to our email newsletters and our social media.

All the best.

George Boland

Associate Director



THE NEW ACCOUNTABILITY

Accountability has been a controversial word for Canadian charities. Most recognize that being accountable is important for their charities, the sector and for the public. But the issue has been a thorn in the side of a number of charities. There are a growing number of charity rating organizations that compare and contrast organizational performance. Many media have done stories on the “worst” or the “best” charities. Some governments have reacted by bringing in more regulation or publishing more charity information. Whether this world of accountability is good or bad it is the new reality. Whatever the future holds, more accountability is the new watchword.

The drive for more charity accountability is coming from Canadians themselves. A 2008 study by the Muttart Foundation called Talking About Charities found that nearly 100 percent of Canadians surveyed believe that it is important for charities to provide information about what they do. However, Canadians gave charities a failing grade on reporting. A third of Canadians said they were not sure where the money they donate to charities is really going. Only half of Canadians thought charities do an excellent or good job in providing information about the programs and services they deliver. Only three in ten said charities do an excellent or good job in providing information on how they use donations. Only one in four thinks charities do an excellent or good job in providing information about charities’ fundraising costs. Half of respondents in the report said they wanted more information about the work charities do, “even though it may require more money to be spent on communications.” The need for better charity annual reporting is clear.

There are now more than a dozen US and Canadian charity-rating organizations. Each offers a different take on what charity effectiveness really means. However, critics charge that there are not many recognized standard performance evaluation methods for charities. As well, charities come in a variety

of shapes and sizes. Can there be one rating that works on all of them? A 2005 study of charity rating agencies, reported in the Stanford Social Innovation Review, found several major weaknesses in their programs, including too heavy a reliance on simple analysis and ratios derived from poor quality financial data and an over-emphasis of financial efficiency while ignoring the question of program effectiveness.

The media have made charities a major target. There have been several US and Canadian media stories that have charged charities with poor performance, or even fraud. In 2011, the CBC reported that the Canadian Cancer Society spends too much of the donations it receives on the cost. In June, 2013, a Vancouver Sun investigation into the Rick Hansen Foundation found “extravagant spending” on an anniversary event. In the US, the Scripts Howard News Service in 2012 found that more than 15,000 American charities that had each raised more than \$1 million in donations reported that they had spent nothing on fundraising expenses. And in June of 2013, the Tampa Bay Times and CNN released a list of the “50 Worst Charities”.

Governments, too, have begun to act on the issue of charity accountability. The Canada Revenue Agency has put more charity tax information online. Charity Quickview summarizes charity revenue, expenditures and salaries. In the UK, the Charity Commission is the independent regulator of charities in England and Wales. The Commission requires that charities register its public benefit i.e., it must be able to demonstrate that its aims are for the public benefit. In their annual reports, UK charities must report on the main activities and achievements of the charity in relation to its objectives. Larger charities must also report on significant activities undertaken and give details of strategies adopted as well as activities undertaken to achieve the charities aims and objectives.



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. Readers 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's 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, Judges expected 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 that were 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 that were reviewed did 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. Judges 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. 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 is required.

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. 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 Judges 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. Judges found that the granting agency annual reports that were 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. The reader leaves mentally fatigued from the amount of information, even if it contains great content. 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 Ws – who, what, when, where and why.



OVERALL STRATEGY

Based on several years of the VSRA's, 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, Judges 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. Judges 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.





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