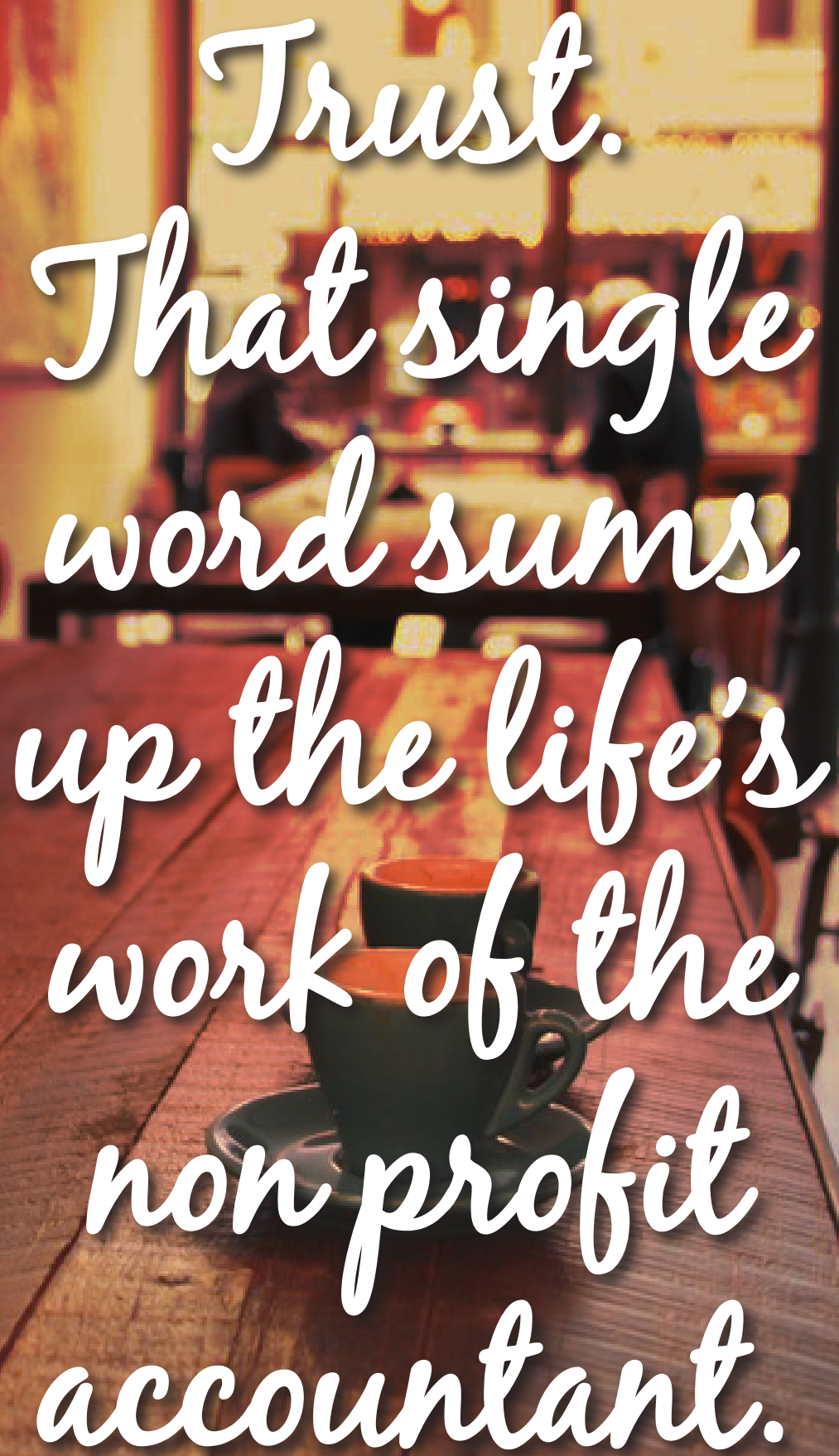# COUGAR MOUNTAIN
SECURE · EASY · ACCOUNTING

*Building trust with your*

Annual Report For Nonprofits

Trust. That single word sums up the life's work of the non profit accountant.

The daily reality for people who work in a nonprofit is that you are working with other people's money for the benefit of people and causes who really need help.

The precision of your organization's financial processes is everything in the non-profit world. Without that precision, you cannot serve your beneficiaries, and your organization may even cease to exist. And the worst of it is this – it isn't always the reality of a transaction or procedure that matters. In the nonprofit world, appearances count for everything. You have to get the financial management right – but you have to absolutely look to have gotten it right. Even the question of impropriety can kill fundraising efforts and cause the elimination of important programs.

With all of this riding on your financial management processes, you definitely don't want to leave things to chance or "make it up as you go along." As tough as the challenges are, most of the questions that you face in non-profit accounting are not novel. The procedural problems that you face are highly likely to have been faced by many others before. There has developed over the years a definite consensus on "best practices" for the management of non-profits.

Most of the best practices can be boiled down, one way or another, to the exhortation that you should have a consistent, detailed way of dealing with each type of transaction your organization faces.
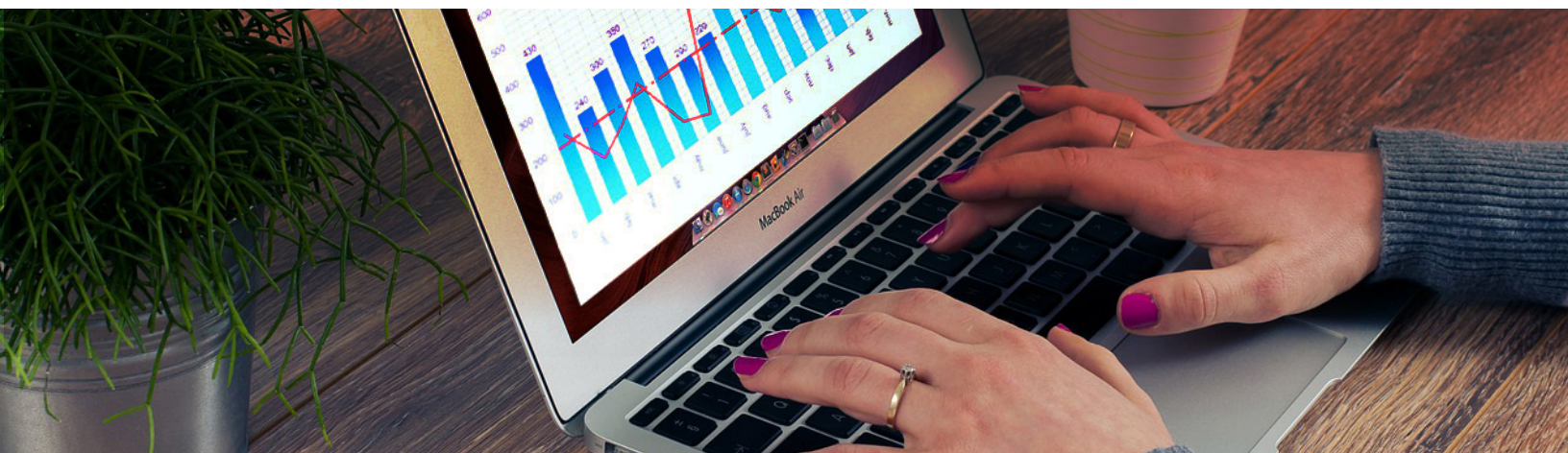
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In the nonprofit world,
appearances count for everything.

"Consistent" means that you do the same transaction the same way every time.

The best way to achieve consistency is to write all the procedures down, make sure all your team members have access to the written procedures (and that they actually read them), train the team members on the procedures, see that questions are asked and answered liberally, and, finally, enforce all of the procedures without exception.

As tough as the standards may have been for nonprofit accounting in the past, they look to be getting even tougher. And of course, this is a good thing for well-run nonprofits. When you have your financial management system set up so that the controls are exceptional, it is a thing that you want to shout from the rooftops.

While corporations in private industry compete on a wide range of factors – product quality, service, price, brand value, and others – the nonprofit entity really competes on only two things: tight financial controls and effective service programs. The high-dollar donors that your organization is likely to approach for contributions are more likely than the average citizen to be knowledgeable about what appropriate financial controls look like. These people probably have extensive experience serving as executives in private corporations or on their boards of directors. After the discussion about the effectiveness of client service, the very next questions these potential donors will have are going to be about your organization's financial control and reporting.

The Annual Report – Why It Is Vital

You and your staff probably spend a great deal of time preparing for the annual board meeting and the annual report that comes out at the same time. You understand very well why the report is so important from a substantive point of view – people want to know how well your organization is doing.

How much money did you raise?

How much money did you spend on your charitable objective?

What was your administrative margin – i.e. how efficient is your organization?

Some people in the community may want to review your spending so they can compare themselves to your organization – who is out-competing whom? And maybe even other politically-minded people will review your annual report to ensure not only that the expenditures comply with the organization's charter but that they are consistent with deeply felt political, religious, or moral principles.

These are all important responses to the annual report, of course, but there is an additional procedural element that makes the annual report so important. In a very real sense, your organization's annual report is your department's report card.

" People want to know how well your organization is doing.

You may spend a lot of money on the production of the annual report – using four color process printing on slick paper – but if the accounting procedures that stand behind the document are not of a high quality, the organization itself can be brought into disrepute.

Your nonprofit organizations' annual report is a very intimate snapshot of your accounting processes – which make a compelling statement about your seriousness of purpose. The press, major donors, political watchdogs, and even some members of the public will know the difference between shoddy work and an organization that is run properly.

- ☐ Were you able to accurately report the gross numbers?

- ☐ Did you track contributions and spending in ways that allow your colleagues within the organization to do their jobs?

- ☐ Can they analyze who is contributing to the organization?

- ☐ Can they easily see in what categories of expenditures the organization is spending money?

- ☐ Can they track to whom the organization is paying money and can these expenditures be efficiently connected to related documents (like service contracts, invoices, etc.) so that the board can determine that all of the organization's rules are being followed – for example, prohibitions on doing business with relatives, prohibitions on kick-backs, etc.?

Planning, Documenting, Training, Enforcing

So if we acknowledge that the annual report is a vital document both from a substantive and a procedural perspective, and if we acknowledge the challenges of implementing a sound process, what can the nonprofit accounting leader do to be ready for the annual report?

We said above that the annual report is truly your report card and that analogy is useful in another way as well – you can't really cram for the test very successfully. If you sit back all year and let employees decide on, execute, and record financial transactions however it occurs to them at the time, there is simply no way you can get very active a week or two before the annual report is due and expect to generate anything worthwhile.

In the words of Vince Lombardi: "Winning is not a sometime thing. It's an all the time thing. You don't win once in a while; you don't do things right once in a while. You do them right all the time."

But what does "do them right all the time" mean?

Ok – **so let's do things right all the time.** Got it.

But what does "do them right all the time" mean?

Defining what **right** means – clearly, definitively, in writing – is the first and essential step to doing things right. When it comes to handling money in a nonprofit, if there is any ambiguity whatsoever – any room for a thing to be done two or more different ways – then management needs to decide on one and only one right way to do that thing.

Of course, there is a bit of an art to actually creating the policies as well. It is well noted that workplaces that actively involve employees in policymaking are far more collegiate and happy places for people to work. But perhaps even more important than that – workplaces where the workers themselves created the policies (or, at least, had a hand in their creation), are exactly the workplaces where compliance with the policy is at its highest.

The other factor is that – especially in the area of accounting procedures – it isn't usually management who understands the intimate details of a particular transaction; it is the clerks or other office staff who handle these transactions all day every day. If management insists on making all the policies "from the top down," not only will compliance be a bigger challenge, but the quality of the policies themselves may suffer too.

Once the policies are explicitly developed and once there is a policy to cover all of the operations of the organization, then all of these policies should be written down and maintained in at least one place that is accessible to all the team members. Before the policy manual is deemed complete, every team

member who had any role in the creation of policies should be invited to review the manual to affirm that what is written there accurately records the policy agreement that he or she remembers having agreed to.

It does little good to go through the lengthy discussions (debates? negotiations?) to develop the policy if the final writing does not accurately capture the agreements. Every team member should be required to read the manual and liberal time should be allowed for questions and answers.

During the various financial operations your organization undertakes, the practical viability of the policy manual will either be validated or invalidated. If management does not actively, consistently require all team members to follow the procedures outlined in the policy manual, then you may as well not have a manual at all. In fact, the existence of a written manual that you or your employees do not in fact follow may actually expose your organization to greater liability than it would have faced without a manual.

However, as operations are executed, you and the team may well learn more about the operation, and you may realize that errors were made in the formulation of the original rules. This is why a written procedure for changing the manual is essential as well. Whenever a team member has an idea for making any particular operation more efficient, less costly, or more fun (!) there should be a clear path for that employee to raise the suggestion to management and effect a change in the rules if the appropriate people are persuaded.

> ## Nonprofit accounting software will allow you to protect your organizations information.

Technology to the Rescue

All of the preceding is in many instances easier said than done. But it needn't be impossible, nor does management need to spend countless hours working on policies and procedures. While people spend a lot of time talking about the miracles of technology – faster, more accurate, and cheaper business transactions! – seldom do people overtly acknowledge the normative impact computers have in a place of business.

In an automated workplace, there is no better way to establish a procedure as the "right" way to do an operation than to program that procedure into the software and give all the operators executing that operation no option to do it any other way.

Clicking from screen to screen, many US office workers may indeed be happily oblivious of the fact that all those screens are the visible manifestation of a rigorous system of rules. If your goal is to make consistent policies, see that those policies are followed every time, accurately record the transactions that occurred, and store the records of those transactions so that they can be conveniently found and correlated – then automating your operations using nonprofit accounting software is simply the best thing you could do.

Non-profit accounting software will allow you to protect your organizations information, install internal controls, and establish procedures.
Most people are attracted to work in nonprofits because of their drive to serve humanity. By ensuring that the greatest possible percentage of the contributions to a nonprofit can be available for useful programs, even the old profession of accounting can join this noble cause!

MORE ABOUT
Cougar Mountain Software

Cougar Mountain Software was founded in 1982 with a vision to develop powerful business accounting, nonprofit accounting, and point of sale software solutions. Our 30 years of success comes from two key practices; (1) employing in-house accounting and business professionals for our sales, support, training, and development teams, and (2) listening to our clients. These two practices make our accounting solutions unique to competitors who outsource their support and build fixed and un-scalable solutions to meet the general needs of the masses.

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