

Financial Policy Example

A resource article by Kate Barr, Executive Director, Nonprofits Assistance Fund

Developing and adopting a written financial policy is a valuable practice for any nonprofit organization, no matter how small or large. Financial policies clarify the roles, authority, and responsibilities for essential financial management activities and decisions. In the absence of an adopted policy, staff and Board members are likely to operate under a set of assumptions that may or not be accurate or productive. If the idea of creating a financial policy seems daunting, this basic guideline and example for policy development may be helpful.

Five Essentials for Financial Policies

The purpose of the financial policy is to describe and document how the board wants the financial management activities to be carried out. In order to accomplish this, every financial policy needs to address five areas:

- 1) Assignment of authority for necessary and regular financial actions and decisions, which may include delegation of some authority to staff leaders
- 2) Policy statement on conflicts of interest, or insider transactions
- 3) Clear authority to spend funds including approval, check signing, and payroll
- 4) Clear assignment of authority to enter into contracts
- 5) Clear responsibility for maintaining accurate financial records

Developing and Approving a Financial Policy

This example financial policy is intended to be short and simple to address some of the basic elements of a good policy. Some nonprofits develop more comprehensive and detailed policies that incorporate more specific responsibilities and add more detail. The most important action is to create and adopt a policy that meets your organization's needs. There are some helpful steps you can take to make the policy as helpful as possible:

- 1) Discuss policy needs with the Treasurer and Finance Committee of Executive Committee
- 2) Conduct informal risk assessment
- 3) Draft financial policy, followed by review and discussion by staff and Board leadership
- 4) Present to board for adoption
- 5) Train staff on policy
- 6) Review at least bi-annually

Considerations when you start with a Policy Template

We offer this example of a financial policy to get you started, but keep in mind that no example will be an exact fit for your organization. Never adopt a policy without a thorough review and consideration of the risks, operations, and structure of the organization

Sample Policy

Family Advocacy Network (FAN) Financial and Control Policies

Philosophy

The purpose of financial management in the operation of all FAN activities is to fulfill the organization's mission in the most effective and efficient manner and to remain accountable to stakeholders, including clients, partners, funders, employees, and the community. In order to accomplish this, FAN commits to provide accurate and complete financial data for internal and external use by the Executive Director and the Board of Directors.

Authority

- The Board of Directors is ultimately responsible for the financial management of all activities.
- The Treasurer is authorized to act on the Board's behalf on financial matters when action is required in advance of a meeting of the Board of Directors.
- The Executive Director is responsible for the day-to-day financial management of the organization. The Board authorizes the Executive Director to hire and supervise staff and independent consultants, pay bills, receive funds, and maintain bank accounts.
- The Executive Director is authorized to sign checks up to \$2,500. Checks for amounts greater than \$2,500 shall require the signature of the Treasurer or Board Chair.
- The Executive Director is authorized to enter into contracts for activities that have been approved by the Board as a part of budgets or plans. The Board of Directors must authorize any contracts outside of these parameters and all contracts with a financial value greater than \$15,000.
- The Executive Director is authorized to manage expenses within the parameters of the overall approved budget, reporting to the Finance Committee on variances and the reason for these variances.
- The Board of Directors must approve any use of the Board designated cash reserve fund.

Responsibilities

The Executive Director shall:

- Account for donor restricted and Board designated funds separately from general operating funds, and clearly define the restrictions applicable to these funds.
- Report the financial results of FAN operations on the schedule established by the Finance Committee, but at least quarterly.
- Pay all obligations and file required reports in a timely manner.

- Make no contractual commitment for bank loans, corporate credit cards, or for real estate lease or purchase without specific approval of the Board.
- Record fixed assets with a purchase price of \$500 and above in accounting records as capital assets. Depreciation of capital assets will not exceed five years for furniture and equipment or three years for computer and other technology equipment.
- Limit vendor credit accounts to prudent and necessary levels.
- Obtain competitive bids shall for items or services costing in excess of \$5,000 per unit. Selection will be based on cost, service and other elements of the contract. FAN may award the bid to any provider and is not required to accept the lowest cost proposal.

The Board of Directors shall:

- Review financial reports at each board meeting.
- Provide adequate training to members to enable each member to fulfill their financial oversight role.

Financial Transactions with Insiders

No advances of funds to employees, officers, or directors are authorized. Direct and necessary expenses including travel for meetings and other activities related to carrying out responsibilities shall be reimbursed.

In no case shall FAN borrow funds from any employee, officer, or director of the organization without specific authorization from the Board of Directors.

Budget

In order to ensure that planned activities minimize the risk of financial jeopardy and are consistent with Board-approved priorities, long-range organization goals, and specific five-year objectives, the Executive Director shall:

- Submit operating and capital budgets to the Finance Committee in time for reasonable approval by the Board prior to each fiscal year.
- Use responsible assumptions and projection background, with a general goal of an unrestricted surplus.

Gift Acceptance

FAN will accept stock or other negotiable instruments as a vehicle for donors to transfer assets to the organization. Transfer and recording the value of the asset shall be done in a consistent manner and in compliance with accounting standards. The Executive Director shall sell any stock given to the organization immediately upon receipt by the organization.

FAN shall accept contributions of goods or services other than cash that are related to the programs and operations of FAN. Any other contributions of non-cash items must be reviewed and approved by the Board of Directors before acceptance.

Asset Protection

In order to ensure that the assets of FAN are adequately protected and maintained, the Executive Director shall:

- Insure against theft and casualty losses to the organization and against liability losses to Board members, staff, or the organization itself to levels indicated in consultation with suitable professional resources.
- Plan and carry out suitable protection and maintenance of property, building, and equipment.
- Avoid actions that would expose the organization, its Board, or staff to claims of liability.
- Protect intellectual property, information and files from unauthorized access, tampering, loss, or significant damage.
- Receive, process, and disburse funds under controls that are sufficient to maintain basic segregation of duties to protect bank accounts, income receipts, and payments.
- Invest money in accordance with Board-approved investment policies.

This article is authored by Kate Barr, Executive Director, Nonprofits Assistance Fund. Nonprofits Assistance Fund (NAF) provides flexible loans and practical financial management training and advice to nonprofits. Other resources and articles on nonprofit financial management topics can be found at www.nonprofitsassistancefund.org. You can contact Kate Barr at 612.278.7180.