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Financial Policy Guidelines

Financial policies clarify the roles, authority, and responsibilities for essential financial management activities and decisions. If the idea of creating a financial policy seems daunting, this basic guideline for policy development may be helpful.

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 may not be accurate or productive. If the idea of creating a financial policy seems daunting, these guidelines for policy development and this basic example may be helpful. Even though there may be occasional deficits, or periods of tight cash flow, the following characteristics are good signs that your organization will be financially healthy over the long-term.

5 Essentials for Financial Policies
The purpose of the financial policy is to describe and document how the board wants 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

Considerations When You Start with a Policy Template
We offer an example of a very simple 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 your organization.
Nonprofit Financial Policy Example: 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 providing 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 President/CEO/Executive Director is responsible for the day-today financial management of the organization. The Board authorizes the President/CEO/Executive Director to hire and supervise staff and independent consultants, pay bills, receive funds, and maintain bank accounts. Duties within this responsibility may be assigned by President/CEO/Executive Director to other staff (CFO, Director of Finance, etc…).
- The President/CEO/Executive Director is authorized to sign checks up to $???????. Checks for amounts greater than $?????? shall require the signature of the Treasurer or Board Chair. The Board may choose to assign a requirement for 2 signatures for dollar amounts in excess of $??????. The Board, and/or the President/CEO/Executive Director may choose to have additional assigned staff and Board members authorized to sign checks.
- The President/CEO/Executive Director is authorized to enter into contracts for activities that have been approved by the Board as a part of budgets or plans or can be considered part of normal business operations. The Board of Directors must authorize any contracts outside of these parameters and all contracts with a financial value greater than $???????.
- The President/CEO/Executive Director is authorized to manage expenses within the parameters of the overall approved budget, reporting to the Board on variances and the reason for these variances.
- The Board of Directors must approve any use of the board designated cash reserve fund, if applicable.

Responsibilities
The President/CEO/Executive Director shall ensure the following is accomplished:

- 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 operations according to 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 leases or purchases without specific approval of the Board.
- Record fixed assets with purchase prices greater than $500 as capital assets in accounting records.
- 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 for items or services costing in excess of $?????? per unit. Selection will be based on cost, service, and other elements of the contract.

The Board of Directors shall:

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

Financial Transactions with Insiders
Advances of funds to employees, officers, or directors are authorized, if approved by tha President/CEO/Executive Director. Direct and necessary expenses including travel for meetings and other activities related to carrying out responsibilities should be reimbursed whenever possible.

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 President/CEO/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 projections as background, with the general goal of an unrestricted surplus.

Gift Acceptance

Transfer and recording the value of the asset shall be done in a consistent manner and in compliance with accounting standards. The organization shall sell any stock given to the organization immediately upon receipt by the organization.

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

Asset Protection

In order to ensure that the assets of organization are adequately protected and maintained, the President/CEO/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 its 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.