

This sample policy could be considered a board-level policy and one supported by internal operational documents outlining more detailed procedures. A non-profit's leadership team may choose to create separate policies under each of the 11 subheadings here. In every category one may choose to include more directions. Please see endnotes for alternative wording examples and other suggestions. The contents of this policy do not prevent one's organization from contracting out bookkeeping and payroll services. Many of the items covered also address risk management concerns.

Financial Management

Our Association employs an accrual basis of accounting. The accrual basis is the method of accounting whereby revenue and expenses are identified with specific periods of time, such as a month or year, and are recorded as incurred. This method of recording revenue and expenses is without regard to date of receipt or payment of cash.

The Association maintains its financial records in accordance with the Accounting Standards for Not-for-Profit Organizations (ASNPO). The Association is committed to continuous improvement of its financial management practices.

The Executive Director is accountable, except where indicated, to the board for the day-to-day financial management of the Association as described below.

1. Accounting Procedures & Bookkeeping

The Executive Director is responsible for maintaining a high standard of financial record keeping, including:

- Ensuring proper bank account reconciliations and closings. All bank statements will be opened and reviewed in a timely manner. Bank reconciliation and approval will occur within 30 days of the close of the month.
- The segregation of accounts such that the revenue and expenses of particular programs, where this can be determined, can be identified¹

2. Internal Controls

Internal controls have to do with the prevention of theft or fraud as well as the discovery unintentional mistakes in financial records. The Executive Director is responsible for ensuring:

- Adequate oversight of signing authority for all financial transactions²
- That there are clear procedures for managing cash, staff expense claims and credit cards

- That funds received, whether by cash, credit card, cheque or electronic transfer will be deposited intact into appropriate organization bank account and that no monies removed or set aside to make payments or for other purposes. All cash receipts should be deposited as soon as possible.
- That all payments to individuals and organizations are to be made by cheque or electronic transfer

3. Banking, Loans and Investments

The executive director may not, without board approval:

- Change the Association's banking arrangements³
- Acquire loans or lines of credit.

4. Financial Reporting

The Executive Director is responsible for internal and external financial reporting. This will include:

- The regular reporting of financial results to the board, particularly year-to-date budget figures⁴
- Reporting any extraordinary changes to assets and liabilities (balance sheet/statement of financial position items)
- Reporting on any other financial issues that jeopardize the ability of the organization to meet its short and long term financial obligations
- Responding to the advice from the appointed auditors on needed improvements to financial management practices
- Presenting any particular financial reports that may be requested by the board from time-to-time

5. Revenues and Accounts Receivable

The organization will accept money in accordance with the current budget. The executive director is responsible for ensuring that:

- Invoices to funders for the delivery of projects or programs are regularly sent and accurately reflect billable time
- Delays in contract and grant payments to the Association that threaten our ability to meet our own obligations, including payroll, are immediately reported to the Board
- All revenues received are credited to the appropriate revenue lines as reflected in the budget
- Donations and sponsorship contributions meet the standards of our fundraising policy⁵

- Revenues from fundraising events are reported as the net amount realized after direct expenses.

6. Expenditures, Payroll and Accounts Payable

The executive director is authorized to make all expenditures that are in accordance with budget approved by the Board.⁶ This includes:

- Settling payroll and paying invoices or other liabilities in a timely manner⁷
- Ensuring that staff and volunteer work time is recorded for payroll and cost allocation purposes

7. Compliance

The executive director must ensure that:

- Payroll deductions, employer contributions and other taxes are submitted to the Canada Revenue Agency as required by law
- That the Association operates in compliance with the standards set by the Federal Charities Directorate with respect to fundraising including those associated with accepting and reporting of donations and gifts-in-kind and issuing income tax receipts⁸
- Reports to funders are prepared and submitted in accordance with the funder's requirements

8. Purchasing

The Executive Director is responsible for:

- Ensuring that where the purchase of a particular item, whether goods or services, is being considered and the amount exceeds \$5000 that there is an assessment of both the quality and price offered by different vendors if more than one vendor is easily identified.
- Not purchasing or entering into contracts in situations where he/she, members of board or staff have an undeclared conflict of interest
- Ensuring that there are adequate procedures and documenting practices in the Association's relations with vendors

9. Asset Management and Protection

The executive director is responsible for assuring that the Association:

- Operates with adequate fire, theft and liability insurance in effect, and where the board has delegated this responsibility solely to the executive director, directors and officers liability (D&O) insurance⁹
- Operate with clear procedures for the safekeeping of key legal and contractual documents. HR records and incorporation-related and board meeting records
- Operates with procedures for backing up and off site safekeeping of financial and other key computer records
- Has clear procedures regarding office access and security

10. Financial Planning & Budgeting

A separate policy is recommended for this aspect of financial management.

The budget is a primary planning tool in enabling the Association to keep track of, and measure its financial performance. The Executive Director is responsible for:

- The preparation and presentation of a draft annual budget for board approval at least one month prior to the beginning of a new fiscal year¹⁰
- Leading, or co-leading with the board treasurer, an annual budget discussion that highlights the any changes or developments in the external financial environment, key revenue and expense changes, wage, salary and benefits goals, as well as any anticipated extraordinary expenses that should be considered
- Ensuring that the budget is developed with sufficient information to reasonably judge the reality of the projections of both revenues and expenditures
- Ensuring that the basis of the budget in any one year is consistent with previous years unless otherwise communicated to the board
- Ensuring that all grant and contract funding is included in the overall budget
- Identifying, within the budget, both revenues and expenditures that can be associated with core program areas
- Reporting of any unanticipated changes in predicted revenues and expenditures that will, or may be expected to, positively or negatively affect the organization's financial situation
- Preparing and presenting, at any point in the fiscal year, changes to the annual budget for amendment by the board

11. Reserve Funds

A separate policy is recommended for this aspect of financial management.

The board, on the advice of the executive director, shall establish one or more reserve or investment funds. In particular, the board shall authorize the establishment of:

- A reserve fund that shall be an operating reserve. It shall, at its maximum, contain a minimum amount to be set aside equaling at least two (2) months of average operating

costs including staff salaries¹¹

- One or more special purpose reserves
- Guidelines (or policies) of the use of each reserve fund, how funds are to be set aside and invested and how often the board shall review their status.

¹ The separation of program specific revenues and expenditures, including percentages of staff time, can be useful for planning and cost evaluation purposes, especially to larger non-profits

² Alternative financial control statement: Ensuring that the organization's financial duties are distributed among multiple people to help ensure protection from fraud and error. The distribution of duties aims for maximum protection of the organization's assets while also considering efficiency of operations.

³ Banking arrangements requiring board approval should include changing banks (or credit unions), setting up accounts at different banks, changing signing authority, setting up new or additional saving or chequing accounts

⁴ The frequency of financial reports to the board should be specified. Many boards receive monthly reports, but quarterly reports may be adequate for organizations whose revenues and expenditures are stable or predictable.

⁵ Reference to other policies, when relevant, are good to include.

⁶ This statement prohibits the executive director from making unbudgeted expenditures without board approval. A board may want to provide their ED with a little leeway here for small amounts. Normally the executive director has authority to spend money reflected in a budget approved by the board. Good budget planning ought to highlight large single expenditures or other extraordinary items anticipated. It is not uncommon though, especially where the budget discussion has been limited, for an expenditure policy to require the executive director to seek additional board approval for large expenditures.

⁷ Alternative wording on the approval of invoices: All invoices must be approved by the manager of the section for where the expense was incurred. Approved invoices will be paid within 30 days of receipt.

⁸ The Canada Revenue Agency requires charities to report annually using the form T3010

⁹ With respect to insurance coverage a board may want to add a statement requiring the ED to initiate an annual or biennial insurance review as a board agenda item.

¹⁰ If the work of financial planning is shared with a board budget or financial management committee this should be stated here including whether the committee advises the ED or shares this planning responsibility.

¹¹ A reserve of two months of regular expenditures may be too steep a target for many non-profits although some sources suggest the figure be three months. The policy, regardless of the amount set aside ought to specify a target tied to particular costs.