

FINANCIAL MANAGEMENT MANUAL

Underpinning all financial management systems is a series of financial policies and procedures which guide operations and lay out how your organization uses and manages its money. A financial procedures manual brings all these together in one document. It helps to establish financial controls within the organization that ensure accuracy, timeliness and completeness of financial data. The manual is generally used by finance staff, but it can also act as a reference for board members, managers and other staff.

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FINANCIAL MANAGEMENT MANUAL

What is financial management? >> 2

Policies and Procedures >> 5

What is a financial management manual? >> 6

Sample financial management manual? >> 8

Board Members Financial Responsibilities >> 8

Controls on Expenses >> 12

Controls on Income >> 14

Controls on Financial Accounting >> 16

Exercising Budgetary Control >> 19

Controls on Human Resources >> 19

Controls on Physical Assets >> 22

Sample Policies >> 24

Resources

About this guide

The purpose of this guide is to help you manage your financial resources. Non-Profits are increasingly operating in a rapidly changing and competitive environment. If you are going to survive this challenging environment, you will need to ensure the best and most efficient use of your financial resources. Sound financial management will provide board members and managers in your organization with a basis on which to do this. It is only a guide , providing sample manual content and policies. Each organization is unique based on size and structure and would need to develop specific content to suit their environments.

What is financial management?

Financial management is more than keeping accounting records. It is an essential part of organisational management and cannot be seen as a separate task to be left to finance staff or the honorary treasurer. Financial management involves planning, organising, controlling and monitoring financial resources in order to achieve organisational objectives and involves a range of financial tactics.

You can only achieve effective financial management if you have a sound organisational plan. A plan in this context means having set objectives and having agreed, developed and evaluated the policies, strategies, tactics and actions to achieve these objectives. Sound financial management will involve you in long-term strategic planning, and short-term operations planning. This financial planning should become part of your organisation's ongoing planning process.

Sound financial management is one of the most important policy development and monitoring areas of a board of directors. Board responsibilities are somewhat different in an organization with senior staff compared to one without senior staff or limited senior staff. Financial policy is developed to reflect these different roles and responsibilities facing these two main types of boards. Generally the lines of authority can be described as;

Lines of Authority in a Policy Governing Board

The Board
authorizes the
Board Chair
to liaise with the
Executive Director
who supervises
Staff
who implement board policy through
programs and services

Lines of Authority in an Administrative Governing Board

The Board
authorizes the
Executive Committee
to monitor and supervise the
Volunteer and Paid Staff
who implement board policy

Good financial management will help your organisation to:

- make effective and efficient use of resources
- achieve objectives and fulfil commitments to stakeholders
- become more accountable to donors, funders and other stakeholders
- gain the respect and confidence of funding agencies, partners and beneficiaries
- gain advantage in competition for increasingly scarce resources
- prepare for long-term financial sustainability.
- diversify income and manage risk

Good financial management has four important components:

1. A clear finance strategy
2. A plan for generating income
3. A robust financial management system
4. A suitable internal environment.

Finance Strategy and Reserves Policies

How to develop a finance strategy for your non-profit organization and the importance of reserves policies should be the central focal points.

Your finance strategy is a plan of how you will finance your organization and its activities, what money you will need and where it will come from. Your strategy should describe how you intend to move from your current position to your intended position.

Questions to answer when developing a finance strategy

- *Where are we now?*
- *What are our plans for the future?*
- *How will we get there?*
- *Do we know what the risks are and how we will manage these?*
- *How will we manage the competing demands of spending against savings needed?*

Budgeting

Board responsibilities cover many areas of operation, one of which is budgeting. Part of approving a budget means asking sufficient questions so that the budget is understood.

Questions to answer when developing a budget

- *Does the budget reflect the organizations priorities?*
- *What are the fundamental assumptions upon which the budget has been approved (ex. inflation rates)?*
- *Who is responsible for monitoring and controlling budget expenditures?*
- *What are the boards' budget policies that govern the preparation and control of the budget?*

Generating Income

Generating income is more than fundraising. It is about making your organization sustainable by establishing a range of funding (diversifying your sources of income), so that you are not dependent on one source. The fundamental question becomes on how to generate income in a sustainable way for your non-profit organization.

Your income generation plan must ensure that:

- you are raising sufficient levels of income to enable you to deliver your organisation's purpose; it must cover *all* costs incurred.
- you have taken into account any restrictions imposed by funders on how your organisation can apply the funds received
- you have a sufficiently diverse source of income to avoid the high level of risk associated with depending on one source.

*Funds received from funders for a specific purpose are known as **restricted funds**: you are legally obliged to use them only for the purpose for which the funder gave them to you.*

*In contrast, **unrestricted funds** can be used for any purpose that helps you to achieve your charitable objects. The more unrestricted funds you have, the more freedom of action you have. You can for example, choose to cover costs that funders are reluctant to fund, like core costs.*

The discipline is the same whether generating restricted or unrestricted income and funders will require the same financial information of you. Some of the basic information required is;

- Clarity that the organisation is seeking funding to meet a specific beneficiary need.
- Financial details of your organisation.
- How the funds will be used; e.g. what percentage of the funds will go towards core costs, salaries etc.
- Your organisation's ability to manage finance.

Sustainability and diversification

A good plan for generating income will aim to achieve sustainability by stabilizing your funding base, in some cases increasing your funding and diversifying your funding sources. Sustainability ideally means managing your income streams in such a way that if or when one stream comes to an end, the work can be repositioned, making it suitable for funding by another stream.

Opportunities available to diversify income streams range from donations and grants to service level agreements or contracts to deliver services, to trading in goods and services.

*Remember **fundraising activity** has costs associated with it, e.g. fundraiser's time. It is important therefore that these are reflected in the associated budget plan. **Diversification** also has costs associated with it, such as increased management effort etc. You must therefore recognise at what point the benefits of diversification are outweighed by costs.*

Policies and procedures

Several of the policies you need to have result from your obligations in managing people. Induction is a good way of making policies known to new employees, volunteers and trustees, but they also need to be systematically reinforced in a variety of contexts.

Policies checklist

Your policies and procedures should start with the Boards' financial responsibilities and its governance model/style. The following areas are some of those that would benefit from written policies and be included in a financial management manual:

- Board Members financial responsibilities
- Controls on Expenditure- who can spend what and with whose authority.
- Controls on Income
- Controls on Financial Accounting - for example, who records cheques received and who banks them.
- Exercising Budgetary Control - who can spend how much and on what and what expenditure needs special permission.
- Controls on Human Resources - who can recruit and for what roles, what permissions are needed and who authorizes pay grades/scales.
- Controls on Physical Assets - for example, who can authorize the sale, purchase and lease of buildings or equipment.

Defining good policy

A good policy is:

- easily understood and written in plain, jargon-free English
- has a definite purpose for its creation and is linked to your strategy
- is flexible, can adapt to change and is suited to the culture of the organization
- is developed through the involvement of employees and interested stakeholders
- is communicated to all relevant people.

How to develop a policy

To develop a policy you must:

- decide whether this is an area where the board or the executive committee should be determining policy
- arrange for a sub-group, member of staff or individual board members to produce a draft policy for discussion
- discuss (including consultation with board members, employees, volunteers and service users as applicable) and agree on the final version
- in the case of board policy, ensure the entire board ratifies the document and builds in a date for review.

What is a financial management manual?

Underpinning all financial management systems is a series of financial policies and procedures which guide operations and lay out how your organization uses and manages its money. A financial procedures manual brings all these together in one document. It helps to establish financial controls within the organization that ensure accuracy, timeliness and completeness of financial data. The manual is generally used by finance staff, but it can also act as a reference for board members, managers and other staff.

There is no one model of a financial procedures manual that suits all and yours will depend on the needs and structure of your organization. However, there are some basics that must be in place to achieve good practice in financial management. It is helpful to identify certain principles when developing a financial management system. These will act as a guide to your board members and managers when making decisions.

Below are suggested content headings of each section of a typical financial management manual. They can act as the starting point for your own manual and can be adapted to cover the needs and activities of your organization. Your manual may also need to include key elements of external financial regulations, funder specific contractual obligations and should include a comprehensive Chart of Accounts (COA).

Recommended contents of a financial management manual

The financial management manual is useful for establishing controls as well as laying out board members financial responsibilities. This will need to be tailored to the needs and structure of individual organizations.

Board Members' financial responsibilities

- The executive committee
- The finance and audit committees
- The annual operations plan
- Approval of the budget
- General controls
- Reserves
- Conflicts of interest
- Financial responsibilities
- Grants

Controls on expenditure

- Staff responsibilities
- Estimates and tendering
- Approvals for capital expenditure
- Purchase orders and invoices
- Bank mandates and cheque signatories
- Credit cards
- Petty cash
- Building projects

Controls on income

- Treasury management: invoicing, debt collection, income collection, borrowing
- Income from fees
- Gifts, Donations and In-kind
- Grants and Contracts
- Costing and recovery of overheads
- Deficits and Surpluses

Controls on financial accounting

- Chart of Accounts (COA)
- Retention of Financial Records
- Taxes and returns
- Audits
- Reconciling cash book to bank
- Reconciling expense ledger
- Reconciling income ledger
- Reconciling payroll control
- Investment portfolio
- Regulations (CRA, etc.)

Exercising budgetary control

- Budget preparation and control
- Resource Allocation
- Powers to amend budgets and spend reserves
- Budget Reporting
- Budget deficits and surpluses

Controls on human resources

- Staff complement
- Staff salaries
- Staff regrading
- Reimbursement of expenses
- Contracts of employment
- Benefits
- Casual staff and consultancy
- Severance, early-retirement and other non-recurring payments

Controls on physical assets

- Computer equipment
- Computer software and data
- Land, Building & leases
- Other equipment
- Merchandise, Stocks and Stores
- Insurances

Sample Financial Management Manual

This section outlines (ORGANISATION) procedures in relation to financial and general administrative matters. This is an example of what constitutes a Financial Management Manual. It provides some content best practices for consideration. Each organization must adapt to suit the individual organization.

Board Members' financial responsibilities

General Governance and Management

(ORGANISATION) is an Incorporated Body registered under the Canadian Non-Profit Corporations Act 19... The (ORGANISATION) is also a registered Charitable Organization. The Constitution list the objects of the Company, its legal powers, composition of the Board, office bearers, conduct of elections and general meetings, membership, and so on. Copies of the Constitution are held in the office and are available to all members and staff of the organisation.

The roles of the Board in governance and management are:

- Setting organisational policies (the ED/CEO etc. is responsible for follow through and implementation); and
- Monitoring compliance with organisational policies and reporting against agreed performance standards.

Sub-committees of the Board have a role in compliance. Details of the (ORGANISATION)'s sub-committees mandates are available at.....To ensure Board responsibilities are met, the Sub-Committees will:

- Examine and monitor compliance with policies and procedures, and with legal requirements, in a more detailed way than the Board is able to do (e.g. in relation to staffing issues, organisation's role as an employer and in relation to financial responsibilities)
- Report to the Board on compliance issues. To guarantee that the Board picks up on issues, any important areas or issues will be listed separately on the agenda.

The Board recognises that the management of the organisation and implementation of organisational policies is the responsibility of the ED/CEO.

The role of the Board in relation to policy issues comprises:

- Setting annual priority policy areas around implementation of the Strategic Plan;
- Identifying/deciding on (ORGANISATION)'s involvement in new or emerging issues and in issues raised from the sector; and
- Making decisions where changes to existing policy position are proposed to be changed.
- Establishing financial management priorities, responsibilities and executive limitations.
- Monitoring of financial management and prudence through policies, financial reports and established metrics.

Policy issues that are brought to the Board should fall into one of the following categories:

- Matters for decision making by the Board - i.e. issues which are considered strategic, important, and serious or where the Board has identified the need for ongoing involvement
- Issues for discussion are brought to the Board, in order to:
 - Canvass the issues
 - Provide ideas for future policy work by staff
 - Set the context of where we want to take an issue (for example, this could be in relation to emerging policy issues or issues with policy implications)
- Matters for information only – to inform the Board

In each instance, information should be presented to the Board in the agreed format for Board papers.

Both staff and Board members can identify issues that should be brought to the Board. The ED/CEO should be informed of any such issues, so that they can be incorporated into the agenda.

Insurances

(ORGANISATION) maintains adequate insurance cover at all times. This includes:

- personal accident insurance for staff & volunteers;
- public liability insurance;
- D&O insurance
- building and contents insurance policies
- association liability (this includes professional indemnity)
- Workers' Compensation insurance

In addition, (ORGANISATION) annually reviews its policies and is responsible for providing its insurer/broker with a detailed and accurate schedule of activities and inclusions to be covered. All insurance policies must be sighted by the ED/CEO or Finance/Administration Committee on an annual basis. The Finance/Administration Manager is responsible for ensuring all insurance policies are current and adequate documentation maintained. Workers Compensation insurance is provided directly through WSB.

Financial responsibilities

Delegations or financial responsibilities represent the different acts of authority designated or assigned to different (ORGANISATION) board members, management or staff positions and roles (executive limitations). There are two key types of delegation. The first are business activity delegations, which bestow authority to take or approve actions on behalf of the organisation. The second are financial delegations such as the authority to approve expenditure up to a certain limit.

The following responsibility matrix is an example of possible delegations. Each organization should develop a responsibility matrix specific to the size and structure of their organization.

| Position | Business Activity delegations | Financial delegations |
|----------------------------------|---|--|
| President or Board Chair | <ul style="list-style-type: none"> • can authorise staff, board or members to represent (ORGANISATION) or speak to the media • authorised to sign cheques on behalf of (ORGANISATION) | |
| Treasurer | <ul style="list-style-type: none"> • authorised to sign cheques on behalf of (ORGANISATION) • ratifies cheque and general ledger | |
| Board Members | | <ul style="list-style-type: none"> • board members who are signatories to the bank accounts • authorise expenditure over a set dollar limit |
| Executive Director/CEO | <ul style="list-style-type: none"> • authorised to sign cheques and EFTs on behalf of (ORGANISATION) • authority to enter into contracts (funding or operational) | <ul style="list-style-type: none"> • approve expenditures up to a set dollar limit • authority to over spend budget by up to a set percentage of the budget |
| Finance Committee | <ul style="list-style-type: none"> • approves organisational budget • approve Finance/Administration Reports • approve budget variations | |
| Finance Manager | <ul style="list-style-type: none"> • authorised to sign cheques and EFTs on behalf of (ORGANISATION) • manage bank accounts • prepares and approves finance reports | <ul style="list-style-type: none"> • approve expenditure up to a set dollar limit • authority to overspend budget by up to a set percentage of the budget |
| Coordinators or Program Managers | <ul style="list-style-type: none"> • approve all published material including website (excepting job advertisements) • authorises and signs all official (ORGANISATION) correspondence • authority to enter into contracts | <ul style="list-style-type: none"> • approve expenditures up to a set dollar limit • authority to overspend budget by up to a set dollar limit or a set percentage of the budget • in consultation with the ED/CEO may approve funding submissions, applications or expressions of interest for projects of up to a set dollar limit. |
| Other permanent staff | <ul style="list-style-type: none"> • provide information for budget | <ul style="list-style-type: none"> • approve expenditure up to a set dollar limit |

Funding & Grants

In relation to funding and/or grant submissions, the ED/CEO may approve applications or expressions of interest for projects of up to a set dollar limit. For larger funding projects, Board approval should be sought. The Board will make decisions based on how the proposed new funding fits with the Strategic Plan. In situations where time constraints do not allow this, the ED/CEO will consult with the Board Chair, Executive Committee or Financial/Administration Committee Chairs.

The Finance & Audit Committees

The (ORGANISATION)'s finance committee is chaired by the Board Treasurer and is responsible for monitoring significant financial planning, management and reporting matters of (ORGANISATION), make recommendations and deliver reports to the Board of Governors, and may serve as the Board's external audit committee coordinator.

The Finance Committee has the responsibility to:

1. Make recommendations for Board approval and/or deliver reports to the Board in the following areas:
 - i. Annual operating and capital budget
 - ii. Annual audited financial statements
 - iii. Appointment of auditors
 - iv. Policies related to financial management.
2. Provide information to the Board on:
 - i. Significant financial planning, management and reporting issues
 - ii. Interim financial reports
 - iii. Reports from auditors and administration on internal control issues and other matters.

The (ORGANISATION)'s audit committee is responsible for:

1. external auditor selection and evaluation criteria;
2. overseeing the coordination of the external auditor;
3. reviewing the external auditor's report and Letter to Management;
4. ensuring communication and reporting lines between the ED, staff and the audit committee;
5. monitoring and assessing the external audit effectiveness.

The audit committee (or management) may also perform:

- organize for interim financial audits, distributed internally, for improving the reliability of information used for decision making, and for identifying potential material problems early;
- special assignments, such as improving internal control in a given area or implementing a fraud prevention program and
- coordinating/establishing an internal audit task force

Reserves

Board Members are under a duty to balance the needs of current and future beneficiaries of the charity. (ORGANIZATION) needs to have sufficient reserves to allow it to cover known liabilities and contingencies, absorb setbacks and take advantage of change and opportunity.

However, (ORGANIZATION) holding reserves that are greater than the needs may be subject to scrutiny and possible investigation by the regulatory authorities. As such, (ORGANIZATION) will maintain a reserves policy and/or foundation in strict compliance with governing regulations that will be established by the Board in consultation with the ED/CEO and the Finance/Administrative Manager.

The benefits of developing a reserves policy:

- It is a key element of the strategic plan – without a clear idea of the reserves that are needed (ORGANIZATION) may not be able to meet your commitments or start new activities.
- It must feed into the budgeting and decision-making process – the policy will act as a benchmark to ensure that (ORGANIZATION) uses its funds to good effect. Projects require detailed planning and submission of a detailed budget for approval by the Board. This will assist the (ORGANIZATION) in managing reserves and avoid (ORGANIZATION) from being reactive rather than plan constructively.
- It focuses the fundraising activities – the reserves policy will identify (ORGANIZATION)'s level of need for funds and what they are needed for. This will guide the fundraising plans as it is often easier to fundraise for specific items or amounts.
- It is necessary for communication with those external to the charity – the reserves policy will help demonstrate that the (ORGANIZATION)'s money is being used to good effect. Funders, beneficiaries, members and the wider public are entitled to know this and that (ORGANIZATION) has good reasons for maintaining or seeking the certain levels of reserves.

Other section content headings;

- The annual operations plan
- Approval of the budget
- General controls
- Conflicts of interest

Controls on expenditure

Bank mandates and cheque signatories

Two signatories are required for all cheques and electronic fund transfers. The Finance/Administrative Staff is responsible for ensuring that documentation accompanying a cheque is correct, and will seek approval from the ED/CEO or the Finance/Administration Manager for large or unusual items.

The finance staff maintains a register of cheques and electronic fund transfers issued by (ORGANISATION), and cheque and EFT listings are presented to the Finance/Administration Manager for ratification.

Those authorised to sign cheques on behalf of (ORGANISATION) are the (an example):

- 2 members of the Board and/or Finance Committee
- Treasurer
- ED/CEO
- Finance/Administration Manager

The Finance/Administration Manager is responsible for ensuring cheque signatory information with banking institutions is up to date.

Bank Accounts: Two authorised signatories are required to approve a transfer of funds between any two (ORGANISATION) accounts. The Finance/Administration Manager is responsible for ensuring that all bank accounts are reconciled on a regular basis. The Treasurer is required to review and sign the bank reconciliation statements. The Treasurer also reviews and ratifies the cheque register, including electronic funds transfers. The [NAME OF BANK] Bank account is used for petty cash transactions and is reconciled at end of month, due to low activity.

Payments and Borrowing

Accounts Payable: (ORGANISATION) is committed to promoting and maintaining positive business relations with its suppliers and accordingly, seeks to ensure payment within any contractually agreed terms or before late payment charges may apply. Outside of any agreement terms and where late payment do not apply, (ORGANIZATION) maintains a minimum Disbursement Cycle of > 30 days. During months of negative cash flows the Disbursement Cycle is to be increased to > 90 days where possible.

All purchases over a set dollar limit and less than a set dollar limit must have prior authorisation from the ED/CEO or the Finance/Administration Manager. The Program Directors or Managers have authorisation to spend up to x dollars within the limits of the approved budget. Purchases over a set dollar limit require approval from the Finance Committee or Treasurer and the cheque must be co-signed by a Board member. Exception to this is payroll transaction and benefits which are signed off by the ED/CEO or Finance/Administration Manager. See Delegations.

The financial/ administrative staff is responsible for ensuring all purchases have the necessary approval before processing purchases. Payments to creditors may be made either by cheque or electronic funds transfer (EFT). When a creditor is paid by EFT, a remittance advice will be faxed. See Cheque Signatories.

Borrowing: Other than the pre-approved credit card debt, any borrowing must be approved by the Board of Directors. Any approved borrowing requires the signatures of a Board Member or Board Treasurer and the ED/CEO on financial bank or other institutional documents

Credit cards

(ORGANISATION) has two credit cards: one designated to the ED/CEO & Board Members (ED/CEO Corporate Card) and the other for use by the Organisation ((ORGANISATION) Corporate Card). Both credit cards have a set limit. The Financial administrative officer is responsible for reconciling the credit cards on a monthly basis. From time to time an additional card may be authorised by the Coordinator in circumstances where the flexibility of credit card use is required.

ED/CEO Corporate Card

The ED/CEO may use the credit card for purchases within the limits of the approved budget. Receipts must be kept and submitted to the Financial/Administrative Manager for monthly reconciliation.

(ORGANISATION) Corporate Card

Staff must first seek approval from their supervisor (or CEO/ED or Finance/Administrative Manager) to use the organisation's credit card. The supervisor is required to sign off on the credit card request form. Credit Card requests forms are to be completed and approved prior to all credit card transactions. The completed Credit Card Payment form is to be submitted to the Financial/Administrative Manager, with appropriate documentation for monthly reconciliation.

Petty cash

A petty cash float is maintained in the office. To claim petty cash (see delegations), a staff or board member needs to provide receipts, fills out a petty cash voucher and is reimbursed in cash up to a set dollar value. It is preferred that a receipt is turned in at the same time, however, sometimes the cash is given out first. In either case a voucher should be filled out. When the receipt is received it should be stapled to the voucher. If unable to provide a receipt, they must provide appropriate documentation (expense claim form) stating the amount to be claimed, what the expense was, and the date it was incurred. The Financial/Administrative Staff balances petty cash and replenishes the float as necessary.

The amounts of cash and receipt totals must always add up to the amount of the original petty cash cheque. A cheque must be written for any amount to replenish petty cash and cashed. Petty cash must be controlled by a designated person who is accountable for the funds. It must be kept in a secure location.

The receipts must be expensed to the appropriate expense account in the accounting records or COA. The petty cash must be checked from time to time by the Finance/Administrative Manager to ensure that the funds are being properly managed, and at least every quarter.

Other section content headings

- Staff responsibilities
- Estimates and tendering
- Approvals for capital expenditure
- Building projects

Controls on income

Invoicing, debt collection and income collection

Accounts Receivable: In addition to core funding and grants, the (ORGANISATION) sells a range of goods and services including:

- advertising in (ORGANISATION) Newsletter and on the (ORGANISATION) Website,
- hire of the meeting rooms and equipment,
- (ORGANISATION) publications

- membership fees
- user fee-for-service
- conference registration
- social enterprise

Accounts receivable are managed by the Finance/Administrative staff and invoices are sent out weekly or monthly. Reminder letters for renewal of membership are also sent out monthly. Payments received are managed by the Finance/Administrative Staff, that is, processing payments and bank deposits. Documentation is maintained by the Finance/Administrative staff. Cheques and credit card are deposited separately.

All invoices must contain notification of “payable within 15 days. Late payments will incur a set percentage monthly penalty.” Notifications are to be forwarded two days prior to payment expiry and again on the day payment date has expired. The optimum Receipts Cycle for (ORGANIZATION) must be < 30 days and greater than 95% of all receipts.

Gifts, Donations and In-kind

Charitable Receipts: (ORGANIZATION) is a registered charity with the CRA, charity #..... Tax receipts must be issued under the following conditions:

- Transfer of property (not services) to the (ORGANIZATION).
- Transfer must be voluntary.
- Donor must not receive any benefit in return.
- Must be philanthropic for the good of society.

Tax receipts issue must comply with the following:

- A sequentially numbered receipt book with double copies is used.
- Charitable donation receipts must contain:
 - a) Statement that this is an “Official Receipt for Income Tax Purposes”.
 - b) Charitable taxation number.
 - c) Name and address of (ORGANIZATION) as recorded with CRA.
 - d) Place or locality where receipt was issued.
 - e) Name and address of donor, including first name and initial if an individual.
 - f) Amount of cash donation or fair market value of gift.
 - g) If cash donation – day or year when (ORGANIZATION) received donation.
 - h) If non-cash donation – day when (ORGANIZATION) received donation, brief description of property, name and address of appraiser if appraisal done.
- If another receipt is issued for the same donation, the words “this receipt replaces receipt #.....” must be clearly shown.
- Spoiled or voided receipts are kept in the receipt book.
- Receipts for other than charitable donations must be issued with other kinds of receipts.
- Unused receipts must be kept secure and must be accounted for.

Other section content headings

- Income from fees
- Grants and Contracts
- Costing and recovery of overheads
- Deficits and Surpluses

Controls on financial accounting

Chart of Accounts (COA)

The chart of accounts is a detailed listing with descriptions of all of the accounts, or records of each business transaction, of (ORGANIZATION). It is used to keep track of the income and expenses of the organization. It serves as a sort of detailed table of contents for the general ledger. The structure and headings of accounts should assist in consistent posting of transactions with each nominal ledger account being unique to allow its ledger to be located.

The chart of accounts should correlate to the categories in the budget so that they can be easily compared. The chart of accounts should be as simple as possible and be revised over time as needed with detailed descriptions of categories.

The (ORGANIZATION) shall develop and maintain a comprehensive COA. The Finance/Administrative Manager is responsible for developing and maintaining a COA on behalf of the Board of Directors. Budgets and financial reports shall be prepared in accordance with the COA and should be correlated as such. The finance/administrative staff are responsible for complying with the COA descriptions on every business transaction.

When and if required the Finance/Administrative staff will notify and seek the approval of the Finance/Administrative Manager for any changes to the COA. The Finance/Administrative Manager will notify the Finance Committee and/or Board Treasurer of any such changes to the COA. The finance committee or board treasurer will sign-off on any changes and ensure that the COA is updated accordingly. Where such changes will render the finance reports to be non-comparable, a detailed report will be issued to the Board along with the new financial reports detailing the changes, impact on financial information comparability and a table outlining and comparing the changes for ease of tracking and understanding the changes.

Retention & Management of Financial Record

(ORGANISATION) maintains a centralised filing system for policy and project-related files. Staff are responsible for keeping the files relevant to all projects including funding agreements.

The Finance/Administration Manager is responsible for ensuring compliance with maintaining the central file(s) on each project as specified above. All financial records are kept for a minimum of 7 years.

On an annual basis, the Finance/Administration Manager will cull documents from the central filing cabinets. This ensures filing systems are current and unnecessary storage is reduced. Regular review of the files also assists in the transfer of relevant information in the event of

staff turnover. When culling files, they should make a decision as to whether material should be:

- archived at (ORGANISATION);
- disposed of.

In general, (ORGANISATION) staff are responsible for maintaining files relevant to their own projects and areas of responsibility. Copies of key documents should be forwarded to the Finance/Administration Manager for inclusion on the project file, stored in the Finance/Administration office (a job number will be allocated at this time).

The documents kept in the central file include:

- the funding submission
- the funding agreement
- the project budget
- any correspondence with the funding agency
- copies of all reports and acquittals
- copies of any agreements with contractors involved in the project.

In order to ensure centralised record keeping, the Finance/Administration Manager also maintains copies of:

- statutory documents (e.g. the certificate of incorporation)
- source documents such as insurance policies

The Finance/Administration Manager is responsible for disposing of information and files as necessary to maintain proper records. Once no longer required, confidential documents are to be shredded. Generally this includes Board papers, financial information, and job applications. Any personal information about individuals that is acquired should also be shredded. General information that is not considered sensitive can be placed in the paper recycling.

Any material which is more than ten years old is usually discarded in order to save storage space, except for (ORGANISATION) (list any documents that apply) which should be archived.

Audits

As a Non-profit organization, registered under the Corporations Act, (ORGANISATION) is required to have an annual audit of its accounts. The (ORGANISATION) auditor is chosen by the issuing an RFP every three (3) years. The Finance/Administration Manager and/or the Audit Committee and/or Finance Committee (or other designated individual) is responsible for selecting the auditor and overseeing the annual External Audit.

The (ORGANIZATION) shall conduct an internal audit at least every two years, more often if required and directed by the Board. The Finance/Administration Manager and/or the Audit Committee and/or Finance Committee (or other designated individual) is responsible for coordinating and overseeing the Internal Audit.

The following members are excluded from participating in an internal audit: the board chair, treasurer, members of the finance committee, finance manager, finance staff, ED/CEO (list any other segregation of duty requirements). The chair of the audit committee or internal coordinator must be an accountant, experienced finance manager external to the organization or an experienced senior manager internal to the organization who is not a member of the finance committee.

Reconciling cash book to bank

Bank Reconciliation: All of the organizations bank accounts are reconciled each month. Bank statements must be reviewed and accessed by someone who is not a cheque signatory. They reconcile the account independently of the Treasurer or Finance/Administration Manager. If this is not possible then the Treasurer or Finance/Administration Manager can reconcile the bank account each month. However, the reconciliation should be regularly (at least quarterly) reviewed by another board member who is not a cheque signatory. This is an important internal control that must be complied with.

When the organization receives its bank statement each deposit in the chequebook must be checked against the bank statement. The bank statement should be accessed on-line near the end of the month to avoid delays in mailed end of month statements and allow for end-of-month closing within 3-5 business days. If a monthly report is prepared then it must be reconciled to the last transaction included in that monthly report.

A file of bank statements and cancelled cheques must be maintained. These must be stapled or rubber banded together to the respective reconciled bank statement or if too numerous can be kept in their own file. Statements are to be filed by month. Deposit slips must be stapled or otherwise as above, to each statement.

Reconciling expense ledger (cash disbursements)

Cash Disbursements Journal: (ORGANISATION) must maintain a Cash Disbursement Journal as a listing of all cash spent in the order that it was spent. Each expenditure is assigned to the appropriate category and must correspond with the line items in the COA and in the Budget.

Any invoice or bill is approved by the person who knows why the expense was incurred. Approvals for reimbursement must be performed by an individual other than the one receiving the reimbursement, at all times. Paid invoices must have the cheque number written on the paid invoice and must be filed in numerical order or if numerous, alphabetically by payee.

Reconciling income ledger (cash receipts)

Cash Receipts Journal: (ORGANISATION) must maintain a Cash Receipts Journal as a listing of all cash receipts in the order they were received. Each amount is assigned to the appropriate category and must correspond with the line items in the COA and in the Budget.

The authority to approve invoicing is restricted to the ED/CEO. To avoid any difficulties or complicated situations most of the invoices must originate with the Finance/Administrative Manager.

Other section content headings

- Taxes and returns
- Reconciling income ledger (cash receipts)
- Reconciling payroll control
- Investment portfolio
- Regulations (CRA, etc.)

Exercising budgetary control

Budget preparation and control

The ED/CEO and the Finance/Administration Manager coordinates and prepares the overall budget for the organisation for the calendar year. The (ORGANISATION) financial year operates from January to December.

Once prepared, Executive Committee and/or Finance Committee must approve the Budget. The ED/CEO presents the budget to the Board for final approval. Financial reports are then prepared in relation to the Budget. Financial reports to the Board are required every (PERIOD) and comprise a Balance Sheet, Income Statement, Statement of Cash Flows and YTD Budget Comparison (list the statements required by the Board).

Budgeting for specific projects is undertaken separately. In most cases, the designated project manager will prepare a budget in consultation with the Finance/Administration Manager. The ED/CEO must approve the project budgets before it is included in a submission.

(ORGANISATION) 'charges' a management service fee to projects in order to cover its costs in managing and supporting a project. The management service fee is charged according to a standard formula which takes into account:

- Operational costs (e.g. utilities, stationery, insurance)
- Labour costs (project management, supervision, publications & administrative support)

The Project Manager and Finance/Administration Manager are responsible for acquitting project funds and where required, arranging an audit of project financial reports. The ED/CEO is responsible for final approval prior to submission to funding bodies or to the Board as part of the financial statements. In some instances, the funding body may accept a copy of (ORGANISATION)' annual audited financial reports, which includes an audit of all project activity in the (ORGANISATION) financial year. Acquittals, along with audited financial reports, are then submitted to the relevant funding body. Use of any surplus funds is negotiated with the funding body where possible or zero balanced. Equipment purchased for a project (e.g. computers) remains the property of (ORGANISATION) unless the funding agreement states otherwise.

Other section content headings

- Resource Allocation
- Powers to amend budgets and spend reserves
- Budget Reporting
- Budget deficits and surpluses

Controls on human resources

Staff salaries

(ORGANISATION) payroll is run on a fortnightly basis. Staff can be paid by EFT or by cheque, depending on organizational practices. If an employee is taking annual leave or flex leave, a leave request form must accompany the timesheet and must be approved by ED/CEO or Senior Managers. The financial administrative staff is responsible for entering details onto the payroll

system. Payroll is approved by the Finance/Administration Manager. Funds are then transferred electronically and/or cheques drawn up, and pay advice slips issued to staff. Payment of annual leave in advance is to be by mutual agreement. Only the ED/CEO has authority to approve annual leave payments in advance. Changes to payroll or staff promotions or pay increases must be approved by CEO/ED and/or Finance Committee.

Flex time (or time-in-lieu) is not allowed to be accrued to the following year and must be used up in the year it was accrued. The ED/CEO may approve accruals beyond the first year under special circumstances but never for more than a total of 2 weeks. Special circumstances are limited to continuing education, special family circumstances, or a planned extended vacation requiring additional time (like overseas travel).

Staff benefits are to be administered as per benefit policy and employment contract. The ED/CEO approves all employee benefit packages. Finance/Administration staff is responsible for enrolling new employees and providing assistance as required under the direction of the Financial/Administration Manager.

Personnel Files

A personnel file is held for each staff member and volunteer. Information held on file includes contact details, a copy of the employee's contract, and contact details in case of an emergency. The file shall also include all correspondence relating to job description changes, salary changes, leave entitlements such as long service leave, yearly performance appraisals, continuous service leave, unpaid and parental leave. Personnel files are held on the network or file folders. This folder is confidential and is kept in a locked cabinet in the office of the Finance/Administration Manager. Access to the 'HR Confidential' folder on the network is also restricted to the Finance/Administration Manager, the ED/CEO and designated Senior Managers where applicable.

Contracts of employment

(ORGANISATION)'s policy on recruitment and selection is to select on the basis of merit. The purpose of the Recruitment and Selection Policy is to ensure that (ORGANISATION) fills the company's available positions with the best possible candidate in a timely and cost effective manner. The aims of the policy are to:

- Attract the best possible candidates for the available positions.
- Ensure all selections are based on merit.
- Facilitate the development of existing staff.
- Ensure that all legal selection requirements are met and actively practised.
- Provide the most cost effective way of recruiting and selecting staff.
- Plan strategically to meet future organisational requirements.

All staff involved in recruitment and selection must adhere to the following:

- EEO Legislation,
- Anti-discrimination Legislation,
- Approved recruitment and selection policies and procedures,
- Confidentiality and sensitivity,
- Staff development.

Casual staff and consultancy

From time to time (ORGANISATION) will seek to contract out work, rather than employing a new staff member. This may provide advantages to (ORGANISATION) if a project is time-limited or requires specialist skills. Factors taken into account when deciding to contract out work include:

- impact on (ORGANISATION) resources on-site
- availability of skills required to complete the project
- value for money.

When seeking to contract out work, the ED/CEO seeks expressions of interest from appropriate contractors, usually through an RFP or selective invitation process. Prospective contractors are given a brief and asked to provide a project plan, budget, and evidence of relevant skills/resources needed to undertake the project. An RFP must be issued for projects with a total budget more than a set dollar value.

(ORGANISATION) has a standard consultancy agreement which it uses with contractors and consultants. The agreement covers matters such as:

- arrangements for payment,
- project management,
- insurance,
- intellectual property,
- variations to the contract,
- resolution of disputes, and
- termination.

A specific project plan or schedule is attached to each contract, specifying outcomes for the project. A contractor checklist is also available in the accounts section of the network drive.

Reimbursement of expenses

Staff are paid meal allowances and reimbursed for vehicle expenses incurred when using their own cars, according to the CRA posted mileage rate or other amount as per organizations approved policy.

The ED/CEO or Financial/Administrative Manager should approve travel outside of the specified area in advance. The ED/CEO or Financial/Administrative Manager will determine the most cost effective method of travel. If a staff member chooses to use another method of travel (e.g. driving instead of flying), they can claim the travelling time which the trip would have accrued if the most cost effective method had been taken. Staff members wishing to take leave in conjunction with work-related travel should claim the travelling time the trip would ordinarily involve, and take the rest as leave.

(ORGANISATION) recognises that volunteers incur expenses when providing a service. Reasonable expenses will be reimbursed by prior agreement with their supervisor. This means volunteers anticipating claiming such expenses should discuss the matter in advance.

Other section content headings

- Benefits
- Severance, early-retirement and other non-recurring payments
- Staff complement

Controls on physical assets

Assets Register and Depreciation

The Finance/Administration Manager is responsible for maintaining the Assets Register and Depreciation Schedule. All assets must be listed on the Register with original purchase documentation – copy only to be kept with creditors' documentation. (ORGANISATION) depreciates all capital purchases over (specify depreciation rate for all assets. Example: \$1,000 at the rate of 37.5% over a four-year period). Assets purchased for specific projects are entered on the Asset Register and depreciated as (ORGANISATION) assets, however, the full cost of the purchase is charged to the project budget.

Computer equipment, software and data

All (ORGANISATION) desktop computers are networked and have internet access. The IT Manager or Financial/Administrative Manager maintains the server in the first instance. (ORGANISATION) also uses IT contractors when necessary. Servers are located in the Server Room or by Cloud Computing service provider, with printer servers at any designated locations. All software owned by (ORGANISATION) is kept in the server room or in the Finance/Administration Managers office or IT Managers office, to which access is limited. Virus protection updates are downloaded weekly from the internet.

Staff members are responsible for their own data storage on the system – that is, organising their sub-Coordinators and culling disused files. The IT Manager, Finance Administrative Manager, IT Contractor or Cloud Computing Service Provider backs up the shared drive daily. Material more than seven years old is archived electronically and/or written onto a compact disc.

The IT Manager or Financial/Administrative Manager has responsibility for liaising with technicians, and providing advice to management regarding IT issues. They also provide an IT orientation to new staff members and are available to provide IT support.

All staff have access to the (ORGANISATION) 'contacts' database, but editing access is limited to the Financial/Administrative Manager or IT Manager.

Other section content headings

Other equipment

Projectors and SMART Boards: (ORGANISATION) has a projector, a SMART Board and overhead available for hire. The equipment is stored in the server room except for the SMART Board which is in the meeting room. Bookings are handled through Reception. Hirers are asked to sign a form that details terms of hire and rates. Different rates apply to members and non-members. Hirers are encouraged to get a receipt from the front desk when they return the equipment. The equipment is provided free as part of meeting hire.

Photocopiers: Access to (ORGANISATION) has photocopiers is by security code. (ORGANISATION) staff use a general (ORGANISATION) code number, though project staff are allocated different numbers for different projects.

Individual staff members using the photocopiers for personal material can also have their own code. Sub-tenants in the building are allocated separate codes. The Financial/Administrative Manager does regular readings and allocates costs to different codes. Front office staff are responsible for maintaining the photocopiers on a day-to-day basis (e.g. changing toner cartridges, supplying paper), and the lease arrangement is managed by the Finance /Administration Manager.

Telephones and Cellphones: All calls to (ORGANISATION) come to the main office number and are then referred to each staff member's individual extension. Management and certain staff positions are allocated mobile phones. Staff members who use their own mobile phone or land line for work can claim for reimbursement of costs, but this needs to be negotiated in advance with the Finance/Administration Manager.

Long distance phone calls require approval from the Financial/Administrative Manager and a code for access.

Meeting Room

(ORGANISATION) has one meeting room available for hire to the public. This provides a valuable service to stakeholders as well as providing revenue for the upkeep of the building.

Both meeting rooms can accommodate about ... people, depending on the arrangement of furniture and must comply with the applicable Fire Code. Rates for meeting room hire are determined by the ED/CEO or Financial/Administrative Manager and are competitive. Some equipment is available for hire from (ORGANISATION).

Bookings for the meeting rooms are managed through Reception. All bookings are recorded in a central meeting room book which is kept at the front desk. Hirers using the meeting rooms out of hours are required to come in during office hours and pick up keys; the keys can then be left in the mailbox as the hirers leave. Hirers must also pay a deposit of x dollars for keys.

Prices and terms of hire are available from the office and are faxed to new hirers when they make a booking. Regular users of the meeting rooms are recorded on an excel spreadsheet or other customer relationship manager and advised when changes are made to meeting room terms or charges.

- Land, Building & leases
- Other equipment
- Merchandise, Stocks and Stores
- Insurances

Sample policies

It can be hard to write a policy from scratch. There are a number of websites which contain sample policies you can download. The following sample policies and guidelines are intended for guidance only.

SAMPLE: Fiscal Policies

Fiscal Responsibilities

_____ is an Ontario non-profit, charitable corporation. Its financial management policies are established by the Board of Directors which has fiduciary responsibility.

The Board of Directors may delegate limited authority over its financial affairs to the Treasurer who functions as the Chief Financial Officer and to the appropriate staff of the organization; however, the Board retains full responsibility and fiscal authority. The Treasurer works directly with the Executive Director to oversee the management of fiscal procedures and regularly reports on financial position and investments to the full Board. The Executive Director is the staff person responsible for day-to-day operations of _____ and accountable to the Board of Directors.

The following fiscal policies and procedures have been approved by the Board of Directors November 200x.

Revenue

_____ is an association of organizations and individuals with organized charitable giving programs. The mission is to connect, inform, develop, and inspire a diverse group of foundations and corporations to stimulate effective philanthropy in the _____ region. As a membership organization, _____ depends on annual membership support to meet a percentage (ex: 75%) of its core operating needs. The remainder of revenue is expected to derive from program fees, co-sponsorships, and grants.

Commitment Authority

It is the policy of _____ to grant authority to make commitments, authorize payment of invoices, and/or sign contracts to the Executive Director, as long as the full cost of the commitment has been included in the board-approved budget. If the financial implications of entering into a commitment, approving an invoice for payment, and/or signing a contract are not included in the budget, the Board of Directors' approval is required before the commitment can be made; approval authority is given to the Chair or another Board designated Board member. The Executive Director has the authority to enter into multi-year contracts when the commitment has been included in the board-approved budget and the total cost does not exceed a set dollar value, except in the case of leases and capital expenditures. Approval authority of leases and capital expenditures is given to the Chair or other Board designated Board Member.

In all matters in which services or programs valued at a set dollar value or above are to be purchased or contracted, even when such purchases or contracts are included in an approved budget, the Executive Director is to solicit at least two, and preferably three, bids from qualified providers. The Executive Director should seek recommendations from the Chair or other designated Board member before committing to a provider.

Disbursement Authority

It is the policy of _____ to give disbursement, including check-signing authority, to the Chair, Vice-Chair, and Treasurer of the Board of Directors, as well as the Executive Director. The Executive Director shall not sign any checks made payable to self nor authorize any other non-approved disbursement to self. All disbursements require approved invoices or expense vouchers. A check in excess of a set dollar value requires two signatures, one of which may be that of the Executive Director unless the Executive Director is the payee. The person who approved the invoice or expense voucher may not sign a single signature check.

Record Keeping

A copy of every check or other disbursement is attached to the corresponding invoice and kept for a period of seven years.

Reserve Fund

The purpose of the Restricted Reserve Fund is to ensure _____, future stability and capability of providing services to its members and the philanthropic community. The Restricted Reserve Fund consists of assets segregated as the “restricted funds” on _____ balance sheet, and separate from those necessary to the management and operations of the organization. It is intended to maintain a Restricted Reserve Fund equal to approximately 3-months’ worth of cash for operations (or an average of 25% of the operating budget). The Reserve Fund will normally only be utilized in extraordinary circumstances as authorized by the Board of Directors.

As operating surpluses permit, it is the goal of the Board of Directors to increase the Restricted Reserve Fund to approximately 6-months’ worth of cash operations (or an average of 50% of the budget). Over time, it is the intent to build a Strategic Reserve equal to a set dollar value. The purpose of the Strategic Reserve would be to allow the Board the flexibility to approve special projects that were not previously planned for during the approval of the budget. Board approval is required to access any of the various reserve funds.

Investment Objectives

The primary objective of these funds is to preserve principal, to ensure liquidity, and to provide for long-term real growth of principal and income without inappropriate risk.

Operating funds of _____ may be invested in interest bearing checking accounts; money market accounts; and/or certificates of deposit. Such investments and/or underlying securities shall be either insured by the Canadian Government or be of prime or the highest investment grade quality with maturities not to exceed one year without the Board’s approval. _____ makes it a practice not to keep excess funds in the checking account, maintaining a balance to meet approximately 30- to 60-days of expenses. The Executive Director will ensure that investments provide sufficient liquidity and access to approximately three months of the operating budget. In consultation with the Treasurer, the Executive Director should make the determination of investment allocation, timing, and instruments, as well as providing adequate liquidity.

Review Requirements

- *Financial Statements:* It is the policy of _____ to prepare monthly, quarterly and annual financial statements, including a Variance Report (actuals versus budget) and _____ statements and reports. Statements will be distributed to the Chair, Treasurer, and Board of Directors on a monthly, quarterly or annual basis. (Balance Sheet, Income Statement and Cash Flow Statements should be minimum requirement)
- *Variance Reports:* The Executive Director will prepare quarterly variance reports for the Board of Directors that explains any significant variances in expenditures and revenue compared to budget in each line item.
- *Financial Ratio Reports:* The Executive Director will prepare quarterly variance reports for the Board of Directors that explains any significant variances from previous years' quarters.
- *Investments:* The Treasurer will review the asset allocation (and performance of all investments), and will report findings to the board at least once a year.
- *Policies:* It is the expectation that the Board will review these policies annually.

Annual Budget

The Executive Director will prepare an annual budget that is approved by the Board of Directors before the start of the fiscal year. The budget will present revenue and expense projections for the fiscal year and an estimate of cash flow needs, showing the timing of revenue and expenses. In the case of significant revenue shortfalls or budget deficits the Executive Director may present, at least semi-annually, budget modifications to the Board projected for the remainder of the fiscal year.

SAMPLE: Operating Reserve Policy

PURPOSE

The purpose of the Operating Reserves policy for _____ is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization. The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The Reserve may also be used for one-time, nonrecurring expenses such as investment in infrastructure. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of _____ for Operating Reserves to be used and replenished within a reasonably short period of time. The Operating Reserve policy will be implemented in concert with the other governance and financial polices of _____ and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

DEFINITIONS AND GOALS

The Operating Reserve Fund is defined as the designated fund set aside by action of the Board of Directors. The minimum amount to be designated as Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The Operating Reserve will be reviewed and adjusted in response to internal and external changes. The target minimum Operating Reserve Fund is equal to **[one/two/three/six]** months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes some expenses **[CUSTOMIZE: examples are flow-through funds, one-time or unusual, capital purchases]**.

The amount of the Operating Reserve fund target minimum will be calculated each year after approval of the annual budget, reported to the Finance Committee/Board of Directors, and included in the regular financial reports.

ACCOUNTING FOR RESERVES

The Operating Reserve Fund will be recorded in the financial records as the Board-Designated Operating Reserve. The Fund will be funded and available in cash or cash equivalent funds. Operating Reserves **[CUSTOMIZE: will be maintained in a segregated bank account or investment fund, in accordance with investment policies OR will be commingled with the general cash and investment accounts of the organization]**.

FUNDING OF RESERVES

The Operating Reserve Fund will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Examples may include one-time gifts or bequests, special grants, or special appeals.

USE OF RESERVES

1. Identification of appropriate use of reserve funds.

The Executive Director and staff will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds, and evaluation of the time period that the funds will be required and replenished.

2. Authority to use operating reserves

CUSTOMIZE: This section must be customized to reflect the authority and process selected by the organization. Several possible approaches are included as examples.

- *Approach A:* The Executive Director will submit a request to use Operating Reserves to the Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within twelve months to restore the Operating Reserve Fund to the target minimum amount. If the use of Operating Reserves will take longer than 12 months to replenish, the request will be scrutinized more carefully. The Board of Directors will approve or modify the request and authorize transfer from the fund.
- *Approach B:* Authority for use of Operating Reserves is delegated to the Executive Director in consultation with the Treasurer/Finance Committee and Chair of the Board. The use of Operating Reserves will be reported to the Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Operating Reserve fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/Board of Directors if the Operating Reserves will take longer than 12 months to replenish.

3. Reporting and monitoring.

The Executive Director is responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval for the use of Operating Reserve funds, the Executive Director will maintain records of the use of funds and plan for replenishment. He/she will provide regular reports to the Finance Committee/Board of Directors of progress to restore the fund to the target minimum amount.

REVIEW OF POLICY

This Policy will be reviewed every other year, at minimum, by the Finance Committee, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance Committee to the Board of Directors.

SAMPLE: Different Types of Reserve Policy

PURPOSE

The purpose of the Reserves policy for _____ is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization and to provide a source of internal funds for organizational priorities such as building repair and improvement, program opportunity, and capacity building. The Reserves policy will be implemented in concert with the other governance and financial policies of _____ and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

DEFINITIONS AND GOALS

Operating Reserve

The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of _____ for Operating Reserves to be used and replenished within a reasonably short period of time. The Operating Reserve Fund is defined as the designated fund set aside by action of the Board of Directors. The minimum amount to be designated as Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs measured for a set period of time, measured in months. The Operating Reserve will be reviewed and adjusted in response to both internal and external changes.

The target minimum Operating Reserve Fund is equal to **[one/two/three/six]** months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes expenses **[CUSTOMIZE: examples are flow-through funds, one-time or unusual, capital purchases]**.

The amount of the Operating Reserve fund target minimum will be calculated each year after approval of the annual budget, reported to the Finance Committee/Board of Directors, and included in the regular financial reports.

Building and Capital Asset Reserve

The Building and Capital Asset Reserve is intended to provide a ready source of funds for repair or acquisition of buildings, leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the organization and programs. The target amount of the Building and Capital Asset Reserve will be determined by **[CUSTOMIZE]**.

Opportunity Reserve

The Opportunity Reserve is intended to provide funds to meet special targets of opportunity or need that further the mission of the organization which may or may not have specific expectation of incremental or long-term increased income. The Opportunity Reserve is also intended as a source of internal funds for organizational capacity building, such as staff development, research and development, or investment in infrastructure that will build long-term capacity. The target amount of the Opportunity Reserve will be determined by **[CUSTOMIZE]**.

FUNDING OF RESERVES

The Operating Reserve Fund will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Examples may include one-time gifts or bequests, special grants, or special appeals.

The Building and Capital Assets Reserve will be funded by [**CUSTOMIZE**: setting aside funds received from any capital campaigns or similar appeals (**OR**) setting aside the equivalent amount of cash equal to **XX%** of depreciation in the annual budget (**OR**) other calculations].

The Opportunity Reserve fund will be funded with occasional special designations made by the Board of Directors.

USE OF RESERVES

1. Identification of appropriate use of reserve funds.

The Executive Director and staff will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds, and evaluation of the time period that the funds will be required and replenished.

2. Authority to use operating reserves

CUSTOMIZE: This section must be customized to reflect the authority and process selected by the organization. Several possible approaches are included as examples.

- *Approach A:* The Executive Director will submit a request to use Operating Reserves to the Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within twelve months to restore the Operating Reserve Fund to the target minimum amount. If the use of Operating Reserves will take longer than 12 months to replenish, the request will be scrutinized more carefully. The Board of Directors will approve or modify the request and authorize transfer from the fund.
- *Approach B:* Authority for use of Operating Reserves is delegated to the Executive Director in consultation with the Treasurer/Finance Committee and Chair of the Board. The use of Operating Reserves will be reported to the Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Operating Reserve fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/Board of Directors if the Operating Reserves will take longer than 12 months to replenish.

3. Reporting and monitoring.

The Executive Director is responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval for the use of Operating Reserve funds, the Executive Director will maintain records of the use of funds and plan for replenishment. He/she will provide regular reports to the Finance Committee/Board of Directors of progress to restore the fund to the target minimum amount.

REVIEW OF POLICY

This Policy will be reviewed every other year, at minimum, by the Finance Committee, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance Committee to the Board of Directors.

Risk Management Policy Guidelines

| | |
|--|--|
| Purpose | <p>1. To explain ABC Agency's underlying approach to risk management and to outline the roles and responsibilities of Board members, Audit Committee and senior executive staff for the ongoing management of risk.</p> <p>2. To outline key aspects of ABC Agency's risk management process including arrangements for the communication and reporting of risks associated with the organization's activities.</p> |
| Supporting procedures | Risk Management Procedures |
| Policy Statement | <p>ABC Agency has implemented a sound risk management process based on the ISO 31000 Risk Management Standard (The Canadian Standard). Risk management is integrated into the normal business activities of the Agency and aligned to its strategic directions. Key risks are communicated across the Agency and treatment strategies to mitigate those risks are regularly monitored and reviewed by senior management and the Board of Directors.</p> |
| Responsibility for implementation | <p>Director, Audit and Risk Management Board Members & Executive Director Risk Managers/ Co-ordinators</p> |
| Status | Revised |
| Approval body | <p>Name: Strategy and Resources Committee Meeting: 8/2007 Date: 04-October-2007 Agenda item: 9.3</p> |
| Endorsement body | <p>Name: Director, Audit and Risk Management Meeting: N/A Date: 26-September-2007 Agenda item: N/A</p> |
| Definitions | <p>Risk: The chance of something happening that will have an impact on objectives. Risk can have a positive or a negative impact and is measured in terms of a combination of the likelihood of an event occurring and the consequences if the event was to occur.</p> <p>Risk Management: The culture, processes and structures that are directed towards realizing potential opportunities whilst managing adverse effects.</p> <p>Risk Management Process: The systematic application of management policies, procedures and practices to the tasks of communicating, establishing the context, identifying, analyzing, evaluating, treating, monitoring and reviewing risks.</p> <p>Risk Treatment: The process of selection and implementation of measures to modify risk. These measures may include avoiding, modifying, sharing or retaining risk.</p> <p>Risk Manager/Co-ordinator(s): Staff nominated by Director, Audit & Risk Management and Executive Director to promote a risk awareness culture and compile risk profiles for their respective areas.</p> |

BOARD POLICIES: Executive Limitations (Sample)

Board of governors of Non-profit or Registered Charities are responsible and accountable to the Minister and to the public for ensuring that they provide high quality service and excellence in management and for exercising prudent use of funds. As public institutions, they are held to high standards and are subject to public scrutiny in the safeguarding of funds entrusted to them. Funds are to be utilized consistent with the purpose for which they were provided.

The Board of Governors is responsible for the overall financial integrity of the (ORGANIZATION), consistent with its vision, mission and strategic plan. In addition, the Board of Governors is responsible for all assets. Reporting requirements for financial management of the (ORGANIZATION) and limitations regarding acquisition or disposition of real property have been established by the Ministry (such as the *Income Tax Act, CRA and Canadian Non-profit Corporations Act*) and guide the Board and ED/CEO in handling of finances and assets.

This policy outlines the Board directives regarding the acceptable financial management of the (ORGANIZATION) and establishes specific limitations on the ED/CEO's authority in these matters, as well as establishing limitations regarding (ORGANIZATION) assets. It also outlines appropriate measures to mitigate risk.

POLICY STATEMENT

The following limitations are intended to provide the (ORGANIZATION) with some guidelines to set financial plans.

1. Financial Planning

1.1 The ED/CEO shall develop an annual Operational Plan that includes operational outcomes for the coming year within the context of the Strategic Plan, and the resources allocated for the year in the annual budget.

1.2 The Operational Plan shall be submitted to the Board for approval no later than (MONTH) of each year.

1.3 The annual budget:

1.3.1 Shall be in compliance with applicable regulations and policy directives;

1.3.2 Shall not have expenditures greater than revenues unless the Board has specifically directed otherwise

1.3.3 Shall be constructed to provide the board with a consolidated presentation of expected revenues and expenditures for the year

1.3.4 Shall not be materially amended in-year without Board approval, except where in-year initiatives generate new revenue.

1.5 ED/CEO is to safeguard the funds it receives by exercising due diligence to satisfy itself of the financial soundness of the institution it utilizes for banking and investment purposes.

1.6 The Board of Governors is to approve an investment policy to guide its investment activities. The Board of Governors is to review and approve at least annually an investment performance report.

2. Financial Reporting

2.1 The ED/CEO shall submit the approved annual report, including a copy of the audited financial statement to report on achievement of the operational outcomes established in the operational plan and on the financial performance of the (ORGANIZATION).

3. Financial Management

3.1 The ED/CEO shall report to the Board on a quarterly/monthly basis on year- to-date revenues and expenditures and on any variances to revenues and expenditures approved in the annual budget.

3.2 Over the course of each fiscal year, and unless otherwise directed by the Board, the ED/CEO shall:

3.2.1 Ensure the (ORGANIZATION)'s financial plans (budget) and position (audited financial statements) are compliant with all legislation, regulations or policy directives governing (ORGANIZATION);

3.2.2 strive to balance the budget every year. If it appears that (ORGANIZATION) will not balance its budget and an accumulated deficit will occur the ED/CEO shall seek the approval of the Board prior to any commitments that will result in a deficit/surplus over that outlined in delegations policy or immediately upon awareness of the deficit/surplus;

4. Asset Management and Real Property Transactions

4.1 The ED/CEO shall ensure that (ORGANIZATION) assets are secured, protected and adequately maintained, by:

4.1.1 Ensuring the (ORGANIZATION) has appropriate financial controls and procedures

4.1.2 Ensuring that purchases, including services, are made in accordance with sound purchasing practices and policies;

4.1.3 Ensuring that funds not required for immediate use are invested in a manner which complies with respective Policies for reserves funds and investment, minimizes risk exposure and provides a reasonable rate of return for the (ORGANIZATION).

4.2 The ED/CEO shall:

4.2.1 Obtain prior formal approval of the Board by resolution for the purchase, sale or encumbrance of (ORGANIZATION) real property and/or facilities

4.2.2 Utilize the proceeds from the sale or encumbrance of (ORGANIZATION) property acquired in a manner consistent with policy directives

4.2.3 Use restricted funds only in compliance with their stated purpose, and applicable statutes and regulatory requirements and (ORGANIZATION) policies

4.2.4. Obtain prior formal approval of the Board by resolution to use reserved funds.

MONITORING:

The ED/CEO or CFO shall annually provide a signed statement that the (ORGANIZATION) is in compliance with relevant legislative requirements and (ORGANIZATION) policies in force.

The ED/CEO shall annually provide a monitoring report which confirms compliance with this policy on financial matters.

Resources

Board Basics for Volunteers, Participants Manual, TV Ontario for United Way/Centraide Canada, 1995.

Boards That Make a Difference, A new Design for Leadership in Nonprofit and public Organizations, John Carver, 1990

Income Tax Guide to the Non-Profit Organization (NPO) Information Return, Canada Revenue Agency (CRA), 2005

Financial Basics for Nonprofit Managers, Thomas A. McLaughlin, Third Edition, 2009

Effective Boards – A Recipe for Success, Auditor General Alberta, June 1997

Payroll deductions Tables, CPP, EI and Income Tax Deductions, Alberta, Canada Revenue Agency (CRA), 2007

Gifts and Income Tax, Canada Revenue Agency (CRA), 2008

GST/HST Information for Charities (4082), Canada Revenue Agency (CRA), 2006

Accounting for Non-Accountants, Dr. Wayne A. Label, CPA, 2006

Financial Management for Community Groups, Alix Granger, M.A. and Margaret Vrabel, C.G.A., The Vancouver Volunteer Center, 1984.

Financial and Accounting Guide for Non-Profit Organizations, Fourth Edition, Malvern J. Gross, Jr., William Wrashauer, Jr., Richard F. Larkin, 1991

Self-Help Accounting – A Guide for the Volunteer Treasurer, John Paul Dalsimer, CPA, 1989