

Procedure No. 3-10-3
New Issue

Issued: 08-02-06

SUBJECT: Financial Risk Management Plan

PURPOSE: Woodhaven has developed this risk management plan to manage and limit risk to individuals served, staff, other individuals and assets, be they physical or financial.

Purpose:

Financial risk management is designed to control the impact of adverse financial circumstances, and to reduce the severity of any potential financial loss.

The components of such a plan include the following:

Identifying monetary loss exposures such as:

- Changes or losses in funding contracts, reduced commercial revenues, increases in bad debt or slower payment of receivables.
- Expenses which are out of control or exceeding budget guidelines.
- Programs deciding to take on a new client population or greatly expanding populations served.
- Problems arising with facilities needing major repairs or renovations.
- A breakdown of internal financial controls and monitoring procedures.

How to remedy potential losses and actions taken to reduce risks:

- Avoid any exposure to the potential risk altogether. An extreme example of this would be to refuse to start any new programs.
- Purchase insurance to cover damage to facilities, keep to a regular facility maintenance schedule to avoid unexpected repairs.
- Purchase insurance to cover other unexpected losses, i.e. general liability, auto, business interruption, and etc. coverage.
- Self insurance, the organization decides to cover losses from its own reserve funds or the agency's credit line.
- Implement sound organizational financial controls. A strong administrative and accounting system will facilitate managing the agency's finances to insure that it will meet its financial obligations.

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A regularly scheduled annual CPA audit will serve as a check on the agency's finances, insure that its accounting systems are in compliance with GAAP

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- (generally accepted accounting principles), and that expenditures are in compliance with governmental and contract requirements.
- Using an external payroll service to cover the organization's payroll function, yields the added benefit of insuring payroll data records are backed up in case of any unforeseen emergency. Such a payroll service provides for off-site data storage.
- Financial statements produced monthly for ongoing profit vs. loss and budget vs. actual review, enables early identification of loss problems in any particular area.
- The Board of Directors functions include oversight of the agency's finances. Providing the Board with regular quarterly financial statements reflecting the agency's monetary progress as it moves through the fiscal year facilitates the effective completion of that role.
- Regularly scheduled management meetings, as well as program managers meeting which include a review of monthly financial reports serves as another early warning system around finance issues. Details around losses in any particular area or department within the agency can be readily identified and corrected in a timely fashion.
- Another source of risk protection is bank oversight. The bank that serves to finance the borrowing needs of agency, i.e. for mortgages, auto loans and credit lines, also serves an important financial oversight role. The bank insists on monthly financial statements, and a copy of the agency's annual CPA audit. They review the organization's balance sheet annually before making any new lending decisions. If the financials don't measure up to standard, no additional lending will occur.
- State/Federal annual reports and tax returns are completed annually and serve to insure that the agency stays in compliance with state and federal laws and regulations. Such reports are reviewed by the agency's CPA firm, state auditors, state project managers, the agency's board of directors, and the Internal Revenue Service.

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- Oversight of agency budget processes is an important risk management tool. The annual budget is reviewed by all program directors, agency managers, and the board of directors. An administrative budget is a part of this process, and works to insure that there are adequate resources to meet the necessary oversight needs of the agency.
- Monitoring the cash flow needs of the agency on a regular basis is another important facet of risk management. Adequate cash flow works to insure that the agency can pay its bills in a timely manner, and cover payroll weekly. By watching cash flow, ancillary systems are also brought into focus. Are accounts receivables being paid to the agency in a timely fashion? Is the organization paying its bills promptly? Is the agency's credit line with its bank adequate to meet working capital needs?

Conclusion:

Woodhaven works constantly to insure that all of the above systems, and checks and balances are in place to minimize the risk of the occurrence of any unexpected financial adversity.

Approved by: _____
Chief Executive Officer

Date: _____