

ADDICTIONS FOUNDATION OF MANITOBA

Policy Number:	PS-005
Policy Name:	Credit Policy
Replaces:	New
Approved:	June 30, 2009
Reviewed:	

1.0 POLICY STATEMENT

Receivables are an important asset to the AFM that require prudent management. The sound management of receivables is significant to the AFM in achieving its overall objective of responsible fiscal management.

2.0 CONTEXT

2.1 Purpose

The extension of credit on accounts to individual customers or an organization can be costly in financial terms, human resources expended in collection efforts, and in maintaining good customer relations. While cash, debit or credit card sales are the most optimal and least risky form of transacting with customers, it may also be in the organizations best interest to allow some customers to purchase goods or services from the AFM on a credit basis.

The purpose of this policy is:

- 2.1.2 To establish guidelines by which credit is extended to external customers of the AFM on a consistent basis;
- 2.1.3 To manage the extension of credit within the various departments or units of the AFM;
- 2.1.4 To minimize the cost of collecting accounts receivable;
- 2.1.5 To maximize the AFM's cash flow.

2.2 Application and Scope

This policy applies only to external customer accounts receivable of the AFM (excluding some related government accounts receivable).

3.0 KEY CONSIDERATIONS

3.1 Accounts Receivable Management

All departments that provide goods and/or services to customers on a credit basis or are involved with invoicing sales of goods or services are required to ensure that all transactions of this nature flow through Accounts Receivable as directed by the Finance Department. For more information on invoicing, please see the Finance Bulletin Board.

Customers on account are directed to send all payments directly to Accounts Receivable in Finance.

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In the event a payment is mistakenly sent to the originating department, it should be forwarded immediately to Accounts Receivable in Financial Services for proper processing and receipting.

To improve the AFM's legal position for account collection, it is recommended that, where possible, a formal contract or written agreement be signed whenever goods or services in excess of \$5,000 are provided on a credit basis. Where no written agreement exists and the value of the goods or services is in excess of \$5,000, prior approval from the Finance Department is required in order to grant credit to a customer. In certain circumstances, a deposit from the customer may be required. Invoices to obtain a deposit payment are acceptable and encouraged.

The AFM's standard terms of payment are "DUE UPON RECEIPT" from delivery of the invoice, defined as 5 business days following the invoice date. Extension of credit beyond the usual payment terms may only be granted when justified by unusual circumstances. Any arrangements to extend the payment terms must be documented in writing with the specific credit terms shown on the face of the invoice. All departments must receive prior approval from the Finance Department before any extended payment terms are offered to customers.

The AFM will charge interest at a rate of 2.5% per month on balances aged 60 days. (Effective annual rate of 34.49%) In addition, with any invoice that is more than 60 days overdue, the AFM, with proper notification, reserves the right to offset the amount owed to the AFM by the customer against any outstanding payments the AFM owes the customer. Services to the customer will be placed on hold once the account has reached 90 days overdue.

3.2 *Criteria for Granting Credit Privileges*

The decision to grant credit to a customer will take into account the following considerations:

- 3.2.1 Capacity for payment
- 3.2.2 Credit worthiness
- 3.2.3 Past payment history
- 3.2.4 Dollar value and terms of transactions
- 3.2.5 Customer references

Credit WILL NOT be granted to individuals or to customers making one-time purchases of goods or services. These types of purchases must be paid by cash, debit, cheque or credit card. No exceptions will be made in this instance as the excess administration time required for processing these invoices is not economically feasible.

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When credit of greater than \$1,000 is requested, a credit application must be completed and approved by Accounts Receivable in Finance before any credit is extended to a customer.

3.3 *Collection of Accounts Receivable*

Accounts Receivable in Finance initializes any collection efforts that may be required (ie. phone calls, reminder notices, etc.) In the event that a customer disputes a charge, the appropriate department head will be responsible for resolving the disputed item(s).

Each month, Accounts Receivable sends out monthly statements showing the outstanding balance due along with current month transactions. If a receivable account is not paid within 60 days, the customer is either contacted by phone or sent a reminder letter. If the account remains outstanding after 90 days, with the consent of the originating department head, Accounts Receivable will send a final notice letter advising the customer if the balance is not paid within 30 days, the account will be forwarded to our collection agency and/or legal action may be taken and any further credit privileges will be terminated.

A list of accounts where final notice letters are sent will be provided to each department from which the charges originated.

A service charge of \$25.00 will be levied on all external accounts receivable payments that are returned by the bank as NSF (non-sufficient funds).

3.4 *Uncollectible Accounts*

In the absence of a legitimate dispute, credit privileges will be terminated immediately where customers have not responded to reminder notices or final notices for settling their outstanding debts to the AFM.

If it is deemed to be in the best interest of the AFM, further collection efforts will be undertaken by the AFM and may include legal action, if necessary.

History:

Approved: Board of Governors, June 30, 2009, Minute .09.06.14