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## DEFINITIONS

As used in this policy, the following terms are defined as:

1. Student Accounts Receivable – any amounts owed by a student as a result of the educational process which includes, but is not limited to, charges for tuition, fees, books, supplies, housing, meals, and fines.
2. Write-off of Uncollectible Balances – after a thorough collection process is followed by the University and it is determined that a student accounts receivable balance will not be paid within a reasonable time, the balance is no longer considered an asset and is not reflected in the financial statements. The process of removing the balance from the accounts receivable balance in the financials is called a write-off.
3. Allowance for Doubtful Accounts – a reasonable estimate based on historical collections or other reasonable rationale is used to record an estimate of the amount of student accounts receivable that will become uncollectible during the period. This amount is reflected as a contra-asset on the University's balance sheet.
4. Statement of Aged Receivables – a list of student accounts receivable that is grouped or summed by category and by college. The categories are based on date ranges from the time the student incurs the account balance (date ranges are defined below). For purposes of calculating the allowance for student receivables, this aging is determined by the date the revenue was charged or billed.

## **POLICY**

This policy, and the related procedures for allowance and write-off of uncollectible student accounts receivable, shall become effective and applied to revenue recognized for the fiscal year beginning August 1, 2015, and all future fiscal years, in the financial statements of Bethel University. Additionally, Bethel University will begin implementing this policy to prior student accounts receivable, with full implementation not later than July 31, 2018.

Bethel University provides educational and related services to students for which timely payment is expected. When students do not pay immediately for the services provided, the University incurs an unsecured student receivable that is reported in the University's financial statements. Additionally, there are occasions when students do not pay the amounts owed to the University and it becomes necessary to recognize these amounts as an uncollectible obligation. This policy applies to all student accounts receivable which includes, but is not limited to, charges for tuition, fees, books, supplies, housing, meals, and fines.

Generally Accepted Accounting Principles (GAAP) require the University to record a reasonable estimate of the amounts that will not be collected and periodically evaluate and write off any accounts determined to be uncollectible. This policy provides authoritative guidance to the University in calculating an uncollectible estimate, accounting for the provision of uncollectible accounts, writing off uncollectible balances, and recording subsequent collection of balances previously written off. Collection procedures are set forth in Policy 3.100 – Students Accounts Receivable.

The GAAP method of recording the allowance requires that an expense be recorded with an offset to an allowance account. The University will use an approach that will both comply with GAAP while providing enhanced reporting throughout the year. This approach requires that an estimate be calculated and that an evaluation be made to compare the balance in the allowance account with the calculated estimate at the end of each month. A journal entry must be made to bring the Allowance for Doubtful Accounts account balance to the same balance as the estimate for uncollectible accounts with an offsetting entry to Bad Debt Expense.

## **PROCEDURES**

### **CALCULATING THE UNCOLLECTIBLE ESTIMATE**

The process of calculating the estimate for uncollectible balances requires a rational estimate that follows GAAP. The estimate the University will use is based on the Statement of Aged Receivables.

Each month, the Information Technology Department will prepare the Statement of Aged Receivables based on student information as entered in CAMS. The Statement of Aged Receivables provides an indication of the probability of collecting a balance. The older a balance is from the date the billed receivable was recorded generally indicates the amounts due are less collectible. Based on historical collections experience, or other reasonable rationale, of each aging category, a conservative estimate should be made of the uncollectible amounts.

The estimate of the total amount expected to be uncollectible should be made at the end of each month. An appropriate percentage will be applied to each of the aging categories for the outstanding student receivables that are on the University's financial statements. For example, the amounts that are less than thirty (30) days old would have a relatively high collection rate compared to amounts that are greater than two (2) years old. All colleges of the University will use the same aging categories and percentages applied to each of the aged balances.

The Business Office will receive the Statement of Aged Receivables, apply the appropriate percentages to each aged category, and reconcile to the general ledger. All general journal entries needed to reconcile the estimation to the general ledger will be posted during the reconciliation process. Annually, all colleges will agree to a common percentage for each aging category, based on historical data, or other reasonable rationale, to use in the allowance calculation. The percentages may be adjusted each year as changes in collection procedures and student payment performance impact collectability of the accounts.

### **STATEMENT OF AGED RECEIVABLES/UNCOLLECTIBLE PERCENTAGES**

The Statement of Aged Receivables shall provide the following information in columnar format:

1. Student Name
2. Student ID
3. Invoice Date (Class Start Date)
4. Last Billing Term

5. Program
6. Aging:
  - a. 0 – 30 Days
  - b. 31 – 60 Days
  - c. 61 – 90 Days
  - d. 91 – 120 Days
  - e. 121 – 180 Days
  - f. 181 – 365 Days
  - g. 366 – 730 Days
  - h. Over 731 Days

The following percentages will be applied to the aging columns to estimate uncollectible amounts:

a. 0 – 30 Days	1.35 %
b. 31 – 60 Days	6.00 %
c. 61 – 90 Days	12.00 %
d. 91 – 120 Days	18.00 %
e. 21 – 180 Days	24.00 %
f. 181 – 365 Days	36.00 %
g. 366 – 730 Days	95.00 %
h. Over 731 Days	100.00 % (receivable is written off)

### **WRITE-OFF OF UNCOLLECTIBLE ACCOUNTS**

The GAAP method to write off a student accounts receivable balance presumes a consistent collection process for each receivable is adhered to. While routinely executing the collection procedures, some of the balances will be considered uncollectible. The procedure to write off a student accounts receivable, summarized herein, provides an even flow of expenditures and a stable, reasonable balance for the Allowance account. This method is an important element in reporting accurate financials, achieving reporting consistency and usefulness during the year, and reflecting the true net realizable value of the University's student accounts receivable. The Business Office is responsible for making final efforts for collection. The Business Office prepares an entry to write-off the student balance as it is deemed uncollectible. This entry must be prepared by the Vice President of Finance/CFO or his/her designee. As each account balance is determined to be uncollectible a debit will be made to the Bad Debt Expense account and a credit to the Student Accounts Receivable account to recognize the amount as a write-off

and remove it from the University's books. Amounts written off are no longer reflected in the University financial statements and are no longer used in calculating the Allowance for Doubtful Accounts. Regardless of aging, student accounts receivable should be written off if any the following criteria are met:

1. The University has exhausted all collection efforts and has stopped active pursuit of collection, or
2. No contact has been made with the student and/or no payments have been made on the account for more than two years of continuous separation from the University, or
3. The student does not and will not, for the foreseeable future, own nor have the right to own assets from which the debt could be collected (e.g., bankruptcy), or
4. It is reasonably estimated that cost of collecting the student accounts receivable would equal or exceed the amount owed, or
5. The student debtor is deceased, and there are no assets in the estate from which the debt could be collected, or
6. Other just and valid reasons as approved by the Vice President of Finance/CFO.

Although a student accounts receivable may be written off per policy, such accounts shall be flagged within CAMS to alert the University to reinstate the receivable when a student debtor requests future services (e.g., transcripts, subsequent enrollment, etc.).

#### **SUBSEQUENT COLLECTION OF ACCOUNTS PREVIOUSLY WRITTEN OFF**

There are occasions when student accounts receivable have been written off and are actually collected at a later time. To account for these amounts, the entry made will be opposite of the write-off entry to get the balance back on the books. Thereafter, the normal process of receiving the cash to clear the receivable is followed. This will effectively reduce the Bad Debt Expense in the period and increase cash.

#### **BANKRUPTCY OF STUDENT DEBTORS**

When the University receives notification from the bankruptcy court that a debtor has filed for bankruptcy, the Business Office will immediately cease all collection efforts. If the bankruptcy notice states that claims may be filed, the Business Office

will file such claims. Careful attention should be paid to deadlines for filing. An individual's social security number or other personally identifiable information, such as financial account numbers and date of birth, should never be displayed on a proof of claim forms or other documents filed with the court. The social security number and other personally identifiable information must be redacted.

Student loans or other debts representing an obligation to repay amounts received or credited for educational purposes are not dischargeable in bankruptcy unless the court finds that exception from discharge will impose an undue hardship on the debtor. However, for bankruptcies filed prior to October 7, 1998, such debts are dischargeable without a finding of undue hardship if seven years have passed since the debt first became due and the date of filing for bankruptcy.

If a discharge notice is received from the bankruptcy court, the debtor is no longer liable and the debt should be cleared from the debtor's record. However, for nondischargeable debts as described above, collection efforts may resume after the debtor's discharge in bankruptcy. Collection efforts may also resume if the case is dismissed.

#### **RESPONSIBLE PARTIES**

Vice President of Finance/CFO, Business Office personnel, Collections Department, IT Department

#### **PUBLICATION**

This policy is published on the University's website.