

University of Missouri System

Accounting Policies and Procedures



Policy Number: APM 65.05

Policy Name: Allowance and Write-off for Uncollectible Student Accounts Receivable

General Policy and Procedure Overview:

In the process of providing education and related services to students, the University charges for the education and services provided. Many students do not pay immediately for those charges incurred and an unsecured receivable balance is carried for them by the University. Occasionally the student does not pay the amounts owed to the University and it becomes necessary to recognize these amounts as an uncollectible obligation. This policy applies to Student Accounts Receivable which may include amounts student charges for tuition, fees, books, supplies, housing, fines, etc. The expectation is this receivable is to be paid back in a reasonably short amount of time, i.e., the current term. Generally Accepted Accounting Principles (GAAP) direct that the University 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, recording subsequent collection of balances previously written off and collection procedures.

Definition of Key Terms:

Student Accounts Receivable—any amounts owed by a student as a result of the educational process. This may include amounts for tuition, various fees, books, supplies, housing and fines.

Write-off of Uncollectible Balances—after a thorough collection process is followed by the University and it is determined that an accounts receivable balance will not be paid in 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 write-off.

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 accounts receivable that will become uncollectible during the period. This amount is reflected as a contra-asset on the statement of net assets.

Aging report—a list of accounts receivable that is grouped or summed by category. Those categories are based on date ranges from the time the student incurs the account balance. Typical categories might be: <30, <60, <90, 90-180, > 180 days. For purposes of

calculating the allowance for student receivables, this aging is determined by the date the revenue was charged or billed—excluding all future fall term charges.

Detail Policy:

Allowance for Uncollectible Accounts Methodology

The GAAP method of recording the allowance requires that an expense be recorded with an offset to an allowance account. The University will use a modified 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 every year. 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 Debts Expense.

- The section “Calculating the Estimate” describes the first step of estimating the uncollectible balance required.
- The “Substantiation” section describes the method to provide reasonable assurance of the calculated allowance estimate.
- The “Write-Off” section outlines recording the allowance and write-offs.
- The “Subsequent Collection” section describes accounting for the receivable when a student begins to pay on the receivable account after being written off.
- The “Collection Procedures” outline the procedures to be followed to determine when to write off a student balance to provide accounting consistency.

Calculating the 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 aging of receivables.

The first step is to obtain an aging of receivables report. This aging 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 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 fiscal year. An appropriate percentage is applied to each of the aging categories for the outstanding receivable that is on the University financial books of record. For example, the amounts that are <30 days old would have a relatively high collection rate compared to amounts that are >180 days old. All Business Units will use the same aging categories and percentages applied to each of the aged balances.

Each campus is responsible to print an aged student receivable balance at fiscal yearend. That report should be reconciled to the General Ledger and adjustments entered, as appropriate, in the reconciliation process. Annually, all campuses will agree to a common percentage for each aging category 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.

Substantiating the Allowance Calculation

The allowance calculation will be tested and substantiate at least once every three years. A process of substantiation will validate that the percentages are reasonable. The allowance calculation will be substantiated by testing individual student balances within each aging category and determining the confidence level of collection. Once the individual collection confidence levels are estimated, a composite score is used to combine the estimates to determine reasonableness of the allowance estimate. A random sample of student balances from each aged category will be selected with the sample size based on the size of each aged category (see chart below). For example, a statistical sample is required from the 121-180 day category; there are 623 students in this aging category; an evaluation must be made from the category for 20 randomly selected students to determine likelihood of collection based on payment history, GPA, degree granted, balance due and other criteria established below to determine the level of confidence for collection.

Population Size of Individual Aging Category	Sample Size
1-50	5
51-250	10
251-1,000	20
1,001-5,000	30
5,001-20,000	50
>20,000	60

The chart below provides a rating to apply to each sample student balance with the highest number representing a higher estimated level of confidence that the student will pay their balance. Each student in the sample will be scored from 0-100. The scores will be averaged within each aging category to arrive at a composite category score and compared to the estimated Allowance for Uncollectible Student Receivables. The summary information by category for each Business unit will be provided to the Controller's office to evaluate overall reasonableness. As an example, a composite score for an aging category of about 70 would substantiate that an Allowance for Uncollectible Student Receivables of 30% is reasonable.

Category	Rating	Criteria
Student Contact, Payment History, Separation Date	0	No contact in the last 12 months, no payments, not attended within 18 months.
	13	Only a couple of contacts, payments and has not attended recently.
	24	Several contacts, payments or recent attendance.
	29	Frequent contacts, payments and recent attendance.
	30	Current/frequent payment attempts, or current student.
Professional Profile, GPA, Degree Received	0	No credit earned, not enrolled, or very low GPA
	13	A few credits earned, no degree granted, below average

		GPA.
	24	Several credits earned, average GPA.
	29	Certificate earned, average GPA, significant credit earned.
	30	Advanced Degree/Diploma earned, high GPA, significant credit earned. Use this as the default if this is the first enrollment for the student.
Balance Due	0	Extraordinarily large delinquent balance due
	8	Above average delinquent balance due
	15	Average delinquent balance due
	19	Less than average delinquent balance due
	20	Very small delinquent balance due
Other	20	Discretionary—use maximum unless other circumstances indicate a lower rating.

Write-off of Uncollectible Accounts

The GAAP method to write off a 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 Cashiers Office is responsible for making final efforts at collection. The Cashiers Office prepares an entry to write-off the student balance as it is deemed uncollectible. This entry must be prepared by the Director or their designee other than the person who is responsible for daily collection efforts. As each account balance is determined to be uncollectible a debit will be made to a Bad Debts Expense account and a credit to a 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 financials and are no longer used in calculating the Allowance for Doubtful Accounts.

All campuses are required to write off student fee accounts regularly. Accounts should be written off when they meet the following conditions:

- The debt has been returned from the collection agency(s) for lack of performance and,
- No payments have been made on the debt for more than two years of continuous separation from the institution and,
- No direct contact has been made in the previous two years where a willingness to repay has been expressed.

Subsequent collection of accounts previously written off

Often amounts that have been written off are actually collected at a later time. To account for these amounts, the entry made will be opposite 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.

Collection Procedures

The campus Cashiers Offices are responsible for maintaining written collection procedures for student fee accounts that will include some combination of escalating letters, phone calls, emails, and the use of outside collection agencies. Collection practices may differ slightly by campus but all will be accountable to the written procedures that have been established on each campus and all must adhere to minimum collections and write-off standards outlined herein.

At a minimum, even while a student may remain enrolled for a given term, if they become past due for three or more consecutive payments, a hold will be applied to the student account to prevent access to transcripts, diplomas, registration, charges to their student account and restriction of other services. Once a student has left the University but continues to carry a balance, the hold will remain in place and will continue to prevent access to transcripts, diplomas, and registration.

Special Note: When a billing is run that constitutes the first fee bill for a term, and subsequently a past term amount is set, a hold will be applied for any student with a past term balance over \$500.00. This hold indicator will include the same sanctions as outlined above for actively enrolled students and remain in effect until satisfactory payment arrangements are made with the Cashiers Office.

Responsibility

Cashier's Offices

- Invoicing students
- Monitor aging of student receivables
- Maintaining written collections procedures and monitoring for compliance
- Applying payments from students
- Write-off receivables after exhaustion of collection efforts
- Assist students in follow-up requests for information
- Reversal of write-offs for amounts subsequently collected.

Accounting Offices

- Work with Cashier in Allowance calculations
- Prepare Bad Debts accrual journal as required at year end.

Accounting for the Transactions:

Transaction Description	Account	dr	cr
End of FY, record adjustment to expense to bring Allowance in line with calculated estimate. A manual journal entry is required.	Bad Debt Expense (at a high level ChartField string)	X	
	Allowance for Doubtful Accounts		X
Periodically review and write-off uncollectible student balances. This	Bad Debt Expense (with a detail ChartField string)	X	

entry is automated by the Student Receivables system.			
	Student Receivables		X
Subsequent Collection of previously written off student receivable balances remitted to the University from a collection agency. This entry is automated by the Student Receivables system.	Student Receivables	X	
	Bad Debt Expense (with a detail ChartField string)		X

Effective Date: July 1, 2006

Revised Date: August 28, 2011

Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.