



# Idaho State University

## POLICIES AND PROCEDURES

### Credit, Collections, and Bad Debts

#### ISUPP 2590

##### *POLICY INFORMATION*

**Policy Section:** *Finance*

**Policy Title:** *Credit, Collections, and Bad Debts*

**Responsible Executive (RE):** *Chief Financial Officer*

**Sponsoring Organization (SO):** *Controller's Office*

**Effective Date:** *February 12, 2018*

**Last Reviewed:** *November 2023*

## I. INTRODUCTION

An important asset of Idaho State University (ISU or the University) is its accounts receivable. Because it is a nonprofit institution of higher education, the majority of the University's accounts receivable represents money already spent or committed for delivery of educational services for its students.

Generally a receivable arises when the University has a valid claim against an individual or another entity. The vast majority of the University's Receivables are related to amounts owed by students who have not yet paid in full the tuition and fees owed to the University for the classes in which they have enrolled or amounts owed by third party guarantors. The amounts owed by students or other entities are recorded as accounts receivable. The purpose of accounts receivable procedures is to help ensure the proper recording and maintenance of accounts of claims against others for the future receipt of money.

Accounts receivable are required to be recorded in the accounting system for all budgeted and unbudgeted revenues susceptible to accrual. Therefore, the University records in its accounting system an account receivable when a valid claim is billed. For example, when the University bills a student for enrolled courses and other charges, an account receivable is recorded for that student.

Only revenues that are Available and Measurable are susceptible to accrual. At the close of each fiscal year, management adjusts the "Available" amount of Receivables by estimating an allowance for doubtful accounts based upon experience and management's judgment.

## II. DEFINITIONS

- A. **Available:** Revenue is Available during the fiscal year if collection of the revenue could be used to pay liabilities arising from expenditures of that fiscal year.
- B. **Measurable:** Revenue is Measurable if the amount can be determined in advance of the collection.
- C. **Receivables:** Amounts due from transactions with entities outside the University. Estimate to record annually an allowance for doubtful accounts.
- D. **Uncollectible:** Revenue is considered Uncollectible when management determines the debtor cannot be located or does not have the ability to pay the amount owed or the cost of collection will exceed the amount due.

## III. POLICY STATEMENT

The University shall maintain a clear, written policy governing the issuance of credit, the collection of amounts owed to the University, and management's estimation of collectability of delinquent accounts.

The University grants credit to its students who have in place one or more of the following: (1) financial aid that the Financial Aid Office has certified will be credited to their accounts, (2) a valid third-party payment guarantee on file, (3) have signed up for a payment plan, and have signed a promissory note or equivalent certifying that they are ultimately responsible for payment of valid charges to their accounts.

The University shall generally not permit a student to enroll for classes in a given semester if that student has an outstanding balance on his/her account from any prior semester(s) and if the amount in arrears exceeds a dollar amount to be determined by management each year.

The University shall selectively, on a case-by-case basis, disenroll (de-register or reverse registration in all classes) students who registered but did not attend the University and students who attended, but owe an amount that exceeds the threshold determined by management annually and have made no arrangements for payment.

To remain enrolled, students must resolve their account balances by (1) paying in full any balance not covered by financial aid, (2) signing up for a payment plan with the University, or (3) presenting a signed third-party guarantee of payment.

The University must have written credit and collection procedures that are sufficiently specific and clear to guide the day-to-day work of the responsible University staff. The procedures should cover at least the following items:

A. Credit

1. The specific goods or services being provided for a fee, the statutory authority to provide such goods or services, the general credit terms in use, including credit limits and required collection period, and general higher education practices for the extension of credit for such goods or services.
2. General standards to determine if a credit risk should be accepted or rejected. Standards should be flexible enough to permit the exercise of judgment by agency management.
3. Personnel, by position title at each organizational level, responsible for authorizing credit, including the maximum amount of credit that person may authorize.

B. Collection Policy

1. Collection methods for overdue accounts, with specific justification for any deviation from established best-practice general collection procedures.
2. Use of collection agencies at the discretion of management.
3. Charge of interest and/or late fees in compliance with applicable federal and state rules and regulations.

C. Bad Debts

1. Review and analysis of aged Receivables reports and collection activity to determine a formula for calculating an estimate of "Allowance for Uncollectible Accounts" and bad debt write-off to record at year end close.

**IV. AUTHORITY AND RESPONSIBILITIES**

- A. This policy governs any issuance of credit, establishing and recording of accounts receivable, and collection of payments regardless of where these events take place on campus.
- B. The University Controller has the authority and responsibility to establish clearly written credit, accounts receivable, and bad debt operational procedures that comply with this policy.
- C. The University Assistant Controller responsible for student accounting, cashiering, and University Receivables will ensure that this policy and related procedures are implemented and communicated broadly.
- D. The University Controller shall establish a rational methodology to calculate an allowance for doubtful accounts and use judgment in determining accounts to write off.

- E. Each ISU revenue center is responsible for submitting accurate and timely documentation of delinquent accounts to the Assistant Controller for University accounts Receivables.

## **V. ADMINISTRATIVE PROCEDURES**

- A. The Controller's Office shall establish procedures for issuing credit, collecting activity, and estimating and recording Uncollectible accounts, which shall incorporate the following:
  - 1. Use best practice collection attempts by sending three (3) letters over a period of ninety (90) days. The ninety (90)-day letter is a demand letter sent thirty (30) days before referring the past due account to a collection agency.
  - 2. After 120 days refer account to a collection agency and consider writing off amounts turned over to a commercial collection agency based on some predetermined criteria, such as:
    - i. Low probability of collection
    - ii. Age of the receivable
    - iii. The amount does not warrant the collection expense (legal and administrative expenses would exceed the amount due)
    - iv. The write-off shall not prejudice the position of the University
  - 3. Some past due accounts will be placed with ECSI Recovery Select.
    - i. Phone calls will be made and letters will be sent over ninety (90) days.
    - ii. At 180 days, accounts will be referred to a collection agency by ECSI Recovery Select.
  - 4. If a student has a delinquent account, place a financial hold to block the release of grades, transcripts, and other student records related to the delinquent account, and do not release the hold until the delinquency is resolved.
  - 5. Any amounts written off and then subsequently collected should be reinstated to accounts receivable and then recorded as a normal revenue receipt.
- B. At fiscal year-end determine collectible versus Uncollectible accounts in accordance with "Generally Accepted Accounting Principles" (GAAP) requirement.
  - 1. The University shall review its accounts Receivables and determine the total amount deemed to be Uncollectible to be written off as a bad debt.
  - 2. Estimate an allowance for doubtful accounts and record as an offset to accounts Receivables.