

CITY OF NEWPORT

RESOLUTION NO. 4019

RESOLUTION ESTABLISHING A POLICY FOR
WRITE-OFF OF UNCOLLECTIBLE DEBT

WHEREAS, diligent efforts are made by the City of Newport to collect on delinquent accounts; and


WHEREAS, it is important to adopt a policy to set up an allowance for uncollectible accounts and establish levels of authority to write-off uncollectible accounts.

THE CITY OF NEWPORT RESOLVES AS FOLLOWS:


Section 1. The attachment to this resolution, Finance Accounts Receivable Policy - Write-off of Uncollectible Debt, is hereby adopted.

Section 2. This resolution shall become effective immediately upon adoption.

Adopted by the Newport City Council on May 6, 2024.



Jan Kaplan, Mayor

ATTEST:


Erik Glover, City Recorder

**Finance Accounts Receivable Policy - Write-off of Uncollectible Debt
(Adopted May 6, 2024 - Resolution No. 4019)**

1.0 Purpose

It is the policy of the City of Newport (City) to actively pursue collection of past-due accounts receivable, regularly review the status of past-due accounts, and write-off amounts determined to be uncollectible.

This policy provides the City with a methodology to write-off uncollectible accounts receivable also known as bad debt. This policy ensures that uncollectible accounts receivable are not carried on the financial records of the City for an inappropriate period of time and are written off for accounting purposes. Common examples include: Transient Room Tax, Business Licenses, Court fines, and General Accounts Receivable. This procedure is not applicable to delinquent property tax bills, as they are collected by Lincoln County. This policy is also not applicable to utility bills, which are handled by a separate policy.

When repeated collection efforts on an accounts receivable have been unsuccessful, and after an invoice is a year old, the Finance Department shall include that amount as an allowance for doubtful accounts. The allowance for doubtful accounts ensures the City's receivable balances are adjusted based on the likelihood that these outstanding accounts will be paid. The allowance for doubtful accounts does not legally forgive debt to the City and does not preclude a future collection or legal action. The purpose of this policy is to ensure sound financial management practices, ensure that all reasonable efforts have been pursued to collect all accounts receivable, improve measurement of the accounts receivable, ensure the most efficient use of City revenue collection resources, and outline the procedures that will be used to write-off City receivables that are uncollectible.

2.0 Definitions

"Adjustment" means a correction or modification to an accounts receivable to reflect actual facts and conditions, and to increase the likelihood of repayment.

"Aged Balance of Accounts Receivable" means a schedule classifying the balances of all accounts receivable according to the varying lengths of time the accounts are past due.

"Allowance for Doubtful Accounts" means an estimate of the dollar amount of accounts receivable that will not be collected. The estimate is based on past experiences and an analysis of current accounts receivable.

"Bad Debt" means money owed to the City that is no longer deemed recoverable after all reasonable efforts have been pursued to collect the money owed.

"City's Central Accounting System" means CASELLE software.

"Collection Agency" means an independent contractor who is hired by the City to pursue the collection of uncollected accounts receivable.

"Customer" means a person, organization, or other entity that received City services or merchandise, was charged a fine or fee, assessed a tax, or who received City funding through grants, loans, or other mechanisms.

"Day" means a calendar day unless otherwise indicated.

"General Accounts Receivable" means money owed to the City for services or merchandise received by the customer on credit, or for the assessment of fines, fees, or taxes. Payment is generally due within 30 days after the service or merchandise has been received, unless otherwise specified. Accounts receivable include all monies owed to the City for fees, goods delivered to, or services performed for persons or organizations including contracts, grants, and leases.

"Subsidiary Ledger" means a group of accounts with common characteristics used to facilitate the accounting process. The subsidiary ledger contains the details which support an aggregated general ledger control account.

"Uncollectible debt" means any account or debt owed to the City which has become overdue by more than 90 days.

"Write-Off" means an accounting transaction that appropriately adjusts the value of the City's open accounts receivable that is deemed no longer collectible, in accordance with Generally Accepted Accounting Principles. It is not legal forgiveness of debt.

3.0 Background

Various City departments have accounts receivable resulting from their operations, which are collected by the Finance Department. Some of these receivables may become uncollectible after a period of time or an event. When the City determines that a receivable is uncollectible, the receivable is recognized as a bad debt and written off for accounting purposes, which does not constitute legal forgiveness of debt.

Other situations which may result in writing off uncollectible receivables include:

1. Homeless, deceased, incarcerated, or unknown address;
2. Accounts receivable submitted to a collection agency returned to the City as uncollectible;
3. Litigation losses involving accounts receivable;
4. Notification from the bankruptcy court that a debtor has filed for bankruptcy and that collection of the debt is remote;
5. Advised by legal counsel that it would not be productive to sue a debtor;
6. It is determined that a bill/invoice was an incorrect billing, and is not a true and owing/valid debt.

4.0 Collection Procedures

1. The Finance Department shall prepare and deliver an invoice to the debtor as soon as practicable after the receivable is created. The debtor will be given transient room tax

collections 45 days and business license collections 15 days from the date of invoice to return payment. All other accounts will be given 30 days, unless otherwise specified.

- 2. Interest at the rate of nine percent per annum shall be applied to all bills after 30 days past due. Such interest shall be reflected in the bills issued by the City, unless otherwise provided for in the City's municipal code or by statute.
- 3. If payment is not received as required from the date of original invoice and payment arrangements have not been made in writing with the Finance Department, the Finance Department shall attempt to collect by notifying the debtor in writing that payment is overdue and payable immediately. At this point, the debt has become an overdue receivable.
- 4. If payment is not received within 90 days from the date of original invoice, the City shall cease to provide services to the debtor until payment is made in full.
- 5. The Finance Department shall attempt to collect payment by notifying the debtor in writing that payment is overdue and if no payment is made within 10 days from the date of written notice, the debt shall be turned over to a collection agency or legal counsel and may be reported to credit bureaus.

It shall be the responsibility of the City Manager to annually categorize debt as uncollectible accounts receivable and to authorize this debt to be written off the City's ledger pursuant to these thresholds:

- a. For accounts up to \$1,000 and 90 days delinquent, the use of a lien or referral to a collection agency will be utilized, as may be appropriate for the receivables type.
- b. For accounts more than \$1,000 and 90 days delinquent, the use of a lien, referral to a collection agency, small claims court, or other court action will be utilized, as specified by legal counsel.

5.0 Allowance for Doubtful Accounts and Write-Offs

The Finance Department shall provide the City Manager with a yearly report of aged balance of accounts receivable. The Finance Department shall also prepare an allowance for doubtful accounts journal entry at fiscal year-end to adjust for estimated uncollectible accounts. The analysis shall be based on historical trends and outstanding accounts for which collection is unlikely. Supporting documentation of this analysis shall be included (attached to) the journal entry. The City Manager will authorize the doubtful accounts journal entry.

An allowance for doubtful accounts should be established to reflect the amount of the City's receivables that the Finance Department estimates will be uncollectible. The establishment of an allowance for doubtful accounts ensures that the City's receivables are not overstated and that accounts deemed uncollectible are timely and accurately recorded in the correct period for financial reporting purposes. The amount of any receipts that may be remitted to the City from the collection agency, or through lien collection, will be credited to the allowance for doubtful accounts. This will effectively reduce overall bad debt loss expense.

Any debt approved to be written off by the City shall be documented on the write-off authorization form contained in Exhibit A of this policy. Write-off of uncollected accounts receivable debt shall be done at a minimum annually by the Finance Department. The write-off authorization form must be accompanied by the following documentation:

1. For debts up to \$1,000, sufficient evidence to write-off debt shall include records of telephone calls, copies of correspondence between the City and the debtor, or record of a collection agency's inability to collect the debt.
2. For debts more than \$1,000, but less than \$150,000, sufficient evidence to write-off debt shall include copies of documents indicating court action (whether small claims or circuit court), or justification for an absence of court action, or attempts by a collection agency to collect the debt, or evidence of concurring opinion from legal counsel indicating that all reasonably available and legal means by which the debt may be collected have been pursued.
3. For debts of \$150,000 or more, the City Council shall be the authorizing body for any write-off. The City Manager shall prepare a report detailing the account and attempts to collect the debt for City Council approval.

6.0 Responsibilities

It is the responsibility of the Finance Department to track uncollected accounts receivable owed to the City and to report this on a yearly basis to the City Manager.

Regularly, but at least quarterly, the Finance Department shall:

- Record, update, and maintain receivable balances and related revenues in the City's general ledger in the City's central accounting system.
- Analyze accounts receivable and prepare an aging schedule documenting overdue invoices and accounts. The aging schedules shall include, at a minimum, the name of the customer or account number, the current amount due, a list of outstanding invoices, a classification for each invoice showing the number of days past due, and explanations as to the collection status of accounts more than 90 days past due.

Regularly, but at least yearly, the Finance Department shall:

- Record outstanding receivables at fiscal year-end through an accrual journal entry for amounts that have not yet been billed.
- Record an allowance for doubtful accounts journal entry at fiscal year-end to adjust for estimated uncollectible accounts. The Finance Department shall base this allowance on an analysis of historical trends and outstanding accounts for which collection is unlikely. Supporting documentation of this analysis shall be included (attached to) the journal entry.

A write-off of uncollectible accounts receivable from the City's accounting records does not constitute legal forgiveness of debt. The debt shall be owed to the City in perpetuity.

The City shall maintain records of accounts written off in accordance with Federal and/or State records retention schedules.

The City Manager shall annually present and review the aged balance of accounts receivable report to the City Council, including what actions have been taken for securing the uncollected accounts receivable, and report on written-off accounts within six months of fiscal year close.

At a minimum annually, the Finance Department will review and identify any accounts receivable for which it is responsible that meet the criteria for designation as an uncollectible account. The request for write-off of accounts receivable must include an itemized list of the uncollectible accounts to be written off specifying the following: • Debtor name • Account balance • Due date • Brief description of receivable type • Reason under which the account was deemed uncollectible • Account number of the receivable in the billing system used by the Department.

For each uncollectible account, documentation must be attached to the request to support the uncollectible account and substantiate that the Department has followed its collection procedures and exercised due diligence in its collection efforts. Due diligence documentation could include any one or a combination of the following: • Invoices, reminder letters, delinquency notices, or collection letters (and any documentation that is returned as undeliverable, no known forwarding address, etc.) • Bankruptcy claim and any related plan or discharge • Judgment awarded by a court or settlement agreement • Death certificate • Referral to the City's collection agency.

For any accounts which are referred for court action, the Finance Department shall prepare documentation and submit to the City Manager: • Debtor name • Account balance • Due date • Brief description of receivable type • Account number of the receivable in the billing system used by the Department.

Exhibit A



Finance Department: Accounts Receivable Write-off Authorization Form

Account/Debtor Name		
Account Number		
Amount to be Written Off		
Account Balance		
Invoice Dates		
Breakdown by Aging		
Current		\$
Over 30		\$
Over 60		\$
Over 90		\$
Over 1 year		\$
Total \$		
Will account holder continue as customer?	Yes ()	No ()
If no, why?		
Reason for Write-Off:		
Collection Procedures to Date: (List invoices, delinquency letters sent, shutoff notices, collection letters, etc. by date and purpose, as well as any court action)		
Requested by: Staff Member Submitting		
Approval by: Finance Director		
City Manager		
Is City Council approval necessary? If yes, list date approved here, and attach documentation		
FINANCE DEPARTMENT USE ONLY		
Entry Reference #		
Date Posting Made		
AJE/Posting Entered by:		
AJE AMOUNT		
Comments		

Form Date x, x, 2024. Form Rev #