

**TOWN OF BERWICK, MAINE  
ALLOWANCE FOR BAD DEBTS AND WRITE OFFS POLICY**

**Policy Statement:**

The Finance office will submit to the Board of Selectmen for their review and authorization to write-off personal property tax accounts, water accounts, and general accounts receivables deemed to be uncollectible by the Finance Director.

**Purpose of Policy:**

The Allowance for Bad Debts and Write Offs policy is needed to ensure proper accounting for bad debts and write offs as well as guidance in establishing appropriate reserves for uncollectible accounts annually.

**Procedures:**

All accounting entries for uncollectible accounts, both the reserves for uncollectible accounts and the write-off of uncollectible accounts, will be initiated by the Finance office. The Finance office will work with the various departments on collection of delinquent accounts before requesting write-off by the Board of Selectmen. The Finance Director, after due diligence collections efforts have been made, will annually compile a list for the Board of Selectmen to write-off.

**Reserve Procedures:**

The Government Accounting Standards Board (GASB) requires that bad debts be treated as a contra-revenue rather than an expense for financial reporting purposes. This treatment effectively reduces revenue for debts that are not probable for collection. In order for that realized revenue to be reflected properly, bad debts must be regularly recognized in the accounts of the Town.

- All uncollectible accounts will be reserved as specific accounts aged and consequently deemed to be uncollectible. Generally, debts aged more than one hundred twenty (120) days from billing date are potentially no longer probable for collection. Circumstances may arise when specific accounts become uncollectible earlier than one hundred twenty (120) days. The Finance office will work with departments to determine which accounts meeting these specifications need to be reserved.
- When uncollectible accounts are reserved, a funding source must be identified to fund the reserve. The revenue account related to the uncollectible receivable will be the funding source used in the journal entry to record the reserve for bad debt.

**Write-Off Procedures:**

- 1) Personal Property
  - a) One year after the date of the tax commitment and after due diligence collection efforts have been made, outstanding personal property tax accounts will be turned over to a collection agency.
  - b) If after one year with the collection agency a personal property tax account has not seen any recovery, the account will be included in the annual list compiled by the Finance Director for presentation to the Board of Selectmen for write-off.
- 2) Water Charges
  - a) Generally, delinquent water accounts are turned off and remain off until the outstanding water charges are paid in full. However, there are circumstances or situations that warrant an account be turned over to a collection agency after due diligence collection efforts are made.
  - b) Such accounts, after a year with the collection agency without any recovery, will be included in the annual list of uncollectible accounts presented to the Board of Selectmen for write-off.
- 3) Returned Checks for Motor Vehicles
  - a) Generally, after due diligence collection efforts are made as outlined by the Maine Department of Motor Vehicles, the account is turned over to the Department of Motor Vehicles for collection action and license suspension.
  - b) If after one year with the Maine Department of Motor Vehicles and no recovery has occurred, the account will be included in the annual list presented to the Board of Selectmen for write-off.
- 4) General Accounts Receivable
  - a) When general accounts receivable are ultimately determined uncollectible after due diligence collection efforts, they will be submitted to a collection agency.
  - b) Such accounts, after a year with the collection agency without any recovery, will be included in the annual list of such accounts for presentation to the Board of Selectmen for write-off.
- 5) When an account is written-off, the accounts receivable account should be credited and the Allowance for Uncollectible account should be debited.

**Recoveries:**

All recoveries will be recorded as miscellaneous income.