

USM Accounting Practice

Financial reporting and valuation of Accounts Receivable

General

For purposes of financial reporting, the University System of Maryland groups accounts receivable amounts into 3 basic categories:

1. Student accounts receivable
2. Contracts and grants accounts receivable
3. Other

Each institution is to implement information and accounting solutions to be able to group detailed information into the above 3 categories, if they cannot do so already.

Reporting

Each category of accounts receivable must be supported by supporting information that includes a summary balance of the receivable by creditor, whether student, grantor agency or entity, or some other third party, a report that groups the receivable into time categories (may be standard 30, 60, 90 or more days outstanding categories, or alternatively, time outstanding categories that conform to previous academic terms such as Fall, Spring, Summer and so forth).

Detail reports of the composition of each category of accounts receivable are required to support gross accounts receivable amounts in the System's financial statements. These detailed reports are to be reconciled to the gross amounts reported as support for the amounts reported for accounts receivable for the institution. Reports summarizing accounts receivable into aging categories need to aggregate to the amounts reflected in the detailed listing.

Gross student accounts receivable should include all amounts billed and uncollected from students or those responsible for the students' financial account, until the point where the account is transferred to the State's Central Collection Unit.

Valuation and calculating the allowance for doubtful accounts receivable

For financial reporting purposes, accounts receivable, by category, must be maintained so that the gross amounts of each category of amounts due to the institution can be summarized. An allowance for doubtful accounts must be calculated for each category of amounts due the institution for which there is a historical experience of uncollectible accounts. This experience must recognize amounts that are charged to other institutional 'accounts' or funds subsequently as an uncollectible amount.

Each institution should establish a history of uncollectible accounts in relation to the business cycle to which the charges relate. In other words, the allowance calculation as of June 30 should be based on the differing rates of write-offs or transfers to the State's Central Collection Unit for charges based on the length of time the charge remains unpaid. For example, one might easily see that amounts outstanding associated with recent summer school billings will have a different write-off rate, eventually, than should be applied to charges made for the previous Fall instructional session.

In terms of process, the calculation of an allowance should be as shown below.

Develop historical write-off rates by aging category:

Charges recorded for the summer session unpaid	0.7%
Charges recorded for the spring session unpaid	8.0%
Charges recorded for the fall session unpaid	15.0%

Using these percentages, derived from the institution's experience or history, an allowance should be computed by applying the appropriate percentage against the portion of the accounts receivable balance generated in the respective aging categories.

So that if the composition of Student Accounts Receivable is as follows:

Student accounts receivable category	Dollar amount	Write-off rate	Allowance amount
Charges recorded for the summer session unpaid	\$2,000,000	0.7%	\$14,000
Charges recorded for the spring session unpaid	3,000,000	8.0%	240,000
Charges recorded for the fall session unpaid	1,200,000	15.0%	180,000
Accounts transferred to Central Collection Unit – net realizable value	<u>832,000</u>		
Totals	<u>\$7,032,000</u>		<u>\$434,000</u>

The same sort of methodology should be applied against contract and grants accounts receivable, as well as third-party receivables, to the extent that there is a history or experience of having to write-off those types of accounts receivable.

Student Accounts Receivable transferred to the State Central Collection Unit

Student account receivables transferred to the State Central Collection Unit should be recorded as an addition to gross accounts receivable, based on the net realizable value as calculated by taking the aggregate dollar value of student accounts receivable transferred to the State Central Collection Unit during the most recent fiscal year, reducing that amount by collections of accounts transferred to the State Central Collection Unit over that same most recent fiscal year, and then applying an institutionally-specific historical

collection rate to arrive at a net realizable value of accounts at the State Central Collection Unit.

For example, if an institution can show that it collects, on average over the last five fiscal years, 64% of student accounts receivable transferred to the State Central Collection Unit, and for the most recent fiscal year transferred \$2,000,000 in gross student accounts receivable, and received \$700,000 in collections from accounts previously transferred, the calculation would look like:

Student accounts receivable transferred to CCU the past fiscal year	\$2,000,000
Collections of student accounts receivable previously at CCU	700,000
Net	<u>1,300,000</u>
Historical collection % for accounts transferred to CCU	64%
Net realizable value of student accounts receivable at CCU	\$832,000

In some fiscal years, the transfer of student accounts receivable to the State Central Collection Unit may not happen on the same timetable or timing as in previous periods, with either a semester's normal and routine transfer occurring in a different period, or transfers that include old or accumulated accounts that have remained with the institution beyond the normal timing for transfer. In these instances, the calculation should be 'normalized' to exclude old accounts transferred to the State Central Collection Unit. In the instance where a transfer is delayed, so that the aggregate of transfers to the State Central Collection Unit only includes part of the years normal transfers, the valuation should only take into account those gross accounts receivable actually transferred.

Institutions should develop a historical collection experience rate for accounts transferred to the State Central Collection Unit by calculating the proportion of accounts transferred that are collected over time. Specifically, the initial historical collection percentage would be calculated from dividing collections of accounts previously transferred by the gross amount of student accounts receivable transferred over the same period.

For example:

Gross student accounts receivable transferred to CCU for last five fiscal years	\$25,000,000
Collections of student accounts receivable transferred to CCU over the last five fiscal years	\$16,000,000
Historical collection rate estimate	64%

The above calculation would be updated annually so that the recent experience associated with the last 5 fiscal years is used.

No allowance should be calculated by the institution on the amount recorded as net realizable value provided by the State Central Collection Unit.