

City of Takoma Park

Allowance for Doubtful Accounts Policy

I. Policy

In order to accurately recognize revenues on the City's Financial Statements, the City must provide for the possibility that some present and future revenues in the receivable accounts may not be collectible. This policy facilitates an accurate forecast of this allowance based on actual experience and relevant data.

This policy applies to the recording of all revenue in the City's financial records.

This policy sets forth the City's financial system procedures for establishing an allowance to handle removing uncollectable debts from accounts receivable accounts. This policy also establishes the calendar for writing off this bad debt during the fiscal year.

A. Definitions

1. The "Doubtful Accounts" are defined as monies owed to the City with low probability of repayment. This category may include, but is not limited to taxes, fees, other charges, loans, etc.
2. The "Allowance" is a budgeted operating expense created by the finance department with the expectation that some doubtful accounts exist in the City's general ledger. The required threshold for establishing an allowance expenditure is documented below.
3. The finance department is responsible for the billing and administration of the receivable accounts and is considered the "Responsible Party" for the maintenance review of allowance for known or potentially uncollectible accounts.

II. Procedure

A. The finance director shall calculate an allowance of non-collectability for any revenues for which uncertainty exists about future collections. This is accomplished by submitting an Allowance for Doubtful Accounts and provision of the allowance amount to the City Manager for approval.

Examples of these include but are not limited to:

Real Property Tax Receivable

Corporate Personal Property Tax Receivable

Personal Property Tax Receivable

Public Utilities Receivable

Inventory Tax** Receivable

B. The Allowance amount will be calculated by the aging of the Accounts Receivable (AR) balance of property tax receivable account as of June 30th of previous fiscal year, and will be submitted via Year End Closing Journal Entry in July by the finance office. The Stormwater Fees are not included in the calculation since the delinquent balances would be submitted to property tax billing issued by Montgomery County annually. The collectability of Stormwater fee is near 99.9%. The percentage of allowance increase is based on the following calculation:

Receivable balance with 1-3 years	10% of the June AR balance
Receivable balance with 4-6 years	50% of the June AR balance
Receivable balance with 7-10 years	75% of the June AR balance
Receivable balance 11 years and over	100% of the June AR balance
Receivable balance of Inventory Tax	100% of the June AR balance

C. Account write-offs and increases to the allowance are recorded by the finance department. All recommendations for adjustments must be submitted to the City Manager by July 31 for annual review. A review of uncollectible accounts must be considered during the annual budget process and or budgetary amendments completed prior to the submission of all write-offs.

D. All uncollectible accounts will be written off once they exceed 15 years or deemed uncollectible by the County Collection Department. Write-offs will occur annually in August.

E. The deadline for posting all write-offs is August 31 of each year. Write-offs will not be processed for the current fiscal year after the August 31 deadline

Tax Sale for Delinquent Property

Section 817 Sale of Tax Delinquent Property

A list of all property on which the City taxes have not been paid and which are in arrears as provided by Sections 815 and 816 of this Charter shall be turned over by the Housing and Community Director or Finance Director to the officials of the County responsible for the sale of tax delinquent property as provided in State law. All property listed thereon shall if necessary be sold for taxes, in the manner prescribed by State law.

Write-Offs and Adjustments

Efforts should be made to pursue the timely collection of delinquent accounts. Write-offs should be performed annually to ensure that accounts receivable are fairly stated. Collection efforts should be exhausted prior to any write-offs. The City of Takoma Park Municipal Code, requires the express consent of the City Council to write off uncollectible debts that exceed \$10,000. Amounts under \$10,000 may be written off with the approval of the City Manager.

Note:

****Inventory Tax:** In City Ordinance 2018-14, the Council directs the City Manager to notify the Maryland State Department of Assessment and Taxation that, effective beginning Tax Year 2020, the inventory component of the Personal Property Tax is to be eliminated for businesses within the City of Takoma Park. The uncollected balance of the inventory tax would be written off at June 30, 2019.