Write Off Policy for Aging Accounts

Finance, Administrative, & Procurement Subcommittee

January 10, 2024

Ava Community Energy

Recommendation

- Approve moving the Write Off Policy for Aging Accounts to the Board of Directors for a vote at the March 20, 2024 meeting

Background & Discussion

- Ava tracks unpaid and delinquent accounts on its books as a balance in the accounts receivable (AR) line item on the financial statements
- This balance is held indefinitely and accumulates over time
- This balance has been reduced on two instances of California Arrearage Payment Program (CAPP) funding in which unrecoverable customer balances have been reduced
  - An act known as a "write off"
- There has been no other instance of reducing the AR balance by determining which accounts are truly uncollectable and which can be followed up for recovery or payment planning
- Proper accounting treatment for unrecoverable debt requires a consistent methodology to apply the direct write-off method to reduce the AR balance
- Under California State law:
  - Ava may pursue aged balances in accordance with its Board approved recovery policy
  - Ava may write off certain unrecoverable balances that meet specific criteria

Write Off Policy for Aging Accounts

- The Write Off Policy for Aging Accounts establishes a consistent methodology for removing unrecoverable customer debt off the balance sheet and the customer's account in accordance with Generally Accepted Accounting Principles (GAAP)

- Specifically, an account must meet at least one of the following criteria for an aged balance to be written off:
  - The account must be terminated (unless otherwise formally directed by Board)
    - "Terminated" is defined as no longer under service by Ava
  - The date of aging is greater than four years, per California Code of Civil Procedure §337
  - A terminated account with a balance below the established minimum recovery threshold
  - A terminated account with a balance above the minimum recovery threshold that meets additional evaluation requirements in accordance with governing best practices and Ava's accounts receivable recovery

Financial Impact

- The immediate write-off of accounts aged more than four years would result in a reduction of approximately $1.9 million from AR balances

- Over the next year, write-offs of aged accounts will average approximately $121,000 per month as these accounts reach the four-year mark

- There exists a total of about $26 million in unrecovered payments from terminated accounts and a total of about $40 million in uncollectable payments overall in the AR balance (~$76.8 million as of 12/31/2023)

- No material impact on financial statements as this amount has already been accounted for as uncollectable in net revenues

Thank you!

Ava Community Energy

Online AvaEnergy.org

Phone +1 833.699.3223

Email customer-support@AvaEnergy.org

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Aging Account Write-Off Policy

Policy Number:
Approval Date:
Agenda Item: Item 7Approved by Resolution: {To be added by Clerk}

Purpose

The purpose of this policy is to establish a consistent, self-standing process for writing off aging accounts in coordination with established accounts receivable and recovery policy and practices.

Background Discussion

Ava Community Energy Authority (Ava) has the authority to deem an account unrecoverable and approve a write-off of an amount owed by a customer.

In accordance with Generally Accepted Accounting Principles (GAAP), Ava recognizes bad debt expense in the period that the unrecoverable balance has been identified. Under California State law, Ava may pursue the aged balances in accordance with its Board approved recovery policy. Ava may write off certain unrecoverable balances that meet specific criteria which satisfy both governing laws and guiding principles.

Policy

1. Unless otherwise formally directed, administered, or requested by the Board of Directors through an amendment to this policy, balances will only be written off from terminated accounts. Terminated accounts are defined as customers no longer under service by Ava Community Energy Authority. Active accounts are still being notified of any past-due amounts through the customer's monthly bill.
2. Per California Code of Civil Procedure §337, the statute of limitations on actively pursuing debt is four years after termination. Pursuant to this Civil Procedure any terminated accounts with debts aged greater than four years will be considered for immediate write-off.
3. If applicable, terminated accounts with balances below the established minimum recovery threshold will be written off upon the returning of the aged balance from PG&E.
4. Terminated accounts with balances above the minimum recovery threshold, if established, will be evaluated for write-off in a process in accordance with governing best-practices and Ava's accounts receivable recovery policy.
5. Periodically, staff will review this write-off policy for best practice developments and propose any adjustment to the Board of Directors for any recommended changes.