Memo

To: Lesley Nalley, CEO
From: Liz Mathis, Controller
Date: May 16, 2018
Re: Discussion - Proposed Revisions to Chapter One, Article 11 – Delinquent Accounts/Bad Debt Write-Off Policy

Background:
In 2017, the Audit Committee spent several months reviewing the Accounting Policies. In addition, staff is in the process of reviewing other administrative policies to ensure they reflect current practice.

Chapter One, Article 11, Delinquent Accounts/Bad Debt Write-Off Policy was last revised in 2014. The following proposed revisions reflect changes in wording to clarify current practices.

Recommendation:
The existing policy only addresses Delinquent Assessments. The proposed revised policy has been expanded to include other types of Accounts Receivables including utilities & compliance fines. References to authorities granted by the Bylaws, Declaration, and state laws were also added for clarification purposes.

The overall treatment of delinquent accounts has not changed. The Bad Debt Write off section was updated to include the statute of limitations set by the State of Arkansas.

The proposed revised policy is attached for the Board’s review and subsequent approval.
Chapter One General Administration

ARTICLE 11
DELINQUENT ACCOUNTS/BAD DEBT WRITE-OFF POLICY

PURPOSE: To outline action to be taken when assessments, utilities, fines, fees or any other receivable become delinquent.

AUTHORITY: Various authorities are stated throughout the policy that reference the Declarations & Bylaws.

SECTION 1: ASSESSMENTS

A. All assessment accounts become delinquent on the 15th day of the month and will be placed on the delinquent list with written notifications, penalties, and collection procedures enacted. As per the Declaration (Article X, Section 7), assessments are due on the first day of each month. This 15-day window is merely a reprieve from delinquency communications and is not intended to circumvent the assessment due date or counting of days for collection actions.

B. On the last day of the month due, balances shall incur the Board approved late payment penalty which will be charged each subsequent month of delinquency.

C. As provided in Article X, Section 7 and Section 10 of the Declaration, beginning with the second year of assessments, monthly assessment payments that are more than 45 days outstanding will be subject to the following payment stipulation: “In the event of default as to a monthly payment, and if the default is not remedied within 30 days, the Association shall have the option of declaring the assessment for the entire year due and payable.” If this action is taken, “the assessment shall bear interest from the date of delinquency at the rate of 6% per annum, and the Association may foreclose the lien against said property, or may bring an action at law against the individual(s) or entity personally obligated to pay the same.”

D. Penalties on delinquent assessments will be established by the Board of Directors of the Hot Springs Village Property Owners’ Association.

SECTION 2: UTILITY BILLS

A. Any unpaid balances on utility bills are considered past due 21 days after the billing date.

B. On the 21st day after the billing date, all utility accounts with balances shall incur the Board approved late payment penalty, which will be charged each subsequent month of delinquency and late notices will be mailed.

C. Utility services will be shut off for non-payment (and charged related shut off/on fees as approved by the Board) 30 days after the billing date.
SECTION 3: USAGE FEES, FINES, ETC.

A. Any unpaid balances of other receivables, including late fees, fines or fees imposed under the Declaration Article VIII Section 3(j), lease payments, exterior maintenance completed under the provisions of the Declarations, Article XII, Section 1 & 2 or any other accounts due to the Association will be considered past due 31 days after the billing date.
B. Past due notices will be sent after 31 days and for each month thereafter.

SECTION 4: DELINQUENT ACCOUNTS

A. On the 61st day from the billing date, the property is no longer in good standing and subject to the suspension of privileges as described in the Declaration (Article XIV, Section 1) and Bylaws (Article I, Section 9).
B. On the 120th day, the property will be subject to third-party collection action, which may include credit bureau reporting, foreclosure proceedings, and any other legal recourse available to HSVPOA.
C. To avoid repeat delinquencies, the POA will not sell any POA owned lots to property owners that are not in good standing as defined in Article XIV, Section 1 of the Declaration.
D. The POA staff, under the guidance of the CEO, may to adjust down any penalty charges in its efforts to collect delinquent accounts or to facilitate the sale of property in inventory.

SECTION 5: BAD DEBT WRITE OFFS

A. In accordance with accrual accounting, a provision for bad debt shall be included as a separate line in the approved annual budget. It shall be calculated and recorded monthly as 100% of all balances that are more than 365 days outstanding and any other assessments deemed "uncollectable".
B. The Controller shall prepare and review an aged trial balance of accounts receivable monthly and provide summary balances during the monthly financial presentation to the Board.
C. The CEO will evaluate delinquent accounts each June and December to identify and write off all balances outstanding beyond the statute of limitations, currently 5 years. The bad debt write-off will only occur after all measures of debt collection have been exhausted, such as in-house and outside third-party collections and when debts have reached the statue of limitations set by the State of Arkansas (Arkansas Code Ann. 16-56-111).

Adopted B.O.D. 2-21-01, 8-5-09, 1-18-12, 10-15-14, REVISION DRAFT