

**Accounts Receivable and the Write-off of Delinquent Accounts
For the Fiscal Year Ended June 30, 2018**

FINANCE AND RESOURCE MANAGEMENT COMMITTEE

September 14, 2018

Overview

Current accounts receivable are generated by several components as part of the annual operating activities of the university. Student accounts receivable and the receivables generated through the sponsored research program represent the largest components of the total receivables. Current and noncurrent notes receivable are comprised of both federal and institutional student loans administered by the university. To properly account for and control these assets, the university uses a combination of centralized and decentralized systems.

The Bursar's Office is responsible for the centralized accounts receivable system operation and monitoring the activities of the decentralized operations through reviews of reports and discussions with personnel who have been delegated the responsibility for billing and collecting accounts. The Bursar's Office is also responsible for managing the collection process for all delinquent accounts.

The Controller's Office consolidates information from the receivable systems on a quarterly basis and reports to senior management and the State Comptroller. The quarterly report uses a combination of narratives, tables, and graphs to report receivables, analyze trends, and identify areas where emphasis or action is needed. The Controller's Office is responsible for the implementation of corrective action to ensure that receivables are properly managed.

Composition and Aging of the Receivables

Accounts receivable: Attachment A provides the composition of the current gross receivables at June 30, 2018, with comparative data for the previous year. Attachment B provides a graph for the aging analysis of the gross receivables at June 30, 2018, with comparative data for the previous three years. In addition, the total current receivables write-offs for these four years are overlaid on this graph to demonstrate the small proportion of write-offs to total receivables.

Notes receivable – from students: Federal and Institutional Loans (issued by Virginia Tech from gifts and donated funds designated to be used for loans) to students require the execution of a promissory note. These loans receivable are repaid over 10 or more years after a student's last enrollment at the university and the amount due in the next 12 months is classified as a current notes receivable for the university's financial statements.

Attachment A also provides the composition of the total gross federal and institutional student loan receivables at June 30, 2018, with comparative data for the previous year.

Federal loans receivable will continue to decrease in future years with the wind down of the Perkins loan program required by the federal government.

Collection Efforts and Write-offs

Because of the nature of the accounts receivables, their impact on the university's operating budget, and the university's aggressive policy for collecting delinquent accounts, the annual write-off of uncollectible accounts is relatively small. The average annual write-off for accounts receivable for the past three years is \$546,586. **The fiscal year 2018 write-off total of \$760,284 represents only 0.07 percent (less than one tenth of one percent) of the annual operating revenues¹ per the audited financial statements for fiscal year 2017.**

Various techniques are used for collecting delinquent accounts receivables depending on the customer and type of account. For example, students must pay past due amounts before they are allowed to enroll for the next school term. Other delinquent accounts are placed with commercial collection agencies and the State Attorney General's Office for collection. The State Comptroller provides guidance on collection policies and procedures, and the university generally complies with the State Comptroller's recommendations, except where improved practices have been implemented under the Restructuring Act.

Accounts Receivable Written Off at June 30, 2018

As authorized by a resolution passed by the Board of Visitors on August 13, 1976, the Vice President for Finance and Chief Financial Officer and the Assistant Vice President for Finance and University Controller periodically review the university's accounts and notes receivable to determine those delinquent accounts that are deemed uncollectible. Subsequently, the accounts are written off the university's records in accordance with generally accepted accounting practices. However, such accounts are not discharged or forgiven (with limited exceptions such as bankruptcies, death, etc.), and the university continues to track these accounts and sometimes collects portions of these accounts after being written off.

Normally, accounts are written off at the close of the fiscal year. For the fiscal year ended June 30, 2018, the accounts receivable written off totaled \$760,284. The increase in write-offs of \$433,631 over the prior year is primarily due to an increase of \$254,158 in Student Accounts write-offs. There were several contributing factors for the increase in write offs including financial aid cancelations, payment plan defaults, and failure of two large international sponsors to honor their commitment to pay for their students. . Additional contributors to the total increase were \$64,201 in write- offs for two for Sponsored Programs accounts due to bankruptcies and one exceptionally large account for Equine Medical Center totaling \$56,955. See Attachment C for a summary of the accounts receivables written off at June 30, 2018, with comparative data for the two previous fiscal years.

¹ Operating revenues for FY17 of \$1,031,510,000 was used for this calculation.

For each accounts receivable written off, appropriate collections procedures were utilized. Further collection efforts were not justified for various reasons such as bankruptcies, inability to locate the debtor, and cost versus benefit for small receivable amounts.

As shown in Attachment D, the \$760,284 write-off total consists of 1,080 customers with an average account value of \$705. In fact, of the total number of accounts written off, 55.4 percent (598) were valued at less than \$100, and this low dollar accounts represent only 3.3 percent of the total dollar value of the write-offs.

Notes Receivable – From Students Written Off at June 30, 2018

The total notes receivable written off at the close of fiscal year 2018 included \$6,863 of the institutional student loan portfolio. Institutional student loans are subject to the same collection techniques as other university receivables. For each loan written off, appropriate collection procedures were utilized. The notes receivable write-off consists of four loans, past due 900 or more days, with an average loan balance of \$1,716. Institutional student loans are most often awarded to students with financial need who have exhausted other avenues of financial aid. Since these are long-term loan programs issued to borrowers with limited resources, the university generally has allowed more time before deeming the loan uncollectible and subsequently writing these amounts off.

Federal notes receivable are issued from funds received from the federal Departments of Education and Health and Human Services over many previous years for the Perkins and Health Professions Student Loan programs, and from required matching contributions from the university. Again, the same collection procedures are followed for these loans. When loans are deemed uncollectible, federal regulations allow the Perkins loans to be assigned and returned to the Department of Education for additional collection efforts and final resolution.

State Management Standards

The university's Management Agreement under the Restructured Higher Education Financial and Administrative Operations Act includes several financial and administrative performance standards. The university must achieve compliance with all of these performance standards to retain the financial benefits provided under the Management Agreement. There are two management standards related to accounts receivable and both are calculated annually and reported to the state biennially. The two standards are:

- a. A four quarter average past due rate of 10 percent or less on receivables 121 days or more past due as a percentage of all current receivables.
- b. An average past due rate of 10 percent or less on Federal student loans.

The university is currently in compliance with both standards. As of June 30, 2018, the average past due rate on current receivables 121 days or more past due is 1.17 percent for the applicable four quarters and the Federal Perkins Student Loan default rate is 1.86 percent.

**Composition of Gross Accounts and Notes Receivable
As of June 30, 2017 and 2018
(Dollars in Thousands)**

	June 30, 2018		June 30, 2017	
	Receivable Balance	Percent	Receivable Balance	Percent
<u>Accounts Receivable:</u>				
Student Accounts	\$ 2,396	2.8%	\$ 2,567	4.4%
Sponsored Programs	49,324	57.7%	40,830	69.2%
Electric Service	880	1.0%	993	1.7%
Parking Service	92	0.1%	106	0.2%
Telecommunications (CNS)	18	0.0%	61	0.1%
CPE and IVTSCC ¹	452	0.6%	524	0.9%
Veterinary Medicine	436	0.5%	426	0.7%
Equine Medical Center	334	0.4%	286	0.5%
Short Term Loans/Notes	12	0.0%	18	0.0%
Other Receivables ²	31,493	36.9%	13,165	22.4%
Total Accounts Receivables	\$ 85,437	100.0%	\$ 58,976	100.0%
 <u>Notes Receivable</u>				
Federal Loans - Perkins & HPSL ³	\$ 14,557	88.1%	\$ 14,620	88.0%
Institutional Loans	1,965	11.9%	1,986	12.0%
Total Notes Receivable	\$ 16,522	100.0%	\$ 16,606	100.0%

¹ Continuing and Professional Education / Inn at Virginia Tech & Skelton Conference Center

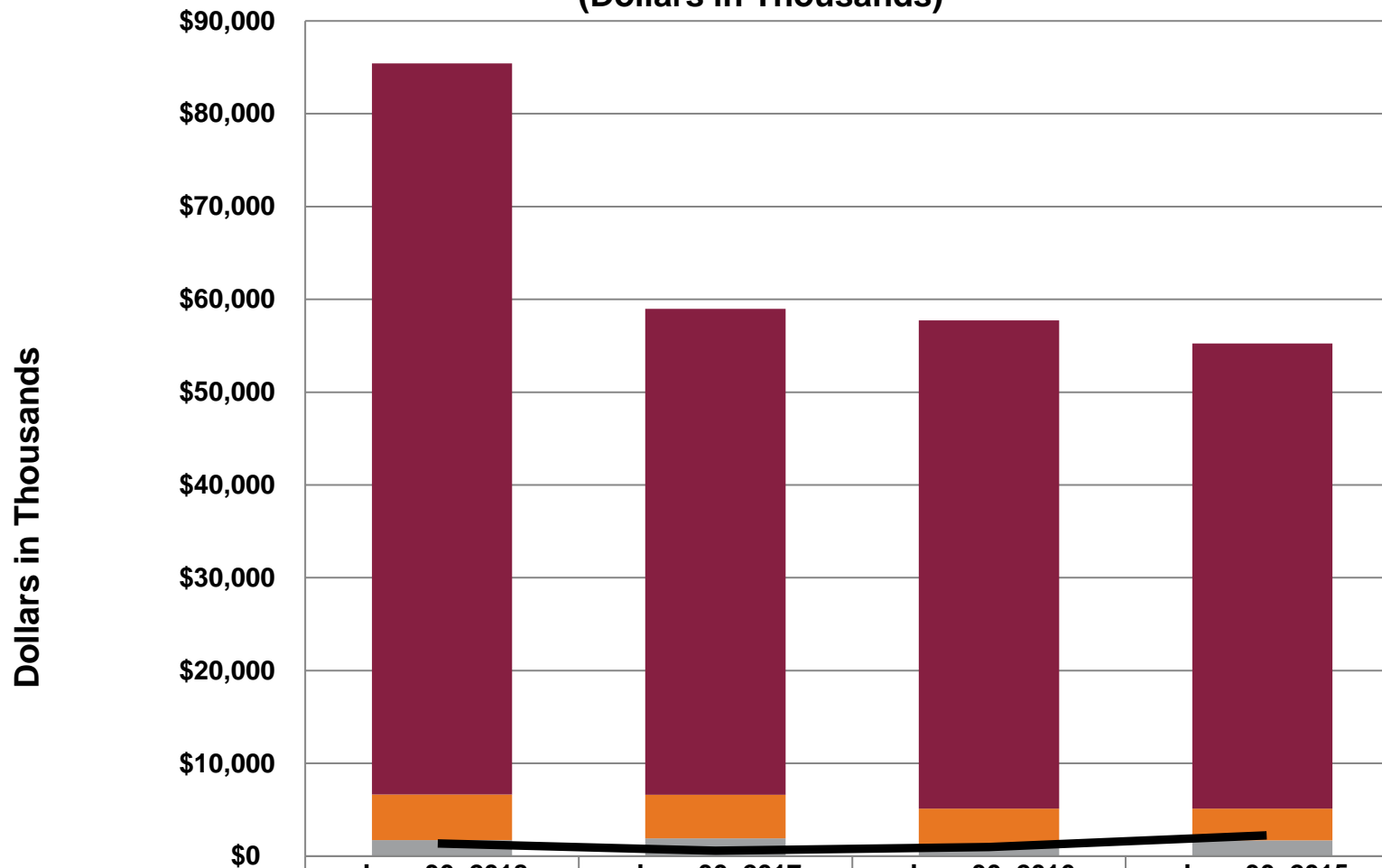
² One-time receivables are included in Other Receivables category

\$10,900 Carilion commitment toward the construction of second Virginia Tech Carilion Research Institute Building

\$10,400 Legal settlement

³ Health Professions Student Loan

**Aging of Current Gross Accounts Receivable
From June 30, 2015 to June 30, 2018
(Dollars in Thousands)**



	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Receivables Not Past Due	\$78,797	\$52,353	\$52,618	\$50,117
1 - 120 Days Past Due	\$4,897	\$4,694	\$3,968	\$3,424
121 to Over 1 Year Past Due	\$1,743	\$1,929	\$1,152	\$1,715
Total Gross Receivables	\$85,437	\$58,976	\$57,738	\$55,256
Write-Offs	\$760	\$327	\$553	\$1,235

Current Accounts Receivable Write-Offs for June 30, 2018 with Comparison to 2017 and 2016
(In whole dollars)

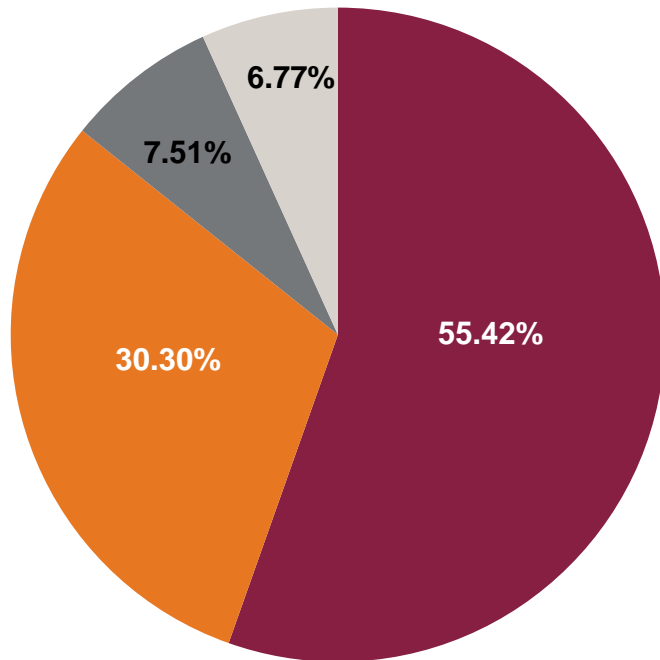
<u>Accounts Receivable</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Three Year Average</u>
Student Accounts	\$ 388,787	\$ 134,629	\$ 178,943	\$ 234,120
Sponsored Programs	64,201	-	138,611	67,604
Electric Service	12,553	10,889	16,726	13,389
Parking Services	19,007	20,198	16,616	18,607
Telecommunications (CNS)	-	-	74	25
CPE and IVTSCC ¹	13,312	-	939	4,750
Veterinary Medicine	93,765	71,397	126,105	97,089
Equine Medical Center	78,880	21,925	31,866	44,224
Short Term Loans/Notes	-	5,999	2,229	2,743
Other Receivables	<u>89,779</u>	<u>61,616</u>	<u>40,711</u>	<u>64,036</u>
Total Write-Offs	<u>\$ 760,284</u>	<u>\$ 326,653</u>	<u>\$ 552,820</u>	<u>\$ 546,586</u>

¹ Continuing and Professional Education / Inn at Virginia Tech & Skelton Conference Center

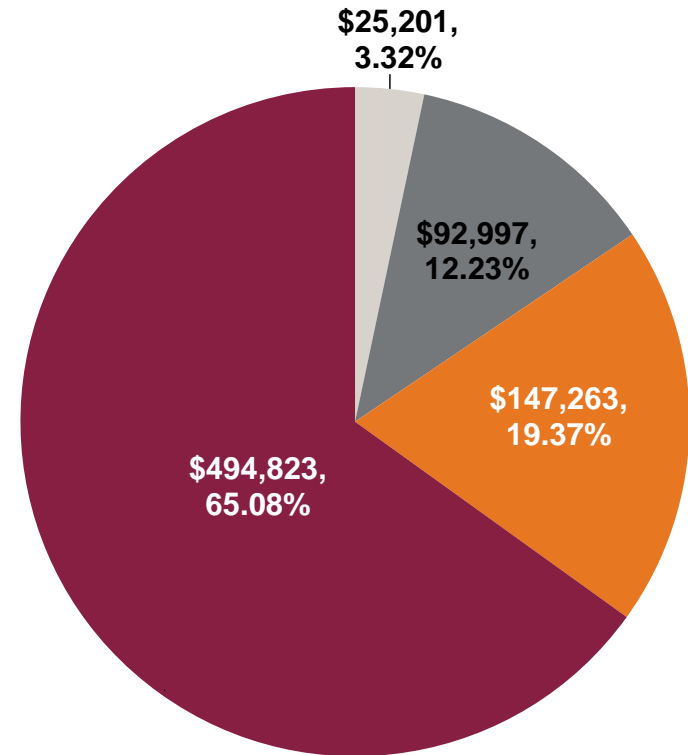
Stratification of Write-Offs for Fiscal Year 2018

Total Number of Accounts = 1,080

Total Dollar Value = \$760,284
Average Dollar Value = \$705



■ \$0-\$99 ■ \$100-\$999
■ \$1,000-\$2,999 ■ > \$3,000



■ \$0-\$99 ■ \$100-\$999
■ \$1,000-\$2,999 ■ > \$3,000