

### **What is “Bad Debt Expense”?**

In the normal course of providing water and sewer services, communities are billed for those services on a regular basis, typically monthly. For accounting purposes, each month an amount of revenue is recorded for service provided and the corresponding amount billed is recorded as an accounts receivable. Generally, communities pay their bill on a monthly basis.

For accounting purposes, if a community is unable or unwilling to pay their bill, generally accepted accounting principles require that GLWA recognize bad debt expense and a corresponding allowance for doubtful accounts. If the reason for the late payment is an inability to pay when the bill is due, GLWA works with the community to bring the account current over time with a payment plan. In the very rare instance where there is an unwillingness to pay, GLWA may need to pursue other means to collect the debt including legal action.

*For accounting purposes*, it is required to record the bad debt expense when the timely collection of an account becomes doubtful. For most organizations, including GLWA, bad debt expense is treated as an operating expense. That means that bad debt is treated like other system operating costs like chemicals, electricity, maintenance, and personnel.

*For budget and charge setting purposes*, GLWA first seeks available remedies to recover the amount owed before recognizing the bad debt expense in the costs of operating the system. GLWA and its Member Partners have worked diligently to establish fair and equitable methodologies to allocate the cost of providing service. When one community does not pay for their allocated cost of service, the cost shifts to the remaining communities in future years.

### **How is Bad Debt Expense Reported?**

GLWA is transparent in identifying and reporting accounts with late payments in public monthly reports and presentations. It is important for stakeholders to be informed of financial matters that impact the system – and potentially their costs in the future.

### **Is GLWA Required to Allocate Bad Debt Expense in Calculating Charges?**

Yes, the 2011 Order to Incorporate Rate Settlements into Wastewater Contracts and Dismiss All Prior Rate Settlements, requires GLWA to allocate the bad debt expense in its sewer charges. A similar approach has been applied to water charges.

### **Water System Bad Debt Expense Allocation**

The bad debt expense is recovered from all customer classes.

### **Sewer System Bad Debt Expense Allocation**

The 2011 Order requires bad debt expense recovery from “wholesale contract customers” be recovered from that same customer class.

### **Do Our Current Charges Include Bad Debt Recovery?**

Unfortunately, there is one community that receives water and sewer service for which we have been unable to collect. We know this is frustrating. You have our commitment to continue to resolve the matter.

### **What if the Delinquent Bad Debt is Paid by the Community that received the Service?**

GLWA maintains records that would provide an allocation credit back to the communities that funded the bad debt expense. Depending on the timing and amount, we would work with Member Partners to determine the preferred method(s) to address the credit.

### **Questions?**

Please contact General Counsel Randal Brown via [Randal.Brown@glwater.org](mailto:Randal.Brown@glwater.org).