



Accounts Receivable, Credit, and Collections Policy

This policy outlines the procedures for managing accounts receivable, extending credit, and collecting outstanding balances for Maverick Environmental Equipment, an Environmental Equipment Dealer and Service Group. This policy aims to minimize bad debt, optimize cash flow, and maintain positive customer relationships.

I. Credit Policy:

A. Credit Application:

All new customers desiring credit terms must complete a credit application form, providing accurate and complete information, including:

- ***Business name, address, and contact information***
- ***Type of business and years in operation***
- ***Bank references and account numbers***
- ***Trade references (at least three)***
- ***Financial statements (if required)***
- ***Tax ID number/EIN***
- ***Authorized signatory***
- ***Unconditional Personal Guarantee by all owners with personal addresses and contact information.***

The credit application should clearly state the terms and conditions of sale, including payment terms, late fees, and collection procedures.

B. Credit Approval Process:

Upon receipt of a credit application, the Credit Department (or designated individual) will conduct a thorough credit investigation, including:

- ***Contacting bank and trade references***
- ***Reviewing credit bureau reports (e.g., Dun & Bradstreet, Experian, Equifax)***
- ***Analyzing financial statements (if provided)***
- ***Assessing the customer's payment history with other suppliers***

Based on the credit investigation, a credit limit will be established for each customer. The credit limit should be commensurate with the customer's creditworthiness and anticipated purchase volume.

The Finance Department will document the credit approval process and maintain records of all credit investigations.

Customer Categorization Based on Creditworthiness



Customers will be classified into three categories based on their credit score, payment history, and overall financial stability. The classification will help determine their credit limits and payment terms.

A Category – Excellent Creditworthiness

- **Criteria:**
 - Credit score of 750 or higher.
 - No late payments in the past 12 months.
 - 3 or more business credit references and above average D&B
 - Strong financial statements (positive cash flow, strong liquidity).
 - Established relationship with the company for over 2 years.
- **Credit Limit:**
 - Up to \$250,000
- **Payment Terms:**
 - 30 days Net (payment due within 30 days of invoice for service or parts).
 - All new or used equipment sales payments are due prior to or on delivery.
 - No early payment discount
- **Additional Conditions:**
 - Monthly review of credit status.
 - Automatic increase in credit limit by 10% annually if the customer remains in good standing.

B Category – Good Creditworthiness

- **Criteria:**
 - Credit score between 650 and 749.
 - Few late payments in the past 12 months (maximum 2 instances).
 - Two or more business credit references and average D&B
 - Stable financial standing with moderate profitability.
 - Relationship with the company for at least 1 year.
- **Credit Limit:**
 - Up to \$100,000
- **Payment Terms:**
 - 30 days Net.
 - All new or used equipment sales payments are due prior to or on delivery.
 - No discount for early payment.
- **Additional Conditions:**
 - Review of credit status every 6 months.
 - Potential credit limit increase of 5% after 6 months if customer maintains good payment behavior.

C Category – Fair Creditworthiness



- **Criteria:**
 - Credit score between 550 and 649.
 - Multiple late payments in the past 12 months (up to 3 instances).
 - Limited financial history or moderate financial distress.
 - Relationship with the company of less than 1 year, or new customer.
- **Credit Limit:**
 - Up to \$50,000
- **Payment Terms:**
 - 15 days Net
 - All new or used equipment sales payments are due prior to or on delivery.
 - No early payment discount.
- **Additional Conditions:**
 - Review of credit status quarterly.
 - Credit limit will not increase without a demonstrated improvement in payment history and financial stability.
 - May require personal guarantees or co-signers for high-value purchases.

2. Review and Monitoring

- **Credit Assessment:**
 - Customers' credit status will be assessed annually or bi-annually depending on their category. This review will incorporate updated credit reports, payment histories, and financial statements where applicable.
- **Adjustments to Credit Limits:**
 - Credit limits will be adjusted based on the review. Customers who consistently perform well may see their limits increased. Customers showing signs of financial distress or late payments may see their credit limits reduced or be moved to a lower category.
- **Notifications:**
 - Customers will be notified at least 30 days in advance if there are any changes to their credit terms or limits.

3. Late Payment Penalties

- **For Category A Customers:**
 - *Late payment beyond 30 days: 1% late fee charged on outstanding balance or the maximum amount allowed by law, whichever is greater.*
- **For Category B Customers:**
 - *Late payment beyond 30 days: 2% late fee charged on outstanding balance or the maximum amount allowed by law, whichever is greater.*
- **For Category C Customers:**
 - *Late payment beyond 30 days: 3% late fee charged on outstanding balance, or the maximum amount allowed by law, whichever is greater.*



4. Credit Hold or Termination

- If a customer consistently exceeds their payment terms or defaults on payments, their account will be placed on **credit hold and all sales and service will be discontinued until the account is brought current unless explicit written consent is provided by the CFO and Regional General Manager.**
 - **Category A: After 60 days overdue.**
 - **Category B: After 45 days overdue.**
 - **Category C: After 30 days overdue.**
- If the account is not resolved within 90 days, it may result in the termination of the credit relationship and we reserve the right to pursue all legal remedies, inclusive of liens, repossession, and judgements against the customer to the full extent of local law, inclusive of costs associated with collection fees and costs, administrative fees and costs, legal fees and costs in addition to any accrued interest and penalties.
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Credit Terms:

Standard payment terms are net 30 days from the date of invoice, unless otherwise agreed upon in writing. Other terms (e.g., net 10, net 60) may be offered based on customer creditworthiness and relationship history.

Discounts for early payment may be offered at the discretion of management.

Consistently late payments may result in a review of credit terms and potential suspension of credit privileges.

Credit Limit Reviews:

Credit limits will be reviewed periodically (e.g., annually) or more frequently if warranted by changes in the customer's financial situation or payment patterns.

Customers may request a credit limit increase by providing updated financial information.

The Credit Department will document all credit limit reviews and adjustments.

II. Accounts Receivable Management:

A. Invoicing:

- Invoices will be generated and sent to customers promptly upon completion of a sale or service.
- Interim invoices will be billed at the end of each month for projects that extend longer than a month



- Invoices will clearly detail the goods or services provided, quantities, prices, applicable taxes, and payment terms.
- Invoices can be delivered electronically (preferred) or via mail.

B. Payment Processing:

Payments can be accepted via check, electronic funds transfer (EFT), credit card (with applicable fees), or other methods as approved by management.

All payments will be promptly recorded and applied to the appropriate customer accounts.

Aged trial balance reports will be generated regularly (e.g., weekly or monthly) to monitor outstanding balances.

C. Account Reconciliation:

Customer accounts will be reconciled regularly to ensure accuracy and identify any discrepancies.

Customers should be encouraged to contact the Accounts Receivable Department with any billing questions or concerns.

III. Collections Policy:

A. Overdue Accounts:

A system of escalating collection efforts will be implemented for overdue accounts.

- Initial Contact (1-15 days overdue): A friendly reminder email or phone call will be made to inquire about the overdue payment.
- Second Contact (16-30 days overdue): A more formal letter or phone call will be made, reiterating the payment terms and requesting immediate payment. Late payment fees may be applied at this stage, as per the agreed terms.
- Third Contact (31-60 days overdue): A stronger letter or phone call will be made, indicating potential suspension of services, legal action, or referral to a collection agency. Credit privileges will be suspended. (COD Only)
- Collection Agency/Legal Action (60+ days overdue): Accounts that remain unpaid after repeated attempts will be referred to a collection agency or legal counsel.

B. Documentation:

All collection efforts will be documented in the customer's account file, including dates of contact, methods of communication, and any agreements reached.

C. Write-Offs:



Accounts deemed uncollectible will be written off after all reasonable collection efforts have been exhausted and approval has been obtained from management. Write-offs will be taken against the revenue account they were originally booked to unless specifically reserved for in bad debt in accordance with GAAP.

Write-offs will be documented and accounted for in accordance with accounting principles.

D. Bad Debt Recovery:

Efforts may be made to recover written-off debts through legal action or other means.

IV. Policy Review and Updates:

This policy will be reviewed and updated periodically (e.g., annually) or as needed to reflect changes in business practices, legal requirements, or economic conditions.

V. Communication and Training:

All employees involved in the credit, accounts receivable, and collections process will be trained on this policy and its procedures. This policy will be readily accessible to all relevant personnel.

VI. Exceptions:

Any exceptions to this policy must be approved by senior management and documented accordingly.

This policy is designed to provide a framework for managing credit and collections effectively. Consistent adherence to this policy is essential for maintaining sound financial health and minimizing risk. This document should be considered a guideline and may be modified as needed depending on specific circumstances. Consult with legal counsel as needed.

Sales Team Responsibilities:

The Sales Team plays a crucial role in the initial stages of the customer relationship and significantly impacts the effectiveness of the credit and collections process. Their responsibilities include:

Accurate Customer Information Gathering: The sales team is the first point of contact with potential customers. They are responsible for obtaining complete and accurate customer information during the sales process, including:

- Full legal business name and "doing business as" (DBA) if applicable.
- Complete business address (physical location, not a PO Box).
- Billing address if different from the physical address.



- Contact names, phone numbers, and email addresses for key personnel (owner, accounts payable, etc.).
- Business type and industry.
- Years in business.
- Website (if applicable)
- Tax Exempt Status and applicable forms
- **Jobsheet completion that clearly states**
 - **Actual Address where machine is being used**
 - **General Contractor or Subcontractor Information**
 - **Are they the property/project owner?**
 - **If not, specify the property owner**
 - **If they are a contractor or general contractor, get both property owner, prime contractor and project owner information.**

Credit Application Introduction: Sales representatives should introduce the credit application process to new customers and explain its importance. They should provide the application form and ensure the customer understands the terms and conditions outlined within it. They should emphasize the need for accurate and complete information.

Initial Credit Discussion (Optional but Recommended): While the final credit decision rests with the Finance Department, sales can have a preliminary conversation with the customer about their credit needs and expectations. This can help identify potential credit challenges early on and facilitate a smoother credit approval process. However, sales should not make any promises regarding credit approval.

Communication with the Finance Department: Sales should promptly forward completed credit applications to the Credit Department. They should also communicate any relevant information about the customer that might be helpful in the credit evaluation process (e.g., knowledge of the customer's financial stability, industry reputation, etc.).

Order Processing and Accuracy: Accurate order entry is critical to avoid billing errors and payment disputes. Sales should ensure that all sales orders are complete and accurate, including product descriptions, quantities, pricing, and any special terms or conditions.

Customer Relationship Management: Maintaining a positive customer relationship is essential, even during the collections process. Sales can play a role in resolving customer billing disputes by acting as a liaison between the customer and the Accounting/Finance team. They can also reinforce the importance of timely payments.

Sales Forecasts: Providing accurate sales forecasts to the Accounting/Finance team helps them anticipate future cash flow and manage working capital effectively.

Awareness of Credit Policy: Sales team members must be fully aware of the company's credit and collections policy and adhere to it in all customer interactions.



Accounting/Finance Team Responsibilities:

The Accounting/Finance team is responsible for managing the credit granting process, accounts receivable, and collections. Their responsibilities include:

Credit Evaluation and Approval: Conducting thorough credit investigations, analyzing financial information, and establishing appropriate credit limits.

Credit Policy Management: Developing, implementing, and maintaining the company's credit and collections policy. Regularly reviewing and updating the policy as needed.

Invoicing and Billing: Generating and distributing accurate and timely invoices to customers. Ensuring that invoices comply with company policy and legal requirements.

Accounts Receivable Management: Tracking and monitoring outstanding balances, preparing aged trial balance reports, and reconciling customer accounts.

Collections Process: Implementing the collections policy, contacting customers regarding overdue payments, and escalating collection efforts as needed.

Cash Application: Accurately recording and applying customer payments to the appropriate accounts.

Bad Debt Management: Identifying and writing off uncollectible accounts in accordance with company policy and accounting principles. Pursuing bad debt recovery efforts where appropriate.

Reporting and Analysis: Preparing reports on accounts receivable, collections, and bad debt. Analyzing trends and identifying areas for improvement.

Internal Controls: Implementing and maintaining internal controls to safeguard company assets and ensure the integrity of the accounts receivable process.

Communication and Collaboration: Communicating effectively with the Sales team, other departments, and customers regarding credit and collections matters.

Training: Providing training to relevant personnel on the company's credit and collections policy and procedures.

Legal and Regulatory Compliance: Ensuring compliance with all applicable laws and regulations related to credit and collections.

Best Practices for Customer Setup and Credit Applications:

I. Customer Setup Best Practices:



- Centralized Customer Database: Maintain a single, integrated customer database accessible to all relevant departments (sales, accounting, shipping, etc.). This eliminates data silos and ensures consistency across the organization.
- Data Validation and Standardization: Implement data validation rules during customer setup to ensure data accuracy and consistency. For example:
 - Mandatory fields (e.g., business name, address, contact information).
 - Format checks (e.g., phone numbers, email addresses).
 - Address verification using postal service databases.
 - Standardized naming conventions (e.g., "Inc." vs "Incorporated").
- Unique Customer Identifiers: Assign a unique customer ID to each customer to avoid duplication and ensure accurate tracking of transactions.
- Detailed Customer Profiles: Capture comprehensive customer information beyond the basics. This could include:
 - Industry classification (SIC or NAICS code).
 - Customer type (e.g., distributor, retailer, end-user).
 - Preferred contact methods.
 - Tax exemption status (if applicable).
 - Credit terms and limits.
 - Sales representative assigned.
 - Billing address (if different from physical address).
 - Shipping address(es).
 - Purchase Order requirements for Customer Payables

Regular Data Cleansing: Periodically review and update customer data to ensure accuracy and remove outdated or duplicate records.

Integration with Other Systems: Integrate the customer database with other business systems, such as order management, inventory, and accounting software, to automate data flow and reduce manual entry errors.

Access Control: Implement appropriate access controls to restrict who can create, modify, or view customer data.

Audit Trails: Maintain audit trails of all changes made to customer records, including who made the change and when.

Customer Communication: Communicate clearly with new customers about their account setup, including their customer ID, credit terms, payment methods, and contact information for billing inquiries.

II. Credit Application Best Practices:



Comprehensive Application Form: Design a credit application form that gathers all necessary information for a thorough credit evaluation. This should include:

- Legal business name, DBA, and address.
- Business type and years in operation.
- Contact information for key personnel (owner, CFO, accounts payable).
- Bank references (name, address, account number).
- Trade references (at least three, including contact names, phone numbers, and email addresses).
- Financial statements (if required, specify which statements and for what period).
- Tax ID number/EIN.
- Authorized signature.

Clear Terms and Conditions: The credit application should clearly state the terms and conditions of sale, including:

- Payment terms (e.g., net 30, net 60).
- Late payment fees.
- Interest rates on overdue balances.
- Collection procedures.
- Dispute resolution process.
- Personal guarantee requirements (if applicable).

Online Credit Application: Offer an online credit application option to streamline the process and improve efficiency.

Secure Data Handling: Ensure that credit application data is collected and stored securely, complying with all relevant data privacy regulations.

Credit Check Authorization: Include a clear authorization section in the application allowing the company to conduct credit checks with credit bureaus and other sources.

Verification of Information: Verify all information provided on the credit application, including contacting bank and trade references.

Consistent Credit Evaluation Process: Establish a standardized credit evaluation process to ensure fairness and consistency in credit decisions.

Documentation: Document the entire credit evaluation process, including the sources of information, the credit analysis performed, and the credit decision reached.

Regular Review of Credit Limits: Periodically review customer credit limits to ensure they are still appropriate based on the customer's financial situation and payment history.



Communication of Credit Decisions: Communicate credit decisions to customers promptly and clearly, including the credit limit and payment terms.

Credit Application Storage: Maintain organized and secure records of all credit applications, including approved and denied applications.

Best Practices for Incorporating Clear Collections and Remedies into Sales Contracts and Sales Terms:

I. Integrating Collections and Remedies into Sales Contracts:

- Clear Payment Terms: Explicitly state the payment terms, including:
 - Due Date: Specify the exact date payment is due (e.g., net 30 days from the invoice date). Avoid vague terms like "upon receipt."
 - Payment Methods: List acceptable payment methods (e.g., check, wire transfer, credit card). If credit cards are accepted, specify any applicable processing fees.
 - Invoice Delivery: State how invoices will be delivered (e.g., email, mail) and to whom. Specify if electronic delivery is the primary method.
- Late Payment Charges: Clearly define any late payment fees or interest rates. Ensure these comply with applicable laws and regulations (usury laws). State how these charges are calculated (e.g., percentage per month, fixed fee).
- Early Payment Discounts: If offered, clearly outline the discount percentage and the timeframe for eligibility.
- Collections Procedures: Describe the steps the company will take to collect overdue payments, including:
 - Reminder Notices: Specify the frequency and method of reminder notices (e.g., email, phone call, letter).
 - Collection Calls: Indicate when and how collection calls will be made.
 - Suspension of Services/Shipments: Clearly state the company's right to suspend services or shipments for overdue accounts.
 - Referral to Collections Agency/Legal Counsel: Specify when and under what circumstances overdue accounts will be referred to a collection agency or legal counsel. State who is responsible for the costs associated with collections.
 - Credit Reporting: Inform the customer that overdue accounts may be reported to credit bureaus.

Remedies for Breach of Contract: Outline the remedies available to the company in the event of a breach of contract by the customer, including:



Acceleration Clause: If payments are missed, an acceleration clause allows the seller to demand immediate payment of the entire outstanding balance, including future payments.