Food and
Nutrition
Service

Park Office
Center

3101 Park
Center Drive
Alexandria
VA 22302

DATE: July 8, 2016

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SUBJECT: Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments

TO: Regional Directors
Child Nutrition Programs
All Regions

State Directors
Child Nutrition Programs
All States

The Food and Nutrition Service (FNS) recognizes that meal charge policies and delinquent accounts are important issues for school food authorities (SFAs), schools, students, and their families. It is very difficult for school food service professionals to see a hungry child in the cafeteria without the funds needed to pay for a meal. Further, unpaid meal charges can create challenges for schools because they rely on student payments, in addition to Federal reimbursements, to provide healthy, appealing, and affordable meals to all students.

There has been confusion about how unpaid meal charges must be handled when all collection efforts have been exhausted. To help address these situations, this memorandum clarifies the processes of designating delinquent debt that has been determined to be uncollectable as bad debt and obtaining assistance to offset bad debt losses. Additionally, this memorandum clarifies how Federal Government regulations and the U.S. Department of Agriculture (USDA) definition of “bad debt” apply to the nonprofit school food service account (NSFSA) when unpaid meal charges are not collected.

Delinquent Debt

Unpaid meal charges, like any other money owed to the NSFSA, are considered “delinquent debt” when payment is overdue, as defined by State or local policies. The debt is classified as delinquent as long as it is considered collectable and efforts are being made to collect it. A debt owed to the NSFSA (i.e., an account receivable) is an asset. As such, the debt remains on the accounting documents until it is either collected or is determined to be uncollectable and written off.

Unpaid meal charges may be carried over at the end of the school year (i.e., beyond June 30) as a delinquent debt and collection efforts may continue into the new school

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year. This allows SFAs to work with families to establish longer repayment plans and to continue pursuing collection efforts when students change schools in the district or move outside the district.

SFAs must make reasonable efforts to collect unpaid meal charges classified as delinquent debt and the cost of these efforts is an allowable use of NSFSA funds. A reasonable timeframe and methods for collecting unpaid meal charges can be established either at the State or SFA level. The Federal Government does not define "reasonable" collection methods or regulate how long a debt may be considered delinquent. Instead, FNS expects SFAs to rely on State and local policies for such determinations.

In establishing policies regarding collection of delinquent debt, State agencies and SFAs should ensure that efforts do not have a negative impact on the children involved, but focus primarily on the parents or guardians responsible for providing funds for meal purchases. State agencies and SFAs also are encouraged to consider whether the benefits of potential collections outweigh the costs which would be incurred to achieve those collections. Policies regarding the collection of unpaid meal charges should be included in the written meal charge policy that is required of all SFAs participating in the Federal school meal programs no later than July 1, 2017 (see SP-46, *Local Meal Charge Policies*, July 8, 2016).

Bad Debt

When local officials determine that further collection efforts for delinquent debt are useless or too costly, the debt must be reclassified as "bad debt." Federal Regulations at 2 CFR 200.426 define bad debts as "debts which have been determined to be uncollectable…." Debts are considered assets because they represent money due to the NSFSA. However, once a delinquent debt is reclassified as a bad debt it is no longer considered an asset because it is, by definition, uncollectable. Therefore, bad debts must be written off as operating losses.

National School Lunch Program (NSLP) and School Breakfast Program (SBP) regulations require SFAs to "comply with the requirements to account for all revenues and expenditures of [its] nonprofit school food service" and to "meet the requirements for the allowability of nonprofit school food service expenditures in accordance with this part and 2 CFR 200, Subpart E" [7 CFR 210.19(a)(1) and 7 CFR 220.13(i)]. Therefore, expenditures from the NSFSA must meet the standards for allowable costs set out in the Federal cost principles at 2 CFR Part 200, Subpart E.

Section 200.426 of Subpart E states that "Bad debts…arising from uncollectable accounts and other claims, are unallowable. Related collection costs, and related legal costs, arising from such debts after they have been determined to be uncollectable are also unallowable." Therefore, NSFSA resources may not be used to cover costs related to the bad debt, such as continued legal and collection costs.

Additionally, while bad debt must be written off as an operating loss, this particular operating loss may not be absorbed by the NSFSA, but must be restored using non-Federal funds. These funds may come from the school district's general fund, special funding from State or local governments, school or community organizations, or any other non-Federal sources. Once delinquent meal charges are converted to bad debt, records relating to those charges must be maintained in accordance with the record retention requirements in 7 CFR 210.9(b)(17) and 7 CFR 210.15(b).

Additional Resources

FNS is currently developing resources State agencies and SFAs can use in their effort to create effective meal charge and delinquent account policies. These resources are intended to provide a variety of strategies to use as a starting point for establishing policies that meet State and local needs. These resources will be made available on the school meal programs website (http://www.fns.usda.gov/school-meals/child-nutrition-programs) in 2016 and will include:

- A handbook summarizing best practices that FNS collected from State agencies, SFAs, schools, and other key stakeholders;
- Webinars sharing ideas and strategies submitted by local-level officials; and
- Other relevant policy memoranda and guidance documents developed by FNS.

State agencies are reminded to distribute this memorandum to Program operators immediately. Program operators should direct any questions concerning this guidance to their State agency. State agencies with questions should contact the appropriate FNS Regional Office.

Original Signed
Cynthia Long
Deputy Administrator
Child Nutrition Programs

Original Signed
David Burr
Chief Financial Officer
Office of Financial Management