

## Clarification on Collection of Delinquent Meal Payment

Unpaid meal charges can create challenges for schools because the NSFSFA relies on payment from families, in addition to Federal reimbursements at the paid, reduced price, and free rates, to provide nutritious meals to children. In the past, there has been confusion about how unpaid meal charges must be handled when all of a school or district's collection efforts have been exhausted.

On July 8, 2016, FNS issued [\*SP 47-2016: Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments\*](#) to clarify:

- The process of designating delinquent debt determined to be uncollectable as bad debt,
- The process of obtaining assistance to offset bad debt losses, and
- How Federal regulations and the definition of bad debt applies to the NSFSFA when unpaid meal charges are not collected.

### Classifying Unpaid Meal Charges as Delinquent Debt

Unpaid meal charges 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 NSFSFA (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.

SFAs must make reasonable efforts to collect meal charges classified as delinquent debt and the cost of these efforts is an allowable use of NSFSFA funds. A reasonable timeframe and methods for collecting unpaid meal charges may be established at the State or local level. FNS 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. For more information, see [\*Establishing a Delinquent Debt Policy\*](#).

At the discretion of the State or SFA, unpaid meal charges may be carried over at the end of the school year (beyond June 30); therefore, collection efforts may continue into the new school year. This allows SFAs to work with families to establish longer repayment plans (see [\*Payment Options\*](#)) and to continue pursuing collection efforts when children change schools within the district or move to a new school outside the district.

## **Establishing a Delinquent Debt Policy**

In establishing policies regarding collection of delinquent debt, State agencies and SFAs should consider options that will not negatively impact the children involved, but instead focus on the adults 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 incurred to achieve those collections. Policies regarding the collection of unpaid meal charges should be included in the written meal charge policy, required of SFAs no later than July 1, 2017. For more information, see [Local Meal Charge Policies](#). A list of encouraged delinquent/bad debt policy components is included in [Appendix B: Unpaid Meal Charge Policy Checklists](#).

## **Reclassifying Delinquent Debt as Bad Debt**

When local officials determine delinquent debt is uncollectable and no further collection efforts will be made, the debt must be reclassified as “bad debt.” Debts are initially 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 ([2 CFR 200.426](#)). Therefore, bad debts must be written off as operating losses.

NSLP and SBP regulations require SFAs to “comply with the requirements to account for all revenues and expenditures of [the] 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 the subpart states “Bad debts (debts which have been determined to be uncollectable), including losses (whether actual or estimated) 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, an operating loss related to conversion of unpaid meal charges to bad debt status may not be absorbed by the NSFSa. Repayment of bad debt resulting from unpaid meal charges is an unallowable cost; therefore, the NSFSa 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, or
- Any other non-Federal sources.

For more potential options, see [Alternative Funding Sources](#).

## Recordkeeping Requirements for Bad Debts

Once delinquent debts are converted to bad debts, records relating to those charges must be maintained in accordance with the record retention requirements outlined in [7 CFR 210.9\(b\)\(17\)](#) and [7 CFR 210.15\(b\)](#). The following records should be maintained to document the appropriate establishment and handling of bad debt:

- Evidence of efforts to collect unpaid meal charges in accordance with the State or local unpaid meal charge policy;
- Evidence the collection efforts fell within the timeframe and methods established by the State or local meal charge policy;
- Financial documentation showing when the unpaid meal charge(s) became an operating loss; and
- Evidence any funds written off as bad debt were restored to the NSFSFA using non-Federal sources.





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### Example of Delinquent Debt Policy

Bad debt incurred through the inability to collect lunch payment from students is not an allowable cost chargeable to any Federal program. Any related collection cost, including legal cost, arising from such bad debt after they have been determined to be uncollectable are also unallowable. District efforts to collect bad debt shall be in accordance with Policy **[insert district policy number if applicable]**.

Bad debt is uncollectable/delinquent debt that has been determined to be uncollectable no sooner than the end of the school year in which the debt was incurred. If the uncollectable/delinquent debt cannot be recovered by the School Meals Program in the year when the debt was incurred, then this is classified as bad debt. Once classified as bad debt, non-Federal funding sources must reimburse the NSFS for the total amount of the bad debt. The funds may come from the District general fund, State or local funding (if allowable by program), school or community organizations such as the PTA, or any other non-federal source. Once the uncollectable/delinquent debt 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).