

This Question and Answer (Q&A) memorandum is designed to provide an overview of policies related to unpaid meal charges in the National School Lunch Program (NSLP) and the School Breakfast Program (SBP) and to address common questions the Food and Nutrition Service (FNS) of the United States Department of Agriculture (USDA) has received from State agencies, school food authorities (SFAs), and local Program operators.

The attached questions have been grouped under five headings: Meal Charge Policies, Student Eligibility for Free or Reduced Price Meals, Payment Options and Payment Reminders, Alternate Meals, and Debt Collections.

This updated version includes one new question (Question 13) and four revised questions (Questions 11, 19, 20, and 21). These questions were added or revised to address clarifications requested by stakeholders and are marked as *[New/Revised]* within the attachment. **Highlighted in yellow are the Indiana Department of Education's additional guidance and clarification to the Q&As.**

Additional Policy Guidance and Resources

This Q&A supplements other FNS policy memoranda related to unpaid meal charges, which include the following:

- SP 46-2016: *Unpaid Meal Charges: Local Meal Charge Policies*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-local-meal-charge-policies>
- SP 47-2016: *Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-clarification-collection-delinquent-meal-payments>

FNS has developed additional resources State agencies and SFAs can use in their effort to address the challenge of unpaid meal charges. These resources are available on the FNS Unpaid Meal Charges website (<http://www.fns.usda.gov/school/meals/unpaid-meal-charges>) and include:

- A guide summarizing FNS policy guidance and best practices from State agencies, schools, and other key stakeholders;
- Webinars sharing ideas and strategies to address unpaid meal charges; and
- Other relevant policy memoranda and guidance documents developed by FNS.

Program operators should direct any questions regarding this memorandum to the appropriate State agency. State agency contact information is available at <http://www.fns.usda.gov/cnd/Contacts/StateDirectory.htm>. State agencies should direct questions to the appropriate Food and Nutrition Service Regional Office.

MEAL CHARGE POLICIES

1. Must the required meal charge policy be developed at the school food authority (SFA) level?

State agencies and SFAs have discretion in developing the specifics of individual meal charge policies, including the level at which the policy is developed. State agencies may develop a State-level meal charge policy to be implemented by all SFAs throughout the State. Alternatively, State agencies may choose to outline a general policy, giving SFAs discretion to tailor the policy based on local conditions. In the latter case, a combination State/SFA-level policy is allowable, as long as the SFA-level policy does not contradict the overarching State-level policy.

If the State agency does not develop a State-level policy, SFAs must develop and implement an SFA-level policy. This is intended to avoid inconsistent or varying policies within an SFA that create confusion for families, especially when children transition to a new school or families have children attending different schools within the SFA. SFAs do have discretion, however, to vary the policy based on student grade level. For more information, please see “Meal Charge Policy Considerations” on page 2 of SP 46-2016: *Unpaid Meal Charges: Local Meal Charge Policies*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-local-meal-charge-policies>.

The Indiana Department of Education is not requiring a specific meal charging procedure for the state but has worked with the Indiana State Board of Accounts and Indiana School Board Association to develop a template meal charge procedure and bad debt policy that schools can use to help structure their meal charge procedure and bad debt policy. Click [here](#) to access the two templates.

2. Are SFAs permitted to adopt a standard practice about how to handle meal charges instead of establishing a formal policy?

SP 46-2016 requires all SFAs operating the Federal school meal programs to have in place a written and clearly communicated system to address meal charges. The Food and Nutrition Service (FNS) will refer to this as a policy, but whether this is referred to as a “policy” or “standard practice” is at the discretion of the State agency or SFA. Whichever terminology is used, the policy or standard practice must consist of a written document explaining how the SFA will handle situations where children eligible to receive reduced price or paid meals do not have money in their account or in hand to cover the cost of their meal at the time of service. The policy or standard practice must be implemented throughout the SFA.

3. Are SFAs required to obtain school board approval for their meal charge policy?

Although there is no Federal requirement for school board approval of the local meal charge policy, SFAs should consult with local administrators about any additional local requirements for the establishment of an SFA-level meal charge policy.

The Indiana Department of Education worked very closely with the Indiana State Board of Accounts and Indiana School Board Association to create a meal charge procedure. Procedures are not required to be board approved, but it is optional for procedures to be board approved. It would be ideal to make the board aware of the procedure to make sure the school food service and administrators will have the backing of the board if issues/concerns arise. Click [here](#) to check out the charging procedure template.

4. What are the communication requirements for the meal charge policy?

Whether developed at the State or SFA level, SFAs must ensure the policy is provided in writing to all households at the start of each school year and to households transferring to the school or school district during the school year. Additionally, SFAs are encouraged to include the policy in student handbooks and/or on online portals that households use to access student accounts. While not required, SFAs are encouraged to provide the written policy again to the household the first time the policy is applied to a specific child (e.g., by mail, email, or a note home).

SFAs also must provide the written meal charge policy to all school or SFA-level staff responsible for policy enforcement. This includes school food service professionals responsible for collecting payment for meals at the point of service, staff involved in notifying families of low or negative balances, and staff involved in enforcing any other aspects of the meal charge policy. School social workers, school nurses, the homeless liaison, and other staff members assisting children in need (or who may be contacted by families with unpaid meal charges) also should be informed of the policy. In addition, FNS strongly encourages SFAs to provide information about the policy to principals and other school or district administrators to ensure they are familiar with and supportive of the policy.

5. May an SFA simply post the meal charge policy on its website to meet the policy communication requirement?

Beginning in school year (SY) 2017-2018, and each year thereafter, the meal charge policy must be communicated in writing to all households at the start of each school year and to households transferring to the school during the school year. While posting the policy online or sending it to families by email is helpful, it will not ensure the information reaches all households, particularly those households without access to a computer or the internet. Therefore, SFAs must have a method in place to

ensure the policy is provided in writing to all households at the start of each school year and to households transferring to the school during the school year.

The following are methods SFAs could use to communicate the policy to families:

- Include a letter to households explaining the meal charge policy when sending “back-to-school” packets with student registration materials;
- Include the policy in the print versions of student handbooks, if provided to parents and guardians annually; and/or
- Include the written policy when using existing notification methods to inform families about applying for free or reduced price meals, such as distributing household applications at the start of the school year.

SFAs also are encouraged to redistribute the policy to the family the first time the policy is applied to a specific child and mention the charge policy on reminder calls or in written notices of low or negative account balances.

The following methods are appropriate ways to communicate the written charging procedure at the beginning of the school year and to students who transfer to the school during the school year:

- Is the school’s website sufficient? No
- Is online registration sufficient? If every household has to go through the online registration and that specific portal or webpage with the written charging procedure is seen by all households and if the household has the ability to print the charging procedure, yes. It cannot be hidden within the online registration system, and households need the ability to print the procedure. If some households cannot or do not register online, they will need the written procedure provided by mail or another communication method.
- Is email sufficient? If an SFA has an e-mail for every household, yes. If some households do not have an e-mail account, the written procedure should be provided by mail or another written communication method.
- Is student handbook sufficient? If every household gets a printed copy of the handbook annually, yes.

6. How often should SFAs revise or update their policy?

Although it is not required, SFAs are encouraged to revise their policy on a regular basis (e.g., annually). Regularly reviewing the policy, assessing its effectiveness, and incorporating new feedback will allow the policy to evolve to better meet the needs of schools, families, and children.

7. Are SFAs required to maintain records related to the meal charge policy?

Yes. Policies developed at the SFA level must be maintained and provided to the State agency during the Administrative Review. SFAs also must maintain

documentation of the methods used to communicate the policy to households and school or SFA-level staff responsible for policy enforcement. If a State-level policy is implemented, the SFA must maintain records to demonstrate how the policy was implemented and communicated to households by the SFA.

STUDENT ELIGIBILITY FOR FREE OR REDUCED PRICE MEALS

8. How early may schools begin the school meal application process?

To prevent children who are eligible for free or reduced price school meals from accruing unpaid meal charges, schools should ensure families are aware of the application and return their application prior to the first day reimbursable meals are offered. According to 7 CFR 210.2, the official start of the school year is July 1. As long as an application is submitted on or after this date, it is considered current for the new school year.

9. May schools accept applications after the school year begins?

Families may submit, and schools may accept, applications at any point during the school year. Schools must inform families of this, and remind families their child may become eligible for free meals at any time during the school year if the household experiences a change in financial circumstances. Schools also are encouraged to reach out to families experiencing an acute financial setback, such as a job loss or long-term illness, which may result in a change in eligibility status for the child.

Because of the year-long duration of eligibility, households certified for free or reduced price school meals are not required to report changes in their household income or categorical eligibility status. Once a child is approved for free or reduced price school meals, their eligibility status remains in effect for the duration of the school year. Additionally, children carry over their eligibility status for 30 operating days into the following school year, or until a new eligibility determination is made, whichever comes first.

Ensuring children who qualify for free or reduced price school meals are properly certified is helpful for families, financially beneficial for schools, and fundamental to overcoming the challenge of unpaid meals charges. Schools should consider implementing the effective date waiver. This waiver allows schools to retroactively apply benefits beginning the date the application was originally submitted and date stamped. Additionally, schools could retroactively apply Direct Certification benefits the date the student's record first appeared on the automated data matching file, generated in the current school year, as the effective date of eligibility for all Directly Certified students.

Schools wanting to use the effective date for eligibility must:

- Apply for the waiver.
- Give this flexibility to all applications received and to all directly certified students.
- Use a date received stamp for proper documentation for applications and letters from other agencies received by the SFA.
- Refund any money paid and/or forgive accrued debt on behalf of the student for reimbursable meals when they qualified for free or reduced meals.
- Retroactively claim direct certification benefits for the months that are still revisable in the CNPweb (60 day claim period).
- If categorical eligibility is based on SNAP, TANF, or Medicaid, extend eligibility to all household members.
- Save all documentation showing the date the student's record first appeared on the automated data matching file.
- Save all documentation showing that the school has credited the student account appropriately.
- Save all documentation for 3 years plus the current year.

To access the waiver, click [here](#) and after carefully reading and completing the form.

10. Are schools permitted to eliminate the reduced price category as a strategy to prevent children eligible for reduced price meals from accruing unpaid meal charges?

Yes. At the discretion of the SFA, schools participating in the National School Lunch Program (NSLP) and School Breakfast Program (SBP) may offer meals at no cost to children who would otherwise qualify for reduced price benefits. SFAs also could choose to lower the cost of reduced price meals below the maximum cost permitted (40 cents for reduced price lunch and 30 cents for reduced price breakfast). This is an allowable use of funds in the non-profit school food service account (NSFSA). SFAs electing to take advantage of this flexibility continue to receive reduced price Federal reimbursement based on meals claimed for children in the reduced price category.

SFAs considering this option are advised to conduct a thorough analysis of their current and projected operating costs to ensure they will be able to maintain operations and meal quality without children's payments for reduced price meals. For more information, please see SP 17-2014: *Discretionary Elimination of Reduced Price Charges in the School Meal Programs*, January 22, 2014, available at: <http://www.fns.usda.gov/discretionary-elimination-reduced-price-charges-school-meal-programs>.

11. [Revised] If a child graduates or moves to a new school district, may the SFA use funds remaining in the child's account to cover meal charge debt accrued by other children?

When any child leaves the district or graduates, SFAs must attempt to contact the child's household to return any funds remaining in the student's account. Households approved for reduced price meal benefits must receive a refund. There is a Federal requirement that children eligible for reduced price meals pay a maximum of 40 cents per lunch and 30 cents per breakfast; retaining the unused funds would result in the per meal price exceeding this amount.

However, SFAs may allow families who are not approved for free or reduced price meals to donate the funds remaining in their account rather than receiving a refund when their child leaves the school. These funds then could be used to cover unpaid meal charges that were uncollectable.

The Indiana State Board of Accounts wants schools to keep the prepaid money from paid, free, or reduced households for student meals in the Prepaid School Lunch Fund (8400). Once a student purchases an item/meal, that money is transferred to the non-for-profit food service fund (800). The Prepaid School Lunch Fund is not part of the non-for-profit account and does not follow the USDA federal rules and regulations. The prepaid deposits in 8400 are held in Trust on behalf of the students.

Since schools should be keeping the prepaid money in this account, schools would not be breaking the federal requirement of having more than .40 cents in a student account if schools do not reimburse the household. At the end of the school year or when students transfer out of the district, it is important to notify households of any leftover money in their student's account. The charging procedure should also include the school's plans for notifying and making refunds available to households. Click [here](#) to check out the charging procedure template.

12. What alternative counting and claiming procedures are available to local educational agencies (LEAs) and schools struggling with unpaid meal charges?

The Community Eligibility Provision (CEP) is a meal service option for schools and school districts operating the school meal programs in high-need communities. CEP allows these schools to provide breakfast and lunch at no cost to all enrolled children without the need to collect applications or establish individual eligibility for a four-year period, thereby increasing access to school meals and eliminating unpaid meal charges. To learn more about CEP, please visit the CEP Resource Center: <http://www.fns.usda.gov/school-meals/community-eligibility-provision-resource-center>.

Provisions 2 and 3 also reduce the application burden and simplify counting and claiming procedures and eliminate unpaid meal charges by allowing low-income

schools to serve meals to all enrolled children at no charge for a four-year period. Under Provision 2, reimbursement is determined by applying the percentages of free, reduced price, and paid meals served during the first year, or base year, to claims during subsequent years. Provision 3 is similar to Provision 2, except, each year, schools receive the level of Federal cash and commodity support paid to them during the base year adjusted to reflect changes in enrollment, inflation, and operating days. To learn more, see: <http://www.fns.usda.gov/school-meals/provisions-1-2-and-3>.

13. [New] Are schools operating CEP or Provision 2 required to develop a meal charge policy?

The requirement to develop a meal charge policy applies to the SFA, rather than to individual schools within the SFA. If all schools in an SFA operate a non-pricing provision (such as CEP and/or Provision 2), the SFA is not required to develop a meal charge policy, as no children would be charged for meals. However, if even one school in the SFA operates standard counting and claiming, the SFA must develop a meal charge policy. Meal charges would not occur at non-pricing schools within the SFA, but the SFA is still required to develop an SFA-wide policy for those schools operating standard counting and claiming. Though not required, SFAs currently operating a non-pricing provision district-wide may consider developing a meal charge policy that would be available and ready for implementation in situations where a school (or schools) in the district return to standard counting and claiming.

PAYMENT OPTIONS AND PAYMENT REMINDERS
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14. What should schools consider when implementing a pre-payment system for reimbursable meals?

Encouraging families to pre-pay for meals at the reduced price or paid rate can help to ensure children have consistent access to healthy, reimbursable meals without accruing unpaid meal charges. Some SFAs even provide incentives, such as prize drawings, for families opting to pre-pay for their children's reimbursable meals. Any incentives involving offering discounts for families who pre-pay for reimbursable meals, however, must meet paid lunch equity (PLE) pricing requirements. For more information, see SP 09-2016: *Paid Lunch Equity: School Year 2016-2017 Calculations and Tool*, November 13, 2015, <http://www.fns.usda.gov/paid-lunch-equity-school-year-2016-2017-calculations-and-tool>.

If a pre-payment system is established, children and families must continue to have a method to add funds on the day of service. For example, families could make cash payments to the school office on the day of service.

SFAs also may wish to allow parents and guardians to limit the amount of funds that a student could use daily, particularly for à la carte purchases. The pre-payment system could include a feature to allow for parental restrictions at the point of service.

Finally, pre-payment systems for children approved for reduced price meals must ensure that all meals paid for are actually received or that the funds are carried over or are refunded. Federal regulations are clear that reduced price lunches may not exceed 40 cents and reduced price breakfasts may not exceed 30 cents. Therefore, payment for any meals not received by a student approved for reduced price meals must be refunded to the household.

For example, a household pre-pays \$8 for one month of lunches (20 lunches x \$0.40). If at the end of the month the household did not receive all 20 lunches, the remaining funds must be carried over into the next month or the money must be refunded to ensure that the student did not pay more than 40 cents per lunch.

15. May SFAs establish long-term payment plans for households struggling to pay back a negative balance?

Yes, SFAs may work with families to establish long-term repayment plans. Repayment plans may be especially helpful for households with income just above the threshold for free or reduced price meals or where income is sporadic. SFAs also are reminded that 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 year.

For more information, see SP 47-2016: *Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments*, July 8, 2016,

<http://www.fns.usda.gov/unpaid-meal-charges-clarification-collection-delinquent-meal-payments>.

16. May schools enlist volunteers to assist with communicating payment reminders?

LEAs may disclose individual student eligibility information only to those persons (and organizations) who require the information in order to carry out an activity specifically authorized by the *Richard B. Russell National School Lunch Act* (NSLA, 42 USC 1751).

Therefore, LEAs and schools may not enlist the assistance of unauthorized persons, such as parent volunteers, to follow up with payment reminder or debt collection efforts related to unpaid meal charges. For example, if a school calls families with unpaid meal charges to remind them to replenish their accounts, only authorized persons may make those phone calls. For more information, please see SP 16, CACFP 06, SFSP 10-2016: *Disclosure Requirements for the Child Nutrition Programs*, December 7, 2015, <http://www.fns.usda.gov/disclosure-requirements-child-nutrition-programs-0>.

17. Are SFAs permitted to move the point of service (POS) to prevent the identification of children with unpaid meal charges?

Yes. There is no Federal policy regarding the specific location of the POS as long as reimbursable meals are identified and claimed appropriately. To prevent the unfortunate situation of having to take away or replace a child's reimbursable meal, SFAs may move the POS to the beginning of the lunch line. This helps the cashier determine which children, if any, are unable to pay for their meal, and allows the cashier to address the issue discretely before the child has selected a meal.

However, as part of the State agency agreement outlined in 7 CFR 210.9(b)(9), SFAs must count the number of free, reduced price, and paid reimbursable meals served to eligible children at the POS, or through another counting system if approved by the State agency. SFAs moving the POS to the beginning of the lunch line must have a monitor or other assurance to verify that children have the required components for a reimbursable meal after passing through the lunch line. 7 CFR 210.7(c)(2) explains the requirements for use of an alternate POS.

SFAs also must check with their State agency before moving the POS, as the State agency may have a specific State-level policy regarding its location. SFAs must comply with any State-level requirements for alternative POS locations.

Indiana SFAs must contact their field consultant and receive prior approval from the State agency before moving the point of service.

18. Are SFAs required to prevent the overt identification of children through the method of payment used to purchase a meal?

Yes. According to 7 CFR 245.8, meal cards, tickets, tokens, or other methods of payment cannot be coded or colored in a manner which overtly identifies children based on free or reduced price eligibility status. Instead, SFAs are encouraged to use pre-payment systems to limit the exchange of money in the cafeteria. Publicizing pre-payment systems and encouraging their use by families can help prevent the charging of meals. For more information, see SP 45-2012: *Preventing Overt Identification of Children Certified for Free or Reduced Price School Meals*, August 24, 2012, <http://www.fns.usda.gov/preventing-overt-identification-children-certified-free-or-reduced-price-school-meals>.

Allowing families to check their account balance and add money electronically from a computer or mobile device also limits the exchange of money in the cafeteria. Often, even families who do not opt to pay using an online system can use the system to check their children's balance. However, SFAs cannot exclusively use an online system. SFAs using an online payment system must provide an alternative option to meet the needs of families who do not have access to a computer or who prefer to make their payment in person. For more information, see SP 02-2015: *Online Fees in*

the School Meal Programs, October 8, 2014, <http://www.fns.usda.gov/online-fees-school-meal-programs>.

SFAs must include at least one method of payment that is free of charge. Because it is allowable to use NSFSFA funds to pay usage fees, SFAs may consider covering any fees associated with using an online system for low-income families. Families must be notified about all payment systems used at the school, including any fees associated with specific payment options.

ALTERNATE MEALS

19. [Revised] Are SFAs opting to serve an alternate meal to children with unpaid meal charges required to meet FNS' meal pattern requirements?

SFAs seeking reimbursement for an alternate meal must meet the meal pattern requirements. SFAs not seeking reimbursement for an alternate meal are not required to meet the meal pattern requirements. FNS encourages schools to provide a reimbursable meal to all children who want one. Providing children with a reimbursable meal prevents the singling out of children with unpaid meal charges, provides children with the nutritional benefits of a reimbursable meal, and ensures the school receives the applicable Federal reimbursement for the meal. Schools providing a non-reimbursable alternate meal should aim to offer an economical meal that reflects FNS' nutritional goals.

To claim an alternate meal that limits choices to lower cost entrées and other components, schools must offer children at least two different types of fluid milk. In addition, a school participating in the offer versus service (OVS) provision must allow children to select up to five food components for the NSLP and four food items for the SBP.

20. [Revised] May SFAs charge children for an alternate meal? What must SFAs consider when pricing alternate meals?

While many SFAs providing alternate meals to children with unpaid meal charges choose to provide those meals for free, SFAs have discretion to charge children for alternate meals. There is wide variation in how alternate meals are provided, and the FNS requirements that apply to alternate meals will vary depending on the way an SFA chooses to offer them.

The cost of providing non-reimbursable alternate meals must be covered using non-Federal funds. If the SFA charges a child for a non-reimbursable alternate meal, then the meal is subject to the Smart Snacks requirements (7 CFR 210.11) and the requirements for revenue from non-program foods (7 CFR 210.14(f)).

Reimbursable alternate meals, by contrast, are considered a program food and would be treated like a program food cost. The PLE requirements (7 CFR 210.14(e)) apply to reimbursable alternate meals served to children participating at the paid rate. Unless an SFA is providing a large number of reimbursable alternate meals at a very low cost (or no cost) to children eligible for paid meals, FNS would not expect the provision of reimbursable alternate meals to impact the PLE calculation.

If the SFA provides a reimbursable alternate meal at very low cost or no cost to eligible children for paid meals (not reduced), the SFA has to cover the amount that they would have charged for a full paid price meal with other non-federal funds besides the non-for-profit school food service account. If they did a lower cost or no cost to reduced students for an alternate meal, they school could use the non-for-profit food service account funds.

21. [Revised] Are SFAs opting to provide alternate meals to children with unpaid meal charges required to accommodate children with disabilities?

Yes. SFAs must ensure children with disabilities have access to the same benefits and services provided to other children. SFAs opting to provide alternate meals to children with unpaid meal charges must ensure children with disabilities have access to an alternate meal that is safe to consume, and must provide a modified alternate when necessary to accommodate a child's disability. For example, if an SFA provides children with unpaid meal charges an alternate meal that includes a peanut butter sandwich, a child with a peanut allergy would require a modified alternate meal.

If an SFA limits the availability of alternate meals, or does not provide reimbursable or alternate meals to children with unpaid meal charges, the SFA must consult with the LEA's Section 504 Coordinator before denying children with disabilities a meal. Schools are reminded that they may have additional obligations to children with disabilities under Federal law, beyond the scope of FNS guidance.

For more information, see: SP 59-2016: *Policy Memorandum on Modifications to Accommodate Disabilities in the School Meal Programs*, September 27, 2016, <http://www.fns.usda.gov/policy-memorandum-modifications-accommodate-disabilities-school-meal-programs>.

DEBT COLLECTIONS

22. What should State agencies and SFAs consider when developing a policy regarding the collection of delinquent debt arising from unpaid meal charges?

In establishing policies regarding collection of delinquent debt, State agencies and SFAs should ensure their efforts do not have a negative impact on the children

involved, and instead focus primarily on adults in the household 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, which is required for SFAs no later than July 1, 2017.

As required by the Indiana State Board of Accounts, schools must have a bad debt policy. Schools should check with their school's business official, administrator, and/or treasure to see if a bad debt policy has been adopted and approved by the school board. Schools should specify within the policy that bad debt for the student lunch account cannot be the expense of nonprofit school food service account. The bad debt policy should state that every effort will be made by the school corporation to collect money owed. Public schools must receive approval by the school board. Click [here](#) to access the Indiana Department of Education, Indiana School Board Association, and Indiana State Board of Accounts bad debt policy template that schools can utilize.

23. At what point are unpaid meal charges classified 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. SFAs must make reasonable efforts to collect unpaid meal charges classified as delinquent debt; the cost of such collection efforts is an allowable use of NSFSA funds. A debt owed to the NSFSA remains on the accounting documents until it is either collected or is determined to be uncollectable and written off. For more information, see SP 47-2016: *Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-clarification-collection-delinquent-meal-payments>.

24. May unpaid meal charge debt be carried over into a new school year?

Yes. Unpaid meal charges may be carried over at the end of the school year (i.e., beyond June 30) meaning collection efforts may continue into the new school year. This allows SFAs to work with individual families to establish longer repayment plans and to continue pursuing collection efforts when children change schools within the district or move to a new school outside the district.

25. At what point is delinquent debt considered “bad debt”?

When local officials determine further collection efforts for delinquent debt are useless or too costly, the debt must be reclassified as “bad debt.” Once a delinquent debt is reclassified as a bad debt, it must be written off as an operating loss. NSFSA resources may not be used to cover costs related to the bad debt, such as continued legal and collection costs. Instead, these losses 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.

26. What non-Federal funding sources may be used to restore operating losses from bad debts?

Allowable sources of non-Federal revenue include:

- State revenue matching funds in excess of the State revenue matching fund requirement,
- State or local funds provided to cover the price of student meals,
- Local contributions provided by community organizations or individuals,
- Revenue from adult meals prepared using resources outside the food service and not funded through the NSFSA,
- À la carte revenue and profit from foods not purchased using funds from the NSFSA and funded from an account separate from the NSFSA, and
- Revenue from catering or contracting services that operate using an account separate from the NSFSA.

If a revenue source is funded through NSFSA, then all revenue from the source must return to the NSFSA and may not be used to cover operating losses resulting from bad debts.

Bad debt must be written off as an operating loss and nonprofit school food service account may not be used to cover costs related to bad debt. Non-Federal funds must be utilized to restore losses. These sources include:

- Local funds provided to cover the price of student meals such as the school’s general account
- Local contributions provided by community organizations or individuals,
 - Many schools have worked with their school board to find a community funding source to make donations to cover the cost of unpaid meal charges. Schools have found success working with the local United Way, Kiwanis Clubs, school volunteer organizations, and other local charities to collect donations.
 - Some schools have created a “Random Acts of Kindness Fund” or “Angel Fund.” These funds, often provided by families with children

at the school, are placed in a general lunch account which may be utilized by children unable to pay for a meal.

- Some schools have found success holding fundraisers, such as recycling fundraiser, to raise money to assist children with unpaid meal charges. Money collected from plastic bottles, used cell phones, and other recyclables may be put toward a special account to help cover the cost of meals for children lacking the means to pay. Action for Healthy Kids lists several fundraiser ideas for schools on its website, such as hosting a talent show or selling a cookbook of healthy afterschool snacks.
- At the end of the school year, schools may invite families with excess funds in their child's account to donate the remaining funds to a general lunch fund. A few dollars from many families, especially those with graduating seniors who will be closing their accounts, may help to cover the cost of meals charged by children during subsequent school years. Households approved for reduced price benefits, however, must receive a refund. There is a Federal requirement that children eligible for reduced price meals pay a maximum of 40 cents per lunch; retaining the unused funds would result in the per meal lunch price exceeding this amount.
 - If schools deposit the money collected from families, fundraisers, "Random Acts of Kindness Funds", or etc. into the School Foodservice Account, SFAs will not be able to use it as bad debt. They can keep it in a separate account or even in the pre-paid account as long as they track the distribution of the funds somehow, but if deposited into the School Foodservice Account, SFAs will not be able to use it to cover the bad debts because it will then be considered Federal funds.
- Other allowable non-Federal revenue sources include revenue from adult meals prepared using resources outside the food service and not funded through the nonprofit school food service account.
- Some schools have separate accounts outside the nonprofit school food service account to operate their a la carte. That profit can be used to cover bad debt. For example: À la carte revenue and profit from foods not purchased using funds from the nonprofit school food service account and funded from an account separate from the nonprofit school food service account, and
- Some schools have separate accounts outside the nonprofit school food service account to operate their catering services. Revenue from catering or contracting services that operate using an account separate from the nonprofit school food service account.

When using an alternative funding source, it is important for SFAs and schools to develop a procedure or standard practice for distribution. This helps to ensure the funds are shared equitably between schools and/or among children in need. For

example, SFAs may consider working with school counselors or social workers to determine which children would benefit from short-term funding support, and what additional interventions could be helpful for the family.

27. What are the requirements for SFAs using revenue from catering, vending, and other contracting services to restore operating losses?

In arrangements where school food service labor is used to prepare goods for an outside entity (e.g., catering and vending), the school food service must ensure all costs are covered by the entity served by the school food service operations. For example, an SFA may use NSFSFA funds to purchase and prepare hamburgers for a Parent Teacher Association (PTA) that runs a high school concession stand during football games. In this example, if the cost associated with purchasing and preparing the hamburgers is \$2 per hamburger, the SFA must recoup at least \$2 per hamburger from the PTA; the PTA then may sell each hamburger for \$3 and keep the \$1 profit per burger.

When entering into arrangements with outside entities, the school food service is best served having an agreement in place regarding costs and all other terms and conditions, including a stipulation that all risk relating to revenue losses must be covered by the outside entity and not the NSFSFA. For more information, see SP 13-2014: *School Food Service Account Revenue from the Sale of Non-Program Foods*, December 12, 2013, <http://www.fns.usda.gov/school-food-service-account-revenue-sale-nonprogram-foods> and SP 20-2016: *Nonprofit School Food Service Account Nonprogram Food Revenue Requirements*, December 23, 2015, <http://www.fns.usda.gov/nonprofit-school-food-service-account-nonprogram-food-revenue-requirements>.

28. Are revenues from the sale of competitive foods purchased using the general fund also restricted?

Revenue earned from the sale of competitive foods purchased with funds outside of the NSFSFA (i.e., the general fund) may be used to cover bad debt.

29. If a child has money to purchase a meal but has outstanding meal charge debt, can the SFA require repayment and refuse to provide the child a meal?

No. If a child has money to purchase a reduced price or paid meal at the time of the meal service, the child must be provided a meal. SFAs may not use the child's money to repay previously unpaid charges if the child intended to use the money to purchase that day's meal.

30. Are SFAs required to maintain records related to bad debt?

Yes. According to SP 47-2016, 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).

Types of records that should be maintained to document establishment and handling of bad debt include:

- Evidence of efforts to collect unpaid meal charges in accordance with the policy,
- Evidence that collection efforts fell within the timeframe and methods established by the policy,
- Financial documentation showing when the unpaid meal charge became an operating loss. and
- Evidence that the funds written off as bad debt were restored to NSFSA from non-Federal sources.