



STATE OF MICHIGAN  
DEPARTMENT OF EDUCATION  
LANSING

RICK SNYDER  
GOVERNOR

BRIAN J. WHISTON  
STATE SUPERINTENDENT

**FOOD SERVICE**

**ADMINISTRATIVE POLICY NO. 6  
SCHOOL YEAR 2016-2017**

(Revision of Administrative Policy No. 4 for School Year 2015-16)

**SUBJECT:** Negative Balance Compliance Requirements for Participation in the National School Lunch Program, School Breakfast Program, Afterschool Snack Program, and Special Milk Program

**DATE:** August 31, 2016

Collecting outstanding debt from student lunch accounts is a challenging issue for program participants. This memo is intended to clarify the differences between uncollectable/delinquent debt and bad debt in the School Meals Programs. Uncollectable/delinquent debt and bad debt are considered to be classified as separate categories. This memo also states Michigan Department of Education's (MDE) position and expectations regarding negative balance compliance requirements.

Uncollectable/delinquent debt are meal charges that have not been paid by the student or parent(s) during the school year. Any related collection costs and related legal costs arising due to the collection of those meal charges throughout that current school year are an allowable cost in the nonprofit school food service account (NSFSA).

Bad debt is uncollectable/delinquent debt that has been determined to be uncollectable by 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 NSFSA for the total amount of the bad debt. The funds may come from the district general fund, state or local funding, 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).

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608 WEST ALLEGAN STREET • P.O. BOX 30008 • LANSING, MICHIGAN 48909  
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Under the Office of Management & Budget Uniform Guidance for Grants, per 2 CFR §200.426, bad debt (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.

Policies regarding the collection of unpaid meal charges should be included in the written meal charge policy that is required of all SFA's participating in the Federal School Meal Programs no later than July 1, 2017. SFA's written bad debt policy and meal charge policy must be provided to MDE during the Administrative Review and Resource Management Review. For additional information, please see [USDA Memo SP 46-2016 Unpaid Meal Charges: Local Meal Charge Policies](#)<sup>i</sup> for requirements and recommendations, and for additional information on bad debt see the attached Bad Debt Frequently Asked Questions.

Questions regarding this Administrative Policy may be directed to the Office of School Support Services, School Nutrition Programs unit, by email to [MDE-schoolnutrition@michigan.gov](mailto:MDE-schoolnutrition@michigan.gov) or by calling 517-373-3347.

Attachments: Bad Debt Frequently Asked Questions

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1. <sup>i</sup> <http://www.fns.usda.gov/sites/default/files/cn/SP46-2016os.pdf>

Michigan Department of Education  
Office of School Support Services

Bad Debt in the National School Lunch Program, School Breakfast Program,  
Afterschool Snack Program, and Special Milk Program  
Frequently Asked Questions (FAQ)

**1. What is an uncollectable account?** When a School Food Authority (SFA) allows students to charge for meals in the absence of money, it should have documented procedures for collecting money in arrears (meal charge policy). An account would be considered uncollectable after the SFA has exhausted all of the collection procedures and is closing out the Nonprofit School Food Service Account (NSFSA) books for the end of the school fiscal year (June 30th).

**2. Where is it stated that a debt is considered uncollectable after one year?**

As stated in question #1 above, the debt is considered uncollectable after all of the collection procedures have been exhausted and it is the end of the school fiscal year (June 30th). Generally Accepted Accounting Principles (GAAP) indicate that the loss/elimination of uncollectable accounts should be done in the year that the sale occurred. Therefore, when the SFA is closing out the fiscal year end books (June 30th), the food service account is to be made whole from the SFA's general fund and/or other non-Federal sources for any uncollectable accounts. How the district chooses to collect that debt once it is transferred to its general fund and/or other non-Federal fund is decided by the district; however, food service can no longer expend time or resources in the collection efforts.

**3. Where in the Uniform Guidance does it state that uncollectable debts incurred within the fund are not allowed to be charged to that fund?**

2 CFR §200.426

**4. If a student incurs a large debt, then later applies for free lunch and is approved, can that be considered an uncollectable debt?** Yes. However, meals cannot be withheld from free eligible students as a means of collecting old debt.

**5. Understanding that the food service fund is to be self-sufficient, if uncollectable debt is incurred, where should this debt be charged?**

Uncollectable debt should be charged to the SFA's general fund or other non-Federal source. The funds may come from the district's general fund, State or local funding, school or community organizations such as the PTA, or any other non-Federal source.

**6. If an uncollectable debt is transferred to another fund (i.e., general fund), could this cause audit issues?** No. All accounting entries (transfers) should be well documented. The transfer should not be to any other Federal fund as that would be unallowable.

**7. Would court/magistrate costs for collection of uncollectable monies be attributed to the food service fund or the general fund?** Once the debt is determined to be uncollectable (see question #1), it cannot be paid from the food service fund. 2 CFR §200.426 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."

**8. How then should the uncollectable debt be corrected?** Once the debt is transferred out of the food service fund (i.e. to the general fund), it is a local level decision for the school district/local educational agency (LEA) to determine if and how it will pursue further collection and the timeframe for such collection.

**9. In lieu of accumulating debt, can a food service department give a free meal, i.e. "alternative meal"?** Yes. See question #10 below. Alternative meals are up to the discretion of the SFA and should be addressed in an SFA's local meal charge policy and be clearly communicated to households. For additional information, please see USDA Memo SP 46-2016 Unpaid Meal Charges: Local Meal Charge Policies for requirements and recommendations.

**10. How old must a student be to refuse meals due to "not allowing bad debt to accumulate to uncollectable"?** While SFA's are not obligated to provide meals to students who forget their money, USDA and MDE encourage SFAs to be flexible in this area particularly with young students in grades pre-kindergarten through 2<sup>nd</sup> grade and for students with disabilities who may be unable to take full responsibility for their payment. At any age, it is acceptable to offer students some other type of alternative (i.e. cheese sandwich, etc.) in lieu of a full reimbursable meal, if the student is unable to pay. NOTE: This meal is not eligible for Federal reimbursement unless it meets meal pattern requirements and is offered to all students.

**11. If the food service account revenue also includes paid meal fees, in addition to Federal funds, can uncollectable/bad debt be expensed in the food service fund based on what funds are above and beyond the Federal money received?** No, because these funds are all part of the food service account and the Federal cost principles apply to the entire NSFSA. Any excess food service funds are to be used to reduce student's lunch prices, to improve food quality, to purchase food service equipment, to provide nutrition education, or to otherwise improve the food service program (must be an allowable cost).

**12. Our school's bad debt policy states that any unpaid debts will carry over to the following school year. Is this okay as long as they are an active student that will be returning the following year?** Yes, but not in the NSFSA. The uncollected amount must be transferred from the NSFSA to the general fund or another non-Federal source at the end of the fiscal year (June 30th). The school district/LEA may continue to carry over/collect these funds in the future. When

they do collect, the monies would then go into the general fund or non-Federal source.

**13. Is the time it takes to track and collect debts allowable? Example: a Food Service Director or Food Service Secretary's time?** Yes, provided time sheets document how much time is spent tracking these debts. The time is allowable up until it is determined that a debt is uncollectable at the end of the school fiscal year of June 30<sup>th</sup>. See question #7 above.

**14. If an SFA has to transfer a bad debt, would it be accounted for in the food service fund using a general or non-Federal fund contribution to offset the expense?** It would be accounted for in the food service fund using the general fund contribution to offset the expense. You are using the general fund contribution to close out the student's account (Account Receivable). How to account for the contribution from the general or non-Federal fund is up to the school district/LEA. However, the SFA must ensure that negative balances are zeroed out accordingly for each respective student in the district's Point of Sale (POS) system to accurately reflect the year end closing adjustment to the NSFSA.

**15. If the school district/LEA uses the general fund to off-set the bad debt in the NSFSA, what function and object code should be charged to reflect a transfer?** School districts/LEAs can have different accounting systems. MDE cannot dictate what accounts are used or where the transfer funds are coming from. MDE is enforcing the Federal regulations that state the food service account has to be made whole for any student debt at the end of the school year and that the funds cannot be paid from a Federal program.

**16. What happens when a student graduates or leaves the district and there is a positive balance? Is there any legal documentation that is required for positive balances and how to handle it or is it a school district/LEA decision?** The SFA should follow the State of Michigan, Department of Treasury's rules regarding unclaimed property for positive student balances in excess of \$50. There is no guidance on positive balances below \$50. This is handled at the discretion of the school district/LEA and should be addressed in the SFA's local meal charge policy. Households should be informed of the SFA's policy in advance. For additional information, see USDA Memo SP 46-2016 Unpaid Meal Charges: Local Meal Charge Policies for requirements and recommendations.

**17. Can a student carry debt for multiple years?** No, not in the NSFSA. As stated previously, the food service account must be made whole for each student's debt with a transfer from a non-Federal source at the end of each school year. If the school district/LEA allows students to carry debt over multiple years, it must be from the general or non-Federal fund, but not the food service fund. In addition, the SFA must ensure that negative balances are zeroed out accordingly for each respective student in the district's Point of Sale (POS) system to accurately reflect the year end closing adjustment to the NSFSA.

**18. What should a charge policy be?** SFAs should develop charge policies that best meet the needs of the parents and students, as well as the financial needs of the food service program. The policies should adequately encourage payment from those fiscally responsible and not punish the students. Outreach must be provided to clearly communicate the charge policies to parents and students. For additional information, see USDA Memo SP 46-2016 Unpaid Meal Charges: Local Meal Charge Policies for requirements and recommendations. SFA's written bad debt policy and meal charge policy must be provided to MDE during the Administrative Review and Resource Management Review.

**19. If the net balance of the NSFSA is positive but individual student accounts are in arrears and determined non-collectible, does the NSFSA still need to be made whole for those individual debts?** Yes, anytime an individual student incurs a debt the NSFSA must be compensated for that missing revenue which compromises food service program operations.

**20. If a SFA operates a site that does not participate in the School Nutrition Programs, do the Federal cost principles apply to the revenue and expenses from those buildings?** If the non-participating sites maintain separate accounts for all revenues and expenses, then the Federal cost principles do not apply. However, if separate accounts are not maintained and any activity from the food service account is used to support the non-participating buildings, then Federal cost principles do apply.

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