REDEEMER LUTHERAN SCHOOL

SCHOOL FOOD AUTHORITY
BAD DEBT POLICY

Policy Owner	SFA Administrator / School Business Manager
Effective Date	September 30, 2026
Review Frequency	At least annually and when USDA/state requirements change
Applies To	Nonprofit School Food Service Account and all personnel responsible for food service financial activity

1. Purpose

The purpose of this policy is to ensure that bad debt and uncollectible charges are not paid from, absorbed by, or otherwise charged to the Redeemer Lutheran School nonprofit school food service account. The policy establishes procedures for identifying delinquent and bad debt, documenting collection efforts, recording bad debt, and restoring any bad debt loss to the nonprofit school food service account with non-Federal funds.

2. Policy Statement

Redeemer Lutheran School prohibits the use of nonprofit school food service account funds to cover, absorb, or write off bad debt. Bad debt is an unallowable cost to the nonprofit school food service account. If an unpaid meal charge is determined to be uncollectible and is classified as bad debt, the loss must be treated as an operating loss and, when applicable, restored to the nonprofit school food service account using non-Federal funds.

3. Delinquent Debt

An unpaid meal charge will be considered delinquent debt while it is considered collectible and reasonable collection efforts are continuing. The SFA will maintain documentation of collection efforts in accordance with its meal charge procedures.

4. Determination of Bad Debt

When reasonable collection efforts have been exhausted and an unpaid charge is determined to be uncollectible, the amount will be classified as bad debt in accordance with the SFA's meal charge/collection procedures. The SFA will document the date and basis for the determination.

4A. Use of IC System for Debt Collection

Redeemer Lutheran School uses IC System, a third-party debt collection service, to assist with the collection of delinquent school lunch account balances when the SFA's internal collection efforts have not resulted in payment. IC System identifies education and school lunch/nutrition costs as services for which it provides collection assistance. The SFA will document accounts referred for collection and retain supporting records.

Referral of a delinquent account to IC System is part of the SFA's collection process and does not, by itself, mean that the account has been classified as bad debt. The SFA will continue to distinguish between delinquent/collectible debt and debt that has been determined to be uncollectible and classified as bad debt.

5. Prohibition on Use of Nonprofit School Food Service Funds

- Nonprofit school food service account funds may not be used to cover bad debt or uncollectible meal charges.
- Bad debt may not be absorbed as a food service operating expense.
- Bad debt may not be recorded as an allowable food, labor, supply, administrative, or other food service expense.
- Federal reimbursement funds may not be used to restore or cover bad debt.
- If bad debt is required to be restored to the nonprofit school food service account, the restoration must come from a non-Federal source.

Any amounts recovered through IC System will be accounted for and applied according to the school's accounting procedures. IC System collection activity will not be used to charge bad debt to the nonprofit school food service account.

6. Restoration of Bad Debt

When bad debt results in a loss to the nonprofit school food service, the SFA will ensure that the amount is restored to the nonprofit school food service account from a non-Federal source, when required. The accounting records will clearly identify the restoration and supporting documentation will be retained.

7. Accounting and Documentation

- The SFA will maintain records showing the amount of unpaid charges, collection efforts, and the date the debt was determined to be uncollectible.
- Financial records will distinguish bad debt from allowable nonprofit school food service expenditures.
- Documentation of any non-Federal transfer or other restoration of bad debt will be maintained with the related financial records.
- Records will be retained in accordance with applicable USDA, state, and local record-retention requirements.

8. Small-School Management Review

Redeemer Lutheran School is a small school with limited administrative staff and does not maintain a formal separation of duties for every financial function. Management review will serve as a compensating control. The SFA Administrator/School Business Manager will review bad debt classifications, related accounting entries, and any restoration of funds. When reasonably practicable, a second responsible administrator will review significant or unusual transactions.

9. Relationship to Meal Charge Policy

This policy is intended to work together with the SFA's written meal charge policy. The meal charge policy will establish the procedures and timelines for communicating unpaid balances and pursuing collection. This policy establishes the financial treatment of debt that becomes uncollectible and specifically prohibits the use of nonprofit school food service funds to cover bad debt.

10. Compliance

This policy will be administered in accordance with applicable USDA Food and Nutrition Service requirements, 7 CFR Part 210, applicable State agency requirements, and other applicable Federal requirements. The SFA will review and update this policy when requirements change or when monitoring identifies a need for revision.

11. Approval