

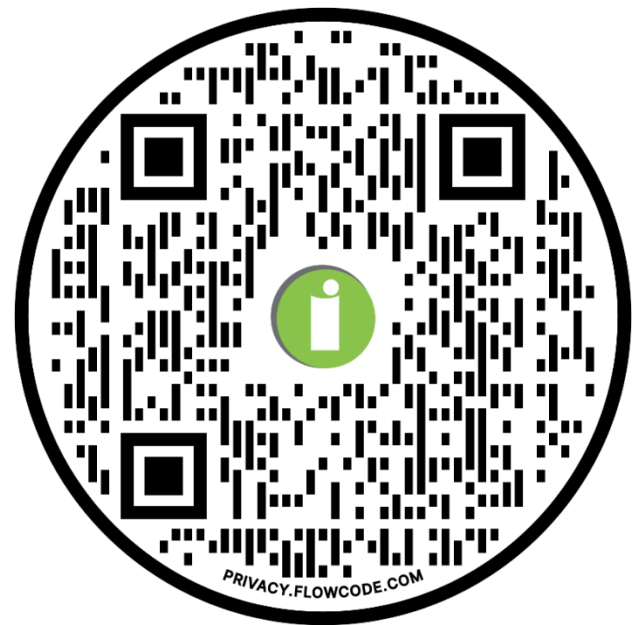
Financial Management: A Course for School Nutrition Directors (8 Hour)

Institute of Child Nutrition



Child Nutrition Programs: Meal Patterns Consistent with the 2020–2025 Dietary Guidelines for Americans

- **Key Focus Areas:** Nutrition Requirements, Menu Planning Flexibilities, and Program Operations
- **Implementation Timeline:** Beginning in School Year 2025–2026 (and beyond)
- **Locate Standards:**
www.bit.ly/49QhENK
- **Available Support:** The ICN's Help Desk
 - helpdesk@theicn.org
 - 1-800-321-3054





Importance of Financial Management

Objective: Recognize the importance of financial management to the fiscal and nutritional integrity of school nutrition programs.



Financial Management Questions

- Main sources of revenue?
- Percentage of total revenue attributed to each source?
- Expenditure categories?



More Financial Management Questions...

- Costs to produce a meal?
- Percentage of revenue spent for labor or food?
- Labor productivity index (Meals Per Labor Hour)?



More questions (cont.)

- Net gain or loss over the past 3 years?
- Do employees understand the importance of cost controls to the success of the program?
- What does a comparison of Average Daily Participation for the past 3 years indicate?



Financial Management Competencies

A school nutrition director competent in financial management

- develops financial management guidelines that supports school nutrition program operational goals and comply with regulations, and
- establishes cost control goals to effectively manage the school nutrition program.



Defining Financial Management

Financial Management can be defined as

- The process of defining the program objectives and financial goals for the school nutrition programs, and
- Implementing activities to attain those goals through the effective use of resources.



Activities for More Effective Financial Management

- School nutrition programs should
 - plan through the budget process,
 - apply efficient cost control measures,
 - increase productivity, and
 - identify ways to increase resources.



Roles of the School Nutrition Director in Managing Finances

- Management of financial resources
- Maintain financial accountability
- Involve district administrators, school board members, school nutrition managers, and school nutrition staff to identify goals



Roles of School Nutrition Director (cont.)

- Promote team approach
- Assess, monitor, and evaluate program funds
- Maintain on-going training



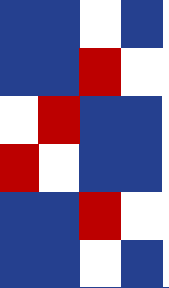
Development of a Financial Management System

Objective: Describe basic financial recording and reporting processes and the procedures for directing the operation of a school nutrition program.



Financial Management Information System:

- Uniform and consistent financial reporting structure
- Meaningful and timely financial management information
- Federal, state, and local reporting requirements



Financial Management Information System (cont.)

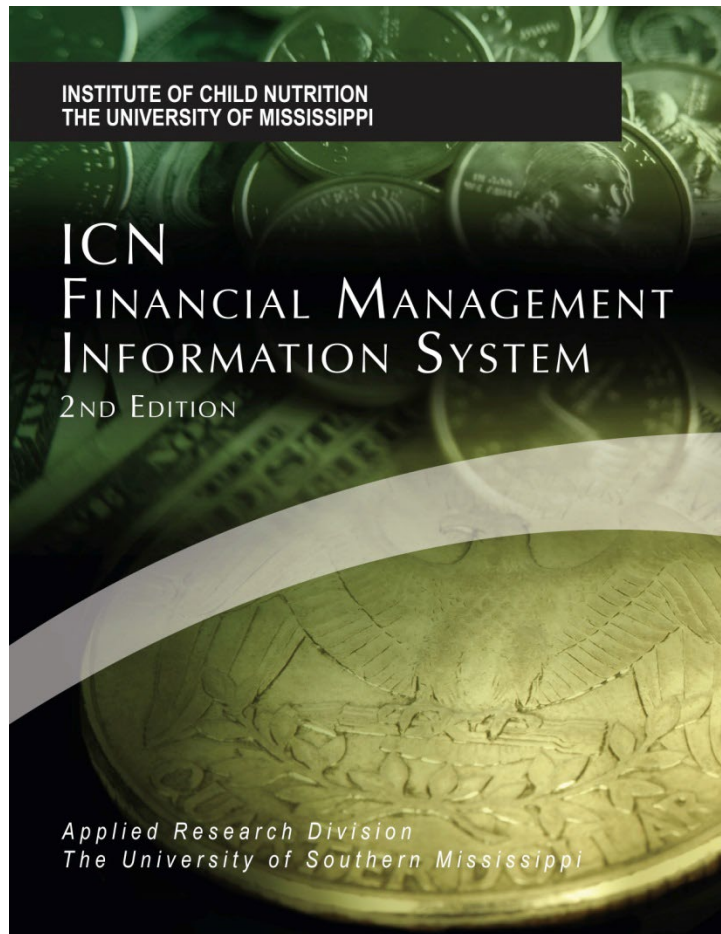
- Generally Accepted Accounting Principles (GAAP)
- Accountability



Generally Accepted Accounting Principles (GAAP)

- uniform standard of guidelines for financial accounting established by the Governmental Accounting Standards Board (GASB)
- used in school districts for compliance with the Federal Department of Education requirements

ICN Financial Management Information System



- Available at www.theicn.org



Classification of Revenue

- Local Sources
- State Sources
- Federal Sources
- Miscellaneous Sources
- Fund Transfer-In



Classification of Expenditures

- Labor
- Employee Benefits
- Professional and Technical Services
- Property Services
- Purchased Foods and USDA Foods
- Supplies
- Capital Assets
- Miscellaneous
- Indirect Costs
- Fund Transfer-Out



Financial Reporting of Revenue and Expenditure Transactions

Objective: Demonstrate use of financial reports that are consistent with federal, state, and local guidelines to achieve a financial management system that supports a cost effective program with high integrity.



Types of Financial Reports

- Statement of Activities
(Statement of Revenue and Expenditures)
- Statement of Net Position
(Net Assets or Balance Sheet)
- Budget



Statement of Activities

- Revenue by source
- Expenditures by category
- Net/gain loss for the statement period
- Comparison of current month with previous month's information and year-to-date information



Statement of Net Position

- Assets
 - Cash balance, receivables due, and value of inventories
- Liabilities
 - Outstanding payables
 - Deferred revenue
 - Sales tax owed (when appropriate)
- Fund Balance



The Budget as a Management Tool

The budget assists in managing the school nutrition program by

- forecasting revenue,
- identifying how revenue will be allocated for expenditures, and
- predicting how much money will be in the fund balance at year's end.



Methods of Budgeting

- Incremental (baseline) – Previous year's budget is the starting point. Adjustments made to each line item to reflect expected changes
- Zero-Based – Start with zero for each line item and build according to expectations.
- Combination – Uses zero for some items and incremental for other items.



School Budgets

- Public Documents
 - The school nutrition program is a nonprofit operation conducted for the benefit of children.
 - The program is tax supported.
 - Provide public with documentation of accountability.



Setting a Meal Standard for Financial Management and Analysis

Objective: Utilize financial management tools and standards to operate a financially and nutritionally accountable school nutrition program consistent with federal and state guidelines.



Using Meal Equivalents in Program Analysis to Measure Performance

By converting food sales to meal equivalents, the school nutrition director

- can determine
 - meal cost,
 - labor productivity ratios, and
 - the average revenue earned per meal/meal equivalent.



Meal Equivalent Conversion Formulas

1 lunch = **1** meal equivalent

3 breakfasts = **2** meal equivalents ($2/3 = .67$)

3 snacks = **1** meal equivalent ($1/3 = .33$)

1 supper = **1** meal equivalent

Nonprogram food sales =

(revenue from nonprogram sales ÷
current **free lunch reimbursement**) +
current **USDA Foods** value per lunch



Managing Revenue in School Nutrition Programs

Objective: Interpret, analyze, and use revenue data for program evaluation and improvement.



Revenue Accountability

- USDA mandates accountability for management of revenue by monitoring
 - all revenue received,
 - how revenue is dispersed, and
 - that revenue is sufficient to ensure program sustainability.



Revenue Analysis

- Calculate average revenue per meal or meal equivalent.
- Establish consistent guidelines for pricing nonprogram food items to ensure revenue is equal to or greater than costs.
- Compare revenue generated per meal with costs per meal.



Why it's important to compare revenue earned with meal cost

- helps determine if and where revenue should be increased,
- allows you to analyze revenue by source, and
- identifies areas in which revenue should be monitored for revenue loss.



Paid Lunch Equity (PLE) Analysis

- Determine average price for all types of paid student lunches
- Compare average paid lunch price with the difference between free and paid reimbursement rates
- Determine if a price increase is necessary

Paid Lunch Equity Tool

SY 2013-14 Weighted Average Price Calculator			
Enter the paid prices and number of paid lunches sold at each price for October 2013.			
Monthly # of Paid Lunches	Paid Lunch Price	Monthly Revenue	SY 2013-14 Weighted Average Price
1.		\$ -	
2.		\$ -	
3.		\$ -	
4.		\$ -	
5.		\$ -	
6.		\$ -	
7.		\$ -	
8.		\$ -	
9.		\$ -	
10.		\$ -	
TOTAL	-	\$ -	\$ -

Note: SY 2013-14 Weighted Average Price equal to or above \$2.65 are compliant for SY 2014-15. \$2.65 is the difference between the Free and Paid reimbursement rates for SY 2013-14.

Source: USDA's Paid Lunch Equity Tool available on USDA's website:
<http://www.fns.usda.gov/>





Revenue Increase Options

- Increase paid meal prices
- Add approved non-Federal revenue
- Use a combination of increased paid meal prices and non-Federal revenue

PLE Price Estimation Calculator

Pricing Estimation Calculator				
Below is a tool allowing users to manipulate prices to achieve the required new weighted average price.				
	Monthly # of Paid Lunches	Paid Lunch Price	Monthly Revenue	Weighted Average Price
1.			\$ -	
2.			\$ -	
3.			\$ -	
4.			\$ -	
5.			\$ -	
6.			\$ -	
7.			\$ -	
8.			\$ -	
9.			\$ -	
10.			\$ -	
TOTAL	-		\$ -	\$ -

Source: USDA's Paid Lunch Equity Tool available on USDA's website:
<http://www.fns.usda.gov/>





Adult Meal Price Formula

Federal reimbursement for a free student lunch
+ per meal value of USDA Foods
= Minimum Adult Meal Price

If you are receiving the additional 6 cents reimbursement in your district, check with your state agency for guidance as to whether it should be considered when setting adult lunch prices.



Definition of Nonprogram Foods

- Foods and beverages sold in a participating school, other than reimbursable meals, and purchased using funds from the nonprofit foodservice account.



Requirements of Nonprogram Foods Revenue

- Formula:

$$\frac{\text{Total Nonprogram Foods Revenue}}{\text{Total Program Revenue}} \geq \frac{\text{Total Nonprogram Food Costs}}{\text{Total Food Costs}}$$



Types of Nonprogram School Day Food Sales

- Adult meals
- Sale of second meal to student
- Individual components of the reimbursable meal
- Other food items not on the menu (à la carte)



Desired Food Cost Percent Mark-up

- Determine the raw food cost of the item offered for sale.
- Identify the desired food-cost percentage for the school nutrition program operation.
- Establish a base selling price by dividing the item's food cost by the desired food cost percent.



Nonprogram Food Sales Sold Away from Campus or Outside School Day

- Catered food or meals
- Contract meals
- Special school function meals such as banquets



Information for USDA Nonprogram Revenue Tool

- Food costs of reimbursable meals
- Food costs of nonprogram foods
- Revenue from nonprogram foods
- Total revenue of program

Calculating Compliance

Nonprogram Revenue Calculator		
Enter the cost for reimbursable meal, cost of nonprogram food and total revenue		
Cost for Reimbursable Meal Food		
Cost of Nonprogram Food		
Total Food Costs	\$	-
Total Nonprogram Food Revenue		
Total Revenue		
Minimum portion of revenue from nonprogram funds		0%
Minimum Revenue Required from the Sale of Nonprogram Foods	\$	-
Additional Revenue Needed to Comply	\$	-



Source: USDA's Nonprogram Food Revenue Tool available on USDA's website:
<http://www.fns.usda.gov/cnd/governance/Policy-Memos/2011/SP39-2011ar.xls>



Revenue Requirement Calculation - Example

Total Food Costs:	\$ 500,000
Nonprogram Food	50,000
Program Food	450,000
Total Revenue:	\$ 1,000,000

$$\frac{\$50,000 \text{ Nonprogram Food}}{\$500,000 \text{ Total Food}} = 10\% \text{ minimum}$$

$$10\% \times \$1,000,000 = \$100,000 \text{ Revenue Required}$$



Managing Expenditures in the School Nutrition Program

Objective: Interpret, analyze, and use expenditure data for program evaluation and improvement.



Expenditure Analysis

- Analyzing financial reports can provide information about
 - patterns or trends,
 - significant changes in cost categories,
 - deviations from financial goals,
 - possible abuse or theft, and
 - transaction errors.



Types of Expenditure Analysis

- Total costs to produce a meal
- Meal costs per expenditure category
- Percentages of operational costs to total revenue (operating ratios)
- Costs to produce a meal compared with the average revenue generated per meal



Meal Cost Deviations

- Higher food costs at the beginning of the year
- Purchase of a large ticket item
- Unplanned large repair bills



Food Cost Expenditure Percentage to Total Revenue

- Formula:
$$\frac{\text{Category Costs}}{\text{Total Revenue}}$$
- Example:
$$\frac{\$16,500 \text{ (food costs)}}{\$30,000 \text{ (revenue)}} = .55 \times 100 \text{ or } 55\%$$
- \$.55 cents from each \$1.00 generated was used to purchase food.



What do Cost Percentages Mean?

If total of all cost percentages is:

- less than 100%, *operating balance increases.*
- equal to 100%, *program breaks even.*
- more than 100%, *operating balance decreases.*



Comparing Revenue to Expenditures

- Total net gain/loss to the school nutrition program expressed in dollars,
- Percent of gain/loss expressed in percentage of revenue, and
- Net gain/loss per meal or meal equivalent.



Controlling Food and Labor Costs in School Nutrition Programs

Objective: Apply cost control measures to operate a financially sound program with nutritional integrity.



Meals Per Labor Hour

Number Meals/Meal Equivalents

Number of Paid Productive Labor Hours

Example:

338 Meals/Meal Equivalents

24 Paid Productive Labor Hours

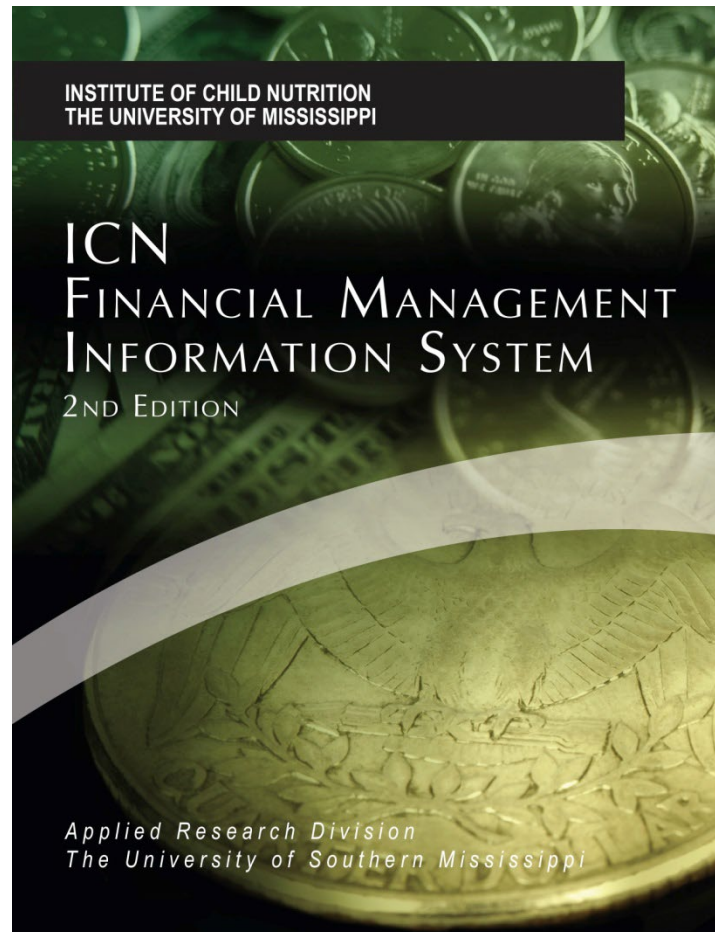
= 14.08 or 14 Meals Per Labor Hour



Using Participation as a Financial Management Tool

- Prevent waste in excess labor hours and overproduction of food.
- Reduce customer dissatisfaction because of inadequate staff and too little food prepared for the number served.
- Identify number of potential customers
- Set revenue goals

Participation Calculations





Why Calculate the Cost of Food?

- To determine if costs are within guidelines,
- To ascertain if there are sufficient funds to pay expenditures,
- To establish the cost for each meal equivalent served, and
- To prevent waste and food theft through monitoring food usage.

Calculating Cost of Food Used

$$\begin{aligned} & \text{Beginning Inventory} \\ & + \text{Total Food Purchases} \\ & = \text{Total Food Available} \\ & - \text{Ending Food Inventory} \\ & = \text{Cost of Food Used} \end{aligned}$$

Example of Calculations for Cost of Food Used

Example	Annually	Monthly
Beginning Inventory	\$ 8,000	\$ 8,000
Food Purchases	+ 300,000	+ 25,000
Food Available	308,000	33,000
Less: ending inventory	- 7,000	- 7,000
Cost of Food Used	\$ 301,000	\$ 26,000



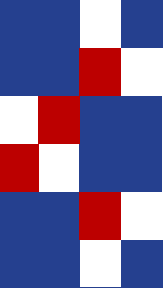
Developing and Analyzing a School Nutrition Budget

Objective: Explain the importance of using the budget to analyze and control revenues and expenditures.



Steps To Building A Budget

- Forecast Revenue for each category
- Forecast Expenditures for each category
- Analyze – Make Changes



Review, Action Plan, Post-Assessment, and Evaluation

Objective: Interpret the benefits of financial information as they relate to your school nutrition programs.



This training is conducted by the



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Institute of Child Nutrition

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- Mission: To provide information and services that promote the continuous improvement of child nutrition programs
- Vision: To be the leader in providing education, research, and resources to promote excellence in child nutrition programs

