



PRACTICAL SOLUTIONS *for* FINANCIAL MANAGEMENT SUCCESS

INSTRUCTOR'S MANUAL

PRACTICAL SOLUTIONS

for **FINANCIAL**
MANAGEMENT
SUCCESS

INSTRUCTOR'S MANUAL

Time: 4 hours

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Key Area 3: Administration

Professional Standards Code: 3300 Financial Management

Institute of Child Nutrition

The University of Mississippi

The Institute of Child Nutrition was authorized by Congress in 1989 and established in 1990 at the University of Mississippi in Oxford and is operated in collaboration with The University of Southern Mississippi in Hattiesburg. The Institute operates under a grant agreement with the United States Department of Agriculture, Food and Nutrition Service.

PURPOSE

Improve the operation of child nutrition programs through research, education and training, and information dissemination.

VISION

Lead the nation in providing research, education, and resources to promote excellence in child nutrition programs.

MISSION

Provide relevant research-based information and services that advance the continuous improvement of child nutrition programs.

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BACKGROUND INFORMATION

Instructor's Note: This section provides background information for review by the instructor prior to presenting the course and will familiarize the instructor with the context of the course and class logistics (e.g. class size, arrangement, and pre-training activities). This information does not include course detail or lessons and should not be used to teach.

The following information provides a condensed overview of the methods used to create the financial management materials taught in *Financial Management: A Course for School Nutrition Directors*. All course materials should be read prior to beginning instruction.

The costs of serving school meals are outpacing the generation of revenue for many school districts. Many directors must make difficult decisions about long-term goals to ensure the sustainability of their programs. At the same time, demands are increasing for improved financial and nutritional accountability. School districts need financial management information systems that provide data for both evaluation and financial decision-making.

The ability to interpret the financial outcomes of operational decisions is essential to effective management of school nutrition programs. With changing federal regulations, increasing program cost, and improvements to the quality and nutrition content of school meals, it is imperative that school nutrition program directors understand financial management as it relates to the school nutrition program. Directors must:

- understand how to read and interpret financial statements and related reports,
- effectively analyze data, and
- take action when expenditures consistently run higher than revenue generation.

Understanding program costs allows for greater control and more informed decision making. Upon completion of this course, directors should be able to demonstrate more effective management of resources to ensure the nutritional integrity and quality of meals served to students at school. While this course cannot teach participants everything they need to know about financial management, it will improve understanding of the relationship between financial management and school nutrition program quality.

Prompts are as follows:

SAY: What the instructor is to say to participants. This is the content that teaches the learning objectives.

ASK: This prompt is used when the instructor should ask the participants a question. If the question warrants feedback, it will be followed by the FEEDBACK prompt.

FEEDBACK: This prompt is used to ensure certain elements are covered in discussions, including possible answers for instructors to give.

DO: This prompt is used to explain what the instructor/participants are to do. It may be used to lead into activities, do demonstrations, show videos, or any other action the instructor would need to know to do.

SHOW SLIDE: This prompt is used for showing slides. Each slide must have its own unique title. All content in the slide presentation should be discussed in the Instructor's Manual using the "DO", "ASK", or "SAY" commands. Slides should not be content heavy or contain content not covered in the Instructor's Manual in case the slide presentation is unavailable.

PRE-/POST-ASSESSMENTS: This manual includes a Pre-/Post-Assessment that will be administered at the beginning and at the end of the training.

FUNCTIONAL AREA AND COMPETENCIES

Functional Area 2: Financial Management

Competency 2.1: Develops financial management guidelines that support school nutrition program operational goals and comply with regulations.

Knowledge Statements:

- Knows financial goals and objectives of the school district.
- Knows basic principles of accounting and the application of those principles.
- Knows process for budget development, justification, and implementation.
- Knows the impact of changing demographics and enrollment trends on the school nutrition program budget.
- Knows fundamentals of reporting school nutrition program budget as part of the district budget.

Competency 2.2: Establishes cost control goals to effectively manage the school nutrition program.

Knowledge Statements:

- Knows the importance of appropriate staffing and scheduling to control labor cost.
- Knows the role of the menu in controlling costs.
- Knows methods to determine staff productivity.
- Knows methods for establishing internal and external financial benchmarks.
- Knows the importance of providing cost-effective special functions, as appropriate.
- Knows costs associated with environmentally responsible practices.

Source: *Competencies, Knowledge, and Skills for District-Level School Nutrition Professionals in the 21st Century* available on the ICN website: www.theicn.org

PROFESSIONAL STANDARDS

Financial Management – 3300

Employee will be able to manage procedures and records for compliance with Resource Management with efficiency and accuracy in accordance with all Federal, State, and local regulations, as well as the Administrative Review.

3310 - Meal Counting, Claiming, Managing Funds

3320 - Compliance with Regulations/Policies

3330 - Budgets

3340 - Financial Analysis

3350 - Pricing

3360 - Communicate Financial Information

Key Area 3: Administration

TRAINING OBJECTIVES

At the end of this training, participants will be able to accomplish the following:

1. Describe basic financial recording and reporting processes and the procedures for directing the operation of a school nutrition program.
2. Demonstrate use of financial reports consistent with Federal, state, and local guidelines to achieve a financial management system that supports a cost effective program with high integrity.
3. Utilize financial management tools and standards to operate a financially and nutritionally accountable school nutrition program consistent with Federal and State guidelines.
4. Interpret, analyze, and use revenue data for program evaluation and improvement.
5. Interpret, analyze, and use expenditure data for program evaluation and improvement.
6. Apply cost control measures to operate a financially sound program with nutritional integrity.
7. Develop an action plan.

GROUND RULES

Instructor's Note: You should have received some Ground Rules in the toolkit box from ICN to post around the room prior to class.

- **Show up on time and come prepared.** Be prompt in arriving and in returning from breaks. Come with a positive attitude.
- **Stay mentally and physically present.** Be present and stay on task. Listen attentively to others and avoid disruptive side conversations.
- **Let everyone participate.** Be patient when listening to others speak. Treat all participants with the same respect that you would want from them.
- **Listen with an open mind.** Stay open to new ways of doing things, and listen for understanding. You can respect another person's point of view without agreeing with them.
- **Think before speaking.** Seek first to understand, then to be understood. Avoid using idioms, three letter acronyms, and phrases that can be misunderstood.
- **Attack the problem not the person.** Respectfully challenge the idea, not the person. Honest and constructive discussions are necessary to get the best results.

TRAINING-AT-A-GLANCE

Time Allowed	Topic	Activity	Materials
15 minutes	<ul style="list-style-type: none"> • Introduction • Housekeeping • Importance of Financial Management 	<ul style="list-style-type: none"> • Pre-Assessment • Introductions • Key Terms and Definitions Handout 	<ul style="list-style-type: none"> • Pre-Assessment • Participant's Workbook
5 minutes	<ul style="list-style-type: none"> • Effective Communication 		<ul style="list-style-type: none"> • Participant's Workbook
<p>Objective: Describe basic financial recording and reporting processes and the procedures for directing the operation of a school nutrition program.</p>			
15 minutes	<ul style="list-style-type: none"> • Importance of Financial Management 	<ul style="list-style-type: none"> • Classification of Revenue • Classification of Expenditures 	<ul style="list-style-type: none"> • Participant's Workbook
<p>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.</p>			
20 minutes	<ul style="list-style-type: none"> • Financial Reports 	<ul style="list-style-type: none"> • Statement of Activities • Statement of Net Position 	<ul style="list-style-type: none"> • Participant's Workbook
<p>Objective: Utilize financial management tools and standards to operate a financially and nutritionally accountable school nutrition program consistent with Federal and State guidelines.</p>			
30 minutes	<ul style="list-style-type: none"> • Financial Management Tools 	<ul style="list-style-type: none"> • Meal Equivalent Conversions 	<ul style="list-style-type: none"> • Participant's Workbook
<p>Objective: Interpret, analyze, and use revenue data for program evaluation and improvement.</p>			
25 minutes	<ul style="list-style-type: none"> • Managing Revenue 	<ul style="list-style-type: none"> • Calculating Revenue per Meal/Meal Equivalent • Pricing Nonprogram Food 	<ul style="list-style-type: none"> • Participant's Workbook

Time Allowed	Topic	Activity	Materials
Objective: Interpret, analyze, and use expenditure data for program evaluation and improvement.			
30 minutes	<ul style="list-style-type: none"> Managing Expenditures 	<ul style="list-style-type: none"> Calculating the Cost to Produce a Meal/Meal Equivalent Calculating Percentages of Costs to Total Revenue Comparing Revenues to Expenditures 	<ul style="list-style-type: none"> Participant's Workbook
Objective: Apply cost control measures to operate a financially sound program with nutritional integrity.			
30 minutes	<ul style="list-style-type: none"> Controlling Food and Labor Costs 	<ul style="list-style-type: none"> Calculating Meals per Labor Hour Using Meals per Labor Hour to Determine Staffing Needs Ways to Lower Food Costs in School Nutrition Programs Handout 	<ul style="list-style-type: none"> Participant's Workbook
Objective: Develop an action plan.			
60 minutes	<ul style="list-style-type: none"> Financial Management Action Plan 	<ul style="list-style-type: none"> Financial Management Action Plan Post-Assessment 	<ul style="list-style-type: none"> Participant's Workbook Post-Assessment
Total: 240 Minutes (4 hours) Instructional Time			

Instructor's Note: Take a 10-minute break after about an hour or at a good stopping place.

PREPARATION CHECKLIST

Instructions: The following tasks are necessary for presenting this lesson. Assign each task to a specific person and determine the date that each task must be completed. Keep track of the progress by checking off tasks as they are completed. [Items may vary according to needs of particular lessons.]

Task	Person Responsible	Completion Date	✓
<p>Reserve equipment and gather supplies as needed for use on the day of class (6 weeks prior).</p> <p>Instructor's Manual Roster of participants attending for instructor Participants' sign-in sheets</p> <p>List of equipment and supplies needed Microphone (preferably wireless) Computer to present slides and/or DVD Projector and Screen Wireless presenter device and laser pointer Flip chart paper (self-adhesive strip sheets) Painter's tape (do not use masking tape) Markers (flip chart) Calculators Pens, pencils, note paper, highlighters, self-adhesive notes, page markers, (each table) Name tags and table tents</p>	Instructor		
<p>Participant's Workbook Agenda, roster of presenters/participants, and handouts Pre-/Post-Assessments (available at www.theicn.org)</p>			

INTRODUCTION

SHOW SLIDE: *Practical Solutions for Financial Management Success*

Instructor's Note: Have this slide on the screen as participants enter the room.

DO: State your name if you haven't been introduced. Welcome the participants to the training.

SAY: Welcome to *Practical Solutions for Financial Management Success*. Let's briefly review the class materials. This 4-hour training is provided by (state the organization sponsoring the training), and it will provide you with a condensed overview of financial management for school nutrition programs.

The Institute of Child Nutrition (ICN) has provided you with a Participant's Workbook. The information and activities in the workbook were developed to help you gain a better understanding of financial management concepts and principles as they relate to school nutrition programs.

Other items on your table (e.g. index cards, sticky notes, table name tents, pens, markers) may be used during the training.

Housekeeping

SAY: There are a few "housekeeping" items to review.

- The restrooms and water fountain are located (point out the location).
- Be sure you are signed in on the sign-in sheets; there is one for ICN and one for the training sponsor.
- I will try to answer questions throughout the training; however, sometimes a question requires research or a longer answer than time allows. Because all your questions are important, a "Bike Rack" has been posted. Write your question on a sticky note and post it to the Bike Rack.

Instructor's Note: Write "Bike Rack" at the top of a flip chart page and post it in a convenient area of the room.

SHOW SLIDE: *Pre-Assessment*

Pre-Assessment

DO: Pass out the **Pre-Assessment**. Explain the identifier to be placed in the upper right hand corner.

SAY: Before we begin the training, we would like each of you to complete an assessment. The purpose is to review what you already know about financial management. It is anonymous. Before you begin answering the questions, please write a four-digit number as an identifier in the top upper right hand corner of the page. It is important to remember the numbers because you will use the same four-digit number as an identifier on the post-assessment at the end of the training. The ID is used to match pre-assessment information with post-assessment answers to determine knowledge gained. You have approximately 10 minutes to complete the pre-assessment. After you complete the assessment, put it on one side of the table, and I will come by and collect it.

DO: Collect the pre-assessments.

SHOW SLIDE: *Activity: Introductions*

SAY: Let's begin the training with an activity. I would like for you to find someone in the room that you do not know and introduce yourself, tell what school/school district you are from, and how many years you have been in the school nutrition program. Take about 3 minutes.

DO: When everyone is through have them return to their seats.

SAY: You may return to your seats. You have just made a new friend, someone you can network with and call if you have a question or need some information.

SHOW SLIDE: *Importance of Financial Management*

SAY: The cost of serving students meals at school continues to increase faster than the generation of revenue in many school districts, leaving directors with difficult decisions to make about

long-term goals that will ensure sustainability of the program. At the same time, demands are increasing for more accountability in all nutrition programs.

Use of sound financial management concepts and principles in the operation of a school nutrition program are critical to ensure the program succeeds in meeting the nutritional standards, accountability requirements, and the district's identified financial program goals. The ability to interpret and analyze the financial outcomes of operational decisions is essential to effective management of school nutrition programs.

Look in your workbook at the handout **Key Terms for Financial Management** for a detailed list of terms used in school nutrition programs. We will not go over all of the terms in the handout; however, it may be used as a reference.

Key Terms for Financial Management

Key Term	Definition
Accountability	Responsibility to deliver what is expected and willingness to bear the consequences for failure to perform as expected.
Accounts Payable	The amount the school nutrition program owes, but has not yet paid, for goods delivered and services rendered (unpaid bills).
Accounts Receivable	The amount of funds the school nutrition program has earned, but not yet collected, for services provided. Examples include meal reimbursements due from State and Federal sources, and payments due from customers for such services as catering special school events, outside sales, and contract meals.
After School Snacks	A federally assisted snack program operating in public and nonprofit private schools and residential child care institutions.
À la carte Sales	Food items available for cash sale independent of the reimbursable meal.
Allowable Cost	Expenses that are readily identifiable as costs applicable to the school nutrition program.
Assets	Something of value held by the school nutrition program for use in carrying out its mission. Examples include cash (including petty cash and cash in cashiers' drawers); accounts receivable (due from customers, from units of government, etc.); inventories of purchased food, USDA Foods, and supplies; equipment and other capital assets; etc.
Assigned	Funds allocated for a specific purpose and already encumbered.
Attendance Factor	The average number of students present at school expressed as a percentage.
Average Daily Attendance (ADA)	The average number of students who participate in either the National School Lunch Program or the School Breakfast Program daily, based on school attendance (not enrollment).
Bonus USDA Foods	Foods provided to schools as they are available from surplus agricultural stocks.
Break Even	The point at which expenditures and total revenue are exactly equal. It can be expressed as dollars or a percent of revenue.

Key Term	Definition
Budget	A business entity's financial management plan for a specified future period of time, generally a fiscal year. The budget systematically considers the entity's planned activities and objectives for that period, forecasts the costs the entity must incur in carrying out those activities, and identifies the revenues projected to cover those costs. Formulating and executing a budget enables a business entity to achieve its objectives (in the case of school nutrition programs, providing quality meals) while living within its means.
Capital Assets* (Capital Equipment)	Equipment, technology hardware (e.g. computers or network equipment), software, vehicles, or furniture that is tangible personal property with a unit acquisition cost at or above a stated dollar amount, called the capitalization threshold, and a useful life greater than one year. The business entity sets the capitalization threshold.
Communication	The exchange of ideas, messages, and information by speech, signals, writing, or behavior.
Competitive Foods	All foods and beverages sold to students on the school campus during the school day, other than those meals reimbursable under programs authorized by the National School Lunch Program and Child Nutrition Act.
Cost Controls	The systems and procedures established by a business entity to provide reasonable assurance that: (1) assets and information are protected and used only for authorized purposes; and (2) reports submitted to management are complete, timely, and free of material misstatement. Examples may include restricted access to cash, computers, and other assets and review of invoices by someone other than the disbursing official before they are approved for payment.
Cost of Food Used	The value or cost of food used in a specific accounting period.
Deferred Income	A liability account that represents revenues collected before they become due. An example of this is revenue received as prepayment for school meals.
Encumbrances	The amount of money (fund balance) reserved for outstanding purchase orders and unpaid bills. It functions as a fund control device.
Entitlement USDA Foods	The level of donated food assistance mandated by Federal laws and offered to schools based on the number of reimbursable lunches served during the previous school year.

Key Term	Definition
Ethics	Principles of right or good conduct.
Expenditures	Those allowable costs that can be identified specifically with the production and service of meals to school children.
Federal Revenue Sources	Payments received from Federal funds for reimbursable meals, afterschool care snacks, suppers, grants, and cash in lieu of USDA Foods (7 CFR 240.5). The value of USDA Foods received is also considered a Federal revenue source.
Financial Goals/ Objectives	Framework for making deliberate financial decisions that enable the school nutrition program to better manage finances.
Financial Reporting	The means of communicating financial information to users. Examples are the Statement of Activities and the Statement of Net Position.
Financial Integrity	Maintaining a fiscally sound school nutrition program by continually monitoring and analyzing the revenue and expenditures of the program.
Financial Management Information System (FMIS)	A standard system of data collection and financial analyses that can be used as a management tool and to evaluate financial management decisions.
Forecasting	The process of analyzing current and historical data to determine future trends. In the case of school nutrition program, forecasting involves predicting and estimating the goods, works, and services needed in specified areas for the coming year, and/or assessing needs by reviewing current procurement activities. Forecasting allows for procurement plans to evolve each fiscal year.
Fringe Benefits	Compensation for employees that is in addition to salaries/wages, such as health insurance, retirement, or paid vacation.
Fund Balance	As reported on Statement of Net Position: Assets – Liabilities = Fund Balance. Fund balance includes unassigned funds that are available to spend as well as assigned funds designated for encumbrances.
Indirect Costs	The school nutrition program's share of general school districts' costs that are incurred for common or joint purposes and cannot be readily identified as a direct cost. Indirect costs include the costs of the superintendent's office, human resources, payroll, accounting, budgeting, purchasing, utilities (light, heat, etc.), building maintenance and report, auditing, etc. Such costs benefit all activities of the school district, and the portion that benefits any specific activity, such as foodservice, is generally determined through a mathematical allocation process.

Key Term	Definition
Inventory	The value of food and supplies on hand, whether at the food preparation site or in a central warehouse or facility, that are being held for future use.
Liabilities	The amounts legally owed to others, generally as payment due for goods or services received. Liabilities may be short-term (due and payable in the current accounting period) or long-term (payable over a longer period of time). Liabilities incurred in school nutrition program operations are generally short-term; they may include accounts payable, accrued personnel costs (salaries, wages, and fringe benefits), unearned revenue (amounts received in advance for meals and other services), taxes owed, and funds due to other entities (such as the General Fund).
Meal Equivalent	Conversion of different meal services – snacks, breakfasts, suppers, lunches, and nonprogram food sales – to the equivalent of a reimbursable student lunch. All reimbursable lunches and suppers served to children and full paid adult lunches are considered to be one meal equivalent. Some State agencies may record adult lunches as nonprogram food sales. NOTE: The Food and Nutrition Service (FNS) and USDA do not prescribe one particular method in order to calculate meal equivalency.
Meals Per Labor Hour (MPLH)	The most common measure of productivity in school nutrition, calculated by dividing the number of meal equivalents produced and served in a day by the number of paid labor hours.
Meal Reimbursement	A Federal cash payment received from the State agency for snacks, breakfast, lunch, and supper that meet Federal standards and are served to eligible children.
Noncurrent Assets	A category of fixed assets, also known as tangible assets or property, plant, and equipment, that cannot be easily converted into cash.
Nonprogram Food Sales	Foods, including beverages, that are sold in a participating school, other than a reimbursable meal, and are purchased using funds from the School Food Authority; include, but are not limited to à la carte items sold in competition with school meals, adult meals, items purchased for fundraisers, vending machines, school stores, etc. and items purchased for catering and vended meals.

Key Term	Definition
Nonspendable Assets	A category of program assets not in spendable forms e.g. inventories, furniture and equipment, less depreciation.
Operational Costs	Costs directly attributable to the production and service of meals and other foods in the school nutrition programs.
Operating Ratios	An analysis of financial data in terms of relationships to measure the efficiency of the operation of the school nutrition program. Expenditures as a percentage of revenue (food cost percentage) are an example of an operating ratio.
Productivity	The rate at which goods or services are produced, especially output per unit of labor.
Rebate	Money received from a company as an incentive to use a product. If the rebate is received during the year in which the food is purchased, it is recorded as a reduction to food costs. Rebates from the prior school year are recorded as revenue.
Reduced Price Meals	Meals served to students who are eligible to receive reduced price meal benefits under USDA eligibility guidelines.
Revenue	Money received in exchange for goods or services provided by the school nutrition program.
School Food Authority (SFA)	The governing body that is responsible for the administration of one or more schools, and has the legal authority to operate the program therein or be otherwise approved by Food and Nutrition Service to operate the program.
Special Functions	Meals or refreshments provided to groups outside the school nutrition program. Examples are athletic banquets, faculty functions, and PTA/PTO refreshments.
Stakeholder	People or organizations with an interest in your program, including student, teachers, administrators, parents, and others in the community who are also interested in the well-being of children.
State Matching Funds	State appropriated revenue that is required by USDA to be paid to school districts for use in the school nutrition program.
Statement of Activities* (Statement of Revenues and Expenditures)	The financial report of all revenues and expenditures earned and expended for a given period of time. The report tells program administrators whether the school nutrition program is operating with a gain or at a loss for the reporting period.

Key Term	Definition
Statement of Net Position* (Statement of Net Assets)	A financial statement that reflects the financial position of the operation on any given day; also known as a Balance Sheet.
Unassigned* (Unreserved/ Undesignated)	Funds that have not been allocated and are available for new expenditures not already encumbered.

*Denotes updated accounting terminology. The previous term used is in parentheses.

EFFECTIVE COMMUNICATION

SHOW SLIDE: *Importance of Effective Communication*

SAY: We communicate constantly to exchange information. Effective communication is conveying your message to others clearly and unambiguously, and receiving information others send you with as little distortion as possible. Communication is successful only when both the sender and receiver understand the information the sender intended to transmit.

Many stakeholders are interested and involved in the activities and operations of the school nutrition program, and successful management relies on maintaining two-way lines of ethical communication with these stakeholders.

- Communication is the exchange of ideas, messages, and information by speech, signals, writing, and behavior. Social media such as email has become an effective way to send and receive communication.
- Effective communication occurs only when the receiver understands the information or idea that the sender intended to transmit.

Communication is important to identify existing issues in the district as they relate to school nutrition program finances. It is also important to identify policies and regulations at the Federal, State, and local levels that affect school nutrition program finances. School nutrition programs are complex and often misunderstood. Good communication is important to explain the why, what, and how of the program. However, the school nutrition program director is accountable for the financial integrity of the school nutrition program. Let's begin our journey to developing a sound financial management school nutrition system.

IMPORTANCE OF FINANCIAL MANAGEMENT

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

SHOW SLIDE: *Development of a Financial Management System*

SAY: As a school nutrition director, you should know the basic financial recording and reporting processes and the procedures that provide information for directing the operation of a school nutrition program. The basis for any financial management information system is a well-defined set of reports that provide reliable and useful information about the school nutrition program. The value of financial reports to document accountability is directly related to how revenues and expenditures are classified.

ICN Financial Management Information System

SHOW SLIDE: *Financial Management Information System*

SAY: A useful financial management information system:

- provides a uniform and consistent financial reporting structure,
- provides meaningful and timely financial management information,
- supports Federal, State, and local reporting requirements,
- adheres to Generally Accepted Accounting Principles (known as GAAP), and
- provides a basis for determining accountability in your program.

SHOW SLIDE: *ICN Financial Management Information System*

SAY: To assist school nutrition programs with the financial reporting requirements of GAAP, the Institute of Child Nutrition (ICN) developed and published the ICN Financial Management Information System resource; we will refer to the resource as FMIS. While the FMIS model provides guidance for developing a district financial management system, school districts should consider adapting the model to each school in the district for better site evaluation. The FMIS Resource can be found on ICN's website (www.theicn.org).

Classification of Revenue

SHOW SLIDE: Classification of Revenue

SAY: The source of revenue determines its classification. If you look at the list of key terms in your workbook, you will see that revenue is defined as income received in exchange for goods or services provided by the school nutrition program. The two major sources of revenue in most school districts are student payments for meals and other food items and Federal reimbursement. However, there are other sources.

As we discuss the various sources of revenue, ask yourself if you are capturing all the possible sources of funds available for your program.

1. Local Sources are considered student and adult meal sales, contract meal sales, other food sales, and interest on bank deposits. FMIS is a good place to identify new sources of revenue for your program by looking at the revenue classifications definitions. The FMIS resource, classifies revenue received from sources such as local grants or contributions as “Other Local” funds.
2. State Sources are defined as matching funds or State reimbursement provided through your State agency.
3. Federal Sources are reimbursement funds, USDA Foods, and Federal grants.
4. Miscellaneous Sources include the sale of surplus equipment and rebates on food purchased in the prior year. If a rebate is received during the year in which the food is purchased, it is recorded as a reduction to food expenditures.
5. Funds Transfer-In are funds transferred to the school nutrition program from other school district funds.

6 Cent Certification

SAY: Another Federal Source of revenue is through the Healthy, Hunger-Free Kids Act of 2010 which provides an additional 6 cents per lunch reimbursement to School Food Authorities (SFAs) found to be in compliance with the new meal pattern requirement. The 6 cent rule requires State agencies to certify participating SFAs that are in compliance with the meal pattern and the required nutrition standards to be eligible to receive the additional reimbursement per lunch. If the certified SFAs are determined to be out of compliance during an Administrative Review, the State agency can withhold the additional reimbursement. Check with your State agency if you have further questions.

In addition to the revenue classification categories, most school nutrition programs use subcategories to provide added detail about revenue sources. For example, Student Meal Sales is a subcategory of Local Revenue.

ASK: Can someone tell me what a subcategory of Student Sales might be? (Pause and allow 1 or 2 participants to volunteer)

FEEDBACK:

Breakfast sales, lunch sales, and afterschool snack sales are examples of local revenue.

ASK: Are there any questions about any of the revenue classifications? (Pause and allow 1 or 2 questions.)

SAY: Remember, the amount of revenue received must be sufficient to ensure funds are available to meet obligations on a timely basis. Sufficient funds to cover costs are crucial to a financially sound operation and important to maintaining high food quality and the nutrition integrity of meals served at school. The school nutrition program director must provide due diligence in effectively managing and maximizing revenue available for use in the school nutrition program.

Classification of Expenditures

SHOW SLIDE: *Classification of Expenditures*

SAY: As we begin our discussion about expenditures, remember the FMIS resource can help you identify where to record expenditures, so they are recorded the same month after month and year after year. Before we look at the classification of expenditures, think about the expenditures in your program.

Expenditure as it relates to school nutrition programs is defined as those allowable costs that can be identified specifically with the production and service of meals to school children. Expenditures should be classified into categories consistent with governmental financial reporting requirements.

Expenditures are classified as:

1. Labor (Salaries and wages)
2. Employee Benefits
3. Purchased Professional and Technical Services
4. Purchased Property Services (Operation, Maintenance, and Energy)
5. Food (Purchased Food and USDA Foods)
6. Supplies (General and Food Production)
7. Capital Assets
8. Miscellaneous Expenditures
9. Indirect Costs
10. Funds Transfer-Out

Note that in the supply category, there are two types of supplies listed; general and food production. Sometimes it is desirable to identify food production and service supplies as separate categories because some states require separate identification of these for the purpose of establishing a cost allocation plan for indirect cost. For example, a cost allocation plan may not apply the indirect cost rate to food or food production supplies. Items generally recognized as food production supplies are noted in the FMIS resource.

You will also see two types of expenditures in the Food category, purchased foods and USDA Foods. Check with your State agency to determine if you must track these categories separately or if they can be combined into a single Food category.

In addition to expenditure categories, many school districts add subcategories to add more detail to their financial reports. For example, food may be divided into subcategories such as produce, local produce, dairy, bakery, frozen, staples, etc. Labor may be divided into subcategories such as central program management, employee regular hours, substitute hours, extra hours, overtime, etc.

Indirect Costs

SAY: The last expenditure category is indirect costs. Although indirect costs may represent a small percentage of total expenditures in some districts, the category should be analyzed separately because of the possible impact on the school nutrition program. School nutrition directors need to know exactly how paying indirect costs will affect the bottom line of their program. This helps the school nutrition director when discussing financial management decisions with the business manager and other school officials.

Indirect costs are the school nutrition program's share of general school district costs incurred for joint purposes. A joint purpose cost refers to expenditures that are

- shared by the school nutrition program and the district, and
- are not readily assignable to the cost objective specifically benefited.

Direct costs can be specifically identified to the benefiting program with a particular cost objective, such as

- program activities (e.g. food, benefits, salaries, supplies, etc.)
- grant (e.g. Farm to School etc.), or
- contract (e.g. providing meals to a private school, etc.).

The school district has the discretion to charge or not charge indirect costs to the school nutrition program. However, if they charge the program indirect costs there is specific guidance to follow.

FINANCIAL REPORTS

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

SHOW SLIDE: *Financial Management Reports*

SAY: Look in your workbook at the three financial reports most often used in school nutrition programs as we view the slide.

SHOW SLIDE: *Types of Financial Reports*

SAY: There are three categories of financial reports found in a financial management information system that can be used to measure the school nutrition program's financial performance.

They are:

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

SHOW SLIDE: *Statement of Activities*

SAY: Refer to the handout **Statement of Activities Report** (Revenues and Expenditures) in your workbook. This financial statement provides the user with the total revenue and total expenditures for a given period, usually a month or year-end total. The statement provides financial information for the current period, previous period, and year-to-date.

Statement of Activities Report (Revenue and Expenditures)

School Nutrition Program Ending _____ (Month and/or Year)

Note: Assume 4 months data shown on this statement

Revenue Source	Current Month	Previous Month	YTD
Local Sources			
Student Meal Sales	\$24,978	\$23,025	\$96,150
Adult Meal Sales	2,376	2,175	9,102
Other Food Sales	11,326	10,785	44,222
Contract Meals	1,575	1,560	6,250
Interest	260	255	1,030
State Sources	18,831	0	18,831
Federal Sources (includes USDA Foods value)	186,639	182,220	737,718
Miscellaneous	0	8,010	8,010
Fund Transfer-In	0	0	0
Total Revenue	\$245,985	\$228,030	\$921,313
Expenditures	Current Month	Previous Month	YTD
Salaries and Wages	\$65,875	\$63,900	\$259,550
Employee Benefits	28,975	25,364	108,678
Purchased Services	375	326	1,402
Property Services	305	280	1,170
Purchased Food/ USDA Foods	96,190	90,183	372,746
Supplies	24,750	21,360	92,220
Miscellaneous	625	0	950
Capital Assets	0	55,000	70,000
Indirect Costs	5,835	5,830	23,330
Fund Transfer-Out	0	0	0
Total Expenditures	222,930	262,243	930,046
Net Excess/Deficit	\$23,055	(\$34,213)	(\$8,733)

Notes:

- (1) School Nutrition Program directors should modify the Statement of Activities (Revenues and Expenditures) to meet local and state requirements.
- (2) The dollar amounts shown in this statement are for a hypothetical school district and are illustrative only. They are not tied to any other activity in this lesson.

SAY: Look at the handout and compare the total revenues, total expenditures, and change in net assets for the current month, previous month, and year-to-date. If you compare the current month's revenue of \$245,985 with the previous month's revenue of \$228,030, you see the district received almost \$18,000 more revenue during the current month than in the previous month.

ASK: Can you identify the most likely source of the increased revenue by comparing the current and previous month's individual sources? (Pause for participants to look at the revenue sources. Allow 1 or 2 participants to respond.)

FEEDBACK:

Answers should include a response that the district received over \$18,000 from State Sources during the current month but received \$0 the previous month.

SAY: Notice that in the previous month, there was a deficit of \$34,213.

ASK: Can you identify what may have contributed to this deficit by looking at individual categories of expenditures? (Give 1 or 2 participants an opportunity to volunteer answers.)

FEEDBACK:

Answers should include the observation that there was an expenditure of \$55,000 for Capital Assets in the previous month as compared to \$0 in the current month.

SAY: It is important to analyze the Statement of Activities every month. Look for any unusual changes in revenue or expenditures that could indicate either a reporting error or a potential problem.

Expenditure categories and subcategories can be tailored to a school district, but must remain constant from one accounting period to the next during the fiscal year for analysis purposes. It is also important to prepare statement of activity reports for each individual school site to get an accurate picture of the school's financial status and to establish goals and best practices for the site level.

SHOW SLIDE: *Statement of Net Position*

SAY: The second financial report, the Statement of Net Position, previously called the Statement of Net Assets, is a financial statement prepared at the end of each accounting period to reflect the financial position of the school nutrition program at a particular point in time.

Look in your workbook at the handout **Statement of Net Position** as we review it.

- Assets include the cash balance, receivables due, and the value of inventories. These are items of value to the program.
- Liabilities include outstanding payables, deferred revenue, and sales tax owed. These are items owed by the program.
- The Fund Balance shows how much money is reserved for encumbrances and how much is available for expenditures.

Statement of Net Position (Statement of Net Assets)

Total Assets = Total Liabilities + Fund Balance

School Nutrition Program

Ending _____ (Month or Year)

Assets	Ending	Month or Year
Current Assets		
Cash and Cash Equivalents	\$205,230	
Sales Tax Collection	0	
Investments	10,225	
Due from Federal Funds	185,365	
Due from State Funds	0	
Due from Other Funds	1,525	
Other Receivables	260	
Inventories		
Purchased Food and USDA Foods	8,500	
Supplies	3,055	
Total Current Assets	414,160	
Noncurrent Assets		
Furniture and Equipment	425,456	
Less Accumulated Depreciation	(400,124)	
Total Noncurrent Assets	25,332	
Total Assets		\$439,492
Liabilities	Ending	Month or Year
Current Liabilities		
Accounts Payable	\$172,695	
Accrued Salaries	70,500	
Accrued Payroll Deductions	19,050	
Due to Other Funds	975	
Deferred Revenue	2,225	
Sales Tax Owed	0	
Total Current Liabilities	265,445	
Fund Balance	Ending	Month or Year
Nonspendable		
Noncurrent Assets	25,332	
Inventory	11,555	
Assigned	24,670	
Unassigned	112,490	
Total Fund Balance	174,047	
Total Liabilities and Fund Balance		\$439,492

SAY: As you review the Statement of Net Position, you will note that Total Assets is equal to Total Liabilities plus Fund Balance. The total Fund Balance is \$174,047, and the unassigned portion makes up \$112,490 of the total fund balance.

Fund Balance

SAY: The Fund Balance consists of several line items:

- Nonspendable amounts are those not in a spendable form such as inventory and equipment (less depreciation). These numbers come from the asset section.
- Assigned amounts is the total a school nutrition director has set aside for contract obligations, purchase orders, etc.
- The unassigned category is the amount available to spend in school nutrition programs.

The Fund Balance is important to the school nutrition director as a tool for program management.

The school nutrition director can use the Fund Balance reported on the Statement of Net Position to:

- Verify how much of the fund balance is reserved for encumbrances.
- Determine how much money is unassigned and therefore available for expenditures.
- Determine if the program is in compliance with net cash resources requirement (no more than three month's average operating costs; refer to 7 CFR 210.14).
- Gauge how the program is performing financially.

There are a couple of important points to remember.

- A drop in fund balance over a period of time may be a red flag to examine the amount of spending in each of the specific categories of expenditures.
- A significant increase in funds may be an indication that the nutrition program is not spending funds for program improvements in areas such as food quality or equipment upgrades.

School Nutrition Program Budget

SAY: The third financial report we will discuss that is important for effective management is the budget. Although the budget is being discussed here as a financial report, it is a beginning and ending statement generally prepared prior to the budget year. The budget should be a cooperative effort of the school nutrition department and the business office with input from site level managers.

Let's review the importance of the budget and why it should be a cooperative effort.

1. School district business officials can provide guidance in accounting and business functions. That is their specialty. Budgets should be based on accurate financial information that can often be provided by the business office such as school openings and closings, changes in enrollment, etc.
2. Site level managers can provide information concerning participation trends, changes in student eating habits, equipment and labor needs, and other factors that will influence the budget process.

The Budget as a Control Document

SHOW SLIDE: *The Budget as a Management Tool*

SAY: The budget is used as a management tool for the School Nutrition Program director. It can be used to assist in managing the operational aspects of the school nutrition program by:

- forecasting the amount of revenue by sources that will be available,
- identifying how the revenue will be allocated by each expenditure category, and
- predicting how much money will be in the fund balance at the end of the closing period.

Probably no other financial management tool contributes more directly to both the financial and nutritional integrity of a school nutrition program than a well-planned budget.

Methods of Budgeting

SHOW SLIDE: *Methods of Budgeting*

SAY: There are three methods used when planning budgets.

The budget methods include:

1. Incremental (baseline) budgeting – The starting point is the previous year's budget. Adjustments are made to each line item to reflect expected changes in revenues and expenditures. Incremental budgeting is less time consuming, but less planning may go into the budgeting process.
2. Zero-based budgeting – The basic concept for zero-based budgeting is to start with zero and build the budget for each line item. It requires that the operation take a fresh look at each revenue and expenditure. It is especially helpful when budgeting for new programs. The disadvantages to zero-based budgeting are that it is time consuming and some budget categories are best estimated based on the previous budget.
3. Combination of Incremental and Zero-Based Budgeting – A combination that uses zero-based budgeting for some items and incremental for other items. This method is most often used in school nutrition programs.

ASK: Can someone give me an example of a type of revenue that might be budgeted using the zero-based method? (Allow 1 or 2 participants to respond.)

FEEDBACK:

Answers could include the following:

Revenues that might be budgeted using the zero-based budgeting method include:

- Revenue associated with opening a new school in the district or adding a new service such as afterschool snacks or suppers
- Revenue generated by student meals (Use participation averages multiplied by new reimbursement rates.)
- State sources when the state provides an annual one time lump sum based on predetermined criteria

SAY: Since the budget process often varies from school district to school district and state to state, it is important to remember that circumstances often dictate which revenues and expenditures are budgeted using the zero-based method.

Budgets are Public Documents

SAY: School budgets are considered public documents that represent plans for the use of public funds and should reflect accountability in accordance with local, State, and Federal laws.

ASK: Why is this important information for a school nutrition director to remember? (Allow 1 or 2 participants to respond.)

SHOW SLIDE: *School Budgets*

FEEDBACK:

The public has a right to see the school nutrition program budget because:

- The school nutrition program is a nonprofit operation conducted principally for the benefit of children.
- The program is tax-supported; therefore, the public is viewed as the owner with the right to expect that the nutritional needs of children are met in the most cost-effective way.
- It is important to provide the public with documentation of accountability through the preparation and analysis of financial reports on a monthly basis.

SAY: Before we continue to the next section, let's get up and move. I want you to number off (divide the class evenly, if possible). I want ones on the left, twos next, threes next, fours next, and so forth. Take all of your workbook, drinks, personal belongings, and throw away your trash.

FINANCIAL MANAGEMENT TOOLS

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

SHOW SLIDE: *Setting a Meal Standard for Financial Management and Analysis*

SAY: In order to use financial statements and reports as tools to evaluate the financial activities of the school nutrition program, a standard must first be established to measure program services.

ASK: What unit of measurement is most commonly used to gauge the effectiveness and efficiency of the school nutrition program operation? (Allow 1 or 2 participants to respond.)

FEEDBACK:

In most school districts, the production of the reimbursable student lunch is the measurement used to evaluate efficiency of the school nutrition program.

SAY: This means that all other reimbursable meal types served (breakfasts, snacks, and suppers) as well as all nonprogram food sales must be converted to a meal equivalent.

Several important financial performance measures can be determined using meal equivalents.

SHOW SLIDE: *Using Meal Equivalents to Measure Performance*

SAY: Converting breakfasts, snacks, suppers, and nonprogram food sales to meal equivalents, the school nutrition director can easily determine such performance measures as

- per meal cost,
- labor productivity ratios or Meals Per Labor Hour, and
- beverage revenue earned per meal/meal equivalent.

Meal Equivalent Conversion Formulas

SAY: In order to convert meals and nonprogram food sales to the equivalent of a standard, reimbursable student lunch, a meal equivalent formula must be adopted. The conversion formulas used in this training were developed by a national task force convened by the Institute of Child Nutrition.

The Department of Agriculture (USDA) Food and Nutrition Service (FNS) does not prescribe one particular method in order to calculate meal equivalency. The conversion formulas used in this training are **recommendations** only.

The Meal Equivalent formulas do not relate to dollars; they relate to production of meals.

SHOW SLIDE: *Meal Equivalents Conversion Formulas*

SAY: The conversion formulas used in this training are

- 1 lunch = 1 meal equivalent
- 3 breakfasts = 2 meal equivalents ($2 / 3 = .67$)
- 3 afterschool snacks = 1 meal equivalent ($1 / 3 = .33$)
- 1 supper = 1 meal equivalent
- Nonprogram food sales = revenue from food sales / (current free lunch reimbursement + current USDA Foods value per lunch)

Notice that in the breakfast and afterschool snack conversion formula we rounded to two decimal places. This is for your convenience only. You may carry the decimal to four places (.6666 or .3333) if you like.

The numbers used in the formula for nonprogram food sales changes annually while other meal conversion formulas remain the same from year to year.

ASK: Can someone tell me why these numbers change for nonprogram food sales calculations each year?

FEEDBACK:

Both free reimbursement and USDA Food values change each year to reflect new government rates.

Converting Adult Meals to Meal Equivalents

SAY: It is important to recognize that not all states and school districts convert adult meals to meal equivalents using the same method.

In most states, adult meals are counted with student meals when determining meal equivalents, in other states adult meals are considered nonprogram food sales.

Either consideration is acceptable for determining meal equivalents as long as the method remains consistent throughout the school year.

DO: Meal Equivalent Conversions activity. Review the background information and calculations in the activity.

SHOW SLIDE: *Activity: Meal Equivalent Conversions*

SAY: The next activity is **Meal Equivalent Conversions**. This activity will help you understand the calculations for meal equivalents. Locate the activity worksheet in your workbook.

Before you begin the activity, let's review the calculations shown in the activity used for converting meals/meal sales to meal equivalents.

1. Both student and adult lunches and suppers were converted using the factor of one standard lunch equals one meal equivalent.
2. Breakfasts were converted by multiplying the total number of breakfast served by .67 (.6666 rounded), a factor determined by dividing two meal equivalents by three breakfasts.
3. Snacks were converted by multiplying the total number of snacks served by .33 (.3333 rounded), a factor determined by dividing one meal equivalents by three snacks.
4. Nonprogram food sales were converted to meal equivalents by dividing the \$128,155 in revenue by \$3.57, which is the free lunch reimbursement of \$3.33 plus the \$0.235 USDA Foods value.

Meal Equivalent Conversions Answer Key

Participation data for the current school year

Maple School District served 699,304 reimbursable student lunches, 10,110 adult lunches, 309,485 reimbursable student breakfasts, 29,873 reimbursable afterschool snacks, and 16,650 reimbursable suppers during the past year. In addition, the school district received a total of \$128,155 for the sale of nonprogram foods. Calculations for converting the participation data into meal equivalents are provided in the sample below.

Meal Categories	Total Meals/ Sales	Conversion Factor	Meal Equivalents
Student Lunch	699,304	1	699,304
Adult Lunch	10,110	1	10,110
Student Breakfast	309,485	.67	(309,485 x .67) 207,355
Snacks	29,873	.33	(29,873 x .33) 9,858
Supper	16,650	1	16,650
Nonprogram Food Sales	\$128,155	*	(\$128,155/3.57) 35,898
Total Meal Equivalents			979,175

*Nonprogram food sales divided by current Free Lunch Reimbursement (\$3.33) + Entitlement USDA Foods value per Lunch (\$0.235). Note these are the 2018-2019 reimbursement rates.

Instructions: Using the formulas provided in this lesson, answer the following questions:

1. If an elementary school served 485 breakfasts one morning, how many breakfast meal equivalents were served?

$$485 \times .67 = 325 \text{ meal equivalents}$$

2. A school nutrition program served 168 reimbursable snacks for the day in the district's afterschool care program. Convert the afterschool snacks to meal equivalents.

$$168 \times .33 = 55.44 \text{ meal equivalents}$$

3. A high school nutrition program sold \$250 in nonprogram foods for the day. Convert the revenue from the nonprogram sales to meal equivalents using the formula above.

$$\$250 / 3.57 (3.33 + 0.235) = 70.02 \text{ or } 70 \text{ meal equivalents}$$

ASK: Are there any questions concerning the activity? (Pause and allow 1 or 2 questions.) If there are no questions, use the conversion formulas on the worksheet to answer the questions. Work together as a team for about 3 minutes.

Will someone at Table ____ tell us your answer to question 1? (Continue with another table for questions 2 and 3.)

Does anyone have any questions about meal equivalents?

DO: Answer all questions to the best of your ability. If you do not know the answer, tell the participants you do not know and will research to find the answer and get back to them.

Now might be a good time to take a 10-minute break if you have not already done so. Take the break before you discuss the next topic.

SAY: The next topic we will discuss is managing revenues.

MANAGING REVENUES

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

SHOW SLIDE: *Managing Revenue in School Nutrition Programs*

SHOW SLIDE: *Revenue Accountability*

SAY: USDA mandates accountability for the management of revenue in school nutrition programs by monitoring

- all revenue received,
- how that revenue is dispersed, and
- the revenue generated is sufficient to sustain a nutrition program that serves food high in quality and nutritional value.

SHOW SLIDE: *Revenue Analysis*

SAY: Managing and analyzing revenue includes

- calculating the average revenue generated per meal or meal equivalent,
- establishing consistent guidelines for pricing meals and nonprogram food items, and
- comparing revenue generated per meal with costs per meal or meal equivalent.

ASK: Why is it important to calculate revenue per meal/meal equivalent? (Allow 1 or 2 participants to respond.)

SHOW SLIDE: *Why it is important to compare revenue earned with meal cost*

FEEDBACK:

If you know the average revenue generated per meal or meal equivalent, you can compare that with the average cost to produce a meal. This comparison is important because

- it helps determine if and where revenue should be increased,
- it allows analysis of revenue by source, and
- it allows the director to better identify areas in which revenue should be monitored for revenue loss.

Calculating Revenue per Meal Equivalent

DO: Calculating Revenue per Meal/Meal Equivalent activity

SHOW SLIDE: Activity: Calculating Revenue per Meal/Meal Equivalent

SAY: Locate the activity worksheet **Calculating Revenue per Meal/Meal Equivalent** in your workbook. In this activity you are going to calculate the average revenue per meal equivalent by dividing the dollar amount received from each source by the total meal equivalents.

Before you begin the activity, let's review the instructions. Look at the example in the first line.

1. Note that the dollar amount received for student meal sales was \$404,300.
Divide that by the 979,175 meal equivalents served during the school year and you can see that the average revenue earned per meal equivalent was \$0.4128 or about \$0.41 per meal/meal equivalent.
2. Calculate to four decimal places. If the fifth is five or higher, round up; if it is four or less, round down.
3. Work as a team to complete all calculations in the blank cells.
4. After you complete the calculations, check your answers by adding the average revenue per meal equivalent from all sources and comparing them to the total provided in the worksheet.
5. We'll take about 5 minutes for the activity and will review the answers when you finish.

Calculating Revenue per Meal/Meal Equivalent Answer Key

Participation data for the current school year

Calculating the projected average revenue earned per meal equivalent is important in the management of school nutrition programs.

Instructions: Complete the following activity to determine how much average revenue per meal equivalent is projected from each revenue source. Calculate the amount received from each revenue source four decimal places. If the 5th decimal place is 5 or higher, round UP; if 4 or less, round DOWN.

Given Formula: Revenue / Total Meal Equivalents

There were 979,175 meal equivalents served.

Put your answers in the last column to get the Total Revenue per Meal/Meal Equivalent.

Revenue Analysis		
Revenue Account	Dollar Amount Received	Average Revenue Per Meal/ Meal Equivalent
Student Meal Sales	\$404,300	\$0.4129
Adult Meal Sales	27,803	0.0284
Nonprogram Food Sales	113,955	0.1164
Contract Food Sales	14,200	0.0145
Federal Reimbursement	2,143,150	2.1887
USDA Foods	159,094	0.1625
State Reimbursement	18,835	0.0192
Interest	3,155	0.0032
Miscellaneous	5,800	0.0059
Total Revenue	\$2,890,292	\$2.9517

SAY: Calculating revenue per meal equivalent provides important information. It can be compared to budget projections, to the previous month's revenue per meal equivalent, and to previous year's figures.

The calculations on the worksheet indicate that the average revenue generated from paying students was about 41 cents per meal while the average revenue generated from Federal reimbursement was approximately \$2.19.

ASK: What might this suggest about the school nutrition program? (Allow no more than 2 or 3 participants to respond.)

FEEDBACK:

Possible answers could include:

1. There is a high free/reduced eligibility among students.
2. The participation rate among paying students may be low.
3. The district may be undercharging paying students.
4. There could be a large amount of meal charges not collected.

SAY: It is important to point out that the majority of revenue comes from a combination of free, reduced, and paid student meals in most school districts.

Next, we are going to look at setting meal prices.

Setting Meal Prices

SAY: Effective July 1, 2011, Section 205 of the Healthy, Hunger-Free Kids Act of 2010 (HHFKA), required that school districts (SFAs) participating in the National School Lunch Program provide the same level of support for paid lunches as the support (reimbursement) received for lunches served to students eligible for free lunches. This provision will help ensure that schools have funding available to support serving nutritious meals to all students.

ASK: Why do you think this new requirement was legislated? (Hear 1 or 2 participant responses.)

FEEDBACK:

Possible answers include:

- Paid meals have been priced below the cost to produce.
- Paid meals prices have been kept low by covering actual meal costs from Federal reimbursements or other non-Federal sources.

SAY: In order to meet the requirements of the law and to assure that prices charged for paid meals are at least equal to the Federal reimbursement received for a reimbursable free lunch, school nutrition program directors must perform a series of analysis components annually to meet the regulatory requirement.

SHOW SLIDE: Paid Lunch Equity (PLE) Analysis

SAY: The Paid Lunch Equity (PLE) Analysis will assist directors to:

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

These steps make up the Paid Lunch Equity calculations. USDA has developed a Paid Lunch Equity (PLE) Tool to help districts complete the calculations. The calculations must be done annually and the tool is updated accordingly. The tool is available at <http://www.fns.usda.gov/>

ASK: Why is the Paid Lunch Equity Tool updated each year? (Hear a few responses)

FEEDBACK:

- Free lunch reimbursement rate changes annually
- Inflation factor changes annually

Pricing Adult Meals

SAY: An adult meal must be priced to cover all the costs to produce that meal. Meals served to adults cannot be subsidized by Federal reimbursements, student payments or other unassigned nonprofit foodservice revenues.

SHOW SLIDE: Adult Meal Price Formula

SAY: Refer to your workbook the Adult Meal Price Formula as we review the slide. The formula is:

$$\begin{array}{r} \text{Federal reimbursement for a free student lunch} \\ + \text{Per meal value of USDA Foods} \\ \hline \text{Minimum Adult Meal Price} \end{array}$$

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.

ASK: Why do you add the value of USDA Foods to the cost to produce a meal when determining a minimum adult meal price?

FEEDBACK:

School nutrition programs do not receive USDA Foods value for adult meals.

ASK: Should adult meal prices be reviewed on an annual basis? Why?

FEEDBACK:

Yes. Because

- USDA Foods value changes annually
- Free reimbursement rate changes annually

ASK: How many of you charge students for a second meal?

SAY: Second meals to students are not eligible to be claimed for reimbursement. To recover the costs to produce and loss of reimbursement, prices for second meals to students should follow the same formula as prices for adults. Refer to the FMIS resource for a discussion about a second approach to pricing adult meals and second meals to students.

Let's look at pricing nonprogram foods.

Pricing Nonprogram Food Items

SHOW SLIDE: Definition of Nonprogram Foods

SAY: In addition to setting prices for meals, school nutrition directors must set prices for all nonprogram foods. Food items that are sold in addition to the unit-priced reimbursable school meals are referred to as nonprogram foods and cannot be claimed for reimbursement.

Nonprogram foods are defined as foods and beverages sold in a participating school, other than reimbursable meals, and purchased using funds from the nonprofit foodservice account.

SHOW SLIDE: *Requirements of Nonprogram Food Revenue*

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

SAY: Section 206 of the Healthy, Hunger-Free Kids Act of 2010 requires that the proportion of total revenue from nonprogram foods to the total revenue of the school foodservice account must be equal to or greater than the proportion of total food costs associated with obtaining nonprogram foods to the total food costs of the program.

Types of Nonprogram Food Items

SHOW SLIDE: *Types of Nonprogram School Day Food Sales*

SAY: There are generally four types of nonprogram foods that school nutrition programs elect to sell during the school day. These food sales include:

- adult meals,
- sale of a second meal to a student,
- individual components of the reimbursable meal such as milk, and
- other food items not on the menu including à la carte.

School districts should carefully calculate the costs of selling nonprogram food items and set prices to cover all costs associated with storing, producing, and serving the product to students. The prices established for extra food and nonprogram foods should be high enough not to compete with the reimbursable meal price.

ASK: What types of costs are associated with storing, producing, and serving the food item? (Ask volunteers to provide examples.)

FEEDBACK:

If not mentioned, note the following: labor to order the items especially if from outside vendors, labor to produce, disposables to serve the item, condiments, storage especially if it requires a freezer or refrigerator space.

Pricing Nonprogram Foods

SHOW SLIDE: *Desired Food Cost Percent Mark-up*

SAY: The desired food cost percent mark-up is one of the simplest methods used to determine the price of a nonprogram food item.

The three steps shown on this slide can be used to establish the base selling price using the desired food cost percent mark-up. Follow along in your workbook as we review the slide.

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

DO: **Pricing Nonprogram Foods** activity. Assign each table one or two food items.

SHOW SLIDE: *Activity: Pricing Nonprogram Foods*

SAY: Look at the activity **Pricing Nonprogram Food Items** in your workbook. The foods to be priced are listed in the first column and raw food costs are listed in the second column. The school district sets a goal of 38% for a desirable food cost percentage for the year. Thirty-eight (38%) is an appropriate place to start when deciding on prices for nonprogram foods. It is the difference between the desired purchased food cost percentage (40%) minus USDA Foods value (2%).

1. Using the formula given on the worksheet, calculate the base selling price for each item.
2. Recommend a final selling price.
3. Justify the final selling price. What other factors should be considered? What is your pricing strategy? For example, you may decide to price healthier items lower. Another justification is the cost of labor to order, inventory, sell, etc. the nonprogram food items.

SAY: Take about 10 minutes. Work as a team with others at your table. You will need to choose someone to report your team's answers.

Pricing Nonprogram Foods Answer Key

The formula for determining a base price using the desired food cost percent markup method is:

$$\text{Raw Food Cost} / \text{Desired Food Cost Percent Markup}$$

Reminder: Convert percent to decimal (i.e., 38% / 100 = .38).

Instructions: Using the formula, determine the base selling price for each of the following nonprogram food items offered for sale if the desirable food cost percentage for a school nutrition program is 38% for the school year.

Calculation example: If raw food cost is \$0.20 and desired food cost percentage is 38%:
 $\$.20 / .38 = .5263$ or .53 base selling price.

Recommend a final selling price and summarize how you arrived at the price

Food	Raw Food Cost	Base Selling Price	Recommended Selling Price	Justification for Recommended Selling Price
Bottled Water	\$0.13	\$0.3421		
Pizza Slice	\$0.45	\$1.1842		
Fresh Apple	\$0.22	\$0.5789		
Hamburger	\$0.76	\$2.00		
Milk 1/2 pint	\$0.21	\$0.55		
Banquet Meal per Plate	\$3.69	\$9.71		
Catered Meal per Plate	\$3.21	\$8.45		

Instructor's Note: Emphasize to participants that raw food costs and the selling price of food items can vary from district to district, region to region, or state to state, therefore directors should always calculate prices based on the raw food cost to their district. Do not rely on prices charged in other districts.

ASK: Will the reporter from each table tell us your team's base selling price and recommended final selling price for the item(s) assigned? Tell us the considerations you used to determine the final selling price.

SHOW SLIDE: *Nonprogram Foods Sold Away from Campus or Outside School*

SAY: In addition to nonprogram food sales at school during the school day, many districts provide food outside the school day or away from the campus. These include:

- catered food or meals to outside groups or groups within the school district,
- contract meals served on a regular basis, and
- special school function meals such as athletic banquets.

ASK: Are there any questions?

SAY: The next topic we will focus on is managing expenditures in the school nutrition program.

Before we proceed to the next section, I want you to get up and move again. This time I am going to start with the middle table. The person at the middle table that was a two is now a one. Count off counter clockwise and moving to the left of the room. Then go the table at the far right of the room and continue counting to the last person.

MANAGING EXPENDITURES

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

SHOW SLIDE: *Managing Expenditures in School Nutrition Programs*

SAY: School districts are faced with finding ways to reduce costs while meeting increasing demands for more services. Before good financial decisions can be made on ways to improve expenditure management, careful analysis of financial reports must take place.

SHOW SLIDE: *Expenditure Analysis*

SAY: Analyzing financial reports can provide us with the following information:

- Patterns or trends might suggest an avenue for improvement. An example could be a trend downward in participation, indicating a need for possible improvement.
- Significant changes in specific cost categories are a red flag to monitor spending in that area.
- Deviations from financial goals (budget), for example higher food cost percentage alerts the school nutrition director to evaluate food purchases.
- Possible abuse or theft within expenditure categories, such as food or supplies may be easier to spot.
- Transaction or accounting errors will likely stand out in financial analysis.

SHOW SLIDE: *Types of Expenditure Analysis*

SAY: There are several types of analyses appropriate for evaluating how effective the school nutrition program is in managing expenditures. To assure that program priorities are achieved within funds available, analyses must occur on a regular basis. Next, you are going to learn how to calculate the following program measures:

- total costs to produce a meal/meal equivalent,
- meal cost per expenditure category,
- percentages of operational costs (expenditures) to total revenue (operating ratios), and
- cost to produce a meal compared with the average revenue generated per meal.

ASK: How many of you calculate your school or district's average cost per meal/meal equivalent on a monthly basis?

DO: Allow 2 or 3 responses.

SAY: Calculating the cost of producing a meal or meal equivalent is essential to measuring the performance of the school nutrition program. The calculation must be determined on a regular basis, preferably monthly. This allows the district to take the necessary action to correct the situation in a timely manner when the costs to produce a meal exceeds the revenue received to cover those costs.

SHOW SLIDE: *Meal Cost Deviations*

SAY: The cost of producing a meal may deviate from the normal average at various times during the year. In some cases, this is justifiable due to circumstances.

Some examples include:

- higher food costs at the beginning of the school year due to higher than normal food purchases,
- a one-time purchase of a large ticket item (USDA requires major equipment to be expended at the time of payment), and
- unplanned large repair bills.

Calculating the Cost to Produce a Meal

DO: Calculating the Cost to Produce a Meal/Meal Equivalent activity

SHOW SLIDE: *Activity: Calculating the Cost to Produce a Meal/Meal Equivalent*

SAY: Turn to the activity **Calculating the Cost to Produce a Meal/Meal Equivalent** in your workbook. Before we begin the activity worksheet, let's review the instructions.

1. You are to calculate the cost per meal for each expenditure category that has a blank cell and then total the meal cost.
2. Remember this formula: divide total expenditures by the total meal equivalents to calculate the costs of producing a meal equivalent. Carry your decimals to the fourth place.

3. Look at the first line, salaries and wages. By dividing the dollar amount, \$885,170 by the total number of meal equivalents, 979,175, one can calculate that salaries and wages cost \$0.9040 per meal equivalent.
4. Work with your table team to calculate employee benefits, purchased food, and total meal cost per meal equivalent. You will have approximately 5 minutes to finish.

Calculating the Cost to Produce a Meal/Meal Equivalent Answer Key

Instructions: Calculate the cost per meal equivalent for each expenditure category listed. Include the total cost of a meal equivalent. Remember: To calculate the costs to produce a meal equivalent, divide expenditures in each category by the total number of meal equivalents.

Given: Meal Equivalents served for the year totaled 979,175

Expenditure Analysis		
Expenditure Category	Dollar Amount	Cost Per Meal Equivalent
Salaries and Wages	\$885,170	\$0.9040
Employee Benefits	357,150	0.3647
Purchased Food	1,055,135	1.0776
USDA Food Value	159,094	0.1625
Supplies	260,902	0.2665
Capital Assets	102,150	0.1043
Indirect Cost	85,125	0.0869
Overhead*	93,518	0.0955
Total Expenditures	\$2,998,244	\$3.0620

* Overhead combines several smaller categories of expenditures for purposes of analysis.

DO: Go over the worksheet with participants and allow 2 or 3 minutes for comments or questions.

SHOW SLIDE: *Food Cost Expenditure Percentage to Total Revenue*

SAY: If a school nutrition director wants to know what percent of revenue is being spent for purchased food during a given period, the formula shown on the slide can be used to yield that information. Cost percentages are calculated by dividing each expenditure category in a given period by the total revenue generated during that same period.

Example: If the cost of purchased food totaled \$16,500 for one month and revenue totaled \$30,000, then 55% of the revenue was used to purchase food. In dollar terms, this tells us that \$0.55 out of every \$1.00 generated in revenue was spent for food during the period examined. If the school nutrition program has set a goal that no more than 45% of revenue should be spent on purchased food and there are no exceptional circumstances, then the school nutrition director should quickly take steps to adjust food costs.

Calculating Percentages of Costs to Total Revenue

DO: Calculating Percentages of Costs to Total Revenue activity.

SHOW SLIDE: *Activity: Calculating Percentages of Cost to Total Revenue*

SAY: Please turn to the activity **Calculating Percentages of Costs to Total Revenue** in your workbook. Before you begin, let's review the instructions for the activity. Let me point out that this worksheet is a continuation of the previous worksheet. In this activity you are to:

1. Calculate the cost percentage to total revenue for each category by dividing the amount in each expenditure category by total revenue (\$2,890,292) and convert to percentages by multiplying by 100.
2. Write your answers in the last column.
3. Add the cost percentages for each category to determine a total for all cost percentages.
4. Work as a team. You have about 3 minutes to complete the worksheet.

Calculating Percentages of Costs to Total Revenue Answer Key

Instructions: Calculate the cost percentages to total revenue for each expenditure category. Write your answers in the last column of the table. Remember: Calculate the percentages of operational costs to total revenue by dividing the amount in each expenditure category by total revenue and multiplying by 100 to get the percent.

Given: Total revenue for the year totaled \$2,890,292.

Expenditure Analysis		
Expenditure Category	Dollar Amount	% of Total Revenue
Salaries and Wages	\$885,170	(.3062 x 100) 31%
Employee Benefits	357,150	(.1235 x 100) 12%
Purchased Food	1,055,135	(.3650 x 100) 37%
USDA Food Value	159,094	(.0550 x 100) 6%
Supplies	260,902	(.0902 x 100) 9%
Capital Assets	102,150	(.0353 x 100) 4%
Indirect Cost	85,125	(.0294 x 100) 3%
Overhead*	93,518	(.0323 x 100) 3%
Total Expenditures	\$2,998,244	105%

*Overhead combines several smaller categories of expenditures for purposes of analysis.

ASK: What is the percentage for total expenditures? (Allow 1 or 2 participants to answer.)

FEEDBACK:

In this activity the percentage of expenditures to total revenue is 105%.

Instructor's Note: The total of all percentages is 105%, but $2,998,224 / 2,890,292 = 103.735$. This shows the effect of rounding on large numbers.

ASK: Since this is more than 100%, what does this tell you about the operation?

FEEDBACK:

Possible comments could include

- program lost money during the period analyzed,
- expenditures were greater than revenue, and
- operating balance decreased by 5% during the accounting period.

ASK: What do cost percentages tell us?

SHOW SLIDE: *What do Cost Percentages Mean?*

FEEDBACK:

If the total of all cost percentages is

- Less than 100% - operating balance increases (more revenue than expenditures)
- Equal to 100% - operation breaks even (revenue and expenditures are equal)
- More than 100% - operating balance decreases (more expenditures than revenues)

The pitfall of being satisfied with breaking even is that when expenditures and revenues are equal, there is no surplus money for program improvement, expansion, or unexpected costs.

Federal Regulations do allow a school nutrition program to have up to three months operating capital on hand. These reserved funds maintain the programs' nonprofit status.

Comparing Revenue Generated with Program Expenditures

SAY: Another performance measure that can be used to analyze the finances of a school nutrition program is to compare revenue generated with program expenditures. A quick comparative review can be helpful in making decisions about increasing revenue and controlling costs in school nutrition programs.

SHOW SLIDE: *Comparing Revenue to Expenditures*

SAY: By comparing revenue and expenditure financial reports, the school nutrition director can determine the

- 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 equivalent served.

DO: **Comparing Revenues to Expenditures** activity

SHOW SLIDE: *Activity: Comparing Revenues to Expenditures*

SAY: Look at the activity **Comparing Revenues to Expenditures** in your workbook. Notice the information is a continuation of previous worksheets. At the bottom of the activity, compare revenue with expenditures for the school year. Take a minute to fill in the two empty cells by calculating both the gain/loss in income and the difference in revenue generated and costs per meal equivalent. Also, answer the three questions after the table.

Instructor's Note: Depending on time, you might want to go through this activity with the participants.

Comparing Revenues to Expenditures

Fill in the empty cells in the table, Comparing Revenue with Expenditures, by calculating the total gain/loss in income for the school year and the gain/loss per meal equivalent.

Revenue and Expenditure Analysis

Given: Revenue and Expenditure information from previous activities Meal Equivalents for the year: 979,175.

Revenue Analysis			Expenditure Analysis		
Revenues	Dollar Amount	Per Meal Equivalent	Expenditures	Dollar Amount	Per Meal Equivalent
Student Sales	\$404,300	\$0.4129	Salaries/Wages	\$885,170	\$0.9040
Adult Sales	27,803	0.0284	Benefits	357,150	0.3647
Nonprogram Food Sales	113,955	0.1164	Purchased Food	1,055,135	1.0776
Contract Food Sales	14,200	0.0145			
Federal	2,143,150	2.1887	USDA Foods	159,094	0.1625
USDA Foods	159,094	0.1625	Supplies	260,902	0.2665
State	18,835	0.0192	Capital Assets	102,150	0.1043
Bank Interest	3,155	0.0032	Indirect Cost	85,125	0.0869
Miscellaneous	5,800	0.0059	Overhead*	93,518	0.0955
Total	\$2,890,292	\$2.9517	Total	\$2,998,244	\$3.0620

* Overhead combines several smaller categories of expenditures for purposes of analysis.

Comparing Revenue with Expenditures

	Total	Per Meal Equivalent
Revenue	\$2,890,292	\$2.9517
Expenditures	\$2,998,244	\$3.0620
Net Gain/Loss	\$(107,952)	\$(0.11)

Activity Questions Answer Key

1. Was there a gain or loss for the year? **Loss.** If so, how much? **\$107,952**
2. What percentage of total revenue was this? **The loss of \$107,952 divided by the total revenue of \$2,890,292 multiplied by 100 gives us a loss of 3.7%.** The loss percentage can also be calculated by dividing the loss per meal equivalent (\$0.11) by the revenue earned per meal/meal equivalent (\$2.9517) and then entering the % key.
3. What was the loss per meal/meal equivalent? **A loss of 11 cents per meal equivalent**

Hint: If expenditures are more than revenues, the program experienced a loss.

SAY: How can school nutrition directors use the information in this activity to improve program operations? (Allow 2 or 3 participants to volunteer answers.)

FEEDBACK:

Possible comments should include the following: The information can be used to

- determine whether or not immediate corrective action should be taken to increase revenue or reduce costs,
- guide budget development for the following year, and
- make recommendations for program improvement.

CONTROLLING FOOD AND LABOR COSTS

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

SHOW SLIDE: *Controlling Food and Labor Costs in School Nutrition Programs*

SAY: Refer to your workbook as we review important factors that guide us in developing strategies to control food and labor costs in school nutrition programs.

Factor #1: While there are no research-based industry standards, generally accepted guidelines suggest that no more than 80-85 percent of the school nutrition program revenue should be spent on food and labor. This may vary from district to district. However, it is a good benchmark when beginning an analysis of your program.

Factor #2: The school nutrition program director should work together with the business office and school site managers to set goals for food and labor costs as part of the budget planning process.

Factor #3: The school district's success in keeping food and labor costs within the established guidelines depends on the financial management skills of the entire school nutrition program department, including the school nutrition program director, the site level managers, and the school nutrition staff.

ASK: Who actually controls the costs in the food nutrition program?

FEEDBACK:

Site level program staff (managers and staff)

SAY: Staff at the site level play an important role in controlling the costs of the program. It is important for them to understand how their use of resources and their productivity can impact on the overall financial status of the program.

Determining Labor Cost

SAY: Some labor costs, such as raises for employees or increases in the costs of health benefits may be beyond the control of the school nutrition director. However, the use of labor hours and the number of employees assigned to each school site is most often a decision that can be made by the school nutrition department. Most school nutrition programs use Meals Per Labor Hour as a productivity index to monitor the efficiency of an operation and as a guide to determine staffing.

Meals Per Labor Hour is a productivity index measured by dividing the total meal equivalents for a given period of time by the total number of paid productive labor hours for the same period.

Paid productive labor hours are the actual hours assigned to a local school site and include all labor charged to and paid for by the school nutrition program for work performed directly related to meals. If workers are paid for sick leave and a substitute is paid, then only the substitute labor should be included in the formula. Sick leave should not be considered productive labor and if used will distort the picture.

SHOW SLIDE: *Meals Per Labor Hour*

SAY: The following formula is used to determine Meals Per Labor Hour.

$$\text{Meals Per Labor Hour} = \frac{\text{Number of Meals/Meal Equivalents}}{\text{Number of Paid Productive Labor Hours}}$$

In the example shown on the slide, the school nutrition program served 338 meal equivalents for the day and paid for 24 hours of actual labor on the job. This means the school had a productivity index of 14.08 or 14 Meals Per Labor Hour.

Analyzing Productivity Using Meals Per Labor Hour

DO: Calculating Meals Per Labor Hour activity

SHOW SLIDE: *Activity: Calculating Meals Per Labor Hour*

SAY: Look in your workbook for the activity **Calculating Meals Per Labor Hour**. Three steps are

used to analyze meal production.

1. Calculate the current total hours of labor paid daily by multiplying the number of employees by the hours worked and adding for total hours.
2. Calculate the average meals/meal equivalents served using the formulas discussed earlier.
3. Use the information in Steps 1 and 2 to determine the Meals Per Labor Hour (productivity index) by dividing the number of meal equivalents by the number of paid labor hours.
4. Take about 2 minutes to complete the activity.

Instructor's Note: Depending on time, you might want to go through this activity with the participants.

Calculating Meals Per Labor Hour Answer Key

Maple School District has determined that an elementary school in the district needs to improve productivity. The school nutrition director and school manager performed the following steps to analyze the existing productivity index. Follow the steps and make the necessary calculations to complete the worksheet.

Step # 1: Calculate the current total hours of labor paid daily in the school nutrition program.

Employee hours paid daily including manager		
Number of Employees	Number of Daily Hours	Total Numbers of Hours
1	7	7
3	6	18
3	5	15
3	3	9
Total Paid Labor Hours Assigned Daily		49

Step # 2: Calculate the average number of meal equivalents served daily.

Instructor's Note: Review the formulas in Step 2 when going over the instructions.

Meal Categories	Meal Equivalents
Lunch (students and adults)	440
Suppers	93
Breakfast (182 x .67)	122
Snacks (75 x .33)	25
Nonprogram Sales \$200 / \$3.57	56
Total Meal Equivalents	736

Step # 3: Using the information, calculate the Meals Per Labor Hour

$$\text{Meals Per Labor Hour} = \frac{\text{Number of Meals/Meal Equivalents}}{\text{Number of Paid Productive Labor Hours}}$$

$$736 / 49 = 15.02 \text{ MPLH}$$

ASK: Will someone share your answer? (Allow a participant to volunteer the answer.)

FEEDBACK:

The answer is 15.02 Meals Per Labor Hour per day.

ASK: What does this mean? (Allow a volunteer to answer the question.)

FEEDBACK:

This means if a school site's goal is to produce 17 Meals Per Labor Hour, the director must decide how to trim labor or increase revenue. However, if the school site set a goal of 15 Meals Per Labor Hour, the school met the goal.

SAY: One of the important decisions any school nutrition director must make is how to lessen the impact of Meals Per Labor Hour on the cost effectiveness of the school meals program. Determining staffing needs is not always the application of a simple formula. Many things may impact staffing in the school nutrition program.

Using Meals Per Labor Hour to Determine Staffing Needs

SAY: Find the activity **Using Meals Per Labor Hour to Determine Staffing Needs** in your workbook. In this scenario, the director uses Meals Per Labor Hour to determine staffing needs by following these steps:

1. Set a goal for the desired number of Meals Per Labor Hour.
2. Divide the total meal equivalents by the desired number of Meals Per Labor Hour to determine the total labor hours needed per day.
3. Determine the difference between current total paid labor hours and desired paid labor.

DO: **Using Meals Per Labor Hour to Determine Staffing Needs** activity

SHOW SLIDE: *Activity: Using Meals Per Labor Hour to Determined Staffing Needs*

SAY: Assume a school district sets a goal of 17 Meals Per Labor Hour. Using the average meal equivalents and total labor hours from the previous worksheet, complete the calculations in Steps 2 and 3 and answer questions 1 and 2 on the worksheet. You have about 3 minutes. Work together as a team.

Instructor's Note: Depending on time, you might want to go through this activity with the participants.

Using Meals Per Labor Hour to Determine Staffing Needs

Answer Key

Instructions: After an evaluation of the productivity level is completed, the school nutrition director can make a decision regarding staffing using the following three steps:

Step 1: Set a goal for the desired number of Meals Per Labor Hour.

Step 2: Divide the total meal equivalents by desired number of Meals Per Labor Hour to determine the total labor hours needed per day.

Step 3: Determine the difference between current total paid labor hours and desired paid labor.

Example

Step 1: Desired number of Meals Per Labor Hour = 17

Step 2: Divide the total meal equivalents from the previous worksheet (736) by the desired number of Meals Per Labor Hour (17). $736 / 17 = 43.3$ or **43**

Step 3: Determine the difference between the current total paid labor hours on the previous worksheet (49) and the desired number of labor hours in Step 2.

$$49 - 43 = 6 \text{ labor hours}$$

Question 1: Will the school nutrition director need to add or reduce hours to achieve the goal of 17 Meals Per Labor Hour? **Reduce hours**

Question 2: What are some choices the director will need to consider to achieve the new goal?

Reduce hours of employees

Eliminate positions

Consider ways to share employees in part time positions

ASK: Will the person wearing the brightest color at each table share their answer to Step 1 with us?
Will someone at the table on my right share their answer to Step 2. (Proceed around the room asking for answers to Step 3, Question 1, and Question 2.)

Are there any other tips regarding how to determine Meals Per Labor Hour you would like to share?

Are there any questions about how to determine staffing needs?

Using Average Daily Participation as a Financial Management Tool

SAY: Another important factor in evaluating productivity and staffing needs is the daily participation level of students in the school meals program.

SHOW SLIDE: *Using Participation as a Financial Management Tool*

ASK: Why is the Average Daily Participation useful as a forecasting tool?

FEEDBACK:

Using a participation forecasting tool

- prevents waste in excess labor hours and overproduction of food,
- reduces customer dissatisfaction because of inadequate staff and too little food prepared for the number served,
- identifies potential customers who are not participating, and
- helps set revenue goals.

SAY: The Average Daily Participation (ADP) for the School Breakfast Program (SBP) and the National School Lunch Program (NSLP) is based on attendance rather than enrollment. Calculating ADP in this manner is considered fairer to schools as it does not include children who are absent or do not eat lunch or breakfast in the calculation (e.g., part-day kindergartners).

Determining Food Cost Factors

SAY: One of the most important aspects of administering a school nutrition program is managing food costs. It is important for school nutrition directors to monitor food costs on a regular basis. High food costs often are the problem when a school or school district nutrition program is experiencing a financial loss.

SHOW SLIDE: *Why Calculate the Cost of Food?*

SAY: This information is vital in order to

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

Calculating the Cost of Food Used

SAY: There are several ways to analyze food costs, but regardless of the method used, management must first calculate the value (cost) of food used in a specific accounting period.

Follow along in your workbook as we discuss the steps for calculating the cost of food used as we view the next slide.

SHOW SLIDE: *Calculating Cost of Food Used*

SAY: The food inventory is taken at the end of the monthly accounting period, the value of the food inventory is calculated, and the cost of purchased food used for the period is determined as follows:

$$\begin{array}{r}
 \text{Beginning Food Inventory (Purchased Food and USDA Foods)} \\
 + \text{Food Purchases (Purchased Food and USDA Foods)} \\
 \hline
 \text{Total Food Available} \\
 - \text{Ending Food Inventory (Purchased Food and USDA Foods)} \\
 \hline
 \text{Cost of Food Used}
 \end{array}$$

As you can see in the formula given, USDA Foods are included with purchased food. The value of USDA Foods is part of the total cost to the program. Under the single inventory process USDA Foods should be valued at the current commercial purchase cost. This provides a more realistic picture of actual food cost to the program.

SHOW SLIDE: *Example of Calculations for Cost of Food Used*

SAY: The examples on this slide illustrate how to calculate cost of food used. You can see the calculation is the same for either an annual or a monthly cost.

Remember: To obtain current and accurate results, a physical inventory must be taken on a regular basis. A minimum of a monthly inventory is recommended.

ASK: (Allow participants to volunteer responses. Allow 1 to 2 minutes for responses.)

- How often do you take inventory in your operation?
- How do you use your inventory as a management tool?
- Which items in a physical inventory do you consider the most important?

SAY: Turn to the handout **Ways to Lower Food Costs in School Nutrition Programs** in your workbook. This handout suggests 15 ways to lower food costs. Can you think of other ways to lower food cost?

Instructor's Note: If time permits, read three or four items on the handout. Otherwise, make the participants aware of the handout.

Ways to Lower Food Costs in School Nutrition Programs

1. Set a goal for managing food costs. Allocate a percentage, for example, 40% of revenue for food costs.
2. Monitor meal costs. Calculate the average food cost per meal on a regular basis.
3. Use standardized recipes. This will ensure more consistent products and shorten training times.
4. Pre-cost and post-cost menus to ensure food items are within predetermined costs levels.
5. Use cycle menus.
6. Reduce plate waste by analyzing reasons for discarded foods. Are menu items unpopular, portions too large, or poor quality?
7. Use portion control tools to ensure accurate serving sizes of menu items.
8. Avoid overproduction of food by careful forecasting. Consider the weather, school activities, and short-day schedules for students.
9. Calculate kitchen waste and account for why it happened. Track cooking mistakes and mis-orders.
10. Manage the purchase of food items through bids and keeping specialized purchases to a minimum.
11. Maintain inventory control.
12. Prohibit the removal of food items from the premises. Do not allow “leftovers” to be taken home.
13. Follow receiving and storage procedures to minimize shortages.
14. Decrease food costs through use of USDA Foods.
15. Implement security measures. Product theft can cause major increase in food costs.

DO: Before starting the next section, take a 10-minute break.

FINANCIAL MANAGEMENT ACTION PLAN

Objective: Develop an action plan.

SHOW SLIDE: *Financial Management Action Plan*

SAY: I know you are excited about applying the components of this training to your program. However, when you return to your district, real life takes over; there are crises to deal with; and meals to plan, produce, and serve. Don't think you have to make all the changes you'd like at once! Take one step at a time. Prioritize the financial management concepts as goals you want to implement. Start by identifying what you consider to be the most critical to improving the financial stability of your operation.

DO: **Financial Management for Success Action Plan** activity. Have the participants spend 30 minutes completing the activity. Then, spend about 15 to 20 minutes discussing some of the goals they have set.

SHOW SLIDE: *Activity: Financial Management for Success Action Plan*

SAY: Refer to your workbook and find the activity **Financial Management for Success Action Plan** worksheet. Take a moment to think back over this training, follow the instructions, and answer the questions. Take approximately 30 minutes to complete the activity.

Financial Management for Success Action Plan

Instructions: Reflect back over the financial management concepts covered in this training. Based on what you have learned today; determine the financial management goal you think is the most important to implement when you return to your school nutrition program. With that thought in mind, fill in the chart to help you reach your financial management goal. When you have completed the activity, discuss at your table what you want to accomplish.

Financial Management Goal (measurable and specific):				

Plan (What will you do to achieve the expected outcome)	Person Responsible	Measure of Success	Target Date	Date Completed

Resources

ASK: Would anyone like to share a goal they want to achieve?

DO: Allow 15 to 20 minutes for the discussion.

SAY: When you return to your district, post your Financial Management for Success Action Plan so it will serve as a motivator. Remember, the key is to make changes in small, manageable increments.

ASK: Does anyone have any questions on what we have covered today?

DO: Answer all questions to the best of your ability. Review questions submitted on the Bike Rack. If you do not know the answer, tell the participants you do not know and will research to find the answer and get back to them.

SHOW SLIDE: *Post-Assessment*

DO: Allow 10 minutes for participants to take the **Post-Assessment**. Collect all of the assessments before giving the correct answers. Make sure participants have put their identifying symbol on top of the page for comparison of learning. Once they have completed the post-assessment, collect the and go over the answer key with the participants.

SAY: Now it is time to see how much you have learned. You will find the **Post-Assessment** on your tables. Make sure you put the same identifier on the top of the page as you did for the pre-assessment. Complete the post-assessment and lay it to one side of the table when you are finished. (Instructor may choose a different way to collect the assessments.) When everyone is finished, we will go over the correct answers. Before you leave today, you may pick up a copy of the **Pre-/Post-Assessment Answer Key** to take with you.

Thank you for attending today's training. The Institute of Child Nutrition partners with USDA's Food and Nutrition Service (FNS) to develop and support training events like our session today. We would like your feedback on this training program.

DO: Provide participants the training evaluation form. Make sure all participants have signed the Attendee Roster.

SAY: I have a Certificate of Completion for each of you for completing *Practical Solutions for Financial Management Success* training. Keep this record in your files.

Congratulations, and thank you for participating today! I hope you will keep learning.

SHOW SLIDE: *ICN on Social Media*

DO: Provide attendees a Certificate of Completion.

SAY: Watch for more chances to take classes through ICN, work, and local school nutrition organizations.

REFERENCES

Institute of Child Nutrition. (2017). *Financial management: A course for school nutrition directors*. University of Mississippi: Author.

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USDA Food and Nutrition Service. (2018). *Menu Planner for School Meals: School Year 2018-2019*. Retrieved from https://fns-prod.azureedge.net/sites/default/files/tn/TNMenuPlanner_Glossary.pdf



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