



Financial Management: A Course for School Nutrition Directors

National Food Service Management Institute

Importance of Financial Management

Objective: Know the importance of financial management to nutritional integrity and fiscally sound operations in the school nutrition program

Can you answer these financial management questions about the school nutrition program in your district?

- Main sources of revenue

- Percentage of total revenue attributed to each sources

- Expenditure categories

More questions?

- Cost to produce a meal
- Percent of revenue spent for labor or food
- Labor productivity index (meals per labor hour)

More questions?

- Net gain or loss over the past 3 years
- How many employees understand the importance of cost controls to the success of the program

Defining Financial Management

Financial Management can be defined as

- The process of defining the financial **goals** and program **objectives** for the school nutrition programs.
- The next step in effective **financial management** is implementing **activities** to attain the goals through the effective use of **resources**

Role of the School Nutrition Director in Managing Finances

- ❑ Management of financial resources
- ❑ Accountability
- ❑ Involve administrators, school board members, school cafeteria managers, and school nutrition staff to identify goals
- ❑ Promote team approach to practice good financial management principles
- ❑ Assess, monitor, and evaluate use of program funds
- ❑ Maintain ongoing training program

Development of a Financial Management System

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

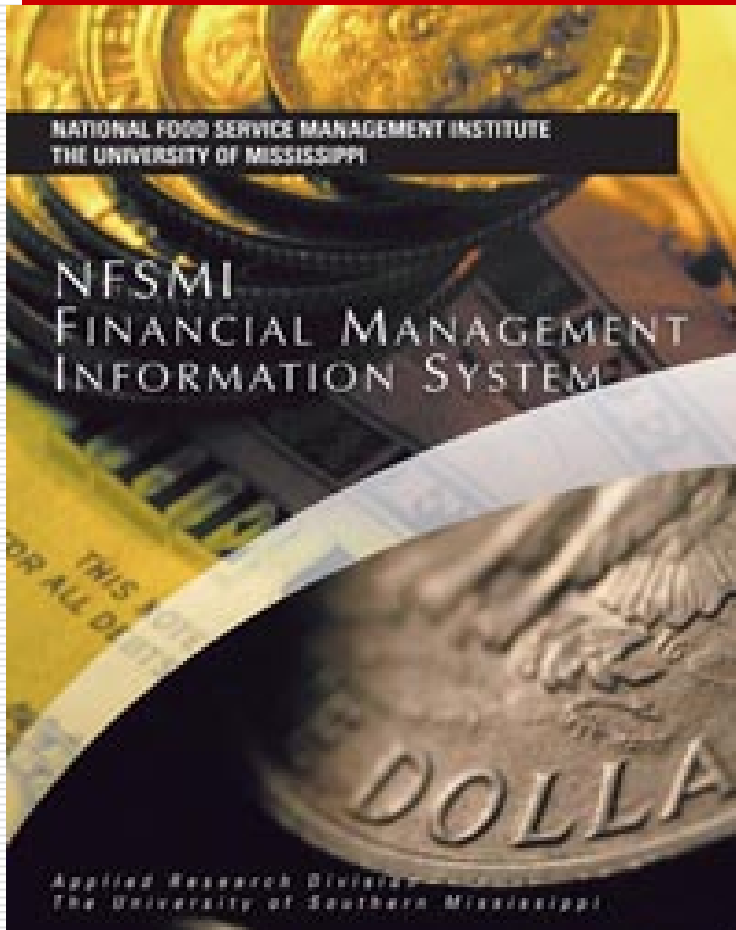
A useful financial management information system

- ❑ provides a uniform financial reporting structure,
- ❑ provides meaningful and timely financial management information,
- ❑ supports federal reporting requirements, and
- ❑ adheres to generally accepted accounting principles (known as GAAP).

Generally Accepted Accounting Principles (GAAP)

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

NFSMI Financial Management Information System



Available at
<http://www.nfsmi.org>

Classification of Expenditures

- Labor
- Employee Benefits
- Professional and Technical Services
- Property Services
- Food and Commodities
- Supplies
- Capital Equipment
- Miscellaneous
- Indirect Costs
- Fund Transfer-Out

Financial Reporting of Revenue and Expenditure Transactions

Objective: Know how to use financial reports that are consistent with federal and state guidelines to achieve a financial management system that supports a cost effective program with high integrity

Types of Financial Reports

- Statement of Revenue and Expenditures (Net Gain/Loss Statement)
- Statement of Net Assets (Balance Sheet)
- Budget

Statement of Revenue and Expenditures

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

Statement of Net Assets

Assets

- Cash balance, receivables due, and value of inventories

Liabilities

- Outstanding payables
- Deferred revenue
- Sales tax owed (when appropriate)

Fund Balance

The Budget as a Management Tool

The budget assists in managing the school nutrition program by

- ❑ forecasting revenue
- ❑ identifying how revenue will be allocated
- ❑ predicting how much money will be in the fund balance at year's end

Methods of Budgeting

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

School Budgets

Public Documents

- The school nutrition program is a nonprofit operation conducted for the benefit of children.
- The program is tax supported.
- Public has a right to expect the nutritional needs of children are met in the most cost effective way.

Setting a Meal Standard for Financial Management and Analysis

Objective: Know how to use financial management tools and standards to operate a financially and nutritionally accountable school nutrition programs consistent with federal and state guidelines

Using Meal Equivalents in Program Analysis to Measure Performance

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

- meal cost
- labor productivity ratios
- the average revenue earned per meal/meal equivalent

Meal Equivalent Conversion Formulas

1 lunch = 1 lunch

3 breakfasts = 2 lunches ($2/3 = .66$)

3 snacks = 1 lunch

other food sales

revenue from other food sales

current free lunch reimbursement +
current commodity value per meal

Managing Revenue in School Nutrition Programs

Objective: Know how to analyze, interpret, and use revenue data for program evaluation and improvement

Revenue Accountability

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

Revenue Analysis

- ❑ Calculate average revenue per meal or meal equivalent
- ❑ Establish consistent guidelines for pricing meals and other food items for sale
- ❑ Compare revenue generated per meal with costs per meal

Setting Meal Prices

Average Lunch Cost (\$2.40) minus
Section 4 reimbursement (\$0.23) minus
USDA Commodity Value (\$0.17) yields
Lunch Base Price = \$2.00

The average lunch cost of \$2.40 is hypothetical figure for illustrative purposes only. Many school districts project meal costs for the new school year based on anticipated increases in food, labor, and other considerations, and then use the formula to determine a base price for each meal served.

*Rates shown in this slide are for school year 2006-2007

Considering State Funds When Setting Meal Prices

Consider...

- Is the state subsidy provided as
 - a guaranteed reimbursement per meal,
 - lump sum that is subject to annual change, and/or
 - supplement funds to cover specific costs?
- Is the school district nutrition program financially viable?

Focus of School Nutrition Programs

- The main focus of the school nutrition program is to provide **good nutrition** that promotes the **health** and **wellness** of students so they can be more **productive** in the classroom.

Types of Nonreimbursable School Day Food Sales

1. **Adult meals**
2. Sale of a **second meal** to a student
3. **Individual components of the reimbursable meal** such as milk
4. **Other food items not on the menu (a la carte)**

Desired Food Cost Percent Mark-up

- Steps to establish a base selling price
 1. Determine raw food costs.
 2. Identify the desired food-cost percentage for school nutrition program.
 3. Divide the food item raw cost by the desired food cost percent.

Nonreimbursable Foods Sold Away from Campus or Outside School Day

Catered meals to outside groups

Contract meals served on a regular basis

Special school function meals such as athletic banquets

Managing Expenditures in the School Nutrition Program

Objective: Know how to analyze, interpret, and use expenditure data for program evaluation and improvement

Expenditure Analysis

- Analyzing financial reports can provide information about
 - patterns or trends
 - significant changes in costs categories
 - deviations from financial goals
 - possible abuse or theft
 - transaction or accounting errors

Types of Expenditure Analysis

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

Meal Costs Deviations

- Higher food costs at the beginning of the year due to larger than normal purchases
- Purchase of a big ticket item
- Unplanned large repair bills

Food Cost Percentage to Total Revenue

□ Formula:
$$\frac{\text{Costs of Purchased Food}}{\text{Total Revenue}}$$

□ Example:
$$\frac{\$16,500 \text{ (food costs)}}{\$30,000 \text{ (revenue)}} = .55 \times 100 \text{ or } 55\%$$

□ 55% of all revenue generated was used to purchase food.

What do Cost Percentages Mean?

If total of all costs percentages is

- ❑ Less than 100%, *operating balance increases.*
- ❑ Equal to 100%, *program breaks-even.*
- ❑ More than 100%, *operating balance decreases.*

Comparing Revenue to Expenditures

Comparing revenue to expenditures tells us

1. total net gain/loss to the school nutrition program expressed in **dollars**
 2. percent of gain/loss expressed in **percentage** of revenue
 3. net gain/loss per **meal** or **meal equivalent** served
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Controlling Food and Labor Costs in School Nutrition Programs

Objective: Know how to apply cost control measures to operate a financially sound program with nutritional integrity

Meals Per Labor Hour

$$\frac{\text{Number Meals/Meal Equivalents}}{\text{Number of Paid Labor Hours}}$$

Example:

$$\frac{338 \text{ total meals/meal equivalents}}{24 \text{ paid labor hours}}$$

= 14.08 or 14 meals per labor hour

Using Participation as a Financial Management Tool

Used as a forecasting tool to

- ❑ prevent **waste** in excess labor hours and **overproduction** of food.
- ❑ reduce customer dissatisfaction because of inadequate **staff** and too little **food** prepared for the number **served**.

Calculating the cost of food used helps to

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

Calculating Cost of Food Used

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

Example of Calculations for Cost of Food Used

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

USDA Single Inventory Guidance

- ❑ Inventories of **donated** foods no longer must be separate from **inventories** of other foods
- ❑ Most commodities are packed with **commercial** labels instead of **USDA** labels
- ❑ Procedures differ from state to state, and some states continue to maintain two **inventories**
- ❑ Follow the policies of your **state** and **district**

Developing and Analyzing a School Nutrition Budget

Objective: It is important for school nutrition directors to understand the importance of using the budget as an analysis tool and control document

Follow-up, Questions, Post Assessment, and Course Evaluation

Objective: Recall the benefits of financial information as it relates to your school nutrition programs