

CHAPTER 4-RESOURCE MANAGEMENT

All SFAs must incorporate a systematic approach to ensuring the overall financial health of an SFA's nonprofit school service. For many SFAs, resource management requires participation and cooperation of the business office or bookkeeper. Compliance with the federal requirements for resource management helps to ensure fiscal health of the school meal program's nonprofit food service account.

SCHOOL FOOD SERVICE ACCOUNT

The school food service account is an account used only for the school food service program. This account must be maintained separately from the General Fund by creating a separate food service account or by setting up codes that track all revenue and expenses for the school food service program separately from the General fund. The system must ensure that only funds for school food service are used for school food service. Schools cannot borrow against the account and funds cannot be used to pay for other school costs that are not either directly or indirectly (see Direct Costs) associated with the school food service program. If the school designates funding for operating expenses for the school food service program must go to the program and remain in the program to pay for program cost. All revenue and expenses must be posted to the school food service account. Revenue at the end of the program year should be carried over into the new year.

Cash Controls

The school should implement cash controls and record keeping methods to safeguard funds. Schools should deposit cash into the food service account daily. The SFA should document daily cash receipts and deposits. Documentation such as bank deposit records should support all deposits.

To further safeguard funds, schools should separate duties among the employees who collect and record meal payments and the employees who deposit funds into the food service account. Although one person may be responsible for maintaining the account, there must be oversight to ensure integrity of funds and to ensure that the use of funding is only for the school food service account. Other personnel should be responsible for the oversight of funds.

Maintenance of the Nonprofit School Food Service Account

SFAs are required to maintain and use nonprofit school food service funds according to regulatory requirements. SFAs must observe the limitation on the use of the nonprofit school food service account revenues set forth in 210.14 and ensure related costs are necessary, reasonable, and allowable. Funds should be used only for the operation and improvement of the school food service and net cash resources may not exceed three months' average operating costs. When revenue exceeds three months' average operating cost, the SFA must find way to use the money for food service. Improving food quality or environment should always be an option.

Revenue

All revenues received for the school food service account must be used only for the operation and improvement of the food service program. Revenue includes, but is not limited to:

- Money collected for the sale of food for breakfast, lunch and after school snacks (if part of the program).
- Reimbursement payment for free, reduced-price and paid meals.
- Funds collected from grants, fundraisers, and other accounts that are specially earmarked for the school food service program.
- Funds collected for the sale of a la carte foods
- Funds collected for the sale of teacher, or adult meals. If staff is not charged for meals, the general fund or another nonfederal source must pay for the meals which are deposited into the school food service account.
- Earnings on investments

Use all **nonprofit school food service revenue** solely for the operation or improvement of the school food service:

- Revenues must be used for food, equipment, and labor to operate the meal program;
- Revenues must not be used to purchase land and/or buildings, or to construct buildings, unless approved by FNS; and
- SFAs may use facilities, equipment, and personnel supported with nonprofit school food service revenues to support a nonprofit nutrition program for the elderly, funded under the Older Americans Act of 1965.
- SFAs must limit **net cash resources** to three months' average operating costs. Limiting the size of food service net cash resources ensures that funds in the nonprofit school food service account are expended to improve program operations and meal quality.
- SFAs must comply with **allowable cost** restrictions, limiting expenses of nonprofit school food service funds to those costs that are necessary, reasonable, and allocable.

Expenditures

The school food service program should categorize all food service expenditures. Records such as itemized receipts, invoices and/or canceled checks should be maintained to document expenditures. To be allowable, expenditures must comply with program regulations. Listed below are the types of allowable and non-allowable expenditures that may be made by schools operating the school food service programs under the National School Lunch Act:

Allowable Expenditures

- Food purchases and costs directly related to the storage, handling, processing and transportation of food.
- Labor, which includes payments for labor and other costs directly related to operating the child nutrition programs. This includes employer's share of retirement, Social Security, insurance payments and fringe benefits.

- Other supplies and expendable equipment used directly in the operation of the school food service. This includes items that must be replaced from time to time, such as pots and pans, serving trays, dishes, glassware, silverware, linen, mops, brooms, cleaning supplies, etc.
- Replacement of non-expendable items, generally classified as movable property, and used directly in preparing, storing or serving meals. This includes ranges, steam equipment, refrigerators, freezers, steam tables, mixers, storage cabinets, garbage containers, tables, chairs, hot heaters, portable fans and other equipment. This category may include such items as charges for installing equipment and connecting to utilities in the building in which the program is operated, as well as service for maintenance and repair of equipment.
- Travel on food service business such as workshops, conferences and training programs.
- District training for food service employees.
- Memberships, subscriptions, books and audiovisual equipment used to benefit food service.
- Rental of non-publicly owned food storage facilities or equipment as required for program needs.
- Cash registers, calculators, computers, computer software, communication equipment and other office equipment used exclusively for the food service operation.
- Printing and reproduction equipment or services.
- Employee information publications.
- Automotive equipment used exclusively in transporting food.
- Services, such as pest control, trash removal, security and janitorial.
- Utilities, when accounted for separately (actual costs) or prorated to charge only the portion used by food service. The best proration method is using separate meters; the next best is survey by utility company; otherwise, use a reasonable method (square foot percent, gas bill in months when the school is not heated, etc.).
- Advertising for the recruitment of personnel, for the solicitation of bids, for the procurement of goods and services required and for the disposal of scrap or surplus materials.
- Promotional materials, exhibits relating specifically to the program and advisory councils related to parental and student involvement.

Non-allowable Expenditures

- No income accruing to the food service program may be used to purchase land, acquire or construct buildings or make alterations to existing buildings that materially increase the value of capital assets.
- Capital Expenditures
- Contributions and donations.
- Entertainment, amusements, social activities, gratuities and related activities.
- Interest on borrowing.
- Rent or usage fees for -owned facilities.
- Cafeteria monitors. School food service funds may not be used to pay salaries for monitoring.

Banquets/Catering/Adult Cafeterias

Schools that contract with the School Nutrition Programs are limited in the use of school food service funds. When using school food service funds, schools must establish procedures for site function such as banquets. These funds may only be used for on-site functions and federal allowable cost rules apply. Functions that are not considered school functions, such as church banquets, must be procured completely separate from other school food services purchases. If using school food service funds, banquets, students stores, and adult cafeterias feeding only adults should be set up as a catering account and the school food service account must be reimbursed fully for the catering costs. Commodities must not be used for these meals. A separate project reporting code must be used to track expenditures and revenues. All records for banquets and catering items, whether the function is school or nonschool in nature, must be maintained separately. In addition, the **total cost** of all meals must be recovered, including not only food but also labor, utilities, use of equipment, etc.

NET CASH RESOURCES

A sample balance sheet is provided to help the SFA perform the calculations to determine net cash resources. This is just a sample and may not reflect all categories that typically would appear on a balance sheet. SFAs should add assets, liabilities, and resources applicable to the school food service program. Follow the steps for the balance sheet to determine compliance with net cash resources.

Step 1 — Total Nonprofit Food Service Revenues for the SFA: Determine the available revenues based on the most recently closed-out year. Identify all monies received by or accruing to the nonprofit school food service account including, but not limited to, meal payments, earnings on investments, other local revenues, state revenues (i.e., reimbursements and state match), and federal cash reimbursements. This information should be available on the statement of revenues and expenses, the general ledger, or other similar documents.

Step 2 — Total Expenses: Determine total expenses incurred in the operation or improvement of the nonprofit food service program.

Step 3 — Net Cash Resources: Calculate the net cash resources using the values from Step 1 and Step 2: Step 1 (Total Net Cash) - Step 2 (Total Cash Payable) = Step 3 (Net Cash Resources)

Step 4 — Identify the SFA's Three Months' Average Expenditures (i.e., liabilities): Using the annual balance sheet or comparable documentation, the SA must convert the annual expenditures to average monthly expenditures by dividing a full year's total expenditures by the number of operational months and multiply by 3 months as follows:

Calculating Three Months' Average Expenditures

Step A: Full year's expenditures / Total months operating = 1 month average expenditure

Step B: 1 month average expenditure x 3 = SFA three (3) months' average expenditures

Note: SFAs may use an alternative calculation if one has been approved by the State agency.

Sample Balance Sheet		
<u>Current Assets</u>		
Cash and Cash Equivalents		
Cash in Bank	\$ _____	
Petty Cash	\$ _____	
Cashier's Change Cash	\$ _____	
Investments	\$ _____	
Step 1: Total Current Assets		\$ _____
<u>Current Liabilities</u>		
Accounts Payable	\$ _____	
Accrued Salaries	\$ _____	
Accrued Payroll Deductions	\$ _____	
Due to Other Funds	\$ _____	
Deferred Revenue	\$ _____	
Step 2: Total Liabilities		\$ _____
<u>Net Cash Resources</u>		
Subtract Total Liabilities (Step 2) from Total Current Assets (Step 1)		
Step 3: Net Cash Resources		\$ _____
Average monthly expenditures (divide end of year by 12) step 4		\$ _____
Three months average Expenditure (multiply step 4 by 3)		\$ _____

Step 5 — Determine the SFA's Compliance with Net Cash Resources Requirements

If the annual net cash resources amount (see balance sheet above) is less than the three months' average expenditures amount as determined above, the SFA is in compliance. If the annual net cash resources amount is higher than three months' average expenditures, then the SFA is not in compliance, unless approval has been given by the SA to the SFA.

Balance sheets should be updated monthly and then at the end of the year as part of the close-out. At the end of the year it is necessary to identify total nonprofit food service revenues, total expenses, net cash resources and the SFA's three months' average expenditures.

To identify three months' average expenditures (I.E., liabilities), the SFA must use the balance sheet listed above (or comparable documentation) to complete steps 1-3. Using the information, convert the annual expenditures to the average monthly expenditures.

Costs that are Reasonable and Necessary

The food service program must be “nonprofit”. Programs may only use the revenues received for the operation and improvement of the food service program. Prior to using school food service funds to pay for something, the SFA must determine if general expenses appear to be reasonable, necessary and allocable. Find the federal **Allowable Cost Rules** under OMB Circular A-87 “Cost Principles for State, Local, and Indian Tribal Governments” for public schools and public institutions, and OMB Circular A –122 “Cost Principles for Nonprofit Organizations” for private non-profit schools and residential child care institutions.

A reasonable cost must follow restraints imposed by generally accepted sound business practices, including an “arms-length” standard, or the price that item or service would be on the open market, and follow state and federal regulations. Costs must be assigned to the programs, functions and activities that benefited from the SFA having incurred the cost. All costs must be adequately documented and treated consistently as direct or indirect.

- Costs that are not reasonable and necessary for program purposes or that do not otherwise satisfy federal cost principles and program regulations are unallowable.
- Costs that would otherwise be allowable may be made unallowable by the action or inaction of the SFA. For example, if a SFA purchases a food processor without following a competitive procurement process, then that cost becomes unallowable, because the SFA failed to maintain the required documentation to support the costs charged to the program. No portion of an unallowable cost may be charged to the program.

INDIRECT COST

SFAs must follow fair and consistent methodologies to identify and allocate allowable indirect costs to school food service accounts. **The nonprofit school food service account funds are limited to those expenses that are reasonable and necessary to provide quality meals for the NSLP and SBP.** The full cost of the NSLP and SBP include both direct and indirect costs. Direct costs are incurred specifically for the NSLP and SBP, and can be readily identified to a particular school food service objective. Allocation of indirect cost is necessary because it identifies the portion of the costs benefiting the school food service.

SFAs should refer to guidance *Indirect Cost: Guidance for State Agencies & School Food Authorities* for identifying reasonable and necessary indirect costs. The guidance intends to provide the following information on program rules pertaining to indirect costs:

- Definitions for both direct and indirect costs, including the proper classification of costs and discussion on the treatment of certain typical costs in the NSLP and SBP. Direct costs are discussed because direct and indirect costs are complementary;

- An overview of the Federal cost principles and explanation that all costs (direct or indirect) paid with funds from the nonprofit school food service account must be allowable. The guidance provides criteria that will aid an SFA in determining allowable costs and includes relevant examples;
- Information on how a school district's general fund recovers indirect costs from the nonprofit school food service account. This includes appropriate application of the indirect cost rate and the requirements for the SFA to determine the rate;
- Considerations for the SFA when assessing indirect costs charged to the nonprofit school food service account. This information includes how an SFA should address errors and the billing of previous years' indirect costs; and
- An overview of how the indirect cost rate is developed as relevant background information for SFAs. The information includes a discussion on appropriate uses of restricted or unrestricted indirect cost rates and adjustment of the rates.

Indirect costs are incurred for the benefit of multiple programs, functions, or other cost objectives, and therefore cannot be identified readily and specifically with a particular program or other cost objective. They typically support administrative overhead functions such as fringe benefits, accounting, payroll, purchasing, facilities management, utilities, etc. Charges for indirect costs are based on two factors:

- The indirect cost rate established for a specific fiscal year, and the corresponding direct cost base
- A documented methodology that accurately allocates indirect costs.

In most cases, the indirect cost rate is in the indirect cost rate agreement, negotiated and approved by the associated state educational agency. Indirect cost rate agreements expire annually and it is imperative that SFAs use the most current approved rate for each fiscal year. The direct cost base is the sum of allowable and unallowable costs that receives a benefit from the costs in the pool.

When charging for indirect cost:

- SFAs must use the correct indirect cost rate and ensure that the correct rate is applied to the correct the direct cost base.
- If the SFA is charging the school food service account for indirect costs, it must have an approved indirect cost rate agreement.
- SFAs must ensure that the indirect cost rate is applied to the correct direct cost base.
- Indirect cost charged to the school food service account must be consistent with the approved agreement.
- If the SFA charges indirect cost to the school food service account, it must ensure that all other programs or funds are charged accordingly.
- SFAs cannot not conduct retroactive billing for prior years, unless the SFA has a loan agreement and supporting documentation.
- Cost must be properly classified as direct and indirect. An expense cannot be charged directly to the school food service account if it is including in the indirect cost pool (known as double dipping).
- Documentation must be available to support indirect cost and charges.

REVENUE FROM NONPROGRAM FOODS

Under subsection 12(q) of the Richard B. Russell National School Lunch Act and 7 CFR 210.14(f), School Food Authorities are required to ensure:

- All revenue from the sale of nonprogram foods accrues to the non-profit school food service account; and
- Revenue available to support the production of reimbursable school meals does not subsidize the sale of nonprogram foods.

A nonprogram food means any food (other than reimbursable meals) or beverage purchased using nonprofit school food service account funds. Examples of nonprogram foods include a la carte foods, adult meals (see FNS Instruction 782-5) and food items purchased for vending machines, school stores, etc.

The cost to obtain a nonprogram food includes only the cost of the food. If a nonprogram food is made from scratch, the SFA would determine the price of ingredients to calculate the food cost. The SFA should not include labor or other costs in this calculation. This same principle applies to calculating program food costs for the purpose of this provision.

In addition, the SFA must price adult meals (breakfast and lunch) so the adult payments in combination with any per-lunch revenues from other sources designated specifically for the support of adult meals (such as State or local fringe benefit or payroll funds, or funding from voluntary agencies) is sufficient to cover the overall cost of the lunch are sufficient to cover the overall cost of meals, including the value of any USDA Foods used in the production of adult meals.

While schools can use donated foods for preparing food items served in adult meals, schools must consider the current per-meal value of entitlement and/or bonus-donated foods when establishing the price charged to adults for meals.

The SA must ensure that SFAs comply with the requirements that *revenues from the sale* of nonprogram foods generate at least the same proportion of total school food service account revenues as *expenditures from the purchase* of nonprogram foods contribute to total school food service account food costs.

To do this the SFA must determine its total food cost and the proportion of that total that is nonprogram food. The SFA would then calculate the share of total revenue generated from nonprogram food sales over the same period. If the second figure is at least as great as the first figure, then the SFA is generating sufficient revenue from nonprogram food sales.

Food Cost/Revenue Formula

SFAs must separate their nonprogram food costs from their program food costs for a period of at least 5 consecutive operating days (or 4 consecutive days for schools that only operate 4 days).

If the SFA is able to show that the percentage of nonprogram revenue generated is at least as great as the percentage of nonprogram food costs incurred during the reference period, the SFA is in compliance with Federal requirements.

The calculation to determine if the revenue for nonprogram foods is in proportion to the total school food service revenue is:

$$\frac{\text{Total nonprogram food revenue}}{\text{Total program revenue}} \geq \frac{\text{Total nonprogram food cost}}{\text{Total food cost}}$$

These are the figures needed from the reference period.

<p>Total food cost _____</p> <ul style="list-style-type: none"> • Cost of food for reimbursable meals _____ • Cost of nonprogram food _____ <p>Total Revenue _____</p> <ul style="list-style-type: none"> • Revenue from reimbursable meals _____ • Revenue from nonprogram foods _____ <p>Revenue Formula:</p> <ul style="list-style-type: none"> • Cost of nonprogram foods _____ / total food costs _____ = _____% (percentage of nonprogram food costs) • _____% (percentage of nonprogram food costs) x _____ (total revenue) = _____ Revenue required from nonprogram foods

To determine if the SFA needs to increase the prices of nonprogram foods, the SFA must use the nonprogram food revenue tool, provided by our office, or the formula listed in the box above.

Identifying Food Cost and Revenue

Pricing schools must comply with rules for determining proportion of revenue assigned to reimbursable meals and nonprogram foods. For small private schools without computerized cost systems, it can be difficult to track all food items and cost of meals. Listed below are some suggestions for tracking meal cost and revenue.

Separate nonprogram food account

- Set up a separate account for nonprogram foods.
- All expenses for nonprogram food cost is paid from the nonprogram food account. Purchase all purchased a la carte items, including milk, other beverages, a la carte items
- All revenue for a la carte account is deposited into the nonprogram food accounts
- Revenue must cover all the cost to produce and service those meals.
- For a la carte items sold separately that are also part of the reimbursable meal: if these items cannot be purchased from the a la carte account, the food cost and revenue for those items including revenue must be tracked and accounted for in the school food service account. The proportioned revenue rate will apply.

Nonprogram food items purchased in the school food service account

- If possible, ask distributor to separate invoice by program food and nonprogram foods.
- Ask distributor to provide invoice with a cost per serving in order to identify food cost per item
- Track meal cost for nonprogram food items and reimbursable meals.
- Track all reimbursable meals, second meals, adult meals, a la carte items including milk, other beverage, and single food items.
- Track all revenue per item
- Use the food cost/revenue formula to determine proportion of revenue assigned to nonprogram food items
- Ensure a la carte items are priced according to the food cost/revenue formula

How should school food service operations that offer a limited number of a la carte items (i.e. milk only) comply with nonprogram foods requirements?

Some SFAs may offer a limited number of nonprogram food items with an identifiable per serving cost (i.e., only sell milk a la carte) and are not able to accurately perform the assessment. In these instances, the SFA may be charging the full cost for the nonprogram foods offered, but due to the small number of these items in relation to the total revenue and cost, the assessment may overestimate the required increase.

Our office will review these and determine that the compliance assessment does not fully represent the SFA's pricing practice and will instead base compliance on whether or not the SFA is recovering more than the per-serving food cost of these nonprogram items.

PAID LUNCH EQUITY

The SA must ensure that SFAs comply with the requirements for pricing paid lunches. Reimbursement payments for free or reduce price meals cannot be used to subsidize the cost of paid meals or staff meals. SFAs must find ways to be self-sufficient. If the charge for paid meals does not cover the cost of the cost (including labor) of paid meals for students, second trays and adults meals, the general fund or another account should cover those cost.

USDA now provides SFAs with the amount to charge for paid price meals based on consumer index and inflation rates. If a SFA chooses not to increase charges to the recommended amount, the SFA is required to use the Paid Price Equity Tool to determine how much, if any, funding should be deposited into the school food service account from a nonfederal resource. The calculation will use the average lunch prices from the prior school year to determine how much prices should be increase in the current year. If a SFA does not set price for the current year, high enough, the SFA may be required to deposit money into the school food service account.

SFAs that are charging less then the required charge and choose not to increase paid meal price to the required amount may use non-federal sources to supplement the price of meals.

Financial support from non-Federal sources must be cash for direct support for paid lunches, including but not limited to:

- per-lunch reimbursements for paid lunches provided by States, counties, school districts and others;
- funds provided by organizations, such as school-related or community groups to support paid lunches;
- any portion of State revenue matching funds that exceeds the minimum requirement established in 7 CFR 210.17 and that is provided for paid lunches; or
- any proportion attributable to paid lunches from direct payments made from school district funds to support the lunch service; e.g., a pro-rata share of general funds used to support the lunch service.

Some examples of unallowable non-Federal support are:

- any payments, including additional per-meal reimbursements, provided to the SFA for support of the School Breakfast Program or other Child Nutrition Programs;
- any payments, including additional per-meal reimbursements, provided specifically to support free and reduced price meals; and
- any in-kind contributions converted to direct cash expenditures after July 1, 2011. In-kind includes revenue received from foods and beverages sold in competition with reimbursable meals (examples: a la carte items, milk, second meals, and adult meals).

State and Local Subsidies that Support all Meals

State or local subsidies that directly support paid lunches may be counted as non-Federal sources of funding. Funds that support all meals served must be prorated by the share attributable to the paid lunches as described in the example below. This provision applies only to lunch and therefore, subsidies for breakfast cannot be counted as non-Federal sources.

Example of prorating by the share of total lunches in the paid category:

Total state or local subsidies: \$1,000
 Share of total lunches which are paid lunches: 20%
 $\$1,000 \times 20\% = \200

The Prorated portion of State or local subsidy attributable to paid lunches is \$200; therefore, \$200 must be deposit into the school food service account specifically for paid lunches.

In order to credit non-program funds to cover the cost of paid meals, SFA must deposit the non-federal funds to the food service account. If a SFA pays a bill, it must pay it out of the food service account. The SFA cannot pay a bill form the general fund and designate that as non-program funds to cover the cost of paid meals. Revenue from a la carte meals, second meals, adults meals and federal subsidies for free and reduced price meals cannot be used to cover the cost of paid meals.

Meal Pricing for Free and Reduced Price Meals

Schools must ensure that students are only charged the allowable amount for free and reduced price lunches. Students eligible for free and reduced price meals cannot be charged more than the federal set rate because federal funds is subsidizing the difference. Only one meal per student per day may be claimed for reimbursement. The claimed meal must meet the meal pattern requirements set forth by USDA.

A la carte items and seconds meals taken by students eligible for free and reduced price cannot be claimed for reimbursement. Those meals should be charged according to the set price for those items. If a school chooses not to charge students for a la carte items, the cost of those items must be charged to a funding source other than the school food service account.

Reduced Price Meals

Students approved for reduced- price meals cannot be **charged more than 30 cents for breakfast or 40 cents for lunch**. If a school is participating in the After School Snack Program, children eligible for reduced price snacks cannot be charged more than 15 cents.

Students eligible for reduced-price meals should never be charged more than 40 cents for reimbursable lunch or 30 cents for a reimbursable breakfast. If the food service program provides more than one reimbursable meal option and one meal is priced higher than the other, students eligible for reduced-price meals cannot be charged more for the higher priced meal.

There is no requirement to serve non-reimbursable meals for the reduced-price to eligible students, since those meals cannot be claimed for reimbursement. If a student eligible for reduced-price meals elects to take a second tray, that student should be charged full price for a second tray. If a school chooses not to charge for second trays, the cost of those items must be charged to a funding source other than the school food service account.

Free Meals

Students eligible for free meals should never be charged for reimbursable meals. If the food service program provides more than one reimbursable meal option and one meal is priced higher than the other, students eligible for free meals cannot be charged for the higher priced meal.

There is no requirement to serve non-reimbursable meals for free to students eligible for free meals, since those meals cannot be claimed for reimbursement. If a student eligible for free meals elects to take a second tray, that student should be charged full price for a second tray. If a school chooses not to charge for second trays, the cost of those items must be charged to a funding source other than the school food service account.

Other factors for determining the Paid Price

Prior to setting the price of a reimbursable meal, the school should determine the cost to produce the meal. The minimum charge to a student paying full price should be the cost of producing a meal minus the federal reimbursement for that meal. However, if it costs more

then the minimum set price, schools should increase prices to cover those costs. The cost of producing a meal includes food costs, labor cost, and supplies.

Program regulations require schools to price lunch and breakfast each as a unit. The “offer versus serve” provision should not affect the selling price for the lunch or breakfast established by the sponsor. Regardless of which items a student chooses, they must pay the established full or reduced-price meal charge unless eligible for a free meal.

Schools may offer students a choice of reimbursable lunches. One lunch may be more expensive than another because of a special meal item. However, free and reduced-price recipients must be able to choose either meal at no additional charge.

Nonpricing programs with students eligible for free, reduce price and paid.

A school may choose to be a pricing program and charge students for their meals, or choose to be a non-pricing program and not charge students for their meals. The Nonpricing Program consists of all students receiving breakfast or lunch free of charge. It is a local decision whether to charge the students for meals.

If the school conducts a nonpricing program, schools must still claim student meals in the benefit category (free, reduced, or paid) the child is approved. This will require schools (including RCCI with day students) to obtain applications or conduct direct certification to determine eligibility. SFAs are reimbursed by the category each meal is claimed.

Although nonpricing schools are not charging students for meals, schools are still responsible for covering the cost of meals above the reimbursement rate provided to paid and reduce price students.

RCCIs with 100% free eligibility and Cost of Free Meals

RCCIs that do not have day students and 100% free eligibility are required to keep track of all students eligible for free meals. Although all students are eligible for free meals and RCCIS receive reimbursement at the free rate, RCCIs are still required to pay the cost of nonprogram foods. Funding received for reimbursable meals should be used to provide quality meals and to pay for expenses involved in producing reimbursable meals.

PAYMENT COLLECTION

SFAs that charge for meals must implement collection procedures that facilitate an accurate meal count system rather than inhibit it. During this process, SFAs must also prevent overt identification of free and reduced-priced students.

The SFA has several options for collecting payment for meals. The SFA can allow students to prepay, pay at the point of service or the school may post-bill students. An all cash line is unacceptable because it overtly identifies students eligible for free meals and reduced price meals. However, all children must have the option to pay cash during the meal service. Students regardless of eligibility category should have the same payment options. For instance, if students eligible for paid meals have the option to pay on a weekly basis, students eligible for reduced price meals must also have this option.

Ticket Sales

If a school is using tickets, the tickets should be used to identify the student either by name or by number. To prevent overt identification, the tickets should not be devised in a manner so that students eligible for paid price, reduced priced or free meals are categorically identified. If the school uses ticket collection to count meals for reimbursement, the tickets must be kept on file for the record keeping period set forth by the federal regulations. Each time a ticket is purchased, the SFA should document the transaction on a cash report. A Cash Report should indicate the total tickets sold by date, type, and name of student. Bank documents should indicate the deposit of such funds.

Adult Meals

Federal regulations for the National School Lunch Program and the School Breakfast Programs prohibited use of federal funds to feed adults. School food service programs should ensure that the cost of meals served to adults covers the food cost of the meal plus the revenue rate assigned to a la carte meals.

If it is the SFA's policy to serve adults a meal free of charge or charge less than the cost of the meal, it is the SFA's responsibility to ensure payment is made to the food service account for that meal from funding sources other than the school food service account. Funding sources may consist of the general fund, charitable donations, or fundraisers. For accounting purposes, payments made for adult meals should be designated as a separate line item for adult meals. Schools must price adult meals and document how the food service program is recovering the full cost of the meal.

Adults who are directly involved in the operation and administration of the school nutrition programs may, at the discretion of the SFA, be furnished meals at no charge. As such, the cost meals served to food service staff may be supported by the nonprofit food service operation. The determination of individuals, positions involved, and the degree to which their services are attributed to the nonprofit food service program operations is left to State and local officials.

The adult charge should be at least the amount of reimbursement received for a free lunch plus the per-meal value of both entitlement and bonus donated foods. For Breakfast, the adult charge should be at least the rate of reimbursement free meals. **If the RCCIs or schools do not charge staff for meals, SFAs must deposit funding for those meals directly into the School Food Service Accounts from a nonfederal funding source.**

MINIMUM PRICING OF ADULT MEALS FOR NONPRICING PROGRAMS

NON-PRICING SCHOOLS

In non-pricing programs, the adult charge should be at least the amount of reimbursement received for a free lunch under Sections 4 and 11 of the National School Lunch Act, plus the per-meal value of both entitlement and bonus donated foods. For Breakfast, the adult charge should be at least the rate established for free meals under Section 4 of the Child Nutrition Act, plus the value of bonus commodities.

Table II: Minimum price of an adult lunch in non-pricing schools

Lunch	Update Annually when reimbursement rates are release
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Current Year Reimbursement for a free lunch: \$_____ (add extra 2 cents if applicable)	\$_____
Per meal value of entitlement and bonus commodities	+ \$_____
Minimum price for adult lunch	= \$_____
Breakfast	
Student Breakfast reimbursement: \$_____ (add severe need rate if applicable)	\$_____
Value of bonus commodities (if applicable)	+ \$_____
Minimum price for an adult breakfast	= \$_____

USDA Foods

USDA foods also known as commodities is a financial resource and must be treated as a resource. The SA must ensure that the SFA and its participating schools have acceptable policies and procedures in place to safeguard and utilize USDA Foods in the School Meals Programs (7 CFR 210.14(d)).

SFAs

- Must maintain documentation demonstrating the value, use and safeguard of USDA foods.
- Must ensure proper storage and use of foods
- Must record receipt, value, storage and use of USDA foods.
- must utilize USDA food in the School Nutrition Programs
- when processing, procure the end products from commercial processors or distributors in accordance with requirements
- must reconcile and maintain records sufficient to ensure that purchasing agents or FSMC have credited the value of all USDA foods received for use.

If contracting with a FSMC, The following documents may be needed in order to validate the SFA has received the rebates, discounts and credits it is entitled to:

- The bid document detailing the credit price by commodity type weight/case.
- Inventory report from processor or cooperative
- Invoice/delivery receipt from the processor/distributor showing the credit the SFA received by commodity type.

FOOD TAKEN FROM SCHOOLS

The Child Nutrition Programs was created to serve children. Foods cannot be taken from the premise unless the food has been purchased and proceeds are deposited into the school food service account. Leftovers cannot be taken from the site unless it has been purchased.

Resources Management Tools

NFSMI Financial Management Information System Guidance:

<http://www.nfsmi.org/ResourceOverview.aspx?ID=63>

Indirect Cost Guidance: <http://www.fns.usda.gov/indirect-cost-guidance>

Sample Balance Sheet

All Schools must have an accounting system to document assets, liabilities, revenue and expenses. SFAs can modify this form for these accounting activities. For more information on financial management of school food service, contact the State Agency for a copy of the NFSMI Financial Management Information System.

Sample Balance Sheet		
<u>Current Assets</u>		
Cash and Cash Equivalents		
Cash in Bank	\$ _____	
Petty Cash	\$ _____	
Cashier's Change Cash	\$ _____	
Investments	\$ _____	
Step 1: Total Current Assets		\$ _____
 <u>Current Liabilities</u>		
Accounts Payable	\$ _____	
Accrued Salaries	\$ _____	
Accrued Payroll Deductions	\$ _____	
Due to Other Funds	\$ _____	
Deferred Revenue	\$ _____	
Step 2: Total Liabilities		\$ _____
 <u>Net Cash Resources</u>		
Subtract Total Liabilities (Step 2)		
from Total Current Assets (Step 1)		
Step 3: Net Cash Resources		\$ _____
Average monthly expenditures (divide		
end of year by 12) step 4		\$ _____
 Three months average Expenditure		
(multiply step 4 by 3)		\$ _____

MINIMUM PRICE OF ADULT MEALS

SFAs must ensure that the reimbursement for free and reduced price meals does not cover the cost of adult meals. SFAs have the option to pay the cost from a fund other than school food service or to charge staff and other adults. Use this worksheet to identify the minimum cost of an adult meal.

Lunch	Update Annually when reimbursement rates are release
Current Year Reimbursement for a free lunch: \$____ (add extra 2 cents if applicable)	\$_____
Per meal value of commodities	+ \$_____
Minimum price for adult lunch	= \$_____
Breakfast	
Student Breakfast reimbursement: \$____ (add severe need rate if applicable)	\$_____
Value of bonus commodities (if applicable)	+ \$_____
Minimum price for an adult breakfast	= \$_____

This form is to determine the minimum amount to charge for adult meals. SFAs have the option to set prices higher than the minimum cost. If a school choose the charge less than the minimum amount, the SFA is responsible for funding the difference. Additionally, SFAs may need to increase the price set for adult meals after calculating the revenue rate for nonprogram foods.