

# Food Service Facts

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# 12. Financial Management

## Understanding & Controlling Costs

Child Nutrition & Wellness, KSDE has developed a series of financial reports in KN-CLAIM to assist sponsors with understanding and controlling food service costs. The reports guide the user through the following steps:

- ◆ Determine current financial status
- ◆ Analyze potential average revenue from reimbursable meals
- ◆ Analyze program participation by site
- ◆ Analyze food costs

The Financial Management Reports available in KN-CLAIM include:

- ◆ **Meal Equivalents and Per Meal Expenditures**  
Calculates actual cost per meal while displaying labor expense, food cost, and other cost percentages.
- ◆ **Total Earned Program Revenue**  
Displays revenue generated by the food service program during the previous program year. Use as a planning tool to project revenue for the coming year.
- ◆ **Determine if Adult Meals are Priced Appropriately**  
Determines the amount of transfer required to subsidize low adult meal prices.
- ◆ **Value of Subsidy from Transfers to the Food Service Fund**  
Computes total transfers to the Food Service Fund less the amount of the adult meal price subsidy (if applicable).
- ◆ **Value of Indirect Costs Paid from Other Funds**  
Computes the maximum allowable indirect costs to be paid from the Food Service Fund; and then compares the maximum amount to what was actually paid from the Food Service Fund.
- ◆ **Food Service Direct Costs Paid from Other Funds**  
Summarizes food service related costs paid from funds other than the Food Service Fund, such as additional benefits for food service employees.
- ◆ **Summary of Food Service Costs Paid from Other Funds**  
Summarizes the data compiled on the Value of Indirect Costs Paid from Other Funds and Food Service Direct Costs Paid from Other Funds Worksheets.
- ◆ **Total Operating Costs**  
Total cost of operating the food service program is summarized.
- ◆ **Profit/Loss Statement**  
Determine if the school nutrition program is operating at a profit or a loss.
- ◆ **Operating Loss Subsidies**  
If the Profit/Loss Statement Worksheet indicates that the food service program operated at a loss, this worksheet analyzes the resources used to subsidize the program and maintain a positive cash balance in the Food Service Fund.
- ◆ **Analyze Potential Average Revenue From Reimbursable Meals – Lunch**  
Calculates the average revenue received per lunch for each different paid student meal price.

- ◆ **Analyze Potential Average Revenue From Reimbursable Meals – Breakfast**  
Calculates the average revenue received per breakfast for each different paid student meal price.
- ◆ **Track Lunch Participation by Site**  
Use as a tool to evaluate student and parent satisfaction with school lunches.
- ◆ **Track Breakfast Participation by Site**  
Use as a tool to evaluate student and parent satisfaction with school breakfasts.
- ◆ **Estimated Revenues from Non-Program Food**  
Computes estimated revenues to determine if non-program food is priced appropriately.

The financial management reports can be viewed in KN-CLAIM, Accounting, Financial Management. If you need assistance with understanding or completing the worksheets, please contact the Child Nutrition & Wellness office or your area child nutrition consultant.

Use the self analysis tool located at the end of this chapter as the first step in evaluating current business practices and financial controls.

## Meal Pricing

### Reimbursement Rates

The reimbursement rates for the National School Lunch, School Breakfast, Special Milk and Afterschool Snack Programs are announced annually by USDA and are effective from July 1 through June 30. In addition to the federal reimbursement rates, sponsors in Kansas receive cash-in-lieu of commodities and state reimbursement for all reimbursable student lunches served. For current reimbursement rates, refer to the Child Nutrition & Wellness website: [www.kn-eat.org](http://www.kn-eat.org), School Nutrition Programs, Reimbursement rate.

### Pricing Student Meals

All reimbursable school meals must be priced as a unit. The “Offer or Serve” provision cannot affect the meal price. Regardless of the items chosen, the student must pay the established full or reduced price meal charge.

Sponsors determine the meal charge for paid meals and report those meal charges to KSDE on the Sponsor Application. Factors to consider include: food, labor and other costs; the impact of price on program participation; general fund subsidies; and federal and state reimbursement rates. At a minimum, sponsors should evaluate meal prices annually. The charge for a full price meal may vary by grade level.

School Program regulations at 7 CFR 210.14(e) require school food authorities (SFAs) participating in the National School Lunch Program to ensure sufficient funds are provided to the nonprofit school food service account for meals served to students not eligible for free or reduced price meals. There are two ways to meet this requirement: either through the prices charged for “paid” meals or through other non-Federal sources provided to the nonprofit school food service account.

To ensure that sufficient funds are provided to the food service account for paid lunches, Sponsors must compare the average price for paid lunches to the difference between the per meal Federal reimbursement for free and paid lunches. If a Sponsor’s average price for lunches is less than the difference between reimbursements, it must increase the price by either

increasing the price charged to children or adding non-Federal funds to the food service account.

The Paid Lunch Equity Pricing Tool helps calculate new lunch prices or the non-Federal source the Sponsor must pay to be compliant with the price equity requirement and is **available on the Checklist Tab in KN-CLAIM.**

If a Sponsor decides NOT to raise meal prices and decides to add non-Federal funds to the food service account to comply with this law, the Sponsor must complete the Paid Lunch Equity Pricing (PLE) Tool to calculate the amount of non-Federal source contribution and have the amount of the required subsidy approved by the school board. Submit the PLE tool and the board minutes as documentation of compliance to Child Nutrition & Wellness, KSDE.

Sponsors are required to offer both reduced price and free meals unless a school serves all meals without charge and/or operates under Community Eligibility Provision (CEP). The reduced price meal charge cannot exceed \$.40 for lunch, \$.30 for breakfast and \$.15 for an after school snack.

Schools may offer students a choice of reimbursable lunches. The school may establish different unit prices for each type of lunch served provided that the benefits made available to students eligible for reduced price or free meals are not affected. For example, if the school offers a lunch with premium items without charging an a la carte price, the "premium" lunch must be available to the reduced price and free participants at no additional charge if these meals are to be claimed for reimbursement.

### Community Eligibility Provision or CEP

Section 104(a) of the Healthy, Hunger-Free Kids Act of 2010 (Act) amended section 11(a)(1) of the Richard B. Russell National School Lunch Act to provide an alternative that eliminates the need for household applications for free and reduced-price meals in high-poverty Sponsors and schools. This alternative, which is now part of the NSLP, is referred to as the Community Eligibility Provision (CEP).

To be eligible, Sponsors and/or schools must meet a minimum level of "identified students" for free meals in the year prior to implementing Community Eligibility; agree to serve free breakfasts and lunches to all students; and agree to cover with non-Federal funds any costs of providing free meals to students above the amounts provided by Federal assistance. Reimbursement for each Sponsor or school is based on claiming percentages derived from the percentage of identified students, i.e., students certified for free meals through means other than individual household applications. The claiming percentages established in the first year for a Sponsor or school may be used for four school years and may be increased if the percentage of identified students rises for the Sponsor or school.

This program requires schools to offer breakfast and lunch, but will allow individual schools to count and claim meals without the normal free and reduced application process. Schools that participate in CEP will no longer be required to collect Free and Reduced Price School Meals Family Applications to determine student eligibility for free meals. Meals will still need to be counted at the Point of Service (POS), but just the total meals, not meals by category.

### Pricing Adult Meals

The Sponsor must price adult meals so that the adult payment covers the entire cost of the meal. If meal cost data is not available, the minimum adult price should reflect the price

charged to students paying the school's paid price rate, plus the current value of USDA reimbursement for a paid student meal. If non-pricing programs, such as an RCCI, the adult price should be at least the amount of reimbursement received for USDA free student reimbursement. If the adult meal charge is less than the free meal reimbursement rate, sponsors must provide income from sources outside the Food Service Fund to pay the difference between the free meal reimbursement rate and the meal charge. At no time may student payments for meals or a la carte items or federal or state reimbursement be used to subsidize the cost of adult meals.

At the discretion of the sponsor, meals may be served at no charge to adults directly involved in the operation of lunch/breakfast programs. This includes persons responsible for menu planning, purchasing, preparation, clean-up and service of the meals. KSDE strongly encourages sponsors to provide meals at no charge to food service personnel.

Meals served to teachers, teacher aides, volunteers, etc., in exchange for meal supervision or monitoring in the dining area may be considered as costs attributable to the school nutrition program. Therefore, the cost of these meals may be included in school nutrition program costs and may be paid from the Food Service Fund. Charging such adults for meals is left to the discretion of the sponsor.

Income from sources other than federal and state reimbursement, or children's payments must be used to pay for the cost of meals served to teachers, custodians or administrative personnel who do not supervise the cafeteria. KSDE encourages sponsors to charge these adults the established meal price.

- ◆ In no case should the funds available to pay the cost of student meals be used to supplement the cost of adult meals.
- ◆ In no case should the funds available to pay the cost of adult meals be less than the actual cost of providing the meals.
- ◆ If meals are included as a fringe benefit or offered as part of the salary arrangement for non-food service personnel, the Sponsor must transfer enough money from other funds to the Food Service Fund to pay the cost of these adult meals. An audit trail of this fund transfer must be documented.

### **Pricing Nonprogram Food**

#### **(a la carte, adult meals, catering, second portions including milk, etc.)**

As a result of the Healthy, Hunger-Free Kids Act, USDA requires all nonprogram food to be priced to cover costs. At a minimum, prices should cover the total food, labor, direct and indirect costs for producing each item. When pricing items, it is recommended to price healthy foods (i.e., milk, fruit) at a relatively low cost to encourage consumption of these items. For other items, set prices close to what competitive retail outlets charge. Reimbursable meals should be priced lower than the total of the individual prices for the same menu items.

Use the Estimated Revenues from Non-Program Foods financial management report in KN-CLAIM and the KSDE Nonprogram Foods Tool to see if nonprogram foods are priced appropriate and make changes as needed.

- ◆ If the Estimated Revenue from Non Program Food Report reads “Yes nonprogram food is priced appropriately” then nonprogram foods is priced appropriately.
- ◆ If the Estimated Revenue from Non Program Food Report reads “No nonprogram food pricing needs adjustment” then determine the reason. Possible scenarios include:
  - Paid meal price is higher than free reimbursement rate. Take the paid meal price plus paid reimbursement and multiple by the total meal equivalents. Subtract this number from Total Expenditures. If the difference is less than Non-Reimbursable Sales & Charges then it is priced appropriately. If not, investigate further.
  - Sponsor contracts with another sponsor and does not record the income as Non-Reimbursable Sales & Charges.
  - Provides meals for Head Start and does not record the income as Non-Reimbursable Sales & Charges.
  - Provides free cookies/catering for board meetings, etc. Food Service should be reimbursed at least the cost of the food. When reimbursed, this should also be recorded as Non-Reimbursable Sales & Charges.
  - Revenue received for FFVP and other Federal Grants should be recorded under Federal Grants and also Non-Reimbursable Sales & Charges.
  - Transfer for low adult meal price should be recorded under Non-Reimbursable Sales & Charges.
  - If none of the above apply, then what is the food cost and what is being charged for an extra milk, entrée, etc.? A la carte prices might need to be increased.

### **Needy Children Who Are Not Eligible for Reduced Price or Free Meal Benefits**

Sponsors may establish a fund to cover the cost of meals for needy students who may not be eligible for reduced price or free meals; or who refuse to accept reduced price or free meal benefits; or who fail to complete an application or Direct Certification documentation is not available. Contributions from civic groups or individuals may be put into a separate fund to cover these costs.

### **Unpaid Meal Charge Policy**

As of July 1, 2017, Sponsors must have a written meal charge policy. The policy must:

- ◆ Be provided in writing to all households at the start of each school year and to families that transfer into the district/school (Examples: student handbooks, school newsletters, enrollment materials, the reverse side of the menu calendar or other written communications)
- ◆ Be communicated to all district/school staff responsible for enforcing any aspect of the policy.
- ◆ Be maintained in records including the written policy and how it is communicated to households and staff.
- ◆ Obtain approval of the policy from the local school board.

More information on this requirement may be found in:

- ◆ USDA Policy Memo SP46-2016 Unpaid Meal Charges: Local Meal Charge Policies at <https://www.fns.usda.gov/unpaid-meal-charges-local-meal-charge-policies>.
- ◆ USDA Policy Memo SP47-2016 Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments at <https://www.fns.usda.gov/unpaid-meal-charges-clarification-collection-delinquent-meal-payments>.
- ◆ USDA Policy Memo SP23-2017 Unpaid Meal Charges: Guidance and Q&As at <https://www.fns.usda.gov/school-meals/unpaid-meal-charges-guidance-and-q>.
- ◆ KSDE's Unpaid Meal Charges – Guidance and Ideas at [www.kn-eat.org](http://www.kn-eat.org), School Nutrition Programs, Food Service Facts, Chapter 12 Related Forms.

Sponsors are encouraged to put into place processes to prevent or limit unpaid meal charges. *Overcoming the Unpaid Meal Challenge: Proven Strategies from Our Nation's Schools*, USDA-FNS 09/16/2016 is a guide to assist sponsors in finding workable solutions and can be accessed at <https://www.fns.usda.gov/school-meals/2017-edition-overcoming-unpaid-meal-challenge-proven-strategies-our-nations-schools>.

A student in the free eligibility category may not be denied a reimbursable free meal, regardless of the number of “charges” the student has made in the past. For example, a student may have accumulated excessive a la carte charges or meal charges prior to being approved for free meals. Once approved for free meals, the student must be allowed to eat the reimbursable meal at no charge.

### Delinquent Debt

Delinquent debt is unpaid meal charges when payment is overdue as defined by the local meal charge policy. Expenses incurred while trying to collect delinquent debt are allowable expenses to the food service fund.

Sponsors must:

- ◆ Make reasonable efforts to collect delinquent debt within a reasonable timeframe.
- ◆ Determine the process and timeframe for collecting delinquent debt and include in the written policy.

### Bad Debt

Bad debt is delinquent debt determined to be uncollectable or too costly to collect and is an unallowable expense to the food service fund.

Sponsors must:

- ◆ Determine when delinquent debt is uncollectable and will be considered as bad debt.
- ◆ Transfer funds for bad debt to the food service account from non-federal sources.
- ◆ Assume the costs of on-going collection and legal fees if applicable.
- ◆ Maintain records related to bad debt.

Selected questions and answers from USDA Policy Memo SP23-2017.

**Q** *How often should Sponsors revise or update their Unpaid Meal Charge Policy?*

**A** Although it is not required, Sponsors are encouraged to revise their policy on a regular basis (e.g., annually). Regularly reviewing the policy, assessing its effectiveness, and incorporating new feedback will allow the policy to evolve to better meet the needs of schools, families, and children.



**Q** *If a child graduates or moves to a new school district, may the Sponsors use funds remaining in the child's account to cover meal charge debt accrued by other children?*

**A** When any child leaves the district or graduates, Sponsors must attempt to contact the child's household to return any funds remaining in the student's account. Households approved for reduced price meal benefits must receive a refund. There is a Federal requirement that children eligible for reduced price meals pay a maximum of 40 cents per lunch and 30 cents per breakfast; retaining the unused funds would result in the per meal price exceeding this amount.

However, Sponsors may allow families who are not approved for free or reduced price meals to donate the funds remaining in their account rather than receiving a refund when their child leaves the school. These funds then could be used to cover unpaid meal charges that were uncollectable.



**Q** *Are Sponsors opting to serve an alternate meal to children with unpaid meal charges required to meet FNS' meal pattern requirements?*

**A** Sponsors seeking reimbursement for an alternate meal must meet the meal pattern requirements. Sponsors not seeking reimbursement for an alternate meal are not required to meet the meal pattern requirements. FNS encourages schools to provide a reimbursable meal to all children who want one. Providing children with a reimbursable meal prevents the singling out of children with unpaid meal charges, provides children with the nutritional benefits of a reimbursable meal, and ensures the school receives the applicable Federal reimbursement for the meal. Schools providing a non-reimbursable alternate meal should aim to offer an economical meal that reflects FNS' nutritional goals.

To claim an alternate meal that limits choices to lower cost entrées and other components, schools must offer children at least two different types of fluid milk. In addition, a school participating in the offer versus service (OVS) provision must allow children to select up to five food components for the NSLP and four food items for the SBP.





**Q** *May Sponsors charge children for an alternate meal? What must Sponsors consider when pricing alternate meals?*

**A** While many Sponsors providing alternate meals to children with unpaid meal charges choose to provide those meals for free, Sponsors have discretion to charge children for alternate meals. There is wide variation in how alternate meals are provided, and the FNS requirements that apply to alternate meals will vary depending on the way a Sponsor chooses to offer them.

The cost of providing non-reimbursable alternate meals must be covered using non-Federal funds. If the Sponsor charges a child for a non-reimbursable alternate meal, then the meal is subject to the Smart Snacks requirements (7 CFR 210.11) and the requirements for revenue from non-program foods (7 CFR 210.14(f)).

Reimbursable alternate meals, by contrast, are considered a program food and would be treated like a program food cost. The PLE requirements (7 CFR 210.14(e)) apply to reimbursable alternate meals served to children participating at the paid rate. Unless a Sponsor is providing a large number of reimbursable alternate meals at a very low cost (or no cost) to children eligible for paid meals, FNS would not expect the provision of reimbursable alternate meals to impact the PLE calculation.



**Q** *Are Sponsors opting to provide alternate meals to children with unpaid meal charges required to accommodate children with disabilities?*

**A** Yes. Sponsors must ensure children with disabilities have access to the same benefits and services provided to other children. Sponsors opting to provide alternate meals to children with unpaid meal charges must ensure children with disabilities have access to an alternate meal that is safe to consume, and must provide a modified alternate when necessary to accommodate a child's disability. For example, if a Sponsor provides children with unpaid meal charges an alternate meal that includes a peanut butter sandwich, a child with a peanut allergy would require a modified alternate meal.

If a Sponsor limits the availability of alternate meals, or does not provide reimbursable or alternate meals to children with unpaid meal charges, the Sponsor must consult with the LEA's Section 504 Coordinator before denying children with disabilities a meal. Schools are reminded that they may have additional obligations to children with disabilities under Federal law, beyond the scope of FNS guidance.

For more information, see: SP 59-2016: *Policy Memorandum on Modifications to Accommodate Disabilities in the School Meal Programs*, September 27, 2016, <http://www.fns.usda.gov/policy-memorandum-modifications-accommodate-disabilities-school-meal-programs>.



**Q** *At what point are unpaid meal charges classified as “delinquent debt”?*

**A** Unpaid meal charges are considered “delinquent debt” when payment is overdue as defined by local policies. The debt is classified as delinquent as long as it is considered collectable and efforts are being made to collect it. Sponsors must make reasonable efforts to collect unpaid meal charges classified as delinquent debt; the cost of such collection efforts is an allowable use of NSFSA (National School Food Service Account) funds. A debt owed to the NSFSA remains on the accounting documents until it is either collected or is determined to be uncollectable and written off.



**Q** *May unpaid meal charge debt be carried over into a new school year?*

**A** Yes. Unpaid meal charges may be carried over at the end of the school year (i.e., beyond June 30) meaning collection efforts may continue into the new school year. This allows Sponsors to work with individual families to establish longer repayment plans and to continue pursuing collection efforts when children change schools within the district or move to a new school outside the district.



**Q** *At what point is delinquent debt considered “bad debt”?*

**A** When local officials determine further collection efforts for delinquent debt are useless or too costly, the debt must be reclassified as “bad debt.” Once a delinquent debt is reclassified as a bad debt, it must be written off as an operating loss. NSFSA resources may not be used to cover costs related to the bad debt, such as continued legal and collection costs. Instead, these losses must be restored using non-Federal funds. These funds may come from the school district’s general fund, special funding from State or local governments, or any other non-Federal sources.

