



Financial Management




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Focus Points

- Categorize revenues and expenditures
- Calculate:
 - Percentages of Revenues
 - A la Carte Prices
 - Meal Equivalents
 - Staffing Determinations
 - Plate Cost




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Effective Financial Management

- Plan with a **budget**
- Implement **cost control** measures
- Understand **productivity**
- Identify sources of **revenues**



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Your Role in Managing Finances

- **Manage** financial resources
- Maintain financial **accountability**
- **Involve** others
- Promote a **team** approach
- Assess, monitor, evaluate program **funds**
- Maintain **training**



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CN Federal Financial Requirements

7 CFR Section 210.14, Resource Management

- Maintenance of a nonprofit school food service
- Maintain separate financial accounting
- Net cash resources cannot exceed 3 months average **expenditures**



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CN Federal Financial Requirements

- Financial assurances as required by United States Department of Agriculture (USDA) and the State Agency (SA)
- Use of USDA foods
- Paid Lunch Equity



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Locating Key Financial Data

- Annual Financial Report (AFR)
- Follows Governmental Accounting Standards Board (GASB) requirements
- Classifies and codes
 - Revenues
 - Expenditures
 - Statement of Net Position (Balance Sheet)



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School Food Authority (SFA) Financial Reports

- Statement of Net Position
- Statement of Activities
- Budget



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Statement of Net Position

- Assets – **Resources**, value owned by the department
- Liabilities – **Payments** owed to creditors
- Fund Balance – Net Cash Resources/Excess Net Cash Resources




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Statement of Activity

- Financial results for **variety** of periods
- Reports **revenues** and **expenditures**
- Identifies **net results**
 - Gain (profit) ↑
 - Deficit (loss) ↓




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Budget

- Plans translated into financial terms
- Management tool for operation
- Continuous review, control, adjustments




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Revenues by Category

- **Federal**
 - Reimbursement
 - USDA Food
 - Grants
- **State**
 - Reimbursements
- **Local**
 - Student Meals
 - Nonprogram Sales
 - Catering
 - Other




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Expenditures

- Direct
 - Specific identified items
- Indirect
 - Costs that cannot be directly identified




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Direct Costs

- Salaries, Wages, Benefits
- Food Costs
- Supplies
- Capital Assets
- Other Costs




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Indirect Costs

- FNS Indirect Cost Guidance
- Not attributable to a line item
 - <https://www.fns.usda.gov/indirect-cost-guidance>



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Direct vs. Indirect Costs

Direct Costs	Indirect Costs
Salaries, Wages, Benefits	Trash
Purchased Food	Electricity
Supplies	Sewer & Water
Technology	Gas
Capital Equipment	Payroll Services



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Why Analyze

- Assess health of School Nutrition Program (SNP)
- Comparison to other SFAs
- Essential Information
 - Staffing
 - Increasing participation
 - Menu planning
 - Setting meal prices
 - Setting nonprogram food prices
- Set goals



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Analysis Tools

- Financial Ratios
- Meal Equivalents
- Cost Per Meal
- Productivity (meals per labor hour)




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Financial Ratios

- Calculated for:
 - Revenue
 - Expenditures




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Financial Ratios

$\frac{\text{Revenue Line Item}}{\text{Total Revenues}} \times 100 = \% \text{ Revenue}$

$\frac{\$62,000 \text{ Federal Reimbursement}}{\$155,000 \text{ Total Revenue}} \times 100 = 40\%$




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Financial Ratios

$\frac{\text{Expense Line Item}}{\text{Total Revenues}} \times 100 = \% \text{ Revenue}$

$\frac{\$62,000 \text{ Labor}}{\$155,000 \text{ Total Revenue}} \times 100 = 40\%$



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Financial Ratios Activity

- **DO:** Calculate the percent of Revenue for each **Income** line item
- What information do these percentage calculations provide?
- How can you use this information?
- How can you increase revenue?
- Is increasing prices always the answer?



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Financial Ratios Activity

- **DO:** Calculate the percent of Revenue for each **Expense** line item
- What information do these percentage calculations provide?
- How can you use this information?



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Total Financial Ratios

- If less than 100% the operating balance **increases**
- Equal to 100% the program **breaks even**
- If exceeds 100% the operating balance **decreases**




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Meal Equivalents

- Meal equivalents – a statistical tool to **allocate** costs based on a unit of production
 - Reimbursable Meal
- Meal Units
 - Lunch (1 lunch = 1 meal equivalent)
 - Breakfast (1 breakfast = 2/3 (67%) of a meal equivalent)
 - Afterschool Snack (1 afterschool snack = 1/3 (33%) of a meal equivalent)
 - Nonprogram Food Sales




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Calculating Meal Equivalents

MEAL	FORMULA	MEAL EQUIVALENTS
Breakfast Served	# x .67	= 1
Lunch Served	# x 1	= 1
After School Snack Served	# x .33	= 1
Non-Program Sales	A la Carte \$\$ (Free Reimbursement + State \$.10 + USDA Commodity)	= 1
Total Meal Equivalents		= 4




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Calculating Meal Equivalents

- 250 Breakfasts
- 770 Student and Adult Lunches
- 245 Snacks
- \$900 in nonprogram food sales



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Calculating Meal Equivalents: Example

MEAL	FORMULA	MEAL EQUIVALENTS
Breakfast	250 X .67	= 167.50
Lunches Served (Student & Adult)	770 X 1	= 770.00
After School Snacks Served	245 X .33	= 80.85
Nonprogram Food Sales *2017-2018 Rates	$\frac{\$900}{(\$3.41 + \$0.10 + \$0.2375)} = \$3.75$	= 240.00
Total Meal Equivalents		= 1,258.35



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Counting Meal Equivalents: Activity 3

Meal	FORMULA	MEAL EQUIVALENTS
Breakfasts Served	4,410 x .67	= 2,954.70
Lunches Served (Student & Adult)	11,802 x 1	= 11,802.00
After School Snacks Served	1,197 x .33	= 395.00
Other Food Sales *2019-2020 Rates	$\frac{\$5,600.50}{(\$3.41 + \$0.10 + \$0.2375)} = \$3.75$	= 1,493.47
Total Meal Equivalents		= 16,645.17
Total Meal Equivalents/Day (21 Days)		= 792.63



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Nonprogram Food Pricing

- Add revenue to the bottom line
- Cover costs
- Charge the right price
- Strategic pricing to encourage meal purchases



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Nonprogram Food Pricing: Method 1

- Determine the raw food cost of the items to be sold (portion cost)
- Identify the desired food cost percentage (from prior financial reports)
- Calculate base selling price by dividing the item's raw food cost by the desired food cost percentage
- Set the selling price



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Nonprogram Food Pricing

- Raw Food Cost \$0.52
- Desired Food Cost % 38% or 0.38
- $\$0.52 \div 0.38 = \1.37 (Base Selling Price)
- Covers all costs mathematically



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Nonprogram Food Pricing: Method 2

- Divide 100% by the desired food cost percentage

To get a target food cost of:	Multiply product food cost by:
33%	3.03
35%	2.86
38%	2.63
40%	2.50
45%	2.22
50%	2.00
55%	1.82
60%	1.67



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Nonprogram Food Pricing: Method 2

- Multiply the menu item raw food cost by the multiplier to obtain the selling price
- $100\% \div 38\% = 2.63$
- $\$0.52 \times 2.63 = \1.3676



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Nonprogram Food Pricing

Figure 5.14: Standardized Recipe Cost Sheet

Unit Name: Steamer's		Recipe Number: 146	
Menu Item: Beef Stew		Recipe Yield: 40	
Special Notes: All ingredients weighed as edible portion (EP)		Portion Size: 8 oz.	
		Portion Cost: \$1.09	
Ingredients		Ingredient Cost	
Item	Amount	Unit Cost	Total Cost
Corn, Frozen	3 lb.	0.60 lb.	\$1.80
Tomatoes	3 lb.	1.40 lb.	4.20
Potatoes	5 lb.	0.40 lb.	2.00
Beef Cubes	5 lb.	5.76 lb.	28.80
Carrots	2 lb.	0.36 lb.	0.72
Water	2 gal.	N/A	—
Salt	2 T	0.30 lb.	0.02
Pepper	2 t	12.00 lb.	0.12
Garlic	1 clove	0.80/clove	0.80
Tomato Juice	1 qt.	4.00 gal.	1.00
Onions	4 lb.	1.00 lb.	4.00
Total Cost			43.46
Total Recipe Cost:	\$43.46	Recipe Type:	Soups/Stews
Portion Cost:	\$ 1.09	Date Costed:	4/1
Previous Portion Cost:	\$ 1.01	Previous Dated Costed:	3/1

Reference: Dopson, L. R. & Hayes, D. K. (2011). *Food and beverage cost control* (5th ed.). Hoboken, New Jersey: John Wiley & Sons, Inc.



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Influences on Nonprogram Food Pricing

- Demand
- Perception of value
- Prices compared to reimbursable meal
- Prices charged in nearby districts
- Relationship between prices and volume sold
- Food and labor costs
- Nutritional value



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Productivity: Meals Per Labor Hour (MPLH)

- Why measure labor?

Meals per labor hours = $\frac{\text{Number of Meal Equivalents}}{\text{Number of production labor hours}}$

$\frac{789 \text{ Meal Equivalents}}{51 \text{ Production labor hours}} = 15.6 \text{ MPLH}$




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Factors Affecting Productivity

- Type of Facility
- Size of Facility
- Labor Pool
- Skill-Level of Employees
- Menu
- Production System
- Form of Food Purchased
- Length of Serving Periods



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Staffing: Activity 5

Current Meals Per Labor Hour = 15.6


Current Daily Labor Hours = 51.0

Current Meal Equivalents = 798.0

Desired Meals Per Labor Hour = 17.0

$798.0 \div 17.0 = 46.9 \text{ Hours}$

$51 \text{ Hours} - 46.9 \text{ Hours} = \text{Reduced } 4.1 \text{ Hours}$



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Determining Plate Cost

- How would you improve productivity?
 - Determine Plate Cost

$$\text{Cost per Meal Equivalent} = \frac{\text{Total Expenditures}}{\text{Meal Equivalents}}$$

$$\$1.99 = \frac{\$3,611}{1,811}$$



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Determining Plate Revenue

$$\text{Revenue per Meal Equivalent} = \frac{\text{Total Revenues}}{\text{Meal Equivalents}}$$

$$\$1.89 = \frac{\$3,425}{1,811}$$



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What Would You Do?

Calculation:

$$\begin{array}{r} \$1.89 \\ \text{Revenue/} \\ \text{Meal Equiv.} \end{array} - \begin{array}{r} \$1.99 \\ \text{Cost/} \\ \text{Meal Equiv.} \end{array} = \begin{array}{r} (\$0.10) \\ \text{Loss in revenues} \end{array}$$



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Summary

- Financial analysis is an evolving process and takes time
- Consistency is what matters
- Financial analysis **is** part of the School Nutrition Program and **is** a part of the Administrative Review



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The mission of the department is to academically prepare children and adults to succeed as productive citizens. The department seeks to ensure that the technical support, resources and opportunities are in place for all students, whether children or adults, to receive a high quality education.



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