







MODULE 2 FINANCIAL REPORTS

CONTENTS

Basic Financial Reports
Balance Sheet
Profit and Loss Statement
Percentage of Cost to Revenue
Analyzing a Profit and Loss Statement
Prorating Operating Costs
Allowable Fund Balance
Restrictions on Use of Funds
The Audit Trail

OBJECTIVES OF MODULE 2

Participants will be able to:

-  Understand the basic financial reports
-  Understand and analyze the profit and loss statement
-  Identify the allowable fund balance
-  Identify the restrictions on the use of funds
-  Establish a good audit trail
-  Understand how to obtain percentage of cost to revenue

MODULE 2

BASIC FINANCIAL REPORTS

An enterprise fund, such as the school foodservice (SFS) fund, has two basic accounting reports important to the SFS director. Those reports are:

- ✎ A balance sheet
- ✎ A profit and loss statement

In some school divisions the finance office provides these statements to the SFS director but without any explanation. The SFS director may not understand them and, furthermore, the figures may be without accruals and inventory, which makes quite a difference (see Exhibit 1.2, Module 1). Accrual accounting is used in the business world and should be used with an enterprise fund within a school division, such as an SFS account.

The two important financial reports to an SFS director are a balance sheet and profit and loss statement.

BALANCE SHEET

The balance sheet is a "snapshot" of the fund's financial status as of a given day. This report is possibly considered more important to the finance officer than to the SFS director. However, if the SFS fund is incurring a deficit and the fund balance is being used, this becomes a more meaningful report. Also, when an overdraft of the account is a potential problem, the balance sheet becomes more meaningful. Three major categories on the balance sheet are:

- ✎ Assets
- ✎ Liabilities
- ✎ Balance

Assets - Liabilities = Balance

The content of a balance sheet for SFS is divided into the following categories:

ASSETS	LIABILITIES
Cash Accounts Receivable Inventory of Food and Supplies Prepaid Expenses Net Book Value ¹ of Large Equipment	Accounts Payable—Accruals Notes Payable Wages Payable Total Liabilities Fund Balance/Retained Earnings
Total Assets	Total Liabilities and Net Worth

Assets are shown on the left side of the balance sheet. **Cash**, which is the most liquid asset, is listed first. It includes petty cash on hand, money market accounts, and money in the bank drawing interest.

Accounts receivable should include any funds earned but not yet received. The most noteworthy for SFS are the federal reimbursement, which are for meals served from the beginning of the month. Sometimes these payments are three to six weeks behind. When a receivable is collected, cash increases and the receivable decreases by the same amount. Some accounts receivable are not collectible, e.g., returned checks and charged meals, and when this is known to be the case, these uncollectible accounts should be removed from accounts receivable.

Inventory of food and supplies should be an accurate accounting of food and supplies on hand that are usable.

Liabilities are obligations—wages payable, fringe benefits payable, and obligations to suppliers. Accounts payable to vendors/suppliers are generally recognized when an invoice or bill is received.

The **wages payable** are wages for those days which employees have worked but have not been paid.

Exhibit 2.1 shows a typical balance sheet for an SFS operation. The balance sheet usually

¹The cost of equipment is recorded as an asset (less the accumulated depreciation, which leaves the net book value).

Cost Control - Module 2 2-4

compares current balances with the balances at the end of the prior year.

Exhibit 2.1. School Foodservice Balance Sheet

(1)	1999 (2)	2000 (3)
ASSETS:		
Cash in Bank	\$ 70,500	\$ 64,200
Investments (e.g., certificates)	10,540	10,720
Accounts Receivable:		
Program Claims Reimbursements	2,020	1,005
State Matching Funds	12,010	13,035
Other (Catering, etc.)		
Total Cash and Funds:	\$ 95,070	\$ 88,960
INVENTORIES:		
Food Supplies	\$ 2,450	\$ 2,640
Paper/Disposables and Detergents	1,002	985
Total Inventory:	\$ 3,452	\$ 3,625
TOTAL ASSETS:	\$ 98,522	\$ 92,585
LIABILITIES and FUND BALANCE:		
Liabilities:		
Accounts Payable	\$ 4,780	\$ 4,500
Accrued Payroll	2,250	3,750
Accrued Health Insurance Payable	940	1,050
Total Liabilities:	\$ 7,970	\$ 9,300
Fund Balance:		
Reserved (Encumbrances)	\$ 5,690	\$ 4,500
Inventories	3,452	3,625
Unappropriated	81,410	75,160
Total Fund Balance:	\$ 90,552	\$ 83,285
TOTAL LIABILITIES AND FUND BALANCE	\$ 98,522	\$ 92,585

Cost Control - Module 2 2-5
PROFIT AND LOSS STATEMENT

The **profit and loss statement (P&L)** is also known as an **income statement** and as a **statement of operations**. This is the most meaningful report for the SFS director. It presents an indication of how the SFS is doing financially during a period of time. The SFS director needs to see it as a monthly and year-to-date report. There are three major categories of the profit and loss statement:

- ✎ Revenues and gains
- ✎ Expenses and losses
- ✎ Net income/profit (or net loss) = difference in revenues and expenses

The contents of an SFS profit and loss statement are as follows:

REVENUE: Cash income from customers at breakfast and lunch, for a la carte and other sales Federal reimbursement State subsidy Income from catering and contracts Interest received Accounts receivable—federal reimbursement, rebates on commodities and state matching funds Value of USDA commodities received
EXPENSES or EXPENDITURES: Food and supplies purchased and used during period Food and supplies used from inventory Value of USDA commodities used Salaries and wages Fringe benefits Equipment purchased during period Other costs (operating expenses) Accounts Payable
NET INCOME/PROFIT or NET LOSS

A district-wide P&L statement (Exhibit 2.2) comes first and is of foremost importance to the director; however, the individual schools' P&L statements are needed by both the director and the SFS managers. The director can use the schools' P&L statements to determine where problems are.

Cost Control - Module 2 2-6

Exhibit 2.2. Example of a School District Profit and Loss Statement

	SEPT. 1999	%	OCT. 1999	%	NOV. 1999	%	DEC. 1999	%	YTD	%
REVENUE										
Breakfast:										
Student Paid	\$ 4,681	.8%	\$ 4,975	.7%	\$ 6,364	1.0%	\$ 6,660	1.4%	\$ 22,680	.9
Student Reduced	430	.1	495	.1	506	.1	512	.1	1,943	.1
Federal Reimbursement	8,990	1.5	9,270	1.3	10,435	1.7	10,979	2.2	39,674	1.6
Lunch:										
Student Paid	117,318	19.9	186,975	26.2	148,653	24.3	119,644	24.6	572,590	23.8
Student Reduced	4,920	.8	5,270	.7	4,020	.7	3,927	.8	18,137	.8
Federal Reimbursement	284,474	48.2	310,983	43.5	244,884	40.0	193,509	39.7	1,033,850	43.0
State Reimbursement	14,300	2.4	14,300	2.0	14,300	2.3	14,300	2.9	57,200	2.4
Adult	19,233	3.3	25,720	3.6	32,206	5.3	19,400	3.9	96,559	4.0
A la Carte Sales	92,801	15.7	112,185	15.8	96,201	15.7	86,204	17.6	387,391	16.1
Special Functions	2,648	.4	4,110	.6	6,329	1.0	4,263	.9	17,350	.7
USDA Commodities	16,515	2.8	11,625	1.6	22,979	3.7	10,572	2.2	61,691	2.6
Contracts—Day Care	24,220	4.1	28,260	3.9	25,690	4.2	18,021	3.7	96,191	4.0
TOTAL REVENUE	\$590,530	100.0%	\$714,168	100.0%	\$612,567	100.0%	\$487,991	100.0%	\$2,405,256	100.0%
EXPENDITURES										
Labor Cost:										
Wages—School Based	\$165,159	27.9	\$186,398	26.1	\$172,131	28.1%	\$161,037	33.0%	\$684,725	28.5
Fringe Benefits	37,986	6.4	41,007	5.7	37,869	6.2	34,428	7.1	151,290	6.3
Salaries—Central Office	52,020	8.8	61,002	8.5	53,293	8.7	52,460	10.7	218,775	9.1
Fringe Benefits	12,625	2.2	15,250	2.1	13,323	2.2	12,005	2.5	53,203	2.2
TOTAL LABOR COST	\$267,790	45.3%	\$303,657	42.4%	\$276,616	45.2%	\$259,930	53.3%	\$1,107,993	46.1%
Food Used:										
Purchased	\$170,072	28.8%	\$207,108	29.0%	\$180,094	29.4%	\$139,077	28.5	\$696,351	29.0

Cost Control - Module 2 2-7

USDA	42,518	7.2	57,133	8.0	49,618	8.1	37,555	8.2	186,824	7.8
Paper & Supplies	29,526	5.0	39,279	5.5	34,308	5.6	24,887	5.1	128,000	5.2
TOTAL FOOD & SUPPLIES	\$242,116	41.0%	\$303,520	42.5%	\$264,020	43.1%	\$201,519	41.8%	\$883,303	42.0%
Equipment	\$ 16,000	2.7%	\$ 19,264	2.7%	\$ 17,800	2.9%	- 0 -		53,064	2.2
Overhead	17,715	3.0	27,852	3.9	26,400	4.3	25,400	5.2	97,367	4.0
Indirect Cost	23,621	4.0	29,995	4.2	25,040	4.1	22,040	4.5	100,696	4.2
TOTAL EXPENDITURES	\$567,242	96.0%	\$684,288	95.7%	\$609,876	99.6%	\$508,889	104.8%	\$2,242,423	98.5%
NET INCOME (OR LOSS)	\$ 23,288	4.0%	\$ 29,880	4.3%	\$ 2,691	.4%	(\$20,898)	(4.8%)	\$ 162,833	1.5%

Cost Control - Module 2 2-8

It is important that the P&L statement be provided monthly, not quarterly or annually. How the SFS does financially is a criterion for judging an SFS director; therefore, when it is not provided by the finance office in some school districts, the SFS director may need to prepare his or her own profit and loss statement. In the larger school district, SFS may have its own accounting section headed by a cost accountant. No SFS director should take the responsibility for or be expected to take on the financial management of an SFS operation without being provided an accurate profit and loss statement monthly—and as soon as possible after the end of the month (within 25 days after the month closes). It is too late to take corrective action at the end of the year, and it is hard to re-create a problem that occurred three months earlier. The timeliness of the P&L statement is important in terms of its effectiveness as a management tool.

Other terms used when discussing a P&L statement are:

Gross margin (revenue during period less (-) cost of goods sold)

Less (-) sales tax (adult meals/sales, catering, and contracts with non-school functions may be taxed¹)

Net income after taxes (profit [+] or loss [-])

If services are being provided by SFS on which sales tax is collected, then the taxes collected will show up as revenue and taxes paid out as an expense.

If a school district has a central kitchen or if a school is preparing food for other schools, it is suggested that each school be charged for the food it receives, as well as for labor costs to prepare food and costs of other supplies. In other words, treat each site receiving food as a cost center. Otherwise, financial problems will not be as easy to identify and correct.

It is important to the SFS director to have all accounts receivable and accounts payable included for the same period of time. An accurate inventory should be for what is on hand, and it is important that it be as of the same day that accounts payable are cut off. The reason that this date is so important is that the percentage of costs will be thrown off if not for the same period of time as the inventory.

It is desirable to see the profit or loss for the month and year to date. A spreadsheet should show the profit and loss by month and year to date. In addition to the dollar figures, the percentage of revenue spent for each expense category should be provided. A trend should be evident by the third or fourth month after school has begun. If the percentages are erratic, there should be an explanation—either (1) there is a "real" accounting error, (2) all accounts receivable and payable are not included, or (3) there is an error in inventory. It is important to learn what is causing the erratic figures and correct the problem.

Some expenses, particularly fringe benefits, may be charged annually. The estimated amount should be prorated over the months of the school year (when revenue is available). This estimate should be charged against each month's profit and loss—considered an accounts payable. In addition, utility and maintenance charges may be actually charged against SFS once or twice a year. However, the estimated amount should be prorated out as with the fringe benefits.

PERCENTAGE OF COSTS TO REVENUE

The two largest expense items in school foodservices (SFS) are labor and food costs. Together these

¹ Check with state's tax policies.

Cost Control - Module 2 2-9

costs should exceed no more than **85 percent of the revenue**. That leaves 15 percent of the revenue to pay other costs. In some school districts labor and food costs cannot exceed 75 percent of the revenue because of other costs. If other costs are greater, labor and food costs must be less in order to break even.

To calculate the percentage of costs to revenue, use the following equation:

$$\text{Costs} \div \text{total revenue} = \text{percent of cost to revenue}$$

An example of converting dollars to percentages is provided in Exhibit 2.3:

If—

Revenue is \$500,000 per year,

Payroll is \$145,000, with fringe benefits \$39,500,

Purchased food is \$147,500, used USDA commodities \$27,000,

Disposables, supplies and detergents are \$16,500,

Central office salaries are \$49,000, with fringe benefits \$14,000,

Utilities are \$12,500, telephone is \$360, maintenance is \$12,500,

Small and large equipment is \$10,000,

Indirect cost is \$20,000

What are the percentages of cost to revenue?

Exhibit 2.4. Graphic Example of Relationship of Costs to



Cost Control - Module 2 2-10

Revenue

Exhibit 2.3. Example of Percentages of Costs or Expenses to Revenue

REVENUE	TOTAL \$ <u>500,000</u>	100%
EXPENSES	EXPLANATION	PERCENTAGE OF REVENUE
Labor Cost (including fringe benefits)	\$145,000 + \$39,500 = \$184,500 ÷ \$500,000	= 36.9%
Food Cost	\$147,500 + \$27,000 (commodities) = \$174,500 ÷ \$500,000	= 34.9
Other Cost	\$16,500 (disposables/supplies/detergents) ÷ \$500,000	= 3.3
Administrative Cost	\$49,000 + \$14,000 = \$63,000 (central office) ÷ \$500,000	= 12.6
Utilities/ Maintenance	\$12,500 + \$360 + \$12,500 = \$25,360 ÷ \$500,000	= 5.1
Equipment	\$10,000 ÷ \$500,000	= 2.0
Indirect Costs	\$20,000 ÷ \$500,000	= 4.0
TOTAL		98.8%

Exhibit 2.4. illustrates the relationship of the costs to what is available.

Cost Control - Module 2 2-11

Standards have not officially been set by United States Department of Agriculture or any other group. From the research done for the 1997 edition of this Cost Control Manual the following averages (shown in Exhibit 2.5) work in most parts of the country.

Exhibit 2.5. Guidelines for School Foodservice on How to Use Revenue

CATEGORY	PERCENTAGE OF REVENUE
Labor at School Level (including fringe benefits)	40%
Food (including paper supplies and detergents and USDA commodity value)	40%
Administrative Cost (central office salaries/fringe benefits)	7%
Direct Costs ¹ (utilities, custodial services, maintenance)	6%
Indirect Costs ²	4%
Equipment, Large and Small	1%
Profit ³ or Loss	2%
TOTAL	100%

¹Direct costs may be included in indirect costs but should not be double charged.

²Indirect costs may be based on an allowable percentage of the revenue or set by federal and state regulations.

³Profit is generally put back into the program for new equipment, etc.

Cost Control - Module 2 2-12

Exercise:

Using Form 2.1, determine percent of expense to revenue for your school district (or school) last school year. Pull data from last year's totals.

Form 2.1. Percent of Expense to Revenue

Revenue.....	\$ _____	100 %
Labor Costs (Including Fringe Benefits).....	\$ _____	_____ %
Food Costs (Including Value of Commodities).....	\$ _____	_____ %
Paper Products and Supplies.....	\$ _____	_____ %
Miscellaneous Cost (Telephone, Contracted Maintenance).....	\$ _____	_____ %
Direct Overhead (Central Office Costs, etc.).....	\$ _____	_____ %
Small and Large Equipment.....	\$ _____	_____ %
Indirect Overhead (Amount Charged by School District).....	\$ _____	_____ %
SUBTOTAL	\$ _____	_____ %
PROFIT (LOSS)	\$ _____	_____ %
TOTAL	\$ _____	_____ %

Cost Control - Module 2 2-13
Completed Exercise:

The completed Form 2.2 shows the percent of expense to revenue for a school district for last school year.

Form 2.2. Completed Sample Percent of Expense to Revenue

Revenue.....	<u>\$358,400</u>	<u>100.00</u> %
Labor Costs (Including Fringe Benefits).....	<u>\$138,440</u>	<u>38.6</u> %
Food Costs (Including Value of Commodities).....	<u>\$140,890</u>	<u>39.3</u> %
Paper Products and Supplies.....	<u>\$ 27,860</u>	<u>7.8</u> %
Miscellaneous Cost (Telephone, Contracted Maintenance).....	<u>\$ 3,200</u>	<u>.9</u> %
Direct Overhead (Central Office Costs, etc.).....	<u>\$ 30,100</u>	<u>8.4</u> %
Small and Large Equipment.....	<u>\$ 7,000</u>	<u>1.9</u> %
Indirect Overhead (Amount Charged by School District).....	<u>\$ 3,040</u>	<u>.9</u> %
SUBTOTAL	<u>\$350,500</u>	<u>98</u> %
PROFIT (LOSS)	<u>\$ 7,870</u>	<u>2</u> %
TOTAL	<u>\$358,400</u>	<u>100</u> %

Cost Control - Module 2 2-14

Profit and loss statement by school or cost center is essential if a director is to manage the finances (Exhibits 2.6 and 2.7). An SFS director does not control finances alone. Generally SFS managers determine how much is purchased, wasted, and served (following some standardized procedures), when to bring in a substitute employee, etc. The manager and employees at each school must play a part in controlling costs, especially if costs need to be reduced.

EACH SCHOOL FOOD SERVICE  A COST CENTER

If catering is a very large business, it should be treated as a cost center and have a monthly profit and loss statement. It is also wise to make a foodservice warehouse accountable, treating it as a cost center. This can be done by placing a delivery charge on each case (or item) delivered from the warehouse. The delivery charge can be arrived at by doing a cost analysis on operating the warehouse. The SFS director may wish to compare this cost with one or more efficiently run commercial warehouses. The delivery charge will become the revenue for the warehouse.

WAREHOUSE  A COST CENTER

ANALYZING A PROFIT AND LOSS STATEMENT

A comparison of the P&L statement for the same month a year ago and month by month in the current year is very helpful. This makes it easy to spot problem areas, sudden changes, possible errors, etc. Exhibits 2.2, 2.6 and 2.7 show such a comparison.

QUESTIONS

When we compare the two schools in Exhibits 2.6 and 2.7, it is easier if we have used percentages. All percentages are arrived at by dividing the amount by the **total revenue**.

1. What do you note about food costs?
2. Is there a profit or loss?
3. Why would food costs be higher in September?
4. How much has the inventory changed?
5. Which school has the highest number of free and reduced?
6. What percentage of the total revenue comes from adult lunches?
7. Compare the percentages of costs with the guidelines for school foodservice. Which school has the highest food cost?
How much higher is it than recommended?
8. Note how much Jones Branch spent for food in September. List reasons why the costs may be greater in September at this school.
9. What other costs need to be decreased?

Cost Control - Module 2 2-16

**Exhibit 2.6. Jones Branch High School Profit and Loss Statement,
October 1999**

	SEPT. 1999 (1)	% (2)	OCT. 1999 (3)	% (4)	1999-2000 YTD (5)	% (6)
REVENUE:						
Cash Student Lunch	\$13,760	47.0%	\$16,040	44.8%	\$29,800	45.9%
Reduced-Price Student Payment	56	0.2	64	0.2	120	0.2
Federal Reimbursement	1,752	6.0	2,161	6.0	3,857	5.9
USDA Commodities Received	1,240	4.2	1,494	4.2	2,734	4.2
A La Carte Sales	8,155	27.9	10,299	28.7	18,454	28.4
State Reimbursement	516	1.7	515	1.4	1,031	1.6
Adult Lunch	841	2.8	1,140	3.2	1,981	3.0
Other	2,870	10.0	4,127	11.5	6,997	10.8
TOTAL REVENUE:	\$29,134	100.0%	\$35,840	100.0%	\$64,974	100.0%
EXPENDITURES:						
Food Used (Purchased and Commodities)	\$13,893	47.6%	\$14,089	39.3%	\$27,982	43.1%
Paper Products and Supplies	1,955	6.7	1,890	5.3	3,845	5.9
Foodservice Employee Wages	10,104	34.6	9,549	26.6	19,653	30.2
Fringe Benefits	5,368	18.4	4,292	12.0	9,660	14.9
Maintenance/Telephone	266	0.9	220	0.6	486	0.7
Indirect	1,996	6.8	3,634	10.1	5,630	8.7
Overhead	676	2.3	676	1.9	1,352	2.1
TOTAL EXPENDITURES:	\$34,258	117.5%	\$34,350	95.8%	\$68,608	105.6%
PROFIT (LOSS)	(\$5,124)	17.5%	\$ 1,490	4.2%	(\$ 3,634)	(5.6%)

Cost Control - Module 2 2-17

**Exhibit 2.7. Washington Lee High School Profit and Loss Statement,
October 1999**

	SEPT. 1999 (1)	% (2)	OCT. 1999 (3)	% (4)	1999-2000 YTD (5)	% (6)
REVENUE:						
Cash Student Lunch	\$10,122	28.2%	\$11,985	29.3%	\$22,107	28.8%
Reduced-Price Student Payment	23	0.1	55	0.1	78	0.1
Federal Reimbursement	17,710	49.4	21,532	52.6	39,242	51.1
USDA Commodities Received	1,616	4.5	1,947	4.8	3,563	4.6
A la Carte Sales	2,418	6.7	3,173	7.7	5,591	7.3
State Reimbursement	671	1.8	672	1.6	1,343	1.7
Adult Lunch	1,865	5.2	119	0.3	1,984	2.6
Other	1,397	3.8	1,485	3.6	2,882	3.8
TOTAL REVENUE:	\$35,822	100.0%	\$40,968	100.0%	\$76,790	100.0%
EXPENDITURES:						
Food Used (Purchased and Commodities)	\$13,487	37.6%	\$16,695	40.8%	\$30,182	39.3%
Paper Products and Supplies	1,329	3.7	2,062	5.0	3,391	4.4
Foodservice Employee Wages	12,483	34.8	12,416	30.3	24,899	32.4
Fringe Benefits	4,068	11.3	3,470	8.5	7,538	9.8
Maintenance/Telephone	453	1.2	184	0.4	637	0.8
Indirect	2,602	7.2	4,989	12.2	7,591	9.9
Overhead	822	2.2	822	2.0	1,644	2.2
TOTAL EXPENDITURES:	\$35,244	98%	\$40,638	99.2%	\$75,882	98.8%
PROFIT (LOSS)	\$ 578	2%	\$ 330	0.8%	\$ 908	1.2%

Cost Control - Module 2 2-18

Analyzing the different statements involves viewing them vertically and comparing them horizontally. Questions that one should answer when analyzing the P&L statement are:

- ✎ What percent of the total revenue does each line item constitute?
- ✎ What percent of the revenue is from breakfast?
- ✎ What percent of the revenue is from lunch?
- ✎ What percent of the revenue is from a la carte?
- ✎ What percent of the revenue from lunches is from elementary school students, middle school students, high school students, and adults?
- ✎ What percent of the revenue is from federal funds?

The expenditures on the P&L statement should be analyzed the same way. Similar type questions should be asked:

- ✎ What percent of the total revenue does each line of expenses constitute?
- ✎ What percent of the revenue is spent on food?
Does this exceed 45 percent or the "norm" set?
- ✎ What percent of the revenue is spent on salaries/wages?
- ✎ What percent of the revenue is spent on fringe benefits?
- ✎ What percent of the revenue is spent on salaries/wages and fringe benefits?
- ✎ Does this exceed 40-45 percent or the "norm" set?
- ✎ What percent of the revenue is spent on cleaning supplies?
- ✎ What percent of the revenue is spent on disposable products?
- ✎ What percent of the revenue is spent on overhead or operating expenses?
- ✎ What percent of the labor costs (salaries/wages and fringe benefits) is spent on district-level staff (upper management)?

A frequent mistake that is made when analyzing the expenditures is that the percentages are of expenditures—not revenue. When this is done, the percentages may be in line but the revenue does not cover the expenses.

Comparing P&L statements for different schools of similar size and type will provide much insight as to where costs are out of line. Ratio analyses provide key indicators as to where problems are or when the costs are out of line.

PRORATING OPERATING COSTS

The cost of operating the central office should be prorated and charged monthly to each school (or

Cost Control - Module 2 2-19

each cost center). Each school's share of this cost should be prorated based on share (percentage) of the district's meal equivalents, as shown in Exhibit 2.8 or based on revenue. The meal equivalents are discussed in Module 4.

Exhibit 2.8. Example of Prorating Operating Cost to all Schools or Cost Centers in District

SCHOOL (1)	NUMBER MEAL EQUIVALENTS¹ FOR MONTH (2)	PERCENTAGE OF THE TOTAL MEAL EQUIVALENTS (3)	\$21,000 OVERHEAD PRORATED (4)
Jefferson Special Center	3,080	6%	\$ 1,260
Washington Elementary	5,608	10	2,100
Kennedy Elementary	7,010	13	2,730
Madison Elementary	6,894	13	2,730
Redford Middle	5,940	11	2,310
Berlin Middle	6,300	12	2,520
West End High	11,420	21	4,410
Brookfield High	7,400	14	2,940
TOTALS	53,652	100%	\$21,000









If the overhead costs or/and indirect costs are averaging \$21,000 a month, each school/cost center would pay their share. Exhibit 2.8 provides an example of how the overhead cost is prorated. See Form 2.3 for worksheet for prorating.

¹The meal equivalent is based on one lunch equals one meal equivalent; \$3 in a la carte sales and 3 breakfasts equal one meal equivalent.

Cost Control - Module 2 2-20

Form 2.3. Instructions for Prorating Overhead Costs

STEP ONE. Determine the total overhead costs by adding together such charges/costs as shown below:

- +  Utilities, telephone
 - +  Central office staffs' salaries
 - +  Equipment, large
 - +  Repairs, maintenance
 - +  Computer hardware, software, supplies
 - +  Training and professional growth costs
 - +  Travel and vehicle maintenance
-
- +  Other miscellaneous costs
- = Total Overhead Expenditures (Costs)

STEP TWO. Determine each school's meal equivalents.

To arrive at how much should be charged against each school, determine the meal equivalent, as follows:

MEAL EQUIVALENTS

Total Breakfasts Served (Divided by 3)	=	_____ Meal Equivalents
<u>Total Lunches Served</u>	≡	_____ Meal Equivalents
<u>Total A la Carte Items and Other Sales in Dollars (Divided by \$3)</u>	≡	_____ Meal Equivalents
<u>TOTAL EQUIVALENTS</u>	≡	_____ Total Meal Equivalents¹

STEP THREE. Determine each school's share of overhead expenditures by adding together meal equivalents for each school and dividing each school's meal equivalents by the total meal equivalents, as illustrated:

¹Total meal equivalents are also used when determining staffing for a school.

Form 2.3. Instructions for Prorating Overhead Costs
(continued)

<u>SCHOOL</u> <u>(1)</u>	<u>PRORATING OVERHEAD COSTS</u>	
	<u>NUMBER MEAL</u> <u>EQUIVALENTS FOR MONTH</u> <u>(2)</u>	<u>"OVERHEAD FACTOR"</u> <u>PERCENT OF THE TOTAL</u> <u>(3)</u>
<u>TOTAL MEAL</u> <u>EQUIVALENTS</u>		<u>100%</u>

The percentage becomes the overhead factor.

STEP FOUR. To determine each school's "Overhead Factor," determine what percent of the school district's overhead belongs to each school.

Divide total meal equivalents for each school = each school's "Overhead Factor"
by total school district's meal equivalents

STEP FIVE. Multiply estimated overhead in dollars for school district by (x) "Overhead Factor" (convert % to decimals) = equals school's share of the total overhead cost.

STEP SIX. Determine day's overhead cost.

Divide a school's overhead cost for one year
by number of serving days = a school's daily overhead costs

STEP SEVEN. Determine overhead cost per lunch/meal equivalent.

Use the school's daily overhead when preparing profit and loss by school.

Total overhead expenditures (costs) = overhead cost per meal equivalent
divide by total meal equivalents

This overhead costs should be used when costing out a lunch. One half of this amount should be used when costing out a breakfast and half of this amount for each dollar from a la carte/snacks sales.

Cost Control - Module 2 2-22
ALLOWABLE FUND BALANCE

Federal regulations limit the school foodservice net cash resources to an amount that does not exceed **THREE** months average expenditures, except when major equipment purchases are planned. Check with your state director for interpretation of this policy. It is good management to keep a minimum balance of one month of operating costs. Since the federal reimbursement may not be received for three to six weeks after the close of month, a fund balance will be needed to meet payroll. To determine three months average expenditures, divide last year's expenditure by number of serving days and multiply by 60 days (3 months).

RESTRICTIONS ON USE OF FUNDS

Federal regulations require that if a school food authority (SFA) participates in the National School Lunch Program (NSLP) and receives federal funds, then the SFA shall maintain a nonprofit school foodservice. Revenues received by the nonprofit school foodservice are to be used only for the operation or improvement of such foodservice, except that, such revenues **shall not be used to purchase land or buildings, or to construct buildings**, unless otherwise approval by the Food and Nutrition Service, United States Department of Agriculture (FNS, USDA). USDA has defined and issued an interim rule that allows nonprofit foodservice revenues to be used for altering or improving school foodservice facilities. USDA's interpretation of the term "construction of buildings" is to allow the expansion of existing facilities but not the construction of new buildings. USDA may approve, on a case-by-case basis, the use of funds for expansion of existing foodservice facilities provide that (1) the project is needed to improve school foodservice operations; (2) in the case of a multi-purpose facility, school foodservice funds are used only to fund a proportionate share of the project based on anticipated use; and (3) the use of school foodservice funds for the project will not adversely impact upon ongoing foodservice operations.

The equipment, supplies, and food purchased with school foodservice funds must be for the school foodservice program use, i.e., a computer purchased with foodservice funds must be used by the school foodservice program, not for the principal's office or for other purposes.

THE AUDIT TRAIL

An audit trail that supports all financial records should be established. The objective is to be able to verify financial statements, purchases, and handling of revenue. There are many cross-checks that can be made in individual schools. These include checking:

- ✎ Food purchased and delivered against what was used and recorded on food production records
- ✎ Amount of food used compared with number of meals served
- ✎ Number of meal tickets issued to manager compared with number distributed
- ✎ Number of meal tickets sold with amount deposited listing checks received
- ✎ Number of students approved for free and reduced-price meals, number present, and number served

Cost Control - Module 2 2-23

With the computerization present today, it is possible to make all of these checks thoroughly, accurately, and quickly. Otherwise, it is a tedious job done manually. The backup documents are used by Certified Public Accountants (CPAs) to audit a fund and can be used by the SFS director when theft is suspected.

All purchases should have the required source documents, to include (1) legal bid contract (if required by federal regulations and state law), (2) orders placed, (3) invoices, and (4) canceled checks. In the case of revenue, the bank statement is evidence that deposit was made.

Bank statements should be reconciled monthly with the deposit slips and the canceled checks. Banks do make mistakes and good backup procedures can prove the bank has made a mistake.

Audits of all school funds are generally required by the local school boards. An audit firm will usually perform an audit of the financial statements and the source documents. Accuracy of inventory may be checked, as well as other procedures.

Other audits or "reviews" that the SFS program can expect are those done by the State Department of Education and State Department of Agriculture. In addition, USDA staff from the Washington, D.C. office or the regional office and the General Accounting Office make audits of SFS, especially in large school districts, or where irregularities are suspected, e.g., over-claiming or theft of money or USDA commodities.