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10. Food Service Revenue & Expenditures

Food Service Fund

The Kansas State Department of Education (KSDE) requires each sponsor to establish a Food Service Fund, which consists of all money deposited or transferred for the operation of the food service program. Sponsors must maintain the Food Service Fund to account for program income and expenditures.

Food Service Funds are required to comply with generally accepted accounting principles, including the annual budgeting process. However, the following provisions of the Child Nutrition Programs differ from other funds, programs and accounts:

- ◆ All money received for food service must be credited to the Food Service Fund. Expenses attributable to food service should be paid from the Food Service Fund.
- ◆ All transfers from the General Fund to the Food Service Fund are considered General Fund expenditures in the year the transfer is made and should be recorded as revenue in the Food Service Fund.
- ◆ Expenditures attributable to food service include, but are not limited to, salaries for food service supervisors and food service secretarial/clerical employees, operation of plant, contractual services, utilities/heat, replacement of equipment, social security, worker's compensation, unemployment insurance, salaries for food service personnel, food and transportation.
- ◆ Revenue recorded in the Food Service Fund must be used only for the operation and improvement of the food service program. Revenues include, but are not limited to, receipts from:
 - Operations of the lunch, breakfast, snack and milk programs
 - A la carte sales, concessions, and internal catering
 - Earnings on investments
 - Other local revenue
 - Federal and state meal reimbursement

Food service funds may not be used for expenditures that are not directly related to the food service operation. Any positive balance remaining in the Food Service Fund at the end of the school year must be carried over to the next school year as a beginning balance in the Food Service Fund.

All direct costs attributable to food service should be paid from the Food Service Fund. No monies in the Food Service Fund may be transferred to any other fund in the district. A sponsor may repay the General Fund for a bona fide loan needed to maintain a positive cash balance in the Food Service Fund.

To maintain the nonprofit status of the Food Service Fund, the fund balance or net cash resources of the fund should not exceed three (3) months' average expenditures. If the balance exceeds this threshold, the sponsor must take steps to reduce the balance or have an acceptable plan for using surplus revenues. The plan should be such that the balance will be reduced within a year. KSDE reviews the cash balance on the Annual Financial Report. If the Food Service Fund balance exceeds 3-months' average expenditures, the sponsor must submit a plan to KSDE for reducing the fund balance. Since program funds may be used only for food service purposes, an excess balance may be reduced by improving the quality of food served, reducing the prices of reduced price meals served to students or purchasing needed supplies, services, or equipment.

- ◆ The Food Service Fund must meet the requirements of the Kansas Cash Basis Accounting laws. At no time may the Food Service Fund balance be less than zero.
- ◆ All food service expenditures should be classified according to the expenditure category as listed in the *Kansas Accounting Handbook for Unified School Districts*. Expenditures should be documented with itemized receipts, invoices and/or canceled checks.
- ◆ Monthly Financial Reports should be completed in KN-CLAIM within 90 days following the last day of the claim month. The Monthly Financial Reports will roll up into the Annual Financial Report.
- ◆ The Annual Financial Report for the fiscal year beginning July 1 and ending June 30 must be submitted by August 15.
- ◆ Refer to the instructions for completing these forms for further information.

Expenditures must be necessary and reasonable for proper and efficient administration of the food service program and must conform to any limitation or exclusions set forth in program regulations. The types of allowable and unallowable expenditures are outlined on the following pages. Contact KSDE for further interpretation or clarification of allowed expenditures.

Allowable Expenditures

- ◆ Food purchases and costs directly related to the storage, handling, processing and transportation of food
- ◆ Labor costs directly related to operating the Child Nutrition Programs including wages, employer's share of retirement, Social Security insurance payments, bonuses and fringe benefits
- ◆ Other supplies and expendable equipment used directly in the operation of the school food service including 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.
- ◆ Nonexpendable items used directly in preparing, storing, or serving school meals including ranges, refrigerators, freezers, steam tables, mixers, storage cabinets, tables, chairs, hot water heaters, portable fans and other equipment. This category may also include charges of installing, maintaining and repairing equipment and connecting to utilities in the building in which the program is operated.
- ◆ Travel on food service business such as workshops, conferences and training programs
- ◆ Membership, subscriptions, books and audiovisual equipment used to benefit the food service
- ◆ Rental of food storage facilities or equipment as required for program needs
- ◆ Cash registers, adding machines, computers, printers, typewriters, 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, when actual costs attributable to food service are billed separately such as pest control, trash removal and security - If the invoice does not specifically identify the actual costs attributable to food service, the expenditure must be categorized as an indirect cost.
- ◆ Utilities, when actual costs attributable to food service are billed using separate meters - If the invoice does not specifically identify the actual costs attributable to food service, the expenditure must be categorized as an indirect cost.

- ◆ 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 and exhibits related specifically to the program and to advisory councils related to student/parent involvement in the food service program

Secretary's Wages

Q *May a prorated part of a school secretary's or lunchroom supervisor's wages be paid from the Food Service Fund?*

A The secretary or supervisor's wages may be paid from the Food Service Fund under certain circumstances. It is allowable to charge the food service program for wages and fringe benefits for a secretary who does lunchroom accountability or a lunchroom supervisor's time if records are maintained of the time actually spent on food service. For example, if the school secretary spends from 11 AM to 1 PM each day as the ticket clerk in the dining room, the wages for those 2 hours may be charged to the Food Service Fund.



Paying for Awards Dinner

Q *Is it allowable to use nonprofit school food service funds to pay for an awards dinner at a local restaurant to recognize the achievements of food service staff in areas such as increased participation, expanded nutritional information and education, or increased productivity?*

A Yes, under certain circumstances. In order to use school food service funds for activities as described above, certain criteria must be met. The activity must be part of the sponsor's established practice, be reasonable and necessary, and be consistent with regulations, policies and procedures that apply uniformly to both federally assisted and other activities of the sponsor (be consistent with the use of local funds).



Paying Publishing Fees

Q *Can food service funds be used to pay for publishing the reduced price and free guidelines in the local newspaper at the beginning of the school year?*

A Yes. However, the sponsor is not required to pay to have the guidelines published. KSDE submits the guidelines as a public service announcement to all newspapers in the state.

Unallowable Expenditures

- ◆ Income accruing to the food service program may not be used to purchase land, acquire or construct buildings, or make alterations to existing buildings that materially increase the value of capital assets. However, paint and decorator items would not be considered capital expenditures. Only those improvements that materially increase the value or life of the building would be considered capital expenditures.
- ◆ Contributions and donations
- ◆ Entertainment, amusements, social activities, gratuities and related activities
- ◆ Interest on loans
- ◆ Rent or usage fees for sponsor owned facilities
- ◆ Personal membership in civic, professional, technical and business organizations. An agency or sponsor membership is allowable. The expenditures may not be for membership in an organization that devotes a substantial part of its activities to influencing legislation.

Charging Rent

Q *Can a sponsor charge the Food Service Fund for rent or usage fees for cafeterias, kitchens, or storage facilities?*

A No. The sponsor is not allowed to charge rent to the Food Service Fund for sponsor-owned facilities. However, the sponsor can recover indirect costs that occur as a result of operating the food service program.



Bad Checks

Q *If a parent issues a bad check, may the student's meal account be charged for the fee?*

A No. The student's "meal money" (i.e. money paid by the household to the school with the intent and understanding that it is to pay for meals) should NOT be used to pay the bank service fee. A sponsor may refuse to extend credit for meals under whatever circumstances it deems appropriate. The sponsor may request that the parent reimburse the Food Service Fund for the bank service charge with funds other than those sent for payment of meals.



Credit Card Fee

Q *If the sponsor accepts credit cards for on-line payments, can the sponsor waive the fee for the parents and pay the fee from the food service fund?*

A Yes, the credit card fee is an allowable expense from the food service fund.



Special Dinners for Adults

Q *When the school board hosts a special dinner for employees, must the Food Service Fund be reimbursed for food, supplies and labor?*

A The Food Service Fund must be fairly reimbursed for ALL costs associated with serving meals or food to adults. If payment is made from the General Fund, the transfer must be reported as a “Transfer for Low-Price Adult Meals” on line 5206 of the Financial Report. If the costs are paid from another fund, such as an activity fund, the payment to the Food Service Fund is reported as Miscellaneous Income on line 1990 of the Financial Report.



Adult Meals Served at No Charge or a Reduced Charge

Q *If the sponsor allows non-food service adults to eat at no charge or a reduced charge, at what rate must the General Fund reimburse the Food Service Fund for those meals?*

A The Food Service Fund must be reimbursed at not less than the current year's adult meal price. That revenue is recorded as a “Transfer for Low-Price Adult Meals” on the Monthly Financial Report.



Adults Charged Less Than the Recommended Rate

Q *If the sponsor's adult meal charge is less than the adult meal price, must the Food Service Fund be reimbursed the difference between the set adult meal price and the adult meal charge?*

A Yes. There must be a General Fund transfer to pay the difference between the set adult meal price and the adult meal charge. That revenue is recorded as a “Transfer for Low-Price Adult Meals” on line 5206 of the Financial Report.



Adult Visitors

Q *Can food service funds be used to provide meals to adult visitors attending special events at the school?*

A No. Food service funds are to be used to provide meals for students. All adult visitors should pay a sufficient price to cover the cost of their meal or the cost should be paid from other funds of the sponsor.



Indirect Costs for School Nutrition Programs

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. A cost item must be treated consistently as direct or indirect in all activities of the Sponsor **unless** legislation, regulations, or guidance from an awarding agency dictates otherwise. A cost may be assigned to the nonprofit school food service as a direct cost only if that cost item under the same circumstances has not been charged to other programs or cost objectives as an indirect cost.

Indirect costs for food service include:

- ◆ Utilities
- ◆ Custodial services
- ◆ Telephone
- ◆ Trash
- ◆ Sewer
- ◆ Water
- ◆ Building Maintenance

Direct costs include:

- ◆ 100 Salaries
- ◆ 200 Employee Benefits
- ◆ 520 Insurance
- ◆ 590 Other Purchased Services
- ◆ 680 Miscellaneous Supplies
- ◆ 840 Other Direct Costs

An **indirect cost rate** is used to determine the **maximum** amount of indirect costs each federal program should bear. The rates for public school districts are calculated annually by KSDE using the following line items from the LEA budget and its Annual Statistical Report (also known as the 18-E report):

- ◆ 2300 - General Administration: Costs for the superintendent's or administrator's office
- ◆ 2600 - Operations and Maintenance: Costs for custodial services, telephone, trash, sewer, water, utilities and building maintenance
- ◆ 2500, 2800, 2900 - Other Supplemental Services which refers to business office costs such as payroll and accounting

Generally, the indirect cost rate is the ratio of indirect costs to direct costs based upon the actual expenditures of the LEA. From this information, two rates are calculated for each LEA, the restricted rate and the unrestricted rate. Food service uses the unrestricted rate.

At the beginning of each school year, School Finance of KSDE sends each public LEA the current indirect cost rates for that district. Non-public schools and residential child care institutions use the de minimus indirect cost rate of 10% unless they have a negotiated indirect cost rate (2 CFR 200.414). Indirect rates are posted on KSDE's website, <https://cnw.ksde.org>, School Nutrition Programs, What's New.

Indirect costs are limited to the sponsor's indirect cost rate multiplied times specified direct costs. For further information on how to compute the maximum allowable indirect costs, refer to the guidance for completing the Financial Report or go to <https://www.fns.usda.gov/cn/indirect-cost-guidance>, USDA Indirect Cost Guidance.

Indirect Costs

Q-1 *Is a sponsor required to pay the maximum indirect costs of the program from the Food Service Fund?*

A No. The sponsor may permit the food service to reimburse the sponsor less than the maximum amount allowed. Indirect costs paid from the Food Service Fund cannot exceed the maximum allowable indirect costs based on the indirect cost rate.



Q-2 *When is a labor expenditure considered a direct cost and when is it considered an indirect cost?*

A A labor expenditure can be recorded as a direct cost only when there is actual supporting documentation of the time spent on food service. Estimation or allocation of time worked (for example 10% of work time) in food service is not acceptable. Indirect labor costs include custodians, secretaries and other supplemental services. Generally, these employees spend only a portion of their work hours completing food service tasks.



Loans to the Food Service Fund

A sponsor may not retroactively determine that funds transferred from the General Fund to cover school food service deficits were a loan subject to repayment.

- ◆ In order for a liability to exist, a bona fide loan agreement must be in effect at the time that the funds are transferred. Documentation that school food service incurred deficits in past years that were covered by local contributions is not sufficient to substantiate the claim that the funds were transferred with the intent that the money would be repaid.
- ◆ The condition for repayment must be documented and agreed to by both parties, the General Fund manager and the food service director, in advance.
- ◆ Interest payments are not an allowable program expenditure.
- ◆ Short-term or multi-year obligations are permissible provided that a bona fide loan agreement exists at the time funds are made available.

Financial Reports

The Monthly/Annual Financial Reports are a record of the monthly financial transactions within the Food Service Fund. Using this report, each sponsor submits a summation of the Food Service Fund financial activities for the fiscal year starting July 1 and ending June 30. Sponsors are required to:

- ◆ Complete a Monthly Financial Report in KN-CLAIM for the sponsor for each calendar month of the fiscal year, July through June.
- ◆ The Monthly Financial Reports will roll up and complete the Annual Financial Report. Submit the report by August 15.

Financial Management Reports are available in KN-CLAIM at <https://cnw.ksde.org>, KN-CLAIM, SNP, Accounting, Financial Management.

Interest Income

Q *Must the interest earned on money from the Food Service Fund that has been invested be deposited in the Food Service Fund?*

A Yes. All revenue received by the school food service may be used only for the operation or improvement of the food service program. This includes earnings on investments. If food service funds are used totally or in part for investment purpose then the interest earned from such investments must accrue to the Food Service Fund and be used only for authorized program purposes.

Daily Income, Sales & Deposit Report

Each serving site that collects money from students and adults should maintain the Daily Income, Sales & Deposit Report (Form 10-A). The form is also available in Microsoft Excel on <https://cnw.ksde.org>, School Nutrition Programs, Food Service Facts, Chapter 10. Care should be taken to assure that money is receipted to the Food Service Fund and recorded correctly by category on this form. At the end of each month the sponsor should ensure that all income received is posted to the Food Service Fund.

Income is reported at the time it is received. Income from student reimbursable sales, adult meal sales, and a la carte sales should be reported separately. To facilitate meeting this requirement, adult staff members should not purchase meals or a la carte items from a family account.

At the end of each month, the revenue for each column on the Daily Income, Sales & Deposit Report should be totaled. The completed Daily Income, Sales & Deposit Report should be submitted to the sponsor's Authorized Representative for preparation of reports. The total deposits on this sheet should correspond with the totals of the bank deposit slips.