

Related Topics

Year End Report Worksheet for School Lunch, Breakfast, Special Milk, Afterschool Snack SM-4012-A

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Use of the Year End Report

Michigan Department of Education

The Michigan Department of Education (MDE) has three mandated uses for the data collected on the Year End Report. One is based on federal regulation; the other two are for calculating state payments.

- USDA requires that the ending balance of the food service fund does not exceed three months of operating cost. MDE compares the ending balance (Line 14, Revenue) with **Total Cost**, Cell C10, on the back of the form. Districts that have a large balance will be asked to develop a plan for reducing it to an acceptable level during the following school year.
- The State of Michigan makes supplemental payments to **public** school districts for the mandated lunch and breakfast programs. The state supplemental payment for lunch is Section 31d of the state aid payment. These amounts, allocated from state funds, are used to reimburse districts for 6.0127% of the necessary costs of operating the school lunch program. Each current year payment is based on an estimate until final cost data can be obtained to recalculate the actual amount of 31d that is due. At that time, a prior year adjustment is made through state aid.
- The state supplemental breakfast payment is 31f of the state aid payment. The calculation for determining payment includes the revenue received for the breakfast program as well as the cost of operation, which is reported in Cell F12 of the Cost Allocation Sheet of the Year End Report. The payment is disbursed as a Prior Year Adjustment through state aid in the fall of each year.

In addition to the required uses of the Year End Report, MDE consultants and other staff use the report as a preliminary tool when providing technical assistance. MDE also publishes a compilation of all the Year End Report data each fall so that general comparisons can be made between districts (See **Use of the Year End Report by District**).

Note: Non-public schools are not mandated to serve breakfast or lunch and are therefore not eligible for state supplemental payments.

Districts

The report can be used by a district to track the progress of the food service program throughout the year. The form could be adapted for use on a weekly, monthly, or quarterly basis. It could also be used to compare year to year results or to make comparisons with similar districts.

Revenue varies year to year and is an indicator of the economic status of the students and/or how well the food service is being marketed. A study of total revenue may obscure the importance of the types of revenue. A district with historic reliance on high A la Carte sales may suffer greatly and quickly in an economic downturn.

Districts should look at indicators like Food Cost % and Labor Cost % to compare periods with different revenue.

Calculation of Food Cost and Labor Cost percentages shown below is followed by a brief matrix of what the indicators mean.

Example:

Revenue from Revenue and Balance Line 9.	\$133,450
Food Cost from Allocation of Cost Cell C9.	\$ 42,222
Labor Cost from Allocation of Cost Cell C1 + C2	\$ 61,345
Food Cost %	Labor Cost %
$\$42,222 \div \$133,450 = 31.6\%$	$\$61,345 \div \$133,450 = 45.9\%$

Condition	Scenario
Labor cost % is increasing	<ul style="list-style-type: none"> • Revenue is decreasing • Labor cost is going up due to raises in salaries or benefits • Hours are increasing while revenue is not increasing accordingly • Combination of above
Labor cost % is larger than 50%	<ul style="list-style-type: none"> • Revenue is too low • Labor hourly rates are above state averages • Hours are above the state averages • Combination of above
Labor cost is less than 30%	<ul style="list-style-type: none"> • Extreme reliance on convenience foods • Very efficient staff • Low labor market • Error in your report
Food Cost % is increasing	<ul style="list-style-type: none"> • More reliance on convenience foods • Shift from purchases of school lunch/breakfast to A la Carte items • Decreasing control of preparation or serving staff • Intentional increase in quality or quantity of foods served • Food prices rising faster than revenue
Food Cost % is above 45%	<ul style="list-style-type: none"> • High reliance on convenience foods • Food waste is high • Portioning is not being emphasized • High reliance on A la Carte sales • Purchasing needs improvement • District is remote and/or small
Food Cost % is below 30%	<ul style="list-style-type: none"> • High level of self preparation of food • High use of commodities • Creative menus • Below normal levels of high quality or costly foods

Accrual Accounting

Accrual accounting is a method of applying cost and revenue to the proper period. The method is used so a simple profit and loss calculation can be done accurately. In the case of revenue, schools operate primarily on a cash basis, so the revenue as collected usually falls into the proper year. The exception to this is districts that have significant advance sales such as debit card systems. Costs too are generally applied in the period in which they are paid with the exception of large inventory items like food. Use of accrual methods will give a more accurate “snapshot” of a particular year. Actual revenue earned in a year can be compared to the cost of earning that revenue.

Revenue and Balance

Special Milk vs A la Carte Milk Revenue

Special Milk

This USDA program only provides funding for the service of milk to split-session kindergarten or pre-school children who have **no meal program** available.

- When breakfast is implemented in a school system the Special Milk program is not available to A.M. kindergarten.
- P.M. kindergarten may be eligible for Special Milk if lunch is not available to any of the kindergarten students.

A la Carte

Milk sold to students who carry their lunch or buy an extra milk with their school meal is considered a la carte. The cost and income of milk sales are included in the A la Carte program.

Fund Modification – Line 7

Often food service account balances are too small to begin each year and balances are adjusted with advances from the general fund. Occasionally, food service funds slip into deficit and receive transfers from the general fund to remove the deficit. Advances to the food service accounts can be returned to the general fund but transfers **cannot**. Care must be taken in documenting whether funds from the general fund were defined as advances (temporary) or transfers (permanent). The (+ or -) fund modification line on the yearly report records only the amount of net change. The district must maintain documentation of any fund modifications.

The net effect of funds in and out of the food service account should be shown on Line 9 of the **Revenue and Balance Sheet** of the Year End Report. Use a minus (-) sign to designate negative numbers.

The fund modification line **is not** to be used to report Indirect Cost that is charged to the food service fund. Indirect cost that is charged to the food service fund is to be reported in Column A, line 7 on the **online Cost Allocation Sheet** of the Year End Report.

Cost Allocation

Indirect Rate – Line 7

Indirect costs are costs that cannot be tied to a specific area of operation. Heating the school, plowing the parking lot, and custodial care of general traffic areas are of benefit to each operation in the school.

The indirect cost rate is an attempt to give districts a method to assign costs to each area fairly. Districts receive their preliminary indirect cost rate on the RO418 report from the Office of Budget of MDE each year and adjust it for changes. The changes result in a calculation of two indirect cost rates, the restricted and the unrestricted. School food service must use the **Unrestricted Rate**. The rate is applied against fixed and semi-variable costs as represented in **Cells C6 through J6** on the Year End Report. Any cost represented in the indirect cost rate must **not** be shown in Column A or B. For example, custodial costs included in the calculation of the indirect rate could therefore **not** be shown in line 1 of column A or B, as salaries.

Districts which “charge” the food service fund for indirect cost must show this cost in Column A, Line 7 and hence reduce the food service fund. Food service programs that are **charged for indirect costs** by their school district must **enter that charge in Cell A7**. The amount that is entered in **Cell A7 cannot exceed the amount that is automatically calculated and inserted in Cell C7 of the Cost Allocation Sheet** of the Year End Report.

- The maximum unrestricted indirect cost rate allowed for public schools is **15%**. However, if the school district’s approved unrestricted indirect cost rate, according to the **MDE Indirect Cost Rate Summary Report - R0418**, is lower than the maximum rate allowed, then the school must use this rate when determining the amount of indirect cost entered on Line 7 for columns C-I. If the unrestricted rate assigned to the school district exceeds 15%, the maximum rate that can be used by the school is 15%.
- The maximum unrestricted indirect cost rate for non-public schools is **12%**.

Developing a Depreciation Schedule – Line 8

Depreciation divides the cost of capital goods greater than \$5,000 in value into the number of years of its life. Food service equipment is depreciated over twelve years. Divide cost, including delivery and installation, by 12 to find the amount to “charge” each year. Heavy vehicles use six years (divide by 6), light vehicles use four years (divide by 4) and electronics, like computers, use five years (divide by 5).

Enter each depreciation amount on the schedule, total them and use this amount on each Year End Report until something is added or taken from the schedule. When the amount changes use it until another change is made.

Depreciation Schedule Example

Equipment/Vehicle or Electronics	Cost	Date of Purchase	Depreciation Value	Date of Expiration
Delivery Van	\$11500	11/8/03	\$2,875.00	11/8/07
Convection Oven	\$7000	8/16/03	\$583.33	8/16/15
Total (use each year)			\$3,458.33	

Food Cost and Inventory – Line 9

See the example below in which an accrual accounting procedure (inventory adjustment) is contrasted with non-accrual in calculating food cost.

Food Purchases	\$20,500
Beginning Food Inventory	\$ 900
Ending Food Inventory	\$ 13,300

Accrual Method	Non-Accrual Method
Food Cost: Beginning Inv. \$ 900 + Purchases \$ 20,500 - Ending Inv. \$ 13,300 Food Cost \$ 7,100	Food Purchases shown as Food Cost: <p style="text-align: center;">\$20,500</p>

Using food purchases (non-accrual method) will greatly overstate food cost in years in which inventory is growing. Conversely, in the years in which inventory is being used there will be fewer purchases and food cost will appear low. Typically, districts that make this error have high food costs in one year followed by low food costs the next year.

Inventory

Inventory should be taken of all food items at least monthly. The food inventory should be used to order food and to monitor inventory turnover. Only the ending inventory needs to be **priced** (extended) each year and used in the cost of goods calculation as demonstrated above. A shortened version of an inventory form follows. It is easily converted to an electronic spreadsheet.

Inventory Form Example

Check if Commodity	Food	Pack	Purchase Price/Case	Number of Cases	Number of Individual Units	Cost
Total Cost						

To calculate the value, multiply the case price by the number of cases. When quantities are part of the case, proportional pricing should be done.

Example:

Price per case of Peaches (6 #10 cans): \$26.45

Count: 5 cases 4 cans

$\$26.45 \times 5 = \132.25 plus $\$26.45 \times 4/6 = \$17.63 \rightarrow \rightarrow$ **\$149.88**

For purchased food use the most current price. For commodities use the “cost of delivery and processing” as charged by the distribution warehouse.

Each Summer the auditors will request your inventory. The only difference from your closing inventory (June 30) is that the commodity portion will be valued at the market value posted at the following website:

http://www.michigan.gov/documents/mde/CommValue09_251788_7.pdf

However, the market value must **never** be used when calculating food cost for the Year End Report.

The calculation method used for determining food cost may be used for **Supplies and Other Material** costs. This will provide more accurate Year End Report data.

Allocation of Costs – Columns D through I

After all the cost data (Columns A & B) is entered in the **Program Cost** section of the Year End Report, the sum of Columns A and B is automatically inserted into Column C. Column C shows the total cost of all operational centers in the food service: School Lunch, Breakfast and A la Carte.

To obtain the cost per meal (see **Use of Year End Report by MDE** in the *Related Topics*), a method must be used to assign cost into the operational centers. The Salary and Benefits (Lines 1 & 2) should be allocated based upon a labor study (see

Labor Study Example). The Food Cost (Line 9) should be allocated based on the proportion of purchases used in each operational center (See **Food Cost Study**

Example). The remaining lines should be allocated based on an average of labor and food cost (See **The Remaining Cost**). Study the examples that follow.

Participants in the At-Risk Afterschool Snack/Supper Program, Fresh Fruit and Vegetable Program, and/or Summer Food Service Program should not include costs associated with those programs on the Year End Report.

Labor Study Example

Distribute notebooks or forms to the employees on which they will record the amounts of time they spend in each operational area for at least a week. Add all of the hours for each operational area and divide each by the total hours. The resulting percentages are applied against Cells C1 & C2 (Salaries and Benefits)

The following is an example of a form an employee may use to record their time working in food service.

Elm St. School – Marie Jones

Day	School Lunch Program	Special Milk Program	School Breakfast Program	Afterschool Snack Program	A la Carte	Catering	Total
Monday	4.0 hr.	1.0 hr.	.5 hr.	.5 hr.	.5 hr.		6.5 hr.
Tuesday	4.0 hr.		.5 hr.	.5 hr.	.5 hr.	1.0 hr.	6.5 hr.
Wednesday	3.5 hr.		.5 hr.	.5 hr.	1.0 hr.		5.5 hr.
Thursday	4.5 hr.	.5 hr.		.5 hr.	.5 hr.	.5 hr.	6.5 hr.
Friday	3.5 hr.			.5 hr.	.5 hr.		4.5 hr.
Total	19.5 hr.	1.5 hr.	1.5 hr.	2.5 hr.	3.0 hr.	1.5 hr.	29.5 hr.

Individual staff times can be compiled into a chart like the one below.

Labor Compilation Example

School	School Lunch Program	Special Milk Program	School Breakfast Program	After-school Snack Program	A la Carte	Catering	Total
Elm St.	19.5 hr.	1.5 hr.	1.5 hr.	2.5 hr.	3.0 hr.	1.5 hr.	29.5 hr.
Hill Elem.	20.0 hr.	1.0 hr.	2.0 hr.	3.0 hr.	3.5 hr.	2.0 hr.	31.5 hr.
Middle	42.5 hr.		4.5 hr.		7.0 hr.	3.5 hr.	57.5 hr.
Jr. High	38.5 hr.		3.5 hr.		12.5 hr.	7.0 hr.	61.5 hr.

High	22.5 hr.		3.0 hr.		28.0 hr.	12.5 hr.	66.0 hr.
Total	143.0 hr.	2.5 hr.	14.5 hr.	5.5 hr.	54.0 hr.	26.5 hr.	246.0 hr.

After the Labor Compilation is completed, calculate the **Labor Cost Percentage**.

Use the following formula:

$$\text{Operational Center Hours} \div \text{Total Labor Hours} = \text{Labor Cost \%}$$

Labor Cost Percentage Example

Hr ÷ Total Hr = %	143 ÷ 246 = .581	2.5 ÷ 246 = .010	14.5 ÷ 246 = .059	5.5 ÷ 246 = .022	54 ÷ 246 = .220	26.5 ÷ 246 = .108
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Care should be used when calculating labor percentages. If the week recorded was not typical, some judgment should be made to adjust actual hours to something more realistic. The labor cost percentages will be applied to total salary (See **Applying the Results of Labor and Food Cost Studies**).

Food Cost Study Example

Review food invoices for a representative period. The period should reflect all typical deliveries. Commodity invoices should also be used with the price of the items based upon the cost of processing and/or delivery. Highlight or use other ways of identifying food items used only in certain areas (i.e. Lunch, A la Carte). Decide on a reasonable proportion of the cost of items that are used in more than one area and pencil in that cost as shown in the example below:

Example: Flour Purchases: \$54.50

Estimated use rate: Lunch 60%, Breakfast 10%, A la Carte 20%, Catering 10%

The assignment of cost:

Lunch: \$32.70 Breakfast: \$5.45 A la Carte: \$10.90 Catering: \$5.45

Food purchases by operational center would be compiled into a chart like the one below. Calculate the Food Cost Percentage.

Food Cost Compilation Example

	School Lunch Program	Special Milk Program	School Breakfast Program	Afterschool Snack Program	A la Carte	Catering	Total
Purchases	\$14,320	\$879	\$1,240	\$940	\$9,755	\$3,267	\$30,401

After the Food Cost Compilation is completed, calculate the **Food Cost Percentage**. Use the following formula:

Operational Center Food Purchases ÷ Total Food Purchases = Food Cost %

Food Cost Percentage Example

\$ ÷ Total \$ = %	14320 ÷ 30401 = .471	879 ÷ 30401 = .029	1240 ÷ 30401 = .041	940 ÷ 30401 = .031	9755 ÷ 30401 = .321	3267 ÷ 30401 = .107
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Applying the Results of Labor and Food Cost Studies

Print a copy of a blank Year End Report. In each Cell from D1 to I1 and D2 to I2, write the corresponding labor cost percentages. In each cell D9 to I9 write the corresponding food cost percentages.

	Total Cost C	School Lunch Program D	Special Milk Program E	School Breakfast Program F	Afterschool Snack Program G	A la Carte H	Catering I
1. Salaries		.581	.010	.059	.022	.220	.108
2. Benefits		.581	.010	.059	.022	.220	.108
3. Contract							
4. Transp.							
5. Supplies							
6. Subtotal							
7. Indirect							
8. Deprec.							
9. Food Cost		.471	.029	.041	.031	.321	.107
10. Total							

For determining the cost % for Lines 3-5 and Line 8 of Columns D-I. Use this formula:

Line (1 + 9) ÷ 2 = cost % for Lines 3-5 and Line 8.

Example of Determining Lines 3-5 and Line 8 Cost Percentages

$.581 + .471$ ÷ 2	$.010 + .029$ ÷ 2	$.059 + .041$ ÷ 2	$.022 + .031$ ÷ 2	$.220 + .321$ ÷ 2	$.108 + .107$ ÷ 2
.526	.019	.05	.026	.271	.108

Remaining Cost

Enter the percentages into the applicable cells.

	Total Cost C	School Lunch Program D	Special Milk Program E	School Breakfast Program F	Afterschool Snack Program G	A la Carte H	Catering I
1.Salaries		.581	.010	.059	.022	.220	.108
2.Benefits		.581	.010	.059	.022	.220	.108
3.Contract		.526	.019	.05	.026	.271	.108
4.Transp.		.526	.019	.05	.026	.271	.108
5.Supplies		.526	.019	.05	.026	.271	.108
6.Subtotal							
7.Indirect							
8.Deprec.		.526	.019	.05	.026	.271	.108
9.Food Cost		.471	.029	.041	.031	.321	.107
10.Total							

Multiply Total Costs in Column C by the percentages in each cell to determine the cost allocations.