



# Office of Health and Nutrition Services

## Net Cash Resources and Excess Fund Balance Guidance

### What are the Net Cash Resources Requirements?

Because Child Nutrition Programs must operate a restricted Non-profit Food Service Account (NFSA) or Food Service Fund, Sponsors are required to limit their fund balance and invest the proceeds back into the food service program to benefit students. Three-months average expenditures are allowed in what is called the Net Cash Resources, or a Sponsor's Allowable Fund Balance. The United States Department of Agriculture (USDA) requires Michigan Department of Education (MDE) to assess Net Cash Resources per 7 CFR Part 210.19(a)(1).

### How do Sponsors Calculate their Allowable Fund Balance?

To calculate Allowable Fund Balance; start with the total food service program costs, not including capital outlay, divided by nine full operating months and then multiply the result by three months. That calculation indicates the Sponsors' current Allowable Fund Balance.

### What is an Excess Fund Balance?

An Excess Fund Balance (EFB) occurs when the Food Service Fund Balance (Net Cash Resources) exceeds 3 months average expenditures (Allowable Fund Balance) at year end. Spend Down Plan of Actions are required by MDE for all Sponsor's with an EFB at year end. Sponsors must take steps to reduce its Net Cash Resources, through an acceptable Spend Down Plan of Action, for at least the entire amount in excess funds. Sponsors must spend down the funds in excess by the end of the next school year. Because the NFSA is a restricted account, the excess funds cannot be used to profit the General Fund. Since food service program funds must be used for program purposes, excess funds must be reduced by investing in the food service program through improving the quality of food served, purchasing needed supplies, services, or equipment, or by adding staffing. Feel free to inquire about additional ways to reinvest back into the food service program.

### Timeline:

MDE assesses Net Cash Resources (Fund Balance) through the Financial Information Database (FID) School Meals Report or the School Lunch Year End Report (SLYER) every year to determine if an excess fund balance exists and the amount of excess funds a Sponsor has, if applicable.

EFB notices are typically sent out in January or February each year from the GEMS/MARS system for all sponsors with an EFB. The email notices are sent to the Sponsor's Superintendent, Business Manager, Food Service Director, and Partnership Agreement Liaison (PAL) (if applicable). For Public School Academies, notices are also sent to School Board Presidents and Chartering Authorizers.

### Best Practices:

Ideally, Sponsors should implement a plan throughout the school year to ensure that an Excess Fund Balance will not occur in the future by monitoring Fund Balance (Net Cash Resources) and proactively investing profit in the food service program to avoid an EFB and findings. To best monitor fund balance, a Sponsor's trial balance should be current year to date. If a Sponsor's books are not reconciled until year end, they should monitor fund balance throughout the year in a way that works for the Sponsor's processes. Doing so is required to ensure compliance. EFB are a violation of USDA requirements per 7 CFR Part 210.19(a)(1). The USDA requires that federal reimbursements be reduced for Sponsors with repeated EFB findings.

Sponsors can submit equipment requests or other capital outlay requests prior to MDE sending initial notification requiring a Spend Down Plan for an EFB. Equipment or other capital outlay requests are required if items on the Spend Down Plan are not listed on the Pre-Approved Food Service Equipment List.

It is important to note that having an approved Spend Down Plan does not mean a Sponsor has an approved equipment or capital outlay request. Failure to receive prior approval of a Spend Down Plan and/or equipment request could result in unallowable costs requiring the General Fund to restore the Food Service Fund for those purchases.

### Resources:

Refer to the Fiscal Monitoring Team's resources for "Equipment and Excess Fund Balances" at [MDE - Equipment and Excess Fund Balance \(michigan.gov\)](#) for guidance, requirements, and common ideas for Spend Down Plan of Actions.

The Net Cash Resources Calculation Worksheet is a tool designed for Sponsors to calculate their Net Cash Resources and monitor for an Excess Fund Balance throughout the school year, allowing Sponsors to be proactive in compliance with regulations 7 CFR Part 210.19(a)(1).

### For More Information:

Questions regarding Net Cash Resources or Excess Fund Balances may be directed to MDE Office of Health and Nutrition Services (OHNS), Fiscal and Administrative Services (FAST), Fiscal Monitoring Unit, by email to [MDE-Fiscal@michigan.gov](mailto:MDE-Fiscal@michigan.gov) or by calling the FAST main office line at 517-241-5380.

### Referred to Links:

<https://www.michigan.gov/mde/services/food/fiscal-admin/topics/equipment-and-excess-fund-balance>