Financial Management Basics for School Nutrition Programs: Know Your Numbers

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Maine Department of Education
Child Nutrition Programs
Must Knows...

• Learn how to calculate:
  – Operating ratios
  – Meal Equivalents
  – Meals per labor hour
  – Meal cost
The BIG Picture

Operating Ratios: Cost/Total Revenue

- Labor: 50%
- Food: 40%
- Other: 10%
Operating Ratios

Expenses as a Percentage of Revenue:

• Food Cost % of Revenue = 35-40%
• Labor Cost % of Revenue = 50-55%
• Other Cost % of Revenue = 5-10%

breakeven = 100%
Operating Ratios

- Step 1: Determine total program revenue received for a specific time period (yearly)
Operating Ratios

• Step 2: Determine total program revenue received for a specific time period (yearly)
Operating Ratios

- Step 3: Total program revenue

### Reimbursement - Yearly Costs By District

<table>
<thead>
<tr>
<th>Activity</th>
<th>Disbursements and Expenditures</th>
<th>Income and Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Expense</td>
<td>Food</td>
</tr>
<tr>
<td>A la Carte</td>
<td>$149,256.35</td>
<td>$69,196.49</td>
</tr>
<tr>
<td>Breakfast Program</td>
<td>$190,741.32</td>
<td>$91,806.64</td>
</tr>
<tr>
<td>Cash Disbursements</td>
<td>$1,205,402.66</td>
<td>$392,921.16</td>
</tr>
<tr>
<td>Cash Receipts</td>
<td>$1,248,350.83</td>
<td>$379,036.24</td>
</tr>
<tr>
<td>Snack Program</td>
<td>$8,569.32</td>
<td>$6,749.71</td>
</tr>
<tr>
<td>Unpaid Bills</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Voucher</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>
Operating Ratios

• Step 4: Program Expenses (Food/Labor/Other)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Total Expense</th>
<th>Food</th>
<th>Labor</th>
<th>Equipment</th>
<th>Other</th>
<th>Total Income</th>
<th>Cash Book Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>A la Carte</td>
<td>$149,256.35</td>
<td>$69,196.49</td>
<td>$74,674.94</td>
<td>$0.00</td>
<td></td>
<td>$5,384.92</td>
<td></td>
</tr>
<tr>
<td>Breakfast Program</td>
<td>$190,741.32</td>
<td>$91,806.64</td>
<td>$95,063.21</td>
<td>$0.00</td>
<td></td>
<td>$3,871.47</td>
<td></td>
</tr>
<tr>
<td>Cash Disbursements</td>
<td>$1,205,402.66</td>
<td>$392,921.16</td>
<td>$680,858.06</td>
<td>$74,142.08</td>
<td></td>
<td>$57,481.36</td>
<td>$1,248,350.83</td>
</tr>
<tr>
<td>Cash Receipts</td>
<td>$8,569.32</td>
<td>$6,749.71</td>
<td>$1,687.44</td>
<td></td>
<td></td>
<td>$132.17</td>
<td>$379,036.12</td>
</tr>
<tr>
<td>Snack Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Example District #1

Total Annual Revenue: $1,206,789.00

Annual Expenses:
- Food $392,921.16
- Labor $680,858.06
- Other $57,481.36

Total Annual Expenses: $1,131,260.58
Operating Ratios: Example 1

Food Cost % = $392,921 ÷ $1,206,789 = 32.5%
Labor Cost % = $680,858 ÷ $1,206,789 = 50.7%
Other Cost % = $57,481 ÷ $1,206,789 = 4.7%

87.9%

Did this program make a profit?
## Operating Ratios

<table>
<thead>
<tr>
<th></th>
<th>Recommended Guidelines</th>
<th>District 1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food Cost %</strong></td>
<td>35-40%</td>
<td>32.5%</td>
</tr>
<tr>
<td><strong>Labor Cost %</strong></td>
<td>50-55%</td>
<td>50.7%</td>
</tr>
<tr>
<td><strong>Other Cost %</strong></td>
<td>5-10%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Source: The Institute for Child Nutrition
Operating Ratios: Example 2

**Example District #2**

Total Annual Revenue: $1,003,569

Annual Expenses:

- Food $392,921
- Labor $680,858
- Other $57,481

Total Annual Expenses: $1,131,260
Operating Ratios: Example 2

Food Cost % = $392,921 ÷ $1,003,569 = 39%
Labor Cost % = $680,858 ÷ $1,003,569 = 68%
Other Cost % = $57,481 ÷ $1,003,569 = 6%

113%

Did this program make a profit?
## Operating Ratios: Example #2

<table>
<thead>
<tr>
<th></th>
<th>Recommended Guidelines</th>
<th>District 1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food Cost %</strong></td>
<td>35-40%</td>
<td>39%</td>
</tr>
<tr>
<td><strong>Labor Cost %</strong></td>
<td>50-55%</td>
<td>68%</td>
</tr>
<tr>
<td><strong>Other Cost %</strong></td>
<td>5-10%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: The Institute for Child Nutrition
Food Cost

Food Cost % = \frac{\text{Total Food Cost}}{\text{Total Revenue}}

Factors that can affect food cost:
• Overproduction
• Portion control
• Theft
• Monitoring food costs/plate costs
Labor Cost

Labor Cost % = \frac{\text{Labor Cost (Salary & Benefits)}}{\text{Total Revenue}}

Factors that can affect labor cost:
• Not following scheduled work time – overtime
• High wage and/or high benefit cost
• Too many labor hours (low MPWH)
The Bottom Line

- Increase participation
- Decrease expenses
- Cost out your menu
- Inventory
Meal Equivalents

• MEQ – the conversion of meals (breakfast, afterschool snack, supper) and other nonprogram food sales (a la carte) to the equivalent of one reimbursable school lunch
Using Meal Equivalents to Measure Financial Performance

By converting meals & other food sales to meal equivalents, you can determine

– Meal cost

– Meals per labor hour
Meal Equivalent Conversion Formulas

1 lunch = 1 meal equivalent
3 breakfasts = 2 meal equivalents (2/3 = .67)
3 snacks = 1 meal equivalent (1/3 = .33)
1 supper = 1 meal equivalent

Nonprogram food sales =
revenue from nonprogram sales
current free lunch reimbursement +
current USDA Foods value per lunch
### Example: Meal Equivalents

<table>
<thead>
<tr>
<th>Meal</th>
<th>Count</th>
<th>Conversion</th>
<th>MEQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lunch</td>
<td>250</td>
<td>X</td>
<td>1</td>
</tr>
<tr>
<td>Breakfast</td>
<td>125</td>
<td>X</td>
<td>0.67</td>
</tr>
<tr>
<td>A la carte</td>
<td>$125</td>
<td>$3.37 + $.3425</td>
<td>33.67</td>
</tr>
</tbody>
</table>

**Total:** $367.42
Meals Per Labor Hour (MPLH)
Meals Per Labor Hour (MPLH)

- Measure of productivity & efficiency
- Helps determine how many employees or scheduled hours are needed
- Calculated on actual productive labor hours

Meal Equivalents
Number of Paid Productive Labor Hours
Meals Per Labor Hour (MPLH)

Meal Equivalents
Number of Paid Productive Labor Hours

Example:

367 Meal Equivalents
24 Paid Productive Labor Hours
= 15.3 Meals Per Labor Hour
# Meals Per Labor Hour (MPLH)

<table>
<thead>
<tr>
<th>Number of Meal Equivalents</th>
<th>Meals Per Labor Hour for Low and High Productivity</th>
<th>Conventional System</th>
<th>Convenience System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>MPLH Low</td>
<td>High</td>
</tr>
<tr>
<td>Up to 100</td>
<td></td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>101-150</td>
<td></td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>151-200</td>
<td></td>
<td>10-11</td>
<td>12</td>
</tr>
<tr>
<td>201-250</td>
<td></td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>251-300</td>
<td></td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>301-400</td>
<td></td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>401-500</td>
<td></td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>501-600</td>
<td></td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>601-700</td>
<td></td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>701-800</td>
<td></td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>800 and up</td>
<td></td>
<td>18</td>
<td>20</td>
</tr>
</tbody>
</table>
Meals Per Labor Hour (MPLH)

Affected by:
• size of operation,
• number of serving lines,
• type service provided,
• scheduling of lunch periods,
• production system,
• amount of convenience foods used,
• skill level of employees,
• complexity of the menu, etc.
Per Meal Costs
Per Meal Cost

Meal Cost-Food = \[
\frac{\text{Cost of Purchased Food Used}}{\text{Total Lunches + Meal Equivalents}}
\]

Meal Cost-Labor = \[
\frac{\text{Labor Costs}}{\text{Total Lunches + Meal Equivalents}}
\]

Meal Cost-Supplies = \[
\frac{\text{Supply Costs}}{\text{Total Lunches + Meal Equivalents}}
\]

Or use the ‘Monthly Per Meal Cost” report in NEO
Monthly Per Meal Cost By District
## Per Meal Cost

<table>
<thead>
<tr>
<th>Meal</th>
<th>Cost-Food</th>
<th>Cost-Labor</th>
<th>Cost-Other</th>
<th>Cost-Total</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lunch</td>
<td>$1.17</td>
<td>$2.77</td>
<td>$0.15</td>
<td>$4.09</td>
<td></td>
</tr>
<tr>
<td>Breakfast</td>
<td>$0.77</td>
<td>$0.13</td>
<td>$0.01</td>
<td>$0.91</td>
<td></td>
</tr>
<tr>
<td>ASP</td>
<td>$0.50</td>
<td>$0.05</td>
<td>$0.00</td>
<td>$0.55</td>
<td></td>
</tr>
</tbody>
</table>
Resource

https://theicn.org/school-nutrition-programs/
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