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Financial Information

Use of Child Nutrition Funds

Child Nutrition (CN) accounts are required to comply with generally accepted accounting principles, including the annual budgeting process. However, there are certain provisions of the Child Nutrition Programs that differ from other funds, programs, and accounts.

Special provisions that should be considered when budgeting for the CN program include the following:

1. All revenues received by or accruing to the CN must be used only for the operation and improvement of the foodservice program. Revenues include, but are not limited to, receipts from:
 - child and adult meals;
 - snack bar and a la carte programs;
 - earnings on investments;
 - other local revenues; and
 - federal and state reimbursement received by or accruing to the CN.
2. The CN account funds may not be used for expenditures that are not directly related to the CN operation although they may be part of the district's general fund. Any positive balance remaining in the CN account at the end of the school year must be carried over to the next school year as a beginning balance in the CN account.
3. Earnings on investments if CN funds are used totally or in part for investment purposes, must accrue to the CN account and be used only for authorized program purposes.
4. To maintain the nonprofit status of the National School Lunch and Child Nutrition Programs, the fund balance or net cash resources of the CN account should not exceed three month's average expenditures. If an excess balance should occur, the school must immediately take steps to reduce the balance or have an acceptable plan for using surplus revenues. The plan should be such that the balance would be reduced within a year. The plan must be submitted to the Texas Department of Agriculture, Food and Nutrition Division. Since program funds may be used only for program purposes, an excess balance could be reduced by improving the quality of food served, reducing the prices of meals served to children, or purchasing needed supplies, service or equipment.

To determine if an excessive balance exists, complete the following calculation:

A. Total Net Cash Resources	B. Year's Expenditure
\$ _____	\$ _____
	Number of months operation X 3 months

If A exceeds B, submit a plan to reduce the excessive balance within one year. See form at end of section.

Expenditures

All CN expenditures should be classified as food, labor and other. Expenditures should be documented by itemized receipts, invoices and/or cancelled checks.

To be allowable, expenditures must be necessary and reasonable for proper and efficient administration of the programs and conform to any limitations or exclusions set forth in program regulations.

The types of allowable and unallowable expenditures that may be made by schools operating the CN programs under the National School Lunch Act are listed below. For specific expenditures not listed or for further interpretation of those listed, contact the state office.

Allowable Expenditures

Allowable expenditures include the following:

- *Incentives/prizes* to encourage households to return completed free and reduced-price meal applications.
- *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.
- *Attorney's fees under certain conditions.* Consult the state office when the question arises.
- *Automotive equipment* used for Child Nutrition department purposes (i.e., transporting food, employees). Unit costs greater than \$5,000 must have TDA approval.
- *Recognition of employee achievements as long as:*
 - the activity is a part of the school district's established practice,
 - it is reasonable and necessary, and
 - it is consistent with regulations, policies and procedures that apply uniformly to both federally assisted and other activities of the district (be consistent with the use of local funds).
- *Food purchases* and costs directly related to the storage, handling, processing and transportation of food. All food purchases must be domestic commodities or products for program meals according to the Buy American Provision. All Child Nutrition funds (including federal reimbursement) must support the Buy American Provision.

- *Labor*, which includes payments for labor and other services directly related to operating the Child Nutrition Programs. This includes employer's share of retirement, social security, insurance payments and fringe benefits.

This may include a portion of the salaries of janitorial, maintenance workers, secretarial, and finance staff but only for service actually performed for the CN operation (must be prorated).

- *Memberships, subscriptions, professional publications, and audiovisual equipment* used to benefit CN.
- *Nonexpendable items*, generally classified as movable property, and used directly in preparing, storing, or serving school meals. This includes ranges, refrigerators, freezers, steam tables, mixers, storage cabinets, garbage containers, tables, chairs, hot water heaters, portable fans and other equipment. This category may include such items as charges for installing equipment and connecting to utilities in the building in which the program is operated, as well as service for maintenance and repair of equipment.
- *Office equipment* — Computers, cash registers, adding machines, typewriters, communication equipment and other office equipment used exclusively for the CN operation.
- *Other supplies and expendable equipment* used directly in the operation of CN. This includes 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.
- *Printing and reproduction equipment* or services.
- *Promotional materials*, exhibits relating specifically to the program, and advisory councils related to parental and student involvement.
- *Rental of non-district owned food storage facilities or equipment* as required for program needs.
- *Services*, such as pest control, trash removal, security and janitorial.
- *Travel* on CN business such as workshops, conferences and training programs.
- *Utilities*, when accounted for separately (actual costs) or prorated to charge only the portion used by CN. The best proration method is using separate meters; the next best is survey by utility company; otherwise, use a reasonable method (square foot percent, gas bill in months when the school is not heated, etc.).

Unallowable Expenditures

Unallowable expenditures include the following:

- *Cafeteria monitors* — CN funds may not be used to pay salaries for monitoring. However, CN personnel may have monitoring duties assigned to them as part of their other CN responsibilities.

- *Contributions and donations.*
- *Entertainment, amusements, social activities, gratuities and related activities.*
- *Foods of minimal nutritional value* for sale either in or outside the foodservice area.
- *Interest on loans.*
- *Land purchase, acquisition, and construction* — No income accruing to the CN program may be used to purchase land, acquire or construct buildings, or make alterations to existing buildings that materially increase the value of capital assets without prior approval from the state office. 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.
- *Personal membership* in civic, professional, technical, and business organizations (an agency or district membership is allowable). The expenditure may not be for membership in an organization that devotes a substantial part of its activities to lobbying and influencing legislation.
- *Rent* or usage fees for district-owned facilities such as cafeterias, kitchens or storage facilities.

Request Procedures for Capital Expenditures Increasing Capital Assets

Requests for any capital expenditures in excess of \$5,000 must be sent in writing to and be approved by the state office in advance. It is possible that with special written permission from the state office, program funds may be approved for use in improving facilities even though the specific expenditures are listed under unallowable. The district should write the state office and briefly describe the proposed use of the funds, including an estimate of the cost. Approval will be granted on a case-by-case basis.

Handling of Loans

Foodservice funds may be loaned to the district on a short-term basis (a school year). The district should pay interest at the prevailing loan rate. The loan agreement should contain such stipulations as the purpose, interest rate (simple or compounded), the repayment schedule for the principal and interest and any penalties for late payment.

The original loan agreement, duly executed, and the payments for the principal and interest

must be maintained and be on file for the duration of the loan plus the retention period required for all state/federal records.

Retroactive Designation of a Loan to the Child Nutrition Account

USDA has ruled that a school district may not retroactively determine that funds transferred from the general fund to cover CN deficits are to be considered a loan subject to repayment.

1. It is required that for a liability to exist, a bona fide loan agreement must be in effect at the time that the funds are transferred. This means that a fund transfer cannot be retroactively designated to be a loan. Documentation that CN incurred deficits in past years that were covered by local contributions is not sufficient to substantiate the claim that the monies were transferred with the intent to be repaid.
2. The conditions for repayment must be documented and agreed to by both parties, the general fund manager and the CN department. It should be noted that an interest payment is a nonallowable program expenditure.
3. Provided that a bona fide loan agreement exists at the time that funds are made available, short-term or multi-year obligations are permissible.

Criminal Penalties Associated With Mishandling of Funds

“Whoever embezzles, willfully misapplies, steals or obtains by fraud any funds, assets or property provided under the National School Lunch Program and/or School Breakfast Program whether received directly or indirectly, shall if such funds, assets or property are of a value of \$100 or more, be fined no more than \$25,000 or imprisoned not more than 5 years or both; or if such funds, assets or property are of a value of less than \$100, be fined not more than \$1,000 or imprisoned not more than 1 year or both. Whoever receives, conceals or retains for personal use or gain, funds, assets or property provided under the National School Lunch Program and School Breakfast Program, whether received directly or indirectly, knowing such funds, assets or property have been embezzled, willfully misapplied, stolen or obtained by fraud, shall be subject to the same penalties.” This statement regarding fraud is from National School Lunch Program Regulations.

State Matching Funds

Annually, participating school districts receive a payment of State matching funds based on the number of lunches reported on their reimbursement claims during the period September through August of the prior year. Federal law requires the State of Texas to make these payments in order to continue to participate in the National School Lunch Program. These monies are provided to participating school districts exclusively for use in their CN operations and must be deposited in their CN accounts.

Reimbursement Rates

Reimbursement rates can be found on the Child Nutrition Programs Information Management System (CNPIMS) for current and past years and in the section titled “Reimbursement Rates.” USDA’s Web site also contains reimbursement rates.

For each lunch served in school districts in which 60 percent or more of the lunches served in the school lunch program during the second preceding school year were served free or at a re-

duced price, the national average lunch payment shall be two cents more. (This is computed by the State Office. It is not necessary to submit a claim for this additional reimbursement.)

Plan for Reducing Excessive Operating Balance

Co.-District Number: _____ Date: _____
School District Name: _____ ESC: _____
Address: _____
City/State: _____
----- Zip: -----
Telephone Number (____) _____

The above named school district hereby submits the following plan to reduce the excessive operating foodservice balance. This plan will be completed by _____, 20____.

Current Operating Balance: \$ _____

Average Monthly Expenditure: \$ _____

Briefly Outline Plan: _____

(If additional space is needed attach another page.)

(Signature of Authorized Representative)

(Printed Name of Authorized Representative)

(OFFICIAL USE ONLY)

[] APPROVED

INFORMED Instructions for Completing Record of Program Expenditure

This form is designed to help you keep the records of foodservice expenses as required by your National School Lunch and School Breakfast Programs Agreements. State Board of Education policies require that you maintain these records for a period of five years.

- **Column 1:** *Date* — Enter the date of each payment.
- **Column 2:** *Payee* — Enter the name of the person or company to whom each payment is made.
- **Column 3:** *Check Number* — Enter the number of each check or, in the case of a cash payment, enter the word “cash.”
- **Column 4:** *Amount of Check or Cash* — Enter the amount of each check or cash payment. In the case of a cash payment, enter the amount of the payment and write “cash” in Column 3. (*Note:* Secure a signed receipt for each cash payment.)
- **Column 5, 6 and 7:** *Expenditures* — The sum of these three columns must equal Column 4.
Food — Enter the amount of each payment, or portion thereof, expended solely for food. Food includes milk and all other items purchased for consumption.
Labor — Enter the amount of each payment, or portion thereof, expended for labor in connection with your foodservice program.
Other — Enter the amount of each payment, or portion thereof, expended for all other items not covered in Columns 5 and 6.
- **Column 8:** *Explanation of Other Expenditures* — Give a brief explanation of those expenditures listed in Column 7.

Note: Funds used from other than the regular CN account should, first, be deposited into the CN account and then disbursed from this account.

Instructions for Completing Daily Record of Income

This form is designed to help you keep the daily record of CN income as required by the National School Lunch and Breakfast Programs Agreements. Current State Board of Education policies require that you maintain these records for five years.

Use these instructions in preparing this form:

School Lunch Program

- **Column 1:** *From Pupils (Reimbursable Meals)*—Enter the total amount received for all reimbursable lunches served to pupils. Include income from both full and reduced-price meals.
- **Column 2:** *From Pupils (Other)*—Enter all other income received from pupils for the program during lunch. Include snack bar and a la carte proceeds.
- **Column 3:** *From Adults*—Enter the total income from the sale of all food and extra milk to adults during lunch. Include income from professional and nonprofessional personnel, as well as visiting adults.
- **Column 4:** *Other Income*—Enter the total amounts received into the School Lunch Program from all other sources. Do not include reimbursement from the National School Lunch Program, which is to be reported at the bottom of the page.
- **Column 5:** *Total Income*—Enter the sum of Columns 1 through 4.

School Breakfast Program

- **Column 6:** *From Pupils*—Enter the total income received for all breakfasts served to pupils. Include income from both full and reduced-price meals.
 - **Column 7:** *From Adults*—Enter the total income from the sale of all food and milk to adults during breakfast. Include income from professional and nonprofessional personnel, as well as visiting adults.
 - **Column 8:** *Other Income*—Enter the total amount received into the School Breakfast Program from all other sources. Do not include federal reimbursement from the School Breakfast Program, which is to be reported at the bottom of the page.
 - **Column 9:** *% Total Income*—Enter the sum of Columns 6 through 8.
 - **Column 10:** For local use.
 - **Column 11:** *Total Cash Income*—Enter the combined total income for all programs. Add Columns 5, 9, and 10.
 - **Column 12:** *Total Bank Deposits*—Enter the deposits made into the CN account.
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- **Federal Reimbursement (Bottom of Form)**—Enter, by program, reimbursement(s) received for the National School Lunch and School Breakfast Programs and date(s) received.
 - **Total Income (Bottom of Form)**—Enter the total income for each program and the total income for all programs, Columns 5, 9, 10, and 11.