

Nuts and Bolts of Financial Management

Key Terms and Definitions needed to determine the financial health of your school nutrition program

BASICS

Profit and Loss Statement (also known as the Statement of Revenue and Expenditures)

- Provides total revenue by source, total expenditures by category and the net gain or loss of the program

Meal Equivalent (MEQ) Conversions

- 1 lunch = 1 meal equivalent
- 3 breakfasts = 2 meal equivalents ($2/3 = 0.67$)
- 3 snacks = 1 meal equivalent ($1/3 = 0.33$)

Why Convert to a Meal Equivalent? This conversion enables all meals to be compared back to the standard of a school lunch. Benchmarking against one meal can demonstrate where efficiencies and inefficiencies are.

Average Daily Participation (ADP)

$$\frac{\text{Number of Student Breakfasts Served in a Month}}{\text{Number of Operating Days in Month}} = \text{Average Daily Participation}$$

Why Calculate ADP? Knowing ADP assists with forecasting food purchasing and labor requirements.

REVENUE | All monies accruing or received by the nonprofit food service account

Why does this matter? Total revenue must meet or exceed expenditure obligations.

Examples of Program Revenue: Reimbursements for meals served to students, funds paid by students to purchase a reimbursable meal

Examples of Non-Program Revenue: A la carte sales, adult meals, visitor meals, catering, smart snacks

Revenue per MEQ | Use this number to analyze and predict trends in revenue

$$\frac{\text{Revenue}}{\text{Total MEQs}} = \text{Revenue per MEQ}$$



EXPENDITURES | Allowable costs related to the production and service of meals to children.

Why does this matter? Monitoring expenditures can identify trends and highlight red flags.

Examples of Program Expenses: Cost of food for reimbursable meal to students

Examples of Non-Program Expenses: Cost of food for a la carte items, adult meals, smart snacks

Cost per MEQ | When costs exceed revenue, changes must be made.

$$\frac{\text{Expenditures}}{\text{Total MEQs}} = \text{Cost per MEQ}$$

ADDITIONAL FOOD AND LABOR CALCULATIONS

Cost as a Percentage of Revenue | Costs are typically analyzed in terms of food cost or labor costs. Knowing food and labor cost percentages allow comparison of actual operational expenses.

$$\frac{\text{Cost of Purchased Food}}{\text{Total Revenue}} = \text{Food Cost Percentage} \qquad \frac{\text{Payroll, Benefits, Other Related Labor Expenses}}{\text{Total Revenue}} = \text{Labor Cost Percentage}$$

$$\text{Inventory Turnover Rate} | \frac{\text{Cost of Goods Sold}}{\text{Average Inventory Value}} = \frac{(\text{Beginning Inventory Value} + \text{Purchases During Period}) - \text{Ending Inventory}}{(\text{Beginning Inventory} + \text{Ending Inventory}) / 2}$$

$$\text{Labor} | \frac{\text{Number of Meal Equivalents}}{\text{Labor Hours Worked}} = \text{Meals per Labor Hour (MPLH)}$$

Factors Affecting MPLH | Size of operation • Number of serving lines • Type of service provided • Scheduling of lunch periods • Production system • Amount of convenience food used • Skill level of employees • Complexity of the menu

Calculating Food Cost | Beginning Food Inventory + Total Food Purchases = **Total Food Available**

$$\text{Total Food Available} - \text{Ending Food Inventory} = \text{Cost of Food Used}$$

Best Practices to Control Food Cost

Use production records to monitor how much food is produced, served, leftover, and throw out to illuminate trends • Use the maximum amount of USDA Foods to reduce food costs by 12% • Standardize recipes to reduce waste • Utilize cycle menus to standardize ordering and forecasting • Use an inventory checklist to monitor inventory moving in and out of the operation • Conduct student taste tests and collect feedback to ensure acceptability of recipes

