

How Is the Financial Health of Your School Food Service?

The following worksheets are designed to help you assess the financial health of your school food service. They are designed to be used on a district or individual feeding sites.

To get started you will need a pencil, calculator, blank paper, a block of uninterrupted time and a current profit and loss statement. Ideally, the profit and loss statement would be by the month and year to date for both the food services department and individual kitchens. If all that is available is an annual financial report, start there. Other documents that may be helpful are:

- Enrollment by elementary, middle school, high school
- Reimbursement Claims or a document containing the following information:
This information needs to be broken out by grade level - elementary, middle and high school for the year
 - The number of students **eligible** for **free** meals
 - The number of students **eligible** for **reduced** meals
 - Total number of students **claimed** for **free lunch** meals
 - The number of students **claimed** for **reduced lunch** meals
 - The number of students **claimed** for **paid lunch** meals
 - The number of students **claimed** for **free breakfast** meals
 - The number of students **claimed** for **reduced breakfast** meals
 - The number of students **claimed** for **paid breakfast** meals
- Do you qualify for severe need breakfast reimbursements? Do you qualify for severe need lunch reimbursements?
- Meal prices
- The number of serving days in the school year.
- The number of contract days in the food service contract
- The number of hours assigned to each position being charged to food services
- Wage rate paid to each position which is charged to food services
- Total Benefits cost by position, which can be a percent of wages paid

This may seem like extra work for the finance personnel; however, foodservice is a business working within and for education. Analysis of the profit and loss statement must occur on a monthly basis in order to make timely and effective management decisions..

Step one: Determine what percentage of the total revenue does each line on the profit and loss statement represent. Both the revenue and the expenses are figured as a percent of total revenue. This is done because it is the revenue that pays the expenses. See Profit and Loss Statement Worksheet.

Step two: Compare these line percentages month to month and year to date. This will show trends, either negative or positive. It may also be helpful to look at the previous year. The percentages may also be compared to industry standard, see page 3. An easy way to keep track of this data is on a spreadsheet, computerized or paper. See Revenue and Expense Comparison.

Step three: Ask questions and ponder. It is not enough to say there is a profit or loss. One must find out why. If there is a profit, that activity needs to be continued. If there is a loss, one needs to know where the financial leak is located. There is nothing more frustrating than going for the fix and have it make little or no impact. Below are some helpful questions to ask and suggested corrective action:

Question	Action
What percentage of revenue is from federal reimbursements? Is it increasing? Decreasing?	Determine if this is true demographic shift. Was the increase due to more free and reduced applications? Was the decrease due the fewer applications? Has total enrollment changed? If none of these scenarios fit, look at participation. An increase may indicate the paying students are dropping out. A decrease may suggest student eligible for free and reduced priced meal are dropping out? The Fix: Survey parents, students, teachers on needs and perceptions. Make the changes. Market.
Is the percentage spent on food greater than 45%? Why?(beginning of the year, short month)	The Fix: Purchase on quote or bid. Join a purchasing coop. Reduce kitchen waste and over-production. Use correct portion sizes Reduce student plate waste by implementing offer vs. serve and Food Pyramid Choices. Offer only foods that contribute to the NSLP meal pattern.
Is the percentage spent on labor more than 45%? Why?(overtime, illness, low productivity)	The Fix: Control over assigned time and overtime Work on ways to increase revenue within existing labor hours. Assess equipment. Be selective in the items made from scratch. Purchase more convenience items. Involve employees in decision-making.
What percentage of labor cost is spent on upper management/central office? Is it justified? (Ballpark range is 7-12%)	The Fix: Look for ways to provide a “value added” services for your employees and customers - expand services, offer training opportunities to staff, classes to parents on child nutrition, prorate warehousing costs to schools on a per case delivery charge, etc.

In order to get a true picture of the financial health of individual school kitchens, schools need to be charged for the central office and warehousing. Central office expenses can be prorated to each school based on the percentage of district meal equivalents served. Warehousing expenses can be distributed to the schools by charging a per case delivery fee.

Step four: Take action. Evaluate and change approaches as necessary. It is very important to allow the foodservice employees and other interested parties participate in the actions taken. They need to know why and the desired outcome or result. The break -even point can be used as a way to monitor progress by making it the goal and checking daily or monthly revenues against it. See Break-even Point Worksheet.

How much should I spend on food and other expenses?

Sample Cost of Food Purchased	
Meat/Meat Alternate	25-40 cents
Bread	3-13 cents
Vegetables or Fruit	10-30 cents
Milk	12 -18 cents
<hr/>	
Total Food Cost	77-82 cents

Sample Percent of Expenses to Revenue*	
<small>*School Lunch and Breakfast Cost Study. Summary of findings, USDA, Food and Nutrition Service 1994.</small>	
Revenue	100%
Labor Costs (including fringe benefits)	42-46%
Food Costs (including value of commodities)	38-42%
Paper and Cleaning Supplies	2%
Overhead (charge based on a percentage)	10%
Small and Large Equipment	2%
Miscellaneous	1%
Profit Margin	0-4%
Total	<hr/> 100-103%

Now that you have the big picture basics down, it is time to look at the details.

How do you assign labor? The first step is to get to a common unit or meal equivalent. In school food service we deal in meals and cash, from milk sales and a la carte. To get to the meal equivalent, breakfast count and cash from milk and a la carte are converted to a meal and added to the lunch count in the following manner:

Meal Equivalents - Making Dollars into Meals

Breakfast

2 breakfasts = 1 lunch

$\frac{\text{Total Count} = \text{Breakfast Equivalents}}{2}$

Lunch

1 meal served = 1 lunch equivalent

A la Carte \$/ \$2.00 = a la carte Equivalent

Total Meal Equivalents

1. Student Lunch Count _____
 2. a la carte Equivalents _____
 3. Breakfast Equivalents _____
- Add lines 1,2,3 for Total _____

Now that we have a common unit, the next step is to look at productivity in the ratio of meals per labor hour. The equation is illustrated below. Labor is assigned based on meal equivalents served.

Sample Staffing Guidelines for On-site Production

Meals per Labor hour:
The industry measure of Productivity

$$\frac{\text{Meal Equivalents}}{\text{Labor Hours worked}}$$

The figure at the left offers staffing guidelines at different levels of meal equivalents. A factor to also consider is the style of preparation. Preparing food from scratch or the conventional system takes more labor time than the convenience system where entrees are heat and serve. How to decide which one you have? A rule of thumb: 1 scratch item on the menu daily or 2 scratch items on a menu once or twice a week is a convenience system.

Meal Equiv.	Meals per labor hour (MPLH)			
	Total hours			
	Conventional System		Convenience System	
	MPLH	Total Hours	MPLH	Total Hours
10-100	12	8	16	6
101-150	12	8-12	16	6-9
151-200	12	12-16	16	9-12
201-250	14	14-17	17	12-14
251-300	14	17-21	18	14-16
301-400	15	20-26	18	17-21
401-500	16	25-31	19	21-25
501-600	17	29-35	20	25-30
601-700	18	33-37	22	27-31

How do I know if I can expect participation increase?

Sixty percent is the national participation average for elementary. Secondary schools vary. A healthy participation rate for secondary would be between 30 and 50%. If you are already at or above these levels, increasing participation may be more time consuming than it is worth. Time may be better spent doing food inventories, pre/ post costing menus and increasing labor efficiencies.

To determine market share, see the Market Share Worksheet.

Is there a difference between contract days and serving days?

Yes. Contract days are the number of days the school Food Service employees are contracted to work. Serving days are the number of days in a month or year when meals were served. Contract days is a more accurate way to average revenues and costs because it takes into account those days when costs are still incurred (paid holidays, benefits and inventory) and there is no revenue. The one place serving days is used is for determining average daily participation (ADP).

Do we need a monthly food inventory?

A physical inventory needs to be taken at the end of every month for an accurate food cost. Without an inventory, food cost is inflated and there is no way to monitor theft.

The inventory from the end of the month or school year becomes the beginning inventory for the next month or school year. Purchases made during the month are added to the inventory as they occur. $(\text{Beginning inventory} + \text{Purchases}) - \text{Ending inventory} = \text{Food cost}$.

Counting the boxes on the shelf is a manual job for two people. However, extending the costs can be set up on a computer spreadsheet. The price used should be the most recent one paid. Developing the spreadsheet could be a computer class assignment.

How much inventory do I really need?

A good rule of thumb is no more than 7 days worth. You also want to purchase in such a way that there is never an order in transition, ie. place an order, receive that order, place next order. If you need to have a dollar minimum to have a truck stop and have the storage space, go to a monthly order. Do menu planning and inventory before placing next order.

Product Movement

Inventory is like a savings account. Cash is traded for the product. The way to make a withdrawal is to use the product to make a menu item and sell it to a customer. Too much inventory reduces the amount of cash available to pay bills. Salaries can't be paid with a case of green beans. The trick is to have enough inventory on hand to meet production and enough cash to pay the bills.

The number of times inventory is turned per month is a major cost factor in food service operations and is critical to cost control. The more frequently the inventory is turned, the better cost control you have. Products are being purchased and used without much time spent in storage. Turn frequency may vary with the type of product - frozen, refrigerated, dry goods, etc.

The goal is to have the larder close to bare when the next shipment comes in. The advantages are reduced inventory, quicker shipment receiving, easier product storage and more accurate orders.

Steps to Improved Product Movement

1. Decide frequency: Just in Time,(weekly deliveries) or maintain inventory for month to 6 weeks.
2. Divide inventory between par stock, annual purchases, and menu.
3. Develop par levels. Add 50% as a safety factor.
4. Purchase so no order is in transition before the next order placed.

An order placement calendar is helpful for managers to accommodate variations in school calendar.

Delivery Date week of	Menu week of	Order Due week of	Comments
8/28	9/4	Placed before school dismissed	For sites with a Monday delivery, no delivery week of 9/4 - Labor Day.
9/4	9/11	8/28	
9/11	9/18	9/4	

Monday delivery day - order for Wednesday through Tuesday
 Tuesday delivery day - order for Thursday through Wednesday
 Wednesday delivery day - order for Friday through Thursday
 Thursday delivery day - order for Monday through Friday
 Friday delivery day - order for Tuesday through Monday

What else can be done to monitor food cost?

There are three other ways to monitor food cost:

- A) Portion cost;
- B) Pre-cost menus; and
- C) Post-cost menus.

A helpful resource for costing is the USDA Food Buying Guide available through the ODE Child Nutrition Department.

Portion cost is simply breaking down the case cost into the portion size used or costing out a recipe.

Example:

Bread, 16 slices per loaf
 Price: \$.89 per loaf
 Portion = 2 slices
 Cost= \$.11.

All items on the menu need to be costed out. This may be an assignment for a business math class. See Portion Cost Work Sheet.

To help balance costs while menu writing, portion costs can be summarized in the following manner. with the least expense items at the top and most expense item at the bottom. The lists could be further broken down by ease of preparation (1= heat and serve, 2=assembly, 3=scratch)

Entrees	Bread	Fruit	Vegetable	Dessert
¹ Corndog \$.27	Roll \$.02	Pears, cn\$.13 AP	Broccoli \$.14	Cookies \$.07
¹ Burrito \$.30 AP \$.27 CM	Cinn Roll \$.26			
² Sub \$.45				
³ Lasagna \$.51				

Entrees contain at least 2 ounces of protein. Fruit portion = 1/2 cup. Vegetable portion = 1/4 cup AP = as purchased CM = Commodity

Pre-costing a recipe or menu establishes the ideal food cost. Preparing too much or serving a larger than planned portion can make the item or menu cost more than the pre-cost figure.

To pre-cost a menu, add the portion costs of each item on the menu together.

Post-costing lets you check the actual cost of an item or menu against the pre-cost figure. A record of all foods taken from storage should be made and costed out. The value of leftovers can be deducted, if the leftovers will be used effectively. Production records must be completed for all foods prepared.

A form for costing menus could look like this:

Meal Component	Menu	Serving Size	Forecast number of servings	Cost per serving	PRE-COSTING			POST COSTING			
					USDA Commodities	Purchased foods	Average cost of lunch ¹	Actual served	Usable Left-overs	Cost per used serving ²	
Meat/ Meat Alternate	Pizza	1 slice	75	.47		\$35.25	.38	68	7	.41	
	Hamburger	1	60	.37		22.22		55	5		
	Taco	2	60	.32		19.22		50	0		
	Spaghetti	1 portion	30	.32		9.60		24	0		
Vegetables	Lettuce	1/4 cup	120	.07		8.40	.19	100	20	.20	
	Broccoli	1/4 cup	30	.10		3.00		15	15		
	Carrots	1/4 cup	30	.09		2.70		30	0		
	Celery	1/4 cup	30	.07		2.10		15	15		
	Cucumber	1/4 cup	30	.08		2.40		20	10		
	French Frie	1/2 cup	120	.21	25.20			120	0		
Fruit	Apples	1	56	.14		7.84	.14	30	26	.11	
	Oranges	1	56	.13		7.28		25	31		
	Peaches,cn	1/2 cup	113	.14	15.82			100	13		
Bread	Dinner Roll	1	100	.02	2.00			75	25	.02	
	Crackers	3 pkgs	50	.06		3.00		45	5		
Condiment	Ketchup	3 pkts	180pkts	.09		16.20	.11	160	20	.11	
	Ranch Dres	1 TBSP	1 gal	.02		5.12		1 gal	0		
	Pickles	2 TBSP	1 gal	.02		2.56		1/2 gal	1/2 gal		
Milk	1%	1/2 pint	75	.14		10.50	.15	63	12	.14	
	Chocolate		150	.16		24.00		128	22		
Total Cost per meal								.99			.99

Forecast Number of Lunches:

Students 215

Adults 10

A la carte _____

Total: 225

Actual lunches served/sold:

194

3

197

1. Total food cost of Meal Component divided by total forecast number of Lunches

2. If leftovers can be utilized: Actual served X cost per serving = Cost per menu item

If leftovers can not be used: Cost per menu item = Total cost of Food Prepared

Add food cost of each menu items within a menu component and divide by total actual meals served.

What can be done to change the Financial Picture? Check out the next pages for ways to increase revenues and/or cut costs. Be creative and a little risky. Seek a broad base of support for any change undertaken. The community likes to be informed. Bosses need to be able to defend the change. Customers like to give input.

Ways to Increase Revenue

Increase Participation and Sales

- Survey students, parents and teachers to find out why participation is low
- Take corrective action
- Market, promote, and advertise program to parents, teachers, administration, community and students
- Plan menus students like and improve food quality
- Improve food servers' attitudes; treat students as true customers
- Re-notify students that they qualify for free and reduced-priced meals

Start a Breakfast Program

- Pre-cost menus and determine revenue
- Survey community for need and the number who will use program
- Plan easy to prepare and easy to eat meal
- Have a taste party to test foods and menus
- Take breakfast to customers, if permitted

Start a Catering Program

- Identify costs and revenues from catering
- Plan menus and offerings
- Cost out services and set prices
- Put services, menus and prices in a printed brochure
- Purchase equipment needed
- Market Program

Raise Prices

- Are prices charged really too low?
- Can the price increase be justified publicly?
- Can customer afford to pay more?
- What are the alternatives for the customer?
- What is the competition charging?
- What does the customer consider a fair value?
- How much will participation decrease if meal prices are increased?
Rule of Thumb: Participation decreased 1% for every cent the lunch price increased.

Pannell, Dorothy. *Cost Control for School Foodservices*, in Team, 1994.

Cutting Costs

Reduce Food Cost

- Lower the price paid for food
- Use less expensive ingredients
- Have good portion control and reduce plate waste
- Serve only components of meal pattern as part of meal
- Control inventory
- Improve ordering process
- Improve preparation procedures
- Plan less expensive menus
- Involve all employees in reducing cost
- Supervise cost reduction
- Check pricing and costs
- Use USDA commodity foods more effectively

Eliminate Theft

- Customer theft
 - ✓ Locate cashier at exit
 - ✓ Train staff to watch customers
 - ✓ Don't cash checks
 - ✓ Request that heavy coats be left outside serving area
- Employee theft
 - ✓ Do not allow "leftovers" to be taken home
 - ✓ Maintain low inventory by ordering only what is needed. Turn over inventory every two weeks
 - ✓ Keep perpetual inventory of high priced, high desirability, and easy removal items at the school level.
 - ✓ Date products as delivered
 - ✓ Keep storeroom and back door locked. Limit number of keys.
 - ✓ Inventory quantity available for sale and what was left on a daily basis. Check against money taken in.

What about meal charges?

The decision to charge meals should be made at the district level. The policy can be as broad or narrow as desired. It must be universally applied and communicated to parents. Some districts allow meal charges at anytime. Others limit it to three meals. Still others say no charges. Just be aware that meal charges are very difficult to collect.

Charged meals are counted for reimbursement on the day they are served by benefit category. Students eligible for reduced price meals can be denied a meal.

This seems like a lot of work. Is there any way to make it easier?

Do a detailed analysis on the data from October, February and April. These reviews should be done on the following schedule:

Financial Data:	Analysis done:	Action plan ready to implement:
October	mid November	January 1
February	mid March	After Spring Break
April	mid May	Next September*

*Additional revenues can be raised with year- end special events.

Keep in mind this is a suggested minimum. It is still best to do an analysis every month. Also, it is not unusual for school food services to run in the red until February or March because of start-up costs and reimbursements are paid monthly. There should be a noticeable decline in the deficit by November.

A possible division of labor:

	Deputy Clerk	Food Service Staff	Students
Profit and Loss	X		
Break-even Point	X	X	
Market Share	X	X	X
Inventory		X	X
Food costing		X	X