

Financial Terms and Definitions Handout

À la carte

À la carte is the overall category for food items that are priced separately and sold separately from a reimbursable meal, including the sale of an extra entrée or milk.

Accounts Payable

Accounts payable refers to the amount the SNP owes, but has not yet paid, for goods delivered and services rendered.

Accounts Receivable

Accounts receivable refers to the amount of funds the SNP has earned, but not yet collected, for services provided. Funds include meal reimbursement due from the state agency, and payments due from customers for such services as catering special school events, outside sales, and contract meals.

Assets

An asset is something of value held by the SNP for use in carrying out its mission. Examples include cash (including petty cash and cash in cashiers' drawers); accounts receivable (due from customers, from units of government, etc.); inventories of purchased food, USDA Foods, and supplies; equipment and other capital assets; etc.

Average Daily Participation (ADP)

Average daily participation is the average number of student reimbursable meals served in the school nutrition program on a daily basis.

Balance Sheet

The balance sheet presents a business entity's financial position, which consists of its assets, liabilities, and the difference between the two (called "Net Assets" or "Fund Balance"). A public school district or other governmental organization that accounts for school nutrition in an enterprise fund would entitle this report the "Statement of Net Assets," while a school district that used a governmental fund for school nutrition would call it the "Balance Sheet." A not-for-profit organization would entitle it the "Statement of Financial Position." See also "Assets," "Liabilities," and "Net Assets."

Budget

A budget is a business entity's financial management plan for a specified future period of time, generally a fiscal year. The budget systematically considers the entity's planned activities and objectives for that period, forecasts the costs the entity must incur in carrying out those activities, and identifies the revenues projected to cover those costs. Formulating and executing a budget enables a business entity to achieve its objectives (in the case of SNPs, providing quality meals) while living within its means. 15 National Food Service Management Institute Financial Management Manager's Manual

Capital Equipment

Capital equipment is tangible personal property with a unit acquisition cost at or above a stated dollar amount, called the capitalization threshold, and a useful life greater than one year. The business entity sets the capitalization threshold. Property with a unit cost below that threshold is classified as "supplies," even if it has a multi-year useful life. Examples include a new dish machine, oven, or portable salad bar.

Cost Controls

The systems and procedures established by a business entity to provide reasonable assurance that: (1) assets and information are protected and used only for authorized purposes; and (2) reports submitted to management are complete, timely, and free of material misstatement. Examples may include restricted access to cash, computers, and other assets and review of invoices by someone other than the disbursing official before they are approved for payment.

Deficit

A deficit is a financial outcome where expenses exceed revenue.

Direct Expenses

Direct expenses are costs directly related to the principal activity of the business. In school nutrition operations, this may include food, supplies, labor, and telephone costs.

Encumbrance

An encumbrance functions as a fund control device. It is the amount of money reserved for outstanding purchase orders and unpaid bills.

Expenditures

Decreases in net assets incurred to support the costs of operating the school nutrition program. Expenditures may be made by either giving up assets (such as by paying cash) or by increasing liabilities (such as by incurring debt). See also "Assets" and "Liabilities."

First-In-First-Out (FIFO)

First-In-First-Out (FIFO) is the process of rotating the older product to the front and the newer items to the back of the shelf. The age of the item is based on the manufacturer's pack date and not the date on the receipt.

Food Cost

Food cost is the cost of food used in school nutrition service to prepare meals and other food items such as à la carte. One calculates the monthly cost of food used by subtracting the food inventory on hand at the end of the month from the sum of the beginning food inventory and food purchases during the month.

Forecasting

Forecasting is the process of analyzing current and historical data to determine future trends. Forecasting involves predicting and estimating the goods, works, and services needed in specified areas for the coming year, and/or assessing needs by reviewing current procurement activities. Forecasting allows for procurement plans to evolve each fiscal year.

Fringe Benefits

Fringe benefits are compensation for employees that are in addition to salaries/wages, such as health insurance, retirement, or paid vacation.

FTE

Full-Time Equivalent (FTE) is a measure used to translate the number of hours worked into full-time equivalents hours. Generally, an FTE of 1.0 is equivalent to one full-time employee.

Indirect Expenses

Indirect expenses are overhead costs that cannot be directly related to a business entity's principal activities without exerting effort disproportional to the results achieved. In a school district, indirect costs may include the costs of the Superintendent's office, human resources, payroll, accounting, budgeting, purchasing, utilities (light, heat, etc.), building maintenance and repair, auditing, etc. Such costs benefit all activities of the school district, and the portion that benefits any specific activity, such as food service, is generally determined through a mathematical allocation process.

Inventory

Inventory is the value of food and supplies on hand, whether at the food preparation site or in a central warehouse or facility.

Liabilities

Liabilities are amounts legally owed to others, generally as payment due for goods or services received. Liabilities may be short-term (due and payable in the current accounting period) or long-term (payable over a longer period of time). Liabilities incurred in school nutrition program operations are generally short-term; they may include accounts payable, accrued personnel costs (salaries, wages, and fringe benefits), unearned revenue (amounts received in advance for meals and other services), taxes owed, and funds due to other entities (such as the General Fund). See also "Assets" and "Net Assets."

Meal Equivalents (ME)

A meal equivalent is a statistical tool used in the school nutrition program to understand food production costs and productivity based on a per unit expense. Meal equivalency is calculated by converting differing types of meals (breakfast, lunches, and snacks) and nonprogram revenue to a standard reimbursable student lunch. Please note the Food and Nutrition Service (FNS); Department of Agriculture (USDA) does not prescribe one particular method in order to calculate meal equivalency. Meal equivalencies are often used in contracted school nutrition operations to determine the number of meals for which the school nutrition management company (FSMC) will be paid. Also, à la carte and other sales are typically converted into lunch/meal equivalents by assigning a dollar value to a reimbursable lunch (lunch/meal equivalent rate) and dividing the sales revenue by this dollar value factor (lunch/meal equivalent rate). However, the most accurate method for developing a lunch/meal equivalent rate is based on the full cost of producing a reimbursable lunch. The lunch/meal equivalent rate must be set no lower than the free lunch reimbursement rate plus the value of USDA foods.

Meals Per Labor Hour (MPLH)

Meals per labor hour is the most common measure of productivity in school nutrition, calculated by dividing the number of meal equivalents produced and served in a day by the number of labor hours.

Meal Reimbursement

Meal reimbursement is a federal cash payment received from the State agency for meals that meet federal standards and are served to school children.

Net Asset

Net asset is the difference between fund assets and liabilities reflected on the balance sheet or statement of net assets. Within governmental funds, such as a public school district that accounts for school nutrition programs, equity is reported as *fund balance*; proprietary and fiduciary fund equity is reported as *net assets*.

Nonprofit Food Service (School Nutrition) Account

The federal regulations require School Nutrition Programs operate on a nonprofit basis, with all revenue used to support or improve the school nutrition operations. School Food Authorities (SFAs) operating SNPs are required by regulation to establish a restricted nonprofit school nutrition (school food service) account in which all of the revenue from all school nutrition operations conducted by the SFA, principally for the benefit of school children, is retained and used only for the operation or improvement of the nonprofit school nutrition program. For additional information see Program regulations at 7 CFR Part 210, School Breakfast Program 7 CFR 220.2 at <http://cfr.vlex.com/vid/220-2-definitions-19903861> and the Electronic Code of Federal Regulations at www.ecfr.gov. Food and beverages sold in schools outside of reimbursable meals and purchased with funds from the nonprofit school food service account. Included are foods and beverages sold in competition with the reimbursable meal programs as provided in section 10 of the Child Nutrition Act (42 U.S.C. 1779). 18 National Food Service Management Institute Financial Management Manager's Manual.

Operating Statement

The operating statement presents the financial results of a business entity's operations (that is, its "bottom line") during a fiscal year or other stated period of time. It does this by subtracting revenues generated during that period from expenses incurred in carrying out the entity's operations of the same period, thereby computing the change in the entity's financial position (net assets) resulting from its operations. The exact title of this report varies, depending on the type of organization (governmental or not-for-profit) and accounting methods used. Profit and Loss Statement or Statement of Activities are other names for this report.

Par Level

Par level is an established inventory level for products used to determine purchasing quantities.

Perpetual Inventory

Perpetual inventory is an up-to-date, running record of each item in stock based on tracking items as they are received and used. This information may be maintained manually or electronically by using computers, scanners, and universal bar codes. Perpetual inventories must be checked occasionally with a physical inventory.

Physical Inventory

Physical inventory is an actual count of the goods on hand, usually taken at the end of each month and at the end of the fiscal year.

P&L (Profit and Loss Statement)

See “Operating Statement.”

Point of Sale (POS)

The point of sale [or service] (POS) is the point in a business process at which the sale of the business’s products or services is transacted. In school nutrition program, the POS may include cash registers, cash handling locations, and software purchased to track sales and inventory. Point of Sale may also refer to strategic marketing locations.

Profit

Profit is a financial outcome where revenue or income exceeds expenses.

Rebates

Rebates are monetary returns.

Revenue

Revenue is money received in exchange for goods or services provided by the school nutrition program.

Specification

A specification is a concise statement of a set of requirements to be satisfied by a product, material, or process.

Stock Keeping Unit (SKU)

An item of stock that is completely specified as to size, flavor, color, recipe, and any other attribute (e.g., two types of green beans have different SKUs).