

Chapter 12: Meal Pricing and Use of CNP Funds

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Non-profit School Food Service Account

School food authorities must maintain a separate nonprofit school food service where all food revenues will accrue and all allowable related food service expenses will be paid. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of the SFAs food service program. Revenues received in the Non Profit Food Service account shall not be used to purchase land or buildings, unless otherwise approved by FNS. Federal guidance for resource management can be found in 7 CFR 210.14.

Reimbursement Rates

The reimbursement rates for the National School Lunch, School Breakfast, Special Milk and Afterschool Snack Programs are announced annually (usually by late July) by the U.S. Department of Agriculture (USDA) and are effective from July 1 through June 30 of each year. Rate information (to include USDA Food Assistance) is transmitted to all participating School Food Authorities (SFA) via e-mail memorandum and is automatically updated in the South Carolina Automated Payment System (SCAPS) for claims purposes. For additional information, contact the South Carolina Department of Education (SCDE) Office of Health and Nutrition at (803) 734-8188.

Pricing Student Meals

USDA guidelines require that all reimbursable meals be priced as a unit. In addition, the “Offer versus Serve” provision cannot affect the meal price. Regardless of the items chosen, the student must pay the established reduced-price or paid meal price, as determined by the individual student’s eligibility status. Students eligible for free meals will not be charged for the meal.

Reduced-Price Charge

School Food Authorities (SFAs) are required to offer both free and reduced-price meals to all eligible students unless the SFA operates a school(s) or the entire district as a non pricing program or participates in an applicable non pricing provision such as the Community Eligibility Provision. (See Chapter 10 – Special Assistance Provisions for additional information.) The reduced-price meal charge cannot exceed 40 cents for lunch, 30 cents for breakfast or 15 cents for an afterschool snack. The reduced-price meal charge must be less than the full price meal charge.

An SFA may choose to vary prices between high schools, middle schools, and elementary schools; however, the maximum charge for a reduced price meal cannot exceed the maximum amounts specified.

Paid Lunch Equity

Pursuant to USDA guidelines, lunch prices for full-pay student must cover the total cost of the meals including food, labor and supplies expenses. The expense of preparing and serving these meals cannot be subsidized by USDA reimbursements or other CNP non profit food service account funds.

The Paid Lunch Equity (PLE) tool helps determine student full-pay lunch prices. It uses the Consumer Price Index plus two percent to determine the increase for full-pay student meals. The tool also calculates the weighted average price for the entire SFA to help determine compliance with USDA regulations. The tool is updated annually by the USDA and is available on the FNS website. The SFA must complete this tool annually, or submit a PLE exemption form (see below for details). The SFA must complete the PLE tool prior to the beginning of the school year to determine if a price increase is necessary. If a price increase is determined necessary and the SFA does not increase the price, a transfer of funds from the LEA's general fund to the nonprofit school food account must be completed to recover any shortfall identified.

The PLE exemption form waives the PLE requirements for full-pay student lunch price increases. PLE Waivers may be approved only if the SFA shows a zero or positive fund balance as of December 31 of the current school year. Contact your Education Associate for the PLE exemption form and instructions on how to complete the form. If this waiver is approved, the exemption will be applicable to the following school year.

Choice of Lunches

Schools may offer students a variety of reimbursable lunches. The school may establish different unit prices for each type of lunch served provided that the benefits made available to students eligible for free or reduced-price meals are not affected. For example, if the school offers a "super" lunch with larger servings of meat/meat alternate or other premium items, the "super" lunch must be available to the free and reduced-price participants at no additional charge if these meals are to be claimed for reimbursement.

Fees for Lunch Services

Students must not be charged for any additional fees for supervisory or other services provided in conjunction with the meal programs.

Non Program Food Revenue

Non program foods are any foods or beverages sold that are not considered reimbursable meals. For example: bottle water, juice, adult meals, any special sales or a la carte items. The purpose of these products or items is to help increase revenues within the CNP.

Non program Food Revenue Tool

USDA has created a tool to help determine compliance with non program foods regulations. The non program foods revenue tool determines if the revenue from non program food is greater than or equal to the cost of non program food-see the formula below. Please see [SP 20-2016](#) for further details.

$$\frac{\text{Nonprogram food revenue}}{\text{Total program and nonprogram revenue}} \geq \frac{\text{Total nonprogram food costs}}{\text{Total program and nonprogram food costs}}$$

Pricing Adult Meals

The benefits of the National School Lunch and School Breakfast Programs are for children only. Reimbursements and USDA Foods entitlements are based on the number of lunches and breakfasts served to students. No reimbursement or USDA Foods entitlement allocated for adult meals.

To ensure that children's payments or federal reimbursement for children's meals are not used to subsidize the payment of an adult meal, SFAs must charge no less than the minimum amounts established by SCDE for adult meals, plus applicable state and local sales and/or prepared food taxes. These minimum amounts are provided by SCDE along with the reimbursement rates each year. If meals are included to district staff members, as a fringe benefit or as part of the salary arrangement, the school district must provide a general fund transfer to cover this expense. All adult meals must be tracked and documentation kept for audits.

Total revenue collected for adult meals must be enough to cover the costs associated with producing meals (food, labor, supplies and miscellaneous expenses) state sales tax and any additional local taxes that may be required for the sale of prepared food. The minimal allowable adult meal price is adjusted annually. However, SFAs may choose to set a higher price. The adult portion size should be the same as a student portion; if portion size is increased for adults, the price should be adjusted accordingly to cover all costs.

Determining the Minimum Price for an Adult Meal

SFAs may choose to establish higher adult meal prices but may not charge adult prices less than those established by SCDE. If a SFA prefers to establish their own adult meal price, one of the methods described below must be used. This will ensure that the student programs are not financially hampered by adult participation. SCDE uses Method 1 to establish the minimum required adult meal prices.

Method 1:

Lunch - Add the rate of federal reimbursement for a free student lunch to the USDA Foods per meal value plus state and local sales taxes.

Breakfast - Charge the rate of federal reimbursement for a free student breakfast plus state and local sales taxes.

Method 2:

Lunch - Cost of food, labor, supplies, and miscellaneous expenses attributed to providing an adult meal, accounting for the value of the USDA Foods and portions actually served to adults. State and local sales taxes must be added to the price set for adult meals.

Breakfast - Cost of an adult meal as described above plus state and local sales taxes.

Method 3: In place of unit pricing an adult meal, meal items may be sold to adults on a la carte basis. Keep in mind that a la carte pricing must equal or exceed the minimum adult meal price for the same combination of items.

Note: When calculating adult meal prices using these methods, school officials are encouraged to include the two-cent supplemental payment for SFAs in the 60 percent or more free and reduced-price category as appropriate.

Adult Visitors

The charge to adult visitors (e.g. parents or grandparents eating with their child or grandchild), at the discretion of the SFA, may be higher than the charge paid by adult school employees. If the SFA chooses to offer meals for no charge for special occasions (Grandparents Day, Veterans' Day, etc.), the LEA/SFA must transfer funds from the general fund or reimburse the Food Service Program from other non-Federal Funds to account for each adult meal served.

Child Nutrition Program Employees

At the discretion of the SFA, meals may be served at no charge to adults directly involved in the operation and administration of breakfast and lunch programs. This includes persons responsible for menu planning, purchasing, preparation, clean-up and service of the meals. The cost of such meals may be paid from program funds.

Non-Child Nutrition Program SFA Employees

Income from sources other than federal reimbursement or children's payments must be used to pay for the cost of meals served to teachers, custodians or administrative personnel who are not involved in planning, preparation, clean-up or service of meals as described in the previous paragraph. SFAs are encouraged to charge these adults the established adult meal price (i.e. the minimum amount required and published annually by SCDE or a higher amount established by the SFA using one of the methods described earlier in this section).

Important!

- In no case should the funds available to pay the cost of student meals be used to supplement the cost of adult meals.
- In no case should the funds available to pay the cost of adult meals be less than the actual cost of providing the meals.
- If meals are included as a fringe benefit or offered as part of the salary arrangement for non-Child Nutrition Program personnel, the SFA must transfer enough money from other funds to the food service account to pay the cost of these adult meals. An audit trail of funds transferred must be documented.

Pricing a la Carte and Other Special Items

USDA guidelines require that prices of a la carte and other special items should be set to cover the total food, labor, direct and indirect costs for producing each item. When pricing items for a la carte and other special sales, price healthy foods (i.e. milk, fruit) at a relatively low cost to encourage consumption of these items. For other items, set prices close to what competitive retail outlets charge. Reimbursable meals should be priced lower than the total of the a la carte prices for the same menu items. A good rule of thumb is all prepared retail or a la carte items

(waters, smart snack compliant packaged items, etc...) should be sold at or near a 40% - 45% food cost.

Needy Children Who Are Not Eligible for Free or Reduced-Price Meal Benefits

A fund may be established to cover the cost of charged meals for students unable to afford a meal and may not be eligible for free or reduced-price meals or who fail to complete an application. Principals or Parent Teacher Associations/Organizations may choose to establish such a fund by collecting contributions from civic groups or individuals.

Unpaid Meal Charging Policy

Every SFA is required to have an unpaid meal charge policy. This policy is determined at the local level and must explain how unpaid breakfast and lunch balances will be addressed. This policy must include language that determines delinquent debt and how it is handled along with how bad debt is defined and how it is handled. For further instruction and guidance please visit the [USDA FNS website](#).

Use of Food Service Account Funds

The Office of Nutrition Programs at the South Carolina Department of Education (SCDE) requires School Food Authorities (SFAs) to establish a separate food service account consisting of all money deposited or transferred for the operation of the Child Nutrition Program (CNP).

CNP funds are required to comply with generally accepted accounting principles (GAAP), including the annual budgeting process. However, the following provisions of the CNPs differ from other funds, programs, and accounts:

- All revenues received by or accruing to the food service account must be used only for the operation and improvement of the CNP. Revenues include, but are not limited to, receipts from:
 - Operations of the lunch, breakfast, snack and milk programs;
 - A la carte sales, concessions and internal catering;
 - Earnings on investments;
 - Other local revenue; and
 - Federal meal reimbursement.
- Food service account funds may not be used for expenditures that are not directly related to the operation of the CNP although they are part of the SFA general fund.
- Any positive balance remaining in the food service account at the end of the school year must be carried over to the next school year as a beginning balance of the food service account.
- To maintain the nonprofit status of the CNPs, the fund balance or net cash resources of the food service account must not exceed three months' average expenditures. If an excess balance should occur, the SFA 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 Office of Nutrition Programs, SCDE. 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 students; or purchasing needed supplies, services or equipment.

To determine if an excessive balance exists, you may complete the following calculations: (See example in Example of Excessive Balance Calculation.) If the current remaining Operating Balance exceeds three (3) months expenses the SFA has an Excessive Operating Balance and must complete and submit a Plan for Reducing Excessive Operating

Example of Excessive Balance Calculation

Net Cash Resources Calculation	
School Food Authority: Palmetto School District	School Year: 2013-2014
Expenditures	\$559,431.13
Adjusted Expenditures divided by 10 times 3 (maximum allowable balance amount)	\$167,829.33
Minus Cash Balance	\$190,187.71
Comparison Amount*	< \$22,358.38 >

* A negative number represents the excess balance amount and a plan to reduce the balance must be submitted.

Loans to the Food Service Account

The U. S. Department of Agriculture (USDA) has ruled that the SFA may not retroactively determine that funds transferred from the general fund to cover CNP deficits were a loan subject to repayment.

1. In order 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 the CNP incurred deficits in past years that were covered by local contributions is not sufficient to substantiate the claim that the funds were transferred with the intent that the money would be repaid.
2. The conditions for repayment must be documented and agreed to by both parties, the general fund manager and the CNP, in advance. The agreement must be submitted to SCDE for approval.
3. Interest payments are not allowable program expenditures.
4. Short-term or multi-year obligations are permissible provided that a bona fide loan agreement exists at the time that funds are made available.

Expenditures

All CNP expenditures should be classified as food, labor, and other. Expenditures should be documented by itemized receipts or invoices. 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 non-allowable expenditures that may be made by SFAs operating the CNPs under the National School Lunch Act are listed below. For specific expenditures not listed or for further interpretation of those listed, contact SCDE.

Allowable Expenditures

- Food purchases and costs directly related to the storage, handling, processing, and transportation of food.
- Labor, which includes payments for labor and other services directly related to operating the CNPs - This includes the employer's share of retirement, social security, insurance payments, bonuses and fringe benefits after the state allocation to the district has been exhausted.
- Other supplies and expendable equipment (under \$5,000) used directly in the operation of the CNP - 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.
- Non-expendable items (over \$5,000), 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, tables, chairs, hot water heaters, and other equipment. This category may also include such items as charges for installing and connecting equipment to utilities in the building in which the program is operated, as well as service for maintenance and repair of equipment. Note: When food service account funds will be used to purchase equipment costing more than \$5,000 per unit for new construction, permission must first be obtained from SCDE. The form entitled, "Request to Purchase New Equipment" should be used to make the request.
- Training of CNP employees.
- Travel on CNP business such as workshops, conferences, and training programs.
- Memberships, subscriptions, books, and audiovisual equipment used to benefit the CNP.
- Rental of food storage facilities or equipment as required for program needs.
- Computers, cash registers, adding machines, typewriters, communication equipment, and other office equipment used exclusively for the operation of the CNP.

- Printing and reproduction equipment or services.
- Employee information publications.
- Automotive equipment used exclusively in transporting food for program purposes.
- Services, when actual costs attributable to the CNP are billed separately such as pest control, trash removal, security, and janitorial – If the invoice does not specifically identify the actual costs attributable to the CNP, the expenditure must be categorized as an indirect cost.
- Utilities, when actual costs attributable to the CNP are billed using separate meters – If the invoice does not specifically identify the actual costs attributable to the CNP, the expenditure must be categorized as an indirect cost.
- 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.
- Promotional materials and exhibits relating specifically to the program and to advisory councils related to parental and student involvement.
- Indirect costs for the current school year at the assigned indirect cost rate for the school district.

Non-allowable Expenditures

- No income accruing to the CNP may be used to purchase land, acquire or construct buildings, or make alterations to existing buildings that materially increase the value of capital assets - 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.
- Contributions and donations.
- Entertainment, amusements, social activities, gratuities, and related activities.
- Interest on loans.
- Rent or usage fees for district-owned facilities.
- Cafeteria monitors –CNP funds may not be used to pay salaries for monitoring. However, CNP personnel may have monitoring duties assigned to them as part of their other food service responsibilities.

- Custodian and maintenance costs which are already included in the district's formula for indirect cost.
- Indirect cost expenses from prior year(s), and/or those that exceed the assigned rate.
- Any direct costs that are included in the indirect cost rate approved for the CNP.

Indirect Costs for Child Nutrition Programs

Indirect costs are not readily identified with a specific program. These costs are incurred by a LEA for the benefit of all programs. SFAs are allowed to recover food service related indirect costs for general administration, utilities, custodial services, etc.

An indirect cost rate is used to determine the maximum amount of indirect costs each federal program should bear. The rates for public school districts are calculated annually by SCDE and are entered in the South Carolina Automated Payment System (SCAPS) for each SFA.

Indirect costs are limited to the SFA's indirect cost rate multiplied by specific direct costs.

Demonstrating Compliance

Federal regulations (7 CFR 210.14) require SFAs to submit forms and reports to SCDE as appropriate to demonstrate compliance with CNP requirements. SCDE requires SFAs to comply with this regulation by completing the Revenues and Expenses Report in SCAPS once a year.

Procedures for Completing "Plan for Reducing Excessive Operating Balance" Form

When food service funds exceed three months average expenditures as contained in 7CFR 210.9(2), the School Food Authority (SFA) must complete the Plan for Reducing Excessive Operating Balance" form and submit it to the State Agency (SA). The completed form must contain a plan on how the excess balance will be spent in order to maintain the Program's non-profit status.

The following procedures must be followed for completion and implementation of the "Plan for Reducing Excessive Operating Balance" form.

1. The SA accountant will determine through SCAPS at the end of the school year that an SFA's food service net cash resources exceed three months operating balance as required in Subpart C, 7CFR 210.9(2).
2. The SA accountant will notify SFA and copy the assigned SA Education Associate that a "Plan for Reducing Excessive Operating Balance" form must be completed by the SFA and submitted to the attention of the Director in the Office of Nutrition Programs. The Director or his/her designee will approve the plan or may deny the plan and will send it back to the SFA with a copy forwarded to the assigned Education Associate. If the plan is denied, an explanation for denying the plan will be sent back to the SFA and a revised

plan must be resubmitted. The plan must be completed within 12 months (1 year) from the date of submission unless prior written approval is received from the State Director.

3. When the approved date for plan completion is reached, the assigned Education Associate will conduct an on-site review to verify all aspects of the completed plan have been completed and acknowledge by signing the form.
4. The completed form will be forwarded to the SA Director for final approval and all related records will be maintained by the SA. The SA Director will remit a letter notifying the SFA that the plan has been completed.
5. Failure to complete the plan in the approved timeframe may result in food service funds being retained by SCDE. Any changes to the approved plan or completion date must be approved by SCDE prior to executing them.

Questions and Answers

Q1: Must the interest earned on money from the food service account that has been invested be deposited in the food service account?

A1: Yes. All revenue received by the CNP may be used only for the operation or improvement of the CNP. This includes earnings on investments. If CNP funds are used totally or in part for investment purposes then the interest earned from such investments must accrue to the food service account and be used only for authorized program purposes.

Q2: Can CNP funds be loaned to the SFA? If so, must interest be paid and at what rate?

A2: Yes, CNP funds may be loaned to the SFA on a short-term basis (i.e. a school year). The SFA 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.

Q3: If the CNP has purchased a Certificate of Deposit (CD), may it be cashed in before the maturity date in order to loan the money to the SFA?

A3: Yes. However, the SFA must pay any penalties associated with this action. The payment of interest at current rates for CDs would be in order.

Q4: What records must be maintained for loans to the SFA?

A4: 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 federal and state records.

Q5: May a prorated part of a school secretary's wages be paid from the food service fund?

A5: Yes, under certain circumstances. It is allowable to charge the CNP for wages and fringe benefits for a secretary who does lunchroom accountability if records are maintained of the time actually spent on the CNP. For example, if the school secretary spends from 11 AM to 1 PM each day as the cashier in the dining room, the wages for those two hours may be charged to the food service account.

Q6: Is it allowable to use nonprofit CNP funds to pay for an awards dinner at a local restaurant to recognize the achievements of CNP staff in areas such as increased participation, expanded nutritional information and education, or increased productivity?

A6: Yes, under certain circumstances. In order to use CNP funds for activities as described above, certain criteria must be met. The activity must be part of the SFA's established practice, be reasonable and necessary, and be consistent with regulations, policies and procedures that apply uniformly to both federally assisted and other activities of the SFA (be consistent with the use of local funds).

Q7: May food service funds be used to pay for publishing the free and reduced-price guidelines (for example, in the local newspaper) at the beginning of the school year?

A7: Yes. However, this should not be required because the SFA's responsibility is fulfilled by disseminating the press release with the guidelines to the media as a public service announcement. The SFA does not have to pay to have this published unless the local newspaper refuses to honor the SFA's request.

Q8: Can a SFA charge the food service account rent or usage fees for cafeterias, kitchens, or storage facilities?

A8: No. The SFA is not allowed to charge rent to the CNP for SFA-owned facilities. However, the SFA can recover indirect costs that occur as a result of operating the CNP.

Q9: If a parent issues a bad check, may the student's meal account be charged for the fee?

A9: No. The student's "meal money" (i.e. money paid by the household to the school with the intent and understanding that it is to pay for meals) should not be used to pay the bank service fee. A SFA may refuse to extend credit for meals under whatever circumstances it deems appropriate. The SFA may request that the parent reimburse the CNP fund for the bank service charge with funds other than those sent for payment of meals.

Q10: Can food service funds be used to provide meals for adult visitors attending a meeting in the SFA or to purchase meals in a commercial restaurant for the visitors?

A10: No. CNP funds are to be used to provide meals for children. Adults should pay a sufficient price to cover the cost of their meals. If adults are not charged for their meals, the CNP fund must be reimbursed for each meal from another fund. The amount of reimbursement must be more than or equal to the current year's student free reimbursement rate for each meal.

Q11: Is a SFA required to pay the maximum indirect costs of the program from the food service fund?

A11: No. The SFA may permit the CNP to reimburse the SFA less than the maximum amount allowed. Indirect costs paid from the CNP fund cannot exceed the maximum allowable indirect costs based on the indirect cost rate.

Q12: When is a labor expenditure considered a direct cost and when is it considered an indirect cost?

A12: A labor expenditure can be recorded as a direct cost only when there is actual supporting documentation of the time spent on the CNP. Estimation or allocation of time worked (for example 10% of work time) in the CNP is not acceptable. Indirect labor costs include custodians, secretaries and other supplemental services. Generally, these employees spend only a portion of their work hours completing food service tasks.

Q13: If a SFA employs a custodian that works exclusively for the CNP, may that custodian's salary be reported as a direct labor expenditure rather than an indirect expenditure?

A13: Custodians are included in the indirect cost rate computation and they cannot be charged to the CNP fund as a direct cost. The custodian's wages may be paid from the CNP fund and reported as an indirect expenditure as long as the total indirect costs do not exceed the computed indirect cost limitation.