California Department of Education
December 2012

TOM TORLAKSON
State Superintendent
of Public Instruction

CAFETERIA FUND$

What districts and agencies need to know about managing their food service accounts..

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California Department of Education
Nutrition Services Division
School Nutrition Programs

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Today's *Presentation*

- State of California Schools' Fiscal Crisis
- Governing Regulations & Guidance
- Trends in Unallowable Charges
- Spending Plans and Implementation
- Frequently Asked Questions
- Discussion

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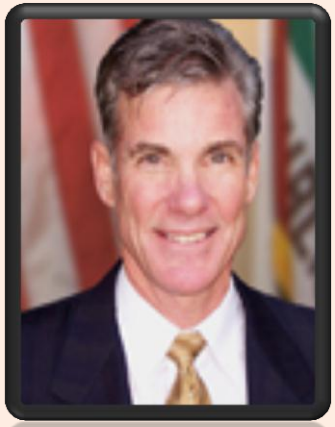

"…There's simply no other way to describe it: this is an emergency.

Every day, teachers, school employees, and principals are performing miracles, but the $18 billion in cuts over the last three years are taking their toll. We have 174 districts teetering on the financial brink. If this isn't an emergency, I don't know what is…"

News Release, January 6, 2011

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Chief Business Official (CBO)

Part of a **CBO's** job is to stretch district and State funds by maximizing charges to federal funds.

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What is the Cafeteria Fund?

A statutorily **required** and **restricted** fund used by districts to track the revenue and expenses related to their non-profit school food service.

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The regulations and policies governing **Cafeteria Funds** are numerous and complex.

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Governing Laws, Regulations, and Policies

Local Educational Agencies (LEAs) are required to comply with State and federal limitations

LEAs must reference numerous sources to understand and determine allowable uses of Cafeteria Funds:

- Federal Regulations, Policy, Instructions, Guidance
- California *Education Code (EC)*
- Office of Management and Budget Circulars
- USDA Policy Memos
- The California School Accounting Manual (CSAM)

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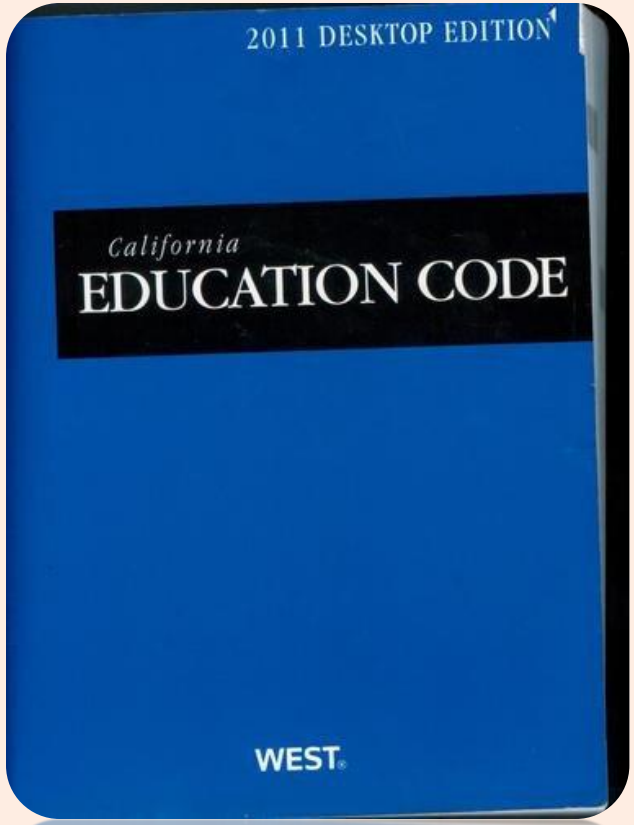

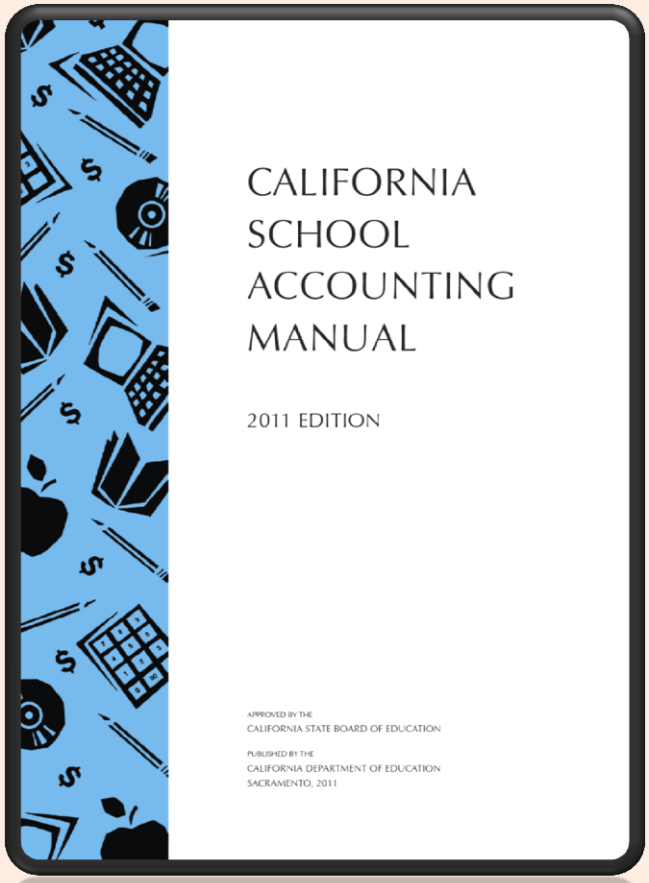

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Cafeteria Fund Management Bulletins (MB)

- 95-107: *Use of Cafeteria Funds*
- 00-109: *Use of Cafeteria Funds Update*
- NSD-SNP-05-2009: *School Cafeteria Funds FAQs*
- NSD-SNP-07-2008: *Limitations on Transfer of Funds*
- USDA-SNP-16-2009: *School Nutrition Program Interest Earned on the Cafeteria Account/Fund*
- NSD-SNP-05-2012 Cafeteria Funds – Reminders and Resources

See handout for complete list

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Defined in State Law

"All receipts of the cafeteria, or cafeterias [defined as school food services], as the case may be, derived from the sale of food shall be deposited in the account and shall be expended **only** for the maintenance of the cafeteria, or cafeterias…"

California *Education Code* (*EC*) 38093

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Defined in Federal Law

"***Nonprofit school food service account*** means the restricted account in which **all** of the revenue from all food service operations conducted by the school food authority principally for the benefit of school children is retained and used **only** for the **operation or improvement** of the nonprofit school food service."

Title 7, *Code of Federal Regulations* 7 *CFR* 210.2

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Revenue

"**Revenue,** when applied to **nonprofit school food service,** means all monies received by or accruing to the nonprofit school food service in accordance with the State agency's established accounting system including, but not limited to, children's payments, earnings on investments, other local revenues, State revenues, and Federal cash reimbursements.."

7 CFR 210.2

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Commingling of Funds

Once monies or revenues have been deposited into the cafeteria fund, they are considered part of the non-profit food service, and are governed, protected, and restricted by federal and State laws.

7 *CFR* 210.2, 210.14, 210.19;
EC 38080-38103

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Restricted Account

California *Education* Code (EC):

- Defines "cafeteria" as synonymous with food service
- Requires **all** revenues from sales of the cafeteria be deposited into the cafeteria fund, and spent on maintenance of the cafeteria
- Authorizes expenditures from the cafeteria fund or cafeteria account **only** for those charges that are defined in the ***California School Accounting Manual (CSAM)*** or are reported to the CDE
- Does not allow food services to be charged more than once for the same service

EC 38080-38100

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Restricted Account

"Nonprofit school food service account means the restricted account in which all of the revenue from all food service operations conducted by the school food authority principally for the benefit of school children is retained and used **only** for the operation or improvement of the nonprofit school food service."

7 *CFR* 210.2 - *Definitions*

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Costs

To be allowable, costs must be:

Necessary and Reasonable

- Benefit the Program
- Must follow sound business practices
- Fair market priced for comparable goods and services
- Be prudent under the circumstances and do not deviate from standard practice

2 *CFR* 225

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Costs

To be allowable, costs must be:

Allocable

- Can only charge in proportion to the value received by the Program
- Example: A food transport vehicle purchased solely for the use of the School Nutrition Program

Legal under state and local law

- If cannot do under state law, cannot pay with federal funds

Conforming with federal law and grant terms

- Example: Match requirements/special conditions

2 *CFR* 225

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Costs

To be allowable, costs must be:

Consistently treated

- Must follow uniform policies that apply equally to federal and non-federal activities
- Cannot assign cost as direct cost if indirect under state programs

Net of applicable credits

- Example: rebates, discounts, credits – anything that reduces the price

2 *CFR* 225

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Costs

To be allowable, costs must be:

Adequately documented

- How funds are expended
  - Invoices
  - Receipts
- Other records to facilitate an effective audit
  - Purchase orders
  - Proof of delivery or performance
  - Approvals

2 *CFR* 225

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Costs

California *Education* Code *(EC)*:

- Requires that an **"indirect cost"** rate be limited to the lesser of **(1)** the school district's CDE-approved **prior year** indirect cost rate or **(2)** the Statewide approved school nutrition indirect cost rate.

- Requires a **written explanation** of the purpose of, and basis for any charges to, or transfers from, a food service program, and by the expenditure.

- Does not authorize a school district to charge a food service program any charges prohibited by state or federal law or regulation.

EC 38101 (c)(d)(e)

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Allocation of Costs

There are two types of cost:

1. **Indirect**
2. **Direct**

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Indirect Costs

Agency-wide, General Management Costs:

- Incurred for common or joint purpose
- Benefit more than one cost objective
- Not readily assignable

CDE Web Indirect Cost Web Page:
http://www.cde.ca.gov/fg/ac/ic/

CSAM Procedure 915, Indirect Cost Rate:
http://www.cde.ca.gov/fg/ac/sa/index.asp

USDA Indirect Cost Manual, 2011:
http://www.fns.usda.gov/cnd/Governance/Policy-Memos/2011/SP41-2011_os.pdf

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Indirect Costs
Federal Oversight

Reauthorization of Child Nutrition Programs

USDA recently issued guidance on program rules for applying indirect costs and will study the extent of indirect costs used in food service.

Recent or current activities:

- Guidance Issued July 2011
  (MB USDA-SNP-22-2011)
- Indirect Cost Study underway in 2012
- Report to Congress by October 1, 2013

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Indirect Costs

School districts *cannot* recoup <u>prior year</u> indirect costs that were paid from a non school food service account.

***Exception*:** Unless a formal **<u>written</u>** contemporaneous agreement exists to show that the district had been **"loaning"** the nonprofit school food service account funds to cover the indirect costs in one or more prior years.

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Direct Costs

Specifically for Performance of the Program

- Salaries - for cooks, managers, food service director
- Food - for school meal programs
- Food Service Equipment and Supplies
- Food Transport Vehicles
- Travel – if necessary

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There is a right way and a wrong way to charge expenses to the cafeteria fund.

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Cafeteria Fund Charges

The *Right* way:

- Charge time documented by Personnel Activity Reports ("PARS") for employees working in/for the nonprofit school food service operation to the cafeteria fund
- Charge only actual supplies and expenses used in school food services to the cafeteria fund
- Allocate costs consistently to all programs including the cafeteria fund

2 *CFR* 225

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Cafeteria Fund Charges

The ***WRONG*** way:

- Project time or use time studies for employees working in/for the nonprofit school food service operation
- Project or use percentages of supplies, equipment, and electricity used in school food services
- Charge other program(s) services or staffing to the cafeteria fund using erroneous allocation methods

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Consequences for Improper Charges

If it is determined that a district charged unallowable expenses to the cafeteria fund, the SSPI may direct a school district to transfer **double** the amount improperly transferred back into the cafeteria fund to be used for the improvement of the district's food service program.

EC 38101(f)

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What does CDE look for?

During "Administrative Review Efforts" and the analysis of Summer/Saturday meal waivers, the CDE looks at a LEA's "**Net Cash Resources (NCR)**."

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Net Cash Resources (NCR)

"… all monies, as determined in accordance with the State agency's established accounting system [CSAM], that are available to or have accrued to a school food authority's nonprofit school food service at any given time, less cash payable.

Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities."

7 *CFR* 210.2 - *Definitions*

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Net Cash Resources (NCR)

(continued)

"The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with Section 210.19(a)."

7 *CFR* 210.14 - *Definitions*

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Net Cash Resources (NCR)

There are two sets of rules:

1. Allowable costs when NCR is **less than** three months average operating costs

2. Allowable costs when NCR is **in excess** of three months average operating costs

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#1 NCR Rule

Per federal guidance, the LEA **must** follow all State/federal regulations and policies, and not jeopardize the integrity of the nonprofit school food service by reducing its NCR below 3 months operating costs.

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#2 NCR Rule

When an LEA's NCR is in excess of three months average expenditures, the **NSD** must approve how a *LEA* plans to expend the excess.

7 *CFR* 210.19(a)(2)

Cafeteria Spending Plans

Suzanna Nye, MS, RD, FADA
Manager, Field Services
Nutrition Services Division

What is a Spending Plan?

An agreement between CDE and the agency detailing preapproved items that will be purchased with cafeteria funds in order to return the cafeteria account to an amount not to exceed three months average expenditures for the nonprofit school food service.

7 *CFR* 210.14 (a)

Required Annual Reporting

The state agreement with the agency includes an annual preapproved plan for up to three years which must be submitted to the Field Service Unit each year by June 30 and include photos and receipts verifying that the expenditures match the preapproved items in the plan.

7 *CFR* 210.14 (b)

Who Needs a Spending Plan?

- Any agency with more than a three months operating reserve balance must have an approved spending plan in place in order to return the net cash resource level to the federal limit *7 CFR* 210.19(a)(2)

- Only food services can spend its excess net cash resources *solely* for the purpose of maintaining or improving the quality of its food services operations *7 CFR* 210.14(a)

How to Calculate Net Cash Reserves

- From the June reimbursement claim of the *previous* year, identify total revenue, total costs, and revenue over or under costs for the year
- Divide the total costs by the number of months in operations times three to determine the three months average expenditure amount
- If the net cash resources total is above three months average expenditures, then a spending plan approved by Field Services is required

Spending Plan Do's

- Annually calculate your agency's excess net cash resource reserve using the June claim
- Meet the CFO and Superintendent and educate them on the status of the district's cafeteria fund balance and your proposed spending plan to meet the requirements *7 CFR* 210.19(a)(2)
- Submit your spending plan to Field Services for approval to reduce the cafeteria fund excess net cash resources to three months average operating expenditures or less *7 CFR* 210.14
- Work closely with Field Services on your agency's annual spending plan (can request up to three years) and ensure that the plan is fully implemented; contact your Child Nutrition Consultant if you need assistance *7 CFR* 210.19(a)

Spending Plan Don’ts

- Don’t let the cafeteria fund accumulate excess net cash operating reserves over three months
- Don’t forget to contact your assigned Child Nutrition Consultant to help you develop and submit for approval to Field Services your agency's annual spending plan to reduce the cafeteria fund excess net cash resources to three months average operating expenditures or less
- Don’t wait until the end of the SY year to submit your annual spending plan receipts and photographs to verify the expenditures; submit annual spending plan receipts and photographs to Field Services as soon you have all of them to ensure your agency’s compliance with the federal regulations

Best Practice Strategies

- Educate yourself, the CFO, and the Superintendent on what can and cannot be purchased with cafeteria funds which are very restrictive

- Only identify clearly allowable items in your spending plan so that your spending plan can be approved without delay

7 CFR 210.2

Always Allowable

- Food Costs
- Food Service Labor Costs
- Kitchen Equipment
- Noon Duty Aides (supervising students in cafeteria)
- Utility Costs (separate kitchen meter)
- Kitchen Pest Control
- Kitchen equipment storage costs

See the School Food Service Cafeteria Fund Expenditures brochure

Never Allowable

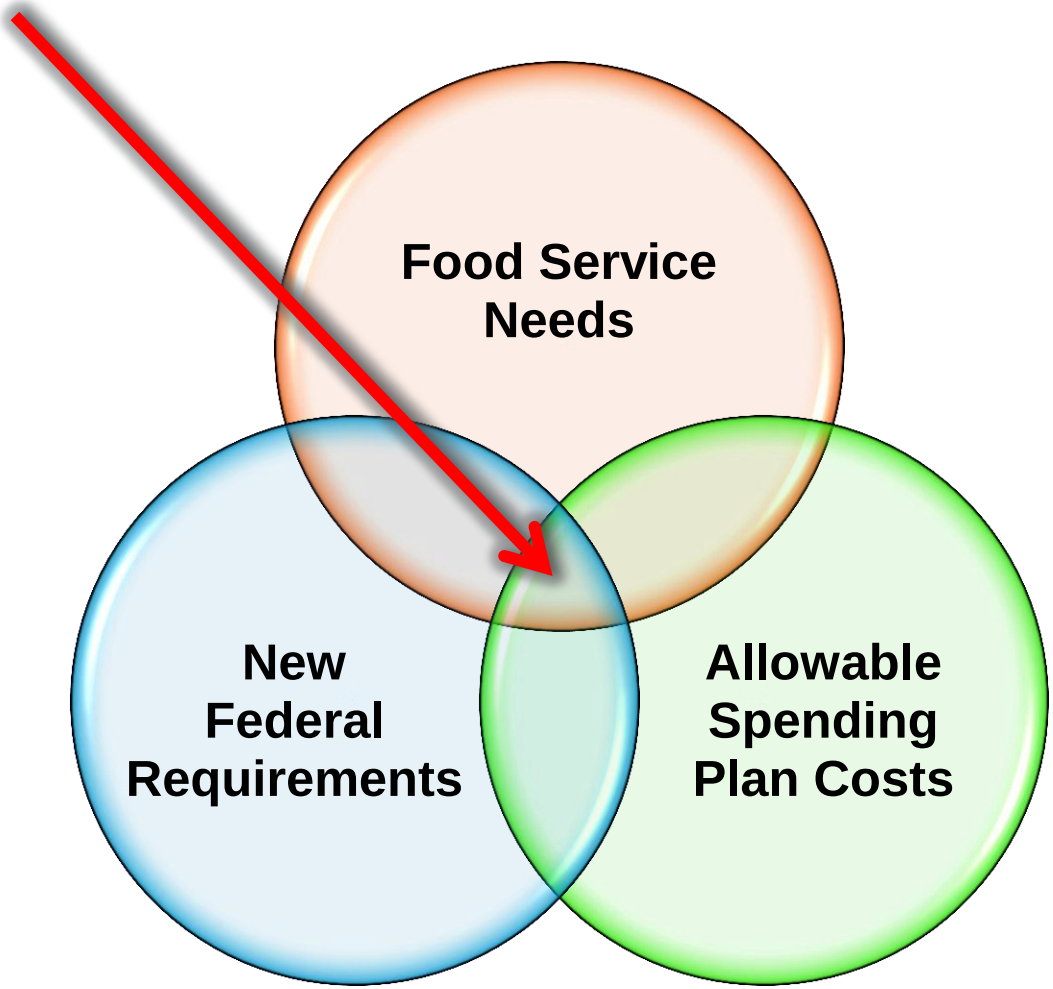
- Capital Expenditures (central kitchens, land, buildings)
- Non-Food Service Staff Labor Costs
- Non-Food Service Supplies
- Fines and Penalties (parking violations)
- Bad Debts (uncollected meal charges)
- Interest on Borrowing (charge for use of credit)
- Contributions or Donations
- Entertainment, Gratuities (tips for valet service)

See the School Food Service Cafeteria Fund Expenditures brochure

Spending Plan Worksheet

See sample worksheet handout

Your Spending Plan



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Conclusion

The CDE is committed to assisting LEAs so they can avoid mischarging expenses to the cafeteria fund, and having to pay back the money later, plus interest, and/or penalties.

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On the *Horizon*

2012 *and beyond*: Financial Management training for School Food Service – check the CDE Web site for information and your e-mail for messages from NSD.

2012-13: Development of MBs on Revenue Sharing, Catering, and more on allowable costs regarding the use of Cafeteria Funds.

Also on the horizon…

More training from NSD at conferences, CSNA Chapter Meetings, and other venues, updated online resources

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Frequently Asked Questions

See Handout

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Questions?

For questions not addressed today, please contact:

Nutrition Services Division

California Department of Education

800-952-5609

School Nutrition Programs Unit

916-323-7186

Child Nutrition Consultant or

Field Services Unit

916-323-4558

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Thank you