

FOOD SERVICE INCOME AND EXPENSES

Introduction

All food service operations have income and expenses (costs). This module describes income and expenses in the CACFP Program, and explains what a nonprofit food service is.

Reference Materials

- USDA FNS Instruction 796-2, Rev. 3 contains eighteen (18) brochures for the CACFP and can be located on the [CACFP website](#) for future reference. Although these brochures were issued in 2001, they are still current. Their purpose is to answer common questions about financial operations in the CACFP. Titles 2, 3, 5, 7 and 16 will be used in this module. The remaining titles are listed for your reference.

1. General Information
2. Allowable Costs*
3. Nonprofit Food Service*
4. Approval Requirements
5. Allowable Labor Costs*
6. Labor Cost Categories
7. Equipment Purchases and Depreciation*
8. Legal Services Costs
9. Rental Costs
10. Special Least Costs
11. Interest and Collateral
12. Participant Support Costs
13. Travel Costs
14. Disclosure Requirements & Special Consideration
15. Direct Costs, Indirect Costs and Cost Allocation
16. Income to the Program*
17. Index
18. Glossary

Allowable Costs

Allowable costs must be necessary. 'Necessary' means that activity or function:

- Is generally recognized as ordinary;
- Is required for the institution to operate the program; and
- Must be accomplished to fulfill regulatory requirements for proper and efficient operation of the program.

Allowable costs are:

- Authorized or at least not prohibited by applicable laws, regulations and 796-2, Rev. 3 and conforms to any limitations or restrictions imposed by these documents;
- A cost of the current period;
- Determined using generally accepted accounting principles;
- Net of all applicable credits;
- Properly allocated; and
- Adequately documented.

Administrative Costs

Payroll records of directors and documentation of director hours spent in CACFP administrative operations are allowable costs and might be reviewed.

Food Service Supplies Costs

First in the list of allowable costs are the groceries that support the menus for the expense period. This includes milk on a regular basis, and some choose to have a separate line just for milk. Other food service items could include paper supplies, general kitchen janitorial supplies (like dish soap), and replacement dishes and utensils, as needed. Remember to keep your personal grocery items on a separate receipt. Even more importantly, the payment should be made with the business checkbook/credit card and not a personal checkbook/credit card.

Food Service Labor Costs

Payroll records for food service managers, cooks and assistant cooks that operate the CACFP document food service labor costs. This includes all food service personnel, personnel who do the grocery shopping and prepare and serve food, and personnel who maintain CACFP records.

Allowable Labor Costs

General guidelines for determining allowable labor costs are:

- The compensation is reasonable in relation to the services being provided.

- The compensation conforms to the institutions written compensation policy.
- The compensation is for program work performed during the current period.
- The compensation is earned and paid to persons employed by the institution.

Labor costs that are not allowable include:

- Payment for services or benefits to persons not employed by the institution except for certain family health care benefits.
- Compensation that is inconsistent with the institutions written compensation policy.
- Retroactive salary or wages.
- Increases solely to maximize available reimbursement.
- Compensation in any form to repay debts.

Equipment Purchases

Most equipment purchased by the institution that is used in the Program can be expensed, such as a stove, refrigerator or freezer.

Equipment not allowed to be expensed includes, but is not limited to: equipment purchased by individuals, donated equipment, general purpose equipment (such as office equipment and furnishings, computers, copiers or printers, and motor vehicles).

Expensing an item of equipment, such as a refrigerator, as a CACFP cost requires prior approval by the State agency. The State agency has the right to approve or disapprove a request to expense equipment.

Income to the Program

There are two categories of income to the program: program income and other income. Program income includes meal reimbursements from the CACFP. Other income includes funds committed by the institution to the program. Program income and other income can only be used for allowable program purposes.

Example Set of Accounts for a Child Care Facility

Each institution creates its own financial accounts and the expense categories within it. Food service account information is used by directors, food service managers, cooks, owners, boards of directors, accountants, reviewers and auditors.

(Here is an example of line items in the income and expense categories)

Income:

Child Care Service Payments – Private Pay

Child Care Service Payments – State Paid

Co-Payments Received

CACFP Reimbursements

Food Service Other Income

Fundraising

Expense:

Payroll Expenses

Payroll Taxes

Staff Benefits

Food Service Expenses

Utilities

Rent/Use Allowance

Insurance

Janitorial Services

Training Expenses

There could be many variations of the above example. Some may want to expand the Food Service Expense into several accounts to include milk, non-food items, and groceries. The main idea with this basic account structure is to be able to answer the questions you will be asked, or you would like to know yourself in order to have wise spending patterns.

What is a Nonprofit Food Service?

All institutions operating the CACFP must operate a nonprofit food service principally for the benefit of its enrolled participants. When the review or audit is conducted, a comparison of the CACFP reimbursement received will be offset by the food service expense documented. Any CACFP reimbursement in excess of expenses may also be used to maintain, expand or improve the institution's nonprofit food service for its participants.

An institution does not need to lose money or break even to operate a nonprofit food service; nor is a food service nonprofit just because it is operated by a public institution.

When the food service is used for other activities, the nonprofit food service is limited to the food services for the enrolled CACFP participants. Other activities include catering, serving or selling meals to people or staff not directly involved in the care of the enrolled children.

Who is Responsible for Determining Nonprofit Food Service?

Both the institution and State agency have responsibility for identifying the nonprofit food service. However, the State agency makes the final determination. The institution must describe its food service operations to the State agency during the application process and maintain records that accurately reflect the operation of its food service. The State agency evaluates the information on the application and uses onsite reviews to assess the scope of the institution's food service activities.

A food service expense account is a way to demonstrate expense totals for nonprofit food service over a period of time (for example, monthly or yearly). Documented food service expenses that are allowable and entered regularly into a food service expense account are valid and useful for purposes of review and audit. Expenses that are not allowable, and/or not documented cannot be considered.

Summary

This module was intended to support the institution's understanding of income and expenses in the CACFP and nonprofit food service.

Quiz

This quiz contains five questions based on information provided in Module Four. The answers to the questions come from the USDA FNS brochures listed beside each question. For each question, choose the best answer.

- ____ 1. An allowable cost is a cost incurred in _____
- the current period.
 - the previous period.
 - a future period.
- ____ 2. The nonprofit food service requirement for the operation of the CACFP applies to:
- both nonprofit and for-profit institutions.
 - nonprofit institutions only.
 - for-profit institutions only.
- ____ 3. Allowable labor costs include _____
- retroactive salary or wage increases.
 - salary increases solely to maximize available CACFP reimbursement.
 - compensation to an individual employed by the institution and performing program work
- ____ 4. Equipment purchases for the CACFP _____
- require enough money
 - require three bids
 - require specific prior approval by the State agency
- ____ 5. The institution must account for these two categories of income to the CACFP program:
- program income and other income
 - cash donations and food donations
 - tuition and scholarship income

Activity

- List all of the current sources of income to your CACFP Program.
- List the current expenses of your CACFP Program by category and subcategory, as many as you can. (For example: food, milk [Fluid milk, milk products], etc.)
- Answer the following question: Who is responsible for determining nonprofit food service? (from Brochure #3)