

Date: April 11, 2016

To: Authorized Representatives of School Food Authorities (SFAs) Participating in the U.S. Department of Agriculture (USDA) Child Nutrition Programs

From: Jessica Sharkus, RDN, CD
Director – School Nutrition Team

Subject: Nonprofit School Food Service Account Nonprogram Food Revenue Requirements

Section 206 of the Healthy, Hunger-Free Kids Act of 2010 (HHFKA) amended section 12 of the Richard B. Russell National School Lunch Act by establishing requirements related to the revenue from the sale of nonprogram foods. Under subsection 12(q) of the Richard B. Russell National School Lunch Act and 7 CRF 210.14(f), SFAs are required to ensure:

- All revenue from the sale of nonprogram foods accrues to the non-profit school food service account; and
- Revenue available to support the production of reimbursable school meals does not subsidize the sale of nonprogram foods.

Nonprogram foods include any non-reimbursable foods and beverages **purchased using funds from the nonprofit school food service account**. This encompasses all foods sold in schools as well as adult meals, foods sold outside of school hours, or any foods used for catering or vending activities. For the majority of SFAs, a la carte foods offered during meal service are the largest share of nonprogram foods.

Compliance is measured by determining if the percent of total revenue generated from nonprogram food sales is equal to or greater than the percent of total food costs of nonprogram foods. For example, if the costs of nonprogram food are 25 percent of the SFA's total food costs, then the amount of revenue generated from the sale of these nonprogram foods must be at least 25 percent of the total revenue in the school food service account.

USDA Food and Nutrition Service (FNS) understands there is wide variation in the capabilities of systems and mechanisms SFAs employ to maintain and monitor their school food service accounts. Separating out the SFA's costs for nonprogram foods from the costs for program food may be particularly difficult. In recognition of the current variations in system capabilities, FNS is providing a simplified approach for SFAs to assess compliance with this requirement going forward.

The simplified approach, while still requiring SFAs to separate their nonprogram food costs from their program food costs, allows SFAs to select a reference period by which compliance will be assessed. Rather than separating all costs for the entire year, SFAs will separate their nonprogram food costs from their program food costs for a period of at least 5 consecutive operating days. SFAs with the capacity to obtain separate nonprogram and program food cost

and revenue data for a period longer than 5 consecutive days (e.g., monthly, annual, biweekly) are strongly encouraged to do so.

If the SFA is able to show that the percentage of nonprogram revenue generated is at least as great as the percentage of nonprogram food costs incurred during the reference period (e.g., 5 consecutive days, monthly, annual, biweekly), the SFA is in compliance with federal requirements.

To assist SFAs in meeting this requirement, the School Nutrition Team (SNT) has created a *Nonprogram Food Revenue Tool/Price Calculator* located on our website <http://dpi.wi.gov/sites/default/files/imce/school-nutrition/xls/non-program-food-price-calculator.xlsx>. This tool can assist SFAs in pricing nonprogram foods and calculating total nonprogram expenses and revenues and total program expenses and revenues for the designated reference period. This data then pulls into the USDA *Nonprogram Food Revenue Tool* and compares revenue and food cost ratios to measure compliance. It's an exciting new tool, and we strongly encourage SFAs to utilize it when determining compliance.

The USDA Policy Memorandum SP 20-2016 (<http://dpi.wi.gov/sites/default/files/imce/school-nutrition/pdf/sp-20-2016.pdf>) includes a Q&A section to better define these nonprogram food requirements. Please refer to these for more details, but a few highlights have been included below:

- If the only nonprogram food sold in your SFA is a la carte milk, you are in compliance by ensuring the price charged is greater than the purchase price. The ratio does not have to be met.
- The 5 day reference period may be selected by the SFA, but needs to be representative of typical food service operations.
- SFAs with Fixed Price Food Service Management Company (FSMC) contracts may not have food cost data needed to determine compliance. Information on food costs and revenues for fixed price per meal contracts must now be provided annually to SFAs by FSMCs. The SNT is currently updating the FSMC contract template to include this new language.

If the SFA finds the food cost ratio is higher than the revenue ratio, the SFA must take steps to increase the revenue from nonprogram foods by either increasing nonprogram food prices or contributing non-federal funds to the nonprofit school food service account. The SNT *Nonprogram Food Revenue Tool/Price Calculator* mentioned above can assist in determining which product prices could be increased and by how much to increase the revenue ratio to be in compliance.

The SNT is also in the process of updating the Annual Financial Report (AFR) to allow for a more detailed breakout of program and nonprogram revenue and expenditures. This updated AFR will begin in school year 2016-2017. We strongly encourage all SFAs to attend the School Nutrition Skills Development Courses (SNSDC) (<http://dpi.wi.gov/school-nutrition/training#up>), Advanced Financial Management class, to learn more about the new AFR and the DPI *Nonprogram Food Revenue Tool/Price Calculator*.

For any questions regarding the information in this memo, contact the School Nutrition Team at 608-267-9228.