

Chapter Four

Estimates of Full Costs

As discussed in Chapter One, SFAs' reported costs include only those costs that SFAs are expected to cover from revenues generated from food service sales and government reimbursements. However, reported costs often do not reflect the cost of all resources attributable to food service operations. Nearly all school districts incur some costs in support of food service operations that are not charged to the SFA budget.

This chapter presents an analysis of SFAs' **full costs** for SY 1992-93. The research questions addressed in this chapter, similar to those addressed in Chapter Three, include:

- What is the magnitude and composition of unreported costs?
- What is the national average **full cost** of producing a reimbursable lunch?
- What is the national average **full cost** of producing a reimbursable breakfast?
- What is the composition of **full costs** for reimbursable meals, i.e., what proportion is attributable to food costs? to labor costs? to other costs?
- What proportion of **full costs** are attributable to food service administration?
- How do **full costs** for reimbursable meals vary by the type of meal production/distribution system used by SFAs?

The key findings with regard to the full cost of food service operations include:

- Unreported costs accounted for an average of 19 percent of the full cost of food service operations in SY 1992-93.
- Three line items--labor (44%), "unreported" indirect costs (27%), and equipment depreciation (16%)--accounted for an average of nearly 90 percent of unreported costs in SY 1992-93.
- The national median full cost of producing a reimbursable lunch in SY 1992-93 was \$1.88. This compares with a median reported cost of \$1.63. Unreported costs accounted for 13 percent of the full cost of a reimbursable lunch.
- The national median full cost of producing a reimbursable breakfast in SY 1992-93 was \$1.38. This compares with a median reported cost of \$1.05. Unreported costs accounted for 24 percent of the full cost of a reimbursable breakfast.

- The Federal subsidy for free lunches appears to be comparable to the full cost of producing reimbursable lunches. In 39 percent of SFAs, the full cost of producing a reimbursable lunch was less than the total Federal subsidy for a free lunch. Approximately 46 percent of all reimbursable lunches were produced at a cost that was less than the total Federal subsidy for a free lunch.
- The Federal subsidy for free breakfasts is not sufficient to cover the cost of producing reimbursable breakfasts. The regular reimbursement rate for a free breakfast was sufficient to cover full costs in less than one out of ten SFAs (7%), and the higher severe need reimbursement rate was sufficient to cover full costs in only one out of five SFAs (18%). Only 11 percent of all reimbursable breakfasts were produced at a full cost that was less than the Federal subsidy for a free breakfast, and 39 percent at a full cost that was less than the severe need rate.
- On a full cost basis, food costs accounted for an average of 38 percent of food service costs; labor costs accounted for 46 percent of food service costs; and other costs accounted for the remaining 16 percent of food service costs.
- Administrative labor costs accounted for 14 percent of the average SFA's full cost.

MAGNITUDE AND COMPOSITION OF UNREPORTED COSTS

Magnitude of Unreported Costs

Exhibit 4.1 examines the magnitude of unreported costs in relation to the full cost of food service operations.¹ On average, unreported costs accounted for 19 percent of full costs in SY 1992-93. In more than nine out of ten SFAs (94%), unreported costs accounted for less than 30 percent of full costs (Appendix E, Exhibit E.16).² It should be noted that not all unreported costs are attributable to reimbursable meals. As one would expect, unreported costs were higher in small SFAs. Among small SFAs unreported costs accounted for an average of 24 percent of full costs, compared to an average of approximately 14 percent in medium and large SFAs. As discussed below, small SFAs are more likely to rely on school district personnel for administrative support of food service operations. Since SFAs are rarely charged (either directly or indirectly) for such support from school district personnel, small SFAs are likely to have relatively higher unreported labor costs than medium and large SFAs.³

¹Total unreported costs in relation to full cost by meal production system is presented in Appendix E, Exhibit E.17.

²Components of unreported costs to full costs by size and type of production system is presented in Exhibits E.18-E.21.

³Since school administrative staff salaries are higher than food service staff salaries, on a full cost basis food service activities performed by school administrative staff will cost more than if performed by food service staff.

Exhibit 4.1

Total Unreported Costs as a Percent of Full Costs

	Unreported Costs as a Percent of Full Costs			SFA Sample Size	
	Mean	Median	STD	Weighted	Unweighted
Total	18.6%	17.1%	11.7%	12,934	93
SFA Size					
Small (1-999)	23.6	21.4	13.6	6,327	12
Medium (1,000-4,999)	13.3	12.4	6.2	4,537	28
Large (5,000+)	15.0	13.1	7.3	2,070	53

Composition of Unreported Costs

Exhibit 4.2 presents the distribution of unreported costs by line item. The four largest categories of unreported costs are labor (which includes salaries and fringe benefits), indirect costs, equipment depreciation, and utilities. Unreported labor represented 44 percent of total unreported costs, unreported indirect costs represented 27 percent, equipment depreciation represented 16 percent and unreported utilities represented 11 percent. Other unreported costs -- supplies and other direct costs -- represented less than two percent of total unreported costs. The discussion below examines each of the four major categories of unreported costs.

Unreported Labor Costs. As noted above, school district personnel often provide support for food service activities. This support is almost always administrative support (school district personnel are rarely involved in food production activities). In some cases, SFAs are charged directly for the time that school district personnel devote to food service activities; in other cases, the cost of this labor is included in the school district's indirect cost rate; while in other cases, these costs are absorbed by the school district (i.e., not charged to the SFA budget). Unreported labor costs include personnel that are not

Exhibit 4.2

Distribution of Unreported Costs by Line Item to Total Unreported Costs

Item	Mean	Median	STD
Labor	43.9%	38.2%	26.9%
Food	0.0	0.0	0.0
Supplies	0.1	0.0	1.2
Utilities	11.3	4.1	13.2
Equipment Depreciation	16.3	13.6	15.6
Other Direct Costs	1.3	0.0	2.4
Indirect Costs	27.1	24.3	23.5
Grand Total	100.0%		
Unweighted N = 93. Weighted N = 12,934.			

Columns may not sum to 100.0% due to rounding.

charged directly or indirectly to the food service budget.⁴ Unreported labor includes both school district central staff and school-based personnel (e.g., principals, secretaries, etc.) that spend some portion of their time working on food service activities. SFA directors identified school district central staff that provided support for food service and estimated the amount of time that each person spent on food service activities. Similarly, school principals identified and estimated the amount of time that school personnel spent on food service activities. These time-use estimates were combined with salary data to estimate unreported labor costs.

Exhibit 4.3 examines unreported labor costs as a percentage of total unreported costs. Unreported labor represented 44 percent of total unreported costs in SY 1992-1993. For one out of four SFAs (24%), unreported labor represented less than 20 percent of total unreported costs (Appendix E, Exhibit E.22). At the other extreme, unreported labor accounted for at least 70 percent of total unreported costs in one-quarter (24%) of all SFAs. Unreported labor was a larger component of total unreported costs for large

⁴School districts may or may not charge indirect costs to the SFA budget. In cases where a school district does not charge food service for indirect costs, school district personnel that are included in the district's indirect cost rate are included in "uncharged indirect costs" rather than unreported labor costs.

Exhibit 4.3

Unreported Labor¹ as a Percent of Total Unreported Costs

	Mean	Median	STD	SFA Sample Size	
				Weighted	Unweighted
Total	43.9%	38.2%	26.9%	12,934	93
SFA Size					
Small (1-999)	40.6	34.3	23.1	6,327	12
Medium (1,000-4,999)	40.8	42.0	27.1	4,537	28
Large (5,000+)	60.6	63.1	30.9	2,070	53

¹Labor represents both salary and fringe benefit costs.

SFAs than for small or medium-size SFAs.⁵ This results not from the use of relatively more unreported labor, but rather because in large SFAs other cost elements (such as indirect costs and equipment depreciation) are more likely to be reported than in small SFAs.

Exhibit 4.4 examines unreported labor costs as a percentage of total labor costs. In three out of four SFAs (74%), unreported labor represented less than 20 percent of total labor costs (Appendix E, Exhibit E.24). However, for five percent of SFAs, unreported labor accounted for at least 40 percent of total labor costs. SFAs where unreported labor accounts for a relatively high proportion of total labor costs tend to be small SFAs where food service labor is heavily subsidized by the school district. In general, unreported labor was a higher proportion of total labor for small SFAs than for medium-size or large SFAs, indicating that small SFAs rely more heavily on the school district for support services (for which they are not charged) than larger SFAs.⁶

⁵Additional detail by type of meal production system is presented in Appendix E, Exhibit E.23.

⁶Additional detail by type of meal production system is presented in Appendix E, Exhibit E.25.

Exhibit 4.4

Unreported Labor as a Percent of Total Labor

	Mean	Median	STD	SFA Sample Size	
				Weighted	Unweighted
<i>Total</i>	18.4%	14.1%	19.7%	12,934	93
<i>SFA Size</i>					
Small (1-999)	24.2	19.3	25.3	6,327	12
Medium (1,000-4,999)	11.1	11.2	7.7	4,537	28
Large (5,000+)	16.6	13.4	10.4	2,070	53

Exhibit 4.5 examines unreported school-based labor as a percent of total unreported labor. As mentioned above, unreported labor consists of personnel at the school district level and personnel at the individual school level (school administrative labor). The distribution is essentially bimodal -- for 44 percent of SFAs, less than 10 percent of unreported labor consists of school administrative labor, while for 21 percent of SFAs, more than 90 percent of unreported labor consists of school-based personnel (Appendix E, Exhibit E.26).⁷ This appears to reflect the influence of three factors:

- use of non-food service central school district personnel for support services for the SFA;
- the locus of responsibility for processing applications for school meal benefits and conducting income verifications; and
- the degree to which non-food service school personnel are involved in the distribution of meal tickets.

Exhibit 4.5 shows that school-based personnel account for a much smaller proportion of unreported labor costs in small SFAs (21%) than in medium-size SFAs (57%) and large SFAs (59%). As discussed above, small SFAs are more likely to rely on central school district personnel for support services. However, activities such as processing applications and income verification are more likely to be carried out

⁷Additional detail by type of meal production system is presented in Appendix E, Exhibit E.27.

Exhibit 4.5

School Administrative Labor as a Percent of Total Unreported Labor

	Mean	Median	STD	SFA Sample Size	
				Weighted	Unweighted
Total	39.6%	23.1%	39.6%	12,934	93
SFA Size					
Small (1-999)	20.8	4.6	31.1	6,327	12
Medium (1,000-4,999)	56.7	69.6	38.4	4,537	28
Large (5,000+)	59.3	84.2	38.5	2,070	53

centrally (by SFA personnel) in small SFAs than in larger SFAs, where those same activities are more likely to be carried out by (non SFA) school personnel.

Unreported Indirect Costs. Nearly all State Education Agencies review school districts' cost information and provide each school district with an approved indirect cost rate. However, school districts are not obligated to apply the approved indirect cost rate to food service (or other grant programs). Some school districts have indirect costs that are attributable to food service, but do not report these costs on the food service budget. In some districts food service reports some, but not all, of the indirect costs. Exhibit 4.6 presents the distribution of SFAs by whether they report all indirect costs, some indirect costs, or no indirect costs. In nine out of ten SFAs where the school district has indirect costs that could be applied to food service, the SFA does not report for any indirect costs. However, large SFAs are more likely to report indirect costs than small or medium-size SFAs.⁸

⁸As discussed in Chapter Five, even in cases where the SFA reports indirect costs, the school district might not recover these costs (i.e., funds are not transferred from the food service account to the school district general fund).

Exhibit 4.6

**Proportion of Calculated Indirect Costs Reported by the SFA:
Distribution of SFAs by Size Class**

Size Class	Report None	Report Some	Report All	All SFAs¹
Small SFAs	100.0%	0.0%	0.0%	100.0%
Medium SFAs	89.2	2.4	8.4	100.0
Large SFAs	52.5	5.2	42.4	100.0
All SFAs	89.3	1.6	9.0	100.0
Unweighted N = 81 Weighted N = 11,608				

¹Includes only SFAs where the school district has indirect costs that could be applied to food service.

Unreported indirect costs represent school district resources used by food service and account for 5 percent of the full cost of food service (Appendix E, Exhibit E.20). Unreported indirect costs account for 27 percent of total unreported costs for the average SFA. Exhibit 4.7 examines unreported indirect costs as a percent of total unreported costs.⁹ For almost one-third of all SFAs (32%), unreported indirect costs accounted for less than 10 percent of total unreported costs (Appendix E, Exhibit E.28). At the other extreme, in 17 percent of SFAs unreported indirect costs accounted for at least half of total unreported costs. Unreported indirect costs accounted for an average of about 28 percent of total unreported costs in small SFAs and medium-size SFAs, compared to only 18 percent in large SFAs. This reflects the fact that relatively few small or medium-size SFAs report indirect costs. Indirect costs are described in more detail in Chapter Five.

Unreported Equipment Depreciation. SFAs rarely include equipment depreciation as a reported cost. In SY 1992-93, only 16 percent of SFAs reported depreciation costs.¹⁰ Consequently, an Equipment Cost Inventory for each school in the district was completed for those districts that did not report

⁹Additional detail by type of meal production system is presented in Appendix E, Exhibit E.29.

¹⁰Depreciation was more likely to be reported by large SFAs (40%) than small (0%) or medium-size SFAs (28%).

Exhibit 4.7

Unreported Indirect Costs as a Percent of Total Unreported Costs

	Mean	Median	STD	SFA Sample Size	
				Weighted	Unweighted
Total	27.1%	24.3%	23.5%	12,934	93
SFA Size					
Small (1-999)	28.2	24.3	21.8	6,327	12
Medium (1,000-4,999)	29.7	23.9	24.7	4,537	28
Large (5,000+)	17.9	0.0	23.7	2,070	53

depreciation expense. Equipment costs were then amortized over a 12-year lifespan to estimate depreciation costs.

Exhibit 4.8 examines unreported depreciation as a percentage of total unreported costs.¹¹ Unreported depreciation represented, on average, 16 percent of total unreported costs, and in only one-third of SFAs (32%) did unreported depreciation account for as much as 20 percent of total unreported costs (Appendix E, Exhibit E.31).¹²

Unreported Utilities. Utilities include electricity, gas, and any other energy costs used in food production.

Exhibit 4.9 examines other unreported utility costs as a percentage of total unreported costs.¹³ On average, unreported utility costs represented 11 percent of total unreported costs. In three out of four SFAs (77%), unreported utility costs accounted for less than 20 percent of total unreported costs (Appendix E, Exhibit E.33).

¹¹Additional detail by type of meal production system is presented in Appendix E, Exhibit E.30.

¹²Depreciation was more likely to be reported by large SFAs (40%) than small (0%) or medium-size SFAs (28%).

¹³Additional detail by type of meal production system is presented in Appendix E, Exhibit E.32.

Exhibit 4.8

**Unreported Depreciation as a Percent
of Total Unreported Costs**

	Mean	Median	STD	SFA Sample Size	
				Weighted	Unweighted
Total	16.3%	13.6%	15.6%	12,934	93
SFA Size					
Small (1-999)	18.3	13.6	14.7	6,327	12
Medium (1,000-4,999)	16.3	15.6	16.7	4,537	28
Large (5,000+)	10.1	7.7	14.1	2,070	53

Exhibit 4.9

**Unreported Utility Costs as a Percent
of Total Unreported Costs**

	Mean	Median	STD	SFA Sample Size	
				Weighted	Unweighted
Total	11.3%	4.1%	13.2%	12,934	93
SFA Size					
Small (1-999)	11.0	11.7	9.7	6,327	12
Medium (1,000-4,999)	12.2	0.0	16.9	4,537	28
Large (5,000+)	10.2	3.7	13.2	2,070	53

FULL COST OF PRODUCING REIMBURSABLE MEALS

Full Cost per Reimbursable Lunch

Full costs per reimbursable lunch in SY 1992-93 ranged from \$1.14 to over \$3.00. In 41 percent of all SFAs, the full cost per reimbursable lunch was at least \$2.00 (Appendix E, Exhibit E.34). By contrast, in only 12 percent of SFAs was the reported cost per reimbursable lunch this high.

Exhibit 4.10 summarizes the full cost of producing reimbursable lunches using both the SFA and the NSLP meal as the unit of analysis. Across all SFAs, the mean full cost of a reimbursable lunch was \$2.14. This estimate reflects the influence of small SFAs with very small, high cost lunch programs.¹⁴ The very small, high cost SFAs exert less influence on the median than the mean. Therefore, the median full cost per reimbursable lunch (\$1.88) is probably a better indicator of the full cost of producing reimbursable lunches in the average SFA. For the average SFA the full cost of producing a reimbursable lunch is 15 percent higher than the reported cost (median full cost of \$1.88 vs. median reported cost of \$1.63). None of the subgroup differences is significant at the .05 level of confidence.¹⁵

The total Federal subsidy for free lunches in SY 1992-93 (\$1.84) was slightly less than the median full cost of producing a lunch (\$1.88). The full cost of producing a reimbursable lunch was less than the total subsidy for a free lunch in 39 percent of SFAs. Similarly, 46 percent of all reimbursable lunches served in SY 1992-93 were produced at a full cost that was less than the total subsidy for a free lunch.

Full Cost per Reimbursable Breakfast

In SY 1992-93 full costs per reimbursable breakfast ranged from \$0.62 to \$3.60 (Appendix E, Exhibit E.35), with a median cost of \$1.38 and a mean cost of \$1.67 (Exhibit 4.11). Unreported costs had a greater effect on breakfast costs than lunch costs. For the average SFA, the full cost of a breakfast was 31 percent higher than the reported cost of a breakfast (median full cost of \$1.38 vs. median reported cost

¹⁴In the unweighted sample of 93 SFAs, one SFA with a weight of 585 had a full cost per reimbursable lunch of \$6.00. This SFA had extremely high labor costs. With two schools producing a combined total of less than 20,000 lunches per year (an average of only 108 per day) and less than 9,000 breakfasts per year (an average of only 51 per day), it employed two full-time kitchen manager/cooks.

¹⁵Full cost per reimbursable lunch and breakfast by meal production system is presented in Appendix E, Exhibit E.36.

Exhibit 4.10

Total Full Cost per Reimbursable Lunch

	Total Full Cost per Reimbursable Lunch						SFA Sample Size	
	Unit of Analysis is SFA			Unit of Analysis is NSLP Lunch				
	Mean	Median	STD	Mean	Median	STD	Weighted	Unweighted
Total	\$2.14	\$1.88	.95	\$1.95	\$1.88	.47	12,934	93
NSLP and SBP	2.22	1.88	1.12	1.95	1.88	.46	8,563	77
NSLP only	1.99	1.85	.44	2.04	2.08	.51	4,371	16
SFA Size								
Small (1-999)	2.43	2.08	1.21	2.26	2.08	.83	6,327	12
Medium (1,000-4,999)	1.85	1.81	.51	1.80	1.74	.47	4,537	28
Large (5,000+)	1.91	1.88	.35	1.96	1.88	.37	2,070	53
A la Carte Revenues¹								
< 10% of Total Revenue	2.02	1.76	.52	2.05	1.94	.51	3,673	29
≥ 10% of Total Revenue	1.88	1.88	.35	1.86	1.87	.31	6,308	49

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales.

of \$1.05). None of the subgroup differences in the full cost per reimbursable breakfast are significant at the .05 level of confidence.

There is some evidence of economies of scale in the production of reimbursable breakfasts. Total breakfast labor costs in a school may be viewed as relatively fixed because of the small size of the breakfast program. Thus as the number of breakfasts served increases, labor cost per breakfast decreases. When the unit of analysis is the SBP meal, the median full cost per reimbursable breakfast was \$1.20. This reflects the effect of schools serving large numbers of reimbursable breakfasts which tend to have lower unit costs.

Exhibit 4.11

Total Full Cost per Reimbursable Breakfast

Total Full Cost per Reimbursable Breakfast								
Unit of Analysis is SFA			Unit of Analysis is SBP Breakfast			SFA Sample Size		
Mean	Median	STD	Mean	Median	STD	Weighted	Unweighted	
<i>Total SFAs</i>	\$1.67	\$1.38	.75	\$1.28	\$1.20	.37	8,514	77
<i>SFA Size</i>								
Small (1-999)	1.59	1.38	.49	1.32	1.10	.38	4,693	10
Medium (1,000-4,999)	1.89	1.28	1.00	1.25	1.25	.48	2,119	17
Large (5,000 +)	1.60	1.24	.90	1.27	1.20	.33	1,702	50
<i>A la Carte Revenues¹</i>								
< 10% of Total Revenue	1.31	1.34	.32	1.15	1.02	.31	1,984	25
≥ 10% of Total Revenue	1.70	1.38	.85	1.31	1.35	.34	4,373	39

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales.

The regular reimbursement rate for free breakfasts in SY 1992-93 was \$0.95, with a "severe need" rate of \$1.12. These rates were almost always insufficient to cover the full cost of producing a reimbursable breakfast. In nine out of ten SFAs (93%), the full cost exceeded the regular reimbursement rate for free breakfasts, and in eight out of ten SFAs (82%), the full cost exceeded the higher severe need rate. Even when the unit of analysis is the SBP meal, 89 percent of all breakfasts served in SY 1992-93 were produced at a full cost that exceeded the regular reimbursement rate for a free breakfast (61 percent were produced at a full cost that exceeded the higher severe need rate). This contrasts sharply with lunch costs.

COMPOSITION OF FULL COSTS

The composition of full costs differed somewhat from the composition of reported costs. As one would expect, food and labor costs accounted for the vast majority (84%) of the full cost of food service operations for the average SFA (Exhibit 4.12).¹⁶ However, food costs (including the assigned value of donated commodities) accounted for 38 percent of full costs, compared to 48 percent of reported costs. This reflects the fact that all food costs are included in reported costs, but some labor and other costs are not included in reported costs. Labor costs accounted for 46 percent of full costs (44 percent of reported costs). All other costs, including supplies, contract services, depreciation, indirect charges by the school district etc., represented 16 percent of the average SFA's full costs (8 percent of reported costs).

Cost Components of Reimbursable Lunches

Exhibit 4.13 presents a summary of the components of the full cost of reimbursable lunches.¹⁷ For the average SFA, food costs per reimbursable lunch were \$0.79 in SY 1992-93, with mean labor costs of \$1.00, and other costs averaging \$0.35. There was considerably more variation among SFAs in labor costs than food costs (Appendix E, Exhibit E.38). The coefficient of variation for labor cost per lunch was 0.54 compared to 0.32 for food costs. The greater variability in labor costs reflects the variation in the proportion of labor costs that are unreported (Appendix E, Exhibit E.24). While all food costs are reported, on average 18 percent of labor costs are unreported.

Mean food costs per reimbursable lunch are lower using the meal as the unit of analysis (\$0.72 vs. \$0.79), perhaps reflecting the greater buying power of the large SFAs. Mean labor costs per lunch are also somewhat lower using the meal as the unit of analysis (\$0.90 vs. \$1.00).

¹⁶Additional detail by type of meal production system is presented in Appendix E, Exhibit E.37.

¹⁷Appendix E, Exhibits E.40 and E.41 present this information by type of SFA.

Exhibit 4.12

Composition of Food Service Full Costs

	Percent of SFA Full Costs									SFA Sample Size	
	Food Costs			Labor Costs			Other Costs			Weighted	Unweighted
	Mean	Median	STD	Mean	Median	STD	Mean	Median	STD		
Total Sample	38.2%	38.8%	6.5%	45.8%	46.0%	7.5%	16.0%	15.5%	4.3%	12,934	93
Participation in SBP											
NSLP and SBP	38.7	40.9	5.3	45.2	44.1	6.4	16.0	15.5	4.6	8,563	77
NSLP only	37.3	35.4	8.2	46.9	48.6	9.3	15.8	16.0	3.7	4,371	16
SFA Size											
Small (1-999)	38.3	37.0	6.1	44.5	47.3	7.4	17.2	16.0	3.7	6,327	12
Medium (1,000-4,999)	39.0	40.8	6.5	45.9	45.8	7.4	15.1	13.7	4.2	4,537	28
Large (5,000 +)	36.4	35.9	7.1	49.5	49.1	7.0	14.1	13.7	5.1	2,070	53
A la Carte Revenues¹											
< 10% of Total Revenues	37.0	35.4	6.0	46.8	48.6	7.1	16.2	16.0	3.3	3,673	29
≥ 10% of Total Revenues	39.7	42.0	6.8	45.4	44.1	7.6	14.8	14.9	3.7	6,308	49

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales.

Exhibit 4.13

Full Cost Components of Reimbursable Lunches

Unit of Analysis	Cost Component									SFA Sample Size	
	Food Costs			Labor Costs			Other Costs			Weighted	Unweighted
	Mean	Median	STD	Mean	Median	STD	Mean	Median	STD		
SFA	\$0.79	\$0.77	0.25	\$1.00	\$0.82	0.54	\$0.35	\$0.30	0.22	12,934	93
Meal	\$0.72	\$0.70	0.14	\$0.90	\$0.90	0.30	\$0.33	\$0.30	0.18	12,934	93

Cost Components of Reimbursable Breakfasts

Exhibit 4.14 examines the components of the full cost of reimbursable breakfasts.¹⁸ For the average SFA, food costs per reimbursable breakfast were \$0.56 in SY 1992-92, with mean labor costs of \$0.84, and other costs averaging \$0.27. As in the case of lunch costs, there is considerably more variation in breakfast labor costs than breakfast food costs (Appendix E, Exhibit E.39). The coefficient of variation for labor cost per breakfast was 0.65 compared to 0.30 for food. As discussed above, the greater variability in labor costs in part reflects the variability in unreported labor costs.

While food costs per reimbursable breakfast are somewhat lower using the meal as the unit of analysis (\$0.49 vs. \$0.56), mean labor costs are considerably lower using the meal as the unit of analysis (\$0.57 vs. \$0.84). This reflects the economies of scale in breakfast production--schools that serve large numbers of reimbursable breakfasts tend to have much lower labor costs per meal than schools that serve relatively few reimbursable breakfasts.

Administrative Costs

Food service administrative costs include the cost of performing administrative activities in support of food service operations, e.g., administrative tasks performed by central food service staff, school-based food service staff (e.g., kitchen managers), central school district personnel, and school administrators

¹⁸Appendix E, Exhibit E.42 and E.43 present this information by type of SFA.

Exhibit 4.14

Full Cost Components of Reimbursable Breakfasts

Unit of Analysis	Cost Component									SFA Sample Size	
	Food Costs			Labor Costs			Other Costs			Weighted	Unweighted
	Mean	Median	STD	Mean	Median	STD	Mean	Median	STD		
SFA	\$0.56	\$0.55	0.17	\$0.84	\$0.64	0.55	\$0.27	\$0.21	0.14	8,514	77
Meal	\$0.49	\$0.48	0.12	\$0.57	\$0.53	0.26	\$0.22	\$0.21	0.10	8,514	77

(e.g., principals). This study has broadly defined food service administration to include regular administrative activities such as planning, budgeting and management for the food service program, and other non-production activities such as maintenance of food service equipment.

Exhibit 4.15 examines total administrative costs (including unreported costs) in relation to total labor costs.¹⁹ Because virtually all unreported labor performs administrative and other non-production activities in support of food service, on a full-cost basis administrative labor accounts for a much higher percentage of labor costs than on a reported-cost basis. On a full-cost basis, administrative labor accounted for an average of 30 percent of total labor costs. This compares to an average of 17 percent on a reported-cost basis. As one would expect based on the differences among SFAs in what is and what is not charged to the food service budget, there is also less variation in the administrative share of total costs on a full-cost basis than on a reported-cost basis (coefficient of variation of 0.38 vs. 0.60, Appendix E, Exhibit E.45).

Exhibit 4.16 examines total administrative labor costs in relation to total full costs. Administrative labor accounts for a relatively small proportion of total full costs. For the average SFA, total administrative labor cost accounted for 14 percent of total full costs in SY 1992-93. In eight out of ten SFAs, administrative (and other non-production) labor accounted for less than 20 percent of total full costs (Appendix E, Exhibit E.46).

¹⁹Additional detail by type of meal production system is presented in Appendix E, Exhibit E.44.

Exhibit 4.15

Total Administrative Labor Costs as a Percent of Total Labor Costs

	Total Full Cost per Reimbursable Lunch						SFA Sample Size	
	Unit of Analysis is SFA			Unit of Analysis is NSLP Lunch				
	Mean	Median	STD	Mean	Median	STD	Weighted	Unweighted
Total	29.5%	28.3%	8.9	32.2%	30.2%	10.4	12,934	93
NSLP and SBP	29.2	27.9	9.4	32.3	29.5	10.6	8,563	77
NSLP only	30.1	28.8	7.7	31.5	30.8	8.7	4,371	16
SFA Size								
Small (1-999)	29.7	28.2	8.5	31.2	28.6	10.3	6,327	12
Medium (1,000-4,999)	27.7	28.8	9.0	28.0	28.8	9.7	4,537	28
Large (5,000+)	32.7	33.2	8.7	33.4	30.2	10.3	2,070	53
A la Carte Revenues¹								
< 10% of Total Revenues	30.3	28.2	8.6	32.1	32.2	10.6	3,673	29
≥ 10% of Total Revenues	28.4	28.6	7.4	29.5	27.8	8.6	6,308	49

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales.

Exhibit 4.16

Administrative Labor Costs as a Percent of Total Full Costs

	Total Full Cost per Reimbursable Lunch						SFA Sample Size	
	Unit of Analysis is SFA			Unit of Analysis is NSLP Lunch				
	Mean	Median	STD	Mean	Median	STD	Weighted	Unweighted
Total	13.6%	13.4%	5.1	14.7%	14.0%	5.0	12,934	93
NSLP and SBP	13.2	13.0	4.7	14.5	14.0	4.9	8,563	77
NSLP only	14.5	13.7	5.6	16.0	14.6	6.1	4,371	16
SFA Size								
Small (1-999)	13.2	13.4	4.3	13.6	13.7	5.1	6,327	12
Medium (1,000-4,999)	13.0	11.8	5.4	12.9	13.0	5.1	4,537	28
Large (5,000+)	16.3	14.5	5.4	15.3	14.2	4.9	2,070	53
A la Carte Revenues¹								
< 10% of Total Revenues	14.5	13.7	5.4	14.6	14.5	5.0	3,673	29
≥ 10% of Total Revenues	13.0	12.1	4.7	13.9	12.2	4.9	6,308	49

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales.

Chapter Five

Analysis of School District Indirect Costs

As discussed in Chapter Four, SFAs often use a variety of resources that are provided or paid for by the school district, including:

- administrative or support functions performed by school district personnel, (including accounting, data processing, payroll, personnel, purchasing, storage, and transportation);
- facilities, equipment, supplies, and services (including energy, communications and transportation) provided or paid for by the school district; and
- employee benefits, payroll taxes and insurance.

School districts account for these resources in one of three ways.

1. Costs which the school district can and wants to identify are treated as *direct food service costs*.
2. Costs which can not practically be identified as direct costs are, in some school districts, allocated to the food service program as *reported indirect costs*.
3. Costs of school district support for food service operations are often left *unreported* and are included as part of the general operating costs of the school district.

In this study, costs incurred by school districts in support of food service operations have been estimated in two ways. If the school district has a method that can be used to allocate indirect costs to the food service program, but does not report these costs, the *unreported food service indirect cost* has been calculated. In some SFAs, no indirect cost allocation method is available; in others, the indirect cost does not include all support functions or cost objects attributable to food service. For these SFAs, school district resources used in support of food service that were not included in the *unreported indirect cost* (if any) were calculated as *unreported direct costs*.

This chapter presents an analysis of school district indirect costs. The objective of this analysis is to determine the amount of indirect cost allocated to food service, the basis for the indirect cost allocation, and the amount of indirect cost actually transferred from the food service fund to the school district's general fund.

The research questions addressed include:

- What proportion of SFAs report indirect food service costs? How much of the actual food service indirect cost is reported and recovered?
- How does each school district allocate indirect cost to food service?
- To what extent do school districts calculate and charge indirect costs to other state and Federal grants?

To address these questions, a review of indirect cost allocation practices in SY 1992-1993 was conducted for each SFA in the study sample. This review was generally completed with the school district's business manager or other senior administrative officer. The data from the indirect cost review were combined with SFA cost reports and results from a telephone survey of state education finance officers.

For the purposes of the study, the calculated food service indirect cost was based on the most inclusive available rate or method. As discussed later in this chapter, most school districts have more than one indirect cost rate or other allocation method. This approach minimized the need to estimate unreported direct costs.

The key findings with regard to indirect costs include:

- SFAs rarely report indirect costs. In 80 percent of SFAs, the school district has indirect costs in support of food service, but these costs are not reported on SFA financial statements. Unreported indirect costs are nearly 8 percent of total SFA reported costs.
- School districts rarely recover indirect costs from food service. Only 4 percent of school districts with food service indirect costs **report and recover** the full amount of those indirect costs.
- School districts often choose to absorb the indirect costs attributable to food service as a means of subsidizing the SFA. More than half (53%) of school districts that did not recover indirect costs from food service chose to bear these costs rather than charge the SFA.
- Nearly all school districts with food service indirect costs (94%) have a percentage rate (i.e., the ratio of school district indirect costs to all school district direct costs) available for allocating indirect costs to food service and other grants. All such indirect cost percentage rates are calculated or approved by the State Education Agency on the basis of a standard cost allocation plan.
- School districts are more likely to calculate and recover indirect costs from other grants and programs than from food service. One third of school districts with indirect cost methods calculate and recover the full indirect costs for at least some of their other grants and programs.

SFA PRACTICES FOR REPORTING INDIRECT COSTS

It is important to distinguish between *reporting indirect costs* attributable to food service, and *recovering* these costs from the SFA. Some school districts have an indirect cost rate, but do not apply this rate to food service. In such cases, the indirect costs attributable to food service are not reported on the SFA's annual cost report or financial statement. However, in other SFAs, the school district calculates the indirect costs attributable to food service and these costs are reported on the SFA's financial statement, but the school district does not *charge* the SFA for the full indirect cost (i.e., reported indirect costs are not recovered by the school district). This section examines SFA practices for *reporting* indirect costs. The *recovery* of indirect costs from food service (and other school district programs) is discussed in the next section.

Any SFA that has an applicable indirect cost rate and does not charge all SFA costs directly is considered to have indirect costs, even if the school district does not apply the rate to food service costs.¹ As shown in Exhibit 5.1, the great majority of SFAs (80%) have indirect costs but do not report them. Only eight percent report all of the indirect costs attributable to food service, and even fewer (1%) report some, but not all, indirect costs attributable to food service. About 10 percent have no indirect costs, either because all support costs are billed directly to food service (4%) or because the school district has no indirect cost rate or other method of estimating the cost of support services provided to food service (6%).²

As noted in Chapter Four, the percent of SFAs reporting indirect costs varies considerably by SFA size. Small and medium-size SFAs rarely report indirect costs. Approximately 92 percent of small SFAs have food service indirect costs but do not report any indirect costs on their annual financial statements. A very small proportion of small school districts (4%) charge food service directly for support services provided; the rest have no method for determining food service indirect costs. Similarly, 81 percent of medium-size districts have food service indirect costs but do not report them; only 10 percent of all medium-size SFAs report any indirect costs. By contrast, 34 percent of large school districts report all

¹District support costs may be billed directly to the SFA on the basis of individual employees' time and salaries or standard rates for services. Because the billing in these instances is considered direct by the district, we do not treat these costs as indirect. The study design did not include analysis of the methods and procedures (e.g., cost allocation plans) for such direct billing of food service support costs. Every school district that billed food service support costs directly used at least one available indirect cost method but did not use that method in determining SFA costs.

²In cases where a school district had no method for estimating the cost of support services provided to food service (or not all support services were included in indirect costs) this study identified and estimated the cost of these services. These costs were included as unreported direct costs in Chapter Four.

Exhibit 5.1

SFA Practices for Reporting Indirect Costs

	District Has Food Service Indirect Costs ¹			School District Support Services Treated as Direct Costs	No Method for Estimating Cost of School District Support Services	Total All SFAs	SFA Sample Size	
	SFA Reports ² all Indirect Costs	SFA Reports ² Some Indirect Costs	SFA Reports No Indirect Costs				Weighted	Unweighted
Total	8.1%	1.4%	80.2%	3.7%	6.5%	100.0%	12,934	93
<i>SFA Size</i>								
Small (1-999)	0.0	0.0	92.1	4.3	3.6	100.0	6,327	12
Medium (1,000-4,999)	7.7	2.2	81.4	0.0	8.7	100.0	4,537	28
Large (5,000+)	33.6	4.1	41.6	10.3	10.5	100.0	2,070	53

¹ School district has a method for calculating indirect costs for food service and does not treat all support services as direct costs. Some districts do not actually calculate the indirect costs attributable to food service (e.g., a district might have an indirect cost rate, but not apply it to food service).

² School districts may calculate and report indirect costs attributable to food service, but not recover these costs. See Exhibit 5.6

the indirect costs attributable to food service, and another 4 percent of large SFAs report a portion of the calculated indirect cost. Only 42 percent of large SFAs do not report any part of calculated indirect costs. Another 10 percent of large SFAs do not report any indirect costs because all school district support services are directly charged to the SFA; the remaining 10 percent have no rates or other methods off allocating indirect costs.

Among school districts with food service indirect costs, SFAs report an average of 10 percent of the food service indirect costs as calculated for this study (Exhibit 5.2). The mean proportion of indirect costs reported by large SFAs is 45 percent; medium-size SFAs report an average of 11 percent of indirect costs; small SFAs do not report any indirect costs. These statistics reflect the essentially bimodal distribution of SFAs. For the most part, SFAs report all indirect costs attributable to food service, or do not report any indirect costs.

Exhibit 5.2

Percent of Indirect Cost Reported by SFAs With Indirect Costs

	Percent of Indirect Cost Reported by SFAs With Indirect Costs ¹			SFA Sample Size ¹	
	Mean	Median	STD	Weighted	Unweighted
Total	10.2%	0.0%	29.9	11,608	81
SFA Size					
Small (1-999)	0.0	0.0	0.0	5,826	10
Medium (1,000-4,999)	10.8	0.0	31.0	4,142	25
Large (5,000+)	44.7	0.0	48.5	1,640	46

¹Excludes weighted total of 1,326 SFAs (12 unweighted) that do not have indirect costs because (a) they have no indirect cost rate or other method, or (b) all costs are billed as direct costs.

RECOVERY OF SFA INDIRECT COSTS

The actual financial impact of indirect cost allocation on SFAs depends on whether these costs are both reported and recovered. The SFA or school district may compute the food service indirect cost for reporting purposes without actually transferring the full calculated amount from the food service fund to the school district's general fund. Some States require SFAs to report food service indirect costs as part of their NSLP and SBP reimbursement claims, but do not require the recovery of the reported indirect cost. Recovery of indirect costs may also depend on whether an SFA has sufficient revenues after covering its direct costs.

School districts rarely recover food service indirect costs. Exhibit 5.3 shows that 89 percent of school districts with food service indirect costs do not report or recover these indirect costs. In about 7 percent of districts with food service indirect costs the SFA reports at least some of these costs, but the school district does not recover the entire food service indirect costs. Only 4 percent of school districts recover all of the food service indirect costs attributable to food service.

As noted above, small school districts do not report (or recover) indirect cost for food service. Even though large SFAs are far more likely to report indirect costs than small and medium-size SFAs, most large school districts still do not recover these reported indirect costs. While 47 percent of large SFAs reported indirect costs, only 7 percent actually transferred the reported indirect costs to the school district's general fund.

Exhibit 5.4 presents the reasons why school districts did not recover indirect costs from food service; in some cases, multiple reasons apply, so the percentages sum to more than 100 percent. More than half (52%) of the school districts that did not recover all of the food service indirect costs chose to bear the cost as a way of subsidizing the SFA. One-quarter of the districts were unable to recover all of the food service indirect costs because the SFA had insufficient funds. Five percent of school districts were directed by a local authority (such as a town council) not to charge food service for indirect costs. About one-third (30%) of school districts could not provide any specific reason why the district did not recover indirect costs from food service. (These districts typically did not report any food service indirect costs and may not have even considered this possibility.)

Only 11 percent of large school districts did not recover indirect costs from food service because the SFA had insufficient funds, but about one quarter of small and medium-sized school districts cited insufficient funds as a reason for not recovering indirect costs from food service. The primary reason for not

Exhibit 5.3

Recovery of Indirect Costs from Food Service
Districts with Food Service Indirect Costs

	Percent of Districts with Indirect Costs				All Districts with Indirect Costs	District Sample Size ¹	
	Report and Recover all Indirects	Report All But Do Not Recover All Indirects	Report Some, Do Not Recover All Indirects	Do Not Report or Recover Indirects		Weighted	Unweighted
Total	4.0%	5.0%	1.6%	89.4%	100.0%	11,608	81
SFA Size							
Small (1-999)	0.0	0.0	0.0	100.0	100.0	5,826	10
Medium (1,000-4,999)	8.5	0.0	2.4	89.1	100.0	4,142	25
Large (5,000+)	7.1	35.3	5.1	52.5	100.0	1,641	46

¹Excludes the school districts that charged support costs directly to food service (weighted sample size, 483). The study did not examine recovery of direct costs billed by the school district to the SFA.

Exhibit 5.4

Reasons for Not Recovering Indirect Costs from Food Service:
Districts That Do Not Recover All Indirect Costs from Food Service

Total	Reasons For Not Recovering All Indirect Costs ¹					District Sample Size ²	
	SFA Had Insufficient Funds	District Chose to Bear Cost	Local Authority Directed District Not to Charge	Other	Don't Know	Weighted	Unweighted
Total	24.9%	52.3%	4.6%	7.1%	30.2%	11,141	71
SFA Size							
Small (1-999)	28.7	52.2	0.0	10.0	30.0	5,826	10
Medium (1,000-4,999)	24.7	50.0	11.8	1.9	33.1	3,792	23
Large (5,000+)	10.6	58.3	4.4	8.5	24.0	1,524	38

¹ Detail does not sum to 100 percent because school districts might have given multiple reasons.

² Excludes districts that recover all food service indirect costs.

recovering indirect costs was the same in small, medium-size, and large school districts—the district chose to bear the cost as a means of subsidizing food service.

METHODS USED TO ALLOCATE INDIRECT COSTS

The allocation of indirect costs to food service and other school district programs consists of three basic steps:

- creating one or more pools of indirect costs to be allocated;
- defining the objectives or programs (e.g., vocational education) to which indirect costs will be allocated; and
- setting the formula for allocating the indirect costs to the defined objectives.

Each of these steps significantly affects the nature and magnitude of the indirect cost allocated to food service. The creation of the indirect cost pools determines the size and scope of the school district's indirect costs. The definition of the programs to which indirect costs are allocated affects the proportion of indirect costs allocated to food service, since the more activities or organizations that are included, the smaller the proportion allocated to any one activity. Finally, different formulas allocate more or less cost to food service, depending on whether the resource used as the base (direct costs, person-hours of labor, square feet of space, etc.) is one that food service uses sparingly or intensively.

In allocating indirect costs, school districts follow rules set by Federal and state agencies. The Office of Management and Budget, through Circular A-87, sets guidelines for what indirect costs may be charged against Federal funds, how they may be allocated, and how cost allocation methods should be documented and approved. The U.S. Department of Education regulates the allocation of indirect costs to grants provided to school districts and oversees the role of the states in setting indirect cost rates. Each State Education Agency (SEA) must calculate or approve indirect cost rates for school districts that elect to use them in charging costs to Federal grants, based on a State Cost Allocation Plan for school districts approved by the U.S. Department of Education. The State Cost Allocation Plan sets forth the guidelines for the assignment of school districts' support costs to direct and indirect cost pools and for the calculation of district indirect cost rates. A few large SFAs have State-approved district-specific indirect cost allocation plans.

The Education Department regulations (34 CFR, Parts 74-76) define two categories of indirect cost rates: *restricted* and *unrestricted rates*. A restricted rate is used for a grant that requires that Federal funds do

not supplant local funds, i.e., Federal funds must only be used for incremental costs related to the grant program (such as bilingual education). Only two types of cost pools may be included in a restricted rate: "administrative charges" (costs of district-wide administrative activities, not including the Superintendent and the School Board) and "fixed charges" (employee benefits, payroll taxes and insurance). An unrestricted rate is to be used for programs, including the NSLP and SBP, that do not have the "non-supplanting" rule. Additional indirect costs, such as the operation and maintenance of district facilities, can be included in the unrestricted indirect cost rate. Neither type of rate may include costs that are not allowable under Federal programs, such as capital outlays and interest. USDA regulations (7 CFR 210.14) do not allow the use of food service revenues (directly or through indirect cost allocation) for the purchase of land or buildings, or for building construction.

Most SEAs define and calculate indirect cost percentages for the school districts in their States. This process is usually part of the SEA's general financial reporting system for school districts. The SEA sets the overall accounting framework for the school districts (including funds, programs or objectives, and revenue and expenditure categories); this framework includes the definition of indirect and direct cost pools. Before the start of each school district fiscal year, the typical SEA uses an earlier fiscal year's costs to calculate each school district's indirect cost rate. In a variation on this approach, a school district requests a rate and follows a state-approved formula or worksheet. Some states only calculate restricted indirect cost rates; most calculate both restricted and unrestricted rates.

Some school districts use more ad hoc methods of allocating indirect costs to food service. In these methods, the indirect cost pool is more narrowly defined (e.g., utilities) and a formula appropriate to the nature of the specific indirect pool is established. Examples of this approach include: utilities allocated in proportion to square feet of space; custodial staff charged on the basis of a set number of expected hours of food service support; or data processing costs allocated in proportion to the amount of data processing time used. Finally, some SFAs are charged a lump sum for indirect costs, based on an estimated or negotiated figure representing the cost of the specific services provided by the school district.

Types of Costs Included in Indirect Costs. Exhibit 5.5 summarizes the frequency with which various types of costs are included in the calculated food service indirect cost. Labor (including fringe benefits) is the most common cost: all school districts that could determine the composition of their calculated indirect costs identified labor as a component. (In some SFAs, especially those that made no use of state-calculated rates, the composition of indirect costs was not available.) In 75 percent of school districts with indirect cost rates, the indirect cost includes "other" costs, such as contract services and travel; 45

Exhibit 5.5

**Cost Objects Included in Indirect Costs:
School Districts with Food Service Indirect Costs**

Cost Object	Cost Object Included in Indirect Costs			Total All Districts with Indirect Costs
	Yes	No	Don't Know ¹	
Labor	84.3%	0.0%	15.7%	100.0%
Supplies	45.2	7.9	46.9	100.0%
Utilities	19.8	42.3	37.9	100.0%
Equipment	13.1	40.5	46.4	100.0%
Other ²	74.6	5.4	20.0	100.0%
Weighted Sample Size ³				11,608
(Unweighted Sample Size) ³				(81)

¹Many school districts do not calculate or use their indirect cost rates, and therefore do not know the composition of the indirect cost pools.

²"Other" costs include travel, communications, publications and subscriptions, and contractual services.

³Excludes weighted total of 1,326 SFAs (12 unweighted) that do not have indirect costs because (a) they have no indirect cost rate, or (b) all costs are billed as direct costs.

percent of districts include supplies in their indirect costs. Utilities (20%) and equipment (13%) are far less common; these are the non-labor costs which most frequently had to be estimated as unreported direct costs.

The patterns in Exhibit 5.5 reflect the typical composition of restricted and unrestricted indirect cost rates. Restricted rates typically include the labor, benefits, supplies and miscellaneous costs of general administrative units at the district level that are responsible for accounting, purchasing, payroll, personnel, and data processing. Unrestricted rates, which fewer districts have, add the costs of maintenance personnel and supplies, and often include utilities. Both types of rates exclude capital costs and lease-to-purchase costs as unallowable for federal reimbursement, so equipment costs are only likely to appear if the district rents equipment on a short-term basis.

Allocation Methods. The indirect cost allocation methods used by school districts vary in terms of the cost pools, direct cost objectives, and allocation formulas used, as well as varying in the extent to which these methods are applied to food service costs. The indirect cost allocation formulas used by school districts include:

- the **percentage rate method**, which uses the ratio of all school district indirect costs to all school district direct costs (with varying definitions of indirect and direct costs);
- the **full-time equivalent method**, which allocates costs in proportion to the number of full-time equivalent staff assigned to the program or function;
- the **square footage method**, which allocates costs in proportion to the amount of space used for each program or function;
- measures of labor effort from **time studies** or predetermined allocations of labor hours; and
- **lump-sum** allocation based on judgment, precedent or negotiation;

Exhibit 5.6 shows that nearly all districts (94%) with food service indirect costs have percentage rates. The full-time equivalent method is present in about 8 percent of districts; the lump sum method is present in 7 percent of districts. Less than 2 percent of districts use each of the other allocation methods. About 10 percent of districts have multiple allocation methods -- most often a percentage rate in combination with another method.

Adjusting Indirect Cost Rates. The indirect cost rate is often adjusted for changes in indirect or direct costs between the base year (used in setting the rates) and the year to which the rate is applied. Two options for adjusting indirect cost rates are: (a) the use of provisional and final rates; and (b) using a fixed rate with a carry-forward. In the first approach, a provisional rate is set at the start of the year and used to calculate indirect costs during the year. Once costs for the year are finalized, the final rate is recalculated, and a credit or debit is made to adjust for the difference. The fixed rate/carry-forward approach adjusts the next year's rate to offset any over- or under-recovery of indirect costs. Where the SEA calculates or approves indirect cost rates, it also defines the adjustment procedure.

Nearly three quarters (72%) of school districts with indirect costs do not make any adjustment for changes in indirect cost between the base year and the year to which the rate is applied (Exhibit 5.7). Approximately 27 percent of districts use some form of carry forward adjustment—21 percent adjust the next year's rate and 6 percent apply a credit or debit to the next year's costs, but do not adjust the rates.

Exhibit 5.6

**Indirect Cost Allocation Methods:
Distribution of School Districts with Food Service Indirect Costs**

Indirect Cost Method	Percent of Districts with Indirect Costs ¹	District Sample Size	
		Weighted	Unweighted
Percentage Rate	93.7%	10,879	75
Restricted Only	22.7	2,633	15
Unrestricted Only	14.0	1,621	8
Restricted and Unrestricted ²	57.1	6,625	52
Full-time Equivalent Staff	7.7	895	8
Square Footage	1.6	180	6
Time Study or Labor Hours	1.6	184	6
Lump Sum	6.9	804	8
Other	1.8	211	6
Total School Districts with Food Service Indirect Costs		11,608	81

¹ Detail does not sum to 100 percent because 10.2 percent of school districts use multiple methods.

² For districts with both restricted and unrestricted rates, the unrestricted rate was used in this study to calculate food service indirect costs. Only a restricted rate was available in certain States because the State Education Agency did not provide for the calculation of unrestricted rates.

CALCULATION AND RECOVERY OF INDIRECT COSTS FROM OTHER GRANTS

School districts can only recover the indirect costs of food services to the extent that the funds available to the food service exceed the direct costs. Unlike the cost-based reimbursement in most Federal education grants to schools, the NSLP and SBP provide a fixed subsidy per meal based on the child's eligibility status (and, for the SBP, whether the school qualifies for severe need rates). Therefore, SFA revenues do not change with the addition of indirect costs, while revenue from cost-based grants can rise when indirect costs are charged. Thus, a school district may have more of an incentive to charge other grants for indirect costs.

Exhibit 5.7

**Methods Used to Adjust Indirect Cost Rates:
Distribution of School Districts with Food Service Indirect Costs**

Adjustment Procedure	Percent of Districts with Indirect Costs	District Sample Size	
		Weighted	Unweighted
Provisional and Final Rates	1.5%	180	4
Fixed Rate, No Adjustment	57.6	6,687	50
Fixed Rate with Carry-Forward	20.6	2,392	11
Other Rate, No Adjustment	13.0	1,513	6
Other Rate, Recalculate and Charge Later Year	0.9	107	4
Other Method, No Adjustment	1.3	141	4
Other Method, Recalculate and Charge Later Year	5.1	588	2
Total, All Districts with Food Service Indirect Costs	100.0	11,608	81

Exhibit 5.8 shows school district practices for the calculation of indirect cost for other grants and programs. Among school districts with indirect cost methods, 46 percent calculate the full indirect costs for *at least* some of their other grants and programs. Over 16 percent of school districts with indirect cost methods calculate indirect costs for all grants and over 29 percent calculate these costs for some of their grants. This compares with only 10 percent of school districts with indirect cost methods (including those that use direct billing for food service support costs) where the SFA reports some or all of the indirect costs attributable to food service.³

³Exhibit 5.1 shows that a total of 9.5 percent of all school districts report some food service indirects. The base for this figure includes the 6.5 percent of districts with no indirect cost methods. When only the districts with indirect cost methods are included, the percentage reporting some food service indirect costs rises to 10.2 percent. Another 4 percent of districts with indirect cost methods directly charged food service support costs.

Exhibit 5.8

**Practices for Calculation of Full Indirect Costs
for Other Grants and Programs**

District Calculates Indirect Costs for:	Percent of Districts with Indirect Cost Methods¹	District Sample Size	
		Weighted	Unweighted
All Grants	16.3%	1,976	31
Some Grants	29.3	3,547	32
No Grants	41.1	4,972	19
N/A: No Other Grants	6.2	753	1
Don't Know or Did Not Respond	7.0	843	3
All Districts with Indirect Cost Methods¹	100.0	12,091	86

¹Includes 5 districts (unweighted) which have indirect cost methods but charge all food service support as direct costs. These districts are not included in the sample used in Exhibits 5.2 through 5.6.

As in the case of food service, the most common reason for not calculating the full indirect costs for other grants was a decision by the district to bear the cost as a way of subsidizing these grants. About half (53%) of districts that did not calculate indirect costs for other grants chose to absorb the indirect costs attributable to these other grants (Exhibit 5.9). Seventeen percent of school districts did not calculate indirect costs for other grants because these grants did not include indirect costs in their budget; and 19 percent of districts did not calculate indirect costs for other grants because these grants had insufficient funds.

When a school district takes the effort to calculate the indirect costs of a grant, it is likely to recover the indirect cost from the grant. One-third (32 percent) of school districts with indirect cost methods

Exhibit 5.9

Reasons for Not Calculating Full Indirect Cost for Other Grants and Programs

Reason	Percent of Districts Not Calculating Full Indirect Costs for All Grants ^{1,2,3}	District Sample Size ¹	
		Weighted	Unweighted
Chose Not to Charge Any Other Grant	53.3%	4,541	17
Not Included in Some or All Grant Budgets	17.3	1,476	14
Insufficient Funds in Some or All Grant Budgets	18.8	1,598	12
District Directed by Other Authority Not to Charge Some or All Grants	6.9	590	6
Chose to Leave Money in Some Grants	3.7	316	4
Unaware Some or All Grants Could be Charged	2.6	224	2
Total Sample Size, School Districts Not Calculating Full Indirect Cost for All Grants ¹		8,519	51

¹Excludes districts with no indirect cost allocation method and districts that calculate indirect costs for all grants and programs.

²Districts could give multiple reasons, so percentages do not sum to 100 and sample sizes do not sum to totals.

³An alternate indirect cost value was calculated for some grants in 12.8 percent of these districts (weighted percentage).

calculate and recover the full indirect costs for at least some of their other grants and programs.⁴ Exhibit 5.10 shows that, of school districts that calculated the indirect costs attributable to other grants and programs, 70 percent recovered *all* of the calculated indirect costs; another 18 percent recovered at least *some* of the calculated indirect costs. Only 11 percent of school districts that calculated indirect costs attributable to other grants and programs failed to recover any of the calculated indirect costs for other

⁴This figure represents the proportion of all school districts with indirect cost methods (weighted sample size, 12,091) that calculated and recover some indirect costs from other grants. The percentages in Exhibit 5.10 are much higher because they exclude districts that do not calculate indirect costs for any other grant or program.

Exhibit 5.10

**Recovery of Full Calculated Indirect Cost for Other Grants and Programs:
Districts with Calculated Indirect Costs for Other Grants and Programs**

Proportion of Full Calculated Indirect Cost Recovered¹	Percent of Districts Calculating Indirect Costs²	District Sample Size	
		Weighted	Unweighted
Recovered All Indirect Cost	70.5%	3,897	44
Recovered Some Indirect Cost	18.3	1,009	16
Recovered No Indirect Cost	11.2	618	3
All Districts Calculating Indirect Costs ²	100.0	5,523	63

¹These categories apply to grants or programs for which the full indirect cost was calculated.

²Excludes districts that do not calculate indirect costs for any other grant or program.

grants and programs. This contrasts sharply with the reporting and recovery of indirect costs for the food service where only 4 percent of school districts with food service indirect costs report and recover all of those costs (Exhibit 5.3).

The reasons for not recovering indirect costs from other grants and programs were similar to the reasons for not recovering indirect costs from food service. Among school districts that did not recover the full calculated indirect costs from other grants and programs, 57 percent chose to bear these costs as a means of subsidizing the grants or programs involved (Exhibit 5.11). About 21 percent of school districts did not recover the full indirect costs because the grants or programs involved did not have sufficient funds.

Exhibit 5.11

**Reasons for Not Recovering Full Calculated Indirect Cost for Other Grants:
Districts That Do Not Recover Full Calculated Indirect Costs for Other Grants**

Reason	Percent of Districts That Do Not Recover Full Calculated Indirect Cost¹	District Sample Size²	
		Weighted	Unweighted
Insufficient Funds in Grant Account	20.7%	336	10
Chose to Bear Cost	56.8	924	11
Directed by State or Local Authority to Bear Cost for All Grants	13.5	220	4
Directed by State or Local Authority to Bear Cost for Some Grants	6.8	111	1
Don't Know	19.8	322	2
Total Districts That Do Not Recover Full Calculated Indirect Cost²		1,627	19

¹Percentages do not sum to 100 because districts could give multiple reasons.

²Excludes districts that (a) do not calculate indirect cost for any other grants or (b) recover full calculated indirect costs from all other grants for which this value is calculated.

Chapter Six

Composition of SFA Revenues and Revenue/ Cost Comparisons

SFAs receive revenues from several sources. Some of the sources are related to the sale of reimbursable meals (Federal reimbursements, State and local reimbursements, and student payments for reduced-price and full-price meals), while other revenues are not related to the sale of reimbursable meals, including a la carte sales and sales to adults. Because SFAs are nonprofit, reported costs will generally equal revenues. Within this overall status though, SFAs may shift costs between breakfast and lunch, or reimbursable and non-reimbursable meals. If revenues from reimbursable meals exceed the cost of producing these meals, the SFA may use the funds to support a la carte meals. Similarly, if revenues from reimbursable meals are less than the costs, the SFA may use the a la carte revenues to support the cost of reimbursable meals. This chapter presents an analysis of SFAs' revenues for SY 1992-93. This includes both the composition of revenues (the magnitude of each type of revenue relative to the SFA's total revenues) and the relationship of revenues received from reimbursable meals to the cost of producing the meals.

The research questions addressed in this chapter include the following:

- What is the composition of SFA revenues? What proportion of SFA revenues come from various sources, including Federal reimbursements, State and local reimbursements, income from the sale of reimbursable meals, income from a la carte sales, and income from sales to adults?
- What is the difference between the cost of producing reimbursable meals and the revenues derived from the sale of those meals?
- What is the difference between the costs of non-reimbursable meals (e.g. a la carte sales, sales to adults) and the revenue resulting from those meals?

Key findings with regard to SFA revenues include:

- Revenues related to the sale of reimbursable meals account for an average of 85 percent of total SFA revenues.
- USDA subsidies, including cash reimbursements and donated commodities represent the largest single source of SFA revenues, accounting for an average of 46 percent of total SFA revenues.

- On average, SFAs are operating at the break-even level, with total revenues about equal to total reported costs.
- Revenues obtained from reimbursable lunches exceed the cost of producing these meals. SFAs appear to subsidize reimbursable breakfasts and non-reimbursable meals with surplus revenues derived from reimbursable lunches.

COMPOSITION OF REVENUES

Exhibit 6.1 presents the composition of SFAs' revenues in SY 1992-93¹. The largest source of revenues, accounting for 47 percent of the average SFA's revenues was USDA subsidies, including meal reimbursements (39%) and the assigned value of USDA donated commodities (8%). Student payments for reimbursable meals (i.e., payments for reduced-price and full-price meals) accounted for another 35 percent of total revenues. State and local meal subsidies accounted for four percent of total revenues. Taken together, these three sources, which represent all revenues related to the sale of reimbursable meals, accounted for an average of 85 percent of total SFA revenues. A la carte sales (including adult meals and other non-reimbursable meals) represented 15 percent of the average SFA's total revenues. Other cash revenues (including such sources as interest on deposits, sale of equipment, and sales tax receipts) accounted for an average of two percent of total SFA revenues. Each of these revenue sources is discussed below.

Exhibit 6.1

Composition of SFA Revenues

Source of Revenue	Percent of SFA Revenue			SFA Sample Size ¹	
	Mean	Median	STD	Weighted	Unweighted
USDA Subsidies	46.7%	42.3%	17.2	12,937	94
Meal Reimbursements	38.5	34.1	16.3	12,937	94
Donated Commodities	8.2	7.7	2.8	12,937	94
State and Local Reimbursements	3.9	3.0	4.7	12,937	94
Student Payments for Reimbursable Meals	35.0	35.5	11.7	9,984	79 ¹
A la Carte Sales ²	15.4	11.8	10.5	9,984	79 ¹
Other Cash Revenues	1.8	0.2	5.0	12,937	94

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales. The information provided for all other revenue sources combined that was available for the full sample of 94 SFAs was used in conjunction with information available for the 79 SFAs that reported student payments for reimbursable meals and a la carte sales separately to impute the following means values for the full sample:

Student Payments for Reimbursable Meals = 33%
A La Carte Sales = 14%

²Includes adult meals and other non-reimbursable meal sales.

¹Frequency distributions of SFAs by the proportion of total SFA revenue received from each of these are included in Appendix E.

USDA Subsidies

USDA subsidies represented 47 percent of total SFA revenues in SY 1992-93. On average, SFAs participating in the SBP derive 52 percent of their revenue from USDA subsidies compared to only 36 percent for SFAs that only participate in the NSLP (Exhibit 6.2). Small SFAs tended to have a higher percentage of total revenues from USDA subsidies than either medium or large SFAs. The mean percent of SFA revenues derived from USDA subsidies was 55 percent for small SFAs, compared to 40 percent in medium-size and 38 percent large SFAs. The distribution of SFAs by the percent of total revenue derived from USDA donated commodities and cash subsidies is presented in Appendix E, Exhibits E.47 and E.48.

Most of the USDA subsidies consist of cash subsidies for reimbursable meals. These cash subsidies accounted for an average of 39 percent of total SFA revenues compared to an average of 8 percent for donated commodities. On average, SFAs that participate in the SBP derived considerably more of their total revenue from USDA cash subsidies (44%) than did SFAs that only participate in the NSLP (27%). This probably reflects the additional cash subsidies derived from the breakfast program. It might also reflect the fact that free and reduced-price meals have substantially higher reimbursement rates than full-price meals (see Chapter One).² SFAs that participate in the SBP tend to have higher concentrations of low-income children than SFAs that only participate in the NSLP. There was little difference in the proportion of total revenues derived from donated commodities (8.0% and 8.6%) between SFAs that participate in the SBP and NSLP-only SFAs. This probably reflects the fact that commodity entitlements are tied to participation in the lunch program.

Similarly, small SFAs derived more of their total revenues from USDA cash subsidies (46%) than did medium-size (32%) and large SFAs (32%). The proportion of total revenues derived from donated commodities was about the same for small, medium-size, and large SFAs. As discussed below, the difference in the proportion of total revenues derived from USDA subsidies may reflect differences in

²Data from the **Child Nutrition Program Operations Study** conducted by Abt Associates for the Food and Nutrition Service indicate that SFAs that participate in the SBP have a much higher proportion of children approved for free and reduced-price meals than SFAs that only participate in the NSLP. In SY 1989-90, 38 percent of SFAs that participated in the SBP were classified as "high poverty" SFAs (i.e., had at least 60 percent of their enrollment approved for free or reduced-price meals) compared to only 6 percent of SFAs that did not participate in the SBP. The higher concentration of children approved for free and reduced price meals in SFAs that participate in the SBP would therefore result in relatively higher cash subsidies for the lunch program in these SFAs.

Food Service / BP

Exhibit 6.2

USDA Subsidies as a Percent of Total SFA Revenues

	Percent of SFA Revenue									SFA Sample Size	
	Total USDA Subsidies			Meal Reimbursements			Donated Commodities				
	Mean	Median	STD	Mean	Median	STD	Mean	Median	STD	Weighted	Unweighted
Total	46.7%	42.3%	17.2	38.5%	34.1%	16.3	8.2%	7.7%	2.3	12,937	94
Participation in SBP											
NSLP and SBP	52.2	50.5	16.4	44.2	40.8	15.0	8.0	7.6	2.3	8,566	78
NSLP only	35.8	30.2	13.4	27.2	22.6	12.3	8.6	9.5	2.1	4,371	16
SFA Size											
Small (1-999)	54.7	54.1	15.5	45.5	43.7	13.8	9.2	8.2	2.1	6,327	12
Medium (1,000-4,999)	39.5	36.6	14.4	31.8	29.8	14.4	7.8	7.7	2.1	4,537	28
Large (5,000+)	37.8	33.5	17.6	31.5	28.0	18.0	6.3	6.0	1.9	2,073	54

student participation rates in the school meal programs³--medium-size and large SFAs derived a much higher proportion of their total revenues from a la carte sales than do small SFAs.

Student Payments for Reimbursable Meals

Student payments for free and reduced-price meals were the second largest source of SFA revenues, accounting for an average of 35 percent of total SFA revenues.⁴ The distribution of SFAs by the percent of revenue derived from student payments for reimbursable meals is presented in Appendix E, Exhibit E.49. Exhibit 6.3 shows that SFAs that participate in the SBP on average derived a smaller percentage of their total revenues from student payments for reimbursable meals (31%) than NSLP-only SFAs (42%). This may also reflect the higher concentration of low-income children in SFAs that participate in the SBP. Students paying the full-price for reimbursable meals pay higher prices for these meals than students getting these meals at a reduced-price. There is, of course, no student payment for reimbursable meals taken by students approved for free meals. Small, medium-size, and large SFAs each received about one-third of their total revenues from student payments for reimbursable meals.

State and Local Reimbursements

State and local reimbursements are a relatively minor source of SFA revenue, accounting for an average of only four percent of total SFA revenues in SY 1992-93. In only 14 percent of SFAs did State and local reimbursements account for as much as six percent of total SFA revenues (Appendix E, Exhibit E.50). Exhibit 6.4 shows that there were no meaningful differences between SFAs that participate in the SBP and NSLP-only SFAs, or between small, medium-size, and large SFAs in the percentage of total revenues derived from this source.

A La Carte Sales

Sales of a la carte items and/or adult meals represented an average of 15.4 percent of total revenues.⁵ Exhibit 6.5 shows that SFAs that participate in the SBP derived about the same percentage of their total

³The **Child Nutrition Program Operations Study** reported SY1989-90 participation rates of 64.5% for small districts; 60.5% for medium-size districts; and 57.0% for large districts

⁴This analysis includes only those SFAs that separately report student payments for reimbursable meals from a la carte sales.

⁵This analysis includes only those SFAs that separately report student payments for reimbursable meals from a la carte sales.

Exhibit 6.3

**Student Payments for Reimbursable Meals
as a Percent of Total SFA Revenues**

	Percent of SFA Revenues			SFA Sample Size ¹	
	Mean	Median	STD	Weighted	Unweighted
Total	35.0%	35.5%	11.7	9,984	79
Participation in SBP					
NSLP and SBP	30.6	31.6	10.5	6,151	65
NSLP only	42.2	36.7	10.0	3,833	14
SFA Size					
Small (1-999)	32.9	35.5	10.2	4,353	8
Medium (1,000-4,999)	37.4	35.8	12.5	3,721	23
Large (5,000+)	35.4	34.8	12.6	1,909	48

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales.

Exhibit 6.4

**State and Local Reimbursements as a
Percent of Total Revenues**

	Percent of SFA Revenues			SFA Sample Size	
	Mean	Median	STD	Weighted	Unweighted
Total	3.9%	3.0%	4.7	12,934	94
Participation in SBP					
NSLP and SBP	4.2	3.0	5.3	8,566	78
NSLP only	3.4	3.3	3.3	4,371	16
SFA Size					
Small (1-999)	3.9	3.3	4.8	6,327	12
Medium (1,000-4,999)	4.1	3.3	3.9	4,537	28
Large (5,000+)	3.5	2.4	6.0	2,073	54

revenues from a la carte sales as NSLP-only SFAs. Large and medium-size SFAs derived a higher percentage of their revenue from a la carte sales (23% and 16% respectively) than did small SFAs (12%). A priori, there is no reason to expect differences in the relative magnitude of revenue derived from a la carte sales by SFA size. It may simply be that large and medium-size SFAs have a wider range of a la carte meal items available to students in their schools than smaller SFAs. The distribution of SFAs by the percent of revenue derived from a la carte sales is presented in Appendix E, Exhibit E.51.

Exhibit 6.5

Revenues from A La Carte Sales as a Percent of Total Revenues

	Percent of SFA Revenues			SFA Sample Size ¹	
	Mean	Median	STD	Weighted	Unweighted
Total	15.4%	11.8%	10.5	9,984	79
Participation in SBP					
NSLP and SBP	15.3	11.8	8.7	6,151	65
NSLP only	15.5	11.2	12.8	3,833	14
SFA Size					
Small (1-999)	11.7	10.4	5.7	4,353	8
Medium (1,000-4,999)	15.8	17.5	10.7	3,721	23
Large (5,000+)	23.0	24.0	13.8	1,909	48

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales.

Other Cash Revenues

As described above, other cash revenues include such items as interest on deposits, sale of equipment, and sales tax receipts. As expected, it accounts for a very small proportion of total SFA revenues (a mean of 2%). Three-quarters of all SFAs derive less than one percent of their revenues from other cash sources, and only 12 percent of all SFAs derive as much as 3 percent of their total revenues from this source (Appendix E, Exhibit E.52).

COMPARISON OF REVENUE AND COST

SFAs are required to operate on a non-profit basis. In general, school districts expect SFAs to operate on a break-even basis, with SFA revenues covering their reported costs. However, the possibility exists for cost shifting between reimbursable and non-reimbursable meals. To the extent that revenues received from serving reimbursable meals exceed the cost of producing those meals, SFAs may be viewed as cross-subsidizing non-reimbursable meals. Similarly, if revenues from reimbursable meals fall short of their costs, the SFA may be viewed as subsidizing the cost of reimbursable meals. This section compares SFA revenues to reported costs. Three comparisons are made:

- total SFA revenues to total reported costs;
- total revenues derived from serving reimbursable meals to the total reported cost of producing those meals; and
- total revenues derived from non-reimbursable meals (a la carte sales) to the total cost of producing those meals.

Total SFA Revenues Compared With Total Reported Costs

Exhibit 6.6 compares total SFA revenues with total reported costs. SFAs appear to be operating at the break-even level. On average, total SFA revenues are equal to 100 percent of total SFA reported costs.

Exhibit 6.6

Total SFA Revenues as a Percent of Total Reported Cost

	Revenue as a Percent of Cost			SFA Sample Size	
	Mean	Median	STD	Weighted	Unweighted
Total	99.8%	100.0%	13.9	12,937	94
Participation in SBP					
NSLP and SBP	99.4	100.8	16.5	8,566	78
NSLP only	100.8	99.3	5.9	4,371	16
SFA Size					
Small (1-999)	97.1	100.8	17.5	6,327	12
Medium (1,000-4,999)	101.2	98.8	8.3	4,537	28
Large (5,000+)	105.1	104.3	8.2	2,073	54

In 71 percent SFAs, total SFA revenues are between 90 and 110 percent of total reported costs (Appendix E, Exhibit E.53). Although, as noted in Chapter Three, the cost of producing a reimbursable breakfast exceeds the reimbursement rate for free breakfasts, participation in the SBP does not appear to affect SFAs' ability to operate at the break-even level. This is discussed below in the context of revenues from reimbursable meals.

While small and medium-size SFAs appear to be operating at about the break-even level (median ratio of total revenue to total reported costs of 101 and 99 percent respectively), it appears that the revenues of large SFAs slightly exceeded total reported costs (median revenue: reported cost ratio of 104 percent).

Total Revenues From Reimbursable Meals Compared With Reported Reimbursable Meal Costs

Exhibit 6.7 compares the revenues obtained from serving reimbursable meals (lunches and breakfasts combined) to the total reported cost of producing those meals.⁶ For the average SFA, revenues from

Exhibit 6.7

Total Revenues from Reimbursable Meals as a Percent of the Total Reported Cost of Producing Reimbursable Meals

	Revenues as a Percent of Cost			SFA Sample Size ¹	
	Mean	Median	STD	Weighted	Unweighted
Total	112.6%	108.2%	24.8	9,984	79
Participation in SBP					
NSLP and SBP	114.4	106.7	28.1	6,151	65
NSLP only	109.8	111.5	18.0	3,833	14
SFA Size					
Small (1-999)	108.1	107.7	18.3	4,353	8
Medium (1,000-4,999)	116.9	111.5	32.2	3,721	23
Large (5,000+)	114.5	113.4	18.4	1,909	48

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales.

⁶This analysis includes only those SFAs that separately report student payments for reimbursable meals from a la carte sales. The distribution of SFAs by the revenue:cost ratio for reimbursable meals is presented in Appendix E, Exhibit E.54.

reimbursable meals exceeded the reported cost of producing those meals. The mean revenue:cost ratio for reimbursable meals was 113 percent in SY 1992-93 (the median was 108). Although it was not possible in this study to separate revenues derived from reimbursable breakfasts from revenues from reimbursable lunches, it appears that revenues from reimbursable lunches are cross-subsidizing the costs of producing reimbursable breakfasts. As noted in Chapter Three, the average reported cost of producing a reimbursable lunch was less than the Federal subsidy for a free lunch, while the average reported cost of producing a reimbursable breakfast exceeded the Federal subsidy for a free breakfast. Since total revenues derived from reimbursable meals exceed the cost of producing those meals, it appears that reimbursable lunches generate a surplus that can be used to offset losses generated from reimbursable breakfasts.⁷

Total Revenues From Non-reimbursable Meals Compared With Reported Non-Reimbursable Meal Costs

Exhibit 6.8 compares the revenues from a la carte sales (including adult meals and other non-reimbursable meals) to the total reported cost of producing these meals.⁸ On average, revenues from a la carte sales fall short of the reported cost of non-reimbursable meal costs. The mean revenue: cost ratio for non-reimbursable meals was 71 percent in SY 1992-93 (median equals 65 percent). A la carte revenues fell short of reported non-reimbursable meal costs in SFAs that participated in the SBP as well as NSLP-only SFAs. Similarly, on average, small, medium-size, and large SFAs all failed to break even on non-reimbursable meals. Since, overall SFAs are operating at the break-even level, it appears that the surplus generated from reimbursable lunches not only offsets losses from reimbursable breakfasts, but also offsets losses from non-reimbursable meals.

⁷Since most SFAs serve substantially more reimbursable lunches than reimbursable breakfasts, a small surplus on each reimbursable lunch can offset a much larger loss on each reimbursable breakfast.

⁸This analysis includes only those SFAs that separately report student payments for reimbursable meals from a la carte sales. The distribution of SFAs by the revenue:cost ratio for non-reimbursable meals is presented in Appendix E, Exhibit E.55.

Exhibit 6.8

**Total Non-reimbursable Revenues as
a Percent of Total Reported Non-Reimbursable Costs**

	Revenue as a Percent of Cost			SFA Sample Size ¹	
	Mean	Median	STD	Weighted	Unweighted
Total	70.5%	64.9%	40.2	9,984	79
Participation in SBP					
NSLP and SBP	79.8	79.4	44.1	6,151	65
NSLP only	55.8	64.5	27.3	3,833	14
SFA Size					
Small (1-999)	77.4	64.5	50.3	4,353	8
Medium (1,000-4,999)	57.9	61.7	25.5	3,721	23
Large (5,000+)	79.6	84.2	30.6	1,909	48

¹Excludes SFAs that did not separately report student payments for reimbursable meals from a la carte sales.