

**MANUAL OF PROCEDURES  
PSAB SUPPLEMENT 17  
STUDENT NUTRITION (FOOD SERVICES)**

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## **INTRODUCTION**

Food Services in each school district may be comprised of cafeteria programs to the district's schools and other nearby public entities including other school districts or charter and private schools, snack bars, catering services, summer programs and perhaps concession operations. These programs are generally accounted for as Special Revenue Funds with the USDA programs being the primary revenue source. This program usually produces the bulk of the transactions and compliance issues. However, as food service directors and managers attempt to make Food Service Programs self-supporting, there may be a need to expand the food service program to some less traditional services.

Knowledge and implementation of advanced accounting processes and stricter controls are especially needed for this program, which involves highly regulated purchasing, data collection, reporting, warehousing, revenue collection, handling of money and change making skills, tracking pre-paid, free and reduced priced meals and charged meals by student, invoicing, accounts payable, inventories, payroll and personnel scheduling, in addition to meal preparation and serving.

## **FEDERAL FUNDING**

Federal funding for Food Services is obtained through the United States Department of Agriculture (USDA). Federal regulation 7 CFR Section 3015 regulates the financial management of these programs. Financial management incorporates audit requirements and federal procurement. In addition, Section 3015, Part 210 regulates school lunch programs, Part 215 regulates special milk programs, and Part 220 regulates school breakfast programs. The regulation of these programs is stringent. Many of these regulations governing the program center around the meal pattern requirements which specify portion sizes. State and federal audits are made periodically to assure meal requirements are being met. While food service managers and the business officials must follow the above referenced guidelines for reporting and reimbursement claims based on the free and reduced applications, each district structures their program and meal pricing based on demographics and available facilities.

Local Education Agencies (LEA's) use the Internet to provide Student Nutrition Programs' Claim for Reimbursements to an automated system called Child Nutrition Program-Information Management System (CNP-IMS). See links to forms and reports that may be filled out on line on the PED website under Student Nutrition Bureau.

Purchases for *a la carte* food service programs, which include, but are not limited to snack bars and concessions, and which are not funded through USDA, are regulated by the State Procurement Code (Section 13-1-1 through 13-1-199, NMSA, 1978).

## **REVENUES**

Several sources of revenues within the food services division of a school district include but are not limited to traditional school breakfast and lunch programs. In order for these non-traditional programs to be successful, the district's student nutrition program needs to have the full support of the district's top management to discourage competitive food sources on the district's campuses. By having closed campuses, students are limited from obtaining food off campus. District Wellness programs also discourage unapproved foods being furnished to classrooms by parents or vendors. Districts are encouraged include such limitations in their policies and procedures.

***The success of district food service operations is dependent on increased participation by students and adults. District practices may enable a food service program to operate more efficiently and economically by generating more revenue and address the well being of the students at the same time.***

## **SCHOOL BREAKFASTS AND LUNCHES FUNDED BY THE STUDENT NUTRITION PROGRAM**

There are three primary funding sources for the Student Nutrition Program.

- Fees collected from students
- Fees collected from adults
- Federal reimbursement through USDA. All sources, therefore, are directly related to the "pricing" of meals offered.

### **Free and Reduced Eligibility Documentation**

The identification of children eligible for free or reduced-price meals is especially important for districts. This identification is not only important for the School Nutrition Program but also for the funding of other federal programs such as Title I. (See PSAB Supplement 4, Federal and State Grants. Districts must have documentation based on correct free and reduced-price eligibility determinations supporting the eligibility of each student receiving free and reduced-price meals. This documentation is either

1. A current , approved free and reduced-priced application or

2. If chosen as an option by the school food authority, a list of names of students obtained directly from the appropriate food stamp or Aid to Families with dependent Children (AFDC) office indicating that such children are members of households receiving food stamps or AFDC benefits.

(For further information concerning free and reduced price eligibility see *Eligibility Guidance for School Meals (USDA Meal Counting Manual)*)

## **Provision 2**

The school district must have approval for a school to become a Provision 2 school from the administering State agency prior to beginning Provision 2. There is no requirement that a minimum percentage of children enrolled are eligible for free or reduced price meals. However, the school must be prepared to pay the difference between Federal reimbursement and the cost of providing all meals at no charge from sources other than Federal funds. Generally, schools do not opt for Provision 2 unless the percentage is around 82%. However, many factors play a part in this determination. If a school has very low participation, Provision 2 could increase participation enough to offset labor costs and the no charge meals. Labor costs associated with the application process and meal counting is greatly reduced after the first year.

Provision 2 requires that the school serve meals to participating children at no charge and reduces application burdens to once every four years and simplifies meal counting and claiming procedures by allowing a school to receive meal reimbursement based on claiming percentages. Additional 4-year extensions to Provision 2 are possible when certain conditions are met. See USDA Publication, *Provision 2 Guidance* and 7 CFR 245.

The major differences between Provision 2 schools and traditional schools occur in non base years. In the second, third and fourth years of the Provision 2 cycle, Provision 2 schools make no new eligibility determinations. Additionally, Provision 2 schools take point of service counts of only the total number of reimbursable meals served daily, rather than the number of meals by type (free, reduced price and paid). Reimbursement during these years is determined by applying the percentage of free, reduced price, and paid meals served during the base year to the total meal count for the month being claimed.

## **MEALS FOR FIELD TRIPS FUNDED BY THE STUDENT NUTRITION PROGRAM**

The cafeteria may prepare sack lunches which meet the reimbursable meal criteria for students to take on a field trip. The sack lunches are included in the daily lunch count and qualify for reimbursement from the Student Nutrition Program.

In order for meals provided for a field trip to be paid for with the district's Student Nutrition Program money and be included in the lunch count on the Student Nutrition Program

report, the cost of the meals may not be a part of the cost of the field trip. For example, a local fundraiser provides the money to send a class on a field trip. The district's School Nutrition Program needs to be notified so that it is aware of special needs for lunches and appropriately reduce the number of meals to be prepared for the remaining student body.

Sometimes lunches may be provided by an outside group. This practice is discouraged as all meals served to students need to be in accordance with the district's Wellness Program and should be meals that do not need to be refrigerated or temperature monitored. In this instance, the meals may not be provided through the Child Nutrition Program, but may be provided by the district's catering component. The fundraiser may then include the cost of meals and make payment to the district's school lunch program.

### **REFRESHMENTS FOR MEETINGS**

The cafeteria program may provide a pastry and coffee service for the superintendent's cabinet meeting on an incidental basis. The cost of the service is transferred from the cafeteria fund to the general fund by following the procurement process.

### **RECLASSIFICATION OF COSTS FOR FOOD USED BY ANOTHER PROGRAM**

The cafeteria program may purchase many food products in bulk and allow the Home Economics department to purchase certain ingredients at cost from the Student Nutrition Program for use in cooking classes. The cafeteria program does not provide any services to the Home Economics department. The cost of the food is reclassified to the instructional program.

### **CATERING SERVICES**

A cafeteria program may engage in catering activities and offers its services to outside customers, with profits supporting the Child Nutrition Program. For example, the Rotary Club may contract with the cafeteria to provide a dinner for local business people. The cafeteria identifies the cost of food, supplies and labor for the dinner and is paid by the Rotary Club for the service. These funds are retained by the Student Nutrition Program and may be used for the purchase of equipment or other supplies.

### **CENTRAL KITCHEN SERVING OTHER DISTRICTS' STUDENTS**

A school district may operate a central kitchen that provides meals not only for its own students but also for the students of several other neighboring school districts or charter schools. At the end of every month, the school district reclassifies the prorated share of costs attributable to other districts (on the basis of the number of meals provided to those districts' students) and will bill the other districts. The district operating the central kitchen records the revenue it receives from the other districts or charter schools for services provided to them under contract, its own federal and state program reimbursements, and its own sales of adult and *a la carte* lunches.

## ADULT MEALS

Adult meals must be priced to cover all expenses, the value of USDA donated foods and a profit margin. A rule of thumb for establishing *a la carte* prices is dividing food costs by fifty percent in order to produce a gross margin of fifty percent to cover labor and supply costs.

## DAILY COLLECTION AND REPORTING OF REVENUE

Revenue is received on a daily basis for full pay/partial pay, adults and a la carte payers. Each school district shall establish a collection procedure for daily operations and ensure that only eligible students receive free or reduced price meals. The daily cashier's report (comprised of statistical data for reimbursable meals), the food production record, and other daily operation records are necessary to account for meals served.

State statute (Section 6-10-3, NMSA, 1978) requires the daily deposit of public funds. (Refer to PSAB Supplement 7, "Cash Controls"). Daily deposits should be made by designated food service employees who are properly bonded and trained to handle district funds.

The cashier's report and cash collection procedure should be reviewed for accountability and effectiveness. All locations within a school district are responsible for keeping a copy of their daily report and the food services manager has the ultimate responsibility of assuring that all locations report on a timely basis daily and that reports are properly compared to deposit information.

The cashier's report is summarized by the food services manager into a daily operation record. The food services manager should verify the accuracy of these reports and retain sufficient information to summarize the weekly and monthly reports. On a daily basis, the food services manager should also provide on the cashier's report:

1. Number of children eligible for free or reduced price meals;
2. Number of free or reduced price meals claimed;
3. Number of applications approved for free and reduced price meals;
4. Number of employee hours used for the month;
5. Amount of milk purchased by category;
6. Total school enrollment;
7. Absentee factor;
8. Total a la carte sales;
9. Dollar value of food, non-food and commodity food inventory;
10. Number of days breakfast and/or lunch were served;
11. Student payments detailed by breakfast or lunch;
12. Adult payments detailed by breakfast or lunch;
13. Miscellaneous sales; and,
14. Food services manager's signature.



Food production records shall be kept for all reimbursable meals. For food production record requirements, refer to the menu planning option selected. For further guidance, refer to Section 3015, Part 20 of Federal Regulation 7-CFR.

## COMMODITIES

Many school districts receive commodities from the US Department of Agriculture. Commodities must be recorded in a school district's accounting records.

- In the General Fund and in the Special Revenue Fund, commodities are recorded as operating revenue.
- In the Enterprise Fund, commodities are recorded as non-operating revenue.
- Commodities expenditures are recorded differently under the consumption and purchase methods of recording expenditures. Because New Mexico schools are on a **cash basis**, the purchase method is generally used in New Mexico schools.
- Under the purchase method, commodities are recorded as both a revenue and an expenditure when the commodities are received. They are also added to inventory for tracking by the warehouse.
- Under either the consumption or the purchase method of accounting for commodity inventories, an adjustment must be made at fiscal year-end to reflect the unused portion of commodities that remain on hand with the school district.
- Under the consumption method and the purchase method, the journal entry to record the ending commodity inventory would be to debit commodity revenues and to credit deferred revenues.
- Under the purchase method, the above entry would be necessary, as well as a journal entry to debit inventory and credit commodity expenditures. See the Inventory section of this supplement and PSAB Supplement 10, Warehouse for additional information.

## COMMODITY PROCESSING

Commodity processing contracts are used by school districts to convert commodity raw products into a more accepted or versatile product such as whole turkey to turkey ham, hot dogs, salami, etc. These ingredients and bulk hamburger may be further processed into pizza toppings, hamburger patties, etc. Care must be taken to ensure that the reprocessing is cost effective and that the district has adequate storage facilities available.

## MENU PLANNING

The planning of menus is a most essential control procedure that is the responsibility of the Food Service manager. Well prepared, attractive menus help to ensure increased participation by both students and adults. Systematic planning includes but is not limited to:

- Access to reference materials and recipes including previous menus that have been successful and USDA guides to meal planning.
- A set menu cycle of from five to six weeks to allow for inventories on hand and product to be delivered.
- Use a standardized form designed for meal planning.
- Standardize recipes, portions, etc.
- Estimate the number of meals to be served to both children and adults.
- Calculate the food required to prepare the estimated number of meals.
- Attention to any other programs available such as the **Fresh Fruits and Vegetables** program and commodities to reduce food costs.

The food service manager should use the to plan for events that may affect the number and type of meals served. The annual estimate for meals to be prepared is also needed for preparing the annual budget, and thus must be as accurate as possible.

## EXPENDITURES

### FOOD AND FOOD SUPPLY PURCHASING

Food purchasing is generally centralized and let out for bid if appropriate. (See PSAB Supplement 13, Purchasing). The food services manager has the ultimate responsibility for obtaining the food necessary based upon the planned menu. Since food is perishable, accurate estimates of items required will prevent inventory build-up, spoilage and misuses of food inventory. Accurate recording of food received assists the business office when reviewing invoices to pay. All invoices should be clearly marked as received in full or short and approved by a responsible employee of the food services division.

Districts are reminded of the importance of ensuring compliance with the procurement requirements affecting the National School Lunch Program, School Breakfast Program and Special Milk Program which became effective November 30, 2007. Specifically, the regulation ensures that district's Food Service Programs receive the full benefit of any discounts, rebates or credits arising from purchases made under cost reimbursable contracts on behalf of the school meal programs. The regulations at 7 CFR 210.21(f), 220.16(e) and 215.14a(d) require that school districts must include in all cost reimbursable contracts, contracts including cost reimbursable provisions and solicitations for such contracts, provisions which limit the use of nonprofit school food

service account funds to costs resulting from proper procurements and contracts. The regulations require that in advance of solicitation or contract execution, the Student Nutrition Bureau must review and approve a district's procurement procedures and cost reimbursable contracts. 7 CFR 210.21(c), 215.14a(c) and 220.16(c).

Once all purchase orders, invoices and appropriate acknowledgement receipts are in place, the business office can process the voucher for payment. Food, supplies and purchased services will be processed through the school district's regular purchasing cycle.

### **LABOR COSTS**

Salaries and wages of food services personnel are subject to school district personnel policies. At a minimum, a signed time sheet that denotes hours worked and approved by a supervisor is to be forwarded to payroll for processing. It is advised that time clocks be used to ensure an accurate record of service. See PSAB Supplement 14, Payroll. Some economies of scale may be able to be achieved if personnel schedules are flexible depending on the number of serving days, and hours needed for specific tasks such as cooking, cleaning, serving, cashiering, etc. Personnel may be rotated to various schools as needed. A pool of substitute workers may also be maintained to cover staff absences.

### **OTHER CASH EXPENDITURES**

Revenue generated by nonprofit food service operations shall be used only for the operation and improvement of school food service. However, such revenues shall not be used to purchase land or buildings, or to construct buildings. Thus, each state's interpretation of this federal regulation limits district's purchases of certain equipment. It is suggested that district familiarize themselves with restrictions regarding authorized expenditures.

### **CASH RESOURCES**

The amount of cash resources of the district's food service authority (FSA) may not exceed three month's average expenditures. 7 CFR, 210.9(2)

### **INVENTORIES**

In food services, there are three types of assets to be inventoried:

- a) purchased foods;
- b) non-food supplies; and
- c) USDA donated foods or commodities.

Federal regulations require all commodities be physically segregated from purchased food and a **perpetual** inventory be maintained.

Once a month, a physical inventory must be taken for each type of food inventory. A physical count by location, pricing and extending amounts and totals should be presented to the food services manager. These reports are necessary in order to calculate the amount of food used during the month and determine the gross cost of the food served. This control should alert management of possible loss of food and misuse of assets.

Shortages should be followed up on by the food services manager immediately with appropriate disposition documentation forwarded to the business office manager. The business office or internal auditor, if applicable, should occasionally verify the inventories by supervising, on a random basis, the physical counts.

For further discussion on procedures related to inventory, refer to PSAB Supplement 10, Warehouse/Supplies Inventory.

## **ACCOUNTING AND BUDGETING FOR THE FOOD SERVICE FUND**

Although food service operations are generally recorded in the Special Revenue funds, these operations have many similarities with enterprise funds which account for operations on a profit and loss basis. While this method may not be used for the reporting of these funds in the district's financial statements, this method should be utilized in determining proper budgeting of revenues, cost of meals served, and operating expenses.

A school district must record food service operations in the *Special Revenue Fund* if:

- 1) The students are charged for meals.
- 2) The school district receives a National School Lunch Program (NSLP) reimbursement.
- 3) The school district's General Fund revenues subsidize the food service operations.

In all instances, school districts should account for the *Summer Feeding Program* in a Special Revenue Fund.

Unlike other budgets in the school district, the food services budget is **not** based on preset cash to be obtained through a formula or grant. There are few items in the foodservice budget that can have a "cap" on the amount of expenditures. For example, food costs are directly related to the number of meals served. If participation is increased, then cost of food is increased. Although labor costs may be preset at the beginning of the year regardless of increases or decreases in the number of meals served, districts are better served to have flexible staffing to mirror the number of meals served.

The serving days may vary from year to year which may dramatically affect both the revenue and the expenditures. Since payroll may not vary with the number of days, care may be needed to use labor efficiently on non-cooking or serving days. The trend of student membership and participation is also a variable.

Some districts may contract with third party food service providers who have experience with school districts. Such contracts may not be able to use labor more efficiently and have reduced costs for employee benefits traditionally provided by school districts. Districts should exercise care and due diligence in contracting with such providers.

Districts may wish to employ a comparative income statement worksheet similar to the one provided in below for tracking costs, determining the reasonableness of the current food costs compared to the revenue received, and in planning for the following year's initial budget.

Unlike other budgets for other funds within the district, the food service budget requires frequent review and updating based on actual operating results. The first review of the budget should take place as early as November so that budget adjustments may be made. (*The School Foodservice Handbook*, Association of School Business Officials International)



**Cafeteria Summary Data**

10/31/2009

Fiscal Year	Actual @ 6/30/2007 06-07	Actual @ 06/30/2008 07-08	Actual @ 6/30/2009 08-09	@Oct 31 09-10
<b>Revenues</b>				
Adult	38,590.52	55,407.68	39,523.02	10,980.77
Student	384,986.21	362,328.88	390,390.92	119,056.17
Snack Bar	194,487.88	218,773.20	271,944.66	79,910.09
USDA Reimbursement	3,308,184.00	3,579,625.00	3,949,855.00	1,004,020.00
<b>Total Revenues</b>	<b>3,926,248.61</b>	<b>4,216,134.76</b>	<b>4,651,713.60</b>	<b>1,213,967.03</b>
<b>Expenditures</b>				
Food Costs	1,937,152.57	2,168,351.32	2,468,818.07	573,773.57
Commodities	(239,695.56)	(296,727.78)	(327,087.56)	
Non-Food	148,815.04	129,703.97	138,385.17	27,414.41
<b>Total Food Costs</b>	<b>1,846,272.05</b>	<b>2,001,327.51</b>	<b>2,280,115.68</b>	<b>601,187.98</b>
<b>Gross Profit</b>	<b>2,079,976.56</b>	<b>2,214,807.25</b>	<b>2,371,597.92</b>	<b>612,779.05</b>
<b>Gross Profit %</b>	<b>52.98%</b>	<b>52.53%</b>	<b>50.98%</b>	<b>50.48%</b>
<b>Operating Costs</b>				
Salaries	1,139,398.84	1,208,483.17	1,250,892.50	344,150.16
Benefits	438,498.79	507,660.39	529,228.98	120,511.27
	40.19%	40.70%	38.27%	38.28%
Maintenance	106,645.50	112,472.66	147,764.97	53,885.54
Employee Travel & Training	22,472.50	20,364.34	23,953.07	4,818.21
Supplies	35,736.12	34,454.00	48,038.95	18,620.53
Software	8,611.65	7,412.40	16,857.17	63,625.17
Fixed Assets**	184,791.79	124,227.49	261,740.43	294,436.23
<b>Total Operating Costs</b>	<b>1,936,155.19</b>	<b>2,015,074.45</b>	<b>2,278,476.07</b>	<b>900,047.11</b>
Net Profit	143,821.37	199,732.80	93,121.85	(287,268.06)
Other Income	39,597.20	37,033.88	6,191.88	204.70
<b>Total Income (Loss)</b>	<b>183,418.57</b>	<b>236,766.68</b>	<b>99,313.73</b>	<b>(287,063.36)</b>

\*\*Replacement of Aging Kitchen Equipment \* Refrigerators & Freezer

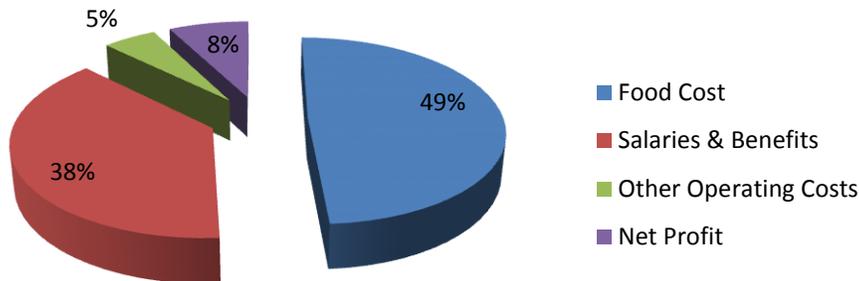
Actual results of three years compared to 4 months

Change in percentage must be explained

Change in percentage must be explained

Planned reduction in cash carryover for equipment needs

## Student Nutrition Expenditures and Net Profit



While the charts presented above are for a larger school district with school locations within close proximity that is able to cook at only a few sites and deliver precooked meals to other sites (satellites), many smaller school districts must cook at all sites and are limited in the amount of participation that is available. All of their sites may require direct delivery of raw food product to be stored in small quantities on site, which is generally more expensive. Because the food service sites are each independent, it is difficult to structure a program which enjoys economies of scale. These districts are most likely dependent on loans and permanent subsidies from the general fund to support the food service program.



**Exhibit for Budget Entry FOOD SERVICES**

REVENUE				2008-2009	2009-2010	EXPENDITURES				2008-2009	2009-2010
				Estimated Amount	Projected Amount					Estimated	Projected
Fund 21000						Fund	Function	Object	Job Class		
<b>Cash Assets</b>						21000	3000	51100	1617 Food Serv	1,253,492	1,318,239
21000	0000	11111	Unrestricted Cash	360,492	335,855	21000	3000	51100	Director	95,000	95,000
<b>Revenue from Local Sources</b>						<b>Total Personnel Services</b>					
21000	0000	41603	Fees Adults	39,000	39,459	21000	3000	52200		532,145	541,406
21000	0000	41604	Fees-Students	622,000	629,318	<b>Total Personnel Services - Benefits</b>					
<b>Revenue from Federal Sources</b>						21000	3000	56116	Food	2,280,000	2,406,824
21000	0000	44500	Fed Flowthrough	3,990,000	4,003,941	21000	3000	56117	Non-Food	220,000	216,588
						<b>Total : Supplies</b>					
						21000	3000	55814	Training	25,000	28,517
						21000	3000	57331	Fixed Assets	270,000	402,000
<b>Total: Food Services</b>				<b>5,011,492</b>	<b>5,008,573</b>					<b>4,675,637</b>	<b>5,008,573</b>

Reflects actual cash as of 6/08

Equals the difference between estimated current year expenditures and current year estimated revenues -See Below

Revenue reflects most recent reports plus anticipated revenue to year end

Difference between 5,011,492 and 4,675,637 becomes Unrestricted Cash- Projected or 335,855

*Projected Expenditures Equal Projected Revenues !! A BALANCED BUDGET for 2009-2010*

**Considerations:**  
**Revenue**  
 Be conservative when you estimate Projected Revenue  
 Initiate Budget Increases as new Revenue materializes  
**Expenditures**  
 Consider staffing levels and note enrollment/participation or number of meals to be served in a school year  
 If the Food Service program is subsidized, be sure and consider this when estimating the costs in other funds for the new year.

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