



**Georgia Dept
of Early Care
and Learning**

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Area Memo:
Recordkeeping -
Financial
Programs CACFP

Reporting and Allocating Program Costs Associated with CACFP Sponsoring Organizations Serving as Food Vendors and/or Food Service Management Companies to other CACFP Institutions or Non-CACFP Entities

Purpose

The purpose of this memorandum is to provide additional budget allocation guidance to CACFP sponsoring organizations who also serve as Vendors or Food Service Management Companies (FSMC) to other CACFP institutions/facilities, or non-CACFP entities. Requirements in this memorandum are in addition to existing allocation requirements noted in 2 CFR § 200, FNS Instruction 796-2 Rev. 4, and DECAL's Budget Guidance Manual.

Legal Authority

2 CFR § 200, 7 CFR § 226.2

Definition

Sponsoring organization means a public or nonprofit private organization that is entirely responsible for the administration of the food program in:

- (1) One or more day care homes;
- (2) A child care center, emergency shelter, at-risk afterschool care center, outside-school-hours care center, or adult day care center which is a legally distinct entity from the sponsoring organization;
- (3) Two or more child care centers, emergency shelters, at-risk afterschool care centers, outside-school-hours care center, or adult day care centers; or

(4) Any combination of child care centers, emergency shelters, at-risk afterschool care centers, outside-school-hours care centers, adult day care centers, and day care homes.

The term “sponsoring organization” also includes an organization that is entirely responsible for administration of the Program in any combination of two or more child care centers, at-risk afterschool care centers, adult day care centers or outside-school-hours care centers, which meet the definition of *For-profit center* in this section and are part of the same legal entity as the sponsoring organization

Program Requirements

In accordance with 2 CFR 200, Program income means gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance except as provided in 2 CFR § 200.307 paragraph (f) (See 2 CFR § 200.1 Period of performance). Program income includes but is not limited to income from fees for services performed, the use or rental of real or personal property acquired under Federal awards, the sale of commodities or items fabricated under a Federal award, license fees and royalties on patents and copyrights, and principal and interest on loans made with Federal award funds. When an approved CACFP sponsoring organizations also serves as a vendor or FSMC by providing meals (i.e., catering or selling meals, whether unitized or cooked/prepared in bulk) to other approved CACFP institutions/facilities, or non-CACFP entities, and is charging for those meals, the payment received from the other CACFP institution or non-CACFP entity is considered “Program Income.” Unless otherwise specified, Program income is normally deducted from the total allowable costs to determine the sponsoring organization’s true net allowable costs.

Reporting Shared Costs when Serving as a FSMC

DECAL instructs sponsoring organizations with additional business activities involving the sale of meals (serving as vendors or FSMCs) must first notify DECAL of their intentions by completing the [Sponsor Serving as a Food Service Management Company \(FSMC\) form](#) for DECAL’s review and approval. Upon approval, the sponsoring organization must properly allocate all costs associated with the organization’s complete food service operation. Specifically, CACFP sponsoring organizations are required to document whether they are using a vendor or FSMC to prepare meals and/or if the organization operates as an FSMC through completing the items/questions in the Food Service Management (FSMC) section of the Program Application in GA ATLAS. Costs associated with producing both agreed-upon Program meals and non-Program meals are considered “shared costs” and DECAL requires these costs to be allocated in the sponsoring organization’s CACFP Program budget based upon “the number of meals served.” Costs contributing to the production of meals sold to other CACFP institutions/facilities, or to other non-CACFP entities, are not considered allowable CACFP costs and must be paid with the income (revenue) from the sale of those meals or another income source. In addition, the funds retained from unaffiliated sponsored facilities’ claims for reimbursement for sponsors’ administrative costs cannot be used to fund expenses associated with the production of meals sold to CACFP institutions/facilities or non-CACFP entities. For further information regarding charging allowable administrative costs, please see DECAL policy memorandum, [Charging Net Allowable Administrative Costs to the CACFP.](#)

To illustrate, the CACFP sponsor XYZ, Inc. has an agreement with DECAL to participate in the CACFP at five (5) affiliated sponsored sites throughout their community. XYZ, Inc. also operates as an FSMC. XYZ, Inc. has a separate FSMC contract agreement with the CACFP sponsor Alpha Bet, to produce and provide meals to Alpha Bet’s affiliated sponsored sites. In accordance with this policy guidance, XYZ, Inc. is required to include the costs in their annual Program budget. The portion of costs associated with the production of meals to Alpha Bet must be allocated in the organization’s budget, cannot be charged to the CACFP, and must be paid with non-Program funds. XYZ, Inc. must disclose the projected costs and provide documentation that demonstrates how the total shared costs are allocated. All shared costs including, food, labor, space, utilities etc., must be reduced based on the ratio of meals prepared versus meals served and sold.

Example of Determining Allocations:

- XYZ, Inc. projects to serve 150,000 credible meals to eligible children at its affiliated sponsored CACFP sites.
- XYZ, Inc. projects to sell 100,000 credible vended meals to other CACFP institutions/facilities (or non-CACFP entities).
- Total projected meals are **250,000**.
- **The cost allocation is $150,000/250,000 = 60\%$** for XYZ’s affiliated sponsored CACFP sites.
- **The cost allocation is $100,000/250,000 = 40\%$** for the other CACFP institutions/facilities (or non-CACFP entities).

The maximum cost allocated to the CACFP is based on the calculated rate applied to the total of associated shared costs. In this example, the CACFP rate is **60%** and the amount allocated to other funds is **40%**.

Example of Applying Allocations:

XYZ, Inc. is charging rental space to the CACFP. The total rent due is \$1,500 per month. XYZ, Inc. operates the CACFP year round. The total cost and allocation rate, would be represented as follows:

- $\$1,500 \times 12 = \$18,000 \times .60 = \$10,800$

Documenting Shared Costs in GA ATLAS

As illustrated above, sponsoring organizations projecting to produce meals for other clients/customers (whether to other CACFP institutions/facilities or non-CACFP entities) must disclose this business activity and identify these costs as shared costs. By doing so, the organization demonstrates how costs are segregated and ensures costs are not duplicated. The example below shows how XYZ, Inc.’s shared costs are reflected in the Budget Detail section of GA ATLAS.

Facilities and Space Costs	Amount	% CACFP	% SFSP	% Other Funds	Approved Amount
Operating Costs	\$18,000	60	0	40	\$10,800

Additionally, income from other funds (which in the above example is the monetary value of 40%) must be reflected under Other Program Revenue in the Budget Detail section of GA ATLAS.

To summarize, Total Annual Costs in each related shared cost category would represent 100% of the cost. The percentage factor would be applied to all shared resources or cost categories used to produce meals. The amount represented in the CACFP column is limited to the amount associated with eligible meals for the sponsoring organization's CACFP activities under its agreement with DECAL. The amount associated with vended meals for the other CACFP institutions/facilities and/or costs associated with non-CACFP entities, or other activities would be represented in the Other Funds Costs column. Meal reimbursements may only be used for the sponsoring organization's actual allowable costs. Costs contributing to the production of meals sold to other CACFP institutions/facilities, or to other non-CACFP entities must be paid with the income (revenue) from the sale of those meals or another income source.

Procurement Requirements

It is important to keep in mind that those facilities that enter into an agreement with a CACFP sponsoring organization for the furnishing of CACFP meals would be required by 2 CFR 200 to conduct proper procurement for those services. Entering into an agreement with any FSMC to produce CACFP meals without having first properly procured those services would be prohibited. Proper procurement and budgetary procedures would also include adhering to less than arm's length transaction requirements. As per Federal regulations, less than arm's length transactions must be disclosed when CACFP funds are expensed towards those transactions. Failure to disclose this type of relationship will result in a disallowance of the cost for facilities. For further guidance regarding procurement procedures and less than arm's length transactions please see DECAL's [Procurement Manual](#) and [Budget Guidance Manual](#).

Comments

For questions concerning this memorandum, please contact Gwendolyn Howard, Budget Compliance Supervisor at Gwendolyn.Howard@dec.al.ga.gov.