Date: September 22, 2009  Reference: # CACFP CCC 2009-29
To: Child and Adult Care Food Program-Child Care Centers (CACFP CCC) Contractors
Subject: CACFP Financial Management – Food and Nutrition Service (FNS)
Instruction 796-2, Revision 3
Effective Date: Immediately

Purpose
REPLACE CACFP CCC Handbook Item 4350, Nonprofit Food Service

PROVIDE a link to FNS Instruction 796-2, Revision 3, Financial Management – CACFP to assist contractors in complying with financial management requirements.

Implementation
Immediately

Procedure
Replace Item 4350 with the following:

A contractor must operate a nonprofit food service principally for the benefit of enrolled children and must document the operation of that food service. Nonprofit status does not require that the institution operate at a break-even or loss. Nonprofit status is determined by the scope of the food service activities conducted by the institution and the use of nonprofit food service revenues through:

1. Identifying all nonprofit food service revenues,
2. Deducting allowable net expenses,
3. Identifying the excess of all nonprofit food service revenues over nonprofit food service expenses, and
4. Verifying that any excess of revenues over expenses is retained and used only in the nonprofit food service program.

Food service revenue includes:

- CACFP reimbursement.
- Income to the Program, which is income earned from activities supported by the food service.
- All other funds used or restricted for use in the nonprofit food service, such as donations.

continued

This Policy Remains in Effect Until Further Notice
**Procedure continued**

A contractor can maintain a maximum of three months' net cash resources, i.e. income minus expenditures, in this account. If a contractor approaches the maximum amount allowed in the nonprofit food service account, they should contact their F&N FOO for assistance.

Organizations must account for all costs of operating their nonprofit food service through the consistent use of generally accepted accounting principles (GAAP). Organizations are responsible for accounting for costs accurately and for maintaining records to demonstrate that costs claimed have been paid, are allowable to the program, and comply with financial management requirements found in FNS Instruction 796-2, Rev.3, Financial Management – Child and Adult Care Food Program located at [http://netx.squaremeals.com/snp/resources/index.html](http://netx.squaremeals.com/snp/resources/index.html). In all cases, allowable costs must be prior approved.

Unallowable costs may be necessary and reasonable for the operation of your organization but are not allowed as nonprofit food service costs, even when the majority of the organization's revenue is from the CACFP. For example, cost to obtain or maintain corporation status is an unallowable cost.

For budgeting purposes, the cost of an expense may be estimated; however, the nonprofit food service accounting system and the contractor’s supporting documentation must show only actual costs. In addition, costs must be necessary and reasonable to the operation of the nonprofit food service. A necessary cost must represent an activity or function that is generally recognized as ordinary, and necessary for the operation of the nonprofit food service. A reasonable cost must not exceed what a prudent person would pay under the same circumstance.

Allowable costs can be either direct or indirect costs. Direct costs specifically benefit the organization's nonprofit food service. Indirect costs are incurred for a common purpose in the organization, but a portion cannot be easily assigned to the nonprofit food service. If the contracting organization will be claiming indirect costs, the rate must be part of their cost allocation plan. A cost allocation plan is a written explanation of how costs are classified. Allowable costs can be categorized as "operating costs" or "administrative costs."

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**Contact**

If you have any questions please contact your Food and Nutrition Field Operations Office.