



Georgia Department of Early Care and Learning

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## MEMORANDUM

To: All Institutions and Sponsors Participating in the Child and Adult Care Food Program (CACFP) and the Summer Food Service Program (SFSP)

From: Sonja R. Adams, Director of Provider Services, Nutrition (*Original Signed*)

Date: January 25, 2019

Subject: Excess Funds in the CACFP and SFSP (v.3)

The purpose of this memorandum is to provide guidance on the proper procedures for CACFP institutions and SFSP sponsors to follow when accumulating an excess balance of CACFP or SFSP funds in their Program food service accounts. This memorandum was revised to provide further instruction on retaining excess funds and replaces DECAL policy memorandum, *Excess Funds in the CACFP and SFSP (v.2)*, dated October 1, 2019.

Note: For the sake of this memorandum, the term *excess funds* is synonymous with *unused reimbursement*: the difference between the amount claimed for reimbursement and actual costs, should reimbursement exceed costs.

CACFP institutions and sponsors are required to operate a non-profit food service which means all food service operations conducted by the institution principally for the benefit of enrolled participants, from which all of the Program reimbursement funds, are used solely for the operations or improvement of such food service. Moreover, managing a non-profit food service does not require that a sponsor break even or operate at a loss. Non-profit compliance is determined by the use of the non-profit food service revenues. All income to the Program must be retained and used for the sole purpose of operating a non-profit food service. Institutions and sponsors are limited to allocating costs to the Program for allowable expenses of serving meals to eligible participants [7 CFR 226.2, USDA Policy Memorandum SFSP 10-2015]. Overall, institutions and sponsors must ensure their food service reimbursement is used to operate their food service program and enhance the program where applicable.

DECAL determines an institution is operating a non-profit food service by:

- Identifying all non-profit food service Program revenues, which includes:

- CACFP or SFSP reimbursements (for SFSP, this includes prior-year excess funds);
- Income to the Program; and
- All other funds used or restricted for use in the non-profit food service Program;
- Identifying all allowable Program net expenses incurred in the operation or improvement of the non-profit food service Program when determining food costs;
- Deducting all allowable net expenses;
- Identifying the excess of all non-profit food service revenues over non-profit food service expenses; and
- Verifying that any excess of revenues or expenses is retained and/or used only in the non-profit food service program.

Both CACFP institutions and SFSP sponsors can avoid accumulating excess funds by using their Program reimbursement for administrative payments on a first-in-first-out basis. This means that for each reimbursement received, exhaust as much of the reimbursement on allowable costs prior to receiving the next month's reimbursement.

### **Excess Funds in the CACFP**

Similar to the National School Lunch Program (NSLP) and School Breakfast Program (SBP), CACFP institutions must ensure any excess of net cash resources (*i.e.* excess CACFP reimbursement funds) is limited to three (3) months of Program expenses [*NSLP and SBP Administrative Review Resource Manual SY 2015-2016*]. The excess may be retained or used only in the non-profit food service Program. Limiting the amount of excess funds ensures institutions are utilizing their CACFP food service account funds to improve Program operations and meal quality, so institutions are encouraged to consistently implement ways to enhance their Programs.

A non-profit service balance is considered "excessive" when more than three (3) months average expenses are retained. One month of average expenses can be determined by dividing the total prior year's expenses by the number of months in operation that year. If the institution/sponsor did not operate the prior year, averaging the total current months (total of all previous operating months) expenses is feasible.

When an excessive balance is discovered, the institution/sponsor must immediately devise a plan to bring the excessive balance to total no more than three month's average expenses. If excessive funds are discovered by DECAL, the institution/sponsor will be required to submit a Corrective Action Plan to expend the funds by a specified timeframe. In some cases, if the institution operates another Child Nutrition Program (CNP) with DECAL's approval, the excess funds may be used to enhance operations of the other CNP(s). If, however, an institution has not reduced the excessive amount as required and does not intend to use those funds on another CNP, DECAL may declare the institution/sponsor Seriously Deficient.

The scenarios below are examples which demonstrate how excess funds are determined and how those funds can be properly expended.

**Scenario #1: Non-Excessive Example** - ABC Childcare spent an average of \$2,000 per month in CACFP expenses the prior year. As of June the following year, the institution has a balance of \$6,000 in their Program's food service account (non-excessive). In this example, the institution must ensure the existing balance is used only for CACFP allowable Program expenses. If the institution operates another CNP with DECAL's approval, the excess funds may be used to enhance operations of the other CNP.

**Scenario #2: Excessive Example** - XYZ Childcare spent an average of \$8,000 per month in CACFP expenses the prior year. As of June the following year, the institution has a balance of \$35,000 in their Program's food service account (excessive). In this example, the institution must immediately identify ways to reduce the account balance to no more than (3) months average expenses, which here is \$24,000

(8,000 x 3,000 = 24,000). Therefore, XYZ Childcare must expend the excess of \$11,000 within a specified timeframe.

### **Prior-Year Excess Administrative Earnings for Sponsors of Day Care Homes**

Sponsors of day care homes may carry-over 10% of their maximum remaining administrative funds received to the succeeding fiscal year. The 10% carry-over must be based on the total amount of administrative payments (calculated based on homes x rate) received by the day care home sponsor over the fiscal year. If the 10% carry-over funds are not expended in the succeeding year, the day care home sponsor is required to return the unused funds to DECAL. For additional policy guidance regarding the carry-over of unused CACFP administrative reimbursement, go to:

<http://www.dec.al.gov/documents/attachments/CarryOverUnusedCACFPAdminReim.pdf>.

Administrative funds remaining at the end of the fiscal year that exceed 10% of that fiscal year's administrative payments, must either be returned to DECAL or those funds may be potentially used for another CNP. Specifically, if a day care home sponsor intends to participate in the Summer Food Service Program (SFSP) the subsequent Summer year and has accumulated funds in excess of the 10% carryover, those funds may be retained by the sponsor and used for SFSP administrative or operational expenses (see the section below, "Transferring the Use of Excess funds between CACFP and SFSP").

### **Excess Funds in the SFSP**

When compared to the CACFP, the SFSP operates within a significantly shorter time-frame. Therefore, DECAL closely monitors the use of excess program funds through its **Year-end Reconciliation Process**. See DECAL's Policy Memorandum, *Simplified SFSP and Bright from the Start's Annual Year-End Reconciliation Process*, January 25, 2019 at:

<http://dec.al.gov/documents/attachments/SimplifiedSFSPAnnualYearEndReconciliationProcess.pdf>.

Any amount of reimbursement or funds that remains at the close of the SFSP and which exceeds a sponsor's expenditures, must be retained and expended solely for food service operations or improvements.

Additionally, if the sponsor operates other CNPs, with DECAL's approval, the funds may be used to enhance food service operations of other Programs. For example:

**Scenario #1:** XYZ Childcare operates both the SFSP and the CACFP. At the end of SFSP operations in September, the Sponsor learns that it has an excess balance of \$5,000. The sponsor plans to use the excess funds to replace their refrigerator used to store snacks in their CACFP At-Risk Afterschool Program. In addition, because the sponsor intends to participate in the SFSP next year and increase the number of SFSP feeding sites, the sponsor will also use the remainder of the excess funds to purchase new portable coolers to transmit meals.

**Scenario #2:** LMN County Schools operated the SFSP in FFY 2014 under an agreement with DECAL. At the end of the 2014 summer year, DECAL's year-end reconciliation process showed that the sponsor had an excess balance of \$9,000. LMN County Schools did not operate the SFSP the following year with DECAL, but instead served summer meals under the National School Lunch Program (NSLP) Seamless Summer Option (SSO) through the Department of Education. LMN County used the \$9,000 for FFY 2015 SSO's start-up costs. Upon DECAL's request, LMN County Schools provided documentation to verify the funds were properly expended.

**Note:** If a sponsor does not operate other CNP and/or does not plan to return the following SFSP year, the sponsor must be mindful that if unallowable costs are identified during a closeout review or audit, state agencies must follow appropriate audit resolution procedures, although no funds would be recovered. If a

sponsor will not operate SFSP in the future, but currently operates another CNP, the sponsor would be required to restore the misspent SFSP funds to its non-profit food service account [*Simplified Cost Accounting and Other Actions to Reduce Paperwork in the Summer Food Service Program, final rule, Federal Register*, Vol. 83, No. 106, Friday, June 1, 2018].

### **Allowable Uses of Excess Funds**

In addition to the examples mentioned above, there are a variety of allowable uses for CACFP and/or SFSP excess funds which include, but are not limited to:

- Improving kitchen facilities and equipment;
- Expanding the variety of creditable meals;
- Increasing the amount and variety of whole grains, fresh fruits, and vegetables;
- Enhancing the service of vegetables by serving more legumes and dark leafy green vegetables;
- Enhancing monitoring or oversight of the food service; or
- Enhancing specialized meal services for children with food allergies.

### **Transferring the Use of Excess funds between CACFP and SFSP**

In Georgia, there are a number of institutions operating both the CACFP and SFSP. As previously mentioned, when an institution or sponsor determines it has accumulated excess funds at the end of the year, those funds may be used for allowable meal service improvements. Additionally, with DECAL's approval, the institution has the option to transfer the excess funds to its second (or third) CNP (*i.e.*, CACFP to SFSP or SFSP to CACFP). To do this, the institution must disclose the excess dollar amount in GA ATLAS within the *Budget Detail* section and indicate the Program to which funds are being transferred. Under *Other Program Revenue*, the institution must list the source and the dollar amount, (e.g., *Budget Detail/Other Program Revenue: Source of Funds*: "Excess SFSP reimbursement funds from SY 2015" - to CACFP; "\$4,000"). SFSP sponsors must also complete the **SFSP Total Projected Program Income Worksheet** (a form separate from GA ATLAS) to document the intended use of excess funds for the current Program year. When using this form, the sponsor must disclose both the amount of excess SFSP funds accumulated from the prior year(s) and the specific dollar amount of funds transferred from another CNP under *Other Additional Program Income*. A copy of the form can be found on the DECAL website located at: <http://www.decal.ga.gov/BftS/FormList.aspx?cat=SFSP>.

**Note:** Institutions and sponsors are prohibited from transferring excess funds to non-Program operations.

Once the budget is complete and submitted, DECAL will assess the Budget Detail and verify the source and designation of excess funds reported. Once approved, the excess funds must only be used for allowable Program costs and the institution must maintain records of all allowable expenses charged to the Program.

For questions concerning this memorandum, please contact the Policy Administrator at (404) 651-8193.