

Additional Information:

United States Department of Agriculture Uniform Federal Assistance Regulations, 7 CFR Parts 3016, 3019, and 3052.

www.gpo.gov/nara/cfr/index.html

United States Department of Agriculture, Child and Adult Care Food Program Regulation, 7 CFR Part 226.

www.usda.gov/cnd

United States Department of Agriculture, Food and Nutrition Service, Instruction 796-2, Rev. 3, Financial Management -Child and Adult Care Food Program.

Office of Management and Budget Circulars: A-87, August 29, 1997; A-102, March 11, 1988; A-110, November 29, 1993; A-122, June 1, 1998; and A-133, June 24, 1997.

www.whitehouse.gov

United States General Services Administration, Federal Acquisition Regulations, 48 CFR Part 31.

www.gsa.gov

Contact State administering agencies or United States Department of Agriculture, Food and Nutrition Service Regional Offices for a copy of FNS Instruction, 796-2, Rev. 3, Financial Management -Child and Adult Care Food Program.



**U.S. Department of Agriculture
Food and Nutrition Service
Child Nutrition Division
3101 Park Center Drive
Alexandria, Virginia 22302**

In accordance with Federal law and U.S. Department of Agriculture policy, this institution is prohibited from discriminating on the basis of race, color, national origin, sex, age, or disability.

To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Avenue, S.W., Washington, DC 20250-9410 or call (202) 720-5964 (voice and TDD).

"USDA is an equal opportunity provider and employer."

June 2001



CACFP
*Building for
the Future*

**CHILD and ADULT
CARE FOOD
PROGRAM**

**FNS INSTRUCTION
796-2, Rev. 3**

**# 11
INTEREST and
COLLATERAL**

*This is the eleventh in a series of brochures
on FNS Instruction 796-2, Revision 3.*

Interest, fees and charges in lieu of interest can be incurred, as well as earned, on program and nonprogram activities. Institutions, in securing loans or other debt instruments, may be required to provide collateral.

Can institutions retain interest earned on Child and Adult Care Food Program funds?

Institutions may earn and retain interest on advance and reimbursement funds; however, the following rules apply:

Public Institutions:

- May retain up to \$100 in interest earned annually on advance funds; and
- Any interest earned in excess of \$100 must be remitted to FNS through the State agency.

Not-for-profit Private Institutions:

- May retain up to \$250 in interest earned annually on advance funds; and
- Any interest earned in excess of \$250 must be remitted to:

Department of Health and Human Services (DHHS)
Payment Management System
Box 6021
Rockville, Maryland 20852

All institutions:

- May retain interest earned on reimbursements and pass-through funds to sponsored facilities.

Can an institution use retained interest to repay an overclaim?

No. An overclaim is an unallowable cost. All interest retained by an institution is income to the program. As income to the program, the funds must accrue to the nonprofit food service. Nonprofit food service funds can not be used to pay for unallowable costs.

Are interest charges on loans an allowable cost?

The interest is allowable when the institution obtains a bona-fide third party loan and uses the proceeds to acquire or replace program equipment, other program property or make program improvements.

Is all interest on loans allowable?

No. Unallowable interest expenses include:

- Interest in excess of the actual interest paid;
- Interest for any debt the institution is not legally obligated to pay;
- Interest on debt used to acquire unallowable equipment or other property;
- Interest on borrowed capital or the temporary use of endowment funds;
- Interest for reacquiring equipment or other property held by the institution or a related party;
- Credit card interest debt;
- Costs for failure to pay debt timely;
- Fees and charges in lieu of unallowable interest;
- All interest and principal when a less-than-arms-length financing arrangement was not fully and accurately disclosed to the State agency and FNS; and
- In less-than-arms-length transactions, interest expense in excess of the fair market rate available to the organization from an unrelated third party.

Can an institution use its nonprofit food service resources as collateral to secure a loan?

The following nonprofit food service resources can be used:

- Administrative cost reimbursement payments;
- Reimbursement payments for centers owned and operated as part of the institution; and
- Equipment and other assets that have no current federally funded interest.

The following nonprofit food service resources cannot be used:

- All advance funds;
- Reimbursement payments for sponsored centers not owned by the institution and all family day care homes;
- Equipment or other assets having a Federal interest; and
- Any nonprofit food service account asset when:
 - ◆ The loan, in whole or in part, is for nonprogram purposes;
 - ◆ The loan is made to an officer, director or employee; and
 - ◆ The lender is not a bona fide third party lending institution.

NOTE: Additional requirements may apply. Consult 796-2, Rev. 3 and the appropriate administering agency for more information.