



**North Carolina Department of Health and Human Services
Division of Public Health • Women's & Children's Health Section**

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Michael F. Easley, Governor

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Memorandum

CACFP 02-07

To: Sponsoring Organizations of Day Care Homes
From: Paula Hissett
CACFP Program Assistant
Date: 02/25/02
Re: Participation of Family Day Care Homes

This memorandum is to clarify and to review policy memorandums on the participation of family day care homes.

We have consulted with USDA and have been informed a center in a residence will be treated as a day care home. These facilities in other states are termed group day homes. A center in a residence, with a license capacity of 12 pre-school or 15 school age children, must have an agreement with a sponsoring organization to participate on the Child and Adult Care Food Program.

Program regulation 226.2 states a "Day care home means as organized nonresidential child care program enrolled in a private home, licensed or approved as a family or a group day care home under the auspices of a sponsoring organization." This means for CACFP purposes family and group care homes are limited to the provider's own private residence, the private residence of another or a rented or unoccupied private residence. Commercial properties including churches or schools are not private residences and are not eligible to participate. In addition to the above family day care providers are limited to one "home" per provider.

This policy re-statement may result in the removal of facilities effective April 1, 2002. Effectively immediately, no new providers will be approved that do not comply with the provisions of this regulation.

Program Regulation 226.18-05 answers specific questions concerning incorporation by providers. The decision to incorporate is up to the provider, but plays no role in the provider's participation in the CACFP. Sponsors may only enter an agreement with a provider as an individual. Similarly, a provider's income for purposes of tiering determinations and for the reimbursement of meals served to the providers own children is the income of the household, not that of the corporation.

The CACFP prohibits day care homes to maintain operating cost records as a condition for participation in the program however this does not exclude maintenance of costs records for the Internal Revenue Service (IRS). The IRS has determined that many family day care providers operate for profit businesses and providers are



considered self-employed. These self-employed individuals receive Federal CACFP reimbursement, which includes operating expense monies for food, and food service related items. That portion of the providers reimbursement payment which is not used to purchase food is considered income to the provider and is taxable, along with fees for service received from parents. In summary day care home providers do not have to keep records for CACFP purposes but should be advised to, if they wish to report only net income on their Federal income tax returns.

A sponsoring organization may not deduct payments from a provider other than instances of non-compliance. Any deductions shall be specific in the agreement between the sponsoring organization and the home. Providers may not give the sponsors permission to deduct payments for fundraising or anything other than food. A sponsor may not terminate a provider solely for refusing to participate in fundraising activities. The requirement to participate in fund raising activities is a sponsoring organization fee, which is prohibited by CACFP regulations as stated in Section 226.18(b)(7).