



HNS 06-2026

Original Signed

MEMORANDUM

To: All School Food Authorities and Community Organizations Operating the USDA Foods in Schools Program

From: Melissa Conner, Senior Deputy Associate Superintendent
Arizona Department of Education, Health and Nutrition Services Division

Date: May 8, 2026

Subject: Management of USDA Foods Inventory at Processors

The purpose of this memorandum is to notify School Food Authorities (SFAs) and other recipient agencies (RAs) of administrative requirements related to USDA Foods processing inventory. Pursuant to 7 CFR Part 250, the Arizona Department of Education (ADE), as the State Distributing Agency (SDA), is responsible for the distribution, administration, and efficient use of USDA Foods donated to the State. USDA Foods and associated entitlement value are allocated to RAs for program use; however, both the foods and entitlement remain subject to State oversight. Consistent with this authority, ADE may implement administrative processes to ensure compliance with federal processing requirements, promote efficient utilization of USDA Foods, and support statewide program needs. This includes the management of processing inventory and, when necessary, the reallocation of unused USDA Foods value to ensure donated foods are effectively utilized by eligible agencies.

The USDA published the Final Rule for 7 CFR, Section 250.30, on May 1, 2018. This rule revises and clarifies regulations to incorporate successful processing options tested in demonstration projects, ensures accountability for USDA Foods provided for processing, increases program efficiency and integrity, and supports vendor and state operations. The rule also revises regulatory provisions in plain language to make it easier to read and understand.

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The Basics of Processing USDA Donated Foods

Processing is the utilization of USDA Foods as an ingredient or food component by commercial food processors and commercial food facilities in the production of:

- A food product that contains processed donated foods, i.e., an end product; or
- Repackaged donated foods; or
- Prepared meals that use donated foods.

Under 7 CFR 250.30(a), donated foods are diverted for processing to expand RAs options for using USDA Foods in program operations. Processing allows bulk or raw donated foods to be converted into approved end products that are more practical for menu planning, preparation capacity, and student acceptance in school meal programs. This flexibility is intended to promote the timely and efficient use of donated foods, protect their value, and ensure they are actively supporting meal service—not held in inventory beyond program needs.

Inventory Management Guidance

On an ongoing basis, ADE will review statewide processing balances to identify inventory that is underutilized or exceed program needs. As of July 1, 2026, and on an annual basis thereafter, USDA Foods inventory held by processors for RAs will be transferred to ADE. When appropriate, ADE may reallocate inventory to eligible RAs to promote timely use of USDA Foods and protect entitlement value. ADE approval is required for all reallocations and must be supported by documentation submitted by the RA outlining specific plans for donated foods drawdown. RAs that receive reallocated inventory must draw down and utilize the inventory within ADE-established timelines. Inventory that remains unused may be subject to further reallocation.

The following responsibilities outline the roles of RAs, processors, and ADE in ensuring effective management of USDA Foods processing inventory.

Recipient Agency Responsibilities

RAs participating in USDA Foods processing play an important role in supporting the effective use of donated foods throughout the school year. RAs are required to:

- Review processing inventory balances regularly with approved processors using available systems that report inventory balances and activity;
- Plan menus and coordinate product usage to support full utilization of USDA Foods entitlement in the year it is allocated;
- Place end product orders in a timely manner and review processor reports for accuracy; and
- Maintain ongoing communication with processors, brokers, and distributors to support efficient inventory management.

Proactive planning and regular monitoring help ensure USDA Foods are used to support meal service needs and reduce the likelihood of excess inventory.

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Processor Responsibilities

Approved processors must maintain accurate, current records for all donated foods inventory held on behalf of RAs. Processors are required to:

- Maintain systems to report accurate inventory balances and activity;
- Coordinate with ADE regarding the transfer or reallocation of excess inventory;
- Update inventory systems to reflect the transfer of excess inventory to ADE; and
- Provide inventory and monthly performance reports (MPR) as required by the State Participation Agreement (SPA).

Processors must ensure that USDA Foods are actively converted into approved end products and not held beyond program needs. Noncompliance may result in corrective action or limitations on processing participation. ADE will continue to work collaboratively with processors to support compliance, clarify expectations, and ensure USDA Foods are used efficiently to support child nutrition programs statewide.

State Distributing Agency Responsibilities

ADE will manage reallocated inventory in a manner that supports program integrity, equitable access, and the efficient use of USDA Foods across the state. ADE is required to:

- Review and monitor processing inventory balances using available systems that report inventory balances and activity;
- Evaluate recipient agency utilization of bulk pounds and end products;
- Identify excess inventory;
- Provide technical assistance or implementing corrective actions, including inventory transfer, as necessary; and
- Provide guidance to contracting agencies, recipient agencies, and processors.

School Year 2025-2026 Carryover Allowance

To support the smooth implementation of this process, carryover inventory from School Year 2025-26 will be permitted. However, any carryover inventory originating from School Year 2024-25 or prior school years will be deemed excess inventory and subject to the guidelines outlined in this memorandum.

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