Date: November 12, 2026

Memo code: SP 01-2027, CACFP 04-2027

Subject: Child Nutrition Programs State Administrative Expense (SAE) Funds Guidance

To: State Directors, Child Nutrition Programs, All States

In pursuit of fiscal responsibility and stewardship of public funds, USDA's Food and Nutrition Administration (FNA) is providing this guidance to ensure State agencies manage SAE funds from the Child Nutrition Programs (CNPs) with the utmost integrity and efficiency. This guidance clarifies statutory, regulatory, and administrative requirements, emphasizing the importance of sound financial management, transparent allocation, and rigorous oversight of Federal SAE funds. By prioritizing responsible use and careful monitoring of these resources, State agencies can maximize the impact of Federal investments while maintaining compliance and accountability in all fiscal activities.

Ensuring the proper and efficient use of Federal SAE funds involves several important activities including allocation of SAE funds among State agencies; preparation and approval of the SAE Plan; preparation and approval of amendments to the SAE Plan; reallocation of SAE funds; monitoring SAE grants; and financial reconciliation. Each of these activities is addressed in the topics discussed in this guidance.

This memo updates and supersedes the former FNS Instruction 781-2 and provides resources and guidance relating to CNP SAE funds.

SAE Funds

SAE funds are authorized by Section 7 of the Child Nutrition Act (CNA), which requires that USDA make funds available to the States for administrative costs incurred in connection with the National School Lunch Program (NSLP), School Breakfast Program (SBP), Special Milk

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Program (SMP), and Child and Adult Care Food Program (CACFP). States are also authorized to use these funds for costs incurred in administering the Food Distribution Program for Child Nutrition (USDA Foods). Regulations governing SAE are found in 7 CFR Part 235, and 2 CFR Chapter IV sets forth Department-wide policies and standards for administration of grants and cooperative agreements.

Each fiscal year, FNA shall allocate SAE funds to each State agency in accordance with formulas prescribed in Section 7 of the CNA and 7 CFR 235.4. The SAE allocation levels determined by these formulas have a two-year period of performance, with all funds available during the first year. An amount up to, but not exceeding, 20 percent of all SAE funds awarded during the first year may be carried over into the second year. Carryover funds are calculated based on the fourth quarter FNS-777 report, and comprised of the initial allocation, plus any reallocation, plus any transfers in, or minus any transfers out of the State agency's SAE funds. (Reallocation and transfer funds are addressed in subsequent sections of this document.) All SAE funds that remain unobligated as of the close of business on September 30 of the 24th month of the grant will be returned to FNA.

Allowable Costs

SAE funds may be used for administrative expenditures for the NSLP, SBP, SMP, and CACFP, as well as for USDA Foods.

Administrative costs are State-level items of cost chargeable to the organization, including management, monitoring, technical assistance, or policy implementation functions of a CNP. Such administrative costs include salaries, fringe benefits, supplies, travel, IT equipment or services, and indirect costs. Costs incurred in the actual delivery of program benefits to eligible people are not administrative costs and are therefore unallowable.

SAE funds may also be used for expenses associated with the State-level administration of the Summer Food Service Program (SFSP), as authorized by Section 7 of the CNA and in 7 CFR

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235.6. However, SAE funds should be supplementary to SFSP State Administrative Funds (SAF) and not be used in place of SAF.

In addition, SAE funds may also support State agency administration of the Fresh Fruit and Vegetable Program (FFVP) as outlined in SP 06-2011, *Use of State Administrative Expense Funds in the Fresh Fruit and Vegetable Program*. State agencies may use SAE funds alone or combined with FFVP administrative funds for program administration. This approach may free more FFVP funds for schools to purchase fruits and vegetables.

Administrative costs charged to the SAE grant must be "administrative" as discussed in 7 CFR 235.6; "allowable" as defined by the Office of Management and Budget (OMB) Uniform Guidance in 2 CFR Part 200; and consistent with the State Agency's SAE Plan. Costs identified as "allowable only with prior approval" in 2 CFR Part 200 must be identified and explained in the SAE Plan, which is discussed in further detail below.

Several areas of SAE allowable costs often raise questions and require further clarification. The following sections provide additional details on these areas, which include the use of SAE funds for food distribution, information technology expenses, and building improvements.

Food Distribution

Due to wide variances in the degree of administrative and operational responsibilities assumed by the State distributing agencies for these programs, FNA allows flexibility in the use of SAE funds by USDA Foods in CNPs distributing agencies. That is, FNA allows distributing agencies to use SAE funds for costs that otherwise would not be considered an administrative expense as addressed in SP 57-2013, *Questions and Answers Regarding the Use of State Administrative Expense (SAE) Fund and SAE Reallocation Funds in the Food Distribution Program for Child Nutrition Programs.* The expectations regarding State distributing agency use of SAE funds are that genuine program improvements should result and that SAE funds are not to be

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used to replace State funds. FNA will work with the States to determine if proposed expenditures will have maximum impact in contributing to overall program objectives.

In addition to those costs normally identified as allowable, other expenditures are allowable SAE administrative costs for USDA Foods distributing agencies, including:

- Leasing additional space for offices or for warehousing of commodities at the State level;
- Procuring or renting equipment for use in the administration or operation of the program;
- Equipment such as lift trucks or other vehicles used for distributing food;
- Operational expenses related to the storage and distribution of USDA Foods in CNPs, including, but not limited to, State-contracted warehouse fees and USDA Foods in CNPs delivery fees; and
- Offsetting administrative fees charged to school food authorities for the storage and distribution of USDA Foods in CNPs, including those for maintenance of equipment used in the administration or operation of the program and food allocation and inventory IT software.

SAE funds are to be used for CNP purposes only and as such must only be used to benefit the Food Distribution Programs for the CNPs. Expenses attributed to other FNA programs will not be funded through SAE and joint expenditures should be explicitly prorated both in the SAE Plan and in any procurement documentation.

Information Technology (IT)

The cost of routine planning, implementation, and maintenance and operations of CNP IT systems, software, and IT equipment necessary for the State agency to meet its

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responsibilities under its FNA agreement is allowable. Services and software may include CNP management information systems; FNA CN report automation; computation of claims data from local entities; payment of local entities' claims for reimbursement; computerized analysis of program beneficiary participation data; food inventories and allocations under USDA Foods; etc.

State agencies may develop software systems at the State level and may fund the development of systems intended for the benefit of the State and used by all local agencies statewide. However, State agencies may not use SAE funds to purchase or support individual IT systems for specific local entities. All systems developed or funded must be designed to serve the broader needs of the State's administration of the programs and must be available and accessible to all local agencies without preference or differentiation.

Building Improvements

Building repairs and maintenance performed at the State level are allowable under 2 CFR 200.452 when they keep facilities in efficient operating condition and do not add to the permanent value of the building. To charge these maintenance costs to SAE funds, the State agency must show that the expenses are legitimate administrative costs and ensure they are included in the approved SAE Plan. However, any capital expenditures—improvements that materially increase the value or extend the useful life of buildings or equipment—require prior written approval from FNA in accordance with 2 CFR 200.439(b)(3). While required to be listed in the SAE Plan, approval of the Plan does not serve as prior approval for every capital expenditure cost. Capital expenditures for building improvement costs must be routed to the appropriate FNA office for review and approval. Because capital expenditures are generally not considered administrative costs and are subject to prior approval, States should plan accordingly. All costs of this nature must be appropriately allocated among the relevant agencies to ensure proper use of Federal funds.

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Procurement

Procurement of all supplies, equipment, and other services carried out by the State agency with SAE funds shall be carried out in accordance with the requirements of OMB Guidance in 2 CFR Part 200, USDA regulations in 2 CFR Chapter IV and 7 CFR 235.9, as applicable.

Unallowable Costs

FNA has previously determined that the following expenses are unallowable costs for SAE funds. This is not a comprehensive list of all unallowable costs:

- Local level expenses.
- Contributions to a contingency reserve or other provision for unforeseen events are unallowable. Likewise, the purchase of items or materials for future use (i.e., stockpiling) is an unallowable use of SAE.
- Under the regulations, SAE funds may be used only for the CNP for which SAE funds are made available. Thus, the costs that the State government would have incurred had no Federal grants for the CNP provided to it are unallowable because they cannot be attributed to the administration of CNP.
- Foreign travel is an unallowable use of SAE no matter what the circumstances.
- The purchase of land or buildings.

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SAE Plan

The SAE Plan is the document prepared by the State agency describing its plan for meeting its administrative responsibilities under the NSLP, SBP, SMP, CACFP, and Food Distribution for CNPs, SFSP, and FFVP as applicable.

The SAE Plan covers the State agency's administrative activities and anticipated costs for a single fiscal year. Additional information regarding the SAE Plan approval process can be found in the SAE Plan guidance provided by FNA, and 7 CFR 235.5(b) and (c).

The State agency can amend the SAE Plan at any time during the fiscal year. The State agency must amend its SAE Plan and receive FNA approval any time there is a substantive change to the approved SAE Plan. The State agency's reallocation request and the summary of approved reallocated funds by projects may be added as an addendum to the existing SAE Plan rather than requiring a complete revision of the approved SAE Plan. For further information about the amendment process, refer to the SAE Plan guidance provided by CNP in SP XX-2026 and 7 CFR 235.5(c).

SAE Funds Increase or Decrease

The amount of SAE funds will not change during the two-year period of availability unless the State agency voluntarily returns funds to FNA for reallocation, receives additional SAE funds through the reallocation process, agrees to transfer funds to or from another State agency within the State, or fails to comply with the terms of the grant as set forth in 7 CFR 235.4 and 235.5.

SAE Reallocation

The reallocation of SAE funds provides State agencies with the opportunity to request funds in excess of the amount of the formula allocation, or to return funds they will not use. Therefore, annually, on a date specified by FNA, each State agency must submit the FNS-525:

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State Administrative Expense Funds Reallocation Report, regardless of whether the State agency is requesting or returning funds per 7 CFR 235.5(d)

Reallocation requests are approved contingent upon the availability of funds for reallocation, FNA identified priorities, and adequate justification provided by the State agency to support the need for the additional funds.

During reallocation, State agencies may also return funds that they will not use. An addendum to the SAE Plan must be submitted for any reallocation funds received or any return of funds. Reallocated funds are prior year funds and must be obligated by September 30 of the fiscal year in which they are awarded, and expended within 120 days, while the activities using reallocated SAE funds must occur within the period of performance which ends on September 30 of the fiscal year in which the funds were awarded. Otherwise, the funds must be returned to FNA. See also SP 07-2024, CACFP 03-2024, *Updated Instructions for the State Administrative Expenses (SAE) Recovery Process and SAE Financial Status Report (FNS 777 SAE) Child Nutrition Programs*.

SAE reallocation funds must not be used for, and requests will not be approved for, payment of the following: obligations or expenditures incurred prior to request approval (retroactive); or expenses currently funded by Federal sources other than SAE (as a replacement or substitution).

SAE Funds Transfer

Funds may be transferred between State agencies within the same State per 7 CFR 235.6(a). Such a transfer requires agreement among the affected State agencies as well as FNA notification. The amount of funds that a State agency may transfer is limited only by the amount of funds available to the State agency transferring the funds.

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State agencies may have to amend their current or following fiscal year SAE Plans to reflect the transfer of funds. (Refer to "SAE Plan" to determine whether an amendment to the SAE Plan is required.)

The transfer of funds from one State agency to another within the same State affects the SAE carryover amounts for both State agencies. The SAE carryover limit is calculated by taking 20% of the State agency's initial allocation, plus reallocation, plus or minus any transfers. Therefore, the State agency that transfers funds to another State agency will decrease the amount it can carry over. The State agency receiving transfer funds will increase the amount of State agency it can carry over.

SAE Funds Carryover

The State agency's authorized funding level is the total amount of SAE funds available to a State agency for obligation and expenditure during a given fiscal year (i.e., the State agency's SAE formula allocation for that year plus the carryover from the previous fiscal year). The amount of these funds to which the State agency has access includes transfers of SAE funds between State agencies and reallocation funds.

State carryover, for the purpose of this guidance, is the amount of SAE funds that are not obligated by September 30 and expended within 120 days of the first year of the SAE grant, as reported on the FNS-777, and are thus available for State obligation and expenditure during the second year of the SAE grant per 7 CFR 235.5(e)(1). State agencies must revise the 4th quarter FNS-777 report to reflect the change from obligated funds to outlays. The maximum carryover is determined by calculating 20 percent of the total of the initial SAE allocation, plus any reallocation, plus or minus any transfers.

Adjustments for Change in Administering Agencies

If a State agency adds or removes a CN Program being administered, FNA shall prorate accordingly the amount of SAE funds the State agency receives. The State agency must

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amend its SAE Plan or submit a new one, as applicable, to reflect the change in activities due to the change in program administrative responsibilities.

State Funding Requirement (SFR)

Each fiscal year, each State (not each State agency) must maintain a level of funding out-of-State revenues for administrative costs of the NSLP, SBP, SMP and CACFP not less than the amount expended or obligated in FY 1977 (please reference attachment). Failure of a State to maintain this level of funding will result in the total withdrawal of SAE funds according to 7 CFR 235.11(a). FNA will withdraw all unexpended SAE funds available to the State and not release any SAE funds to that State until this requirement is met.

The CNA (42 U.S.C. § 1776(f)) excludes funding sources that are not State funds, such as in-kind contributions and income generated by the program from being counted toward this requirement. The expenditures from State revenues must be included in the SAE Plan.

Accountability

State agencies will maintain a system of financial management that meets the requirements of OMB Guidance in 2 CFR Part 200 and 7 CFR 235.7(a) and (b).

Reporting

The fourth quarter of the FNS-777 report is the primary source of information used to calculate the carryover and recovery amounts. The fourth quarter outlays must be amended to include all obligations that have been expended during the 120-day liquidation timeframe to ensure the carryover and recovery amounts are accurately calculated.

Additionally, State agencies must report State-funded expenditures as non-Federal outlays on a quarterly basis on the FNS-777. FNA will monitor the amount of State revenue expenditures reported in the fourth quarter to determine if the minimum requirement is met. Compliance with this requirement is based on State revenues expended.

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State agencies should direct any questions concerning this memorandum to the appropriate FNA office.

Original Signed

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Child Nutrition Programs

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Attachment

State Funding Requirement (SFR) Amounts

State	SFR
Alabama	134,390
Alaska	44,590
Arizona	84,965
Arkansas	181,340
California	666,272
Colorado	65,732
Connecticut	25,138
Delaware	169,911
District of Columbia	108,345
Florida	133,394
Georgia	275,423
Guam	86,424
Hawaii	185,843
Idaho	54,969
Illinois	221,414
Indiana	279,609
Iowa	148,914
Kansas	121,793
Kentucky	271,050
Louisiana	758,838
Maine	111,358
Maryland	225,563
Massachusetts	439,019
Michigan	186,907
Minnesota	162,627
Mississippi	169,192
Missouri	151,024
Montana	67,276
Nebraska	41,176
Nevada	62,435
New Hampshire	27,491
New Jersey	127,441
New Mexico	52,500
New York	392,997

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State	SFR
North Carolina	359,383
North Dakota	72,591
Ohio	232,238
Oklahoma	359,893
Oregon	86,165
Pennsylvania	35,221
Puerto Rico	123,696
Rhode Island	150,000
South Carolina	104,804
South Dakota	101,556
Tennessee	134,100
Texas	199,102
Utah	178,569
Vermont	50,692
Virgin Islands	0
Virginia	173,492
Washington	109,239
West Virginia	163,066
Wisconsin	287,112
Wyoming	30,512

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