



# Food Distribution National Policy Memorandum

---

United States  
Department of  
Agriculture

DATE: 21 MAR 2014

Food and  
Nutrition  
Service

POLICY NO.: FD-134: Processing

3101 Park  
Center Drive

SUBJECT: Minimum Inventory Protection Requirements for Processors  
Participating in the National Processing Program

Alexandria, VA  
22302-1500

FNS is committed to rigorous oversight and controls over USDA Foods processing to ensure that State agencies and school food authorities (SFAs) receive the full benefit of the USDA Foods entitled to them, consistent with 7 CFR Part 250. As such, the National Processing Agreement requires that participating processors must furnish to USDA inventory protection in the form of a surety bond, an irrevocable letter of credit, or an escrow account in order to guarantee that the processor will account for, return, or pay for all of the USDA Foods received or carried forward, either as physical or book inventory. The purpose of this memorandum is to inform processors of minimum inventory protection requirements effective beginning in School Year 2014-2015.

Beginning in School Year 2014-2015, FNS is increasing the minimum amount of inventory protection required for processors with a National Processing Agreement that have participated in the processing program for one school year or more in order to ensure adequate protection of the value of USDA Foods inventories at processors. This increased protection is necessary to not only ensure that SFAs receive the benefit of the USDA Foods entitled to them, but to also ensure that processors maintain appropriate inventory levels.

Effective School Year 2014-2015, processors with a National Processing Agreement that have participated in the processing program for one school year or more must maintain minimum inventory protection equal to 75 percent of the value of their highest monthly inventory in the twelve months beginning December of the previous school year. Following is the approved method for calculating the minimum required inventory protection levels:

Multiply by 75 percent the dollar value (calculated using the average price report for further processed foods for the school year to be covered by the bond) of the processor's highest monthly ending inventory (as reported in the processor's National Monthly Performance Reports (MPR)) during the 12 months beginning December of the previous school year and ending November of the current school year.

For example: Processor A is calculating its minimum inventory protection requirement for School Year 2014-2015. The highest ending inventory reported on Processor A's MPRs between December 2012 and November 2013 is valued at \$100,000 using the average price report for further processed foods in School Year 2014-2015. The percentage used to calculate minimum inventory protection levels is 75 percent. Processor A's minimum inventory protection requirement for School Year 2014-2015 is \$75,000 ( $\$100,000 \times 0.75$ ).

For processors in their first year of participation in the processing program, inventory protection must be obtained before receiving USDA Foods. This inventory protection must be sufficient to cover 100 percent of the value of the USDA Foods the processor will receive in their first year of processing.

Processors must work with States and SFAs to maintain appropriate inventory levels and reduce excessive inventories on hand, which will help to reduce their inventory protection requirements in the future. Further guidance on managing inventories can be found in Policy Memorandum FD-064: *Management of Donated Food Inventories at Processors*.



Laura Castro  
Director  
Food Distribution Division