



Food Distribution National Policy Memorandum

United States
Department of
Agriculture

DATE: March 18, 2003

Food and
Nutrition
Service

POLICY NO. FD-007: State Processing

3101 Park
Center Drive

SUBJECT: Net Off Invoice Hybrid Value-Pass-Through Method

Alexandria, VA
22302-1500

In the course of evaluating the substitution demonstration projects and business process reengineering projects, the Food and Nutrition Service (FNS) approved an alternate value pass through (VPT) system referred to as "Net Off Invoice." Use of this or any alternate value-pass-through system is not mandatory, State distributing agencies reserve the right to disallow use of any value-pass-through method.

The Net Off Invoice alternate system described below is approved nationally for the following processors when manufacturing identical commodity and commercial finished end products that are sold to eligible recipient agencies through commercial distributors:

- (1) any poultry, pork, or beef processor operating under an approved substitution plan where all production of the finished end product is produced under AMS grading supervision; or
- (2) any processor utilizing fully substitutable commodity ingredients.

The Net Off Invoice VPT system is a variation of the "hybrid system" at 7 CFR 250.30(e)(1)(ii), which allows distributors to sell end products to eligible recipients at a discount and submit a refund application for the contract value of the donated food contained in each case to the processor as required by 250.30(k)(2). Under the approved Net Off Invoice system, the distributor does not submit a physical refund application, but rather deducts any eligible discount from the invoice received from the processor.

For example, under the Net Off Invoice VPT system a processor sells identical commodity and commercial product to its distributors at a gross commercial price of \$30 per case. The value of donated commodity food contained in one case of finished end product in this example is \$10. The distributor can then sell that product to any of its customers. However, if the distributor sells the product to an eligible recipient agency that has raw commodity book inventory with the processor, then the distributor would sell the product at a discounted price based on the value of the donated food contained in the finished case, or in this instance \$20, plus the distributor's delivery fee.

The distributor then deducts the value of the donated food (\$10) from the gross commercial price (\$30) shown on the processor's invoice to the distributor and remits the balance due to the processor.

Processed end products can only be sold at a discount if the processor has an approved end product data schedule on file with the State agency. Before a processor is allowed to draw down inventory, it must verify that the customer is an eligible recipient agency.

As with any alternate VPT system, 250.30(d)(1)(iii) requires sales verification for the Net Off Invoice system that complies with the requirements of 250.19(b)(2)(vi).



SUZANNE RIGBY
Acting Director
Food Distribution Division

Date Originally Issued: 03/18/2003 (Policy Memorandum No. FD-007)