

Commodity Processing Basics

Processing is the conversion of a raw commodity into a finished end product. During the annual order cycle (January for the school year starting the following August), the raw commodity is ordered by the school on the Illinois Commodity System (ICS). Subtract the value of the commodity diverted from the beginning Planned Assistance Level (PAL) for that school year. (The value of bonus commodities would not be charged against PAL.) Processors are eligible to participate if the combined pounds ordered by the schools in Illinois are equivalent to a full truckload of raw commodity. When the deadline passes for schools to place their orders, the Illinois State Board of Education (ISBE) will send all eligible processors a contract and they will become approved processors in Illinois for that school year. Any raw commodity may be diverted to a processor as long as the total pounds ordered equal at least a full truckload.

The processors have the option of placing their end product information on the ICS for you to view and print if desired. After logging onto the ICS, select *Processing Reports* from the menu bar at the top of the page. You may then select either *Fee for Service* or *Rebates and Discounts*. You can print all end products for all processors in either category, or you may select an individual processor and print the end product information for only one processor. You may also print the end products for all processors for any commodity. If you are looking for a particular processor and cannot find it, the processor may not have entered its information in our system. In this case, you will have to contact the processor directly. There is a link to the Processor Contact List on the Food Distribution Program webpage. Once you determine how many cases of end product you will need, calculate the pounds of donated food to divert. At the end of this document, there is a Processor Guide that offers step-by-step guidance to help you determine if you should process, and if so, how many pounds you would need for each end product. You may choose more than one processor per commodity. Remember, the total value of commodities diverted for processing and your B PAL requests cannot exceed your beginning PAL dollars. This dollar amount will show on your Annual Order Form on the ICS. **The minimum amount of beef, pork, chicken, turkey, or eggs that can be diverted to a processor is 100 pounds.**

Processing is not required. If you choose to participate in processing, it is very important you check the message board on the ICS throughout the annual ordering cycle to keep informed of all new information. After the ordering cut-off date, when all schools' orders have been entered, they will be added together to compile full truckloads for diversion to processors. The state may round-up or round-down (no more than 20 percent) to create full truckloads needed for ordering from USDA. Processors not receiving enough orders to have a full truck diverted to them will not be eligible for processing for that school year. **You will have the opportunity to adjust your order if a processor you chose did not get enough requests to warrant ordering a full truckload.** There will be a message on the ICS message board with the dates this may be done, instructions, and a list of approved processors and non-approved processors. **If you do not access the website during this timeframe and make changes (if needed), ISBE will zero out your original pounds diverted to non-approved processors.** You may want to access the ICS again to verify the actual pounds being diverted on your behalf after we prorate the final pounds. Once the final pounds have been determined, the school contact information and pounds ordered will be provided to the processor(s) you chose.

The processor will then contact the schools to get the orders for specific end products. **If you do not have your processing order on the ICS by the deadline, you will not be able to process for that school year.**

There are three methods of ordering end products from the processors:

1. *Fee for Service*—The processor charges the school for making the end product. This fee reflects the cost of manufacturing less the value of the commodity (donated food or DF). The end products are delivered back to the school through Lanter or some other mutually agreed upon distribution point. It is the school's responsibility to pay the processor in a timely fashion. This is generally considered to be when you have a statement from the processor, and the product is available to you (on your bulletin).
2. *Rebate*—The school purchases the end products through their distributor at whatever their bid price is. Then the school must apply for a rebate from the processor for the value of the donated food used to make the end products that were purchased. It is the school's responsibility to pick a processor and end products that are available through their local distributor. It is also the school's responsibility to apply for the rebate.
3. *Discount*—The school purchases the end products through their distributor at whatever their bid price is, minus the value of the donated food used to manufacture the end products (at discount). *Value Pass Through* and *Net Off Invoice* are other terms used to describe the discount process. It is the school's responsibility to pick a processor and end products that are available through their local distributor.

If you choose to divert commodities for processing, follow the instructions for Diverting Commodities to Processing in the *Instructions for Placing Annual Commodities Orders*. Only pounds placed on the Diversion to Processor form on ICS will be considered for processing. The A PAL Request, A Bonus Request, B PAL Request, and B Bonus Request forms are for commodities delivered directly to your school as ordered.

PROCESSING GUIDE

- A step-by-step guide for determining if you should process, and if you do how many pounds to process
- Commodity PAL dollars are a part of your food budget
- You must plan your PAL spending just as you do cash spending

Step 1 After reviewing the Processing Reports, compare the end products on the ICS with your menu needs. You will need the information on these reports to complete this step-by-step guide.

Step 2 Select the processor and end products that meet your specifications for quality and student acceptability.

Step 3 Compare total value per serving of processed end products to the commercially purchased equivalents.

Step 4 If the processed end product total cost per serving is less than the commercially purchased equivalent, processing might save you money.
If processed end products are more expensive than commercially purchased equivalents, diverting commodities to a processor to make that end product is not the best use of your PAL dollars.
If you cannot purchase a like item and the processed item fits your overall food budget, processing could be beneficial.

Step 5 Calculate your menu need for each end product. Keep in mind that you may not start receiving end products at the very beginning of the school year.

How many servings do you need each time you serve?

A. _____ servings needed each time the item is served

B. _____ times the item is planned to be served the item next year

A x B = number of servings you need for a year.

C. $\frac{\text{_____}}{\text{Servings}} \times \frac{\text{_____}}{\text{Served Servings}} = \frac{\text{_____}}{\text{Needed Per Year}}$

Step 6 Determine how many cases you need

How many servings are in a case of processed end product?

D. _____ servings in case

Divide number of servings needed (C) by servings in case (D)

E. $\frac{\text{_____}}{\text{Servings Needed}} \div \frac{\text{_____}}{\text{Servings in Case}} = \frac{\text{_____}}{\text{Cases Needed}}$

Step 7 Determine pounds to process for that menu item.

How many pounds of donated food (DF) does it take to make a case?

F. _____ pounds of DF to make a case

E x F = pounds to process for that menu item

G. $\frac{\text{_____}}{\text{Cases}} \times \frac{\text{_____}}{\text{Pounds}} = \frac{\text{_____}}{\text{Pounds to Process for That Menu Item}}$

Step 8 Repeat steps 3–7 for each menu item you want to receive as a processed commodity.

Step 9 Determine pounds to process for each commodity for each processor.

Combine the pounds of DF per menu item for all menu items using the same raw commodity, going to the same processor. Refer to Steps 7 and 8. The sum of all the pounds entered on line G for a single commodity and processor equals pounds to process. You must calculate pounds to process separately for each processor.

H. _____ Processor

_____ Commodity

_____ Pounds of commodity to processor

Step 10 Determine the value of commodities to divert to processors. Multiply the total of all pounds to process of each commodity by the value per pound for that commodity. This value is available on the Diversion to Processor form on the ICS.

$$\text{I. } \$ \frac{\quad}{\text{Value}} \times \frac{\quad}{\text{Pounds to Process}} = \$ \frac{\quad}{\text{Total Value}} \text{ for } \frac{\quad}{\text{Commodity}}$$

Step 11 Repeat Step 10 for each commodity you want processed until you have calculated the value of all commodities going to all processors.

Step 12 Add the total value of all commodities for processing from Step 11.

$$\text{J. } \$ \frac{\quad}{\quad} \text{ Total value of all commodities for processing}$$

Step 13 After placing your B PAL Requests on the ICS, your total value of B PAL commodities ordered will calculate in the PAL section on your Annual Order Forms.

$$\text{K. } \$ \frac{\quad}{\quad} \text{ Total value of B PAL ordered}$$

Step 14 Add the *total value for processing* (J) and *B PAL* (K) to determine the total value of commodities ordered.

$$\text{L. } \$ \frac{\quad}{\quad} \text{ Total value of commodities ordered}$$

Step 15 Compare your beginning PAL dollars with the *total value of commodities ordered* (L).

$$\text{M. } \$ \frac{\quad}{\quad} \text{ Beginning PAL dollars available}$$

If the *total value of commodities ordered* (L) does not exceed your *beginning PAL dollars* (M), enter the total pounds and processor names on the Annual Order Form, Diversion to Processors on the ICS.

$$\text{M } \frac{\quad}{\text{Beginning PAL}} - \text{L } \frac{\quad}{\text{Total Value of Ending Balance}} = \$ \frac{\quad}{\text{Dollars Commodities}}$$

If the total value of commodities ordered is greater than your beginning PAL dollars, you must reduce your B PAL Request or your Diversion to Processor order until the value does not exceed your Beginning PAL.

How you use your PAL is entirely up to you. If you use all or nearly all your PAL for processing and/or B PAL, you will not be allocated A PAL commodities or very few of them. However, you will still be eligible to receive A and B bonus commodities if available.