



# Department of Defense INSTRUCTION

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Incorporating Change 1, January 21, 2004

USD(P&R)

SUBJECT: Procedures for Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources

- References:
- (a) [DoD Directive 1015.14](#), "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and *Financial Management of Supporting Resources*," July 16, 2003
  - (b) DoD Instruction 7000.12, "Financial Management of Morale, Welfare, and Recreational Activities," May 27, 1987 (hereby canceled)
  - (c) [DoD Directive 1125.3](#), "Vending Facility Program for the Blind on Federal Property," April 7, 1978
  - (d) [DoD Instruction 1000.15](#), "Private Organization on DoD Installations," October 23, 1997
  - (e) through (bk), see enclosure 1

## 1. PURPOSE

This Instruction:

1.1. Implements reference (a) to prescribe procedures for establishment, management and control of *Nonappropriated Fund Instrumentalities* (NAFIs), and financial management of *Nonappropriated Fund* (NAF) *Activities*.

1.2. Cancels reference (b).

## 2. APPLICABILITY AND SCOPE

2.1. This Instruction applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant

Commands, *the Office of the Inspector General of the Department of Defense*, the Defense Agencies, the DoD Field Activities, and all other organizational entities in the Department of Defense (hereafter referred to collectively as "the DoD Components"). The term "Military Services" as used herein, refers to the Army, the Navy, the *Air Force*, and the *Marine Corps*.

2.2. The following funds are excluded from this Instruction:

2.2.1. All funds accounted for under U.S. Treasury symbols (to include Defense Commissary Agency Surcharge Trust Funds) and resources acquired with Appropriated Funds (APF).

2.2.2. Trust funds to include patient trust funds, prisoner personnel deposit funds, cadet and midshipmen personnel trust funds at Military Service academies, Ships Stores Funds - Navy, and Armed Forces Retirement Home resident trust funds.

2.2.3. Contractor and subcontractor funds (including concessionaire funds) and vending facilities operated by the blind licensees under DoD Directive 1125.3 (reference (c)) on DoD installations.

2.2.4. Funds of private organizations, as defined in DoD Instruction 1000.15, reference (d).

2.2.5. Midshipmen's Store, United States Naval Academy.

2.2.6. Chaplain's Religious Funds.

2.2.7. Employee retirement and pension plan trust funds, including those for defined benefit and 401(k) plans, established under DoD 1401.1-M (reference (e)).

2.2.8. Donations to the Department of Defense or the Military Departments under DoD 7000.14-R, Volume 12 (reference (f)).

### 3. DEFINITIONS

Terms used in this Instruction are defined in enclosure 2.

### 4. POLICY

It is DoD policy to establish, manage and control NAFIs, NAF, and financial management of resources supporting NAFIs in accordance with reference (a).

## 5. PROCEDURES

5.1. Establishment, Oversight, Disestablishment and Transfers of NAFIs. The DoD Components shall assign organizational responsibility for NAFI administration, management, and control.

5.1.1. Establishment. The written approval to establish a NAFI shall specify the purpose and function, the authorized patrons, a financial plan, and the successor NAFI. The NAFI shall be classified in one of the six Program Groups specified in reference (a).

5.1.1.1. One NAFI shall be established and maintained for each Program Group operated. Requests to establish a NAFI to support more than one Program Group shall be approved by the DoD Component and notification submitted to the Principal Deputy Under Secretary of Defense for Personnel and Readiness (PDUSD(P&R)).

5.1.1.2. A successor NAFI shall be designated for each Program Group at the DoD Component or Military Service Headquarters level. Successor NAFIs may also be designated at intermediate organizational echelons. Joint NAFIs shall have a successor NAFI established within each of the participating DoD Components.

5.1.1.3. The agreement between the Heads of the DoD Components concerned, to establish a joint NAFI shall provide for inter-Service support in compliance with DoD Instruction 4000.19 (reference (g)).

5.1.1.4. Responsibility for NAFIs of tenant units or organizations devolves upon the command of the installation at which the unit or organization is stationed, unless an alternate agreement is executed by the organizations concerned. Tenant organizations shall be afforded the same facility use and program participation privileges as afforded to organizations or units of the parent installation. Per capita funding distributions shall count personnel of tenant organizations on the same basis as personnel of the parent installation.

5.1.2. Oversight. The Head of the DoD Component or Military Service designee is responsible for NAFI oversight and shall maintain a current listing *classifying* each NAFI by Program Group, *identifying* the successor NAFI, and *appointing* an advisory group. The appointed advisory group shall ensure the NAFI is responsive to authorized patrons and the purposes for which it was created. The composition, function, and purpose of the group shall be determined by the DoD Components concerned. Joint NAFIs shall have a **G**overning body known collectively

as the Board of Directors. A DoD Component or Military Service-level advisory group shall be designated to review central NAFIs.

5.1.3. Disestablishment. Upon disestablishment, excess NAFI assets or residual NAFI liabilities may be redistributed to other NAFIs within the Program Group, or otherwise disposed of by the successor NAFI, in accordance with the policies and procedures established by the Head of the DoD Component concerned. A terminal audit shall be performed.

5.1.4. Transfers. When control of an installation or organization is transferred from one DoD Component to another or to another U.S. Government Department or Agency, the disposition of NAF assets or liabilities shall be determined through negotiation. These negotiations shall ensure a fair and equitable distribution of assets in consideration of current and foreseeable requirements of the affected installations or organizations.

5.2. Use of Resources. NAFI program objectives are implemented using a combination of APF, NAF, and private resources.

5.2.1. Authority for APF and NAF funding of NAFIs is identified in enclosure 3. The DoD Components or Military Service headquarters designee shall establish procedures *requiring* APF and NAF data to be available in the level of detail of the cost expense captions defined at enclosure 4. A NAFI contractor or concessionaire *selling* or *providing* authorized services is entitled to the same APF support as activities operated by a NAFI.

5.2.1.1. Program Group I - Military *Morale, Recreation, and Welfare* (MWR), child development, and school age care activities are assigned to the categories in DoD Instructions 1015.10, 6060.2, and 6060.3 (references (h) through (j)).

5.2.1.2. Program Group II - Armed Services Exchanges and Program Group III - Civilian MWR programs are defined in DoD Instruction 1330.21 and DoD Directive 1015.8 (references (k) and (l)). *They are authorized APF support for Category C activities.*

5.2.1.3. Program Group IV - Lodging Program Supplemental Mission Funds, Program Group V - Supplemental Mission Funds and Program Group VI - Special Purpose Central Funds are defined at enclosure 5. Temporary *Duty* (TDY) and *Permanent Change of Station* (PCS) lodging programs are defined in DoD Instruction 1015.12 (reference (m)).

5.2.2. The laws and regulations concerning the authorization, availability, obligation and expenditure of APF must be followed. *As authorized by 10 U.S.C. 2494 (reference (n)),* appropriations made available to support operations of Program Groups I, II, and IV (Stars and Stripes) may be provided to a NAFI under a Memorandum of Agreement (MOA) *and treated and expended as NAFs following procedures* specified at enclosure 6. This does not preclude NAFIs from entering into contracts or other agreements *under* DoD Directive 4105.67 (reference (o)).

5.2.3. Military MWR and Armed Services Exchange Category C activities at designated remote and isolated locations are authorized funding under Category B rules under the provisions of references (h) and (k).

5.2.4. During force protection conditions at Charlie and Delta, Military MWR Category C activities, excluding golf courses, are authorized additional APF support for civilian personnel with installation management and supervisory functions (excluding personnel directly and primarily involved in resale), utilities and rents, and custodial and janitorial services.

5.2.4.1. Prior to implementation, each Military Service shall ensure that accounting mechanisms are in place to account and report the support, by element of expense, as APF support to the MWR program.

5.2.4.2. This authority is available only to activities located on an installation designated under force protection Charlie or Delta by the Combatant Commander, Military Service Chief, or equivalent DoD civilian. The APF authority is discontinued at the end of the same fiscal year quarter during which the designated force protection condition is disestablished or downgraded. Such limited APF support is permitted to help sustain their capability to generate NAF to support Category B basic community MWR programs and to maintain force readiness. APF support to Category A and B activities shall not be diverted for this purpose.

5.2.5. Membership of personnel in professional organizations may be authorized in accordance with DoD 5500.7-R (reference (p)). NAF *may pay* the cost of organizational or position memberships (but not individual memberships) when beneficial to the NAFI. NAF *may pay* the cost for NAF employees to obtain professional credentials, including expenses for professional accreditation, State-imposed and professional licenses, professional certification and examinations to obtain such credentials, when beneficial to the NAFI, consistent with the provisions of 5 U.S.C. 5757 (reference (q)).

5.2.6. Unauthorized Use of NAF. NAF *are to be used for* the general welfare of the military community. Individuals, units, organizations, or installations shall have no proprietary interest in NAFI funds or other assets.

5.2.6.1. NAFI funds or assets may not be transferred to private organizations as dividends or other distributions.

5.2.6.2. NAF are not authorized to be used or support the following functions:

5.2.6.2.1. Command representation or protocol functions.

5.2.6.2.2. Scholarships, free mailing and postage, or to provide any other specific benefit for select individuals or groups.

5.2.6.2.3. Replace or to supplement appropriations for public affairs, medical, religious, or other activities or *programs outside* the purposes for which the NAFI was established.

5.2.6.2.4. Pay for *employees not* performing duties directly related to the NAFI functions or mission.

5.2.7. NAF-Financed Facilities and Structures. A building or structure constructed or purchased using NAF shall not be *diverted to a use other than* in direct support of the purpose for which it was acquired without the prior concurrence of the Head of the DoD Component, or a designee.

5.3. Planning, Programming and Budgeting. NAFI programs are supported by APF and NAF resources and may be financed through private sources or commercial borrowing. These resources shall be planned, programmed, and budgeted to implement NAFI objectives. Actual performance shall be regularly compared to budgets and action taken to correct unfavorable variances.

5.3.1. APF support of NAFIs shall be planned, programmed, and budgeted in accordance with PPBR procedures in Volume 2 of DoD 7000.14-R (reference (*r*)).

5.3.2. NAF budgets are updated annually to provide financial data to managers and commanders for management decision-making. The DoD Component shall determine the format as long as data allows for management analysis of each Funding Category within a Program Group, to provide for budget to actual comparisons to financial statements, and to evaluate performance against program plans. The following budgets shall be prepared for each NAFI:

5.3.2.1. Operating Budgets. The operating budgets shall project NAF income and NAF expenses.

5.3.2.2. Capital Budgets. Expenditures shall be budgeted for acquisition and replacement of fixed assets and the construction, sustainment, restoration, and modernization of facilities. The budget shall indicate the source of funding (APF, NAF, or other).

5.3.2.3. Cash Budgets. The cash budgets shall show the existing NAF cash resources (cash and investments), anticipated receipts and disbursements, and forecast cash balances on specified dates.

#### 5.4. Accounting

5.4.1. APF Accounting Systems. APF accounting systems provide financial data to satisfy the accounting and reporting requirements of Volumes 4 and 6A of DoD 7000.14-R (references (s) and (t)).

5.4.2. NAF Accounting Systems. Accounting records shall provide the detail necessary to report the funding categories, activities, and income and expense data of each Program Group as prescribed at enclosure 7. NAF accounting systems shall meet managerial reporting requirements established herein. Separate accounting records are required for each NAFI.

5.4.2.1. Restricted Cash and Investments. Cash and investments restricted for non-current purposes are classified and reported on the balance sheet as non-current assets.

5.4.2.2. Extraordinary Items. Extraordinary income or expense shall be shown in the financial statements separately from ordinary operations and footnoted.

5.4.2.3. Dividends and Grants. The distribution of dividends and grants shall be recorded and reported as decreases in equity. Follow-on distribution of grants and dividends shall be recorded as "other expense." The receipt of dividends and grants

that support recurring operations shall be recorded as "non-operating income." The receipt of grants for capital items shall be recorded as equity transactions.

5.4.2.4. Equity Transactions. Transfers into and out of equity shall be limited to net income, net losses, prior year material corrections, entries associated with establishment, disestablishment, or consolidation of NAFIs, and the distribution and receipt of capital.

5.4.2.5. Tangible Fixed Assets. Tangible fixed assets purchased with NAF having a useful life expectancy of more than 2 years and an acquisition cost of \$1,000 or more, shall be capitalized in the NAF accounting records. Records for tangible fixed assets shall reflect acquisition cost (or estimated value if acquired by other than purchase), allowance for depreciation, and net book value. Acquisition cost includes expenditures necessary to place assets into use such as installation, freight, testing, and legal fees to establish title, and any other costs of putting the asset in the condition and location for use. Tangible fixed assets shall be segregated between NAFI-owned fixed assets and those fixed assets to which title has been transferred to the Government. An explanatory footnote shall be included in the balance sheet for Government Titled Fixed Assets as follows:

"The title of real property and other tangible fixed assets financed with nonappropriated funds and reported hereon is vested with the U.S. Government."

5.4.2.6. Depreciation and Amortization. Tangible fixed assets shall be depreciated over their expected useful lives. Depreciation and amortization shall be established and reported on financial statements. The DoD Components shall prescribe depreciation method and useful lives of assets and disclose in the notes to the financial statements. Uniform depreciation and expected useful lives shall be used by the Armed Services Exchanges.

5.4.2.7. Standard Fiscal Years. The NAF fiscal year for DoD NAFIs, except the Armed Services Exchanges, begins on October 1 and ends the following September 30. The fiscal year for all Armed Services Exchanges begins on February 1 and ends on January 31 of the following year, with a 15-day leeway authorized for the beginning and ending dates.



5.4.2.8. Inventory Valuation. Inventories shall be valued at cost, to include freight, distribution, and purchase discounts. The DoD Components shall prescribe the method for determining cost (FIFO, LIFO, moving average, etc.) as long as the method is consistently applied and disclosed in the notes to the financial statements. A uniform inventory valuation method shall be used by the Armed Services Exchanges.

5.4.2.9. Prompt Payment Act. NAFIs shall comply with the provisions of the Prompt Payment Act in accordance with 5 CFR 1315, Prompt Payment (reference (u)) and Volume 10 of DoD 7000.14-R (reference (v)).

5.4.2.10. Purchase Discounts. In determining the cost of purchased property or goods, discounts shall be deducted from the price billed and the cost of purchased property shall be recorded net of discounts. The value of discounts not taken shall be charged to operations in accordance with Volume 13 of DoD 7000.14-R (reference (w)).

5.4.2.11. Concessionaire Operations. NAFIs shall disclose net income from concessionaires as operating income on the financial statements. A uniform accounting method shall be used by the Armed Services Exchanges.

5.4.2.12. Reimbursements. The DoD Components shall ensure timely and accurate reimbursements are made when reimbursable transactions are required between NAF, commissary surcharge trust funds, and APF. APF reimbursable transactions are processed according to procedures in Volume 11A of DoD 7000.14-R (reference (x)).

5.4.2.13. Revenue Generators. To assist management in establishing and costing rate and price structures, NAFIs should have data available that identifies all applicable expenses to include overhead.

## 5.5. Reporting

5.5.1. Internal Financial Reporting. Consolidated APF and NAF financial reports shall be issued as often as necessary to be of optimum use to management officials within the DoD Components and to meet the standards of fairness of presentation, full disclosure, and timeliness.

5.5.2. Annual Reporting Requirements. A consolidated financial and management report shall be prepared annually for each Military Service, and Joint Service NAFL. Each consolidated report shall contain the financial statements and

reports specified at enclosure 7. Ten copies of the annual report shall be submitted to the PDUSD(P&R) within 120 days following the close of the Program Group fiscal year. The reports shall be based on or be the basis of annual financial statements that comply with the audit requirements of DoD Instruction 7600.6 (reference (y)). Any material differences discovered subsequent to the submission of the reports shall be immediately reported to the PDUSD(P&R) and the deviation fully disclosed in the accompanying auditor's statement and footnotes.

5.6. Analysis and Evaluation. The annual analysis shall be prepared according to the procedures prescribed by the DoD Component or the designated Military Service. The frequency and scope of prescribed requirements must be aligned to the financial management complexity or simplicity of the various activities involved. Performance of the analysis and evaluation function must be followed by the appropriate corrective actions. Should analysis and evaluation indicate that planning, budgeting, and reports submitted to the PDUSD(P&R) are materially misstated or misleading, an explanatory report shall be submitted to the PDUSD(P&R) within 30 days of making the discovery.

5.7. Management of Resources. Management of resources is the process of ensuring that the proper resources are obtained and used effectively.

5.7.1. NAF Fiduciary Responsibility. The DoD Components shall establish such systems as necessary to encourage prompt reporting of suspected violations, proper investigation, and appropriate corrective action.

5.7.1.1. Suspected violations shall be reported and resolved at the lowest organizational level possible. Individuals reporting NAF-related violations are protected by the "Whistleblower Act" under DoD Directive 1401.3 (reference (z)).

5.7.1.2. The Defense Hotline Program applies to NAF and investigative responsibilities and procedures shall follow DoD Directive 7050.1 (reference (aa)).

5.7.1.3. The DoD Components shall ensure that commanders refer criminal activity involving NAF to the appropriate criminal investigative agency for investigation and prosecution.

5.7.2. Standards of Conduct. The standards of conduct published in DoD Directive 5500.7 (reference (ab)) and implemented by reference (p) are applicable to personnel assigned NAF responsibility or assigned to or employed by a NAFI.

5.7.3. Internal Controls. NAFI internal control systems shall provide reasonable assurance of the effectiveness of organization; the efficiency and economy of operations; safeguards over assets; the propriety of receipts and disbursements; and

the accuracy and reliability of records and reports. The internal management control program under DoD Directive 5010.38 (reference (*ac*)) is applicable to NAFIs and NAF.

5.7.4. Cash and Investments. NAF are accumulated to meet requirements to finance NAFI programs. Management of NAF shall be based, in order of priority, on safety, liquidity, and yield. Cash and treasury management shall conform to the institutions, investments, procedures, and reporting requirements at enclosure 8.

5.7.4.1. The PDUSD(P&R) shall convene annually a meeting of representatives of the offices of the PDUSD(P&R) and the Under Secretary of Defense (Comptroller) (USD(C)) with functional responsibility for banking and investments to review the "Annual Cash and Investment Management Reports," examine the portfolios, and make recommendations for improvement to policy. The DoD Component Headquarters' NAF treasury managers shall present the results of their most recent "Annual Cash and Investment Management Report" at this meeting.

5.7.4.2. Investment funds shall be audited by an independent public accountant. A financial statement audit is required annually and a more comprehensive audit to include fund administration and internal controls is required at least biannually. The NAF investment function shall be reported as an assessable unit in the Internal Management Control Program under reference (*ac*). The statement of assurance and accompanying reports shall be furnished to the investment oversight committee.

5.7.5. Receivables. NAFIs may sell merchandise or services to authorized customers on credit through NAFI credit systems, merchants' agreements with credit card processors, or negotiated universal commercial credit contracts.

5.7.5.1. Debts to NAFIs are obligations to the U.S. Government. The DoD Components shall take prompt, efficient action to collect customer debts and other NAFI receivable through available voluntary and involuntary means.

5.7.5.2 The decision to issue NAFI-sponsored credit shall not be based on rank or grade. Credit shall be issued based on total family income and commercial credit histories. NAFIs shall obtain commercial credit checks on all new accounts and shall provide both good and bad credit reports to the credit bureaus, consistent with the Fair Debt Collection Practices Act and the Privacy Act (references (*ad*) and (*ae*)).

5.7.5.3. In accordance with DoD Directive 1330.9 (reference (*af*)), the Armed Services Exchanges shall only use a single, joint, centrally administered credit system as their internal NAFI credit system. All exchange systems shall maintain a Standard and Poors rating. The Armed Services Exchanges shall also include, as part of

their annual year-end certified financial audit, an overview report that comments on the financial status of the credit program.

5.7.5.4. All NAFIs extending credit shall include the credit program in the audit coverage under reference (y).

5.7.5.5. NAFIs shall accept the Government-wide purchase card in activities where personal credit cards or other purchase cards are accommodated.

5.7.6. Borrowing. All borrowing decisions shall be based on sound economic and financial management factors. Commercial borrowing is authorized for DoD Component, Military Service, and Service headquarters echelon NAFIs only. Inter-NAFI borrowing within a Military Service shall be considered as an alternative to commercial borrowing. Loans between the DoD Components are prohibited.

5.7.7. Severance and Separation Benefits. Use of NAF to pay for severance or separation entitlements accrued during periods of employment with APF entities is prohibited.

5.7.7.1. U.S. Severance Pay and Related Benefits. NAFIs shall set aside funds on a regular basis to ensure sufficient cash availability to defray payment of severance benefits for U.S. employees when due.

5.7.7.2. Foreign National Severance Pay. NAF shall be set aside for investment on a regular and current basis when they are to be used to make direct payments to foreign national employees upon their separation from NAFI employment. Funds set aside and invested for this purpose shall be appropriately identified and restricted from other use. As a minimum, the amount set aside on a DoD Component-wide basis must be sufficient to defray all severance payments likely to become due at any point in time, without recourse to other NAFI assets within the DoD Component. The DoD Components shall establish independent audit procedures to verify the accuracy of stated foreign national severance liabilities and the adequacy of NAF reserves designated to fund the liabilities as they become due. As a hedge against foreign currency exchange rate fluctuations, investments in foreign currency obligations are permitted in amounts not to exceed the local currency value of the liabilities.

5.7.8. Base Realignment and Closure (BRAC). Upon notification that an installation or activity is subject to closure under BRAC action, the DoD Component shall immediately take action to preclude unnecessary dissipation of NAF assets prior to dissolution of the NAFI. The successor NAFI shall monitor the closing to ensure the prudent expenditure of NAF and disposition of property. A terminal audit shall be

performed to identify the amount of residual NAF assets or liabilities to be transferred to the successor NAFI. The terminal audit shall also identify the book value of NAF assets, the proceeds of whose transfer or disposal shall be identified for future claims against the Reserve Accounts.

5.7.8.1. The Reserve Account, created by Section 344 of the National Defense Authorization Act for Fiscal Years 1992 and 1993, Public Law 102-190, *codified at 10 U.S.C. 2687* (reference (*ag*)), receives the proceeds equal to the book value of NAF real property or facilities transferred or disposed in connection with the closure or realignment of a military installation before January 1, 2005. The Reserve Account funds are not available until an Appropriations Act provides for their use. Reserve Account funds may only be used for acquiring, constructing, and improving commissaries and NAF real property and facilities.

5.7.8.2. The DoD Base Closure Account 2005, created by Section 3005 of the National Defense Authorization Act for Fiscal Year 2002, Public Law 107-107, *codified at 10 U.S.C. 2687* (reference (*ag*)), receives the proceeds equal to the book value of NAF real property or facilities transferred or disposed of in connection with the closure or realignment of a military installation approved after January 1, 2005. These funds may be used without further appropriation for the purpose of acquiring, constructing, and improving real property and facilities for NAFIs.

5.7.8.3. NAFI personal property assets shall be redistributed in accordance with DoD Directive 5410.12 (reference (*ah*)), when a NAFI disestablishes due to a complete or partial closure of a military installation or a cutback in DoD personnel, except that NAFI personal property assets may be removed at the Military Service's discretion.

5.7.8.4. Category C activities at installations identified for closure under BRAC procedures may receive APF support authorized for Category B activities. APF may finance costs that are a direct result of an approved BRAC action. Those costs include, but are not limited to, PCS for NAF employees, NAFI unemployment and severance payments associated with NAF personnel, and facilities construction. NAFI realignment and closure costs are authorized funding from all BRAC accounts, not just the Reserve Account.

5.7.8.5. NAF are prohibited from funding the disposal of excess or surplus *property or* unemployment compensation resulting from a BRAC action.

5.7.9. Disposition of Government Property. In accordance with 40 U.S.C. 574 (reference (*ai*)), the net proceeds from the sale of a building or structure, acquired

or constructed using NAF resources and subsequently sold upon disposition of Government property, other than under BRAC legislation, shall be credited to the applicable NAFI as determined by the DoD Component concerned. When the DoD Component deems it uneconomical or impractical to ascertain the amount of net proceeds, the proceeds shall be credited to miscellaneous receipts of the U.S. Treasury.

5.7.10. Retirement Plan Funding. Policies pertaining to the management, investment, and administration of pension plans for NAF employees are contained in reference (e).

5.7.11. Foreign Currency. In foreign areas, there may be valid reasons to acquire foreign currencies to reduce risks associated with fluctuations in exchange rates for known NAFI obligations payable in foreign currencies such as payrolls or construction contracts. Enclosure 9 addresses NAFI management of foreign currency.

5.7.12. Regulations and Taxes

5.7.12.1. Federal Alcoholic Beverage Tax

5.7.12.1.1. Each installation NAFI is a separate business enterprise and, in the case of alcoholic beverages, shall pay only one wholesale dealer tax (if it sells only at wholesale) or one retail dealer tax (if it sells only at retail) regardless of the number of annexes it operates. However, each NAFI must pay one tax as a wholesaler or as a retailer. Every NAFI selling alcoholic beverages at wholesale must pay a tax as a wholesale dealer. However, if the NAFI also sells at retail, it need not pay an additional retail tax.

5.7.12.1.2. Every NAFI wholesaling or transferring alcoholic beverages from one NAFI to another (except in case of dissolution of the NAFI) must pay a tax as a wholesale dealer.

5.7.12.2. Federal Taxes Paid Indirectly. Taxes on articles or services must be paid by the entity upon which the taxes are levied, whether or not the articles or services may be furnished for the use of, or the sale in, NAFI activities. However, in general, there is provision for exemption from these taxes when the articles or services are sold to a NAFI for resale outside the United States and its territories on the following items: alcoholic liquors tax, beer tax, and tobacco tax.

5.7.12.3. Federal Taxes Not Applicable. NAFIs are exempt from payment of Federal income taxes and are not required to file returns.

5.7.12.4. Communication With Federal Authorities. The initiation of inquiries or replies to Federal authorities regarding taxation and regulations affecting NAFIs shall be cleared through official channels, as determined by the DoD Components.

5.7.12.5. State and Local Laws, Regulations, and Taxes

5.7.12.5.1. Instrumentalities of the U.S. Government are not subject to direct taxation by State or local tax authorities, except when specifically authorized by Federal statute.

5.7.12.5.2. Military Departments shall determine the need for routine inquiries to State officials on matters pertaining to taxation and regulations of liquors, tobacco products, soft drinks, and automobiles.

5.7.12.5.3. NAFIs, established pursuant to regulations, shall not be subject to State and local laws, regulations, control, or taxation unless specifically authorized by Federal statute. However, it is DoD policy to cooperate with State and local officials to the degree that such cooperation is not construed as a submission to State and local regulations and control and such cooperation does not adversely affect the Department's mission or programs.

5.7.12.6. Non-applicable Taxes. NAFIs are exempt from the payment of State and local taxes, including, but not limited to:

5.7.12.6.1. Unemployment insurance taxes and contributions.

5.7.12.6.2. Income taxes.

5.7.12.6.3. Real estate and personal property taxes.

5.7.12.6.4. Sales, use, and license taxes on property purchased for consumption or resale.

5.7.12.6.5. Excise taxes on alcoholic beverages imposed directly on NAFIs.

5.7.12.7. State or Local Tax-Free Products. Commanders shall establish a system within each activity to regulate and monitor sales of tax-free cigarettes and alcoholic beverages in NAFIs.

5.7.12.8. Concession Activities. Concessionaire-operated activities on military installations are subject to State and local sales and use taxes.

5.7.12.9. Withholding State and Local Income Taxes. NAFIs shall withhold taxes from the wages of civilian employees for, and remit them to, tax jurisdictions wherever the Federal Government has entered into agreements for withholding taxes. State and local taxes shall be withheld from the pay of enlisted personnel compensated from NAF for work performed during off-duty hours.

5.7.12.10. Foreign Taxes. NAFIs located in foreign countries shall not pay to nor collect for any foreign country or political subdivision any tax unless the United States has consented to levy collection by treaty, convention, or executive agreement.

5.7.12.11. Distributions of Dividends. The DoD Components shall ensure that funds received from the Armed Services Exchanges are equitably distributed by Military Service headquarters, major commands, local commands, or a combination of these based upon demonstrated military MWR program nonappropriated funding requirements.

5.8. Auditing. The DoD Components shall provide for the periodic review and audit of NAFIs, as required in DoD Directive 7600.2 (reference (aj)) and reference (y).

5.8.1. Internal Audits and Inspections. The DoD Components or the delegated Military Service or Service Headquarters shall determine and require such internal audits and inspections as they may consider necessary or desirable. Internal audits shall meet the requirements in references (aj) and (y). Specific items of inquiry shall be included in the Military Service's Inspector General checklists.

5.8.2. External Audits. Each Military Service shall require an annual Service-wide audit of its NAFIs by an independent audit organization. These audits shall include the Headquarters NAFIs and such intermediate-level and individual NAFIs as may be necessary to permit the auditors to express an opinion as to the financial condition of the NAFIs under the cognizance of the Military Services. Audits by certified public accountants shall comply with reference (y).

5.9. Risk Management. The DoD Components shall ensure that NAF assets are adequately protected against loss. Risk management programs, to include self-insurance and commercial coverage, shall be centrally administered for a Program Group at the DoD Component, Military Service, or Service Headquarters echelon. The methods in which assets are protected shall encompass sound risk management



principles that shall not only protect the financial integrity of NAFIs, but shall also satisfy all applicable insurance laws (both domestic and foreign), and Federal laws while providing the broadest, most cost-effective protection available. Additionally, the Service Headquarters or NAFIs shall not assume liability for contractors providing services on an installation. The techniques of handling the risk of loss shall be determined by each Service Headquarters.

5.10. Procurement Policy. NAF procurement shall be in accordance *with reference (o) and DoD Instruction 4105.71 (reference (ak))*.

5.11. Personnel Policy. Management of NAF civilian employees shall be in accordance with DoD Instruction 1401.1 (reference (al)), reference (e), and DoD 1400.25-M (reference (am)).

## 6. RESPONSIBILITIES

6.1. The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) shall, *in accordance with DoD Directive 5124.2 (reference (an)) and 10 U.S.C. 136 (reference (ao))*, serve as the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for total force management as it relates to readiness, to include quality of life, MWR, exchange, and NAF activities.

6.2. *The* Principal Deputy Under Secretary of Defense for Personnel and Readiness (PDUSD(P&R)), under the USD(P&R), shall, *in accordance with DoD Directive 5124.8 (reference (ap))*, serve as the principal staff assistant and advisor to the USD(P&R) and the Secretary and Deputy Secretary of Defense for NAF policy and DoD military and civilian MWR programs, military exchange services, and other authorized NAFIs. In discharging this responsibility, the PDUSD(P&R) shall:

6.2.1. Develop, promulgate, and monitor compliance with policy and other guidance to ensure proper administration of NAFIs and management of their resources.

6.2.2. Serve as the principal DoD point of contact on all policy matters relating to NAFIs and NAF.

6.2.3. Establish the necessary advisory groups with representatives from the DoD Components and the Military Services to assist in the formulation, execution, and review of policies pertaining to NAFIs.

6.3. The Assistant Secretary of Defense for Reserve Affairs (ASD(RA)), under the USD(P&R), shall serve as the principal point of contact on Reserve and National Guard

personnel policy matters within the Military Departments (DoD Directive 5125.1 (reference (*aq*))). In discharging the responsibility, the ASD(RA) shall monitor and ensure compliance with this policy.

6.4. The Under Secretary of Defense (Comptroller) (USD(C)) and the General Counsel of the Department of Defense shall fulfill responsibilities delineated in DoD Directives 5118.3 and 5145.1 (references (*ar*) and (*as*)). These responsibilities shall apply equally to NAFIs, when applicable, and shall be carried out in coordination with the USD(P&R).

6.5. The Under Secretary of Defense (Acquisition, Technology, and Logistics) shall provide policy guidance and general procedures for TDY and PCS lodging (DoD Directive 4165.63 (reference (*at*))).

6.6. The Assistant Secretary of Defense (Public Affairs) (ASD(PA)) shall serve as the principal point of contact on the Armed Forces Information Service publications (to include the "Stars and Stripes") within the Military Departments (DoD Directive 5122.5 (reference (*au*))). In discharging the responsibility, the ASD(PA) shall monitor and ensure compliance with this policy.

6.7. The Director, Administration and Management, Office of the Secretary of Defense shall supervise and administer the DoD Concessions Committee within the immediate office of the Secretary of Defense, in accordance with DoD Directive 5120.18 (reference (*av*))).

6.8. The Heads of the DoD Components shall issue policies and procedures to implement this Instruction.

6.9. The Directors of Defense Agencies; the Commanders, Combatant Commands, the United Nations Command, the Combined Forces Command, the North American Aerospace Defense Command; and the Chiefs of Military Missions (Military Assistance Advisory Groups, Attachés, Missions, Contingents, or Security Assistance Offices) shall:

6.9.1. Establish, manage, and control NAFIs in accordance with the regulations of a single Military Department, normally that Department with administrative and logistical support responsibility, in accordance with DoD Directive 5100.3 (reference (*aw*))). The designated Military Department shall coordinate reporting and communication with the PDUSD(P&R), as governed by this Directive.

6.9.2. Submit a written request to the Secretary of the Military Department concerned, or the Military Service Headquarters designee, for authority, as prescribed by the regulations of that Department to establish a NAFI.

6.9.3. Be subordinate to the Military Department concerned or the Military Service Headquarters designee, for purposes of compliance with DoD Directives and DoD Instructions, as implemented by the regulations of that Department.

6.10. The Director, Defense Finance and Accounting Service, under the USD(C), shall be responsible for NAF accounting for DoD NAFIs, except the Armed Service Exchanges, in accordance with DoD Directive 5118.5 (reference (*ax*)).

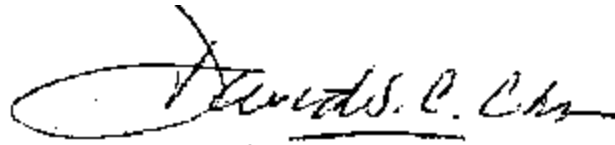
## 7. INFORMATION REQUIREMENTS

7.1. The annual consolidated financial and management report required by subparagraph 5.5.2. has been assigned Report Control Symbol DD-FM&P(A)1344 in accordance with DoD 8910.1-M (reference (*ay*)).

7.2. The annual cash and investment report required by subparagraph 5.7.5.1. is exempt from licensing in accordance with paragraph C4.4.6. of reference (*ay*).

8. EFFECTIVE DATE

This Instruction is effective immediately.



David S. C. Chu  
Under Secretary of Defense  
(Personnel and Readiness)

Enclosures - 9

- E1. References, continued
- E2. Definitions
- E3. APF and NAF Funding Authorizations
- E4. Cost Expense Captions
- E5. Supplemental Mission Funds and Special Purpose Central Funds
- E6. *DoD Morale, Welfare, and Recreation (MWR) Utilization, Support, and Accountability (USA) and Uniform Funding and Management (UFM) Practices*
- E7. Financial Reporting
- E8. Treasury Management and NAF Investments
- E9. Foreign Currency

E1. ENCLOSURE 1

REFERENCES, continued

- (e) [DoD 1401.1-M](#), "Personnel Policy Manual for Nonappropriated Fund Instrumentalities," December 13, 1988
- (f) DoD 7000.14-R, "Financial Management Regulation, Volume 12, "Special Accounts, Funds, and Programs," August 2002
- (g) [DoD Instruction 4000.19](#), "Interservice and Intragovernmental Support," August 9, 1995
- (h) [DoD Instruction 1015.10](#), "Programs for Military Morale, Welfare and Recreation," November 3, 1995
- (i) [DoD Instruction 6060.2](#), "Child Development Programs (CDPs)," January 19, 1993
- (j) [DoD Instruction 6060.3](#), "School-Age Care (SAC) Program," December 19, 1996
- (k) [DoD Instruction 1330.21](#), "Armed Services Exchange Regulations," February 4, 2003
- (l) [DoD Directive 1015.8](#), "DoD Civilian Employee Morale, Welfare and Recreation (MWR) Activities and Supporting Nonappropriated Fund Instrumentalities (NAFIs)," October 22, 1985
- (m) [DoD Instruction 1015.12](#), "Lodging Program Resource Management," October 30, 1996
- (n) *Section 2494 of title 10, United States Code, "Uniform funding and management of morale, welfare and recreation programs"*
- (o) [DoD Directive 4105.67](#), "Nonappropriated Fund (NAF) Procurement Policy," May 2, 2001
- (p) DoD 5500.7-R, "Joint Ethics Regulation (JER)," August 1993
- (q) Section 5757 of title 5, United States Code, "Payment of Expenses to Obtain Professional Credentials"
- (r) DoD 7000.14-R, "Financial Management Regulation, Volumes 2A and 2B, Budget Formulation and Presentation," June 2002
- (s) DoD 7000.14-R, "Financial Management Regulation, Volume 4, Accounting Policy and Procedures," *October 2003*
- (t) DoD 7000.14-R, "Financial Management Regulation, Volume 6A, Reporting Policy and Procedures," March 2002
- (u) *Part 1315 of title 5, Code of Federal Regulations, "Prompt Payment"*
- (v) DoD 7000.14-R, "Financial Management Regulation, Volume 10, Contract Payment Policy and Procedures," April 2002
- (w) DoD 7000.14-R, "Financial Management Regulation, Volume 13, Nonappropriated Funds Policy and Procedures," August 1994

- (x) DoD 7000.14-R, "Financial Management Regulation, Volume 11A, Reimbursable Operations, Policy and Procedures," November 2002
- (y) [DoD Instruction 7600.6](#), "Audit of Nonappropriated Fund Instrumentalities and Related Activities," April 16, 1987
- (z) [DoD Directive 1401.3](#), "Reprisal Protection for Nonappropriated Fund Instrumentality Employees/Applicants," October 16, 2001
- (aa) [DoD Directive 7050.1](#), "Defense Hotline Program," January 4, 1999
- (ab) [DoD Directive 5500.7](#), "Standards of Conduct," August 30, 1993
- (ac) [DoD Directive 5010.38](#), "Management Control (MC) Program," August 26, 1996
- (ad) Section 1692 *et seq.* of title 15, United States Code
- (ae) Section 552a of title 5, United States Code, "Records Maintained on Individuals"
- (af) [DoD Directive 1330.9](#), "Armed Services Exchange Policy," November 27, 2002
- (ag) Section 2687 note of title 10, United States Code
- (ah) [DoD Directive 5410.12](#), "Economic Adjustment Assistance to Defense Impacted Communities," December 22, 1987
- (ai) Section 574 of title 40, United States Code, "Other Rules Regarding Proceeds"
- (aj) [DoD Directive 7600.2](#), "Audit Policies," February 2, 1991
- (ak) [DoD Instruction 4105.71](#), "Nonappropriated Fund (NAF) Procurement Procedures," February 26, 2001
- (al) [DoD Instruction 1401.1](#), "Personnel Policy for Nonappropriated Fund Instrumentalities," November 15, 1985
- (am) [DoD 1400.25-M](#), "Department of Defense Civilian Personnel Manual (CPM)," December 3, 1996
- (an) [DoD Directive 5124.2](#), "Under Secretary of Defense for Personnel and Readiness (USD(P&R))," October 31, 1994
- (ao) Section 136 of title 10, United States Code, "Under Secretary of Defense for Personnel and Readiness"
- (ap) [DoD Directive 5124.8](#), "*Principal Deputy Under Secretary of Defense for Personnel and Readiness (PDUSD(P&R))*," July 16, 2003
- (aq) [DoD Directive 5125.1](#), "Assistant Secretary of Defense for Reserve Affairs," March 2, 1994
- (ar) [DoD Directive 5118.3](#), "Under Secretary of Defense (Comptroller) (USD(C))/Chief Financial Officer (CFO), Department of Defense," January 6, 1997
- (as) [DoD Directive 5145.1](#), "General Counsel of the Department of Defense," May 2, 2001
- (at) [DoD Directive 4165.63](#), "DoD Housing," July 20, 1989
- (au) [DoD Directive 5122.5](#), "Assistant Secretary of Defense for Public Affairs," September 27, 2000

- (av) [DoD Directive 5120.18](#), "DoD Concessions Committee," January 13, 1999
- (aw) [DoD Directive 5100.3](#), "Support of the Headquarters of Combatant and Subordinate Joint Commands," November 15, 1999
- (ax) [DoD Directive 5118.5](#), "Defense Finance and Accounting Service," November 26, 1990
- (ay) [DoD 8910.1-M](#), "DoD Procedures for Management of Information Requirements," June 30, 1998
- (az) [DoD Directive 7950.1](#), "Automated Data Processing Resources Management," September 29, 1980
- (ba) [DoD 7950.1-M](#), "Defense Automation Resources Management Manual," September 1988
- (bb) [DoD 5200.2-R](#), "Personnel Security Program," January 1987
- (bc) [DoD Instruction 7700.18](#), "Commissary Surcharge, Nonappropriated Fund (NAF) and Privately Financed Construction Reporting Procedures, July 16, 2003,"
- (bd) [DoD Instruction 2000.16](#), "DoD Antiterrorism Standards," June 14, 2001
- (be) *Sections 5595 - 5597 of title 5, United States Code, "Severance Pay," "Back pay due to unjustified personnel action," and "Separation Pay"*
- (bf) [DoD Instruction 1330.20](#), "Reporting of Morale, Welfare, and Recreational (MWR) Activities Personnel Information," September 4, 1980
- (bg) *DoD 7000.14-R, "Financial Management Regulation, Volume 7A, Military Pay Policy and Procedures - Active Duty and Reserve Pay," August 2002*
- (bh) [DoD Directive 7360.5](#), "Policies Governing Use and Disposition of Currency and Coins Under Emergency Conditions," April 28, 1987
- (bi) [DoD Directive 1000.11](#), "Financial Institutions on DoD Installations," June 9, 2000
- (bj) Section 1832(a) of title 12, United States Code, "Withdrawals by Negotiable or Transferable Instruments for Transfers to Third Parties"
- (bk) Part 202 of title 31, Code of Federal Regulations, "Depositaries and Financial Agents of the Federal Government," current edition

## E2. ENCLOSURE 2

### DEFINITIONS

#### E2.1. TERMS

E2.1.1. Appropriated Funds (APF). Monies provided by the Congress, under statutory authority, from the U.S. Treasury for specified purposes.

E2.1.2. Armed Services Exchanges. The Army and Air Force Exchange Service, the Navy Exchange Service Command, and the Marine Corps Exchange programs established as an integral part of the non-pay compensation system for active duty personnel. They have the dual mission of providing authorized patrons with articles of merchandise and services and of generating NAF earnings as a source of funding for DoD military MWR programs.

E2.1.3. Common Support. APF and NAF support used to perform the general management or administration of more than one program group or funding category within a program group at installation, major command, or Service Headquarters level, and that is not easily or readily identifiable to a specific program. Common support does not include services performed by Program Group VI NAFIs. Examples of common support are central financial management and civilian personnel office functions; executive control and essential command supervision functions; common warehousing, marketing, or maintenance functions; and central accounting and payroll, information system, and procurement processing functions.

E2.1.4. Continental United States (CONUS). The 48 contiguous United States and the District of Columbia.

E2.1.5. Custodian or Fund Manager. The Individual appointed by written authority to a position of responsibility and trust to exercise administrative and executive control of a NAFI and charged with fiduciary responsibility for the NAF resources.

E2.1.6. DoD Personnel. Military personnel, including members of the Reserve component, and DoD civilian employees paid from either APF or NAF.

E2.1.7. Executive Control and Essential Command Supervision (ECECS). Managerial staff functions and positions at an installation, major command, or Military Service located above the direct program managerial and operational level of individual NAFI programs that support planning, organizing, directing, coordinating, and controlling the overall operations of NAFI programs. ECECS specifically consists of program,



fiscal, logistical, and other management functions that are required to ensure fiscal and management oversight.

E2.1.8. Extraordinary Items. Events and transactions that are distinguished by their unusual nature, the infrequency of their occurrence, and significant difference from the customary business operation.

E2.1.9. Installation. Any real property or area, which is controlled, owned, or leased by the Department of Defense.

E2.1.10. Modernization. The alteration or replacement of facilities solely to implement new or higher standards, to accommodate new functions, or to replace building components that typically last more than 50 years (such as the framework or foundation).

E2.1.11. Nonappropriated Funds (NAF). Monies or other assets derived from sources other than congressional appropriations and commissary surcharge funds, primarily from the sale of goods and services to DoD personnel and their family members that are used by a NAFI to support or provide authorized programs. Separate and apart from funds that are recorded on the books of the *Treasury* of the United States, NAF are Government funds used for the collective benefit of those who generate them.

E2.1.12. Nonappropriated Fund Instrumentality (NAFI). A DoD organizational and fiscal entity that is supported, in whole or in part by NAF. It acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. It is not incorporated under the law of any State or the District of Columbia, but has the legal status of an instrumentality of the United States.

E2.1.13. Outside Continental United States (OCONUS). Areas other than the 48 contiguous United States and the District of Columbia. Includes Alaska, Hawaii, Puerto Rico, Guam and the U.S. territories and possessions.

E2.1.14. Overseas. Areas other than the 50 United States and the District of Columbia.

E2.1.15. Personal Property. Tangible fixed assets that are not land or part of a building or its installed equipment.

E2.1.16. Resale Function. The acquisition and resale of merchandise and services conducted by NAFI programs or their concessionaires. Specifically excluded from this definition are user fees, interest, funds provided from APF, and other sources of income not directly related to the sale or resale of merchandise and services.

E2.1.17. Restoration. The repair or replacement work to restore facilities damaged by inadequate sustainment, excessive age, natural disaster, fire, accident, or other causes.

E2.1.18. Service Headquarters. Headquarters organizations that have managerial responsibility for NAFIs within the Armed Services.

E2.1.19. Special Purpose Central Funds. NAFIs established for a specific general and administrative purpose to support more than one Program Group. Examples include NAF self-insurance funds, NAF central construction funds, and NAF employee life and health insurance.

E2.1.20. Successor NAFI. A NAFI designated to provide financial support and assistance, receive or redistribute excess assets, and assume residual liabilities of an assigned NAFI.

E2.1.21. Supplemental Mission Fund. A NAFI designated to receive NAF generated as the result of installation operation of mission programs such as training, food service, education, and security. Examples include: the Athletic Association Fund, Dependent Schools Funds, and the Military Treatment Lodging Facility.

E2.1.22. Sustainment. The recurrent, day-to-day, periodic, or scheduled work required to preserve a Government-owned facility, its installed equipment, and its premises in such a condition that it may be used for its designated purpose.

E3. ENCLOSURE 3

APF AND NAF AUTHORIZATIONS

**General Funding Authorizations for all Categories of NAFI Activities**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
A. <u>MILITARY PERSONNEL</u>				
1. Executive control and essential command supervision (ECECS).	Authorized	Authorized	Authorized	Not Applicable
2. All other personnel.	Authorized	Authorized	Not authorized <sup>3</sup>	Not Applicable <sup>4</sup>
B. <u>CIVILIAN PERSONNEL</u>				
1. <u>Permanent Assignment Utilization:</u>				
a. ECECS	Authorized	Authorized	Authorized <sup>5</sup>	Authorized
b. Personnel performing managerial functions or requiring technical and/or professional qualifications. Also personnel accountable for APF resources and the protection of the interest of the Federal Government.	Authorized	Authorized	Not authorized	Authorized
c. Personnel directly and primarily involved in resale.	Not Authorized	Not Authorized	Not Authorized	Authorized
d. All other personnel.	Authorized	Authorized	Not authorized	Authorized
2. <u>Additional and Collateral Duties:</u> Applies to APF employees who are assigned duties on an additional or collateral duty basis. These duties shall be in addition to the civilian employee's primary duty assignment and may be of an ECECS or operational nature.	Authorized	Authorized	Authorized <sup>5</sup>	Not Applicable

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
3. <u>Temporary Duty</u> : Participants in athletic, recreation and entertainment events conducted as part of the MWR program. International and national sports competitions authorized by statute and other DoD issuances to include command supervision.	Authorized	Authorized	Not Authorized	Not Applicable
4. <u>Civilian Personnel Office Assistance or Administration</u> : Relates to CPO support for: a. Technical advice and counsel that may be provided by the CPO to assist in the personnel management of employees paid with NAF.	Authorized	Authorized	Authorized	Not Authorized
b. Day-to-day personnel administration of employees paid with NAF to include, but not limited to, recruitment placement, position classification, salary and wage administration, training, personnel records maintenance, employee relations, and personnel matters.	Authorized when no additional incremental APF costs are incurred	Authorized when no additional incremental APF costs are incurred	Authorized when no additional incremental APF costs are incurred	Authorized.
C. <u>TRAVEL OF PERSONNEL</u> :  1. <u>Permanent Change of Station (PCS)</u> : Applies to relocation of APF and NAF personnel assigned on a full-time permanent basis to NAFI programs and activities for: a. APF Personnel.	Authorized	Authorized	Authorized	Not Authorized
b. NAF Personnel.	Not authorized except for APF-authorized NAF positions	Not authorized except for APF-authorized NAF positions	Not authorized except for APF-authorized NAF positions	Authorized.

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p><u>2. Temporary Duty (TDY) Travel:</u></p> <p>a. Applies to TDY for personnel employed by or assigned or detailed to NAFI programs and activities. (1) APF Personnel</p>	Authorized	Authorized	Authorized	Authorized for personnel engaged in internal NAFI operations
(2) NAF Personnel	When travel is directed by an authorized DoD official and relates to APF business	When travel is directed by an authorized DoD official and relates to APF business	When travel is directed by an authorized DoD official and relates to APF business	Authorized
b. Applies to TDY travel of participants engaged in international and national sports competitions authorized by statute and other DoD issuances to include command supervision. Does not preclude space available travel by participants in MWR programs.	Authorized	Authorized	Not authorized	Authorized
<p><u>3. Use of Government-Owned Vehicles:</u> Relates to use of Government-owned, motor pool-controlled passenger vehicles by a NAFI program or activity.</p>	Authorized	Authorized	Authorized to assist in the performance of ECECS	Authorized to reimburse APF for use of Government-owned vehicles for other than ECECS in Category C
<p><u>D. TRANSPORTATION OF THINGS</u></p> <p>1. Goods purchased with APF.</p>	Authorized	Authorized	Authorized	Not Authorized

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p>2. Goods purchased with NAF.</p> <p>a. Transoceanic movement of goods to and from CONUS sea and aerial ports of debarkation to first OCONUS.</p> <p>b. Movement of U.S. and foreign goods within foreign areas when commercial transportation is not available or in combat zones.</p> <p>c. Movement of U.S. goods between DoD installations because of base closures, or to safeguard goods under emergency conditions, e.g., threat of hostile force or natural disaster.</p> <p>d. All other transportation of NAF goods.</p>	<p>Authorized</p> <p>Authorized</p> <p>Authorized</p> <p>Not Authorized except on reimbursable basis. Initial APF funding permitted only when NAF shall reimburse APF</p>	<p>Authorized</p> <p>Authorized</p> <p>Authorized</p> <p>Not Authorized except on reimbursable basis. Initial APF funding permitted only when NAF shall reimburse APF</p>	<p>Authorized</p> <p>Authorized</p> <p>Authorized</p> <p>Not Authorized except on reimbursable basis. Initial APF funding permitted only when NAF shall reimburse APF</p>	<p>Authorized when APF are not available</p> <p>Authorized when APF are not available</p> <p>Authorized when APF are not available</p> <p>Authorized</p>
<p>3. <u>Household Goods:</u> Applies to the authorized transportation of household goods for either:</p> <p>a. APF personnel.</p>	<p>Authorized</p>	<p>Authorized</p>	<p>Authorized</p>	<p>Not authorized</p>

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
b. NAF personnel	Authorized for APF-authorized NAF positions. Initial APF funding is permitted for other NAF positions only when NAF shall reimburse APF (except at BRAC locations that are authorized APF)	Authorized for APF-authorized NAF positions. Initial APF funding is permitted for other NAF positions only when NAF shall reimburse APF (except at BRAC locations that are authorized APF)	Authorized for APF-authorized NAF positions. Initial APF funding is permitted for other NAF positions only when NAF shall reimburse APF (except at BRAC locations that are authorized APF)	Authorized
<b>E. UTILITIES AND RENTS</b>				
1. <u>Utilities</u> : Applies to heat, steam, water, gas, electricity, air conditioning, and other utility services for facilities used primarily by NAFI programs and activities.	Authorized	Authorized	Authorized in OCONUS	Authorized for Category C costs in CONUS <sup>6</sup>
2. <u>Rents</u> : Applies to the use and possession of non-DoD lands, buildings, and other improvements and installed equipment for a specified period through contract, lease agreement, or other legal instrument when authority is granted through appropriate channels.	Not authorized except upon specific approval by the Head of the DoD Component concerned	Not authorized except upon specific approval by the Head of the DoD Component concerned	Not authorized except upon specific approval by the Head of the DoD Component concerned	Not authorized except upon specific approval by the Head of the DoD Component concerned

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p><b>F. COMMUNICATIONS</b></p> <p>1. <u>Electronic Communications</u>: Applies to electronic communications (telephone, teletype, television, DSN, fax, public address systems, and other electronic media) provided to NAFIs.</p>	Authorized in support of command management functions, statistical data gathering, communications with other DoD and Government Agencies, and OCONUS	Authorized in support of command management functions, statistical data gathering, communications with other DoD and Government Agencies, and OCONUS	Authorized in support of command management functions, statistical data gathering, communications with other DoD and Government Agencies, and OCONUS	Authorized when supporting the operational function of the activity, such as procurement of items for resale and collection of income for merchandise or services sold in CONUS
<p>2. <u>Postal Service, Mail Indicia, and Postage</u>: Official communications within and between Government Agencies, persons and private commercial agencies not related to the sale of goods and services.</p>	Authorized	Authorized	Authorized	Authorized for all other correspondence related to the operation of the NAFI
<p><b>G. EQUIPMENT MAINTENANCE</b></p> <p>1. <u>Government-Owned Equipment</u>: Applies to maintenance, repair, overhaul, or rework of equipment.</p>	Authorized	Authorized	Authorized, except for surplus/excess Government equipment	Authorized
<p>2. <u>Equipment Acquired with NAF</u>: Applies to maintenance, repair, overhaul, or rework of equipment acquired with nonappropriated funds.</p>	Authorized for equipment acquired with NAF but authorized for purchase with APF where title transfers to the Government	Authorized for equipment acquired with NAF but authorized for purchase with APF where title transfers to the Government	Authorized for equipment acquired with NAF but authorized for purchase with APF where title transfers to the Government	Authorized



**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p><u>H. PRINTING AND REPRODUCTION</u></p> <p>Applies to printing and reproduction such as work done on printing presses, lithographing and other duplicating, related binding operations, photography, microfilming, formats and forms, editing, and graphics.</p>	<p>Authorized for all costs except those related to the sale of merchandise or services and to the internal operation of NAFIs</p>	<p>Authorized for all costs except those related to the sale of merchandise or services and to the internal operation of NAFIs</p>	<p>Authorized for all costs except those related to the sale of merchandise or services and to the internal operation of NAFIs</p>	<p>Authorized</p>
<p><u>I. OTHER SERVICES</u></p> <p>Applies to the following categories of expenses incurred in the day-to-day operation of the NAFI:</p> <p>1. <u>Education and Training:</u> Pertains to the advancement of job knowledge, development of skills, and improvement of abilities of NAFI personnel.</p>	<p>Authorized for APF positions and APF-authorized NAF positions and for DoD Component-approved training that is not job unique such as management and/or leader development courses, quality training, health and safety, sexual harassment, etc.</p>	<p>Authorized for APF positions and APF-authorized NAF positions and for DoD Component-approved training that is not job unique such as management and/or leader development courses, quality training, health and safety, sexual harassment, etc.</p>	<p>Authorized for APF positions and APF-authorized NAF positions and for DoD Component-approved training that is not job unique such as management and/or leader development courses, quality training, health and safety, sexual harassment, etc.</p>	<p>Authorized for NAF personnel</p>

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p>2. <u>Auditing Services:</u>                      Relates to the independent examination, review, and evaluation of the records, controls, practices, and procedures in the area of financial and operational management of the NAFI by DoD Components' audit organizations or independent public accountants.</p>	Authorized in accordance with reference (y)	Authorized in accordance with reference (y)	Authorized in accordance with reference (y)	Authorized in accordance with reference (y)
<p>3. <u>Data Automation:</u>                      Applies to automatic data processing system development or operation (personnel, equipment, supplies) needed for either essential command supervision or internal operation of the NAFI. (DoD Directive 7950.1 and DoD 7950.1-M, references (az) and (ba))</p>	Authorized for services required for command supervision and to discharge a commander's supervisory responsibility for management review and analysis	Authorized for services required for command supervision and to discharge a commander's supervisory responsibility for management review and analysis	Authorized for services required for command supervision and to discharge a commander's supervisory responsibility for management review and analysis	Authorized for costs related to internal management of NAF resources of NAFIs

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p>4. <u>Financial Management Services:</u>                      Relates to those services that reflect the preparation of APF and NAF budgets; provide accounting for financial management data; facilitate the preparation of financial reports; and provide for management review and analysis to ensure proper control over all the resources that support NAFIs.</p>	Authorized to provide technical guidance and assistance in preparing budgets, financial and analytical data required for command supervision. Not authorized for NAF accounting and analytical functions	Authorized to provide technical guidance and assistance in preparing budgets, financial and analytical data required for command supervision. Not authorized for NAF accounting and analytical functions	Authorized to provide technical guidance and assistance in preparing budgets, financial and analytical data required for command supervision. Not authorized for NAF accounting and analytical functions	Authorized for all costs related to NAF accounting and analytical functions required for the operation of NAFIs
<p>5. <u>Legal Services:</u>                      Applies to that service and assistance provided by or through the Judge Advocates General (JAGs) or General Counsel.</p>	Authorized	Authorized	Authorized	Authorized for NAFI internal legal staffing
<p>6. <u>Procurement Office Assistance and Administration:</u>                      a. <u>Assistance:</u>                      Applies to technical advice and assistance that may be provided by the procurement office to assist NAFI management in the procurement of goods and services with NAF.</p>	Authorized	Authorized	Authorized	Not Applicable

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
b. <u>Administration</u> : Applies to the functions of procurement (source development, preparation of procurement documents, negotiation of prices, contract administration and audit, and related procurement functions) being performed by the Procurement Office in the procurement of goods and services with NAF.	Authorized when no additional incremental APF costs are incurred	Authorized when no additional incremental APF costs are incurred	Authorized when no additional incremental APF costs are incurred <sup>7</sup>	Authorized
7. <u>Custodial and Janitorial Service</u> : Applies to the manpower, supplies, and equipment provided by the installation engineer, the public works department, or by contract.	Authorized	Authorized	Not authorized	Authorized when APF are not available or sufficient
8. <u>Other Services</u> : Relates to those services of a protective or sanitary nature normally supplied as a command function. Such services include, but are not limited to fire protection, including acquisition and installation of extinguishers and sprinkler and alarm systems; security protection, including physical security of buildings (such as alarm systems and security bars), personnel background investigations under the provisions of DoD 5200.2-R (reference (bb)) and protection of funds; pest control; sewage disposal; environmental compliance and remediation; trash and garbage removal; snow removal; safety; medical, veterinary and sanitary inspections; and rescue operations.	Authorized for all costs associated with protecting the health and safety of participants and employees and with protecting NAFI resources	Authorized for all costs associated with protecting the health and safety of participants and employees and with protecting NAFI resources	Authorized for all costs associated with protecting the health and safety of participants and employees and with protecting NAFI resources <sup>8</sup>	Authorized only when APF are not available or sufficient

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p>9. <u>Minor Construction and Modernization</u>: Includes associated architectural and engineering services and applies to the erection, addition, expansion, alteration, conversion, or replacement of an existing facility, the relocation of a facility from one place to another, provided that the cost does not exceed the limits for APF minor construction as outlined in reference (q) or NAF minor construction outlined in <i>DoD Instruction 7700.18</i> (reference (bc)).<sup>9</sup></p>	<p>Authorized. See enclosure E3.A1.</p>	<p>Authorized for Child Development Centers, Youth Centers/ Courts/Playing Fields OCONUS and as noted in footnote 9. See enclosure E3.A1.</p>	<p>Authorized per footnote 6 and for Armed Services Exchange facilities per footnote 10. See enclosure E3.A1.</p>	<p>Authorized except for Category A and Child Development Centers</p>
<p>10. <u>Sustainment and Restoration</u>: Applies to both sustainment (the recurrent, day-to-day, periodic, or scheduled work required to preserve a Government-owned facility, its installed equipment, and its premises in such a condition that it may be used for its designated purpose) and restoration (the repair or replacement work to restore facilities damaged by inadequate sustainment, excessive age, natural disaster, fire, accident or other causes.) Includes routine grounds maintenance (except for golf courses); facility maintenance necessary to maintain structural integrity, external appearance, interior appearance and facility systems (HVAC, electrical, and plumbing) to standard required of all facilities on the installation; and correction of fire and safety, Americans With Disabilities Act, and force protection deficiencies.</p>	<p>Authorized</p>	<p>Authorized</p>	<p>Authorized</p>	<p>Authorized when APF are not available or sufficient</p>

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p>J. <u>AIRCRAFT PETROLEUM, OIL, AND LUBRICANTS (POL)</u></p> <p>Applies to POL (including fuel additives) consumed by aircraft operated in conjunction with a NAFI activity (does not include cost for travel of personnel (Section C., above) or for transportation of things (Section D., above)).</p>	Not authorized	Not authorized	Not authorized	Authorized for MWR flying activities only
<p>K. <u>SHIP POL</u></p> <p>Applies to POL consumed by ships and other vessels operated in conjunction with Military MWR activities (does not include cost for travel of personnel (Section C., above) or for transportation of things (Section D., above)).</p>	Authorized	Authorized	Not authorized	Authorized
<p>L. <u>SUPPLIES</u></p> <p>Applies to supply items (expendables) that are consumed or lose their identity when used, or whose low value does not require the same accountability required for equipment. Included in this group are clothing, tentage, organizational tools, administrative and housekeeping supplies (other than in paragraph I.8., above), petroleum fuels, lubricants, preservatives, coolants, oil derivatives (other than aircraft and ship POL).</p>	Authorized except for expendables related to the sale of merchandise or services	Authorized except for expendables related to the sale of merchandise or services	Authorized for supplies for required for ECECS	Authorized
<p>M. <u>EQUIPMENT</u></p> <p>Includes the acquisition cost of any item of equipment, furniture, or furnishing that does not meet the criteria of an investment cost as defined in reference (r).</p>	Authorized except for equipment related to sale of merchandise or services	Authorized except for equipment related to sale of merchandise or services	Authorized for equipment required for ECECS and surplus/excess Government equipment	Authorized

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p><b><u>N. OTHER OPERATING EXPENSES</u></b></p> <p>Includes the cost of types of resources not otherwise provided for, such as investments and loans, grants, subsidies and contributions, insurance claims and indemnities, interest and dividends, and payments instead of taxes, if such resources are included in operations appropriations.</p>	<p>Authorized for costs incurred incident to the performance of functions related to ECECS or as specifically authorized by statute or DoD publication</p>	<p>Authorized for costs incurred incident to the performance of functions related to ECECS or as specifically authorized by statute or DoD publication</p>	<p>Authorized for costs incurred incident to the performance of functions related to ECECS or as specifically authorized by statute or DoD publication</p>	<p>Authorized</p>
<p><b><u>O. NON-OPERATING EXPENSES</u></b></p> <p>Relates to the following categories of services or expenses provided to an MWR activity.</p> <p>1. <b><u>A&amp;E Services</u></b>: Applies to professional services that include the necessary consultations, preparation of preliminary studies, analyses, cost estimates, working drawings, specifications, interior design and decoration, and the inspection and supervision services required for the construction, alteration, or restoration of real property facilities.</p>	<p>Authorized for APF construction and for NAF construction, when no additional manpower authorizations are required</p>	<p>Authorized for APF construction and for NAF construction, when no additional manpower authorizations are required</p>	<p>Authorized for APF construction and for NAF construction, when no additional manpower authorizations are required</p>	<p>Authorized for NAF construction except for inspection and supervision services required for Government acceptance of the facility</p>

**General Funding Authorizations for all Categories of NAFI Activities, continued**

Element of Resource	APF			NAF
	Category A	Category B	Category C <sup>1, 2</sup>	
<p>2. <u>Major Construction</u>: Applies to both new footprint and recapitalization (erection, addition, expansion, extension, alteration, conversion or replacement of an existing facility, and the relocation of a facility from one place to another) when the cost of such construction exceeds the limits for minor construction as outlined in reference (r), for MILCON and reference (ba) for NAF Major Construction.<sup>6</sup> Construction includes equipment installed in, and made a part of such facilities and related site preparation, excavation, filling, and landscaping or other land improvements.</p>	<p>Authorized. See enclosure E3.A1.</p>	<p>Authorized for Child Development Centers, Youth Centers/ Courts/Playing Fields OCONUS and per footnote 9. See enclosure E3.A1.</p>	<p>Authorized per footnote 5 and for Armed Services Exchange facilities per footnote 10. See enclosure E3.A1.</p>	<p>Authorized except for Category A and Child Development Centers</p>
<p>3. <u>Purchase of Real Property</u>: Relates to the acquisition cost of land, buildings, and other fixed improvements.</p>	<p>Purchase of real property authorized only to the extent approved by the Congress</p>	<p>Purchase of real property authorized only to the extent approved by the Congress</p>	<p>Purchase of real property authorized only to the extent approved by the Congress</p>	<p>Not authorized except for the purchase of commercially owned buildings located on Government property</p>
<p>4. <u>Investment Equipment</u>: Relates to the acquisition and use of equipment that meets the criteria of investment items, as defined in reference (r).</p>	<p>Authorized except for equipment related to sale of merchandise or services</p>	<p>Authorized except for equipment related to sale of merchandise or services</p>	<p>Not authorized except for use of surplus/excess Government equipment</p>	<p>Authorized</p>
<p>P. <u>MERCHANDISE, SERVICE, AND EQUIPMENT FOR RESALE OR RENT</u></p> <p>Pertains to merchandise, services, and equipment procured by a NAFI for resale or rent to authorized persons.</p>	<p>Not authorized</p>	<p>Not authorized</p>	<p>Not Authorized<sup>11</sup></p>	<p>Authorized</p>



**General Funding Authorizations for all Categories of NAFI Activities, continued**

Notes:
1. Military MWR and Armed Services Exchange Category C activities, excluding golf courses, at designated remote and isolated locations are authorized funding under Category B rules under the provisions of references (h) and (k).
2. During Force protection conditions at Charlie and Delta, Military MWR Category C activities, excluding golf courses, are authorized additional APF support for civilian personnel with installation management and supervisory functions (excluding personnel directly and primarily involved in resale), utilities and rents, and custodial and janitorial services.
3. Active duty military personnel performing ECECS are authorized in sufficient numbers for Armed Services Exchange programs to provide a trained cadre to meet wartime and deployment requirements and to perform managerial functions.
4. Enlisted personnel may be employed during non-duty hours by NAFIs as part-time NAF-paid employee.
5. Not authorized for Armed Services Exchange programs.
6. Rates charged shall not include incremental or prorated share of overhead, maintenance, and repair to utility systems, or capital investments in the installation's utility infrastructure systems unless otherwise specified by a Memorandum of Agreement (MOA) or Inter-Service Support Agreement (ISSA).
7. Authorized for Armed Services Exchanges when existing APF contracts may be used to purchase the item or services.
8. Trash and garbage removal services are not authorized for Armed Services Exchange activities in the CONUS.
9. APF may be used for all community facility construction related to the establishment, activation, or expansion of a military installation or relocation of facilities for convenience of the Government; replacement of facilities denied by country-to-country agreements; restoration of facilities destroyed by acts of God, fire or terrorism; antiterrorism/force protection measures required under DoD Instruction 2000.16 (reference (bd)), and to correct life safety and Americans with Disabilities Act and force protection deficiencies. In the case of installation "expansion," a major increase in authorized and assigned personnel strength over a short period of time is necessary before appropriated fund construction can be programmed. Such expansion must be the result of a mission change or influx of new units or systems. For example, a 25 percent increase in a 2-year time span satisfies these criteria. In contrast, personnel increases resulting from an evolutionary expansion occurring over several years do not satisfy these criteria.
10. APF authorized for Armed Services Exchange facilities in areas of military conflict, or in air terminals, hospitals, housing, or other construction projects. APF authorized for Armed Services Exchange logistical facilities outside the United States including: administration, storage and maintenance, laundry and dry cleaning plants, bakeries, dairies or similar facilities in support of the military mission.
11. Appropriated funds are authorized for military clothing and other appropriated funded items sold in military exchanges on a cost-reimbursable basis.

Attachments - 1

E3.A1. Construction of NAFI Facilities

E3.A1. ATTACHMENT 1 TO ENCLOSURE 3

CONSTRUCTION OF NAFI FACILITIES

<u>TYPE OF FACILITY BY CATEGORY</u>	<u>APF/MILCON</u>	<u>NAF<sup>1</sup></u>
<u>CATEGORY A</u>		
Administrative Office/Supply Center	X	
Aquatic Training Facility/Bathhouse for military training, physical fitness, combat training and/or therapy	X	
Auditorium/Theater Multipurpose	X	
Gymnasium/Fieldhouse/Physical Activities Complex	X	
Library	X	
Playing Courts and Fields (associated with physical conditioning)	X	
Recreation Center/Day Room/Multipurpose Recreational Facility	X	
Temporary Lodging Facility (in support of official TDY travel)	X	
Temporary Lodging Facility (in support of official PCS travel)		X

<u>TYPE OF FACILITY BY CATEGORY</u>	<u>APF/MILCON</u>	<u>NAF<sup>1</sup></u>
<u>CATEGORY B</u>		
Arts and Crafts/Skill Development		X
Automotive Skill Development Center		X
Campgrounds		X
Music/Theater/Entertainment		X
Outdoor Recreation Pavilion		X
Playing Courts and Fields		X
Recreation Equipment Issue Facility		X
Recreation Swimming Pools/Bathhouse		X
Stars and Stripes Facilities		X
Youth Centers/Courts/Playing Fields		
OCONUS	X	
CONUS		X
Bowling Centers (12 lanes or less)		X
Child Development Centers	X	
Marinas without Resale or Private Berthing		X
Information, Tickets and Tours (ITT) Facilities		X

TYPE OF FACILITY BY CATEGORY

APF/MILCON    NAF<sup>1</sup>

CATEGORY C

Aero Club		X
Amateur Radio Facility		X
Armed Forces Recreation Centers		X
(accommodations/dining and resale facilities)		X
Bandstand		X
Bathhouse		X
Book Store		X
Bowling Centers (more than 12 lanes)		X
Car Wash		X
Guest Houses		X
Exchange Facilities, military conflict, air terminal, hospital, housing or other construction project	X	
Exchange Logistical Facilities, outside the U.S., administration, storage and maintenance, laundry and dry cleaning plants, bakeries, dairies or similar facilities in support of the military mission	X	
Exchange Resale Outlet		X
Golf Course/Facility		X
Marina/Boathouse		X
Open Messes/Military Clubs		X
Other NAFI Resale Outlets		X
Outdoor Theater		X
Package Store		X
Recreational Lodging (cabins/cottages/lodges)		X
Recreational Water Parks		X
Riding Stable		X
Rod and Gun Club		X
RV Parks and Storage Lots		X
Skating Rink (Ice or Roller)		X
Temporary Lodging Facility		X
(in support of official PCS travel, operated as MWR Category C)		X

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<sup>1</sup> Appropriated funds shall be used for site development costs, archeological and ammunition clearances, water purification, demolition, excessive utility connections, and road service.

E4. ENCLOSURE 4  
COST EXPENSE CAPTIONS

E4.1. APF DEFINITIONS

The following cost expense captions identify expenses reported on Schedule A- APF and NAF Expense Summary. (See E7.A4., below.)

E4.1.1. Military Personnel

E4.1.1.1. Includes the cost of the services of active duty forces military personnel computed according to policy in Volume 7A of DoD 7000.14-R (reference *(bg)*). It also includes personnel assigned or used on a permanent, temporary, intermittent, or collateral duty basis; does not include any person with less than 25 percent part-time or collateral duties. Costs shall be accrued at the standard rates in proportion to time used in performing duties associated with the NAFI.

E4.1.1.2. Does not include personnel costs that are captured or part of a subsidiary costing system to the extent such costs are reported under another expense element of this report (for instance, if maintenance and repair costs include a proper allocation of labor charges, such labor charges shall not be reported under personnel expenses).

E4.1.2. Civilian Personnel (Services and Benefits)

E4.1.2.1. Includes the cost of the services of civilian personnel paid from APF. It also includes personnel compensation and benefits, including employer costs for Civil Service Retirement System, Federal Employees Retirement System, Federal Employees Group Life Insurance, and Federal Employees Group Health Insurance. This also includes personnel assigned or used on a permanent, temporary, intermittent, or collateral duty basis. This does not include any person with less than 25 percent part-time or collateral duties. Costs shall be accrued in proportion to time used to perform duties associated with the NAFI. This does not include personnel costs that are captured as part of a subsidiary costing system to the extent such costs are reported under another expense element of this report.

E4.1.3. Utilities and Rents

E4.1.3.1. Includes the cost of heat, light, power, water, gas, electricity, steam, and other utility services, except transportation and communication services. Utility

costs shall be reported for all buildings and facilities used exclusively or predominantly for MWR activities. For buildings or facilities where a portion of the space is dedicated to predominantly MWR purposes and the remainder is used predominantly for non-MWR functions, utility costs shall be prorated.

E4.1.3.2. When metering devices are not available to measure utility costs for a given facility, an appropriate analytical prorate formula may be used. Utilities may be prorated on the basis of relative square footage if such a method does not result in a gross distortion. Utility costs shall not be reported for a facility that is used predominantly for non-MWR purposes and only incidentally for MWR purposes.

E4.1.3.3. Includes rental of equipment (except transportation equipment) and rental of real property. When MWR activities occupy portions of blocks of space rented by the Government, rental charges shall be allocated to MWR activities. Relative square footage may be used as the basis for allocation if this does not produce a gross distortion of the true costs.

E4.1.4. Communications includes charges for the transmission of messages from place to place, postal charges, telephone and teletype service, or telephone installation charges. Costs shall include a fair and reasonable charge for the use of telephone instruments.

E4.1.5. Sustainment, Restoration and Modernization (SRM) (Including Minor Construction)

E4.1.5.1. Includes SRM of equipment, facilities, and real property supplied through commercial contracts, or installation service functions such as post engineer or base civil engineer. It also includes the erection, addition, expansion, extension, alteration, conversion or replacement of an existing facility or the relocation of a facility from one place to another, providing that the cost of such construction does not exceed the limits for minor construction as outlined in reference (r).

E4.1.5.2. When SRM funded from APF is performed for MWR activities, costs shall be reported to include direct labor and materials. Overhead allocation for general and administrative expenses, supplies and miscellaneous materials, costs or equipment usage charges shall be included when subsidiary costing systems are available to allocate such overhead items of SRM jobs, or where such overhead allocation is necessary to prevent a gross underestimate of SRM costs. SRM costs allocated on the basis of job costing systems, using fixed charges or unit costs for specific categories of maintenance, may be used if such systems provide a reasonable aggregate estimate of SRM costs.

E4.1.5.3. SRM costs shall be allocated to MWR activities on the basis of some form of job order system. SRM of a shared facility not directly identifiable with either the MWR or non-MWR portion shall be allocated on a reasonable basis such as relative square footage. Minor SRM not separately identifiable as a SRM expense need not be allocated to this expense element as long as such costs are included under other expense elements, such as personnel or supplies.

E4.1.6. Supplies and Equipment includes the cost of supplies, equipment, and materials that are ordinarily consumed or expended within 2 years after they are put into use or are used to form a minor part of fixed property (such as repair parts). This does not include supplies consumed in SRM when the associated cost is reflected in the element of resource "Sustainment, Restoration and Modernization."

E4.1.7. Contractual Services includes the cost of services that are provided indirectly through contracts or memoranda of agreement, such as custodial contracts or payroll service contracts. It also includes as APF, the costs of services provided by a NAFI under the *Uniform Funding and Management (UFM) and DoD MWR Utilization, Support, and Accountability (USA) practices* or other memoranda of agreement.

E4.1.8. Travel of Personnel includes travel and transportation of persons when the primary purpose of such travel and transportation is the conduct of NAFI business. Includes commercial transportation fares, rental of passenger-carrying vehicles, subsistence for travelers such as per diem allowances, incidental travel expenses such as baggage transfer and telephone expenses, mileage allowances and tolls, and charges for use of Government-owned passenger-carrying vehicles. For the latter, the expenses may be computed by using a standard cost per mile when actual expenses are not readily identifiable. Also includes TDY travel of personnel employed by, assigned to, or detailed to NAFI programs, travel of participants in MWR programs, and PCS travel for civilians relocated to NAFI programs and activities. (The expense shall be charged to the activity to which the civilian is relocated.)

E4.1.9. Transportation of Things

E4.1.9.1. Includes expenses for the transportation of things, whether incurred through contract or use of Government resources. It also includes contractual charges by common and contract carrier, rental of trucks and other transportation equipment, use of non-passenger vehicles from base motor pools, and transportation charges for Government airlift, sealift, and other transportation or logistic support.

E4.1.9.2. Includes transportation of household goods related to PCS travel for civilians relocated (on a full-time basis) to NAFI programs and activities. (The expense shall be charged to the activity to which the civilian is relocated.) Transportation costs of using Government vehicles may use a standard cost per mile or other appropriate method as long as it fairly estimates the cost. Charges for transportation by airlift, or sealift, shall be by the costing method that states a fair user charge covering both direct and overhead costs, as prescribed in reference (x).

E4.1.10. Construction of Facilities includes costs associated with construction and acquisition of land funded by military construction appropriations meeting criteria for major construction as outlined in reference (r). Included are design modification, contract administration, inspection, supervision of construction, and other related costs.

E4.1.11. Equipment (Investment Type) includes equipment having a useful life expectancy of more than 2 years and an acquisition cost as prescribed by reference (r).

## E4.2. NAF DEFINITIONS

The various expense captions shall include aggregations of accounts from current NAF general ledger systems that most appropriately correspond to the APF definitions.

E4.2.1. Reimbursed Common Support includes those expenses provided by a different Program Group and reimbursed by the benefiting Program Group as identified in reference (a). It does not include premiums or assessments paid to a Program Group VI - Special Purpose Central Fund.

E4.2.2. NAF Depreciation includes depreciation expense on NAFI capitalized tangible fixed assets, both NAFI-owned fixed assets and those fixed assets to which title has been transferred to the Government.

E4.2.3. Construction of Facilities includes costs associated with construction and acquisition of land meeting criteria for NAF major construction as outlined in reference (bc). Included are design modification, contract administration, inspection, supervision of construction, and other related costs. Also includes NAF capitalized minor construction and capitalized sustainment, restoration, and modernization.

E4.2.4. Equipment (Investment Type) includes all other capitalized tangible fixed assets not included in paragraph E4.2.3., above.

E5. ENCLOSURE 5

SUPPLEMENTAL MISSION FUNDS AND SPECIAL PURPOSE CENTRAL FUNDS

E5.1. PROGRAM GROUP V - SUPPLEMENTAL MISSION FUNDS AND PROGRAM GROUP VI - SPECIAL PURPOSE CENTRAL FUNDS

Program Group V - Supplemental Mission Funds and Program Group VI - Special Purpose Central Funds shall have a separate NAFI established for each mission activity.

E5.2. PROGRAM GROUP IV - LODGING PROGRAM NAFIS AND PROGRAM GROUP V - SUPPLEMENTAL MISSION FUNDS

E5.2.1. NAFIs shall be established as Program Group V - Supplemental Mission Funds in circumstances where NAF funds are generated by programs operated as an adjunct to DoD mission activities, such as training, education, food service, transportation, and security activities. NAFIs established as an adjunct to the TDY and PCS lodging program shall be classified as Program Group IV - Lodging Programs. A Supplemental Mission Fund cannot support programs properly classified in Program Groups I, II, III, or VI.

E5.2.1.1. The NAF generated and its expenditure is restricted to the purposes of the NAFI. NAF shall not be used to support the training, lodging, food service, security or other mission activity. NAF may be used only to provide quality of life services as adjuncts to the mission activity. NAF are authorized to support the operational functions of the Supplemental Mission Fund, such as procurement of items for resale and management of NAF resources.

E5.2.1.2. Program Group IV and Program Group V NAFIs are authorized APF and NAF support for Category C activities as indicated in enclosure 3, except that the Stars and Stripes is authorized APF and NAF support as a Category B activity.

E5.2.1.3. APF support of Program Group V - Supplemental Mission Funds shall be reported as required in enclosure 7 only to the extent that it relates directly to the NAFI-operated functions. For example, APF costs of operating the mission activity (training, food service, education, and security) shall not be reported. However, APF support to the NAFI including prorated portions of APF-funded personnel who perform collateral duties of collecting, accounting, or disbursing NAF shall be reported.



E5.2.2. The following list is a sample of Supplemental Mission Funds and is not intended to be all-inclusive:

E5.2.2.1. Dining Hall Fund.

E5.2.2.2. Dependent Schools Fund.

E5.2.2.3. In-Flight Services Fund.

E5.2.2.4. Military Museum/Historical Fund.

E5.2.2.5. Vehicle Registration Fund.

E5.2.2.6. Academic Support Fund.

E5.2.2.7. Commandant's School Fund.

E5.2.2.8. Special Learning Center Fund.

E5.2.2.9. Cadet Restaurant.

E5.2.2.10. Athletic Association Fund.

E5.2.2.11. U.S. Disciplinary Barracks.

E5.2.2.12. Stars and Stripes.

E5.2.2.13. Military Treatment Lodging Facilities (Fisher Houses, Nightingale Houses).

### E5.3. PROGRAM GROUP VI - SPECIAL PURPOSE CENTRAL FUNDS

E5.3.1. ANAFI shall be established in Program Group VI - Special Purpose Central Funds when it is designated as the sole provider of a consolidated NAF function for the DoD Component or Military Service (such as construction, accounting, procurement, personnel administration, employee health and life insurance, and risk management). These NAFIs are managed at the Military Service or DoD Component Headquarters and the service or function shall not be replicated at another echelon or element within the organization.

E5.3.1.1. Special Purpose Central Funds provide services to more than one Program Group. Central NAFIs that support a single Program Group shall be designated and reported within that Program Group. Common support functions that are not provided through a Program Group VI - Special Purpose Central Fund shall be reimbursed or prorated to the benefiting activities.

E5.3.1.2. Expenses are generally recovered through premiums or assessments charged or offset against earnings prior to distribution.

E5.3.1.3. Special Purpose Central Funds are authorized APF and NAF support for Category C programs as indicated in enclosure 3 and shall be reported as Category C activities on Schedule A.

E5.3.2. The following list provides examples of Special Purpose Central Funds and is not intended to be all-inclusive:

E5.3.2.1. NAF Employee Group Health Insurance Fund.

E5.3.2.2. NAF Employee Group Life Insurance Fund.

E5.3.2.3. NAF Risk Management Insurance Fund.

E5.3.2.4. NAF Central Banking or Investment Fund.

## E6. ENCLOSURE 6

### *DoD MORALE, WELFARE, AND RECREATION (MWR) UTILIZATION, SUPPORT, AND ACCOUNTABILITY (USA) AND UNIFORM FUNDING AND MANAGEMENT (UFM) PRACTICES*

#### E6.1. APPLICABILITY

Appropriations may be made available to Program Group I, Program Group II, and Program Group V (Stars and Stripes only), *after NAFI expenditure* using the DoD MWR USA *or before NAFI expenditure using the UFM practices*, only if the program is authorized to receive APF support and only in the amounts the program is authorized to receive.

#### E6.2. MEMORANDUM OF AGREEMENT (MOA)

Military Departments shall establish an MOA outlining the MWR services, by units and/or functions, to be provided by the NAFI to meet its requirements for base operations APF support. *Under the DoD MWR USA practice* APF provided shall not exceed the NAFI's cost for providing the services.

E6.2.1. The MOA shall include the amount and obligation schedule for APF to be provided, and shall be signed by the senior APF resource manager, the NAFI fund manager, and the Installation Commander.

E6.2.2. The MOA may be amended, as required, for changes in services to be provided or changes in installation base operations total support.

E6.2.3. *Under the DoD MWR USA practice, positions encumbered by APF employees shall not be converted to a NAF system. Under the DoD MWR USA practice, positions encumbered by APF employees shall not be converted to a NAF system. Under the UFM practice, positions encumbered by APF employees may be converted to a NAF system with the consent of the employee, provided there is no break in service for the employee. The conversion of an encumbered position shall not entitle an employee to severance pay, back pay or separation pay under 5 U.S.C. Chapter 55, Subchapter IX (reference (be)) and shall not be considered an involuntary separation or other adverse personnel action. An employee who does not consent to the conversion may not be removed from the position because of the failure to provide such consent. Under both the DoD MWR USA and UFM practices, if such an APF position becomes vacant, the MOA may be modified to include those services to be provided by the NAFI. A position converted to NAF or contract, shall not be converted back to an APF position.*

### E6.3. ACCOUNTING AND BUDGETING

The APF support provided through the DoD MWR USA *and UFM practices* shall be reported in budgets, installation accounting records, financial statements, exhibits and reports submitted to the Department of Defense and the Congress in accordance with references (r), (s), (t), (w), and this Instruction.

E6.3.1. Object Class Code 2500 - Other Services shall be used to budget and account for APF *provided through the UFM and DoD MWR USA practices*. Payment shall occur only after obligation of APF on Miscellaneous Obligation Document (MOD), DD Form 2406. This obligation shall be based on the MOA, which is the supporting document for the MOD.

E6.3.2. All MODs must include delivery schedules that ensure services shall be provided not later than the expiration date of funds.

E6.3.3. The *UFM and DoD MWR USA practice* shall not be used to extend the availability of APF. *Appropriated funds made available through the practices shall be considered to be nonappropriated funds for all purposes and shall remain available until expended.*

E6.3.4. The MWR activity shall prepare a billing for services, using Standard Form 1034 "Public Voucher for Purchases and Services Other Than Personal," itemized by function to correspond to the MOA.

E6.3.5. The DoD Components shall issue standard accounting practices to record the APF resources received through the *DoD* MWR USA *and UFM* practices on a transaction basis and in sufficient detail in the NAF accounting records to identify support for each activity broken down by the cost expense captions at enclosure 4. The statement of expense shall explain any differences due to foreign currency fluctuation in accordance with reference (*r*).

E6.3.6. APF disbursing offices shall process payments to the NAFI by electronic funds transfer when feasible.

#### E6.4. AUDITS

During the NAFI audits, the auditors shall ascertain that services provided to the APF were in accordance with the MOA.

E7. ENCLOSURE 7  
FINANCIAL REPORTING

E7.1. REPORT CONTENTS

E7.1.1. The consolidated financial report submitted for each Program Group shall include: an Executive Overview, Notes to Accompany the Financial Statements, Balance Sheet (E7.A1.), Reconciliation of Net Worth (E7.A2.), Statement of Income and Expense (E7.A3.), Schedule A, APF and NAF Expense Summary (E7.A4.), Statement of Cash Flows (E7.A5.), and Funds Available/Projected Usage and Validated Commitments (E7.A6.). The reports shall be provided in hard copy, and Microsoft Word and Excel on formatted 3.5-inch floppy disk, CD ROM or electronically. Modification of report formats, such as adding or deleting programs, activities, or line items is not permitted.

E7.1.2. The following additional reports shall be submitted for Program Group I - Military MWR Programs, Program Group II - Armed Services Exchange Programs, Program Group IV - Lodging Programs and Program Group V - Supplemental Mission Funds.

E7.1.2.1. Program Group I - Military MWR Programs

E7.1.2.1.1. Statement of Income and Expense shall be submitted for each funding category and for each activity defined in reference (h).

E7.1.2.1.2. Schedule A - APF and NAF Expense Summary shall be submitted for each funding category and for each activity defined in reference (h).

E7.1.2.1.3. DoD MWR USA *and UFM Practices* Reports (E7.A7.) shall be submitted for each funding category and for each activity within funding categories.

E7.1.2.2. Program Group II - Armed Services Exchange Programs

E7.1.2.2.1. Armed Services Exchange Programs shall submit DoD MWR USA *and UFM Practices* Reports (E7.A7.).

E7.1.2.2.2. The annual Standard and Poors rating shall be submitted for each Armed Services Exchange Program.

E7.1.2.3. Program Group IV - Lodging Programs

E7.1.2.3.1. Statement of Income and Expense shall be submitted for TDY lodging and PCS lodging separately.

E7.1.2.3.2. Schedule A - APF and NAF Expense Summary shall be submitted for TDY lodging and PCS lodging separately. Total APF support of the lodging mission and support related to the NAFI shall be reported.

E7.1.2.4. Program Group V - Supplemental Mission Funds. The Stars and Stripes shall submit DoD MWR USA *and UFM Practices* Reports.

E7.1.3. Executive Overview. The annual report shall include a narrative for each Program Group to ensure clarity in the data reported and to highlight significant operations and trends. The narrative shall meet standards of full disclosure.

E7.1.4. Notes to Accompany the Financial Statements. Each Program Group shall provide notes to the financial statements in accordance with the managerial accounting practices at subparagraph 5.4.2. of this Instruction.

E7.1.4.1. Within each Program Group, transactions between NAFIs and activities (such as dividend and profit distributions, contra-receivables and payables, etc.) shall be eliminated. Footnotes to the financial statements shall disclose the nature and amount of material transactions between Program Groups.

E7.1.4.2. A description of the methodology used to prorate common support expenses shall be included, along with the number of NAFIs that are operating as of the last day of the fiscal year for each of the Program Groups. The DoD Components shall establish procedures that ensure that prorated common support functions can be readily identified.

E7.1.4.3. The Balance Sheet, Statement of Income and Expense, and Schedule A - APF and NAF Expense Summary reports shall be footnoted to disclose the amount of DoD MWR USA support, *UFM support*, or other APF support included in the NAFI financial statements.

E7.1.4.4. Post-Retirement Benefits. Footnotes shall disclose appropriate post-retirement benefit amounts required under reference (e), specifically identifying the funded status, amortization period of unfunded liabilities, prepaid/accrued post-retirement costs recognized in balance sheet, and other notes as appropriate.

E7.1.5. Statement of Income and Expense (E7.A3.)

E7.1.5.1. To avoid double counting, the NAF income and expense shall be reported net of the APF support received through the DoD MWR USA *and UFM Practices* or other APF MOA.

E7.1.5.2. NAF income and expense for common support functions shall be allocated to and reported by the benefiting categories (Category A, B, and C). Allocation procedures shall be the same as those used to prepare Schedule A- APF and NAF Expense Summary. Such allocation shall not be made to a single category. Allocated or prorated management overhead shall not be reported below the category level -- allocation shall not be made to individual MWR activities (such as physical fitness, sports or athletics, or golf).

E7.1.6. Schedule A- APF and NAF Expense Summary (E7.A4.)

E7.1.6.1. The format shall be used to show applicable appropriations (such as O&M, procurement, military construction, RDT&E, and industrial funds).

E7.1.6.2. The amounts of APF support reported shall correspond to the prior year data reported on the OP-34 Exhibit contained in the justification material for the President's budget. Military construction shall be reported as a memo entry.

E7.1.6.3. NAF depreciation represents write-off of capital purchases as they are used; therefore, depreciation expense should not be included in the "total costs" line after capital expenditures are added.

E7.1.6.4. The breakdown of NAF expenditures must equal the operating expenses, other expenses, and extraordinary expense line items reported on the Statement of Income and Expense. Only the NAF cost of goods sold is excluded from Schedule A. NAF capital expenditures shall be reported for duly executed contractual commitments.

E7.1.6.5. NAF civilian personnel (salaries, wages, services, and benefits) reported shall equal the totals for NAF employee salaries and benefits reported on the "NAFI Employer Compensation and Benefit Programs Report," DoD Instruction 1330.20 (reference (*bf*)).

E7.1.6.6. The resources received under the DoD MWR USA practice, *UFM practice*, or other APF MOA shall be reported as APF support on Schedule A.

E7.1.6.7. Particular care must be taken in reporting APF support to Program Group V - Supplemental Mission Funds, to ensure reporting of only those costs that are



directly related to the supplemental function of the NAFI (such as the dependents school fund) and not to the mission that the NAFI supports (such as education).

E7.1.6.8. To avoid duplicate reporting, when one appropriation reimburses another appropriation (including Industrial and Research, Development, Test and Evaluation (RDT&E) Funds), data shall be provided under the appropriation that provides initial financing.

E7.1.6.9. The APF Amounts column shall show only the support that is non-reimbursable from NAF.

E7.1.6.10. Military personnel services (at rates prescribed in reference (*bg*)), O&M, RDT&E, and Industrial Funds resources shall be reported in the fiscal year that accrued costs are incurred.

E7.1.7. Statement of Cash Flows (E7.A5.) This statement summarizes sources of cash generated during the year and the application of that cash.

E7.1.7.1. Cash Flows from Operating Activities include the cash generated from net income as well as non-cash expenses and the conversion of current assets and liabilities into operating cash. Included are reductions in the amount of cash invested in current assets and the increase of current liabilities. Increases in the amount of cash invested in current assets and decreases in current liabilities are shown as negative increases to cash.

E7.1.7.2. Cash Flows from Investing Activities include the reductions to cash due to purchase of fixed assets and proceeds from the sale of fixed assets.

E7.1.7.3. Cash Flows from Financing Activities include cash gained from borrowing and capital grants, net proceeds from other long-term liabilities and cash paid out as dividends.

E7.1.7.4. The Cash and Cash Equivalents at the End of the Year (prior year) shall be the Cash and Cash Equivalents at the Beginning of the Year (current year).

E7.1.8. Funds Available/Projected Usage/Validated Commitment (E7.A6.) Data shall include the name of base, installation, command, or central funds maintaining NAF investments, the amount of such investment at the end of the fiscal year, and the identification of the purposes for which these funds have been invested. Any funds available, which do not have a projected usage or a validated commitment, are considered excess funds.

E7.1.9. DoD MWR USA *and UFM* Practices Reports (E7.A7.)

E7.1.9.1. This report shall include APF support provided through the DoD MWR USA *and UFM* Practices.

E7.1.9.2. The amounts reported shall correspond to the Schedule A- APF and NAF Expense Summary. The USA *and UFM* practices amounts shall be reported as APF. NAF amounts shall be reported net of USA *and UFM* support.

E7.1.9.3. DoD MWR USA *and UFM* resources received for common support and management overhead costs shall be prorated to and reported by the benefiting categories. The method of prorating costs and the amounts reported for each category shall be identical to the OP-34 Budget Exhibit "APF Fund Support for Morale, Welfare and Recreation (MWR) Activities" and Schedule A- APF and NAF Expense Summary.

Attachments - 7

E7.A1. Balance Sheet

E7.A2. Reconciliation of Net Worth

E7.A3. Statement of Income and Expense

E7.A4. Schedule A, APF and NAF Expense Summary

E7.A5. Statement of Cash Flows

E7.A6. Nonappropriated Funds Available/Projected Usage

E7.A7. Resources Received Under the DoD MWR USA *and UFM* Practices

E7.A1. ATTACHMENT 1 TO ENCLOSURE 7

BALANCE SHEET

MILITARY SERVICE: \_\_\_\_\_

PROGRAM GROUP: \_\_\_\_\_

AS OF: \_\_\_\_\_

(\$ in thousands)

ASSETS

Current Assets	\$0
Cash/Investments	0
Receivables	0
Inventories	0
Other Current Assets	_____0
Total Current Assets	_____ \$0

Non-current Assets

NAFI Owned Fixed Assets	\$0
Less: Accumulated Depreciation	_____0
Net NAFI Owned Fixed Assets	_____ \$0
Government Titled Fixed Assets	_____ \$0
Less: Accumulated Depreciation	_____0
Net Government Titled Fixed Assets	\$0
Other	\$0
Total Non-current Assets	_____ \$0
<u>Total Assets</u>	_____ \$0

LIABILITIES & NET WORTH

Current Liabilities

Accounts Payable	\$0
Other	_____0
Total Current Liabilities	_____ \$0

Long Term Liabilities

Loans Payable	\$0
Other	_____0
Total Long Term Liabilities	_____ \$0

Total Liabilities	_____ \$0
Net Worth	_____ \$0
<u>Total Liabilities &amp; Net Worth</u>	_____ \$0

E7.A2. ATTACHMENT 2 TO ENCLOSURE 7

RECONCILIATION OF NET WORTH

MILITARY SERVICE: \_\_\_\_\_  
 PROGRAM GROUP: \_\_\_\_\_  
 AS OF: \_\_\_\_\_

(\$ in thousands)

Net Worth, Beginning: \_\_\_\_\_ \$0

Additions to Net Worth:

Net Income \$0  
 Grants Received 0  
 Other Increases (specify) \_\_\_\_\_ 0  
 Total Additions \_\_\_\_\_ \$0

Reductions to Net Worth:

Net Loss \$0  
 Grants Disbursed 0  
 Other Decreases (specify) \_\_\_\_\_ 0  
 Total Reductions \_\_\_\_\_ \$0

Net Addition/Reduction to Net Worth \_\_\_\_\_ \$0

Net Worth, Ending \_\_\_\_\_ \$0

E7.A3. ATTACHMENT 3 TO ENCLOSURE 7

STATEMENT OF INCOME AND EXPENSE

MILITARY SERVICE: \_\_\_\_\_  
 PROGRAM GROUP: \_\_\_\_\_  
 CATEGORY: \_\_\_\_\_  
 FOR THE YEAR ENDING \_\_\_\_\_

	<u>Current Year</u>	<u>Prior Year</u>
	Percent	Percent
	<u>Amount</u> <u>of Revenue</u>	<u>Amount</u> <u>of Revenue</u>
Sales		
Cost of Goods Sold		
Gross Margin		
Other Operating Income		
Participation Fees and Charges		
Dues and Assessments		
Concessionaire Payments		
Other		
Total Other Operating Income		
GROSS OPERATING INCOME		
Operating Expenses (Schedule A)		
OPERATING MARGIN		
Other Income		
Dividends		
Grants		
Other		
Total Non-Operating Income		
Other Expense (Schedule A)		
NET INCOME BEFORE EXTRAORDINARY ITEMS		
Extraordinary Income/(Expense) Items (Schedule A)		
NET INCOME		

E7.A4. ATTACHMENT 4 TO ENCLOSURE 7SCHEDULE A, APF, AND NAF EXPENSE SUMMARY

MILITARY SERVICE: \_\_\_\_\_  
PROGRAM GROUP: \_\_\_\_\_  
FOR THE YEAR ENDING \_\_\_\_\_

(\$ in thousands)

<u>Cost Expense Captions</u>	<u>Category A</u>		<u>Category B</u>		<u>Category C</u>		<u>TOTAL</u>	
	<u>APF</u>	<u>NAF</u>	<u>APF</u>	<u>NAF</u>	<u>APF</u>	<u>NAF</u>	<u>APF</u>	<u>NAF</u>
Military Personnel	\$0	n/a	\$0	n/a	\$0	n/a	\$0	n/a
Civilian Personnel (salaries & wages)	0	0	0	0	0	0	0	0
Civilian personnel (services & benefits)	0	0	0	0	0	0	0	0
Utilities & Rents	0	0	0	0	0	0	0	0
Communications	0	0	0	0	0	0	0	0
Sustainment, Restoration and Modernization (including APF minor construction)	0	0	0	0	0	0	0	0
Supplies & Equipment	0	0	0	0	0	0	0	0
Contractual Services	0	0	0	0	0	0	0	0
Travel of Personnel	0	0	0	0	0	0	0	0
Transportation of Things	0	0	0	0	0	0	0	0
Reimbursed Common Support	n/a	0	n/a	0	n/a	0	n/a	0
NAF Depreciation	n/a	0	n/a	0	n/a	0	n/a	0
All Other Expenses	0	0	0	0	0	0	0	0
<b>TOTAL EXPENSE</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<u>Capital Expenditure Captions</u>								
Construction of Facilities								
APF (MILCON)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
NAF (Legal Commitments)	0	0	0	0	0	0	0	0
Equipment (investment type)	0	0	0	0	0	0	0	0
<b>TOTAL COSTS (less depreciation)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

E7.A5. ATTACHMENT 5 TO ENCLOSURE 7STATEMENT OF CASH FLOWS

MILITARY SERVICE: \_\_\_\_\_  
PROGRAM GROUP: \_\_\_\_\_  
FOR THE PERIOD ENDING: \_\_\_\_\_

	<u>Current Year</u>	<u>Prior Year</u>
Operating Activities: Net Income	\$0	\$0
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	\$0	\$0
Loss on Disposal of Fixed Assets	0	0
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	0	0
Decrease (increase) in inventories	0	0
Decrease (increase) in prepaid expenses	0	0
Increase (decrease) in accounts payable	0	0
Increase (decrease) in unearned income	0	0
Increase (decrease) in other current liabilities	0	0
Other (specify)	<u>0</u>	<u>0</u>
Total Adjustments	\$0	\$0
Net Cash Provided By(Used In) Operating Activities	\$0	\$0
Investing Activities:		
(Purchase of Fixed Assets)	\$(0)	\$(0)
Proceeds from the Sale of Fixed Assets	0	0
Other (Specify)	<u>0</u>	<u>0</u>
Net Cash Used in Investing Activities	\$0	\$0
Financing Activities:		
Net Borrowing (Specify)	\$0	\$0
(Payment of Dividends)	0	0
Capital Grants	0	0
Net proceeds from (payments on) other long-term liabilities	0	0
Other (Specify)	<u>0</u>	<u>0</u>
Net Cash Provided by (used in) Financing Activities	\$0	\$0
Net decrease/increase in cash and cash equivalents	0	0
Cash and Cash Equivalents at Beginning of Year	0	0
Cash and Cash Equivalents at End of Year	<u>\$0</u>	<u>\$0</u>

E7.A6. ATTACHMENT 6 TO ENCLOSURE 7

NONAPPROPRIATED FUNDS AVAILABLE/PROJECTED USAGE

MILITARY SERVICE: \_\_\_\_\_  
 PROGRAM GROUP: \_\_\_\_\_  
 AS OF: \_\_\_\_\_

	<u>Amount of Funds Invested</u>		<u>Percent Change</u>
	<u>As of Close Current Year</u>	<u>As of Close Prior Year</u>	
	<u>FY</u>	<u>FY</u>	
<u>FUNDS AVAILABLE</u>			
Operating Cash Invested in Central Banking Program	\$0	\$0	%
Other Cash Resources/Local Balances:			
Local Bank Accounts	0	0	%
Cash on Hand in Change Funds, Petty Cash Funds, & Conversion Funds	0	0	%
Other Investments (Specify)	0	0	%
Fixed Asset Sinking Funds	0	0	%
Employee Benefit Sinking Funds <sup>1</sup>	<u>0</u>	<u>0</u>	<u>%</u>
Total Funds <sup>2</sup>	\$0	\$0	%
<u>VALIDATED COMMITMENTS</u>			
Cash for Continuing Operations (Compensating Bank Balances, Operations, Petty Cash, Change Funds, Accounts Payable, Other Current Liabilities, etc.)	\$0	\$0	%
Employee Benefits (Specify) <sup>1</sup>	0	0	%
Reduction in Long-Term Debt	0	0	%
Capital Projects Included in MWR Three-Year Plan	0	0	%
Planned Commitments Yet to be Validated	<u>0</u>	<u>0</u>	<u>%</u>
Total Projected Usage <sup>2</sup>	\$0	\$0	%

<sup>1</sup>Includes monies to be paid for severance; FICA; medical, dental, and life insurance, plus disability (if not included in retirement), unemployment compensation; bonuses or incentive awards; moving expenses; and for time not worked due to sickness, death in family, annual leave, holidays, Reserve component drills, jury duty, etc.

<sup>2</sup>Total Funds Available should equal Total Projected Usage, since this report is to identify the purpose for which available funds are retained/invested.



E7.A7. ATTACHMENT 7 TO ENCLOSURE 7

RESOURCES RECEIVED UNDER THE DoD MWR USA *AND UFM* PRACTICES

MILITARY SERVICE: \_\_\_\_\_  
 PROGRAM GROUP: \_\_\_\_\_  
 CATEGORY:<sup>1</sup> \_\_\_\_\_  
 FOR THE PERIOD ENDING: \_\_\_\_\_

COST EXPENSE  
 CAPTIONS<sup>2</sup>

SOURCE OF APF  
 USA/*UFM* RESOURCES<sup>3</sup>

\_\_\_\_\_  
 (Identify Appropriation)<sup>4</sup>

Military Personnel  
 Civilian Personnel  
     (Salaries & Wages)  
 Civilian Personnel  
     (Services & Benefits)  
 Utilities and Rents  
 Communications  
 Sustainment, Restoration & Modernization  
     (including Minor Construction)  
 Supplies & Equipment  
 Contractual Services  
 Travel of Personnel  
 Transportation of Things  
 All Other Expense  
     TOTAL EXPENSES

CAPITAL EXPENDITURE CAPTIONS

Construction of Facilities  
 Equipment (Investment-Type)  
     TOTAL CAPITAL EXPENDITURES

TOTAL COSTS

<sup>1</sup> Show level of reporting (i.e., Total Program, Category A, Category B, Category C).

<sup>2</sup> Cost Expense Caption Definitions are found at enclosure 4.

<sup>3</sup> Include all obligations of APF provided for support of the program through the MWR Utilization, Support and Accountability (USA) *and Uniform Funding and Management (UFM)* practices. (Do not include APF obligations reimbursed by NAF.)

<sup>4</sup> Show applicable appropriation captions (such as O&M, O&M Reserve, Procurement, RDT&E, and DWCF).

**DoD MWR USA *AND UFM* PRACTICES SUPPORT**  
**(IN DOLLARS AND PERCENTAGE OF TOTAL APF FUND SUPPORT)**

MILITARY SERVICE: \_\_\_\_\_  
 PROGRAM GROUP: \_\_\_\_\_  
 CATEGORY:<sup>1</sup> \_\_\_\_\_  
 FOR THE PERIOD ENDING: \_\_\_\_\_

	<u>SOURCE APPROPRIATIONS</u> <u>(Specify)</u>	Total MWR USA/ <i>UFM</i> Support	Total Operating Support
	(\$000) <sup>1</sup> / <sup>2</sup>	(\$000) <sup>1</sup> / <sup>2</sup>	(\$000) <sup>3</sup> / <sup>4</sup>
Category A- Mission Sustaining Programs			
A1. Armed Forces Professional Entertainment Overseas			
A2. Free Admission Motion Pictures			
A3. Physical Fitness and Aquatic Training			
A4. Library Programs and Information Services (Recreation)			
A5. On-Installation Parks and Picnic Areas			
A6. Basic Social Recreation (Center) Programs			
A7. Shipboard, Company, and/or Unit Level Programs			
A8. Sports and Athletics (Self-Directed, Unit Level, Intramural)			
A9. Single Service Member Program			
Total Category A			

	<u>SOURCE APPROPRIATIONS</u> <u>(Specify)</u>	Total MWR USA/ <i>UFM</i> Support	Total Operating Support
	(\$000) <sup>1</sup> / <sub>%<sup>2</sup></sub>	(\$000) <sup>1</sup> / <sub>%<sup>2</sup></sub>	(\$000) <sup>1</sup> / <sub>%<sup>2</sup></sub>
	(\$000) <sup>1</sup> / <sub>%<sup>2</sup></sub>	(\$000) <sup>1</sup> / <sub>%<sup>2</sup></sub>	(\$000) <sup>3</sup> / <sub>%<sup>4</sup></sub>
Category B - Basic Community Support Programs			
B1.1. Child Development Centers			
B1.2. Family Child Care			
B1.3. Supplemental Program/Resource & Referral/Other			
B1.4. School Age Care			
B1.5. Youth Program			
B2.1. Cable and/or Community Television (TV)			
B2.2. Recreation Information, Tickets, and Tours Services			
B2.3. Recreational Swimming			
B3.1. Directed Outdoor Recreation			
B3.2. Outdoor Recreation Equipment Checkout			
B3.3. Boating without Resale or Private Berthing			
B3.4. Camping (Primitive and/or Tents)			
B3.5. Riding Stables (Government-owned or -leased)			
B4.1. Amateur Radio (MARS)			
B4.2. Performing Arts, (Music, Drama, and Theater)			
B4.3. Arts and Crafts Skill Development			
B4.4. Automotive Crafts Skill Development			
B4.5. Bowling (12 Lanes or less)			
B5. Sports Programs (Above Intramural Level)			
B6. Stars and Stripes			
Total Category B			

	<u>SOURCE</u> <u>APPROPRIATIONS</u> <u>(Specify)</u> (\$000) <sup>1</sup> / <sub>%<sup>2</sup></sub>		Total MWR USA/ <i>UFM</i> Support (\$000) <sup>1</sup> / <sub>%<sup>2</sup></sub>	Total Operating Support (\$000) <sup>3</sup> / <sub>%<sup>4</sup></sub>
Category C - Revenue-Generating Programs				
C1.1. Military Open Mess (Clubs)				
C1.2. Restaurants, Snack Bars, & Other Food Outlets				
C2.1. Temporary Lodging Facility (official PCS travel, operated as MWR Category C)		X		
C2.2. Recreational Lodging (Cabins, Cottages, Trailers, Trailer and/or Recreational Vehicle (RV) Parks with Hook-ups)				
C2.3. Joint-Service Facilities and/or Armed Forces Recreation Centers				
C3.1. Flying Program				
C3.2. Parachute and Skydiving Program				
C3.3. Rod and Gun Program				
C3.4. Scuba and Diving Program				
C3.5. Horseback Riding				
C3.6. Video Program				
C4.1. Resale (MWR-operated audio, photo, recycling, car wash, etc.)				
C4.2. Amusement and Recreation Machines and/or Gaming				
C4.3. Bowling (Over 12 Lanes)				
C4.4. Golf				
C4.5. Boating (With Resale or Private Boat Berthing)				
C4.6. Equipment Rental (other than Outdoor Recreation Equipment Checkout)				
C4.7. Unofficial Commercial Travel Services				
C4.8. Other				
C5. Armed Service Exchanges				
Total Category C				

- 
- 1 Show dollars in thousands; show source of appropriations for DoD MWR USA *and UFM* Practices.
  - 2 Show percentage of total APF operating support that is provided through DoD MWR USA *and UFM* Practices, by appropriation and for total.
  - 3 Show total APF operating support per Schedule A.
  - 4 Show MWR USA *and UFM* support as percentage of total APF operating support.

## E8. ENCLOSURE 8

### TREASURY MANAGEMENT AND NAF INVESTMENTS

#### E8.1. GENERAL PRINCIPLES

E8.1.1. Safety. Investment transactions shall ensure the highest degree of safety to minimize both credit and market risk.

E8.1.2. Liquidity. The NAF treasury shall be managed to ensure sufficient liquidity to meet current obligations and future requirements for cash. Investments shall be made so as not to require disposition or sale prior to their maturity unless it is prudent due to prevailing economic or business conditions. Except where prohibited under statute or international agreement, investments shall have a final maturity or final cash flow not to exceed 5 years from the date of purchase.

E8.1.3. Yield. Investments shall earn a competitive rate of return to preserve value until the NAF are needed to finance obligations or requirements. NAF shall not be invested under terms that permit the interest rate to fall to zero.

#### E8.2. CASH AND TREASURY MANAGEMENT

NAF on-hand cash and local bank balances shall be limited to the minimum required to satisfy immediate needs. Cash shall be in the form of U.S. currency, U.S. dollar instruments, or military payment certificates under the authority of DoD Directive 7360.5 (reference (*bh*)), except when foreign currency is required.

E8.2.1. Funds not required for immediate purposes by installations and intermediary echelons shall be centrally managed and invested by a DoD Component or Service Headquarters organization designated to perform treasury management.

E8.2.1.1. The DoD Component or Military Service Headquarters may enter into a joint agreement or designate an executive agent to perform treasury management functions. Agreements to establish an executive agent to perform inter-DoD Component or inter-Service cash management shall be submitted to the PDUSD(P&R) for approval.

E8.2.1.2. Cash concentration accounts and systems shall be centrally managed through competitively negotiated banking contracts and agreements.

E8.2.1.3. Management shall periodically review and document the requirements of each NAFI to ensure that adequate funds have been invested properly to meet future expenditures to fund replacement of tangible fixed assets, employee severance pay, pension plans, construction and sustainment, restoration and modernization of facilities, mobilization contingencies, and new operational programs that may be introduced.

E8.2.2. The DoD Components shall establish procedures to identify the purposes for which NAF are held by all NAFIs and to ensure that NAFIs at the installation and intermediary command echelons do not retain cash or investments in excess of their requirements. These procedures should be based upon the premise of a "going concern" for NAFIs, considering future cash inflows and outflows in determining the amount of funds required to be available to meet requirements. Excess amounts shall be transferred to the successor NAFI, which may redirect the NAF to other NAFIs or identified requirements within the same Program Group.

### E8.3. AUTHORIZED FINANCIAL INSTITUTIONS

NAF shall be maintained only in authorized financial institutions. The use of financial institutions operating on DoD installations according to DoD Directive 1000.11 (reference *(bi)*) is encouraged. The DoD Components shall issue policy to require capital adequacy standards and other criteria for financial institutions and issuers of investment instruments. Compliance with standards shall be confirmed with an independent rating service before investing and periodically reviewed during the term of the investment. Within these parameters, investments shall be competitively placed to ensure an acceptable yield.

E8.3.1. U.S. Banks and Savings Associations. NAF shall be invested in interest-bearing depository accounts (checking accounts, as provided by 12 U.S.C. 1832(a) (reference *(bj)*), savings accounts, share accounts, and certificates of deposit) in banks and savings associations insured by the Federal Deposit Insurance Corporation.

E8.3.2. U.S. Credit Unions. In accordance with 31 CFR 202 (reference *(bk)*), NAF may be deposited in federally chartered credit unions and those State-chartered credit unions insured by the National Credit Union Share Insurance Fund (NCUSIF) of the National Credit Union Administration or another insurance organization specifically qualified by the Secretary of the Treasury. However, U.S. credit unions overseas shall be insured by the NCUSIF. NAF shall not be invested in credit union certificates of indebtedness unless the NCUSIF extends specific insurance coverage to those accounts.

E8.3.3. Overseas Financial Institutions. U.S. Military Banking Facilities (MBFs) or other financial institutions designated by the Treasury Department are to be used to hold foreign currencies at overseas locations when authorized under host-country law. In the absence of such institutions, funds shall be held in foreign banks, as designated by the Treasury Department. During contingency operations, short-term accounts may be required to support U.S. Forces until the Treasury Department designation can be obtained. Funds maintained in MBFs at overseas locations are collateralized to the U.S. Treasury under the terms of parent banking institution contracts with the Department of Defense. Funds, at minimum levels, may be maintained in other institutions overseas only when the institution has been designated as a "depository and financial agent of the U.S. Government," by the Treasury Department. In making this designation, the U.S. Treasury shall attempt to obtain an agreement for collateralization. Non-collateralized dollar balances for foreign financial institutions shall be limited to clearing/sweep accounts. Such balances must be maintained at minimum levels.

#### E8.4. AUTHORIZED TRANSACTIONS

E8.4.1. Deposits. NAF deposits in financial institutions shall not exceed the amount that is federally insured until the NAFI receives notice from the U.S. Treasury that the institution has pledged obligations of the U.S. Government as collateral according to reference (*bk*). Collateral pledged under reference (*bk*) and other collateral held in custody by a bank on behalf of the NAFI shall be reviewed regularly to ensure that collateral is sufficient and acceptable.

E8.4.1.1. An interest in trust fund account for several organizations, individuals, or entities is limited to \$100,000 unless records are maintained of the balance for each organization, individual, or entity and has been accepted by the insurer. If FDIC coverage is desired, the DoD Components must maintain records reflecting daily changes for each entity having an interest in the account and in all cases, the information must be available within 3 days. For example, if one NAFI has \$100,000 and another \$60,000, then total insurance coverage is \$160,000.

E8.4.1.2. When dealing with financial institutions and their insurers, it is imperative that the NAFI be properly established in writing and designated. Signatures of designated persons authorized to sign checks on behalf of NAFIs must be filed with financial institutions.

E8.4.1.3. Concentration Banking Systems shall fully meet requirements for Federal insurance and pledge of collateral.



E8.4.2. Government Securities. NAF investments are authorized for obligations of the Federal Government or organizations or institutions that are sponsored or insured by the U.S. Government.

E8.4.2.1. U.S. Treasury. The U.S. Treasury issues bills, bonds, and notes. U.S. Treasury securities include Series EE and HH Savings Bonds and Separate Trading of Registered Interests and Principal of Securities (STRIPS), which are Treasury issued zero-coupon products. Other zero-coupon products (STRIPS, CATS, and M-CATS) that are issued by other than the U.S. Treasury (e.g., where the issuer is the obligor and the actual securities are held in escrow) are not permissible for NAF investment.

E8.4.2.2. U.S. Government Agencies and Government-Sponsored Enterprises. Authorized issuances include obligations of Government Agencies, guaranteed as to principal and interest by the U.S. Government and obligations issued by U.S. Government-sponsored enterprises. Certain securities are guaranteed by the "full faith and credit" of the U.S. Government (principal and interest) while other securities are issued by "U.S. Government-sponsored enterprises." These "U.S. Government-sponsored enterprises" were established and chartered by the Federal Government and are sponsored by a Government Agency, although they are privately owned and generally privately financed. There is a greater risk associated with securities issued by Government sponsored enterprises. Examples of authorized Federal Agency and Government-sponsored enterprise issuers are shown at E8.A1. Investment products with yields derived from authorized Agency obligations and issued by the Federal Agency or Government-sponsored enterprise are permitted for NAF investment. Investment products with yields derived from authorized Agency obligations, but not issued by a U.S. Government Agency or a U.S. Government Sponsored Enterprise, are not permitted for NAF investment. Such prohibited investments would include real estate mortgage investment conduits that are issued by private entities.

E8.4.3. Repurchase and Reverse Repurchase Agreements. Repurchase and Reverse Repurchase agreements shall be limited to securities issued by the U.S. Government or U.S. Government-sponsored enterprises and shall be made only with primary Government securities dealers designated by the Federal Reserve Bank of New York, or with banks that meet capital adequacy standards established under section E8.3. Primary Government securities dealers must meet and certify to the NAFI their compliance with the "Capital Adequacy Guidelines for U.S. Government Securities Dealers" published by the Federal Reserve Bank of New York.

E8.4.3.1. Collateral in the amount of 100 percent of market value of the purchased security, plus interest, is required for overnight (defined as "next business day") repurchase agreements. Collateral for repurchase agreements is restricted to U.S. Government Full Faith and Credit or Government-sponsored enterprise securities. For agreements for periods longer than overnight, collateral in the amount of 102 percent of market value, plus interest is required for U.S. Treasury Securities (Bills, Notes, and Bonds) and collateral in the amount of 104 percent of market value, plus interest is required for all other U.S. Government Full Faith and Credit Securities and U.S. Government-sponsored enterprises. The underlying collateral pledged under a repurchase agreement must have a final maturity or cash flow not to exceed 5 years from the date of the repurchase agreement.

E8.4.3.2. Repurchase and reverse repurchase transactions shall be executed under written agreement with the dealer using the Bond Market Association Master Repurchase Agreement.

E8.4.4. Concentration Account Investment Facility. The DoD Component Headquarters may enter an overnight investment facility provided for under the cash concentration or concentration-banking contract or agreements of record. Such investment facilities shall not exceed 4-business days. Investment transactions are restricted to repurchase agreements that are backed by collateral in the form of obligations of the U.S. Government, U.S. Government Agencies, and U.S. Government-sponsored enterprises. Such collateral must be deposited to a custody account that is not commingled with the assets of the bank, in a value equal to 102 percent of the investment transaction.

E8.4.5. Eurodollar. If the Eurodollar market offers significantly higher yields, funds may be deposited with a U.S. bank dealing in this market. The bank must pledge collateral with the Treasury Department under the terms of reference (*bk*). Collateral must be sufficient to cover principal and interest at all times.

E8.4.6. Foreign Investment for NAF Severance Pay and Benefit Funds. As a hedge against exchange rate exposure, a NAFI may invest in foreign currency obligations (e.g., bonds or other securities) of a sovereign government (the host country) in amounts not to exceed the local currency value of the liabilities payable to the NAFI's host-country local national employees when a NAFI determines that the risk of foreign exchange rate fluctuation may adversely impact its financial posture. These obligations shall be the host-country equivalent of U.S. Treasury obligations. Safekeeping of such investments shall be in accordance with the intent of procedures, taking into consideration the peculiarities of non-U.S. banking systems. In general, it is advisable that a U.S.

contractor-operated MBF, a U.S. bank, or a subsidiary of a U.S. bank be named as the custodial institution.

#### E8.5. SAFEKEEPING

Government securities held as investments or as collateral for repurchase agreements must be delivered to a third-party bank selected by the NAFI. The instruments cannot be mingled with the assets of the bank and the NAFI must receive a safekeeping receipt for the securities. Third-party banks must meet the same capital adequacy standards as those established by the DoD Component for investment banks.

#### E8.6. AVAILABILITY OF FUNDS

In all cases, the funds should be available to the NAFI or the financial institution on the day the transaction is made. Interest begins on the date of sale or purchase and ends on the day before the transaction is completed.

#### E8.7. INVESTMENT MANAGEMENT, OVERSIGHT, AND CONTROL

The DoD Components shall require that fiduciary responsibility for NAF be clearly assigned to persons who direct or manage the treasury management programs at each echelon.

E8.7.1. Each organization that manages NAF cash and investments shall identify the positions and individuals who can be held personally responsible (subject to appropriate disciplinary action and assessment of pecuniary liability) for losses suffered due to gross negligence or willful misconduct.

E8.7.2. Only authorized and qualified personnel shall manage NAF investments. Persons entrusted with administration and management of NAF cash and investments shall have the education, experience, and training commensurate with their responsibilities. Personnel shall exercise the degree of care and skill that is standard for the work they are employed to perform.

E8.7.3. The DoD Components are responsible for the oversight of NAF managed by the Military Services. The Head of the DoD Component shall require the establishment of an investment oversight group for each organization that invests NAF. At least one member of the oversight group shall be an investment professional with cogent knowledge of investment instruments, policies, practices, and procedures that is

independent of the control or management of the portfolio and the organization being reviewed.

E8.7.3.1. The designated investment oversight group shall meet at least semi-annually to review portfolio objectives, management practices, holdings, strategy, and operating results. The reviews shall determine compliance with policies and other guidance regarding safety, liquidity, and yield. The results of the reviews shall address corrective action and shall be reported annually to the Head of the DoD Component.

E8.7.3.2. The investment manager shall meet at least semi-annually with their DoD Component-designated investment oversight group. The purpose of the meeting is to review the overall fund position, assess known or anticipated market conditions, and develop investment strategies to meet overall MWR and NAF program objectives and approved cash flow requirements. This oversight group shall evaluate compliance with DoD guidance, review management reports, and audit results. In advance of each calendar year, the investment oversight group shall select at least one appropriate industry-accepted index, which shall be used as a benchmark for evaluating the next year's portfolio performance.

E8.7.4. The Head of the managing NAFI shall immediately notify the investment oversight group of losses of principal or circumstances where investments produce no yield. Significant occurrences or losses of principal or absence of yield shall be immediately reported to the investment oversight group, the respective board of directors, the DoD Component, and the PDUSD(P&R).

#### E8.8. ANNUAL CASH AND INVESTMENT MANAGEMENT REPORT

The DoD Component shall require the respective oversight group(s) to prepare a report of NAF cash and investments as of December 31 each year covering all NAFIs and NAF cash and investments managed within the DoD Component. The DoD Component shall submit the "Annual Cash and Investment Management Report" to the PDUSD(P&R) by April 1. The submission contains an executive summary, oversight report, and performance report.

E8.8.1. Executive Summary. The executive summary shall describe the goals, objectives, and benchmarks established for each fund managed and the relationship of those goals and objectives to the overall NAF and MWR program purposes and cash flow requirements. The narrative shall describe the overall treasury management philosophy and investment policies and practices for safety, liquidity, and yield. Significant events or accomplishments, investment portfolio analysis; a rate of return analysis; and other appropriate information shall be described.

E8.8.1.1. Safety. The discussion of safety shall address risk tolerance guidelines for term, institutions, investments; discussion of DoD Component and Military Service oversight; third-party evaluations (to include independent actuarial and audit reviews) conducted since the last report; borrowing and lending strategies; and investment in foreign currency. The nature, amount, and circumstances of portfolio losses shall be disclosed fully.

E8.8.1.2. Liquidity. The liquidity section shall identify the portfolio management requirements (purpose of assets, future sources, and uses of NAF, and portfolio goals), specify strategies for investment liquidity (to include short-term borrowing), and describe cash concentration systems.

E8.8.1.3. Yield. The yield analysis shall describe asset allocation, determination of maturity, and philosophy concerning active or passive management style. Comparison shall be made to accepted industry indices that were pre-determined as benchmark(s) for evaluating portfolio performance.

E8.8.2. Oversight Report. The Oversight Report (E8.A2.) shall identify investment management positions and individuals that can be held personally responsible for investment transactions. In addition to those persons, the names and title/organization of the individuals who have been appointed to the fund's investment oversight committee shall be furnished. The report shall provide the dates of the oversight meetings, independent management and compliance audits, and internal management and compliance audits conducted since the last report. In addressing audits, the most current independent public accountant opinion shall be furnished and a summary provided of the treasury management audits, the agency performing the audits, the major audit findings, and the resulting management action. The minutes of the oversight meetings conducted since the last report shall be furnished.

E8.8.2.1. Performance Report. The performance report contains a report of the funds' balances for all cash and investments, the yield computation for funds invested, and the annual yield for funds invested as of December 31.

E8.8.2.1.1. Cash and Investment Balances. This summary shall be prepared to disclose fully all cash on deposit in financial institutions and investments held by NAFIs within the DoD Component. The report shall include the name of the investment fund and the fund balance with a breakout of "ownership" by Military Service, major command, installation level and other echelons (E8.A3.).

E8.8.2.1.2. Cash and Investment Portfolio. This provides balance sheet information as of December 31 of each year, to include book value and market value of investments, and cash including concentration banking accounts (E8.A4.). This summary provides management information for monitoring progress of the funds

E8.8.2.1.3. Investment Portfolio Annual Yield (Realized Return). Each Service Headquarters that manages central investment funds shall prepare the report on annual yield. For simplification and standardized oversight purposes, the annual yield shall be computed based on a weighted average yield over the 12-month period (E8.A5.). The following formula shall be used to ensure consistent evaluation of performance:

$$\frac{\text{Realized Gains} - \text{Realized Losses} + \text{Accrued Interest}}{\text{Investment Balance}} \times \frac{\text{days in the month}}{365}$$

E8.9. INVESTMENT OFFICERS MEETINGS

Senior NAF treasury management personnel of the DoD Components shall meet semiannually with representatives of the PDUSD(P&R) to review NAF treasury management and investment practices.

E8.9.1. The DoD Component Headquarters NAF treasury managers shall present the results of their most recent Annual Cash and Investment Management Report annually at the DoD NAF Treasury Management Subcommittee. Each of the Military Services shall provide their current investment policies, procedures, and audit compliance with Military Service and DoD Inspector General findings.

E8.9.2. A second meeting shall be hosted each year by the Military Services to provide a forum for the free exchange of information concerning short-term and long-term investments, rates of return, financial institutions, and treasury management practices. The chair shall rotate among the Military Services.

Attachments - 5

- E8.A1. Examples of Accepted Issuers of Government and Agency Securities
- E8.A2. Oversight Report
- E8.A3. Cash and Investment *Balances*
- E8.A4. Cash and Investment Portfolio
- E8.A5. Investment Portfolio Yield (Realized Return)

E8.A1. ATTACHMENT 1 TO ENCLOSURE 8

EXAMPLES OF ACCEPTED ISSUERS OF GOVERNMENT AND AGENCY  
SECURITIES

Asian Development Bank  
Export-Import Bank of the United States  
Federal Agricultural Mortgage Corporation (Farmer Mac)  
Federal Farm Credit Banks (FFCB)  
Federal Home Loan Bank (FHLB)  
Federal Home Loan Mortgage Corporation (FHLMC, "Freddie Mac")  
Federal Housing Administration (FHA)  
Federal National Mortgage (FNMA, "Fannie Mae")  
Financing Corp. (FICO)  
Government National Mortgage Association (GNMA)  
Inter-American Development Bank  
International Bank for Reconstruction and Development (World Bank)  
Private Export Funding Corporation (PEFCO)  
Small Business Administration (SBA)  
Student Loan Marketing Association (SLMA, "Sallie Mae")  
Tennessee Valley Authority (TVA)  
USDA Rural Development  
U.S. Treasury  
U.S. Postal Service  
Washington Metropolitan Area Transit Authority (WashMet)



E8.A2. ATTACHMENT 2 TO ENCLOSURE 8

OVERSIGHT REPORT

Fund Name:

Investment Management Positions Assigned Fiduciary Responsibility:

Fund

Custodian/Manager \_\_\_\_\_ Phone: \_\_\_\_\_

Others (list)

NAF Investment Steering/Oversight Committee Members:

Name\* Title/Organization

\*(List Chairman first)

Steering/Oversight Meetings Conducted Since Last Report: \_\_\_\_\_

(Attach Meeting Minutes)

Independent Financial and Compliance Audits Conducted Since Last Report:

\_\_\_\_\_  
(Attach Meeting Minutes)

Internal Management and Compliance Audits Conducted Since Last Report: \_\_\_\_\_

Signed:

\_\_\_\_\_  
Fund Custodian

\_\_\_\_\_  
Chairman, Investment Oversight Committee

E8.A3. ATTACHMENT 3 TO ENCLOSURE 8

CASH AND INVESTMENT *BALANCES*

Military Service: \_\_\_\_\_  
 NAF Balance as of December 31, \_\_\_\_ \$ \_\_\_\_\_  
 Investment Fund: \_\_\_\_\_

	Amount	Percent of Fund Balance
Group I, Military MWR Programs		
Service Level	\$ _____	_____
Major Command Level	\$ _____	_____
Installation Level	\$ _____	_____
Other	\$ _____	_____
Total Group I, Investments	\$ _____	_____
Group II, Armed Services Exchange Programs		
Service Level	\$ _____	_____
Major Command Level	\$ _____	_____
Installation Level	\$ _____	_____
Other	\$ _____	_____
Total Group II, Investments	\$ _____	_____
Group III, Civilian MWR Programs		
Service Level	\$ _____	_____
Major Command Level	\$ _____	_____
Installation Level	\$ _____	_____
Other	\$ _____	_____
Total Group III, Investments	\$ _____	_____
Group IV, Lodging Programs		
Service Level	\$ _____	_____
Major Command Level	\$ _____	_____
Installation Level	\$ _____	_____
Other	\$ _____	_____
Total Group IV, Investments	\$ _____	_____

	Amount	Percent of Fund Balance
Group V, Supplemental Mission Funds		
Service Level	\$ _____	_____
Major Command Level	\$ _____	_____
Installation Level	\$ _____	_____
Other	\$ _____	_____
Total Group V, Investments	\$ _____	_____
Group VI, Special Purpose Central Funds		
Service Level	\$ _____	_____
Major Command Level	Not Applicable	
Installation Level	Not Applicable	
Other	Not Applicable	
Total Group VI, Investments	\$ _____	_____

E8.A4. ATTACHMENT 4 TO ENCLOSURE 8CASH AND INVESTMENT PORTFOLIO

As of December 31, \_\_\_\_\_

<u>Asset</u>	<u>Current Amortized Book Value<sup>1</sup></u>	<u>% of Port-folio</u>	<u>Current Yield</u>	<u>Weighted Average Maturity (in days)</u>	<u>Market Value of Securities<sup>1</sup></u>
Cash <sup>2</sup>	\$	%	%	days	Note 3
Repos	\$	%	%	days	Note 3
Fixed Income CDs	\$	%	%	days	Note 3

## Treasury and Agency Securities (Specify to level of detail in E8.A1.)

FHLB	\$	%	%	days	\$
FNMA	\$	%	%	days	\$
FHLMC	\$	%	%	days	\$
FFCB	\$	%	%	days	\$
SLMA	\$	%	%	days	\$
GNMA	\$	%	%	days	\$
Treasury	\$	%	%	days	\$
Other	\$	%	%	days	\$
Total Portfolio	\$	%	%	days	\$

## Notes:

- 
- <sup>1</sup> Balances as of December 31.  
<sup>2</sup> Includes collected cash on deposit in concentration accounts.  
<sup>3</sup> Market Value shall be book value for cash, repos, CDs, and other cash equivalents.

E8.A5. ATTACHMENT 5 TO ENCLOSURE 8

INVESTMENT PORTFOLIO YIELD (REALIZED RETURN)

<u>Month</u>	<u>Avg. Invested<sup>1</sup> Balance</u>	<u>Average<sup>2</sup> Maturity</u>	<u>Dollar Weighted Yield<sup>5</sup></u>
January			
February			
March			
April			
May			
June			
July			
August			
September			
October			
November			
<u>December</u>			
Total	Total <sup>3</sup>	Total <sup>3</sup>	Total <sup>4</sup>
Benchmark:			XXX

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Note 1. Does not include concentration accounts.

Note 2. Average maturity is calculated as the weighted average days to maturity at month end.

Note 3. Weighted average sum of column divided by 12.

Note 4. Weighted annual yield.

Note 5. Realized Return is calculated using the following formula:

$$\frac{\text{Realized Gains} - \text{Realized Losses} + \text{Accrued Interest}}{\text{Average Investment Balance}} \times \frac{365}{\text{days in period}} = \text{Annual Yield (Realized Total Return)}$$

E9. ENCLOSURE 9  
FOREIGN CURRENCY

E9.1. HOLDING FOREIGN CURRENCY

E9.1.1. Speculation in foreign currencies is prohibited. However, in foreign areas there may be valid reasons to acquire and use foreign currencies.

E9.1.2. Foreign currencies required to meet payrolls and related costs, operating obligations, and construction payments shall be obtained as needed. Foreign currency holdings to pay the cost of routine operating expenses normally shall not exceed the level required for a 30-day period. Under exceptional conditions, the DoD Components may approve the holding of a 45-day foreign currency requirement. Foreign currencies may be held at the discretion of the DoD Components concerned, in support of construction and severance, to avoid or minimize losses due to currency fluctuations and revaluations.

E9.1.3. Factors to consider in making decisions regarding foreign currency include the probability of fluctuations, reevaluations, and the comparative rate of return on foreign currency holdings as opposed to dollar instruments. U.S. military banking facilities or other financial institutions designated by the Treasury Department are to be used to hold currencies when authorized under host-country law. In the absence of such institutions, funds shall be held in foreign banks, as designated by the Treasury Department.

E9.2. HEDGING

E9.2.1. Hedging in foreign currencies is authorized at the discretion of the Service Headquarters concerned. Hedging may be accomplished through the use of Forward Contracts and Foreign Currency Options. Only the Military Service and Joint Service Headquarters central NAFIs may make hedging transactions in foreign currencies.

E9.2.2. The NAFI fund manager shall ensure that the use of hedging techniques does not violate host-country laws and government-to-government agreements related to the acquisition and use of foreign currencies by U.S. Forces.