



Department of Defense INSTRUCTION

NUMBER 1015.15

October 31, 2007

Incorporating Change 1, March 20, 2008

USD(P&R)

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

- References:**
- (a) DoD Directive 5124.02, "Under Secretary of Defense for Personnel and Readiness (USD(P&R))," October 17, 2006
 - (b) Acting Deputy Secretary of Defense Memorandum, "DoD Directives Review Phase II," July 13, 2005
 - (c) DoD Instruction 1015.15, "Procedures for Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources," May 25, 2005 (hereby canceled)
 - (d) DoD Instruction 1015.14, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources," November 22, 2005 (hereby canceled)
 - (e) through (bn), see Enclosure 1

1. REISSUANCE AND PURPOSE

Consistent with the authority provided in References (a) and (b), this Instruction reissues Reference (c) and incorporates and cancels the following to prescribe policy, assign responsibilities, and set procedures for establishment, management, and control of Nonappropriated Fund Instrumentalities (NAFIs), nonappropriated funds (NAFs), and financial management of resources supporting NAFIs.

1.1. Reference (d).

1.2. Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C/CFO)) and Under Secretary of Defense (Personnel and Readiness) (USD(P&R)) Memorandum (Reference (e)).

1.3. Principal Deputy Under Secretary of Defense (Personnel and Readiness) (PDUSD(P&R)) Memorandum (Reference (f)).

1.4. Enclosure 6 of DoD Instruction 1015.10 (Reference (g)).

2. APPLICABILITY AND SCOPE

2.1. This Instruction applies to the Office of the Secretary of Defense, the Military Departments, the Office of 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 (APFs).

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 funds at vending facilities operated by blind licensees in accordance with DoD Directive 1125.3 (Reference (h)) on DoD installations.

2.2.4. Funds of private organizations as defined in DoD Instruction 1000.15 (Reference (i)).

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

2.2.5. Chaplains’ 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 (j)).

2.2.6. Donations to the Department of Defense or the Military Departments in accordance with Volume 12 of DoD 7000.14-R (Reference (k)).

3. DEFINITIONS

Terms used in this Instruction are defined in Volumes 2A and 2B of Reference (k), DoD Instruction 1330.21 (Reference (l)), DoD Instruction 7700.18 (Reference (m)), DoD Instruction 1015.12 (Reference (n)), and Enclosure 2.

4. POLICY

It is DoD policy that:

4.1. NAFs are government monies and assets from sources other than monies appropriated by the Congress of the United States. NAFs are separate and apart from funds recorded in the books of the Treasurer of the United States. NAFs shall be administered only through the auspices of a NAFI. NAFs are designated for the collective benefit of authorized patrons and the purpose of the NAFI. Individuals, units, organizations, installations, or commands shall have no proprietary interest in NAFs or other NAFI assets.

4.2. A NAFI acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. NAFIs shall be established for military morale, welfare, and recreation (MWR) programs defined in Reference (g) and DoD Instructions 6060.2, 6060.3, and 6060.4 (References (o), (p), and (q)); Armed Services Exchange programs defined in Reference (l); civilian MWR programs defined in DoD Instruction 1015.08 (Reference (r)); NAF adjunct operations to permanent change of station (PCS), temporary duty (TDY) and military treatment facility lodging programs defined in Reference (n)); other NAF Supplemental Mission Funds; and NAF Special Purpose Central Funds defined in Enclosure 3.

4.3. NAFI programs and facilities shall be operated, maintained, and funded as an integral part of the personnel and readiness program. NAFI programs are supported by APF and NAF resources and may also be financed through private sources or commercial borrowing. APF and NAF authorizations are identified in Enclosures 4 and 5.

4.4. Use of APFs shall be consistent with section 1301 of title 31, United States Code (U.S.C.) (Reference (s)), which requires that funds be used only for the purposes for which appropriated. As authorized by sections 2491, 4359, 6978, and 9359 of title 10, U.S.C., (Reference (t)), APFs made available to support operations of Program Groups I, II, and V (the "Stars and Stripes" and Service Academy mixed-funded athletic or recreational extracurricular programs only) may be provided to a NAFI under a Memorandum of Agreement (MOA) and treated and expended as NAFs following the procedures in Enclosure 6.

4.5. A NAFI shall maintain custody and control of its NAF resources and administer APFs to carry out its purposes in accordance with this Instruction. The laws and regulations concerning the authorization, availability, obligation, and expenditure of APFs shall be followed. This does not preclude a NAFI from entering into authorized contracts or other agreements with other entities in accordance with DoD Directive 4105.67 (Reference (u)). The Head of the DoD Component or, for the Secretaries of the Military Departments, the Military Service headquarters designee, shall maintain management and financial information and submit annual consolidated financial and management reports in accordance with Enclosures 7 and 8.

4.6. The DoD Components shall exercise the utmost caution to ensure the safety of NAFs. NAFs may be accumulated and invested to meet cash flow requirements to finance NAFI programs. Management of NAFs shall be based, in order of priority, on safety, liquidity, and yield in accordance with Enclosure 9.

4.7. NAFs are entitled to the same protection as funds of the U.S. Treasury. The DoD Components shall establish such systems as necessary to ensure individual fiduciary responsibility for properly using NAF resources and preventing waste, loss, or unauthorized use. This responsibility extends to all DoD personnel including members of the Armed Forces and civilians paid with either APFs or NAFs. According to section 2783 of Reference (t), NAF personnel who violate NAF regulations are subject to the same penalties under Federal laws that govern the misuse of appropriations by APF personnel. Violations by military personnel are punishable under the Uniform Code of Military Justice (chapter 47 of Reference (t)).

5. RESPONSIBILITIES

5.1. The USD(P&R) shall, in accordance with Reference (a) and section 136 of Reference (t), 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, lodging, and NAF activities.

5.2. The PDUSD(P&R), under the USD(P&R), shall, in accordance with DoD Directive 5124.8 (Reference (v)), serve as the Principal Staff Assistant and advisor to the USD(P&R) and the Secretary and Deputy Secretary of Defense for NAF policy, DoD military and civilian MWR programs, Armed Service Exchanges, lodging programs, and other authorized NAFIs. In discharging this responsibility, the PDUSD(P&R) shall:

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

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

5.2.3. 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.

5.2.4. At least annually, convene a meeting of DoD representatives to review NAF treasury management and investment policy and practices.

5.3. The USD(C)/CFO and the General Counsel of the Department of Defense shall apply the responsibilities in DoD Directives 5118.03 and 5145.1 (References (w) and (x)) to NAFIs in coordination with the USD(P&R).

5.4. The Director, Defense Finance and Accounting Service, under the authority, direction, and control of the USD(C)/CFO, shall be responsible for NAF accounting for DoD NAFIs, except for the Armed Service Exchanges who perform NAF accounting and finance functions prescribed by the USD(P&R) in accordance with DoD Directive 5118.5 (Reference (y)).

5.5. The Assistant Secretary of Defense for Public Affairs, (ASD(PA)), shall serve as the principal point of contact on Armed Forces Information Service publications (to include the “Stars and Stripes”) within the Military Departments in accordance with DoD Directive 5122.5 (Reference (z)). In discharging this responsibility, the ASD(PA) shall monitor and ensure compliance with policy in this Instruction.

5.6. The Director, Administration and Management, 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 (aa)).

5.7. The Heads of the DoD Components shall:

5.7.1. Issue policies and procedures to implement this Instruction.

5.7.2. Establish NAFIs or, for the Secretaries of the Military Departments, delegate the authority to establish NAFIs to a Military Service headquarters designee.

5.7.3. Ensure that NAFI programs, facilities, and resources are planned, programmed, and budgeted using the proper funding source and suitable combination of APF, NAF, and other approved funding resources.

5.7.4. Be responsible for NAF deposits and investments at all echelons, identify fiduciary responsibility, and require the establishment of an investment oversight group for each organization that invests NAFs.

5.7.5. Provide NAFI oversight, appoint an advisory group for each NAFI, and prescribe appropriate analysis and evaluation procedures and indicators to ensure each NAFI is meeting the objectives for which established, or, for the Secretaries of the Military Departments, delegate these responsibilities to a Military Service headquarters designee.

5.7.6. Provide for the periodic review and audit of NAFIs in accordance with DoD Instruction 7600.6 (Reference (ab)) and DoD Instruction 7600.02 (Reference (ac)) to ensure continued need for the functions performed and that those needs are being met in accordance with sound business practices.

5.7.7. Ensure that NAF assets are adequately protected against loss through the risk management programs described in paragraph 6.19.

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

5.8.1. 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 (ad)). The designated Military Department shall coordinate reporting and communication with the PDUSD(P&R) according to this Instruction.

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

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

6. PROCEDURES

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

6.1.1. Establishment. A written approval to establish a NAFI shall specify the purpose and function, the authorized patrons, a financial plan, and the successor NAFI. The function to be performed by a NAFI must be such that there is a valid requirement for a separate organizational and fiscal entity, the protection and immunities accorded an instrumentality of the U.S. Government are necessary, and there is no prohibition by or conflict with Federal statute, Status of Forces Agreements, treaties, or other applicable Federal regulations.

6.1.1.1. The NAFI shall be classified in one of the six Program Groups to ensure uniformity in the establishment, management, allocation, and control of resource support. Management and resource data shall be reported in accordance with this system of classification. At least one NAFI shall be 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 Head and notification submitted to the PDUSD(P&R).

6.1.1.1.1. Program Group I – Military MWR Programs. Military MWR programs, to include child and youth lodging programs, are defined in References (g), (o), (p), and (q). PCS lodging programs are included in Program Group I when operated as part of the military MWR program according to Reference (n).

6.1.1.1.2. Program Group II – Armed Services Exchange Programs. Armed Services Exchange programs are defined in Reference (l) and are considered Category C activities. (See paragraph 6.2.1.3.)

6.1.1.1.3. Program Group III – Civilian MWR Programs. MWR programs designed for DoD civilians are defined in Reference (r) and are considered Category C activities. (See paragraph 6.2.1.3.)

6.1.1.1.4. Program Group IV – Lodging Program Supplemental Mission Funds. NAFIs operated as an adjunct to TDY and PCS lodging programs that generate NAFs are defined in Enclosure 3.

6.1.1.1.5. Program Group V – Supplemental Mission Funds. NAFIs operated as an adjunct to DoD mission activities that generate NAFs are defined in Enclosure 3.

6.1.1.1.6. Program Group VI – Special Purpose Central Funds. DoD Component and Military Service headquarters central NAFs that are designated as the sole provider of a consolidated, general administrative service or function (such as NAF employee life and health insurance and NAF risk management) are defined in Enclosure 3.

6.1.1.2. The successor NAFI is the instrumentality of last resort if there is financial insolvency or disestablishment of a subordinate NAFI. Each NAFI shall have a designated successor NAFI at the DoD Component level or Military Service headquarters level to receive or redistribute residual NAFI assets and liabilities. A successor NAFI shall also be designated for each Program Group at the DoD Component or the Military Service headquarters level. Successor NAFIs may also be designated at intermediate organizational echelons.

6.1.1.3. Joint NAFIs shall be established by agreement between the Heads of the DoD Components concerned, subject to the approval of the PDUSD(P&R). The agreement between the Heads of the DoD components shall provide for inter-Service support in compliance with DoD Instruction 4000.19 (Reference (ae)). A successor NAFI shall be established within each of the participating DoD Components and a single DoD Component shall be designated to coordinate reporting and communication to the PDUSD(P&R), except for communications of the Secretary of a Military Department prescribed by DoD Instruction 1330.09 and DoD Instruction 7700.20 (References (af) and (ag)).

6.1.1.4. 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 host installation.

6.1.2. Oversight. The Head of the DoD Component or the Military Service headquarters designee 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 to the purposes for which it was created. The composition, function, and purpose of the group shall be determined by the DoD Component concerned. Joint NAFIs shall have a governing body known collectively as the Board of Directors. A DoD Component-level or Military Service-level advisory group shall be designated to review central NAFIs.

6.1.3. Disestablishment. A NAFI shall be disestablished when the purpose no longer exists, when consolidated with another NAFI, or when it is not a viable fiscal entity and cannot maintain self-sufficiency. 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 and DoD 4165.66-M (Reference (ah)). A terminal audit shall be performed.

6.1.4. Transfer. 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.

6.2. Use of Resources. NAFI resources shall be administered in an economical, efficient, and business-like manner.

6.2.1. Funding Categories. Within each Program Group, activities are further classified into one of three funding categories. The funding categories are the basis of the APF and NAF authorizations identified in Enclosures 4 and 5.

6.2.1.1. Category A – Mission Sustaining Activities. Category A activities have virtually no capacity for generating NAF revenues and are supported almost entirely with APFs. The use of NAFs is limited to specific instances where APF support is prohibited by law or when NAF support is essential for the operation.

6.2.1.2. Category B – Basic Community Support Activities. Category B activities are financed with a combination of NAF and APF resources. Because their NAF revenue-generating capability is limited, these activities shall be substantially supported with APFs.

6.2.1.3. Category C – Revenue-Generating Activities. Category C activities have the highest capability to generate NAF revenues and generally receive only indirect APF support, except as authorized by law. Overseas activities are authorized limited direct APF support. Military MWR and Armed Service Exchange Category C activities at designated remote and isolated locations are authorized funding under Category B rules in accordance with Enclosure 4.

6.2.2. NAFI Facilities Funding. Enclosure 5 prescribes a single source of funding for minor and major construction and modernization of community facilities for programs and activities of NAFIs. Distinction is made for construction of facilities at new installations or where expansion is required because of a mission change or influx of new units or systems. Distinction is also made in certain instances for support of U.S. Forces deployed in foreign areas, where DoD personnel do not have ready access to civilian community or commercial alternatives normally available in the United States. Paragraphs 6.2.2.1. through 6.2.2.3. and the footnotes to Tables E4.T.1. and E5.T.1. (Enclosures 4 and 5) reflect these distinctions.

6.2.2.1. The Secretary of the Military Department concerned may approve the use of NAF funding outside the continental United States (OCONUS) for youth centers, youth courts, and youth playing fields when APFs are certified as unavailable.

6.2.2.2. The Secretary of the Military Department or the Military Service headquarters designee may approve the use of NAF funding for a temporary lodging facility in support of TDY travel when APFs are certified as unavailable recognizing that the waiver of the fund source will create higher NAF expenses and possibly higher lodging service charges.

6.2.2.3. APFs may be used in lieu of NAFs for:

6.2.2.3.1. Facility construction related to the establishment, activation, or expansion of a military installation or relocation of facilities for the convenience of the Government. In the case of installation expansion, a major increase in authorized and assigned personnel strength over a short period of time is necessary before APF 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.

6.2.2.3.2. Replacement of facilities denied by country-to-country agreements.

6.2.2.3.3. Restoration of facilities and improvements destroyed by acts of God, fire, or terrorism.

6.2.2.3.4. Antiterrorism and force protection measures required by DoD Instruction 2000.16 (Reference (ai)).

6.2.2.3.5. Correction of deficiencies in life safety, force protection, and compliance with the Americans with Disabilities Act (section 12142 of title 42, U.S.C. (Reference (aj))).

6.2.3. Private Resources. Private resources in support of NAFI programs shall be administered in accordance with DoD Instruction 1015.13 (Reference (ak)). Donations shall be administered in accordance with Volume 12 of Reference (k). According to section 2601 of Reference (t), the Secretaries of the Military Departments may accept, hold, administer, and spend any gifts, and may devise or bequeath real property, personal property, or money to be used for real property, conditional upon notification to Congress in accordance with Reference (k) and provided that title to the real property improvement is turned over to the Military Department upon completion.

6.2.4. Restrictions on the Use of NAFs. NAFs are to be used only for the general welfare of the military community. Individuals, units, organizations, or installations shall have no proprietary interest in NAFI funds or other NAFI assets. NAFI funds or assets may not be transferred to private organizations as dividends or other distributions.

6.2.4.1. NAFs are not authorized to be used for or to support command representation or protocol functions; scholarships, free mailing and/or postage, or any other specific benefit for select individuals or groups; public affairs, medical, religious, or other activities or programs outside the purposes for which the NAFI was established; or to pay for employees not performing duties directly related to the NAFI functions or mission.

6.2.4.2. A building, facility, or structure constructed, improved, or purchased using NAFs 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 the Military Service headquarters designee.

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

6.2.6. NAF employees may be authorized housing or a housing allowance in overseas areas in accordance with Reference (j) and DoD 4165.63-M (Reference (an)). Occupancy by NAF employees shall be on a reimbursable basis in accordance with paragraph 060106 C.1.b.(1), Volume 2B of Reference (k). The employing Military Service shall fund the housing costs with APFs or NAFs depending upon the funding authorized for the employee's position. Authorities for foreign allowances are prescribed by References (j) and (am).

6.2.7. Program Group I, II, III, and IV NAFIs at the consolidated Military Service level and individual Program Group V and VI NAFIs shall achieve, as a minimum, a break-even or positive net income for each fiscal year (FY) sufficient to provide for NAF capital requirements.

6.2.8. A NAFI contractor or concessionaire selling or providing authorized services is authorized the same APF support as activities operated by a NAFI.

6.3. Planning, Programming, and Budgeting. 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.

6.3.1. APF support of NAFIs shall be planned, programmed, and budgeted in accordance with Program and Budget Review Submission procedures in Volumes 2A and 2B of Reference (k).

6.3.2. NAF budgets shall be updated annually to provide financial data to managers and commanders for management decision making. The DoD Component shall determine the format, provided that data allows for management analysis of each funding category within a Program Group, for budget-to-actual comparisons to financial statements, and for evaluation of performance against program plans. The following budgets shall be prepared for each NAFI.

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

6.3.2.2. 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 funding).

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

6.4. Accounting

6.4.1. APF Accounting Systems. APF accounting systems provide financial data to satisfy the accounting and reporting requirements of Volumes 4 and 6A of Reference (k).

6.4.2. NAF Accounting Systems. NAF accounting systems must comply with generally- accepted accounting principles in accordance with accounting standards promulgated by the Financial Accounting Standards Board. Accounting records shall provide the detail necessary to report and adequately support the funding categories, activities, and income and expense data of each Program Group as prescribed by Enclosure 8, and shall meet managerial reporting requirements established in this Instruction. Separate accounting records are required for each NAFL. Transactions between NAFLs within a Program Group shall be recorded concurrently and elimination entries made before issuing consolidated financial reports.

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

6.4.2.2. Extraordinary Items. Extraordinary income or expense shall be shown in the financial statements separately from ordinary operations and shall be footnoted. NAF expenses from Base Realignment and Closure (BRAC) and installation closure actions are authorized extraordinary expense items.

6.4.2.3. Dividends and Grants. The declaration of dividends by the Armed Services Exchanges and the distribution of grants shall be recorded and reported as decreases in equity. The receipt of Armed Service Exchange dividends and of 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.

6.4.2.4. Equity Transactions. Transfers into and out of equity shall be limited to net income; net losses; declaration of dividends by Armed Services Exchanges; prior year material corrections; components of other comprehensive income (loss) prescribed by Financial Accounting Standard No. 130 (Reference (ao)); entries associated with the establishment, disestablishment, or consolidation of NAFLs; and distribution and receipt of capital.

6.4.2.5. Tangible Fixed Assets. Tangible fixed assets purchased with NAFs, or donated or transferred to a NAFI, that have a useful life expectancy of more than 2 years and an acquisition cost of \$2,500 or more, shall be capitalized in NAF accounting records. The DoD Components shall utilize construction-in-progress to accumulate the cost of real property construction projects. 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 initial training costs (other than employee salaries); 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.”

6.4.2.6. Depreciation and Amortization. Tangible fixed assets, except construction in progress, shall be depreciated over their expected useful lives. Depreciation and amortization shall be established and reported on financial statements.

6.4.2.6.1. The DoD Components shall utilize the straight-line method of depreciation, and shall prescribe the useful lives of assets and disclose them in the notes to the financial statements.

6.4.2.6.2. The Armed Services Exchanges shall:

6.4.2.6.2.1. Assign an expected useful life within the following parameters: buildings, 30 years; building improvements, 5-15 years; furniture, fixtures, equipment, and other assets, 2-10 years; vehicles, aircraft, and boats, 2-10 years; information technology, 2-10 years; and land improvements, 15-25 years.

6.4.2.6.2.2. Compute salvage value on personal property when it is expected that proceeds will be received from selling the asset at the end of its useful life and when the salvage value is expected to exceed 10 percent of the asset’s cost. If the salvage value is 10 percent or less of the asset’s cost, the salvage value is not considered material for the purposes of calculating depreciation and is not included when determining the depreciable base. Salvage value shall not be computed on real property assets.

6.4.2.6.2.3. Commence depreciation on the date of receipt of the asset or the date installed and ready for use, regardless of whether the asset is actually used. In the case of constructed real property, depreciation shall commence when the building is available for use, regardless of whether the building is fully occupied.

6.4.2.6.2.4. If an asset remains in use longer than its estimated useful life, it shall be retained in the property accountability or management system, as well as in the accounting records, and the record shall reflect both its recorded cost and accumulated depreciation until its disposition.

6.4.2.6.2.5. Depreciation of real property shall not be accelerated at installations approved for realignment, closure, or restationing. Upon actual closure of the facility, the undepreciated value shall be expensed in the applicable extraordinary expense account.

6.4.2.7. Standard FYs. The FY for DoD NAFIs, except the Armed Services Exchanges, begins on October 1 and ends the following September 30. The FY 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.

6.4.2.8. Uniform Chart of Accounts. NAF accounting systems, except those utilized by the Armed Services Exchanges, shall comply with the uniform chart of accounts established in Volume 13 of Reference (k). The DoD Components shall jointly establish and maintain a uniform chart of accounts and common financial reporting procedures for the Armed Services Exchanges in accordance with section 361 of Public Law (Pub. L.) 102-484 (Reference (ap)). The Armed Services Exchange chart of accounts and common financial reporting procedures shall be updated annually and submitted jointly by the Secretaries of the Military Departments to the PDUSD(P&R) by October 1 of each year.

6.4.2.9. 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 (first in first out, last in first out, moving average, etc.) as long as the method is consistently applied and disclosed in the notes to the financial statements. The Armed Services Exchanges shall use the retail inventory method to account for retail merchandise.

6.4.2.10. Prompt Payment Act. NAFIs shall comply with the Prompt Payment Act in accordance with part 1315 of title 5, Code of Federal Regulations (CFR) (Reference (aq)), and Volume 10 of Reference (k).

6.4.2.11. 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 Reference (k).

6.4.2.12. Concessionaire Operations. NAFIs shall disclose net income from concessionaires as operating income on the financial statements. Armed Services Exchanges shall use a uniform accounting method.

6.4.2.13. Reimbursements. The DoD Components shall ensure timely and accurate reimbursements are made when reimbursable transactions are required between NAFs, commissary surcharge trust funds, and APFs. APF reimbursable transactions shall be processed according to the procedures in Volume 11A of Reference (k).

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

6.5. Reporting

6.5.1. 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. The Head of the DoD Component or the 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 in Enclosure 7.

6.5.2. 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 in Enclosure 8. The DoD Components shall submit the reports to the PDUSD(P&R) in the specified software and media within 120 days following the close of the Program Group FY. The reports shall be based on or be the basis of annual financial statements that comply with the audit requirements of Reference (ab). 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.

6.5.3 Exchange Sales. The Armed Service Exchanges shall report current year and prior year monthly and year-to-date sales to the PDUSD(P&R) within 30 days following the end of the month as specified in Enclosure 8.

6.6. 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.

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

6.7.1. NAF Fiduciary Responsibility. The DoD Components shall establish policies and procedures necessary to encourage prevention and detection of fraud, waste, and mismanagement. Policies and procedures shall also ensure prompt reporting of suspected violations, proper investigation, and appropriate corrective action.

6.7.1.1. Suspected violations shall be reported and resolved at the lowest organizational level possible. Individuals reporting NAF-related violations are protected by the Whistleblower Protection Act according to DoD Directive 1401.3 (Reference (ar)), DoD Directive 7050.06 (Reference (as)), section 2301 and section 7 of appendix to Reference (am).

6.7.1.2. The Defense Hotline Program applies to NAFs. Investigative responsibilities and procedures shall be in accordance with DoD Directive 7050.1 (Reference (at)).

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

6.7.2. Standards of Conduct. The standards of conduct published in DoD Directive 5500.7 (Reference (au)) and implemented by Reference (al) apply to personnel assigned NAF responsibility or assigned to or employed by a NAFI.

6.7.3. Internal Controls. NAFI internal control systems shall provide reasonable assurance of the effectiveness of the organization, efficiency and economy of operations, safeguarding of assets against fraud and abuse, propriety of receipts and disbursements, accuracy and reliability of financial and operational records and reports, compliance with applicable laws and regulations, and prevention and detection of fraud, waste, and mismanagement. The internal management control program set forth in DoD Instruction 5010.40 (Reference (av)) applies to NAFIs and NAFs.

6.8. Cash and Investments. In accordance with section 2491c of Reference (t), all NAFs in excess of installation cash requirements shall be transferred to a single NAF account of the applicable Military Service. NAF accounts shall be maintained in financial institutions that are U.S. Federally insured or designated by the U.S. Treasury. Transactions and investments shall be limited to obligations of organizations or institutions that are sponsored, insured, or backed by a pledge of collateral by the U.S. Government. NAFs on deposit with financial institutions shall be sufficiently liquid to meet requirements and earn a rate of return that preserves the value of funds invested. Cash and treasury management shall conform to the institutions, investments, procedures, and reporting requirements in Enclosure 9. An annual report shall be submitted to the PDUSD(P&R) in accordance with Enclosure 9.

6.8.1. The PDUSD(P&R) shall convene annually a meeting of representatives of the offices of the PDUSD(P&R) and the USD(C)/CFO with functional responsibility for treasury management to review the Annual NAF Treasury Management Reports, examine the portfolios, and make recommendations for improvement to policy. The DoD Component or Military Service headquarters' NAF treasury managers shall present the results of their most recent Annual NAF Treasury Management Report at this meeting.

6.8.2. Investment funds shall be audited by an independent certified public accountant or an entity licensed to conduct public audits. 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 in accordance with DoD Instruction 5010.40 (Reference (av)). The statement of assurance and accompanying reports shall be furnished to the investment oversight committee.

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

6.9.1. Debts to NAFIs are obligations to instrumentalities of the U.S. Government. The DoD Components shall take prompt, efficient action to collect customer debts and other NAFI receivables through available voluntary and involuntary means, and to provide collections to the appropriate NAFI.

6.9.2. 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 section 1692 of title 15, U.S.C., (Reference (aw)) and section 552a of Reference (am) (commonly known as the Fair Debt Collection Practices Act and the Privacy Act, respectively).

6.9.3. In accordance with Reference (af), the Armed Services Exchanges shall only use a single, joint, centrally-administered credit system as their internal NAFI credit system. All Armed Services Exchanges shall maintain a Standard and Poors (S&P) 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.

6.9.4. All NAFIs extending credit shall include the credit program in the audit coverage in accordance with Reference (ab).

6.9.5. NAFIs shall accept the Government Commercial Purchase Card in activities where personal credit cards or other purchase cards are accommodated.

6.10. Borrowing. All borrowing decisions shall be based on sound economic and financial management factors. Commercial borrowing is authorized for DoD Component and Military 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. Jointly-managed receivables necessary to operate the single exchange credit program are authorized in accordance with Reference (af). All borrowing within the DoD Component shall be reported as of December 31 of each year as specified in Enclosure 9.

6.11. Severance and Separation Benefits. Use of NAFs to pay for severance or separation entitlements for APF employees is prohibited.

6.11.1. 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.

6.11.2. Foreign National Severance Pay. NAFs 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. At 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.

6.12. Installation Closure

6.12.1. All Closures. Upon notification that an installation or activity is subject to closure, including 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 NAFs 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 identify the book value of NAF assets.

6.12.1.1. NAFI personal property assets shall be redistributed in accordance with DoD Directive 5410.12 (Reference (ax)) 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 discretion of the Military Service.

6.12.1.2. Category C activities at DoD-directed closing installations overseas may receive APF support authorized for Category B activities. Category C activities, including Armed Services Exchanges and Supplemental Mission NAFIs, are authorized APFs for management personnel, custodial and janitorial service, printing and reproduction, and supplies, equipment, and internet operation not related to the sale of merchandise or services.

6.12.2. Installation Closures under BRAC

6.12.2.1. The Reserve Account, created by section 344 of Pub. L. 102-190, note to section 2687 of Reference (t), 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. Section 655 of Pub. L. 108-136 (Reference (ay)), authorizes use of these funds without further appropriation, not to exceed \$31.0 million in FY 2004, \$24.0 million in FY 2005, and \$15.0 million in FY 2006. Reserve Account funds may only be used for acquiring, constructing, and improving commissaries and NAF real property and facilities. Receipt of fund distributions from the BRAC Reserve Accounts shall be recorded as equity transactions.

6.12.2.2. The DoD Base Closure Account 2005, created by section 3005 of Pub. L. 107-107, note to section 2687 of Reference (t), 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 only for the purpose of acquiring, constructing, and improving real property and facilities for NAFIs.

6.12.2.3. Category C activities at installations identified for closure under BRAC may receive APF support authorized for Category B activities. APFs 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, the employer's share of premiums for temporary continuation of medical insurance under the DoD NAF Health Benefits Program, and facilities construction. NAFI realignment and closure costs are authorized funding from all BRAC accounts, not just the BRAC Reserve Account.

6.12.2.4. NAFs are prohibited from funding the disposal of excess or surplus property or unemployment compensation resulting from a BRAC action.

6.13. Disposition of Government Property. In accordance with section 574 of title 40, U.S.C. (Reference (az)), the net proceeds from the sale of a building or structure that was acquired or constructed using NAF resources and subsequently sold upon disposition of Government property, other than under BRAC legislation or an agreement with a foreign government under global restationing, 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.

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

6.15. 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 10 addresses NAFI management of foreign currency.

6.16. Regulations and Taxes

6.16.1. Federal Alcoholic Beverage Tax. 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 on a military installation, in accordance with part 31 of title 27, CFR (Reference (ba)). 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. Each outlet operating off a military installation must pay the appropriate tax as a wholesaler or retailer. 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.

6.16.2. 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 alcoholic liquors, beer, and tobacco are sold to a NAFI for resale outside the United States and its territories.

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

6.16.4. 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.

6.16.5. State and Local Laws, Regulations, and Taxes. Instrumentalities of the U.S. Government are not subject to direct taxation, regulation, or control by State or local authorities except when specifically authorized by Federal statute.

6.16.5.1. NAFIs shall pay State, Territory of Guam, and District of Columbia taxes on motor vehicle fuels in accordance with section 104 of title 4, U.S.C. (Reference (bb)).

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

6.16.5.3. All personnel shall 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 that such cooperation does not adversely affect the Department's mission or programs.

6.16.6. Non-Applicable Taxes. NAFIs are exempt from the payment of State and local taxes including, but not limited to, unemployment insurance taxes and contributions; income taxes; real estate and personal property taxes; sales, use, and license taxes on property purchased for consumption or resale; and excise taxes on alcoholic beverages imposed directly on NAFIs.

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

6.16.8. Concession Activities. Concessionaire-operated activities on military installations are subject to State and local sales and use taxes. The concessionaire shall report and pay such taxes to the proper authorities.

6.16.9. 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 NAFs for work performed during off-duty hours.

6.16.10. 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.

6.17. 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 NAF requirements.

6.18. Auditing

6.18.1. Internal Audits and Inspections. The DoD Component or the delegated Military Service headquarters shall determine and require such internal audits and inspections as they consider necessary or desirable. Internal audits shall meet the requirements in References (ab) and (ac). Specific items of inquiry shall be included in the Military Service Inspector General checklists.

6.18.2. External Audits. Each Military Service shall require an annual Service-wide audit of its NAFIs by an independent certified public accountant. These audits shall include the headquarters NAFIs and such intermediate-level and individual NAFIs as may be necessary for the auditors to express an opinion on the NAFI financial statements of the Military Services. Audits by certified public accountants shall comply with Reference (ab).

6.19. Risk Management. 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 not only protect the financial integrity of NAFIs, but 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.

6.20. Procurement Policy. NAF procurement shall be in accordance with Reference (u) and DoD Instruction 4105.71 (Reference (bc)).

6.21. Personnel Policy. Management of NAF civilian employees shall be in accordance with Reference (j), DoD Instruction 1401.1 (Reference (bd)), and DoD 1400.25-M (Reference (be)).

7. INFORMATION REQUIREMENTS

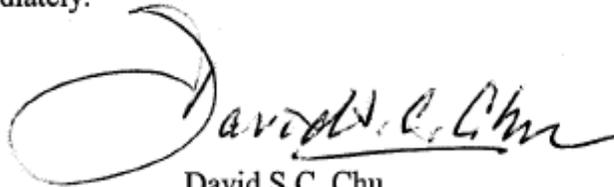
7.1. The annual consolidated financial and management report required by subparagraph 6.5.2. has been assigned Report Control Symbol DD-P&R(A)1344 in accordance with DoD 8910.1-M (Reference (bf)).

7.2. The Annual NAF Treasury Management report required by subparagraph 6.8. is exempt from licensing in accordance with paragraph C4.4.6. of Reference (bf).

8. SUMMARY OF CHANGE 1. The change to this issuance is an administrative change which includes additional language expanding the NAF funding authorization to products leaving CONUS for OCUNUS Armed Services Exchanges. This change occurs in E4.T1.4.2.

9. EFFECTIVE DATE

This Instruction is effective immediately.

A handwritten signature in black ink, appearing to read "David S.C. Chu". The signature is written in a cursive style with a large, looping initial "D".

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

Enclosures – 10

- E1. References, continued
- E2. Definitions
- E3. Lodging, Supplemental Mission Funds, and Special Purpose Central Funds NAFIs
- E4. APF and NAF Funding Authorizations
- E5. Construction of NAFI Facilities
- E6. DoD MWR Utilization Support and Accountability (USA) and Uniform Funding and Management (UFM) Practices
- E7. Cost Expense Captions
- E8. Financial Reporting
- E9. Treasury Management and NAF Investments
- E10. Foreign Currency

E1. ENCLOSURE 1

REFERENCES, continued

- (e) Under Secretary of Defense (Comptroller) and Under Secretary of Defense (Personnel and Readiness) Memorandum, "Use of Appropriated Funds for Nonappropriated Fund Costs Incurred in Hurricane Katrina, Hurricane Rita, and Hurricane Wilma Evacuations," March 23, 2006 (hereby canceled)
- (f) Principal Deputy Under Secretary of Defense (Personnel and Readiness) Memorandum, "Use of Appropriated Funds (APF) at Closing DoD Installations Overseas," July 30, 2007 (hereby canceled)
- (g) DoD Instruction 1015.10, "Programs for Military Morale, Welfare and Recreation (MWR)," November 3, 1995
- (h) DoD Directive 1125.3, "Vending Facility Program for the Blind on Federal Property," April 7, 1978
- (i) DoD Instruction 1000.15, "Private Organizations on DoD Installations," December 20, 2005
- (j) DoD 1401.1-M, "Personnel Policy Manual for Nonappropriated Fund Instrumentalities," December 13, 1988
- (k) DoD 7000.14-R, "Financial Management Regulation;" Volume 2A, August 2007; Volume 2B, July 2007; Volume 4, April 2007; Volume 6A, December 2006; Volume 7A, September 2007; Volume 10, December 2005; Volume 11A, December 2006; Volume 12, September 2007; and Volume 13, January 2004
- (l) DoD Instruction 1330.21, "Armed Services Exchange Regulations," July 14, 2005
- (m) DoD Instruction 7700.18, "Commissary Surcharge, Nonappropriated Fund (NAF), and Privately Financed Construction Reporting Procedures," December 15, 2004
- (n) DoD Instruction 1015.12, "Lodging Program Resource Management," October 30, 1996
- (o) DoD Instruction 6060.2, "Child Development Programs (CDPs)," January 19, 1993
- (p) DoD Instruction 6060.3, "School Age Care (SAC) Program," December 19, 1996
- (q) DoD Instruction 6060.4, "Youth Programs (YPS)," August 23, 2004
- (r) DoD Instruction 1015.08, "DoD Civilian Employee Morale, Welfare, and Recreation (MWR) Activities and Supporting Nonappropriated Fund Instrumentalities (NAFI)," December 23, 2005
- (s) Section 1301 of title 31, United States Code
- (t) Sections 136, 2491, 2491a-c, 2492, 2601, 2643, 2783, 2881, 4359, 6978, 9359; note to section 2687; and chapter 47 of title 10, United States Code
- (u) DoD Directive 4105.67, "Nonappropriated Fund (NAF) Procurement Policy," May 2, 2001
- (v) DoD Directive 5124.8, "Principal Deputy Under Secretary of Defense for Personnel and Readiness (PDUSD(P&R))," July 16, 2003
- (w) DoD Directive 5118.03, "Under Secretary of Defense (Comptroller) (USD(C))/Chief Financial Officer (CFO), Department of Defense," January 6, 1997
- (x) DoD Directive 5145.1, "General Counsel of the Department of Defense," May 2, 2001
- (y) DoD Directive 5118.5, "Defense Finance and Accounting Service," November 26, 1990

- (z) DoD Directive 5122.5, "Assistant Secretary of Defense for Public Affairs (ASD(PA))," September 27, 2000
- (aa) DoD Directive 5120.18, "DoD Concessions Committee," January 13, 1999
- (ab) DoD Instruction 7600.6, "Audit of Nonappropriated Fund Instrumentalities and Related Activities," January 16, 2004
- (ac) DoD Instruction 7600.02, "Audit Policies," April 27, 2007
- (ad) DoD Directive 5100.3, "Support of the Headquarters of Combatant and Subordinate Joint Commands," November 15, 1999
- (ae) DoD Instruction 4000.19, "Interservice and Intragovernmental Support," August 9, 1995
- (af) DoD Instruction 1330.09, "Armed Services Exchange Policy," December 7, 2005
- (ag) DoD Instruction 7700.20, "Commissary Surcharge, Nonappropriated Fund (NAF), and Privately Financed Construction Policy," November 10, 2005
- (ah) DoD 4165.66-M, "Base Redevelopment and Realignment Manual," March 1, 2006
- (ai) DoD Instruction 2000.16, "DoD Antiterrorism (AT) Standards," October 2, 2006
- (aj) Section 12142 of title 42, United States Code
- (ak) DoD Instruction 1015.13, "DoD Procedures for Implementing Public-Private Ventures (PPVs) for Morale, Welfare and Recreation (MWR), and Armed Services Exchange Category C Revenue-Generating Activities," March 11, 2004
- (al) DoD 5500.7-R, "Joint Ethics Regulation (JER)," August 1993
- (am) Section 7 of appendix to and sections 552a, 2301, 5595-5597, and 5757 of title 5, United States Code
- (an) DoD 4165.63-M, "DoD Housing Management," September 30, 1993
- (ao) Financial Accounting Standards Board Statement of Accounting Standards No. 130, "Reporting Comprehensive Income," June 1997
- (ap) Section 361 of Public Law 102-484, "The National Defense Authorization Act for Fiscal Year 1993," October 23, 1992
- (aq) Part 1315 of title 5, Code of Federal Regulations, "Prompt Payment," current edition
- (ar) DoD Directive 1401.3, "Reprisal Protection for Nonappropriated Fund Instrumentality Employees/Applicants," October 16, 2001
- (as) DoD Directive 7050.06, "Military Whistleblower Protection," July 23, 2007
- (at) DoD Directive 7050.1, "Defense Hotline Program," January 4, 1999
- (au) DoD Directive 5500.7, "Standards of Conduct," August 30, 1993
- (av) DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006
- (aw) Section 1692 of title 15, United States Code
- (ax) DoD Directive 5410.12, "Economic Adjustment Assistance to Defense-Impacted Communities," July 5, 2006
- (ay) Section 655 of Public Law 108-136, "The National Defense Authorization Act for Fiscal Year 2004," November 24, 2003
- (az) Section 574 of title 40, United States Code
- (ba) Part 31 of title 27, Code of Federal Regulations, "Alcohol Beverage Dealers," current edition
- (bb) Section 104 of title 4, United States Code
- (bc) DoD Instruction 4105.71, "Nonappropriated Fund (NAF) Procurement Procedure," February 26, 2001

- (bd) DoD Instruction 1401.1, "Personnel Policy for Nonappropriated Fund Instrumentalities (NAFIs)," November 15, 1985
- (be) DoD 1400.25-M, "Department of Defense Civilian Personnel Manual (CPM)," December 3, 1996
- (bf) DoD 8910.1-M, "DoD Procedures for Management of Information Requirements," June 30, 1998
- (bg) DoD Instruction 4165.71, "Real Property Acquisition," January 6, 2005
- (bh) DoD 5200.2-R, "Personnel Security Program," January 16, 1987
- (bi) DoD Directive 4500.9E, "Transportation and Traffic Management," September 11, 2007
- (bj) DoD Instruction 1330.20, "Reporting of Morale, Welfare, and Recreational (MWR) Activities Personnel Information," September 4, 1980
- (bk) DoD Directive 1000.11, "Financial Institutions on DoD Installations," June 9, 2000
- (bl) Section 1832(a) of title 12, United States Code
- (bm) Part 202 of title 31, Code of Federal Regulations, "Depositories and Financial Agents of the Federal Government," current edition
- (bn) Financial Accounting Standards Board Statement of Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities," June 1998

E2. ENCLOSURE 2

DEFINITIONS

- E2.1. APFs. Monies provided by the Congress, under statutory authority, from the U.S. Treasury for specified purposes.
- E2.2. 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 (ECECS) functions; common warehousing, marketing, or maintenance functions; and central accounting and payroll, information system, and procurement processing functions.
- E2.3. Continental United States (CONUS). For the purposes of this Instruction, CONUS is defined as the 48 contiguous United States and the District of Columbia.
- E2.4. 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 NAF resources.
- E2.5. DoD Personnel. Military personnel, including members of the Reserve Components, and DoD civilian employees paid from either APFs or NAFs.
- E2.6. ECECS. Managerial positions at an installation, major command, or Military Service headquarters located above the direct program managerial and operational level of individual NAFI programs. These positions support planning, organizing, directing, coordinating, and controlling the overall operations of NAFI programs. ECECS specifically consists of program, fiscal, logistical, and other management functions required to ensure fiscal and management oversight.
- E2.7. Extraordinary Items. Events and transactions distinguished by their unusual nature, the infrequency of their occurrence, and their significant difference from the customary business operation.
- E2.8. Financial Derivative. A financial contract that has its price derived from, and that depends upon, the price of an underlying asset.
- E2.9. Installation. For the purposes of this Instruction, installation is defined as any real property or area that is controlled, owned, or leased by the Department of Defense.

E2.10. Leveraged Investing. An activity that magnifies the risk and reward trade-off of an investment by borrowing funds or through the use of derivatives.

E2.11. Major Construction. For the purposes of this Instruction, major construction is defined as a construction project with a construction cost as outlined in Reference (k) for military construction (MILCON) appropriations and Reference (m) for NAF major construction.

E2.12. Minor Construction. For the purposes of this Instruction, minor construction is defined as a construction project with a construction cost that does not exceed the limits for minor construction as outlined in Reference (k) for MILCON and Reference (m) for NAF minor construction.

E2.13. NAFI. A DoD organizational and fiscal entity supported in whole or in part by NAFs. A NAFI, as an instrumentality of the U.S. Government, enjoys the same immunities and privileges as the U.S. Government in the absence of specific Federal statute. It is not incorporated under the law of any State, but has the legal status of an instrumentality of the United States.

E2.14. OCONUS. For the purposes of this Instruction, OCONUS is defined as areas other than the 48 contiguous United States and the District of Columbia.

E2.15. Overseas. For the purposes of this Instruction, overseas is defined as areas other than the 50 United States and the District of Columbia.

E2.16. Personal Property. Tangible fixed assets that are not land or part of a building or its installed equipment.

E2.17. Portfolio Expenses. For the purposes of this Instruction, portfolio expenses include those expenses directly attributable to the placement of investments and the generation of investment income. Includes but not limited to portfolio managers' expenses, investment consultant expenses, investment software, audits, financial evaluation services and safekeeping custodial fees.

E2.18. Resale. 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 APFs, and other sources of income not directly related to the sale or resale of merchandise and services.

E2.19. Retail Inventory Method. A method of estimating inventory cost based on the ratio of cost to retail (selling) price. This ratio is referred to as the cost retail ratio or cost complement. Inventories valued at retail are converted to estimated cost by applying the cost retail ratio or percentage. To avoid distortions arising from different product mixes or margins, a separate calculation is generally performed for each department.

E2.20. Service Headquarters. Headquarters organizations that have managerial responsibility for NAFIs within the Military Services.

E2.21. Special Purpose Central Funds. NAIs 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.

E2.22. Successor NAI. A NAI designated to provide financial support and assistance, receive or redistribute excess assets, and assume residual liabilities of an assigned NAI.

E2.23. Supplemental Mission Fund. A NAI designated to receive NAIs generated as the result of installation operation of mission programs such as training, food service, education, and security. Examples include the Athletic Association Fund and Dependent Schools Funds.

E2.24. Tangible Fixed Assets. Includes land, buildings, and other structures; additions to buildings; nonstructural improvements to include landscaping, fences, sewers, wells, and reservoirs; fixed equipment such as elevators, plumbing, power-plant boilers, fire and intrusion detection/alarm systems, lighting, heating, and air conditioning; and fixed infrastructure such as cabling, wiring, and conduit that supports telecommunications and information technology systems. Includes design modification, contract administration, inspection, supervision of construction, and other related costs; minor construction; furniture, fixtures, and equipment; construction in progress; capital leases; information technology moveable equipment, commercial off-the-shelf software, licenses and all other related hardware and software components; and capitalized sustainment, restoration, and modernization.

E2.25. Treasury Management. The management of cash, bank accounts, investments, borrowing, lending, foreign exchange, interest rate risk, liquidity, and credit risk.

E2.26. United States. For the purposes of this Instruction, the United States is defined as the 50 States and the District of Columbia.

E3. ENCLOSURE 3

LODGING, SUPPLEMENTAL MISSION FUNDS, AND
SPECIAL PURPOSE CENTRAL FUNDS NAFIS

E3.1. ESTABLISHMENT OF PROGRAM GROUPS IV, V, AND VI NAFIS. A separate NAFI shall be established for each mission activity within Program Group IV – Lodging, Program Group V – Supplemental Mission Funds, and Program Group VI – Special Purpose Central Funds. NAFs generated and their expenditure are restricted to the purposes of the NAFI.

E3.2. LODGING AND SUPPLEMENT MISSION FUNDS NAFIS. NAFIs shall be established as Program Group V – Supplemental Mission Funds in circumstances where NAFs 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 adjuncts to the TDY and PCS lodging program and to Military Treatment Facilities such as Fisher Houses and Nightingale Houses 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.

E3.2.1. NAFs may be used only to provide quality-of-life services as adjuncts to mission activities. NAFs are authorized to support the operational functions of the Supplemental Mission Fund, such as procurement of items for resale and management of NAF resources. NAFs shall not be used to support training, lodging, food service, security, or other mission activities.

E3.2.2. Program Group IV and V NAFIs are authorized APF and NAF support as Category C activities in Enclosure 4, except that the “Stars and Stripes” is authorized APF and NAF support as a Category B activity. Fisher Houses may be provided base operating support in accordance with section 2492 of Reference (t).

E3.2.3. APF support of Program Group V – Supplemental Mission Funds shall be reported as required in Enclosure 8 only to the extent that it relates directly to NAFI-operated functions. For example, APF costs of operating mission activities (training, food service, education, and security) shall not be reported. However, APF support to the NAFI shall be reported, including prorated portions of the costs APF-funded personnel who perform collateral duties of collecting, accounting, or disbursing NAFs.

E3.2.4. The following list provides examples of Program Group V – Supplemental Mission Funds and is not intended to be all-inclusive.

E3.2.4.1. Dining Hall Fund.

E3.2.4.2. Dependent Schools Fund.

E3.2.4.3. In-Flight Services Fund.

E3.2.4.4. Military Museum/Historical Fund.

- E3.2.4.5. Vehicle Registration Fund.
- E3.2.4.6. Academic Support Fund.
- E3.2.4.7. Commandant's School Fund.
- E3.2.4.8. Special Learning Center Fund.
- E3.2.4.9. Cadet Restaurant Fund.
- E3.2.4.10. Athletic Association Fund.
- E3.2.4.11. U.S. Disciplinary Barracks Fund.
- E3.2.4.12. "Stars and Stripes."

E3.3. SPECIAL PURPOSE CENTRAL FUNDS. A NAFI 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). NAFIs established in Program Group VI shall be managed at the DoD Component or Military Service headquarters level; the service or function shall not be replicated at another echelon or element within the organization.

E3.3.1. 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 not provided through a Program Group VI – Special Purpose Central Fund shall be reimbursed or prorated to the benefiting activities.

E3.3.2. Expenses are generally recovered through premiums or assessments charged or offset against earnings prior to distribution. Special Purpose Central Funds are authorized APF and NAF support for Category C programs as indicated in Enclosure 4 and shall be reported as Category C activities on Schedule A.

E3.3.3. The following list provides examples of Special Purpose Central Funds and is not intended to be all-inclusive.

- E3.3.3.1. NAF Employee Group Health Insurance Fund.
- E3.3.3.2. NAF Employee Group Life Insurance Fund.
- E3.3.3.3. NAF Risk Management Insurance Fund.
- E3.3.3.4. NAF Central Banking or Investment Fund.

E4. ENCLOSURE 4APF AND NAF FUNDING AUTHORIZATIONSTable E4.T1. General Funding Authorizations for NAFI Activities

Element of Resource	APF			NAF
	Category A	Category B	Category C ^{1,2,3}	
E4.T1.1. <u>MILITARY PERSONNEL</u>				
E4.T1.1.1. ECECS.	Authorized	Authorized	Authorized	Not Applicable
E4.T1.1.2. All other personnel.	Authorized	Authorized	Not Authorized ⁴	Not Applicable ⁵
E4.T1.2. <u>CIVILIAN PERSONNEL</u>				
E4.T1.2.1. <u>Permanent Assignment Utilization</u> E4.T1.2.1.1. ECECS.	Authorized	Authorized	Authorized except Armed Service Exchanges unless authorized by footnote 6	Authorized
E4.T1.2.1.2. 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 ⁶	Authorized
E4.T1.2.1.3. Personnel directly and primarily involved in resale.	Not Authorized	Not Authorized	Not Authorized	Authorized
E4.T1.2.1.4. All other personnel.	Authorized	Authorized	Not Authorized	Authorized
E4.T1.2.2. <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 ⁶	Not Applicable
E4.T1.2.3. <u>TDY.</u> Participants in athletic, recreation, and entertainment events conducted as part of the MWR program. Includes international and national sports competitions authorized by statute and other DoD issuances to include command supervision.	Authorized	Authorized	Not Authorized	Not Applicable
E4.T1.2.4. <u>CPO Assistance or Administration.</u> Relates to CPO support for: E4.T1.2.4.1. Technical advice and counsel that may be provided by the CPO to assist in the personnel management of employees paid with NAFs.	Authorized	Authorized	Authorized	Not Authorized
E4.T1.2.4.2. Day-to-day personnel administration of employees paid with NAFs 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

Table E4.T1. General Funding Authorizations for NAFI Activities, continued

Element of Resource	APF			NAF
	Category A	Category B	Category C ^{1,2,3}	
E4.T1.2.5. <u>Family Housing Overseas</u> . Applies to employees who are authorized housing or a housing allowance in overseas areas. E4.T1.2.5.1. APF Personnel.	Authorized	Authorized	Authorized	Not Authorized
E4.T1.2.5.2. NAF Personnel.	Authorized for APF-authorized positions	Authorized for APF authorized positions	Authorized for APF authorized positions	Authorized
E4.T1.2.6. <u>Personnel Evacuation Expenses</u> . Includes evacuation payments, evacuation transportation to and from safe-haven locations, and per diem and subsistence allowances for employees ordered to evacuate by the commanding officer or other DoD authority. E4.T1.2.6.1. APF Personnel.	Authorized	Authorized	Authorized	Not Authorized
E4.T1.2.6.2. NAF Personnel. NAF employees may not receive evacuation benefits beyond the amounts and limitations authorized in the JTR	Authorized	Authorized	Authorized	Authorized only when APFs are not available or sufficient
E4.T1.3. <u>TRAVEL OF PERSONNEL</u>				
E4.T1.3.1. <u>PCS</u> . Applies to relocation of APF and NAF personnel assigned on a full-time permanent basis to NAFI programs and activities for: E4.T1.3.1.1. APF Personnel.	Authorized	Authorized	Authorized	Not Authorized
E4.T1.3.1.2. NAF Personnel.	Not authorized except for APF-authorized NAF positions or for costs that are a direct result of an approved BRAC action	Not authorized except for APF-authorized NAF positions or for costs that are a direct result of an approved BRAC action	Not authorized except for APF-authorized NAF positions or for costs that are a direct result of an approved BRAC action	Authorized
E4.T1.3.2. <u>TDY</u> . E4.T1.3.2.1. Applies to TDY for personnel employed by or assigned or detailed to NAFI programs and activities. E4.T1.3.2.1.1. APF Personnel.	Authorized	Authorized	Authorized	Authorized for personnel engaged in internal NAFI operations
E4.T1.3.2.1.2. NAF Personnel.	Authorized when travel is directed by an authorized DoD official and relates to APF business	Authorized when travel is directed by an authorized DoD official and relates to APF business	Authorized when travel is directed by an authorized DoD official and relates to APF business	Authorized

Element of Resource	APF			NAF
	Category A	Category B	Category C ^{1,2,3}	
E4.T1.3.3. <u>Use of Government-Owned Vehicles</u> . Relates to use of Government-owned, motor pool-controlled passenger vehicles by a NAFI program or activity.	Authorized	Authorized	Authorized to assist in the performance of ECECS	Authorized to reimburse APFs for use of Government-owned vehicles for other than ECECS in Category C
E4.T1.4. <u>TRANSPORTATION OF THINGS</u>				
E4.T1.4.1. <u>Goods purchased with APFs</u>	Authorized	Authorized	Authorized	Not Authorized
E4.T1.4.2. <u>Goods purchased with NAFs</u> E4.T1.4.2.1. Transoceanic movement of goods from CONUS sea and aerial ports of embarkation to first destination OCONUS or bulk breakdown point. Includes transoceanic movement of goods from CONUS sea and aerial ports of embarkation to final destination OCONUS for Armed Services Exchanges.	Authorized.	Authorized	Authorized. Must be used for Armed Services Exchanges per footnote 7	Authorized when APFs are not available. Not authorized for Armed Service Exchanges per footnote 7
E4.T1.4.2.2. Transoceanic movement of goods from OCONUS sea and aerial ports of embarkation to first destination CONUS or bulk breakdown point.	Authorized	Authorized	Authorized	Authorized when APFs are not available
E4.T1.4.2.3. Movement of U.S. and foreign goods within foreign areas when commercial transportation is not available or in contingency areas.	Authorized. Includes the movement of goods to remote and isolated locations.	Authorized. Includes the movement of goods to remote and isolated locations.	Authorized. Includes the movement of goods to remote and isolated locations.	Authorized when APFs are not available
E4.T1.4.2.4. 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.	Authorized	Authorized	Authorized	Authorized when APFs are not available
E4.T1.4.2.5. All other transportation of NAF goods.	Not authorized except on reimbursable basis. Initial APF funding permitted only when NAFs shall reimburse APFs	Not authorized except on reimbursable basis. Initial APF funding permitted only when NAFs shall reimburse APFs	Not authorized except on reimbursable basis. Initial APF funding permitted only when NAFs shall reimburse APFs	Authorized
E4.T1.4.3. <u>Household Goods</u> . Applies to the authorized transportation of household goods for either: E4.T1.4.3.1. APF personnel.	Authorized	Authorized	Authorized	Not Authorized

Table E4.T1. General Funding Authorizations for NAFI Activities, continued

Element of Resource	APF			NAF
	Category A	Category B	Category C ^{1,2,3}	
E4.T1.4.3.2. NAF personnel.	Authorized for APF-authorized NAF positions. Initial APF funding is permitted for other NAF positions only when NAFs shall reimburse APFs (except at BRAC locations that are authorized APFs)	Authorized for APF-authorized NAF positions. Initial APF funding is permitted for other NAF positions only when NAFs shall reimburse APFs (except at BRAC locations that are authorized APFs)	Authorized for APF-authorized NAF positions. Initial APF funding is permitted for other NAF positions only when NAFs shall reimburse APFs (except at BRAC locations that are authorized APFs)	Authorized
E4.T1.5. UTILITIES AND RENTS				
E4.T1.5.1. <u>Utilities</u> . Applies to heat, steam, water, gas, electricity, air conditioning, and other utility services for buildings on military installations authorized to be used for MWR and NAFI purposes, and other MWR activities for members of the Armed Forces in accordance with section 2492 of Reference (t).	Authorized	Authorized	Authorized except for golf courses and golf course structures per footnote 8	Authorized for Category C costs in CONUS when APFs are not available, and when not precluded by footnote 9
E4.T1.5.2. <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 and in accordance with DoD Instruction 4165.71 (Reference (bg))	Not authorized except upon specific approval by the Head of the DoD Component concerned and in accordance with Reference (bg)	Not authorized except upon specific approval by the Head of the DoD Component concerned and in accordance with Reference (bg)	NAF leases authorized in accordance with Reference (bc) and Reference (bg)
E4.T1.6. COMMUNICATIONS				
E4.T1.6.1. <u>Electronic Communications</u> . Applies to electronic communications (telephone, Internet, television, defense switched network (DSN), fax, public address systems, and other electronic media) provided to NAFIs.	Authorized in support of command management functions, statistical data gathering, communications with other DoD and Government agencies, and OCONUS. Authorized for Internet Cafes in deployed areas	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 the operational function of the activity, e.g., procurement of items for resale and collection of income for merchandise or services sold in CONUS

Table E4.T1. General Funding Authorizations for NAFI Activities, continued

Element of Resource	APF			NAF
	Category A	Category B	Category C ^{1,2,3}	
E4.T1.6.2. <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.	Authorized	Authorized	Authorized	Authorized for all correspondence related to the operation of the NAFI
E4.T1.7. <u>EQUIPMENT MAINTENANCE</u>				
E4.T1.7.1. <u>Government-Owned Equipment</u> . Applies to maintenance, repair, overhaul, or rework of equipment.	Authorized	Authorized	Authorized, except for surplus/ excess Government equipment	Authorized
E4.T1.7.2. <u>Equipment Acquired with NAFs</u> . Applies to maintenance, repair, overhaul, or rework of equipment acquired with NAFs.	Authorized for equipment acquired with NAFs but authorized for purchase with APFs where title transfers to the Government	Authorized for equipment acquired with NAFs but authorized for purchase with APFs where title transfers to the Government	Authorized for equipment acquired with NAFs but authorized for purchase with APFs where title transfers to the Government	Authorized
E4.T1.8. <u>PRINTING AND REPRODUCTION</u> . Applies to printing and reproduction, e.g., work done on printing presses, lithographing machines, and other duplicating; related binding operations; photography; electronic media; microfilming; formats and forms; editing; and graphics.	Authorized for all costs except those related to the sale of merchandise or services and to the internal operation of NAFIs	Authorized for all costs except those related to the sale of merchandise or services and to the internal operation of NAFIs	Authorized for all costs except those related to the sale of merchandise or services and to the internal operation of NAFIs	Authorized
E4.T1.9. <u>OTHER SERVICES</u> . Applies to the following categories of expenses incurred in the day-to-day operation of the NAFI. E4.T1.9.1. <u>Education and Training</u> . Pertains to the advancement of job knowledge, development of skills, and improvement of abilities of NAFI personnel.	Authorized for APF positions and APF-authorized NAF positions. Authorized for NAF and APF employees for DoD Component-approved training that is not job unique, e.g. management and/or leader development courses, quality training, health and safety, sexual harassment, etc.	Authorized for APF positions and APF-authorized NAF positions. Authorized for NAF and APF employees for DoD Component-approved training that is not job unique, e.g. management and/or leader development courses, quality training, health and safety, sexual harassment, etc.	Authorized for APF positions and APF-authorized NAF positions. Authorized for NAF and APF employees for DoD Component-approved training that is not job unique, e.g. management and/or leader development courses, quality training, health and safety, sexual harassment, etc.	Authorized for NAF personnel. Not authorized for APF non-tuition courses

Table E4.T1. General Funding Authorizations for NAFI Activities, continued

Element of Resource	APF			NAF
	Category A	Category B	Category C ^{1,2,3}	
E4.T1.9.2. <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 Component audit organizations or independent public accountants.	Authorized in accordance with Reference (ab)	Authorized in accordance with Reference (ab)	Authorized in accordance with Reference (ab)	Authorized in accordance with Reference (ab)
E4.T1.9.3. <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.	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
E4.T1.9.4. <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 resources that support NAFIs.	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
E4.T1.9.5. <u>Legal Services</u> . Applies to that service and assistance provided by or through the Judge Advocates General or General Counsel.	Authorized	Authorized	Authorized	Authorized for NAFI internal legal staffing
E4.T1.9.6. <u>Procurement Office Assistance and Administration</u> E4.T1.9.6.1. <u>Assistance</u> . Applies to technical advice and assistance that may be provided by the procurement office to assist NAFI management in procuring goods and services with NAFs.	Authorized	Authorized	Authorized	Not Applicable

Table E4.T1. General Funding Authorizations for NAFI Activities, continued

Element of Resource	APF			NAF
	Category A	Category B	Category C ^{1,2,3}	
E4.T1.9.6.2. <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 NAFs.	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 ¹⁰	Authorized
E4.T1.9.7. <u>Custodial and Janitorial Service</u> . Applies to the manpower, supplies, and equipment provided by the installation engineer or public works department, or by contract.	Authorized	Authorized	Not Authorized	Authorized when APFs are not available or sufficient
E4.T1.9.8. <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 (e.g., alarm systems and security bars) and personnel background investigations in accordance with DoD 5200.2-R (Reference (bh)); 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 ¹¹	Not authorized for Program Group I. Authorized for other Program Groups only when APFs are not available or sufficient
E4.T1.9.9. <u>Minor Construction and Modernization</u> . As defined in Reference (m). (See Enclosure 5 for facilities listing.)	Authorized, except PCS lodging. PCS lodging authorized under footnotes 12 and 13	Authorized for Child Development Centers and youth activities OCONUS. Other facilities authorized per footnotes 12 and 13.	Not authorized unless permitted by footnotes 12 and 13 or Enclosure 5.	Authorized for PCS lodging, Category B facilities (except Child Development Centers and OCONUS youth activities), and Category C. Not authorized per footnotes 12 and 13 and Enclosure 5.
E4.T1.9.10. <u>Sustainment and Restoration</u> . As defined in Reference (ml).	Authorized	Authorized	Authorized except for golf courses per footnote 8	Authorized when APFs are not available or sufficient
E4.T1.9.11. <u>Routine Grounds Maintenance</u> . Applies to work required to maintain surrounding building grounds.	Authorized	Authorized	Authorized except for golf courses per footnote 8	Authorized when APFs are not available or sufficient

Table E4.T1. General Funding Authorizations for NAFI Activities, continued

Element of Resource	APF			NAF
	Category A	Category B	Category C ^{1, 2, 3}	
E4.T1.10. <u>AIRCRAFT PETROLEUM, OIL, AND LUBRICANTS (POL)</u> . Applies to POL (including fuel additives) consumed by aircraft operated in conjunction with a NAFI activity. Does not include cost for travel of personnel (E4.T1.3.) or for transportation of things (E4.T1.4.).	Not Authorized	Not Authorized	Not Authorized	Authorized for MWR flying activities only
E4.T1.11. <u>SHIP POL</u> . Applies to POL consumed by ships and other vessels operated in conjunction with Military MWR activities. Does not include cost for travel of personnel (E4.T1.3.) or for transportation of things (E4.T1.4.).	Authorized	Authorized	Not Authorized	Authorized
E4.T1.12. <u>SUPPLIES</u> . 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 those in paragraph E4.T1.9.8.), petroleum fuels, lubricants, preservatives, coolants, and oil derivatives (other than aircraft and ship POL).	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 required for ECECS	Authorized
E4.T1.13. <u>EQUIPMENT</u> . 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 Volume 2A of Reference (k).	Authorized except for equipment related to sale of merchandise or services unless permitted by footnote 14	Authorized except for equipment related to sale of merchandise or services unless permitted by footnote 14	Authorized for equipment required for ECECS and surplus/excess government equipment and per footnote 14	Authorized
E4.T1.14. <u>OTHER OPERATING EXPENSES</u> . Includes the cost of types of resources not otherwise provided for, e.g., 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.	Authorized for costs incurred incident to the performance of functions related to ECECS or as specifically authorized by statute or DoD publication	Authorized for costs incurred incident to the performance of functions related to ECECS or as specifically authorized by statute or DoD publication	Authorized for costs incurred incident to the performance of functions related to ECECS or as specifically authorized by statute or DoD publication	Authorized

Element of Resource	APF			NAF
	Category A	Category B	Category C1, 2,3	
<p>E4.T1.15. NON-OPERATING EXPENSES. Relates to the following categories of services or expenses provided to a NAFI.</p> <p>E4.T1.15.1. Architectural and Engineering Services. Applies to professional services that include the necessary consultations, preparation of preliminary studies, analyses, cost estimates, working drawings, specifications, and interior design and decoration, and to the inspection and supervision services required for the construction, alteration, or restoration of real property facilities.</p>	Authorized for APF construction and for NAF construction, when no additional manpower authorizations are required	Authorized for APF construction and for NAF construction, when no additional manpower authorizations are required	Authorized for APF construction and for NAF construction, when no additional manpower authorizations are required	Authorized for NAF construction except for inspection and supervision services required for government acceptance of the facility
<p>E4.T1.15.2. Major Construction and Modernization. As defined in E2. (See Enclosure 5 for facilities listing.)</p>	Authorized, except PCS lodging. PCS lodging authorized under footnotes 12 and 13.	Authorized for Child Development Centers and youth activities OCONUS. Other facilities authorized per footnotes 12 and 13.	Not authorized unless permitted by footnotes 12 and 13 or Enclosure 5	Authorized for PCS lodging, Category B facilities (except Child Development Centers, and OCONUS youth activities) and Category C facilities. Not authorized per footnotes 12 and 13 and Enclosure 5.
<p>E4.T1.15.3. Purchase of Real Property. Relates to the acquisition cost of land, buildings, and other fixed improvements.</p>	Purchase of real property authorized only to the extent approved by the Congress	Purchase of real property authorized only to the extent approved by the Congress	Purchase of real property authorized only to the extent approved by the Congress	Not authorized except for the purchase of commercially owned buildings located on government property
<p>E4.T1.15.4. Investment Equipment. Relates to the acquisition and use of equipment that meets the criteria of investment items as defined in Volume 2A of Reference (k).</p>	Authorized except for equipment related to sale of merchandise or services unless permitted by footnote 14	Authorized except for equipment related to sale of merchandise or services unless permitted by footnote 14	Not authorized except for use of surplus/ excess government equipment unless permitted by footnote 14	Authorized
<p>E4.T1.16. MERCHANDISE, SERVICE, AND EQUIPMENT FOR RESALE OR RENT. Pertains to merchandise, services, and equipment procured by a NAFI for resale or rent to authorized persons, or related to the sale of merchandise or services.</p>	Not authorized unless permitted by footnote 14	Not authorized unless permitted by footnote 14	Not authorized unless permitted by footnote 14 or footnote 15	Authorized

Footnotes:
¹ Military MWR and Armed Services Exchange Category C activities at designated remote and isolated locations are authorized funding under Category B rules according to References (g) and (l), except for golf course grounds maintenance.
² On an installation designated under force protection condition Charlie or Delta by the Combatant Commander, Military Service Chief, or equivalent DoD civilian, Military MWR Category C activities, excluding golf courses, golf course structures, cart storage buildings, maintenance sheds, and pro shops, are authorized 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. Prior to implementation, each Military Service shall ensure accounting mechanisms are in place to account for and report the support, by element of expense as APF support to the MWR program. The APF authority is discontinued at the end of the same FY quarter during which the designated force protection condition is disestablished or downgraded. APF support to Category A and B activities shall not be diverted for this purpose.
³ Armed Forces Recreation Center, Europe, is only authorized utilities, sustainment, restoration, and modernization of real property, and transportation of products made in the United States in accordance with section 2491b of Reference (t).
⁴ 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.
⁵ Enlisted personnel may be employed during non-duty hours by NAFIs as part-time NAF-paid employees.
⁶ Authorized for Armed Services Exchange programs for funding of civilian personnel in sufficient numbers to provide a trained cadre to perform ECECS and managerial functions to meet exchange wartime deployment requirements in support of contingency, humanitarian, and peacekeeping operations. Permanent assignment utilization and the assignment of additional or collateral duties in lieu of military positions are authorized by paragraph E4.T1.1. and note 4 to this table. Where NAF civilian positions are utilized, APF support is authorized for NAF expenditures incurred for compensation and benefits, travel of personnel, transportation of household goods, and education and training.
⁷ APFs shall be used to cover the expenses of transporting Armed Services Exchange supplies and products to destinations outside CONUS in accordance with section 2643 of Reference (t) and DoD Directive 4500.9E (Reference (bi))
⁸ Not authorized for golf courses or golf course structures other than golf club houses inside the United States except those designated by the Secretary of Defense as a remote and isolated location in accordance with section 2491a of Reference (t). Not authorized for cart storage buildings, maintenance sheds, and pro shops inside the United States even if part of golf club house.
⁹ Rates charged shall not include incremental or prorated shares of overhead, maintenance, and repair to utility systems or capital investments in the installation's utility infrastructure systems unless otherwise specified by an MOA or Inter-Service Support Agreement (ISSA).
¹⁰ Authorized for Armed Services Exchanges when existing APF contracts may be used to purchase the item or services.
¹¹ Trash and garbage removal services are not authorized for Armed Services Exchange activities in CONUS.
¹² APFs may be used for all community facility construction related to the establishment, activation, or expansion of a military installation or relocation of facilities for the convenience of the Government; replacement of facilities denied by country-to-country agreements; restoration of facilities and improvements destroyed by acts of God, fire, or terrorism; antiterrorism/force protection measures required under Reference (ai); and to correct life safety and Americans with Disabilities Act (Reference (aj)) 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 APF 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.
¹³ APFs shall be used for site development costs, archeological and ammunition clearances, environmental assessment and remediation, water purification, demolition, excessive utility connections, and road services.
¹⁴ Authorized for losses caused by acts of God; losses during wartime deployments and in support of contingency, humanitarian, and peacekeeping operations; and for equipment required to be in compliance with the Americans with Disabilities Act. (Reference (aj)).
¹⁵ APFs are authorized for military clothing and other APF funded items sold in Armed Services Exchanges on a cost-reimbursable basis.

E5. ENCLOSURE 5CONSTRUCTION OF NAFI FACILITIES¹Table E5.T1. Program Groups and their Supporting NAFIs

Program Group, Category, and Facility	APF/ MILCON	NAF
E5.T1.1. <u>PROGRAM GROUP I – MILITARY MWR</u>		
E5.T1.1.1. <u>PROGRAM GROUP I – MILITARY MWR, CATEGORY A</u>		
E5.T1.1.1.1. Administrative Office/Supply Center	X	
E5.T1.1.1.2. Aquatic Training Facility/Bathhouse for military training, physical fitness, combat training and/or therapy	X	
E5.T1.1.1.3. Auditorium/Multipurpose Theater	X	
E5.T1.1.1.4. Gymnasium/Fieldhouse/Physical Activities	X	
E5.T1.1.1.5. Library	X	
E5.T1.1.1.6. Playing Courts and Fields (associated with physical conditioning)	X	
E5.T1.1.1.7. Recreation Center/Day Room/Multipurpose Recreational Facility	X	
E5.T1.1.2. <u>PROGRAM GROUP I – MILITARY MWR, CATEGORY B</u>		
E5.T1.1.2.1. Arts and Crafts/Skill Development		X
E5.T1.1.2.2. Automotive Skill Development Center		X
E5.T1.1.2.3. Campgrounds		X
E5.T1.1.2.4. Outdoor Recreation Pavilion		X
E5.T1.1.2.5. Playing Courts and Fields		X
E5.T1.1.2.6. Recreation Equipment Issue Facility		X
E5.T1.1.2.7. Recreation Swimming Pools/Bathhouse		X
E5.T1.1.2.8. Youth Centers/Courts/Playing Fields – OCONUS	X	
E5.T1.1.2.9. Youth Centers/Courts/Playing Fields – CONUS		X
E5.T1.1.2.10. Bowling Centers (12 lanes or less)		X
E5.T1.1.2.11. Child Development Centers	X	
E5.T1.1.2.12. Marinas without Resale or Private Berthing		X
E5.T1.1.2.13. Information, Tickets and Tours Facilities		X
E5.T1.1.3. <u>PROGRAM GROUP I – MILITARY MWR, CATEGORY C</u>		
E5.T1.1.3.1. Aero Club		X
E5.T1.1.3.2. Amateur Radio Facility		X
E5.T1.1.3.3. Armed Forces Recreation Centers (accommodations/dining and resale facilities)		X
E5.T1.1.3.4. Bandstand		X
E5.T1.1.3.5. Bathhouse		X
E5.T1.1.3.6. Bowling Centers (more than 12 lanes)		X
E5.T1.1.3.7. Car Wash		X
E5.T1.1.3.8. Golf Course/Facility		X
E5.T1.1.3.9. Marinas/Boathouse		X

Table E5.T1. Program Groups and their Supporting NAFIs, continued

Program Group, Category, and Facility	APF/ MILCON	NAF
E5.T1.1.3. <u>PROGRAM GROUP I – MILITARY MWR CATEGORY C</u>, continued		
E5.T1.1.3.10. Open Messes/Military Clubs		X
E5.T1.1.3.11. Other NAFI Resale Outlets		X
E5.T1.1.3.12. Outdoor Theater		X
E5.T1.1.3.13. Recreational Lodging		X
E5.T1.1.3.14. Recreational Water Parks		X
E5.T1.1.3.15. Riding Stable		X
E5.T1.1.3.16. Rod and Gun Club		X
E5.T1.1.3.17. Recreational Vehicle (RV) Parks and Storage Lots		X
E5.T1.1.3.18. Skating Rink (Ice or Roller)		X
E5.T1.1.3.19. PCS Lodging Facility (in support of official PCS travel, operated as MWR Category C)		X
E5.T1.2. <u>PROGRAM GROUP II – ARMED SERVICES EXCHANGES</u>		
E5.T1.2.1. Exchange Logistical, Administrative, Storage and Maintenance Facilities		X ²
E5.T1.2.2. Exchange Facilities required in areas of military conflict, wartime deployments, and in support of contingency, humanitarian, and peacekeeping operations	X	
E5.T1.2.3. Exchange Facilities required as integral parts of air terminal, hospital, housing, or other MILCON projects	X	
E5.T1.2.4. Exchange operated laundry and dry cleaning plants, bakeries, dairies, or similar facilities in support of a military mission, wartime deployments, and in support of contingency, humanitarian, and peacekeeping operations	X	
E5.T1.2.5. All Other Exchange Facilities		X
E5.T1.3. <u>PROGRAM GROUP III – CIVILIAN MWR</u>		
E5.T1.3.1. Category C – All Facilities		X
E5.T1.4. <u>PROGRAM GROUP IV – LODGING PROGRAM</u>		
E5.T1.4.1. Category A – TDY Lodging Facility (in support of official TDY travel)	X	
E5.T1.4.2. Category A – PCS Lodging Facility (in support of official PCS travel)		X
E5.T1.5. <u>PROGRAM GROUP V – SUPPLEMENTAL MISSION FUNDS</u>		
E5.T1.5.1. Category B – Stars & Stripes Facilities		X
E5.T1.5.2. Category C – All Facilities		X
E5.T1.6. <u>PROGRAM GROUP VI – SPECIAL PURPOSE CENTRAL FUNDS</u>		
E5.T1.6.1. Category C – All Facilities		X
Footnotes:		
¹ Under section 2881 of Reference (t), any project for the acquisition or construction of military family housing units or military unaccompanied housing units may include the acquisition or construction of community-type ancillary supporting facilities for the housing units concerned, provided such facilities are not in direct competition with the Defense Commissary Agency or any NAFI.		
² APFs shall be used outside the United States.		

E6. ENCLOSURE 6

DOD 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 (the “Stars and Stripes” and Service Academy mixed-funded athletic or recreational extracurricular programs only) after NAFI expenditure using the DoD MWR USA practice, or before NAFI expenditure using the UFM practice, only if the program is authorized to receive APF support and only in the amounts the program is authorized to receive.

E6.2. 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, APFs provided shall not exceed the NAFI cost for providing the services.

E6.2.1. The MOA shall include the amount and obligation schedule for APFs 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 for 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 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 sections 5595-5597 of Reference (am)) 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 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. Under the DoD MWR USA practice, a position converted to NAF or contract shall not be converted back to an APF position. NAF human resource offices must coordinate the transfer and portability of benefits of APF employees moving to the NAF employment system.

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 Volumes 2, 4, 6, and 13 of Reference (k) and this Instruction.

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

E6.3.2. The UFM and DoD MWR USA practice shall not be used to extend the availability of APFs. An MWR USA MOD shall include delivery schedules that ensure services will be provided not later than the expiration date of funds. APFs made available through these practices shall be considered to be NAFs for all purposes and shall remain available until expended.

E6.3.3. 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.

E6.3.4. APF resources received through the DoD MWR USA and UFM practices shall be recorded 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 in Enclosure 6. The statement of income and expense shall explain any differences due to foreign currency fluctuation in accordance with Volume 2A of Reference (k).

E6.3.5. Fixed assets acquired with MWR USA or UFM resources shall be expensed at the time of purchase and recorded in the NAFI fixed asset records for inventory and control purposes at zero acquisition value. These fixed assets are NAFI assets; proceeds from the disposition of these assets revert to the NAFI.

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 APFs were in accordance with the MOA.

E7. ENCLOSURE 7

COST EXPENSE CAPTIONS

E7.1. APF CAPTIONS

The following cost expense captions identify expenses reported on Schedule A – APF and NAF Expense Summary. (See Attachment 4 to Enclosure 8.)

E7.1.1. Military Personnel

E7.1.1.1. Includes the cost of the services of active duty forces military personnel computed according to policy in Volume 7A of Reference (k). Also includes the cost of personnel assigned or used on a permanent, temporary, intermittent, or collateral duty basis. Does not include the cost of 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.

E7.1.1.2. 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 example, if maintenance and repair or sustainment, modernization, and restoration costs include a proper allocation of labor charges, such labor charges shall not be reported under personnel expenses.)

E7.1.2. Civilian Personnel (Services and Benefits)

E7.1.2.1. Includes the cost of the services of civilian personnel paid from APFs. Also includes the cost of personnel compensation and benefits, including employer costs for Civil Service Retirement System, Federal Employees Retirement System, Thrift Savings Plan, Federal Employees Group Life Insurance, and Federal Employees Group Health Insurance. Also includes the cost of personnel assigned or used on a permanent, temporary, intermittent, or collateral duty basis. Does not include the cost of 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.

E7.1.2.2. 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.

E7.1.3. Utilities

E7.1.3.1. 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 NAFI activities. For buildings or facilities where a portion of the space is dedicated to predominantly NAFI

purposes and the remainder is used predominantly for non-NAFI functions, utility costs shall be prorated. Rates charged shall not include incremental or prorated shares of overhead, maintenance, and repair to utility systems, or capital investments in the installation's utility infrastructure systems unless otherwise specified by an MOA or ISSA.

E7.1.3.2. 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-NAFI purposes and only incidentally for NAFI purposes.

E7.1.4. Rents. Includes rental of equipment (except transportation equipment) and rental of real property. When NAFI activities occupy portions of blocks of space rented by the Government, rental charges shall be allocated to NAFI activities. Relative square footage may be used as the basis for allocation if this does not produce a gross distortion of the true costs.

E7.1.5. Communications. Include charges for the transmission of messages from place to place, postal charges, and electronic communications (telephone and telephone installation charges, Internet, television, DSN, fax, public address systems, and other electronic media). Costs shall include a fair and reasonable charge for the use of telephone instruments.

E7.1.6. Sustainment, Restoration, and Modernization (SRM) (Including Minor Construction) and Maintenance and Repair of APF Equipment

E7.1.6.1. Includes SRM of facilities and of real property supplied through commercial contracts. Includes installation service functions such as post engineer or base civil engineer, and maintenance and repair of APF equipment. 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 Volume 2B of Reference (k).

E7.1.6.2. When SRM funded from APFs is performed for NAFI activities, costs shall be reported to include direct labor and materials. Overhead allocation for general and administrative expenses, supplies and miscellaneous materials, and equipment and 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.

E7.1.6.3. SRM costs shall be allocated to NAFI activities on the basis of some form of job order system. SRM of a shared facility not directly identifiable with either the NAFI or non-NAFI portion shall be allocated on a reasonable basis such as relative square footage. Minor SRM not separately identifiable as an 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.

E7.1.7. 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). Includes APF information technology software that is not capitalized. Does not include supplies reflected in the SRM element of a resource.

E7.1.8. Contractual Services. Includes the cost of services that are provided indirectly through contracts or MOAs, such as custodial contracts or payroll service contracts. Also includes the APFs provided to a NAFI for the costs of services provided by a NAFI under UFM and DoD MWR USA practices or under other MOAs.

E7.1.9. 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 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 NAFI programs; and PCS travel for civilians relocated to NAFI programs and activities. (The expense shall be charged to the activity where the civilian is relocated.)

E7.1.10. Transportation of Things

E7.1.10.1. Includes expenses for the transportation of things, whether incurred through contract or use of Government resources. 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.

E7.1.10.2. 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 where the civilian is relocated.) Transportation costs of using Government vehicles may be computed using a standard cost per mile or other appropriate method as long as it fairly estimates the cost. Transportation by airlift or sealift shall be charged by the costing method that states a fair user charge covering both direct and overhead costs, as prescribed by Volume 11A of Reference (k).

E7.1.11. Construction of Facilities. Includes costs associated with construction and acquisition of land funded by MILCON appropriations meeting criteria for major construction as outlined in Volume 2B of Reference (k). Included are design modification, contract administration, inspection, supervision of construction, and other related costs.

E7.1.12. Equipment (Investment Type). Includes equipment having a useful life expectancy of more than 2 years and an acquisition cost as prescribed by Volume 2A of (j).

E7.2. NAF CAPTIONS

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

E7.2.1. Reimbursed Common Support. Includes those expenses provided by a different Program Group and reimbursed by the benefiting Program Group as identified in paragraph 6.1.1.1. Does not include premiums or assessments paid to a Program Group VI – Special Purpose Central Fund.

E7.2.2. NAF Depreciation. Includes depreciation expense on NAFI capitalized tangible fixed assets, both NAFI-owned fixed assets and fixed assets to which title has been transferred to the Government.

E7.2.3. Facilities and Improvements (Land and Structures). Includes capitalized costs for tangible fixed assets, as defined in paragraph E2.24., for land, buildings, and other structures; additions to buildings; nonstructural improvements; and fixed equipment. Also includes NAF capitalized minor construction, construction in progress, capitalized sustainment, restoration, modernization, and capital leases for buildings.

E7.2.4. Equipment (Investment Type). Includes all other capitalized tangible fixed assets not included in paragraph E7.2.3.

E8. ENCLOSURE 8
FINANCIAL REPORTING

E8.1. CONSOLIDATED FINANCIAL REPORT

E8.1.1. The consolidated financial report submitted for each Program Group shall include an executive overview, notes to accompany the financial statements, and the following preformatted reports.

E8.1.1.1. Balance Sheet. (See Attachment 1.)

E8.1.1.2. Reconciliation of Net Worth. (See Attachment 2.)

E8.1.1.3. Statement of Income and Expense. (See Attachment 3.)

E8.1.1.4. Schedule A – APF and NAF Expense Summary. (See Attachment 4.)

E8.1.1.5. Statement of Cash Flows. (See Attachment 5.)

E8.1.1.6. NAFs Available/Projected Usage. (See Attachment 6.)

E8.1.2. The reports shall be provided in Microsoft Word and Excel on CD ROM or electronically. Modification of report formats, such as adding or deleting programs, activities, or line items is not permitted.

E8.2. ADDITIONAL REPORTS

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.

E8.2.1. Program Group I – Military MWR Programs

E8.2.1.1. Statement of Income and Expense for each funding category and for each activity defined in Reference (g).

E8.2.1.2. Schedule A – APF and NAF Expense Summary for each funding category and for each activity defined in Reference (g).

E8.2.1.3. DoD MWR USA and UFM Practices Reports for each funding category and for each activity within funding categories. (See Attachment 7.)

E8.2.2. Program Group II – Armed Services Exchange Programs

E8.2.2.1. DoD MWR USA and UFM Practices Reports.

E8.2.2.2. Annual S&P rating.

E8.2.2.3. Annual Exchange Sales, Profits, and Dividends Report with preliminary figures by February 15 of each year, and a final Exchange Sales, Profits, and Dividends Report with the consolidated financial report. (See Attachment 8.)

E8.2.2.4. Monthly Sales Report not later than the end of the succeeding month. (See Attachment 9.)

E8.2.3. Program Group IV – Lodging Programs

E8.2.3.1. Statement of Income and Expense for TDY lodging and PCS lodging separately.

E8.2.3.2. Schedule A – APF and NAF Expense Summary for TDY lodging and PCS lodging separately. Total APF support of the lodging mission and support related to the NAFI shall be reported.

E8.2.3.3. Military treatment facility lodging report, as a separate Program Group IV – Lodging Program.

E8.2.4. Program Group V – Supplemental Mission Funds. DoD MWR USA and UFM Practices Reports for the “Stars and Stripes” and the Service Academy mixed-funded athletic or recreational extracurricular programs.

E8.3. REPORT COMPLETION

E8.3.1. 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.

E8.3.2. Notes to Accompany the Financial Statements. Each Program Group shall provide notes to the financial statements in accordance with the managerial accounting practices at paragraph 6.4.2.

E8.3.2.1. Within each Program Group, transactions between NAFIs and activities (such as dividend and profit distributions, grant distributions, contra-receivables and payables) shall be eliminated. Footnotes to the financial statements shall disclose the nature and amount of material transactions between Program Groups.

E8.3.2.2. A description of the methodology used to prorate common support expenses shall be included, along with the number of NAFIs operating as of the last day of the FY for each of the Program Groups. The DoD Components shall establish procedures that ensure that prorated common support functions can be readily identified.

E8.3.2.3. 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.

E8.3.2.4. The net revenue (after cash payout) and net income of slot machines and other recreation machines that return money or tokens redeemable for money, authorized by Reference (g), shall be identified by footnote by activity on all applicable reports.

E8.3.2.5. Footnotes shall disclose appropriate post-retirement benefit amounts required by Reference (j) specifically identifying the funded status, amortization period of unfunded liabilities, prepaid/accrued post-retirement costs recognized in balance sheet, and other notes as appropriate.

E8.3.3. Statement of Income and Expense (See Attachment 3.)

E8.3.3.1. 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.

E8.3.3.2. 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).

E8.3.4. Schedule A – APF and NAF Expense Summary (See Attachment 4.)

E8.3.4.1. APF resources executed in support of the NAFI mission shall be reported as APF support. The format shall be used to show applicable appropriations (such as operation and maintenance (O&M); procurement; MILCON; research, development, test, and evaluation (RDT&E); and industrial funds).

E8.3.4.2. The amounts of APF support reported shall correspond to the prior year data reported on the OP-34 Exhibit, “APF Fund Support for Morale, Welfare, and Recreation (MWR) Activities,” contained in the justification material for the President’s budget. MILCON shall be reported as a memo entry.

E8.3.4.3. NAF depreciation represents write-off of capital purchases as they are used; therefore, depreciation expense shall not be included in the “total costs” line after capital expenditures are added.

E8.3.4.4. 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 in the year that funds are expended and assets are recorded in the accounting records (including construction in progress and capital leases).

E8.3.4.5. 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 in DoD Instruction 1330.20 (Reference (bj)).

E8.3.4.6. The resources received to support the NAFI mission under the DoD MWR USA practice, UFM practice, or other APF MOA shall be reported only as APF Contractual Services support on Schedule A. NAF expenses shall not include those expenses for which APFs were received. (NAF expenses shall be reported net of APF support.)

E8.3.4.7. Particular care must be taken in reporting APF support to Program Group V – Supplemental Mission Funds to ensure reporting of only those costs directly related to the supplemental function of the NAFI (such as the dependents school fund) and not to the mission the NAFI supports (such as education).

E8.3.4.8. To avoid duplicate reporting, when one appropriation reimburses another appropriation (including industrial and RDT&E funds), data shall be provided under the appropriation that provides initial financing.

E8.3.4.9. The APF Amounts column shall show only the support that is non-reimbursable from NAFs.

E8.3.4.10. Military personnel services (at rates prescribed by Volume 7A of Reference (k)), O&M, RDT&E, and industrial funds resources shall be reported in the FY that accrued costs are incurred.

E8.3.5. Statement of Cash Flows. (See Attachment 5.). This statement summarizes sources of cash generated during the year and the application of that cash.

8.3.5.1. 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.

8.3.5.2. Cash flows from investing activities include the reductions to cash due to purchase of fixed assets and proceeds from the sale of fixed assets.

8.3.5.3. 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.

8.3.5.4. 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).

E8.3.6. NAFs Available/Projected Usage. (See Attachment 6.) Data shall include the total cash within the DoD Component for the applicable Program Group at the end of the FY, and identification of the purposes for which these funds are retained. Any funds available that do not have a projected usage or a validated commitment are considered excess funds. Commitments in excess of funds available are to be funded through future earnings or loans.

E8.3.7. DoD MWR USA and UFM Practices Reports (See Attachment 7.)

E8.3.7.1. This report shall include APF support provided through the DoD MWR USA and UFM practices.

E8.3.7.2. The amounts reported shall correspond to the USA and UFM practices amounts reported as Contractual Services.

E8.3.7.3. 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 and Schedule A – APF and NAF Expense Summary.

E8.3.8. Exchange Sales, Profits, and Dividends Report. (See Attachment 8.) Data shall include the Armed Services Exchange direct sales, profits, and dividends based on those profits.

E8.3.9. Exchange Monthly Sales Report. (See Attachment 9.) Data shall include total direct sales and same store sales for the current month and year-to-date for the current and prior FYs.

Attachments – 9

- E8.A1. Balance Sheet
- E8.A2. Reconciliation of Net Worth
- E8.A3. Statement of Income and Expense
- E8.A4. Schedule A – APF and NAF Expense Summary
- E8.A5. Statement of Cash Flows
- E8.A6. NAFs Available/Projected Usage
- E8.A7. Resources Received Under the DoD MWR USA and UFM Practices
- E8.A8. Exchange Sales, Profits, and Dividends Report
- E8.A9. Exchange Monthly Sales Report

E8.A1. ATTACHMENT 1 TO ENCLOSURE 8BALANCE 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	<u>\$0</u>
Non-current Assets	
NAFI Owned Fixed Assets	\$0
Less: Accumulated Depreciation	<u>0</u>
Net NAFI Owned Fixed Assets	\$0
Government Titled Fixed Assets	\$0
Less: Accumulated Depreciation	<u>0</u>
Net Government Titled Fixed Assets	\$0
Other	<u>\$0</u>
Total Non-current Assets	<u><u>\$0</u></u>

Total AssetsLIABILITIES and NET WORTH

Current Liabilities	
Accounts Payable	\$0
Other Current Liabilities	<u>0</u>
Total Current Liabilities	\$0
Long Term Liabilities	
Loans Payable	\$0
Other	<u>0</u>
Total Long Term Liabilities	<u>\$0</u>
Total Liabilities	<u>\$0</u>
Net Worth	<u>\$0</u>
<u>Total Liabilities and Net Worth</u>	<u><u>\$0</u></u>

E8.A2. ATTACHMENT 2 TO ENCLOSURE 8

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

E8.A3. ATTACHMENT 3 TO ENCLOSURE 8

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 of Revenue</u>	<u>Amount 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		
Extraordinary Expense (Schedule A)		
NET INCOME		

E8.A4. ATTACHMENT 4 TO ENCLOSURE 8

SCHEDULE 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 and Wages)	0	0	0	0	0	0	0	0
Civilian Personnel (Services and Benefits)	0	0	0	0	0	0	0	0
Utilities	0	0	0	0	0	0	0	0
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 and 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
TOTAL EXPENSE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Capital Expenditure Captions</u>								
Facilities and Improvements (Land and Structures)								
APF (MILCON)	\$0	n/a	\$0	n/a	\$0	n/a	\$0	n/a
NAF	n/a	0	n/a	0	n/a	0	n/a	0
Equipment (investment type)	0	0	0	0	0	0	0	0
TOTAL COSTS (less depreciation)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

E8.A5. ATTACHMENT 5 TO ENCLOSURE 8STATEMENT 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>

E8.A6. ATTACHMENT 6 TO ENCLOSURE 8

NAFs AVAILABLE/PROJECTED USAGE

MILITARY SERVICE: _____
 PROGRAM GROUP: _____
 AS OF: _____

	Amount of Funds Invested	
	As of Close of	
	Current Year	Prior Year
FUNDS AVAILABLE		
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, and Conversion Funds	0	0
Other Investments (Specify)	0	0
Fixed Asset Sinking Funds	0	0
Employee Benefit Sinking Funds ¹	0	0
Net Income Before Depreciation for Next FY ²	<u>0</u>	<u>0</u>
Total Funds Available	\$0	\$0
VALIDATED COMMITMENTS		
Cash for Continuing Operations (Compensating Bank Balances, Operations, Petty Cash, Change Funds, Accounts Payable, Other Current Liabilities, etc.)	\$0	\$0
Employee Benefits (Specify) ¹	0	0
Reduction in Long-Term Debt	0	0
Capital Expenditures for Next FY ²	0	0
Dividends to be Paid (Exchanges Only)	<u>0</u>	<u>0</u>
Total Projected Usage	<u>\$0</u>	<u>\$0</u>
Excess (Shortfall) of Funds	\$0	\$0

¹ 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.

² Net Income Before Depreciation for Next FY and Capital Expenditures for Next FY shown under the prior year shall be equal to actual Net Income Before Depreciation and actual Capital Expenditures for the current year.

E8.A7. ATTACHMENT 7 TO ENCLOSURE 8

DoD MWR USA AND UFM PRACTICES REPORT

MILITARY SERVICE: _____
PROGRAM GROUP: _____
CATEGORY:¹ _____
FOR THE PERIOD ENDING: _____

COST EXPENSE CAPTIONS²

SOURCE OF APF
USA/UFM
RESOURCES³

(Identify
Appropriation)⁴

Civilian Personnel
 (Salaries and Wages)
Civilian Personnel
 (Services and Benefits)
Utilities
Rents
Communications
Sustainment, Restoration, and Modernization
 (including Minor Construction)
Supplies and 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

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

² Cost Expense Caption Definitions are found in Enclosure 6.

³ Include all obligations of APFs provided for support of the program through the MWR utilization, USA, and UFM practices. (Do not include APF obligations reimbursed by NAFs.)

⁴ Show applicable appropriation captions (such as O&M, O&M Reserve, Procurement, RDT&E, and Defense Working Capital Fund).

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

MILITARY SERVICE: _____
 PROGRAM GROUP: _____
 CATEGORY¹ _____
 FOR THE PERIOD ENDING: _____

<u>CATEGORY A – MISSION SUSTAINING PROGRAMS</u>	<u>SOURCE APPROPRIATIONS</u> (Specify)		Total MWR USA/UFM Support	Total Operating Support
	(\$000) ¹ /% ²	(\$000) ¹ /% ²	(\$000) ¹ /% ²	(\$000) ³ /% ⁴
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 Common Support				
TOTAL CATEGORY A				

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.

<u>CATEGORY B – BASIC COMMUNITY SUPPORT PROGRAMS</u>	<u>SOURCE APPROPRIATIONS</u> (Specify)		Total MWR USA/UFM Support	Total Operating Support
	(\$000) ¹ /% ²	(\$000) ¹ /% ²	(\$000) ¹ /% ²	(\$000) ³ /% ⁴
B1.1. Child Development Program				
B1.2. Youth Program				
B2.1. Cable and/or Community Television				
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 (Military Affiliate Radio System (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" Common Support				
TOTAL CATEGORY B				

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.

<u>CATEGORY C – REVENUE-GENERATING PROGRAMS</u>	<u>SOURCE APPROPRIATIONS</u> (Specify)		Total MWR USA/UFM Support	Total Operating Support
	(\$000) ¹ /% ²	(\$000) ¹ /% ²	(\$000) ¹ /% ²	(\$000) ³ / % ⁴
C1.1. Military Open Mess (Clubs)				
C1.2. Restaurants, Snack Bars, and Other Food Outlets				
C2.1. Temporary Lodging Facility (official PCS travel, operated as MWR Category C)				
C2.2. Recreational Lodging (Cabins, Cottages, Trailers, Trailer and/or 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				
Common Support				
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.A8. ATTACHMENT 8 TO ENCLOSURE 8

EXCHANGE SALES, PROFITS, AND DIVIDENDS

Exchange Sales, Profits, and Dividends as Reported by Exchanges

	(\$millions)			
	Actual FY	Actual FY	Actual FY	Actual FY
<u>Exchange Sales</u>				
AAFES				
NEXCOM				
Navy Ships' Stores				
Total NEXCOM				
MCX				
Total Exchange Sales				
<u>Exchange Profits</u>				
AAFES				
NEXCOM				
Navy Ships' Stores				
Total NEXCOM				
MCX				
Total Exchange Profits				
Profits as % of Sales				
	MWR Dividends (\$ millions)			
	Actual FY	Actual FY	Actual FY	Actual FY
AAFES Dividend to:				
Army MWR				
Army National Guard				
Navy MWR				
Air Force MWR				
Marine Corps MWR				
Total				
NEXCOM Dividend to:				
Navy MWR				
Navy MWR (from Ships' Stores)				
Total				
MCX Dividend to:				
Marine Corps MWR				
Total				
Total Exchange Dividends				
Dividends as Percentage of Profits				
Dividends as Percentage of Sales				
Distribution of Declared Dividends				
Army				
Army National Guard				
Navy				
Air Force				
Marine Corps				
Total				

E8.A9. ATTACHMENT 9 TO ENCLOSURE 8

EXCHANGE MONTHLY SALES REPORT

	<u>Current FY</u>		<u>Prior FY</u>	
	<u>Month</u>	<u>YTD</u>	<u>Month</u>	<u>YTD</u>
Total (Direct) Sales				
Same Store Sales				
Other Sales (Specified)				

E9. ENCLOSURE 9

TREASURY MANAGEMENT AND NAF INVESTMENTS

E9.1. GENERAL PRINCIPLES

E9.1.1. Safety. Investment transactions shall ensure the highest degree of safety to minimize both credit and market risk.

E9.1.2. 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 that disposition or sale prior to maturity is not required unless it is prudent due to prevailing economic or business conditions. Except where prohibited under statute or international agreement, investments shall have a stated final maturity not to exceed 5 years from the date of purchase.

E9.1.3. Yield. Investments shall earn a competitive rate of return to preserve value until the NAFs are needed to finance obligations or requirements. NAFs shall not be invested under terms that permit the interest rate to fall to zero.

E9.2. 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 or U.S. dollar instruments except when foreign currency is required.

E9.2.1. 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.

E9.2.1.1. 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.

E9.2.1.2. Cash concentration accounts and systems shall be centrally managed through competitively negotiated banking contracts and agreements.

E9.2.1.3. 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.

E9.2.2. The DoD Components shall establish procedures to identify the purposes for which NAFs 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 shall 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 NAFs to other NAFIs or identified requirements within the same Program Group.

E9.2.3. Leveraged investing is permitted to help maintain portfolio liquidity, avoid unnecessary fees and charges, and increase yield. Leveraged investing for speculative purposes is prohibited. The only authorized mechanism for leveraged investing is through simultaneous borrowing and investing. The use of financial derivatives to alter the risk/return profile of the investment portfolio is prohibited. All charges associated with the borrowing, including interest charged, transaction fees, and facility fees, shall be included in the overall portfolio results. Borrowing charges shall be subtracted from the returns earned on the investment portfolio.

E9.3. AUTHORIZED FINANCIAL INSTITUTIONS

NAFs shall be maintained only in authorized financial institutions. The use of financial institutions operating on DoD installations according to DoD Directive 1000.11 (Reference (bk)) 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.

E9.3.1. U.S. Banks and Savings Associations. NAFs may only be invested in interest-bearing depository accounts (checking accounts as provided by section 1832(a) of title 12, U.S.C. (Reference (bl)); savings accounts; share accounts; and certificates of deposit) in banks and savings associations insured by the Federal Deposit Insurance Corporation.

E9.3.2. U.S. Credit Unions. In accordance with part 202 of title 31, CFR (Reference (bm)), NAFs 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. NAFs shall not be invested in credit union certificates of indebtedness unless the NCUSIF extends specific insurance coverage to those accounts.

E9.3.3. 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 as specified by 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.

E9.4. AUTHORIZED TRANSACTIONS

E9.4.1. 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 (bm). Collateral pledged under Reference (bm) 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.

E9.4.1.1. An interest in trust fund account for several organizations, individuals, or entities is limited to the maximum insured amount prescribed by law unless records are maintained of the balance for each organization, individual, or entity and the records have 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; 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.

E9.4.1.2. When dealing with financial institutions and their insurers, it is imperative that the NAFI be properly established in writing and designated. Complete and current documentation of all those permitted to make withdrawals or otherwise direct actions related to the account shall be provided to the financial institution.

E9.4.1.3. Concentration banking systems shall fully meet requirements for Federal insurance and pledge of collateral.

E9.4.2. Government Securities. NAF investments are authorized for obligations of the Federal Government, or for organizations or institutions sponsored or guaranteed by the U.S. Government.

E9.4.2.1. 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, certificates of accrual on treasury securities, and municipal certificates of accrual on treasury securities issued by other than the U.S. Treasury (i.e., where the issuer is the obligor and the actual securities are held in escrow)) are not permissible for NAF investment.

E9.4.2.2. U.S. Government Agencies and Government-Sponsored Enterprises

E.9.4.2.2.1. 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 in Attachment 1.

E9.4.2.2.2. 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 include real estate mortgage investment conduits issued by private entities. Only mortgage pass-through securities issued by U.S. Government agencies, fixed rate sequential bonds, and first priority planned amortization class one bonds are authorized. Mortgage-backed securities shall have a stated final maturity not to exceed 5 years. All other mortgage-backed securities are prohibited. Prohibited securities include but are not limited to interest-only bonds, principal-only bonds, Z bonds, planned amortization class bonds, floaters, and inverse floaters.

E9.4.3. Repurchase and Reverse Repurchase Agreements. Repurchase and reverse repurchase agreements 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 according to paragraph E9.3. Primary Government securities dealers must meet and certify to the NAFFI their compliance with the Capital Adequacy Guidelines for U.S. Government Securities Dealers published by the Federal Reserve Bank of New York.

E9.4.3.1. Collateral in the amount of 100 percent of market value of the agreement, 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 stated final maturity not to exceed 5 years from the date of the repurchase agreement and shall be marked-to-market daily to ensure the adequacy of collateral pledged.

E9.4.3.2. Repurchase and reverse repurchase transactions shall be executed under written agreement with the dealer using the Bond Market Association Master Repurchase Agreement.

E9.4.4. 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 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.

E9.4.5. 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 according to the terms of Reference (bm). Collateral must be sufficient to cover principal and interest at all times.

E9.4.6. Foreign Investment for NAF Severance Pay and Benefit Funds. As a hedge against exchange rate exposure, a NAFI may invest in foreign currency obligations (such as 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 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.

E9.4.7. Institutional Government Money Market Funds. Externally managed no-load money market fund investments are authorized provided the money market fund's investment securities meet the criteria of authorized securities and issuing institutions, the average dollar-weight of the money market fund is 90 days or less, the money market fund has an investment objective of maintaining a net asset value of \$1 per share, and the money market fund is regulated by the U.S. Securities and Exchange Commission. Investment in any one money market fund shall not exceed 10 percent of the total assets of the money market fund. Aggregate investment in money market funds shall not exceed \$50 million or 25 percent of the total market value of the NAF investment portfolio assets. Eligible money market funds shall have assets of at least \$1 billion.

E9.5. 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.

E9.6. 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.

E9.7. TREASURY MANAGEMENT, OVERSIGHT, AND CONTROL

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

E9.7.1. 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.

E9.7.2. To avoid inappropriate concentration of financial, credit, or operational risk, the DoD Components shall establish written procedures governing cash management, bank account management, investment management, debt management (to include leveraged investing), financial risk management (to include foreign exchange hedging, interest rate hedging, and credit risk management), and in-house liquidity management (in-house banks).

E9.7.3. 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.

E9.7.4. The Secretaries of the Military Departments are responsible for the oversight of NAFs managed by the Military Services. The Heads of the DoD Components shall require the establishment of a treasury oversight group for each organization that invests NAFs. 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; at least one member of the oversight group shall be a representative of the Secretary of the Military Department concerned.

E9.7.4.1. The designated treasury oversight group shall meet at least semi-annually to review Military Service treasury management policies, portfolio objectives, management practices, holdings, strategy, and operating results, and to approve those policies governing instruments and institutions for investments and borrowing. The reviews shall ensure the objectives, strategies, and parameters of these policies align with the objectives and strategies of the fund as identified in paragraph E9.2.2. and shall determine compliance with policies and other guidance regarding safety, liquidity, and yield. The reviews shall consider policy, shortcomings of the policy, and the changes in fund risk tolerance that required policies be updated. The results of the reviews shall address corrective action and shall be reported annually to the Head of the DoD Component concerned.

E9.7.4.2. To ensure investments and liquidity are congruent with the purpose of the portfolio, the investment oversight group shall determine the primary purpose of the funds as one of the following.

E9.7.4.2.1. Daily cash and liquidity management funds with the purpose of maximizing current income while preserving principal and daily liquidity.

E9.7.4.2.2. Strategic investment funds with the purpose of maximizing income while preserving principal to fund capital improvements or other long-term projects.

E9.7.4.2.3. Segregated funds with the purpose of maximizing income while preserving principal to fund workers' compensation, severance liabilities, or other long-term liabilities.

E9.7.4.3. Liquidity and authorized transactions shall be subject to the restrictions in Table E9.T1.

Table E9.T1. Restrictions on Liquidity and Authorized Transactions

Policy Area	Daily Cash and Liquidity Management Funds	Strategic Investment Funds	Segregated Funds
Liquidity (Maturity Term Restriction)	Maximum term of 1 year	Maximum term of 5 years	Maximum term of 5 years
Authorized Transactions	All investments described in paragraph E9.4 except: – Any securities with embedded derivatives including callable bonds – Agency securities including all mortgage-backed securities	All investments described in paragraph E9.4.	All investments described in paragraph E9.4.
Statement of Purpose on Risk Profile	– To maximize current income while preserving principal and daily liquidity by investing in high-quality money market securities and government short-term debt instruments – Invests only in securities rated at least A1 by S&P or P1 by Moody's Investors Service	To maximize income while preserving principal to fund capital improvements or other long-term projects by investing primarily in government, mortgage-backed, and asset-backed securities	To maximize income while preserving principal to fund workers' compensation liabilities, severance liabilities, or other long-term liabilities by investing primarily in government, mortgage-backed, and asset-backed securities

E9.7.4.4. The treasury manager shall meet at least semi-annually with their DoD Component-designated treasury oversight group. The purpose of the meeting shall be to review the overall fund position, assess known or anticipated market conditions, and review investment strategies to meet overall MWR and NAF program objectives and approved cash flow requirements. The oversight group shall evaluate compliance with DoD guidance, review management reports, and audit results, and shall review and endorse the Annual NAF Treasury Management Report. (See paragraph E9.9. and Attachments 3 through 9.)

E9.7.4.5. In advance of each calendar year, the treasury oversight group shall determine the benchmark that will be used to evaluate portfolio performance. The benchmark shall be unambiguous, measurable, and appropriate. Attachment 2 provides the publicly available indices authorized to create the portfolio benchmark. The benchmark shall reflect the broad risk and return characteristics of the authorized portfolio holdings. A composite benchmark may be comprised of several indices provided the names and weights of each index are clearly defined. At year end, the benchmark return shall be compared to the portfolio average annual yield and deviations evaluated based on investment maturity, credit factors, and investment instruments.

E9.7.4.6. The investment portfolio shall be independently marked-to-market on at least a semi-annual basis and with each issuance of a financial statement using prices listed on an exchange; prices provided by an independent data provider, such as Reuters or Bloomberg; prices provided by brokers and investment dealers; or valuations derived using mathematical models and pricing algorithms.

E9.7.5. The fund manager of the investing NAFI shall immediately notify the treasury 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 treasury oversight group, the respective board of directors, the DoD Component, and the PDUSD(P&R).

E9.7.6. Credit risk is inherent in foreign currency hedging (forward contracts and foreign currency options) authorized at paragraph E10.2 and interest rate hedging (interest rate swaps and forward rate agreements) authorized at paragraph E9.8. The credit risk arises when the mark-to-market valuations of outstanding derivative contracts are greater than zero (i.e., the counterparty owes the DoD Component). The DoD Components shall ensure that credit risk is identified, measured, and reported annually for foreign currency and interest rate hedging.

E9.8. BORROWING AND INTEREST RATE HEDGING

E9.8.1. The DoD Components, Military Services, and Service headquarters that engage in borrowing shall maintain a listing of the financial institutions approved for borrowing. The listing shall include the each institution's credit rating, financial covenants, and maximum borrowing limits.

E9.8.2. All borrowings shall be denominated in U.S. dollars. Authorized borrowing vehicles for working capital are limited to uncommitted bank lines of credit and revolving committed bank credit facilities with a maximum term of 5 years. One-time loan agreements for individual capital projects may be executed with terms not to exceed 30 years.

E9.8.3. Interest rate exposure shall be measured against current borrowings and anticipated operating and capital requirements. Interest rate hedges shall be associated directly to underlying debt and shall not exceed the maturity of the underlying debt. Interest rate hedging instruments are limited to interest rate swaps, forward rate agreements, and treasury locks..

E9.8.4. All interest rate hedge contracts shall be transacted with authorized counterparties. The counterparties shall be creditworthy institutions with a short term credit

rating of A-1 (S&P) and P-1 (Moody's) and a long term credit rating of at least A (S&P) and A (Moody's); an International Swap Dealers Association (ISDA) agreement shall be in place with each counterparty; all counterparties shall be authorized by the Military Service or joint-Service headquarters prior to initiating hedging activity; and counterparty credit worthiness shall be monitored on at least an annual basis.

E9.8.5. The Annual NAF Treasury Management Report submitted by the DoD Components to the PDUSD(P&R) in accordance with paragraph E9.9. shall include a report of all interest rate hedging activities, to include a list of all contracts outstanding as of the end of the year and for any portion of the year (counterparty, notional amounts, contract type, maturity date, mark-to-market values or realized gains or losses, associated underlying exposure, and fixed and floating interest rates), and the short term and long term S&P and Moody's credit ratings for all authorized counterparties.

E9.9. ANNUAL NAF TREASURY MANAGEMENT REPORT

The DoD Components shall require the respective oversight group(s) to prepare a report of NAF cash and investments, borrowing, and hedging as of December 31 each year covering all NAFIs and NAF cash and investments managed within their Components. The DoD Components shall submit the Annual NAF Treasury Management Report to the PDUSD(P&R) by April 1 of the following year. The submission shall contain an executive summary, Oversight Report, and Performance Report.

E9.9.1. 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; rate of return analysis; change in benchmarks; and other appropriate information.

E9.9.1.1. Safety. The discussion of safety shall address risk tolerance guidelines for term institutions and investments, DoD Component and Military Service oversight, third-party evaluations conducted since the last report (to include independent actuarial and audit reviews), borrowing and lending strategies, and investment in foreign currency. The nature, amount, and circumstances of portfolio losses shall be disclosed fully.

E9.9.1.2. Liquidity. The liquidity section shall identify the portfolio management requirements (purpose of assets, future sources, and uses of NAFs and portfolio goals), specify strategies for investment liquidity (to include short-term borrowing), and describe cash concentration systems.

E9.9.1.3. 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. An explanation of why the fund return deviated from the benchmark shall be provided.

E9.9.2. Oversight Report. (See Attachment 3.) The Oversight Report shall identify treasury management positions and individuals that can be held personally responsible for treasury transactions. In addition to those persons, the names and titles/organizations of the individuals who have been appointed to the fund's treasury 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.

E9.9.3. Performance Report. The Performance Report shall contain the funds' balances for all cash and investments, the portfolio composition and yield as of year-end, and the weighted average annual yield.

E9.9.3.1. Cash and Investment Balances Ownership Report. (See Attachment 4.) The Cash and Investment Balances Ownership Report shall provide balance sheet information of all cash on deposit in financial institutions and investments held by NAFIs within the DoD Component as of December 31. The report shall include a breakout of ownership by Military Service, major command, installation level, and other echelons.

E9.9.3.2. Cash and Investment Portfolio Report. (See Attachment 5.) The Cash and Investment Portfolio Report shall provide information as of December 31, to include book value and market value of investments, and concentration banking accounts. This summary provides management information for monitoring progress of the funds.

E9.9.3.3. Investment Portfolio Annual Yield. (See Attachment 6.) Each Service headquarters that manages central investment funds shall prepare the report on annual yield. Yield shall be computed both as total rate of return (including unrealized gains and losses) and realized return, and before and after portfolio expenses. Any borrowing charges associated with simultaneous investing and borrowing activities shall be subtracted from the returns earned on the investment portfolio.

E9.9.3.3.1. The formula in Table E9.T2. shall be used to calculate the total rate of return.

Table E9.T2. Formula for Calculating Total Rate of Return

$\text{Total Rate of Return} = \frac{\text{EMV} - \text{BMV} - \text{CF}}{\text{BMV} + \sum_{i=1}^n (\text{CF}_i \times \text{W}_i)}$
<p>EMV = market value of the portfolio at the end of the period before any cash flows but including accrued income for the period.</p> <p>BMV = market value of the portfolio at the beginning of the period, including any cash flows at the end of the previous period and including accrued income up to the end of the previous period.</p> <p>CF = net cash flows within the period. $\sum_{i=1}^n (\text{CF}_i \times \text{W}_i)$ is the sum of each cash flow, CF_i multiplied by its weight, W_i.</p> <p>Weight = proportion of the total number of days in the period that cash flow has been held in the portfolio. Weight = (total number of calendar days in the period less the number of calendar days since the beginning of the period in which the cash flow occurred) divided by the total number of calendar days in the period.</p>

E9.3.3.2. The formula in Table E9.T3. shall be used to calculate the realized return.

Table E9.T3. Formula for Calculating Total Rate of Return

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

E9.9.3.4. Outstanding Loans. (See Attachment 7.) This summary shall be prepared to disclose fully each outstanding loan, line of credit, and other borrowing facilities as of December 31, to include the name of the lending institution, the loan balance or drawn amount, the total credit line, the loan rate, and the maturity date.

E9.9.3.5. Loan Portfolio. (See Attachment 8.) This summary shall be prepared to disclose the average loans, lines of credit, and other borrowing facilities outstanding over the 12-month period. The rate paid shall be a time- and dollar-weighted average for the month and for the year exclusive and inclusive of interest rate hedging.

E9.9.3.6. Credit Exposure Report. (See Attachment 9.) This summary shall be prepared to disclose fully the credit exposure across all treasury activities including investing, foreign exchange, and interest rate hedging. Investments shall be grouped by counterparty (dealer or broker, not third party custodian).

E9.9.3.7. Foreign Currency Hedging Report. This report is required by paragraph E10.2.4.

E9.10. TREASURY MANAGERS' 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.

E9.10.1. The DoD Component headquarters NAF treasury managers shall present the results of their most recent Annual Treasury Management Report annually at the DoD NAF Treasury Management Subcommittee meeting. Each of the Military Services shall provide their current treasury policies, procedures, and audit compliance, with Military Service and DoD Inspector General findings. A summary of the meeting shall be issued by the PDUSD(P&R).

E9.10.2. 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. A summary of the meeting shall be issued by the PDUSD(P&R).

Attachments – 9

- E9.A1. Accepted Issuers of Government and Agency Securities
- E9.A2. Indices
- E9.A3. Oversight Report
- E9.A4. Cash and Investment Balances Ownership Report
- E9.A5. Cash and Investment Portfolio Report
- E9.A6. Investment Portfolio Yield
- E9.A7. Outstanding Loans
- E9.A8. Loan Portfolio
- E9.A9. Credit Exposure Report

E9.A1. ATTACHMENT 1 TO ENCLOSURE 9ACCEPTED ISSUERS OF GOVERNMENT AND AGENCY SECURITIES

Issuer	Type of Issuer
Export-Import Bank of the United States*	U.S. Federal Agency
Federal Agricultural Mortgage Corporation (Farmer Mac)	Government-sponsored enterprises
Federal Farm Credit Banks (FFCB)	Government-sponsored enterprises
Federal Home Loan Bank (FHLB)	Government-sponsored enterprises
Federal Home Loan Mortgage Corporation (FHLMC, "Freddie Mac")	Government-sponsored enterprises
Federal Housing Administration (FHA)*	U.S. Federal Agency
Federal National Mortgage (FNMA, "Fannie Mae")	Government-sponsored enterprises
Financing Corporation (FICO)	Government-sponsored enterprises
Government National Mortgage Association (GNMA)*	U.S. Federal Agency
Private Export Funding Corporation (PEFCO)	U.S. Federal Agency
Small Business Administration (SBA)*	U.S. Federal Agency
Student Loan Marketing Association (SLMA, "Sallie Mae")	Government-sponsored enterprises
Tennessee Valley Authority (TVA)	U.S. Federal Agency
USDA Rural Development*	U.S. Federal Agency
U.S. Treasury*	
U.S. Postal Service*	U.S. Federal Agency
Washington Metropolitan Area Transit Authority (WashMet) *	U.S. Federal Agency
* Securities issued by the agency are backed by the full faith and credit of the U.S. Government	

E9.A2. ATTACHMENT 2 TO ENCLOSURE 9

INDICES

Investment Instrument	Name of Benchmark	Benchmark Maturity	Recommended Benchmarking Frequency	Source Where Benchmark May Be Obtained
Certificate of Deposit (1 Month)	Federal Reserve Bank of St. Louis 1-Month Certificate of Deposit: Secondary Market Rate	1-month	Semi-annually	http://research.stlouisfed.org/fred2/categories/121
Certificate of Deposit (3 Months)	Federal Reserve Bank of St. Louis 3-Month Certificate of Deposit: Secondary Market Rate	3-months	Semi-annually	http://research.stlouisfed.org/fred2/categories/121
Certificate of Deposit (6 Months)	Federal Reserve Bank of St. Louis 6-Month Certificate of Deposit: Secondary Market Rate	6-months	Semi-annually	http://research.stlouisfed.org/fred2/categories/121
Treasury Bills (3 Months)	Merrill Lynch 3-Month U.S. Treasury Bill Index	3-months	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker : G001
Treasury Bills (6 Months)	Merrill Lynch 6-Month U.S. Treasury Bill Index	6-months	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker : G002
Treasury Bills (1 Year)	Merrill Lynch 1-Year U.S. Treasury Bill Index	1-year	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker : G003
Treasury Notes (1 Year)	Merrill Lynch 1-Year U.S. Treasury Note Index	1-year	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticket: GC03
Treasury Notes (2 Years)	Merrill Lynch 1-3 Year U.S. Treasury Index	1.78 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G1O2
Treasury Notes (3 Years)	Merrill Lynch U.S. Treasury Current 3-Year Index	2.85 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: GA03
Treasury Notes (4 Years)	Merrill Lynch 1-5 Year U.S. Treasury Index	4.05 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G2O2
Treasury Notes (5 Years)	Merrill Lynch U.S. Treasury Current 5-Year Index	4.94 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: GA05
U.S. Agency Securities (2 Years)	Merrill Lynch AAA U.S. Agencies 1-3 Year Index	1.86 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G1P0
U.S. Agency Securities (4 Years)	Merrill Lynch AAA U.S. Agencies 3-5 Year Index	3.96 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G2P0
U.S. Agency Freddie Mac Notes (5 Years)	Merrill Lynch U.S. Agencies Freddie Mac Reference Notes Index	5.56 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G0PF

Investment Instrument	Name of Benchmark	Benchmark Maturity	Recommended Benchmarking Frequency	Source Where Benchmark May Be Obtained
U.S. Agency Fannie Mae Notes (5 Years)	Merrill Lynch U.S. Agencies Fannie Mae Benchmark Notes Index	5.41 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: GOPN
AAA Asset Backed Securities (1 Year)	Merrill Lynch U.S. Asset-Backed Securities 0-3 Year Fixed Rate Index	1.23 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: R1A0
AAA Asset Backed Securities (4 Years)	Merrill Lynch U.S. Asset-Backed Securities 3-5 Year Fixed Rate Index	3.79 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: R2A0
Mortgage Backed Securities (3 Years)	Merrill Lynch U.S. Mortgage Backed Securities 0-3 Year WAL Index	2.61 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: M1A0
Mortgage Backed Securities (4 Years)	Merrill Lynch U.S. Mortgage Backed Securities Index	4.06 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: M2A0
Mortgage Backed Securities (5 Years)	Merrill Lynch U.S. Mortgage Backed Securities 3-5 Year WAL Index	4.36 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: M0A0
U.S. Treasury STRIPS (1 Year)	Merrill Lynch U.S. Treasury STRIPS Constant Maturity 1-Year Index	1-year	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: S001
U.S. Treasury STRIPS (2 Years)	Merrill Lynch U.S. Treasury STRIPS Constant Maturity 2-Year Index	2-year	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: S002
U.S. Treasury STRIPS (3 Years)	Merrill Lynch U.S. Treasury STRIPS Constant Maturity 3-Year Index	3-year	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: S003
U.S. Treasury STRIPS (4 Years)	Merrill Lynch U.S. Treasury STRIPS Constant Maturity 4-Year Index	4-year	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: S004
U.S. Treasury STRIPS (5 Years)	Merrill Lynch U.S. Treasury STRIPS Constant Maturity 5-Year Index	5-year	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: S005
Treasury Inflation Protected Securities (TIPS)	Merrill Lynch U.S. Treasury Inflation Linked Index	10-year	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G0QI
Repurchase Agreements	Federal Reserve Bank of St. Louis Effective Federal Funds Rate	1 Day	Semi-annually	http://research.stlouisfed.org/fred2/search/fed+funds/1
Foreign Bonds (Euros) – 3 Months	Merrill Lynch Euro Government Bill Index	0.35 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: EGB0
Foreign Bonds (Euros) – 6 Months	Merrill Lynch EMU Direct Governments 0-1 Year Index	0.47 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: EG0A
Foreign Bonds (Euros) – 2 Years	Merrill Lynch EMU Direct Governments 1-3 Year Index	1.85 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: EG01
Foreign Bonds (Euros) – 3 Years	Merrill Lynch EMU Direct Governments 1-5 Year Index	2.77 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: EG0V

Investment Instrument	Name of Benchmark	Benchmark Maturity	Recommended Benchmarking Frequency	Source Where Benchmark May Be Obtained
Foreign Bonds (Euros) – 4 Years	Merrill Lynch EMU Direct Governments 3-5 Year Index	3.84 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: EG02
Foreign Bonds (Australian Dollar) – 2 Years	Merrill Lynch Australian Governments 1-3 Year Index	1.90 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker : G1T0
Foreign Bonds (Australian Dollar) – 3 Years	Merrill Lynch Australian Governments 1-5 Year Index	2.89 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker : GVT0
Foreign Bonds (Australian Dollar) – 4 Years	Merrill Lynch Australian Governments 3-5 Year Index	4.15 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker : G2T0
Foreign Bonds (Canadian Dollar) – 2 Years	Merrill Lynch Canadian Governments 1-3 Year Index	2.02 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G1C0
Foreign Bonds (Canadian Dollar) – 3 Years	Merrill Lynch Canadian Governments 1-5 Year Index	2.9 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: GVC0
Foreign Bonds (Canadian Dollar) – 4 Years	Merrill Lynch Canadian Governments 3-5 Year Index	3.98 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G2C0
Foreign Bonds (Danish Krone) – 2 Years	Merrill Lynch Danish Governments 1-3 Year Index	1.99 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G1M0
Foreign Bonds (Danish Krone) – 3 Years	Merrill Lynch Danish Governments 1-5 Year Index	3.06 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: GVM0
Foreign Bonds (Danish Krone) – 4 Years	Merrill Lynch Danish Governments 3-5 Year Index	4.36 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G2M0
Foreign Bonds (Japanese Yen) – 2 Years	Merrill Lynch Japanese Governments 1-3 Year Index	2.05 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G1Y0
Foreign Bonds (Japanese Yen) – 3 Years	Merrill Lynch Japanese Governments 1-5 Year Index	3.09 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: GVY0
Foreign Bonds (Japanese Yen) – 4 Years	Merrill Lynch Japanese Governments 3-5 Year Index	4.05 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G2Y0
Foreign Bonds (Swedish Krona) – 2 Years	Merrill Lynch Swedish Governments 1-3 Year Index	1.87 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G1W0
Foreign Bonds (Swedish Krona) – 3 Years	Merrill Lynch Swedish Governments 1-5 Year Index	2.95 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: GVW0
Foreign Bonds (Swedish Krona) – 4 Years	Merrill Lynch Swedish Governments 3-5 Year Index	3.97 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G2W0
Foreign Bonds (Swiss Franc) – 2 Years	Merrill Lynch Swiss Governments 1-3 Year Index	1.84 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G1S0

Investment Instrument	Name of Benchmark	Benchmark Maturity	Recommended Benchmarking Frequency	Source Where Benchmark May Be Obtained
Foreign Bonds (Swiss Franc) – 3 Years	Merrill Lynch Swiss Governments 1-5 Year Index	3 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: GVS0
Foreign Bonds (Swiss Franc) – 4 Years	Merrill Lynch Swiss Governments 3-5 Year Index	3.67 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G2S0
Foreign Bonds (British Pound) – 9 Months	Merrill Lynch UK Gilt 0-1 Year Index	0.71 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G0LA
Foreign Bonds (British Pound) – 2 Years	Merrill Lynch UK Gilts 1-3 Year Index	2.26 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G1L0
Foreign Bonds (British Pound) – 3 Years	Merrill Lynch UK Gilts 1-5 Year Index	3.08 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: GVL0
Foreign Bonds (British Pound) – 4 Years	Merrill Lynch UK Gilts 3-5 Year Index	4 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G2L0
Foreign Bonds (Singapore Dollar) – 5 Years	Merrill Lynch Singapore Government Index	5.51 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G0SP
Foreign Bonds (Korean Won) – 5 Years	Merrill Lynch South Korea Government Index	4.61 years	Semi-annually	http://www.mlindex.ml.com/gispublic/bin/MLIndex.asp Ticker: G0SK

E9.A3. ATTACHMENT 3 TO ENCLOSURE 9

OVERSIGHT REPORT

Fund Name:

Investment Management Positions Assigned Fiduciary Responsibility:

Fund Custodian/Manager: _____ Phone: _____

Others (List):

NAF Investment Steering/Oversight Committee Members:

<u>Name*</u>	<u>Title/Organization</u>
--------------	---------------------------

*(List Chairman First)

Steering/Oversight Meetings Conducted Since Last Report:
_____ (Dates)

(Attach Meeting Minutes)

Independent Financial and Compliance Audits Conducted Since Last Report:

(Attach Audit Report)

Internal Management and Compliance Audits Conducted Since Last Report:

Signed:

Fund Custodian

Chairman, Investment Oversight Committee

E9.A4. ATTACHMENT 4 TO ENCLOSURE 9

CASH AND INVESTMENT BALANCES OWNERSHIP REPORT

Military Service: _____
 Investment Fund: _____ NAF Balance as of December 31, _____

	Amount	Percent of Fund Balance	Prior Year Amount
Group I, Military MWR Programs			
Service Level	\$ _____	_____	\$ _____
Major Command/Region Level	\$ _____	_____	\$ _____
Installation Level	\$ _____	_____	\$ _____
Other	\$ _____	_____	\$ _____
Total Group I, Investments	\$ _____	_____	\$ _____
Group II, Armed Services Exchange Programs	\$ _____	_____	\$ _____
Service Level	\$ _____	_____	\$ _____
Major Command/Region Level	\$ _____	_____	\$ _____
Installation Level	\$ _____	_____	\$ _____
Other	\$ _____	_____	\$ _____
Total Group II, Investments	\$ _____	_____	\$ _____
Group III, Civilian MWR Programs	\$ _____	_____	\$ _____
Service Level	\$ _____	_____	\$ _____
Major Command/Region Level	\$ _____	_____	\$ _____
Installation Level	\$ _____	_____	\$ _____
Other	\$ _____	_____	\$ _____
Total Group III, Investments	\$ _____	_____	\$ _____
Group IV, Lodging Programs	\$ _____	_____	\$ _____
Service Level	\$ _____	_____	\$ _____
Major Command/Region Level	\$ _____	_____	\$ _____
Installation Level	\$ _____	_____	\$ _____
Other	\$ _____	_____	\$ _____
Total Group IV, Investments	\$ _____	_____	\$ _____
Group V, Supplemental Mission Funds	\$ _____	_____	\$ _____
Service Level	\$ _____	_____	\$ _____
Major Command/Region Level	\$ _____	_____	\$ _____
Installation Level	\$ _____	_____	\$ _____
Other	\$ _____	_____	\$ _____
Total Group V, Investments	\$ _____	_____	\$ _____
Group VI, Special Purpose Central Funds	\$ _____	_____	\$ _____
Service Level	Not Applicable	_____	Not Applicable
Major Command/Region Level	Not Applicable	_____	Not Applicable
Installation Level	\$ _____	_____	\$ _____
Other	\$ _____	_____	\$ _____
Total Group VI, Investments	\$ _____	_____	\$ _____
Total Balance			

E9.A5. ATTACHMENT 5 TO ENCLOSURE 9CASH AND INVESTMENT PORTFOLIO REPORT

As of December 31, _____

<u>Asset</u>	<u>Current Amortized Book Value</u> ¹	<u>% of Port-folio</u>	<u>Current Yield</u>	<u>Weighted Average Maturity (in days)</u>	<u>Market Value of Securities</u> ¹	<u>Range of Credit Ratings</u> ²
Cash ³	\$	%	%	days	Note 4	
Repos	\$	%	%	days	Note 4	
Fixed Income	\$	%	%	days	Note 4	
CDs	\$	%	%	days	Note 4	
Govt MM Funds	\$	%	%	days		
Treasury and Agency Securities (Specify to level of detail in paragraph E9.A1.)						
FHLB	\$	%	%	days	\$	
FNMA	\$	%	%	days	\$	
FHLMC	\$	%	%	days	\$	
FFCB	\$	%	%	days	\$	
SLMA	\$	%	%	days	\$	
GNMA	\$	%	%	days	\$	
Treasury	\$	%	%	days	\$	
Other	\$	%	%	days	\$	
Total Portfolio	\$	%	%	days	\$	

Notes:

¹ Balances as of December 31.² Indicate lowest and highest credit ratings.³ Includes collected cash on deposit in concentration accounts.⁴ Market Value shall be book value for cash, repos, CDs, and other cash equivalents.

E9.A6. ATTACHMENT 6 TO ENCLOSURE 9

INVESTMENT PORTFOLIO YIELD

<u>Month</u>	<u>Avg. Invested¹ Balance</u>	<u>Average² Maturity</u>	<u>Dollar Weighted Yield Realized Return⁵</u>	<u>Dollar Weighted Yield Total Return⁶</u>
January				
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
Total	Total ³ (\$)	Total ³	Total ⁴ (%)	Total ⁴ (%)
Benchmark:				%

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.

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

Note 6. Total Rate of Return is calculated using the following formula.

$$\frac{\text{EMV} - \text{BMV} - \text{CF}}{\text{BMV} + \sum_{i=1}^n (\text{CF}_i \times \text{W}_i)} \quad \text{Annual Yield (Total Rate of Return)}$$

E9.A7. ATTACHMENT 7 TO ENCLOSURE 9

OUTSTANDING LOANS

As of December 31, _____

LOANS

<u>Lending Institution</u>	<u>Outstanding Loan Balance</u>	<u>Loan Rate</u>	<u>Maturity Date</u>
	\$	%	<i>Date</i>

Total \$

LINES OF CREDIT/OTHER BORROWING FACILITIES

<u>Lending Institution</u>	<u>Total Credit Line</u>	<u>Drawn Amount</u>	<u>Interest Rate</u>	<u>Terms/Expiration</u>
	\$	\$	%	
	Total \$	Total \$		

E9.A8. ATTACHMENT 8 TO ENCLOSURE 9

LOAN PORTFOLIO

<u>Month</u>	<u>Average Outstanding Loan Balance</u> ¹	<u>Average Maturity</u> ²	<u>Dollar Weighted Interest Rate Exclusive of Hedging</u>	<u>Dollar Weighted Interest Rate Inclusive of Hedging</u>
January				
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
	Total ³	Total ³	Total ³	

Note 1. Includes loans, lines of credit, and other borrowing facilities.

Note 2. Average loan and lines of credit maturity is calculated as the weighted average days to maturity at month end.

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

E9.A9. ATTACHMENT 9 TO ENCLOSURE 9

CREDIT EXPOSURE REPORT

Report Section	Presentation Guidelines
<u>Investments</u>	Total of investments grouped by counterparty.*
<u>Foreign Exchange</u>	Total of the current mark-to-market value for all foreign exchange contracts grouped by counterparty. The amount outstanding for each counterparty may be either a net payable or receivable to the Service.
<u>Interest Rate Hedges</u>	Subtotals of the current mark-to-market value for all interest rate hedge contracts grouped by counterparty. The amount outstanding for each counterparty may be either a net payable or receivable to the Service.
<u>Aggregate Exposure</u>	Grand totals for credit exposure from each of the above sections grouped by counterparty. This section nets exposures across the various activities to show the total amount of exposure to each counterparty.

*Counterparty includes dealer or broker, not third party custodian.

E10. ENCLOSURE 10

FOREIGN CURRENCY

E10.1. HOLDING FOREIGN CURRENCY

E10.1.1. Speculation in foreign currencies is prohibited. However, in foreign areas there may be valid reasons to acquire and use foreign currencies.

E10.1.2. 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.

E10.1.3. Factors to consider in making decisions regarding foreign currency include the probability of fluctuations and revaluations, and the comparative rate of return on foreign currency holdings as opposed to dollar instruments. U.S. MBFs or other financial institutions designated by the Treasury Department shall 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.

E10.2. HEDGING

E10.2.1. Hedging in foreign currencies is authorized at the discretion of the Service headquarters concerned. Hedges shall be associated directly with underlying foreign exchange exposures. Hedging may be accomplished through the use of forward contracts and foreign currency options with a maximum horizon of 1 year for operational requirements and a maximum horizon of 3 years for construction projects. Writing uncovered (or selling) options is not authorized. Only the Military Service and joint-Service headquarters central NAFIs may make hedging transactions in foreign currencies. Hedging techniques shall not violate host-country laws and government-to-government agreements related to the acquisition and use of foreign currencies by U.S. Forces.

E10.2.2. All foreign exchange hedge contracts shall be transacted with authorized counterparties. The counterparties shall be creditworthy institutions with a short term credit rating of A-1 (S&P) and P-1 (Moody's), and a long term credit rating of at least A (S&P) and A (Moody's). An ISDA agreement shall be in place with each counterparty. All counterparties shall be authorized by the Military Service or joint-Service headquarters prior to initiating hedging activity. Counterparty credit worthiness shall be monitored on at least an annual basis.

E10.2.3. Each Military Service and joint-Service NAFI engaging in foreign currency hedging shall implement a detailed written policy that includes the following topics.

E10.2.3.1. Foreign exchange risk management overview to include purpose or charter, program objectives, and roles and responsibilities.

E10.2.3.2. Exposure identification and measurement.

E10.2.3.3. Foreign exchange hedging strategy and execution to include authorized foreign exchange hedging instruments and definitions, hedge time horizons and ratio of exposures, authorized counterparties, market risk analysis, counterparty risk management requirements, and valuation of foreign exchange derivatives.

E10.2.3.4. Foreign exchange risk management controls to include authorization and limits, segregation of duties, internal controls, and accounting.

E10.2.3.5. Documentation to include Financial Accounting Standard No. 133 (Reference (bn)) and ISDA agreements.

E10.2.3.6. Performance measurements to include quantitative and qualitative measures, management reporting, and compliance monitoring.

E10.2.3.7. Oversight to include a foreign exchange risk management report, annual policy review, and review during oversight committee meetings.

E10.2.4. The Annual NAF Treasury Management Report submitted by the DoD Components to the PDUSD(P&R) in accordance with paragraph E9.9. shall include a report of all foreign exchange hedging activities to include a list of all contracts outstanding during the year (counterparty, currencies, exchange rate, notional amounts, contract type, maturity date, and mark-to-market values) and the short term and long term S&P and Moody's credit ratings for all authorized counterparties.