



Department of Defense INSTRUCTION

NUMBER 1015.15

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Incorporating Administrative 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)).

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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 NAFI. Transactions between NAFIs 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 NAFIs; 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 NAFI. 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 NAFIs 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)).

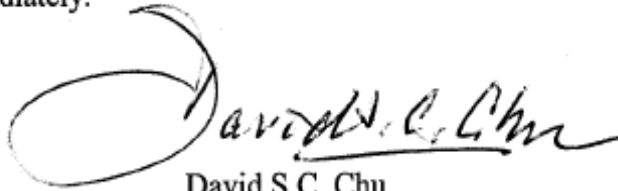
7. INFORMATION REQUIREMENTS

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. EFFECTIVE DATE

This Instruction is effective immediately.



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

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.