



**DEPARTMENT OF WAR
FINANCIAL MANAGEMENT REGULATION**

**VOLUME 13: “NONAPPROPRIATED FUNDS
POLICY”**

**UNDER SECRETARY OF WAR
(COMPTROLLER)**

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VOLUME 13**NONAPPROPRIATED FUNDS POLICY****1.0 GENERAL**

1.1 Nonappropriated Fund (NAF) accounting applies to all NAF Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs). NAFs are separate from appropriated funds (APFs) of the U.S. Department of the Treasury (Treasury). NAFs must not be commingled with APFs and must be managed separately from APFs, even when used to support a common program.

1.2 Authoritative Guidance

Refer to the authoritative guidance document on the FMR webpage.

1.3 Definitions

Refer to the Glossary of terms document on the FMR webpage.

1.4 Procedures

Refer to the Supplemental document listed throughout this volume.

2.0 INTRODUCTION TO NONAPPROPRIATED FUND ACCOUNTING

2.1 The chart of accounts for NAFs must be established to comply with Federal Accounting Standards Board (FASB) and Department of Defense Instruction (DoDI) 1015.15 reporting requirements and is maintained on the DoD NAF Accounting website. NAF accounting systems used by the Military Exchanges are exempt from using the NAF chart of accounts; the Exchanges use the separate Defense Resale Activities chart of accounts, available on the DoD NAF Accounting website.

2.2 For reporting purposes that require the level of materiality to be quantified, materiality must be defined as a minimum of one percent of the total assets in the Balance Sheet for each NAFI. The one percent threshold does not preclude entities from making necessary adjustments to financial statements for transactions that may fall below the threshold. For NAF activities required to report on a consolidated basis, the threshold of materiality must be a minimum of one percent of the assets in the consolidated Balance Sheet.

2.3 AOs must prepare an end-of-month trial balance of the general ledger accounts to ensure total debits equal total credits.

2.4 The annual accounting reporting period for DoD NAFIs begins October 1 of each year and ends September 30 of the following year. The Military Exchanges use the National Retail Federation reporting period and fiscal year that begins in February and ends the following January per DoDI 1015.15. This divides the year into four quarters of 13 weeks grouped into two 4-week "months" and one 5-week "month."

2.5 Financial reports must be prepared annually for each NAFI and must include notes to accompany the financial statements. The DoD Procedures, Guidance, and Instructions for Section 6 explains the following NAFI financial reports: Balance Sheet; Reconciliation of Net Worth; Statement of Income and Expense; and Statement of Cash Flows.

2.6 Financial reports must include full and adequate disclosure of financial and accounting information per Section 6 reporting requirements (for example, disclosure of fund equity adjustments and eliminating entry transactions between NAFIs); this includes Military Service Headquarters, Major Command or Region, and installation NAFIs.

2.7 Since NAFI business operations are similar to the private sector, financial statements are prepared and presented to comply with accounting standards promulgated by FASB. All other accounting literature not included in the Codification is considered non-authoritative.

2.8 NAFIs must use the accrual basis of accounting, by recognizing income and expenses when earned or incurred.

2.9 AOs provide centralized professional accounting services to NAFIs. AO responsibilities include maintaining the books of original entry, general ledger, and related subsidiary ledgers; maintaining fixed asset and payroll records; preparing disbursement vouchers and checks after assuring fund availability and paying NAFI liabilities; preparing and distributing required periodic financial reports; preparing an annual AO operating budget; reconciling supported NAFIs' bank accounts; computing and billing service fees to recover operating costs; reviewing documentation for completeness and accuracy; providing documentation to auditors; preparing aged accounts receivable reports; maintaining awareness of changes affecting financial reporting; and reviewing fund equity or net worth adjustment requests and forwarding them to the approval authority designated by each Military Service.

2.10 NAFIs must establish and operate internal control programs in accordance with the Office of Management and Budget Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," and the statute it implements, the Federal Managers' Financial Integrity Act of 1982.

2.11 Each Military Service is required by DoDI 7600.06 to have independent certified public accountants conduct an annual financial audit of NAFIs with annual income or expenses exceeding \$10 million. NAFIs in Program Group VI – Special Purpose Central Funds, and NAFIs supporting highly sensitive operations, must have audits at least annually regardless of the dollar threshold of revenues and expenses.

Companion reference: For detailed procedures, implementation guidance, definitions, and the full data tables, see the Supplemental for Volume 13, Section 2.

3.0 NONAPPROPRIATED FUND STANDARD GENERAL LEDGER

3.1 This section prescribes policy for the NAF Standard General Ledger (NAFSGL), maintained on the DoD NAF Accounting website. The NAFSGL is a modified version of the United States Standard General Ledger used for accounting and financial statement reporting to ensure financial statement information is consistent for all NAFIs. The NAFSGL provides for standardization and traceability from the financial statements through the general ledger balances to the source documentation for audit purposes. At a minimum, the Office of the Under Secretary of War (Personnel & Readiness) must update and publish the NAFSGL before 1 October of each year. Policies in this section apply to all NAFIs and their supporting accounting offices, except the Military Exchanges, which include Army and Air Force Exchange Service, Navy Exchange Service Command, and Marine Corps Exchange.

3.2 The general ledger accounts are self-balancing (total debits equal total credits) and provide for accounting of business events. The NAFSGL contains a Chart of Accounts and basic common account code elements: the Installation, NAF, Activity, Cost Center, Site, APF/NAF, and General Ledger Account Code (GLAC). Each Military Department uses the accounts required for its particular financial operations. NAFIs and Military Departments may not have to use all accounts.

3.3 The NAFSGL uses an eight-digit account numbering system for the GLACs. Within the NAFIs, the NAFSGL supports financial statement reporting at the Program Group level and the consolidated Military Department level. All data must summarize to the four-digit DoW standard GLAC and be traceable to the NAFIs using subaccounts. The general ledger accounts are grouped into the following major summary categories: 1000 Assets; 2000 Liabilities; 3000 Net Worth/Equity; 4000 Operating Income; 5000 Operating Expenses; 6000 Non-Operating Income; 7000 Non-Operating Expenses.

3.4 Account for assets in the 1000 series of accounts. Current asset accounts consist of cash, investments, receivables, inventories, and other assets reasonably expected to be converted to cash or consumed during the normal operating cycle (12 months or less). Long-term asset accounts consist of NAFI-titled fixed assets, APF-titled fixed assets, and other long-term assets. Section 4 contains additional information on assets.

3.4.1. Cash and investments are liquid assets that can be quickly used to carry out operations. Cash consists of coins, paper currency and readily negotiable instruments, cash in bank, foreign currencies, revolving cash funds, cash held in petty cash or change funds, imprest funds, savings, restricted cash for current operations, and certificates of deposit with an original maturity of three months or less. Investments consist of interest-bearing deposits, certificates of deposit with an original maturity greater than three months but no more than 12 months, and marketable securities. NAFIs must exclude employee retirement cash and investments (employee 401K, employee retirement, and employee post-retirement medical) from a consolidated presentation, because they would distort available NAF.

3.4.2. Fixed assets are property, plant, and equipment purchased, donated, or transferred to NAFIs that have an expected life of two or more years. Fixed assets consist of buildings, land, land improvements, vehicles, aircraft, boats, furniture, fixtures and equipment, information

technology, livestock, assets in progress, fixed assets in-transit when ownership passes to the NAFI before receiving the asset, and accumulated depreciation. NAFIs must report material donations of assets and services in the financial statements. NAFIs must not include donated artifacts in the financial statements unless the NAFI: (1) uses or intends to use the artifact in its primary operations outside its educational function; or (2) sells or intends to sell the artifact and use the proceeds for something other than purchasing another artifact for educational purposes.

3.4.3. Other long-term assets are assets not identified in other asset categories. They consist of long-term pension benefit assets, receivables, long-term prepaid expenses, certificates of deposit (more than 12 months), marketable securities, long-term contributions, long-term franchise fees, intangible assets, and long-term royalty and trademark fees. Report pension benefit asset information when the pension plan is overfunded and classified as a long-term asset; refer to FASB Accounting Standards Codification (ASC) Topic 715, "Compensation-Retirement Benefits," and Section 8 for reporting guidance. NAFIs must classify and report cash and investments restricted for long-term purposes on the balance sheet as other long-term assets.

3.5 Account for liabilities in the 2000 series of accounts. Current liability accounts are due, or will become due, on demand within 1 year and consist of accounts payable, wages payable, interest payable, post-retirement benefit obligations (12 months or less), and other liabilities. Long-term liability accounts are due more than 12 months from the Balance Sheet date and consist of loan liabilities, capital lease liabilities, post-retirement benefit obligations (more than 12 months), and other long-term liabilities. Section 4 contains additional information on liabilities.

3.5.1. Report the current post-retirement benefit obligation when the pension plan is underfunded (plan assets are less than the plan benefit obligation) and classified as a current liability, as determined and provided by the pension provider. This includes any other post-retirement benefit plan, such as retiree health care. The benefit obligation is the accumulated post-retirement benefit obligation. Refer to FASB ASC Topic 715 and Section 8 for reporting guidance.

3.5.2. Report the long-term post-retirement benefit obligation when the pension plan is underfunded (plan assets are less than the plan benefit obligation) and classified as a long-term liability, as determined and provided by the pension provider. This includes any other post-retirement benefit plan, such as retiree health care. The benefit obligation is the accumulated post-retirement benefit obligation. Refer to ASC Topic 715 and Section 8 for reporting guidance.

3.6 Account for Net Worth/Equity in the 3000 series of accounts. Net Worth consists of retained earnings, transferred equity, workers' compensation reserves, equity reserves, undistributed profits and net income, unrealized gains and losses, and other equity transactions. The pension cost liability account records any adjustment made to existing pension balances on the Balance Sheet. Post these adjustments as an offset to the equity account on the Balance Sheet, as either an addition or reduction to Net Worth. Account for these temporary adjustments in the Net Worth section of the Balance Sheet the same way as unrealized gains and losses on investments per FASB ASC Topic 320, "Investments-Debt Securities." Do not include these temporary adjustments in the net worth calculation. Refer to ASC Topic 715 for reporting guidance.

3.7 Classify income as either operating (4000 series) or non-operating (6000 series).

3.7.1. Account for operating income in the 4000 series of accounts. Examples of operating income accounts include gross sales income, participation fees income, concessionaire income, rental income, amusements income, gaming income, reimbursement income, and other operating income. Section 5 contains additional information on income.

3.7.2. Account for non-operating income in the 6000 series of accounts. Examples of non-operating income include interest income, rebates income, subsidy income, exchange dividend income, unusual or infrequent income, and other non-operating income.

3.8 Classify expenses as either operating (5000 series) or non-operating (7000 series).

3.8.1. Account for operating expenses in the 5000 series of accounts. Examples of operating expenses include purchases, cost of goods sold, depreciation expense, wage expense, tax expense, retirement expense, supplies expense, communication expense, utilities expense, travel expense, claims expense, entertainment expense, bad debt expense, unemployment compensation and other employee benefit expense, and other operating expense. Section 5 contains additional information on expenses.

3.8.2. Account for non-operating expenses in the 7000 series of accounts. Examples of non-operating expenses include interest expenses, unusual or infrequent expenses, costs incurred in acquiring historical artifacts, and other non-operating expenses.

Companion reference: For detailed procedures, implementation guidance, definitions, and the full data tables, see Supplemental for Volume 13, Section 3.

4.0 ASSETS, LIABILITIES, AND NET WORTH

4.1 This section prescribes the accounting policy and related requirements for NAF assets, liabilities, and net worth. NAFI programs and facilities must be operated, maintained, and funded as an integral part of the DoW personnel and readiness program. Policies in this section apply to all NAFIs and their supporting AOs, including the Military Exchanges (Army and Air Force Exchange Service, Navy Exchange Service Command, and Marine Corps Exchange).

4.2 The NAFSGL chart of accounts, including definitions and GLACs for asset, liability, and net worth accounts, is maintained on the DoD NAF Accounting website. NAF accounting systems used by the Military Exchanges are exempt from this chart of accounts; the Military Exchanges use the separate Defense Resale Activities chart of accounts available on the DoD NAF Accounting website.

4.3 The NAFSGL contains eight asset categories: Cash; Investments (refer to DoDI 1015.15); Receivables; Inventories; Other Current Assets; NAFI-Titled Fixed Assets; APF-Titled Fixed Assets; and Other Long-Term Assets. Accounting requirements for these categories are in paragraphs 3.1 through 3.7.

4.4 Cash

4.4.1. NAF cash must be maintained in financial institutions that are U.S. federally insured or designated by the Treasury. Cash consists of coins; paper currency; readily negotiable instruments such as money orders, checks, and bank drafts on hand or in transit for deposit; demand deposits with banks or other financial institutions; and foreign currencies translated into U.S. dollars at the exchange rate on the financial statement date. All sales of merchandise or services using credit cards must be recorded as cash at the time of sale.

4.4.2. Designated accounting personnel must reconcile all bank statements or reports monthly and report any discrepancies immediately to NAFI management. To maintain separation of duties, the person performing reconciliations must not be anyone associated with the collection or disbursement of funds.

4.4.3. The AO must designate a custodian to maintain the records and control the blank check stock; for security, this person must not be a check writer. Checks must be sequentially pre-numbered and stored in a locked container that is either a built-in vault or a burglary-resistant safe with a minimum two-hour fire rating. For additional guidance on securing blank check stock, refer to Volume 5, Section 3.

4.4.4. Check signing equipment has three components: a signature plate, a machine key, and the machine. The signatory must maintain the signature plate, and a designated person other than the signatory must maintain the key and a usage log; the authorized operator must record the beginning and ending readings, date, and initials in the log for each use. Other media, such as digitized signatures, are acceptable. For comprehensive guidance on check signing, refer to Volume 5, Section 7.

4.4.5. When a signatory changes, the NAFI must destroy the signature plates and notify the bank. A certificate of destruction must be prepared, signed by two witnesses and the successor signatory, and maintained in the AO. Refer to Volume 5 for additional information on destroying signature media.

4.4.6. Increases to a change fund must be requested in writing from the NAFI custodian (see DoDI 1015.15 for the definition of NAFI custodian). The AO then issues a check for the approved amount and increases the appropriate asset account.

4.4.7. The NAFI manager or designee must replenish change funds at the end of the day with cash received from operations, provided all daily net receipts are deposited in total, and must ensure all checks cashed from these funds are deposited daily. The NAFI manager or designee must not exchange dollars for foreign currency except as provided in Volume 5, Section 13.

4.4.8. Each NAFI must comply with the following requirements when establishing a petty cash fund.

4.4.8.1. Each manager within a NAFI must appoint petty cash custodians in writing.

4.4.8.2. A petty cash fund must not exceed one month's requirements.

4.4.8.3. Any single transaction must not exceed \$500, and transactions must not be fragmented to circumvent this limit. The Military Service proponent for NAF financial management may approve a higher limit for purchases made in foreign currency when currency rates warrant; this increase must be reviewed annually.

4.4.8.4. In foreign locations, a NAFI may maintain one petty cash fund in the local foreign currency and one in U.S. dollars. If a NAFI gives cash bingo prizes in both dollars and foreign currency, it must establish two bingo petty cash funds.

4.4.8.5. NAFIs must not use petty cash funds to cash checks or to pay salaries and wages.

4.4.8.6. The AO provides the fixed petty cash amount to the appointed custodian, who completes a petty cash voucher to support each disbursement. The custodian must submit a replenishment request with vouchers and receipts (or equivalent) to the AO as needed, but no later than the last day of each month, and the AO must issue a reimbursement check payable to the custodian by name.

4.5 Receivables

4.5.1. Receivables are amounts owed to NAFIs for sales of merchandise, services, or dues, and may arise from APFs, Uniform Funding and Management (UFM) processes, employees, members, customers, and organizations for dues, fees, charges, rentals, credit sales (except credit-card sales recorded as cash per paragraph 3.1), or travel advances. NAFIs must maintain receivable records that accurately identify each debt and its debtor and must reconcile receivable subsidiary records monthly to the general ledger control accounts. Refer to the NAFSGL for the complete listing of receivable accounts and their definitions.

4.5.2. NAFIs with internal credit systems must prepare an aged customer accounts receivable report that, at a minimum, identifies amounts over 30 days (second billing statement), over 60 days (third billing statement), and over 90 days (fourth billing statement).

4.5.3. NAFIs must create and use an allowance for doubtful accounts (credit losses), determining and recording the estimated uncollectible accounts receivable at the end of each reporting period based on a review of historical average write-offs, per ASC 326-20-30 and ASC 450-20-25-2. NAFIs must maintain supporting documentation for the calculation and associated adjustment for audit purposes and must adjust the allowance to cover accounts expected to become uncollectible during the next reporting period.

4.6 Inventories

4.6.1. Inventories must be valued and recorded at cost, per ASC 330-10-30. The DoW Components must prescribe the cost-determination method (for example, first in first out, last in first out, or moving average), apply it consistently, and disclose it in the notes to the financial

statements; the Military Exchanges must use the retail inventory method for retail merchandise. Costs that can be associated with specific items (freight, distribution, purchase charges, insurance, and handling) are included in merchandise cost; otherwise, they are recorded against the appropriate expense account. Purchase discounts must be deducted from the price billed and merchandise recorded net of discounts, with discounts lost and excise taxes recorded in the applicable operating expense account.

4.6.2. Immaterial losses of inventory resulting from spoilage, breakage, obsolescence, rejection, or constant customer complaint items are absorbed in cost of goods. Material losses are recorded in a Spoilage and Breakage expense account for the applicable operation.

4.6.3. Merchandise held on consignment is maintained and accounted for by the consignor; per ASC 606, NAFIs do not record this inventory in the general ledger and recognize revenue only once consignment tickets are sold to a third party, at which point selling costs and amounts due the consignor are expensed. NAFIs must physically inventory consigned merchandise for accountability monthly or at the end of an event for tickets, whichever comes first. Tickets purchased for resale must be recorded as inventory in the general ledger.

4.6.4. NAFIs must physically count inventories.

4.6.5. At least annually, an individual independent of the NAFI conducting the count must observe the physical inventory counts to verify the inventory and confirm the accuracy of the accounting records. Observations may be staggered throughout the year when observing all counts at once is impractical.

4.7 Other Current Assets

4.7.1. Other Current Assets are short-term prepaid expenses that are payments and expenditures made in contemplation of future benefits or performance. Other Current Assets also consist of prepayments for supplies, contracts, insurance, franchise fees, deposits, and advance payments that are not material enough for a separate line item disclosure. Prepaid expenses are accounted for in multiple accounts in the Other Current Assets category (refer to the NAFSGL for a complete list of accounts and definitions).

4.8 NAFI-Titled Fixed Assets and APF-Titled Fixed Assets

4.8.1. Fixed assets purchased with NAFs, donated, or transferred to a NAFI with a useful life of two or more years and an acquisition cost of \$7,500 or more must be capitalized. Services with more stringent capitalization thresholds may follow their internal policy. This applies to a single item, or to multiple identical items purchased or transferred to the NAFI at the same time.

4.8.1.1. All Services must set the minimum capitalization threshold for assets purchased in quantity at a purchase cost equal to or greater than \$7,500; Services with more stringent thresholds may follow their internal policy. The assets must be identical items with a useful life of two or more years and must meet all fixed-asset criteria in paragraph 3.6.1. Whole-

room capitalization and composite purchase capitalization are both permitted for assets purchased in quantity.

4.8.2. When an asset is traded in at the time of purchase, the new asset is recorded at the amount of the monetary consideration paid, plus the trade-in allowance for the old asset. The acquisition cost and accumulated depreciation of the traded-in asset are removed from the accounting records. If the trade-in allowance is less than the book value of the old asset, then a loss will result. These losses are recorded in the "Other Non-Operating Expense" GLAC of the NAFI. If the trade-in allowance is more than the book value of the old asset, then the difference is subtracted from the acquisition cost of the new asset. No gain is recognized.

4.8.3. Assets-in-progress include all costs attributable to a construction project, such as new building construction, renovation of existing buildings, and fixed assets purchased as part of the project. The DoW Components must use construction-in-progress to accumulate the cost of real property construction projects. The AO transfers the accumulated cost to the appropriate fixed asset account and begins depreciation on the date of receipt shown on the receiving document when no installation is required, the date installed when required, or the date the asset is available for use. NAFI management establishes facility depreciation periods per the guidance in Volume 4. Fully depreciated buildings remain on the NAFI accounting books until the asset is sold or retired.

4.8.4. Record donations of assets and services material to the financial statements. Assets donated or transferred without the expenditure of funds are recorded at the fair market value on the date the asset was donated or transferred. If the fair market value cannot be determined, then the amount recorded is the book value of the donated asset in the donor's accounting records. Donated artifacts should not be included in the financial statements unless the NAFI: 1) uses or intends to use the artifact in its primary operations outside of its educational function, or 2) the NAFI sells or intends to sell the artifact and use the proceeds for something other than purchasing another artifact for educational purposes.

4.8.5. When NAFIs exchange assets without monetary consideration (a nonmonetary exchange), the gaining NAFI records the assets received at the net book value of the losing NAFI, with the offsetting entry to the Realized Gains and Losses for Sale of Fixed Asset Income GLAC on both NAFIs.

4.8.6. APF property obtained for free is recorded separately from other fixed assets because title and control remain with APFs. For APF fixed assets expected to benefit more than one accounting period, acquisition-related costs (repairs, transportation, installation) and subsequent outlays that extend useful life are recorded and depreciated over the asset's useful life. For APF fixed assets held one year or less, all costs are expensed in the period the asset is held.

4.8.7. Fixed assets acquired through the Utilization Support and Accountability (USA) process, the UFM process, or 10 United States Code (U.S.C.) § 2492 authority are NAFI assets unless APF-titled, and proceeds from their disposition revert to the NAFI. Refer to DoDI 1015.15 for further information on the USA and UFM processes and 10 U.S.C. § 2492 authority.

4.8.8. Artifacts are historical treasures or heritage assets held primarily for educational purposes in a museum, with measures taken to preserve them. Costs incurred to acquire artifacts must be recorded as a non-operating expense and must not be recognized as part of asset value or depreciated.

4.8.9. A unique aspect of NAF accounting is that some assets, particularly buildings, are purchased with NAFs and used exclusively by the NAFI while title rests with the U.S. Government. NAF-procured property or facilities may be transferred to APF for maintenance when Military Service regulations allow. On receipt of approved documentation from NAFI management, record these items in the NAF property records and general ledger as APF-Titled Fixed Assets and begin depreciation. Assets acquired by Memorandum of Agreement that transfers title and maintenance to an APF are not depreciated in the NAF accounting records.

4.8.10. The NAFI may receive title to fixed assets and may make payment for fixed assets before the NAFI has physical possession of the property. Typically, this happens when property destined for a NAFI overseas is delivered to a stateside port for over-water transportation by government means. Payment is made based on the receipt at the port and is recorded in the appropriate fixed asset account. When asset reaches final transit location, begin depreciation on the date of receipt shown on the asset receiving document in cases where no installation is required, the date installed (if required), or the date the asset is available for use.

4.8.11. Disposal means the NAFI activity manager or custodian has physical control of an item and disposes of it. The NAFI activity manager or custodian must prepare and approve documents for the disposition of fixed assets. When property is transferred to APFs, the transfer must be evidenced on the form required by APFs.

4.9. A physical inventory of all fixed assets must be conducted at least annually and observed by at least one individual independent of the NAFI conducting the count, to verify the inventory and confirm the accuracy of the accounting records. When performing the inventory all at once is impractical, the NAFI may schedule and conduct it by area.

4.9.1. Property subsidiary ledgers serve as property control records and must, at a minimum, list each piece of property, its acquisition date, acquisition value, useful life, depreciation to date, and current book value. The ledger may be automated or manual, but automation must be used when available. The NAFI must prepare the documentation needed to change ledger data even when no general ledger entry is required, such as a fixed asset transferred between locations within the same NAFI.

4.10. DoW Components must use the straight-line method of depreciation and must prescribe and disclose the useful lives of assets in the notes to the financial statements. All tangible fixed assets except construction-in-progress must be depreciated over their expected useful lives, and all NAF activities recognize depreciation of their fixed assets as an operating expense. Refer to Volume 4 for the requirement to subtract salvage value from acquisition cost before computing depreciation.

4.10.1. For NAF capital assets whose titles transfer to APFs but that the NAFI still uses, continue to depreciate them on the NAFI books until fully depreciated. Fully depreciated assets still in use must be reported on the balance sheet until disposed of by sale or retirement.

4.10.2. In the case of constructed real property, depreciation will commence when the building is available for use, regardless of whether the building is fully occupied.

4.10.2.1. If an asset remains in use beyond its estimated useful life, the NAFI must retain it in the property accountability or management system and in the accounting records, reflecting both its recorded cost and accumulated depreciation until disposition.

4.10.2.2. Depreciation of real property must not be accelerated at installations approved for realignment, closure, or re-stationing. On actual closure of the facility, the NAFI must expense the undepreciated value in the applicable extraordinary expense account.

4.10.3. In accordance with ASC 350-40-35-4, internal-use software will be amortized on a straight-line basis unless another systematic and rational basis is more representative of the software's use. Software acquired for research and development with no alternative future use will be amortized over the period of the project as opposed to the normal life-cycle amortization. Refer to Volume 4 for detailed guidance.

4.11 Other Long-Term Assets

4.11.1. Other Long-Term Assets include those not identified in other asset lines of accounting that are held for longer than 1 year. Other Long-Term Assets consists of long-term pension benefit assets, long-term receivables, long-term prepaid expenses, long-term leases and capital leases, certificates of deposit (more than 12 months), marketable securities, long-term contributions, long-term franchise fees, intangible assets, and long-term royalty and trademark fees.

4.12 Accounting Requirements for Liabilities

4.12.1. The NAFSGL contains two liability categories: Current Liabilities and Long-Term Liabilities. Current liabilities are due, or will be due, on demand within one year; long-term liabilities are due over a period longer than one year from the balance sheet date. Accounting requirements for liabilities are in paragraphs 4.1 through 4.3.

4.12.2. Liabilities arise from the acquisition of goods or services. Accounts payable must be recognized upon receipt of services or when accepting title to goods. Under accrual accounting, accrued liabilities are recorded for goods or services which have been provided but for which invoices have not yet been received; and therefore, not yet included in accounts payable.

4.12.3. Contingencies are existing conditions involving uncertainty as to possible gain or loss that are resolved when one or more future events occur or fail to occur. Loss contingencies are accrued when the outcome is probable and the amount is reasonably estimable, and gain contingencies are not recorded, per ASC 450-20-25. When a contingency is identified, the AO

must footnote the year-end Military Service level consolidated financial statements to explain the contingency and the potential gain or loss.

4.13 Payment of Liabilities

4.13.1. The NAFI manager or designee is responsible for approving the disbursement of NAFs. The AO must not make disbursements without the approval of the NAFI manager or designee, or as otherwise authorized in this Regulation.

4.13.2. NAFIs must submit the following documents, properly prepared and authenticated, to the AO to support payment for procurements. A procurement document, e.g., purchase order (PO), contract, blanket purchase agreement, or similar documents; a DoD (DD) Form 250, Material Inspection and Receiving Report, or other signed document that provides evidence goods were accepted or services were received; and a vendor invoice or claim for payment.

4.13.3. For overseas shipments, the AO must receive a vendor invoice and proof of shipment before payment; these payments may be made before receipt or acceptance of the goods.

4.13.4. When a NAFI purchases goods or services from another NAFI, it must submit a DD 1149, Requisition and Invoice/Shipping Document, or similar form to the AO to support the transaction.

4.13.5. NAFI purchases of goods or services from the Government (for example, bills from APFs) are not usually supported by a procurement instrument; the NAFI must submit a DD 250 or other signed document to the AO to support payment.

4.13.6. A vendor invoice represents a claim against NAF. All invoices must be date-stamped at the time of receipt and must meet the Prompt Payment Act criteria in 5 Code of Federal Regulations 1315. Refer to Volume 10 for additional information on contract payments.

4.14 Accounting Requirements for Net Worth

4.14.1. Net Worth (Equity) consists of capital invested in NAFIs plus or minus net income or loss since inception. Transactions into and out of equity are limited to net income, net losses, entries associated with establishing the fund, and certain adjustments. Adjustments are rare and may include certain accounting principle changes, prior period adjustments greater than one percent of the assets in the consolidated balance sheet (or less than one percent but deemed material), and distribution of capital. The NAFSGL contains one net worth/equity category; accounting requirements are in paragraphs 6.1 and 6.2.

4.14.2. When a new NAF organization with preexisting capital is authorized, the capital is recorded as equity (for example, when a private association converts to a membership association). Equity is disestablished when a NAF organization is dissolved.

4.14.3. Equity may be distributed by declaring dividends to other NAF organizations (for example, dividends paid by installation restaurants) or through special grants for new construction

and facility improvements. The declaration of dividends by the Military Exchanges and the distribution of grants must be recorded and reported as decreases in equity. The receipt of Military Exchange dividends and of grants that support recurring operations must be recorded as non-operating income, while the receipt of grants for capital items must be recorded as equity transactions. Equity is transferred as cash or other assets.

4.13.4. Transfers into and out of the Other Equity or Earnings general ledger account are limited to the following: net income; net losses; declaration of dividends by Military Exchanges; prior year material corrections; components of other comprehensive income (loss) prescribed by ASC 220-10-45-10A; entries associated with the establishment, disestablishment, or consolidation of NAFIs; and distribution and receipt of capital.

Companion reference: For detailed procedures, implementation guidance, definitions, and the full data tables, see Supplemental for Volume 13, Section 4.

5.0 INCOME AND EXPENSES

5.1 This section prescribes DoD NAF income and expense policies. NAFI programs and facilities must be operated, maintained, and funded as an integral part of the DoW personnel and readiness program. These policies apply to all NAFIs and their supporting AOs, including the Military Exchanges (Army and Air Force Exchange Service, Navy Exchange Service Command, and Marine Corps Exchange), except that Exchanges are not required to use the NAFSGL.

5.2 Income Standards

5.2.1. In accordance with ASC, Topic 605, Subtopic 10, Section 25, NAFIs must recognize revenue (classified as “income” in the NAFSGL) when it is realized or realizable.

5.2.2. The AO must record income in the appropriate NAFI's financial records on a consistent basis, in the appropriate cost center, and in the operating cycle in which the income is earned, per DoDI 1015.15.

5.3 Expense Standards

5.3.1. NAFIs must recognize costs as an expense in the period that the income with which they are associated is recognized (the matching principle).

5.3.1. Using the accrual method, AOs must record expenses on a consistent basis, in the appropriate cost center, and in the operating cycle in which the expense was incurred. Refer to Volume 4 for further guidance on accrual accounting.

5.4 Accounting for APF Support to NAFIs

5.4.1. Title 10 U.S.C. § 2241 is the basic statutory authority to provide APFs to support Morale, Welfare, and Recreation (MWR) functions. MWR USA and UFM are the two mechanisms for providing APF support to NAFIs. Both involve use of NAFs for MWR expenses that, per DoDI 1015.15, should be borne by APFs. Under MWR (USA), NAFIs use NAFs to

execute such expenses subject to later APF reimbursement under Memoranda of Agreement (MOAs). Under UFM, APFs may be transferred into NAF accounts before expenditure; funds appropriated to DoW and available for MWR programs are treated as NAFs for all purposes under UFM MOAs and remain available until expended (10 U.S.C. § 2491). Other statutory authorities available to NAFIs are 10 U.S.C. §§ 2492, 7459, 8478, and 9459.

5.4.2. MWR (USA) Recording

5.4.2.1. The AO must record funds received from appropriated sources for expenses covered by MWR (USA) as MWR (USA) income.

5.4.2.2. The AO must record authorized expenses (the amount subject to APF reimbursement), as they occur, in the applicable expense accounts so that MWR (USA) support is identifiable, per DoDI 1015.15.

5.4.3. UFM Recording

5.4.3.1. The AO must record UFM funds received in the cash account with a contra entry to the Unearned Income (liability) account identified as UFM.

5.4.3.2. The AO must record authorized expenses, as they occur, in the applicable expense accounts so that UFM support is identifiable, per DoDI 1015.15, and reduce the cash account as applicable in the same reporting cycle.

Companion reference: For detailed procedures, implementation guidance, definitions, and the full data tables, see Supplemental for Volume 13, Section 5.

6.0 FINANCIAL REPORTING

6.1 These policies apply to DoD NAFIs and their supporting AOs. They apply to the Military Exchanges, except for policies related to the NAFSGL.

6.2 The DoW Components are responsible for the fair presentation in the financial reports of financial position, results of operations, and the program and personnel information included, and for compliance with NAF program laws and regulations.

6.3 The supporting AO is responsible for compiling the necessary information from accounting and payroll systems and for preparing financial statements and reports. The AO is also responsible for the integrity of those systems and the accuracy of the data produced. Refer to Section 2 for definitions, reporting requirements, and accounting standards.

6.4 The principal financial statements used to convey information to users are the Balance Sheet, Statement of Income and Expense, Reconciliation of Net Worth, and Statement of Cash Flows.

6.5 The NAFSGL Financial Statement Mapping to the financial statements is maintained on the DoD NAF Accounting website. The working versions of all statements and notes must include line numbers as shown there.

6.6 Retain all records relating to payments to individuals and firms according to the Internal Revenue Service (IRS) Topic Number 305, "Recordkeeping."

6.7 International Balance of Payments (IBOP) Program is an accounting of a country's international transactions for a particular period of time. NAFIs are subject to the IBOP reporting guidance prescribed in DoDI 4105.67, "Nonappropriated Fund (NAF) Procurement Policy and Procedure," and Volume 6.

Companion reference: For detailed procedures, implementation guidance, definitions, and the full data tables, see Supplemental for Volume 13, Section 6.

7.0 NONAPPROPRIATED FUND PAYROLL

7.1 This chapter provides the standard NAF policy for DoD NAF payroll and applies to DoD NAF employees. NAF employees are not paid from funds appropriated by Congress but from funds generated by NAFIs. NAF employees are Federal employees, but they are not covered by most laws administered by the Office of Personnel Management (OPM), unless specifically provided by statute. Policy in this chapter applies to all NAFIs, NAF Human Resources (HR), NAF payroll offices, and their supporting AOs.

7.2 Payroll Oversight

7.2.1. Defense Civilian Personnel Advisory Service, NAF Personnel Policy Division is responsible for developing, coordinating, and publishing DoD-wide civilian HR policy concerning NAF employees. DoD NAF HR policy is found in DoDI 1400.25, with volumes in the 1400 series.

7.2.2. All NAF payroll systems, whether being designed, implemented, or in use, must operate per the authoritative guidance document on the FMR webpage and Volume 1.

7.2.3. AOs must ensure all payroll information (including accrued payroll and benefits) passes to the accounting system, whether systemically or manually; update the appropriate NAFSGL accounts; and meet the reporting requirements in DoDI 1015.15 and Volume 13, Section 6. AOs must also compile the financial statements.

7.2.4. The NAF payroll office has primary responsibility for all payroll processing and must work closely with the supporting NAF personnel office, NAFIs, and NAF employees.

7.3 Payroll Deductions

7.3.1. Payroll deductions or withholdings from an employee's pay must be properly authorized by the employee (or made per applicable laws), adequately documented, and paid when due to the appropriate recipient in the authorized amount.

7.3.2. The payroll office must withhold taxes from civilian employees' wages and remit them to tax jurisdictions wherever the Federal Government has entered withholding agreements. State and local taxes must be withheld from the pay of enlisted personnel compensated from NAF for off-duty work.

7.3.3. NAFIs located in foreign countries must neither pay to, nor collect for, any foreign country or political subdivision any tax unless the United States has consented to that levy by treaty, convention, or Executive agreement.

7.4.4. The payroll office will withhold a set percentage of an employee's salary each pay period to pay the employee's share of Federal Insurance Contributions Act (FICA) contribution. FICA also requires that the NAFI contribute a set percentage of an employee's salary to the Social Security Trust Fund and the Medicare Trust Funds.

7.5.5. If the gross salary of an employee is not sufficient to permit all deductions to be made, then deductions will be made in the order of precedence established by the OPM Personnel Policy Memorandum, PPM-2008-01, "Order Of Precedence When Gross Pay Is Not Sufficient To Permit All Deductions," dated July 30, 2008. NAFIs must consult policy, legal staff, and collective bargaining agreements to ensure the proper order of precedence is followed.

7.4 Employee Retirement Accounting

7.4.1. NAF HR/payroll offices are responsible for providing and processing forms for employees retiring under the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). OMB Circular A-130, Appendix II prescribes electronic processes and digital signatures whenever possible, and in the Government's best interest. NAF HR/payroll offices must fulfill the following CSRS or FERS responsibilities (for more on portability retirement, refer to Volume 8).

7.4.2. NAF HR/payroll offices must prepare and maintain a Standard Form (SF) 2806 (CSRS) or an SF 3100 (FERS), Individual Retirement Record, for each employee subject to CSRS or FERS. Each SF 2806/SF 3100 must be correct, complete, clear in every detail, and properly certified to ensure timely, accurate closeout when an employee separates or transfers to another agency's paying jurisdiction.

7.4.3. NAF HR/payroll offices must maintain adequate control over retirement records and associated monetary balances.

7.4.4. NAF HR/payroll offices must promptly send claims and records to OPM (CSRS/FERS Retirement Records, Office of Personnel Management, Retirement Operations Center, P.O. Box 45, Boyers, PA 16017-0045).

7.4.5. NAF HR/payroll offices must withhold retirement deductions from employees' salaries, make agency contributions, and send the deductions and contributions to OPM for deposit. Deductions begin on the day the employee acquires retirement-system coverage and must be prorated for partial pay periods. FICA contributions must be withheld and reported per current

Treasury guidance. Employee retirement deductions, employer contributions, employee contributions to applicable 401(k) plans, and loan repayments must be made biweekly and submitted to the appropriate NAF employee benefit system. Thrift Savings Plan (TSP) deductions and the employer's matching contributions must be forwarded to the TSP.

7.5 Leave Accrual

7.5.1. Annual leave accrual is material and must be recognized as a liability and expensed monthly in the individual NAFI's accounting records. The individual leave records or annual leave report, showing the accumulated leave balance for all employees, must serve as the subsidiary ledger to the appropriate NAFSGL account for each NAFI.

7.5.2. Monthly sick leave accrual is not a liability to the NAFI. The NAFI must recognize sick leave used as an expense monthly in its accounting records.

7.6 NAFIs must accrue the estimated liability for a business-based action when probable and accrue a separation allowance monthly where applicable. (DoDI 1015.15 requires NAFIs to set aside and invest funds regularly to ensure cash is available to pay severance benefits for U.S. and Foreign National employees on separation; DoDI 1400.25, Volume 1405 sets the eligibility criteria, exclusions, conditions, and computation and payment requirements.)

7.7 All payroll disbursements must be paid to NAF employees by electronic fund transfer (EFT) unless the head of the agency or designee grants a waiver. The head of the agency or designee may waive the EFT requirement on receipt of written certification from the employee stating that the employee has no account with a financial institution or describing another extenuating circumstance.

7.8 NAF payroll offices must keep records sufficient to support all NAF payroll transactions. Employment-tax records must be retained for 4 years after the tax due date or the date the tax was paid, whichever is later (IRS Publication 15). Aggregate records of payroll disbursed each pay period (base pay, additions to and deductions from pay, and leave balances) must be stored and transferred to the National Personnel Records Center for 56 years' retention (National Archives and Records Administration General Records Schedule 2.4).

7.9 All DoD NAF organizations must follow the internal control standards in OMB Circular A-123; DoDI 1015.15, subparagraph 6.7.3; DoDI 5010.40; and DoDI 7600.06 for payroll operations and for the methods and procedures adopted to process and audit payrolls.

Companion reference: For detailed procedures, implementation guidance, definitions, and the full data tables, see Supplemental for Volume 13, Section 7.

8.0 ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

8.1 This section provides requirements to account for single-employer defined benefit pension and other postretirement plans. Its policies apply to DoD NAFIs, their supporting Accounting Offices, and Military Services Exchanges. This section does not apply to Military Department

plans considered multi-employer. Each NAFI and its supporting Certified Public Accounting firm must fully review the exceptions and variables associated with pension accounting before implementation.

8.2 NAFIs must report pension plan assets and liabilities annually in conformance with FASB ASC Topic 715, "Compensation-Retirement Benefits." The current published version of ASC Topic 715 is the superseding authority for the accounting addressed in this section.

8.3 The Military Departments must calculate the funded status of a benefit plan as of the year-end statement date (measurement date). Funded status is the difference between the projected benefit obligation and the plan assets at fair value.

8.4 Temporary equity adjustments to pension balances must not be included in the net worth determination. Post these adjustments as an offset to the equity account, treated in the same manner as unrealized gains and losses on investments per ASC Topic 320, "Investments-Debt Securities."

8.5 At a minimum, the NAFI must disclose additional information about certain effects on net periodic benefit cost and the amount and timing of any plan assets expected to be returned to the Military Departments and NAFIs. See ASC Topic 715 for the full disclosure requirements.

Companion reference: For detailed procedures, implementation guidance, definitions, and the full data tables, see Supplemental for Volume 13, Section 8.