

# CHAPTER 13:



## NON- APPROPRIATED FUNDS

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**CHAPTER 13**

**NONAPPROPRIATED FUNDS**

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## **CHAPTER 13**

### **NONAPPROPRIATED FUNDS**

#### **I. INTRODUCTION.**

*“What we have today is a \$10 billion governmental entity which employs almost a quarter of a million people in 12,000 activities worldwide . . . without legislative authority.”*

- Congressman Dan Daniel,  
Chairman, MWR Panel of the House Armed Services Committee, 1982

#### **II. REFERENCES**

- A. 10 U.S.C. § 2783, Nonappropriated Fund Instrumentalities: Financial Management and Use of Nonappropriated Funds.
- B. DOD 7000.14-R, DoD Financial Management Regulation, Volume 13, Nonappropriated Funds Policy and Procedures (July 2013).
- C. DOD Instruction (DODI) 1000.15, Procedures and Support for Non-Federal Entities Authorized to Operate on DoD Installations (October 24, 2008).
- D. DODI 1015.10, Military Morale, Welfare and Recreation (MWR) Programs (Change 1, May 6, 2011).
- E. DODI 1015.11, Lodging Policy (Change 1, November 15, 2011).
- F. DODI 1015.12, Lodging Program Resource Management (October 30, 1996).
- G. DODI 1015.13, Department of Defense Procedures for Implementing Public-Private Ventures (PPVs) for Morale, Welfare and Recreation (MWR), and Armed Services Exchange Category C Revenue-Generating Activities (March 11, 2004).
- H. DODI 1015.15, Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources, October 31, 2007 (Change 1, March 20, 2008).

- I. DODI 1330.21, Armed Services Exchange Regulations, July 14, 2005.
- J. Army Regulation (AR) 165-1, Army Chaplain Corps Activities, December 3, 2009.
- K. AR 215-1, Morale, Welfare and Recreation Programs and Nonappropriated Fund Instrumentalities, 24 September 2010.
- L. AR 215-4, Nonappropriated Fund Contracting, 29 July 2008.
- M. AR 215-7, Civilian Nonappropriated Funds and Morale, Welfare and Recreation Activities, 26 January 2001.
- N. AR 215-8 / Air Force Instruction (AFI) 34-211(I), Army and Air Force Exchange Service Operations, 5 October 2012.
- O. Air Force Instruction (AFI) 34-201, Use of Nonappropriated Funds, 28 March, 2013.
- P. AFI 34-262, Services Programs and Use Eligibility, 27 June 2002.
- Q. AFI 64-301, NAF Contracting Policy, 12 February 2002.
- R. AFI 65-106, Appropriated Fund Support of MWR and Nonappropriated Fund Instrumentalities, 6 May 2009.
- S. SECNAVINST 1700.12A, Operation of Morale, Welfare and Recreation Activities, 15 July 2005.
- T. SECNAVINST 5401.2A, Establishment, Management, and Control of NAFIs and Financial Management of Supporting Resources, 21 January 2004.
- U. BUPERSINST 1710.11C, Operation of MWR Programs, 25 July 2001 (with Change 1, dated 31 March 2003).

### III. DEFINITIONS

#### A. Nonappropriated Funds (NAFs).

1. What are NAFs?
  - a. NAFs are monies which are not appropriated by the Congress of the United States. These funds are separate and apart from funds that are recorded in the books of the U.S. Treasury (i.e., appropriated funds or APFs). NAFs shall be administered only through the auspices of a nonappropriated fund instrumentality (NAFI).
  - b. Within the Department of Defense (DoD), NAFs come primarily from the sale of goods and services to military and civilian personnel and their family members, and are used to support Morale, Welfare, and Recreation (MWR), lodging, and certain religious and educational programs.
  - c. NAFs are government funds used for the collective benefit of military personnel, their family members, and authorized civilians. DoD 7000.14-R, Financial Management Regulation, Volume 13, Chapter 1, para. 010213; see also DODI 1015.15, para. 4.
2. NAFs are Government funds subject to controlled use. All DoD personnel have a fiduciary responsibility to use NAFs properly and prevent waste, loss, mismanagement, or unauthorized use. Violators are subject to administrative and criminal sanctions. See 10 U.S.C. § 2783 (Appendix A to this outline); see also DODI 1015.15, para. 4.7.
3. NAFs are audited.

- a. Comptroller General. The Comptroller General has statutory authority to audit the operations and accounts of each nonappropriated fund and related activities authorized or operated by the head of an executive agency to sell goods or services to United States government personnel and their dependents. 31 U.S.C. § 3525; see, e.g., Nonappropriated Funds, Opportunities to Improve DoD's Concessions Committee, GAO/NSIADF/AIMD-98-119, April 30, 1998.
- b. Agency and Inspector General Audits. The Services must audit NAFs. See DODI 1015.15, paras. 5.7.6, 6.18; DoD 7000.14-R, Financial Management Regulation, Volume 13, Chapter 9, para. 0904; AR 215-1, Chapter 18.

B. Nonappropriated Fund Instrumentalities (NAFIs).

1. NAFIs are DoD organizational and fiscal entities supported in whole or in part by NAFs. They act in their own name to provide or assist the Secretaries of the Military Departments in providing MWR programs for military personnel, their families, and authorized civilians. DODI 1015.15, paras. 4.2, E2.13.
2. NAFIs are established and maintained individually or jointly by two or more DoD components. As a fiscal entity, it maintains custody and control over its NAFs, equipment, facilities, land, and other assets. It enjoys the legal status of an instrumentality of the United States. It is not incorporated under state laws. DODD 1015.15, para. 4 and Enclosure E2.13; AR 215-1, Glossary.
3. The DOD classifies NAFIs into one of six program groups to assure uniformity in the establishment, management, allocation and control of resource support. DODI 1015.15, para. 6.1.1.1. These program groups include Military MWR programs, Armed Service Exchange programs, Civilian MWR programs, Lodging Program Supplemental Mission Funds, Supplemental Mission Funds, and Special Purpose Central Funds. DODI 1015.15, paras. 6.1.1.1.1 to 6.1.1.1.6.

4. Within each Program Group, NAFI activities are further classified into one of three funding categories: Category A—Mission Sustaining Activities, Category B—Basic Community Support Activities, and Category C—Revenue-Generating Activities. These funding categories are the basis of of APF and NAF funding authorizations for a particular NAFI activity. DODI 1015.15, para. 6.2.1.
5. In Standard Oil Co. of California v. Johnson, 316 U.S. 481 (1942), the Supreme Court concluded that post exchanges were an integral part of the War Department and enjoyed whatever immunities the Constitution and federal statutes provided the Federal Government. Accordingly, a California law that levied taxes on fuel sold to a Post Exchange was found inapplicable to those sales.

C. MWR programs (formerly MWR activities).

1. Programs (exclusive of private organizations) on military installations or on property controlled (by lease or other means) by a military department or furnished by a DoD contractor that provide for esprit de corps, comfort, pleasure, contentment, as well as mental and physical productivity of authorized DoD personnel. AR 215-1, Glossary.
2. They include recreational and leisure-time programs, self-development programs, resale merchandise and services, or general welfare programs outlined in AR 215-1. AR 215-1, Glossary.
3. The Army Morale, Welfare, and Recreation (MWR) Program is a quality-of-life program that directly supports readiness by providing a variety of community, Soldier, and Family support programs, activities, and services. Included are social, fitness, recreational, educational, and other programs and activities that enhance community life, foster Soldier and unit readiness, promote mental and physical fitness, and generally provide a working and living environment that attracts and retains quality Soldiers. AR 215-1, para. 1-8.
4. The range of MWR programs offered at Army garrisons is based on the needs of authorized patrons who work and reside there. Programs are managed by garrison commanders within the framework of authorized and available APFs and NAFs. AR 215-1, para. 1-8.

D. MWR Unit Funds.

1. Separate Unit Funds. Generally, separate unit MWR funds are not authorized for installation units. Separate funds may be established, managed, and administered at the unit level for isolated active duty units or reserve component units or personnel performing annual training. One coordinating garrison provides NAF support to surrounding units. AR 215-1, Chapter 6.
2. Unit Activities Funds. Upon IMCOM region direction, units attached to an installation may nonetheless receive direct monetary NAF support through the garrison MWR operating entity. Garrison commanders may determine the amount of NAF support. Such support will be applied equitably to all units or personnel within the installation. NAF support provided to installation units is referred to as “unit activities” and will be accounted for within the garrison MWR operating entity. AR 215-1, para. 6-1.
3. The Air Force has Special Morale and Welfare (SM&W) authority which allows use of NAFs to fund expenditures considered necessary to contribute to the overall morale and welfare of the military community. AFI 34-201, Chapter 12.
4. The Navy has unit recreation funds which are available to tenant commanders for financing special expenditures in order to enhance unit identity and promote retention. The funds should not be used solely for parties and picnics, although the purchase of alcoholic beverages is authorized but discouraged. Funds can also be used for emblematic, recognition and reception related items for advancement, award and reenlistment ceremonies. With approval of the host installation CO, occasional fund-raising, e.g., hot dog sales and chili cook-offs, can be conducted to supplement unit recreation funds. BUPERSINT 1710.11C, para. 406.

**IV. MANAGEMENT OF MWR PROGRAMS.**

- A. Army. AR 215-1, Chapter 1-8: “The Army MWR program is a quality-of-life program that directly supports readiness by providing a variety of community, Soldier, and Family support programs, activities, and services.”

1. The Army MWR program is executed through the auspices of Non-Appropriated Fund Instrumentalities (NAFIs). Each one is established by the Secretary of the Army, often in coordination with other branches. An example of this coordination is the joint Army and Air Force Exchange Service (AAFES) (see AR 215-8 / AFI 34-211(I)).
2. The Commander, Installation Management Command (IMCOM) and the Assistant Chief of Staff for Installation Management (ACSIM) manage the Army-wide MWR program as specified in AR 215-1.
3. The Commander, Family Morale, Welfare and Recreation Command (FMWRC) develops the overall guidance, standards, and procedures to implement specifically approved MWR programs. Additionally, FMWRC is responsible for the administration and use of all nonappropriated funds used to fund MWR programs and activities, to include NAF-funded construction and procurement.
4. Garrison Commanders implement the local programs with guidance from IMCOM and FMWRC, to include planning, managing, and funding MWR programs at their respective installations. They ensure local programs adhere to DoD/HQDA policies and regulations and develop annual budgets for the use of their local NAF resources.
5. A number of forums exist for the management and oversight of MWR programs. They include:
  - a. The Soldier and Family Readiness Board of Directors (SFR BOD), a strategic forum combining the former Installation Management Board of Directors and the Morale Welfare and Recreation Board of Directors. Co-Chaired by the Secretary of the Army and the Chief of Staff of the Army, the SFR BOD provides the Army's senior executive leadership with a strategic forum in which to guide the fulfillment of the Army Family Covenant and to maintain Soldier and Family readiness in a time of persistent conflict. Various committees provide input to the SFR BOD as outlined in AR 215-1, Appendix B, to include review and approval of NAF construction projects.

- b. The Soldier Family Readiness Executive Committee (EXCOM) is a 3-star working group designed to review issues and proposals for presentation to the SFR BOD.
- c. The Soldier Family Readiness Working Group (SFR WG) is a Colonel-level forum that develops and reviews issues and proposals for presentation to the EXCOM and SFR BOD.
- d. The Capital Investment Review Board (CIRB) reviews and prioritizes construction projects funded with NAF on behalf of the EXCOM.

6. NAFI Councils.

- a. A governing body of active duty Soldiers or civilian employees appointed or elected to assist in the management of each NAFI and represent MWR activity patron interests. The governing council is a decision-making body that exercises general supervision for the commander and directs specific actions in the management of the NAFI. The non-governing council is a review body that recommends and reports to the commander on general or specific matters concerning the management of the NAFI.<sup>1</sup> AR 215-1, Glossary.
- b. Councils are required for separate garrison NAFIs and garrison MWR operating entities. AR 215-1, para. 3-17.

B. Air Force. AFI 34-201, Chapter 2.

- 1. The Secretary of the Air Force gives the authority to administer NAFs and NAFIs to the Chief of Staff of the Air Force (CSAF). The Air Force MWR Advisory Board provides recommendations to the CSAF on broad issues affecting policy, management, and oversight of NAFs, NAFIs, and MWR programs.
- 2. Major Commander (MAJCOM):

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<sup>1</sup> Non-governing councils may also include military retirees and family members.

- a. Approves the establishment of base and isolated unit NAFIs;
  - b. Supervises all NAFIs within the command and administers command-level NAFIs; and
  - c. Appoints a NAF council and finance and audit committee to help administer and supervise command-level NAFs.
3. Installation Commander (wing commander or equivalent):
- a. Requests MAJCOM approval to establish base-level NAFIs; and
  - b. Appoints a custodian for each NAFI and appoints a NAF council.
4. At base level, the resource management flight chief (RMFC) acts as single custodian of all NAFIs serviced by the NAF accounting office with the exception of base restaurant and civilian welfare fund NAFIs, and in some instances, NAFIs at remote and isolated locations.

C. Navy.

1. The Navy has a Morale, Welfare and Recreation Division (PERS-65), composed of nine branches, located in Millington, TN.
2. Chaired by the Vice Chief of Naval Operations, a MWR/Navy Exchange (NEX) Board of Directors (BOD) makes major policy and business decisions for both programs.
3. COMNAVPERSCOM is the immediate superior in command of the MWR program manager.
4. The Navy MWR NAF activities are regionalized.

D. Marine Corps.

1. The Personal and Family Readiness Division, under the staff cognizance of the Deputy Chief of Staff for Manpower and Reserve Affairs, is responsible for providing Service policy and resources to support commanders in executing quality Personal and Family programs.
2. The MWR Policy Review Board makes recommendations on major MWR policy matters to the Assistant Commandant of the Marine Corps. Marine Corps Order 1700.26C.
3. Category E, Personal Services. MCO P1700.27A, Appendix B.
  - a. Created in 1999 as part of transformation from MWR to Marine Corp Community Services (MCCS); Funded entirely with APFs.
  - b. Examples:
    - (1) Preventive Services: Exceptional Family Member; Life Skills Management; New Parent Support; Personal Financial Management; Suicide Prevention.
    - (2) Counseling Services: Clinical Counseling; Marriage and Family Counseling; Family Advocacy.
    - (3) Mobility Support: Family Member Employment Assistance; Personal Sponsorship; Relocation & Transition Assistance.

**V. CASH MANAGEMENT, BUDGETING, SOURCES OF NAFI REVENUE, AND RESOURCE MANAGEMENT.**

- A. NAFI Cash Management. AR 215-1, para. 16-5.

1. All NAFIs are required to generate sufficient cash and a positive net income before depreciation which, when coupled with existing funds, will permit the NAFI to fund all of its operating and capital requirements, with the exception of major construction, which is funded by the Army MWR Fund (AMWRF).
2. Each NAFI must produce adequate revenues to cover operating and capital requirements while maintaining a cash to debt ratio between 1:1 and 2:1 (total cash divided by current liabilities).

B. NAFI Budgeting.

1. The basis for garrison MWR planning is the MWR 5-year plan. Updated annually, the 5-year plan is the management tool for justifying program elements and using resources. AR 215-1, para. 15-1. Each annual budget is submitted with the 5-year MWR plan to the applicable IMCOM Region. Annual budgets must comply with specific instructions and procedures issued annually by FMWRC. AR 215-1, para. 16-13. Budgets must contain a garrison commander's narrative that includes, at a minimum:
  - a. A description of current operations, including goals and objectives reflected in the budget; and
  - b. Significant changes from previous years approved budget and actual operations. AR 215-1, para. 16-13.
2. IMCOM Regions will review and approve installation and community budgets and forward consolidated budgets to FMWRC. AR 215-1, para. 16-14.

C. Revenue Sources and Resource Management Structure.

1. Garrison MWR Operating Entity. AR 215-1, para. 5-9.
  - a. Group of MWR programs offered at an installation that fall within the garrison commander's responsibility (previously referred to as the "installation MWR fund).

- b. Garrison-level NAFs are primarily generated by local sales of goods and services and user fees and charges.
    - c. Forms an integral part of the IMCOM Region single MWR fund. NAFs generated by each garrison level MWR program are pooled into the IMCOM region single MWR fund and allocated to MWR programs based on garrison priorities.
  - 2. Region Single MWR Funds. AR 215-1, para. 5-8.
    - a. Separate region NAFI that consolidates all garrison funds within the region, as well as centralized functions for the garrisons within the region, such as procurement, financial management, civilian personnel, and marketing.
    - b. The region single-fund management will provide oversight of garrison MWR operating entities. When necessary, region single-fund management may subsidize unprofitable garrison MWR operating entities, to include cross-leveling funds of MWR fund NAFIs within or among the regions.
  - 3. The Army MWR Fund (AMWRF)
    - a. The AMWRF is the Army central NAF managed by the U.S. Army Family and Morale Welfare Recreation Command (FMWRC) that provides up to 90% of funds for approved NAF major construction and supports other Army-wide MWR programs.
    - b. Successor-in-interest to all IMCOM Regional Single MWR Funds. AR 215-1, para. 16-3.
    - c. Resources for the AMWRF are primarily derived from dividends paid from the AAFES and from interest earned from the temporary investment of funds that have been programmed but not yet spent. AR 215-1, para. 16-8.

- d. AMWRF resources are devoted primarily to funding NAF major construction (NAFMC) and other program investments. Any garrison entity or IMCOM region contribution to a NAF construction project will be withdrawn from the garrison entity or IMCOM region bank account as bills on the project are paid. AR 215-1, para. 16-11.
  - e. All capital purchases and minor construction (CPMC) will be financed from local installation and/or IMCOM Region resources. AR 215-1, para. 16-12.
4. Supplemental Mission Funds. AR 215-1, para. 5-10.
- a. Supplemental mission funds/NAFIs are quality of life adjuncts to APF mission programs other than those recognized as MWR programs.
  - b. The generation and expenditure of supplement mission NAFs is restricted to the purposes of the supplemental mission fund/NAFI. Supplemental mission NAFs will not be used to subsidize MWR programs, nor will NAFs generated by MWR programs be used to subsidize supplemental mission funds/NAFIs.
  - c. Some supplemental mission funds/NAFIs are consolidated within the IMCOM region single MWR fund and some are established as separate NAFIs.
    - (1) Examples of supplemental mission funds accounted for within the IMCOM region single MWR fund:
      - (a) Army Community Services (see AR 608-1).
      - (b) Fees paid by customers for veterinary services (see AR 40-905).
    - (2) Examples of supplemental mission NAFIs excluded from consolidation into the IMCOM region single MWR fund:

- (a) Army Lodging Funds
- (b) Fisher House Funds
- (c) Overseas vehicle registration funds

## **VI. FUNDING SUPPORT OF MWR PROGRAMS.**

A. DoD NAFs are classified into one of six program groups to assure uniformity in the establishment, management, allocation and control of resource support. DoDI 1015.15, para. 6.1.1.1; AR 215-1, paras. 3-1 to 3-6. The program groups are:

1. Program Group I—Military MWR Programs, to include child development and recreational lodging programs.
2. Program Group II—Armed Services Exchange Programs.
3. Program Group III—Civilian MWR programs. DoDD 1015.8.
4. Program Group IV—Lodging Program Supplemental Mission Funds.
5. Program Group V—Supplemental Mission Funds.
6. Program Group VI—Special Purpose Central Funds, such as NAF employee life and health insurance, and NAF risk management.

B. Funding Standards. MWR programs are dual funded and rely on a mix of appropriated (APF) and nonappropriated (NAF) funds. The DoD basic standard, regardless of category, is to use APFs to fund 100 percent of costs for which MWR programs are authorized. AR 215-1, para. 5-1. NAFs are used to supplement APF shortfalls or fund activities not authorized APF support. See generally AR 215-1, Chapter 5, Section III.

1. NAFs are generated primarily by sales, fees, and charges to authorized patrons.

2. APFs are provided primarily through operations and maintenance and military construction appropriations.
- C. APF Support of MWR. Appendix D to AR 215-1 contains the specific areas of support that Army commanders may fund with APFs. Attachment 2 to AFI 65-106 contains similar guidance for Air Force Management and Funding.
1. APF support can be direct, indirect, or common. AR 215-1, para. 5-1.
    - a. *Direct APF Support*. Generally limited to Category A and B MWR programs. Includes support or expenses incurred in the management, administration, and operation of MWR programs or common support functions. It includes those costs that directly relate to, or are incurred by, the operation of the MWR facilities.
    - b. *Indirect APF Support*. All MWR programs receive and are authorized indirect APF support which is historically provided to all installation facilities and functions. Such support mutually benefits MWR and non-MWR. E.g., health, safety (police and fire), security, grounds and facility maintenance and repair.
    - c. *Common MWR Support*. APF support to fund the management, administration, and operation of more than one MWR program or category, where such support is not easily or readily identifiable to a specific MWR program or to solely Category C MWR programs. E.g., central accounting office, civilian personnel office, central procurement.
    - d. *Support Agreements*. NAFIs and installation support elements will enter into agreements on the type of support required and resources to be expended. When the service is not authorized APFs, but the support element provides the service, the NAFI reimburses the Government for the service based upon the support agreement. AR 215-1, para. 5-1f.

2. MWR Categories. AR 215-1, para. 3-7; DODI 1015.10, Encl. 5. These Fund support for MWR programs depends on the **funding category** of the activity, which is based on the relationship of the activity to readiness factors and the ability of the activity to generate revenue. There are **three primary funding categories** of MWR programs. They are:

a. *Category A - Mission Sustaining Activities*. activities are deemed essential to meeting the organizational objectives of the Military Services. Commanders must fund these activities almost entirely with APFs. Exceptions include instances where appropriated fund support is prohibited by law, or when the use of NAF is essential for the operation of a facility or program.

(1) Examples of Category A activities:

- (a) Libraries and Information Services;
- (b) Recreation Centers;
- (c) Movies (free admission: overseas and isolated/remote locations);
- (d) Parks, picnic areas, barbecue pits, pavilions, game fields, playgrounds;
- (e) Sports (individual, intramural, unit);
- (f) Gymnasiums, field houses, pools for aquatic training, and other physical fitness facilities;
- (g) Armed Forces Professional Entertainment Program Overseas; and
- (h) Better Opportunities for Single Soldiers.

- b. *Category B - Community Support Activities.* These activities provide community support systems that help to make military bases temporary hometowns for a mobile military population. They receive a substantial amount of APF support, but can generate NAF revenue. The DoD goal is to fund these programs with a minimum of 65% APFs.
- (1) Examples:
- (a) Arts and Crafts;
  - (b) Bowling centers (12 lanes or less);
  - (c) Child, Youth, and School services;
  - (d) Information, ticketing, and registration services; and
  - (e) Outdoor recreation programs, such as archery ranges, beach facilities, garden plots, hunting/fishing areas, marinas without retail sales or private boat berthing, outdoor recreation checkout centers.
- c. *Category C - Revenue-Generating Activities.* These activities have less impact on readiness, and are capable of generating enough income to cover most of their operating expenses. They receive very limited APF support.
- (1) Remote or isolated sites approved by Congress.
- (a) Category C MWR programs at sites designated as remote or isolated receive APFs on the same basis as Category B MWR programs.

- (b) AF regulations generally authorize Category B-level APF support for Category C activities at approved remote and isolated locations, except for AAFES equipment and supplies, or equipment used for generating revenue, or for providing a paid service (such as point of sales systems, bowling center pinsetters, golf carts, slot machines). AFI 65-106, para. 3.1.

(2) Examples of Category C Revenue-Generating Activities:

- (a) Armed Forces Recreation Centers;
- (b) Bingo;
- (c) Bowling centers (over 12 lanes);
- (d) Golf courses and associated operations;
- (e) Outdoor recreation, including cabin/cottage operations, rod and gun activities, skiing operations, stables, flying activities; and
- (f) Military clubs.

d. *Supplemental Mission NAF Accounts* do not support and are not part of the MWR program, but are established to provide a NAF adjunct to APF mission activities. AR 215-1, para. 5-10; AFI 65-106, para. 2.2. Examples include:

- (1) Army Community Services (ACS);
- (2) Veterinary services;
- (3) Fisher House funds;

- (4) Vehicle registration funds;
- (5) Fort Leavenworth U.S. Disciplinary Barracks funds; and
- (6) USMA funds.

## **VII. USE OF NONAPPROPRIATED FUNDS.**

- A. The use of NAFs is limited. AR 215-1, para. 5-13.
  1. In all cases, NAFs are used judiciously and not as a matter of convenience.
  2. NAFs are not to be commingled with APFs and are managed separately, even when supporting a common program. AR 215-1, para. 4-1 (a).
  3. NAFs are returned to authorized patrons by providing needed MWR services and capital improvements. AR 215-1, para. 13, discusses authorized uses of NAFs. AR 215-1, Appendix D, lists expenses that should be funded with NAFs and APFs.
  4. Prices, user fees, and charges are structured to meet cash management goals for sustainment of a NAFI and its operations, to cover capital requirements and overhead expenses, and to satisfy budget requirements for support of other MWR programs dependent upon the NAFI. AR 215-1, para. 12-8.
  5. Funds from supplemental mission NAFIs support only the requirements for which they were established. AR 215-1, paras. 5-10, 5-13; see also Aaron v. United States, 27 Fed. Cl. 295 (1992) (class action suit challenging excess vehicle registration fees used to fund MWR programs); GAO Report to the Chairman, Subcommittee on Defense, Committee on Appropriations, House of Representatives, B-238071, Army Housing Overcharges and Inefficient Use of On-Base Lodging Divert Training Funds, Sep. 1990 (finding improper the Army's use of profits from housing TDY soldiers for the benefit of MWR programs).

- B. In the Navy, nonappropriated MWR funds will be expended on official MWR programs and facilities on an equitable basis to achieve a balanced, adequate MWR program. BUPERSINT 1710.11C, para. 416.
1. The emphasis should be placed on MWR programs that benefit the greatest number of eligible patrons. BUPERSINT 1710.11C, para. 416.
  2. MWR NAF funds are authorized only for those purposes related to the official MWR program. BUPERSINT 1710.11C, para. 420.
- C. NAFs may not be used to:
1. Accomplish any purpose that cannot withstand the test of public scrutiny or which could be considered a waste of Soldier's dollars, AR 215-1, para. 4-13a, or unauthorized activities, AFI 34-201, para. 4.2.27 (cross referencing AFI 34-101).
  2. Accomplish any prohibited purpose listed in AR 215-1, para. 5-14, which contains a detailed listing of NAF prohibitions. See also AFI 34-201, para. 4.2 (listing prohibited expenditures for Air Force NAFs); BUPERSINST 1710.11C, para. 420 (listing prohibited expenditures for Navy MWR funds).
  3. Pay costs of items or services authorized to be paid from APFs when APFs are available. AR 215-1, para. 4-13b; AFI 34-201, para. 4.2.1. Exceptions to this policy in the Army include:
    - a. when the appropriate official certifies in writing that APFs cannot satisfy the requirement (AR 215-1, para. 5-14b);
    - b. when functions, programs, and activities to be funded with NAFs are integral to the functions for which the NAFI was established (AR 215-1, para. 5-14b); and
    - c. when the DoD MWR Utilization, Support and Accountability (USA) policy applies.

4. Support private organizations. AR 215-1, para. 4-13c; AFI 34-201, para. 4.2.22.
  5. Contract with Government personnel, military or civilian, except as authorized in AR 215-4. (Para. 1-21 of that regulation provides that contracts are authorized with government employees and military personnel so long as such contracts are non-personal services contracts funded entirely with NAFs. Examples include contracts for sports officials and instructors and arts and crafts). AR 215-1, para. 5-14n.
  6. Support non-MWR functions. Army regulations specifically prohibit use of NAFs for any expense for a retirement ceremony, command representation, or other specific benefit for select individuals or groups. AR 215-1, para. 5-14i. However, the Air Force allows the use of NAFs to fund change of command ceremonies on a “modest” basis, as established by MAJCOM commanders. AFI 34-201, para. 12.4.8.
  7. Purchase personal items such as memo pads or greeting cards, including personalized memo pads to be used at work. In the Air Force, this extends to business cards. AR 215-1, para. 5-14k; AFI 34-201, para. 4.2.17.
- D. In the Air Force, NAFs may not be used for the following activities (see AFI 34-201 for other restrictions):
1. Supporting programs or personnel attending functional or professional courses. AFI 34-201, para. 4.2.2.
  2. Offices, work areas, waiting areas, or special interest groups that are not primarily concerned with MWR programs, e.g., legal offices. AFI 34-201, para. 4.2.3.
  3. Loans to individuals, AFI 34-201, para. 4.2.7.
  4. Purchasing land, AFI 34-201, para.4.2.20.
  5. Buying portraits of senior Air Force leaders, AFI 34-201, para.4.2.21.

- E. In the Navy, NAFs may not be used for the following activities (see BUPERSINST 1710.11C for other restrictions):
1. Command receptions or for expenses of similar functions incident to the official activation, deactivation or realignment of a command, para. 420l;
  2. For support of aero or sky diving clubs, para. 420o;
  3. To subsidize recycling programs, para. 420q;
  4. For support of religious programs, para. 420s;
  5. For recognition awards, incentive awards, rating badges, wing insignias, and similar items not related to MWR program (except for unit funds), para. 420u; and
  6. For support of activities, and programs unrelated to MWR purposes (crash kits, “welcome aboard” gifts, and retirement/farewell gifts), para. 420v.

### **VIII. FUNDING PROGRAMS FOR CONSTRUCTION.**

- A. APF support for construction of MWR facilities is generally determined by the category of the MWR activity.
- B. Construction to support MWR programs are funded either from APF or NAF construction programs as specified in AR 215-1, Appendix E. Requirements associated with category A programs will be funded from APF construction programs; generally, those for category B and C programs will be funded from NAF construction programs unless other specified in AR 215-1, Appendix E. AR 215-1, para. 15-4b.
- C. For a discussion of the NAF construction program and APF v. NAF funding, see AR 215-1, Section II (Construction Planning).

## **IX. NAF FISCAL ISSUES.**

### **A. Contingency Operations.**

1. MWR programs are mission essential to combat readiness. They contribute to successful military operations by promoting individual physical and mental fitness, morale, unit cohesion, and esprit de corps, and by alleviating mission-related stress. Joint Pub 1-0, Personnel Support to Joint Operations, 24 OCT 2011, Chapter 2, para 3b(10) (discussing planning and execution of MWR in a contingency setting).
2. MWR support for contingency operations will be funded by Service component commands through appropriated funds. AR 215-1, para. 9-1*b*.

### **B. DOD MWR Funding Policy. DOD has several funding policies designed to give MWR managers funding flexibility.**

1. MWR Utilization, Support, and Accountability (USA) Program—AR 215-1, para. 5-2.
  - a. Applicable to MWR entities not participating in the Uniform Funding and Management Program.
  - b. Allows garrison commanders and APF and NAF resource managers to execute a memorandum of agreement to use NAFs to provide APF-authorized services in support of MWR programs, with subsequent payment to the NAFI/entity for these services from APFs.
  - c. May be used to finance personnel services, supplies, furniture, fixtures and equipment, routine maintenance, and other operating expenses of MWR programs (Program Group I), the exchange service (Program Group II), Stars and Stripes (Program Group V), and the U.S. Military Academy mixed-funded athletic or recreational extracurricular programs (Program Group V). MWR USA may not be used for construction.

- d. NAFIs must keep an accounting of the funds. The MWR USA program will not be used to extend the availability of APFs. If the NAFI will not obligate the funds before they expire, the NAFI must return the funds for obligation elsewhere.
2. Uniform Funding and Management (UFM) Program, AR 215-1, para. 5-3.
- a. UFM is the merging of APFs and NAFs for the purpose of providing MWR support services under a single set of rules and procedures in order to reduce duplication of cost and provide better visibility on MWR program costs.
  - b. Under the program, APFs are expended using NAF rules for MWR programs authorized APF support to promote efficiencies. The purpose is to facilitate procurement of property and services for MWR, management of employees used to carry out the programs, and financial reporting and management.
  - c. The practice of UFM results in no increase or decrease to the funding of MWR. It is an alternate means of execution.
  - d. UFM Involves:-
    - (1) Preparation of a MOA between the APF resource manager and MWR manager outlining the APF authorized MWR service to be performed by the NAFI location, the APF funding, and the up-front payment schedule.
    - (2) The MOA serves as the basis for creating the APF obligation and forwarding the money to the NAFI.
    - (3) MWR management employs NAF rules and procedures in execution of the services authorized APF and funded via the MOA.

- (4) Expenditures authorized APF and paid in accordance with the UFM process are recorded in a specially coded department on the NAF financial statement.
- (5) At year-end, the MWR expenses authorized APF must equal or exceed the UFM income. Any recorded expenses excess to the amount of APF provided as a result of the MOA are termed APF shortfall.

C. Use of NAF employees to perform APF functions.

1. An example is using a NAF contracting officer to perform APF contract actions.<sup>2</sup>
2. This constitutes augmentation of appropriations and violates the Antideficiency Act.
3. Use of APF employees to perform NAF functions beyond those which are authorized. This violates the Purpose Statute and the Antideficiency Act.

D. Golf Courses.

1. Unless the DoD golf course is located outside the United States or designated as a remote and isolated location, APFs may not be used to equip, operate, or maintain it. 10 U.S.C. § 2491a; see also Prohibition on Use of APF for Defense Golf Courses, B-277905, Mar. 17, 1998 (APFs cannot be used to install or maintain “greywater” pipelines on an Army golf course).

E. MWR patronage eligibility.

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<sup>2</sup> Note that this does not include acquisitions accomplished through UFM or MWR USA. Congress statutorily authorized both of these funding mechanisms.

1. See DODI 1015.10, Encl. 4, table 1. Programs are established primarily for military personnel, but 28 categories of authorized patrons are listed in Table 6-1 of AR 215-1, Chapter 6. Before expanding the patron base for MWR usage, consider such things as congressional and regulatory requirements, and affect on customer service. MWR programs may be opened up to additional guests under limited circumstances. See AR 215-1, para. 7-2.

F. Public Private Ventures (PPV).

1. Private sector built, operated and maintained facilities or services on installations in exchange for discounted fees and/or an equitable return to the garrison MWR operating entity. FMWRC is the sole Army agency authorized to award MWR PPV contracts. See DODI 1015.13; AR 215-1, para. 15-12.
2. In order to meet MWR requirements, installations may identify activities that are unavailable through normal funding sources and that may be met by the private sector. The FMWRC negotiates and executes all Army PPV contracts, and coordinates with the Corps of Engineers who leases the land under the authority of 10 U.S.C. § 2667. The contractor builds and operates the facility at its expense, and the garrison MWR operating entity receives a percentage of gross revenue.
3. Requires approval/coordination with Service MWR headquarters and an extensive local survey prior to approval. Congress notified by DoD.

G. Advertising.

1. MWR programs communicate their presence and availability of goods and services they offer to as many potential patrons as they can. The advertising will not reflect adversely on the DoD, the Army, other DoD components, or the Federal Government. DODI 1015.10, Encl. 12, para. 1; AR 215-1, para. 11-1.
2. MWR programs and other NAFIs may sell space for commercial advertising in any NAFI/entity media. DODI 1015.10, Encl. 12, para. 1; AR 215-1, para. 11-2.

- a. Advertising will be rejected if it undermines or appears to undermine an environment conducive to successful mission performance and preservation of loyalty, moral and discipline. AR 215-1, para. 11-2(b)(1).
- b. Advertising will not contain anything in it that might be illegal or contrary to DoD or Army regulations. AR 215-1, para. 11-2(b)(2).
  - (1) Discrimination;
  - (2) Prohibition against soliciting membership in private groups;
  - (3) Endorsement of political positions; partisan political items, or political advertisements;
  - (4) Favoring one group over another; or
  - (5) Games of chance, including casinos and Indian tribe gaming.

H. Commercial Sponsorship.

- 1. Commercial sponsorship is a contractual agreement between the military and the sponsor. The military provides access to its advertising market, and the sponsor provides support to an event. DODI 1015.10, Encl. 11; AR 215-1, para. 11-6.
- 2. Commercial Sponsorship is either solicited or unsolicited and is only authorized for support of DoD MWR programs listed at Enclosure 11 of DODI 1015.10. Commercial sponsorship is not authorized for military open house programs. AR 215-1, para. 11-7.
- 3. All commercial sponsorship agreements must be in writing and **must** receive legal review prior to entering the agreement and prior to signature of the parties. AR 215-1, para. 11-9.

- a. Provisions for termination of agreements, force majeure (e.g. acts of God), and assignment will be included in the agreement.
  - b. The commercial sponsorship will certify in writing that sponsorship costs will not be chargeable in any way to any part of the Federal Government.
4. The Army will not solicit commercial sponsorship from companies in the tobacco, beer, or alcoholic industries. AR 215-1, para.11-11b.
  - a. Unsolicited sponsorship may be accepted.
  - b. A responsible use campaign (beer, alcohol) and the Surgeon General's warning (tobacco) will be incorporated in any print media.
5. Officials responsible for procurement or contracting will not be directly or indirectly involved with the solicitation of commercial sponsors. AR 215-1, para. 11-13.

**Nonappropriated fund instrumentalities:  
financial management and use of nonappropriated funds**

(a) Regulation of management and use of nonappropriated funds. The Secretary of Defense shall prescribe regulations governing--

(1) the purposes for which nonappropriated funds of a nonappropriated fund instrumentality of the United States within the Department of Defense may be expended; and

(2) the financial management of such funds to prevent waste, loss, or unauthorized use.

(b) Penalties for violations.

(1) A civilian employee of the Department of Defense who is paid from nonappropriated funds and who commits a substantial violation of the regulations prescribed under subsection (a) shall be subject to the same penalties as are provided by law for misuse of appropriations by a civilian employee of the Department of Defense paid from appropriated funds. The Secretary of Defense shall prescribe regulations to carry out this paragraph.

(2) The Secretary shall provide in regulations that a violation of the regulations prescribed under subsection (a) by a person subject to chapter 47 of this title (the Uniform Code of Military Justice) is punishable as a violation of section 892 of this title (article 92 of the Uniform Code of Military Justice).

(c) Notification of violations.

(1) A civilian employee of the Department of Defense (whether paid from nonappropriated funds or from appropriated funds), and a member of the armed forces, whose duties include the obligation of nonappropriated funds, shall notify the Secretary of Defense of information which the person reasonably believes evidences--

(A) a violation by another person of any law, rule, or regulation regarding the management of such funds; or

(B) other mismanagement or gross waste of such funds.

(2) The Secretary of Defense shall designate civilian employees of the Department of Defense or members of the armed forces to receive a notification described in paragraph (1) and ensure the prompt investigation of the validity of information provided in the notification.

(3) The Secretary shall prescribe regulations to protect the confidentiality of a person making a notification under paragraph (1).

APPENDIX A