



DEPARTMENT OF THE NAVY  
UNITED STATES NAVAL ACADEMY  
121 BLAKE ROAD  
ANNAPOLIS MARYLAND 21402-1300

USNAINST 7010.3A  
4/NABSD

12 MAR 2012

USNA INSTRUCTION 7010.3A

From: Superintendent

Subj: UNITED STATES NAVAL ACADEMY (USNA) NONAPPROPRIATED FUND (NAF) POLICY

Ref: (a) DOD INST 1015.15  
(b) SECNAV INST 5401.2A  
(c) CNO Action Memo Ser N00/100144 of 10 Dec 10  
(d) DOD INST 1015.13  
(e) DOD 7000.14-R  
(f) USNAINST 4001.5A  
(g) Financial Accounting Standard No. 130  
(h) Part 1315 of Title 5, Code of Federal Regulations  
(i) DOD INST 7600.6  
(j) SECNAVINST 7510.7F  
(k) DOD DIR 7050.1  
(l) USNAINST 5200.4B  
(m) Section 1692 of Title 15, United States Code  
(n) Section 552a of Title 5, United States Code  
(o) DOD INST 1400.25  
(p) Fiscal Oversight MOA Between CNIC and USNA Ser 4-313 of 25 Jan 11  
(q) USNAINST 7010.2C  
(r) CNICINST 5300.2  
(s) Employee Benefit MOA Between CNIC and USNA Ser 4-312 of 28 Jan 11  
(t) BUPERSINST 1710.11  
(u) Sec Def memo of 31 Mar 11, Subj: Track Fair Efficiency Decisions

Encl: (1) United States Naval Academy Nonappropriated Fund (NAF) Organization  
(2) Naval Academy Business Services Division (NABSD)  
(3) Midshipmen Welfare Fund (MWF)  
(4) Midshipmen Ration Account (MRA)  
(5) Naval Academy Preparatory School (NAPS) Battalion Activities Fund (BAF)  
(6) Candidate Guidance Fund (CGF)  
(7) Authorized and Unauthorized Uses of NAFs

1. Purpose. To revise and reissue USNA NAF policy. This instruction incorporates review comments from the Assistant Secretary of the Navy (Manpower & Reserve Affairs) (ASN(M&RA)) and the Commander Navy Installation Command (CNIC) fiscal oversight team.

2. Cancellation. USNAINST 7010.3

3. Applicability. This instruction applies to all NAF activities for which the Superintendent, USNA is program manager.

4. Discussion. The Superintendent is the program manager of five Nonappropriated Fund Instrumentalities (NAFIs): Naval Academy Business Services Division (NABSD), Midshipmen Welfare Fund (MWF), Midshipmen Ration Account (MRA), Naval Academy Preparatory School (NAPS) Battalion Activities Fund (BAF) and Candidate Guidance Fund (CGF). These five NAFIs are classified as Program Group V – Supplemental Mission Funds.

5. Responsibilities. The Superintendent retains overall responsibility for the operation of these NAFIs in accordance with DoD and DoN regulations. The Deputy for Finance, the Commandant of Midshipmen,

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the Commanding Officer, NAPS and the Dean of Admissions are responsible for providing oversight of the NAFIs and NAF activities operating under their cognizance in accordance with this policy and references (a) through (s). They will also provide recommendations to heads of NAFIs in their advisory group capacity. The USNA NAF organization is included as enclosure (1). As necessary, local instructions, policies or procedures should be implemented by Heads of NAFIs in order to ensure compliance with this instruction.

a. Heads of NAFIs. Individual Heads of NAFIs are responsible for financial control of NAF funds and assets; daily operation of NAF activities; personnel management, including establishment of staffing levels; directing NAF procurement processes; facilities management, including capital improvement programs and projects, where applicable; implementation of policies and procedures in order to attain overall NAF program objectives; establishing a financial "dashboard" that can be easily reviewed by the Superintendent; and in some cases, exercising contracting authority as prescribed by the Superintendent. Heads of NAFIs are identified by position below:

- (1) NABSD – Director, NABSD
- (2) MWF – Midshipmen Supply Officer
- (3) MRA – Midshipmen Supply Officer
- (4) NAPS BAF – BAF Officer as assigned by CO, NAPS
- (5) CGF – Director of Admissions

b. Support Functions. Heads of NAFIs are encouraged to collaborate to the maximum extent possible in order to promote efficiencies in support of the broader USNA mission. Specifically, where sufficient functional capacity exists within one NAFI to provide support to others (e.g., procurement), USNA NAFIs should not unnecessarily duplicate such capacity.

6. Advisory Group. A NAF Advisory Group will meet at least two times per year in February and August. The appointed Advisory Group shall ensure USNA's NAFIs are responsive to authorized patrons and to the purpose for which they were created.

a. Advisory Group members shall include:

- (1) USNA Chief of Staff
- (2) USNA Counsel
- (3) USNA Comptroller
- (4) USNA Deputy for Finance

- (a) Delegated NAF budget approval authority by the Superintendent
- (b) Serves as Chairman of the group

- (5) Commandant of Midshipmen
- (6) Commanding Officer, NAPS
- (7) Dean of Admissions

b. Responsibilities of the Advisory Group include:

- (1) Review of annual NAF budgets (August agenda item).

(2) Annual review of NABSD pricing structure for Midshipmen mandatory issue and service charges (February agenda item). This review is required prior to publication of the Midshipmen Stipend and Annual Budget Book.

(a) The annual review will include assuring compliance with requirements of Section 6979 of Title 10, United States Code (U.S.C.).

(b) As of 5 October 1994, no new Midshipmen fees are authorized and any increases in fees require notification to Congress by the Secretary of Defense.

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(3) Annual review of USNA profitability standards for all retail food service activities (August agenda item). In order to support this review the Director, NABSD shall develop specific performance goals for combined USNA retail food service activities. These goals shall be percentage goals based on total combined revenues. Included in these goals are combined cost-of-goods sold, combined labor, combined operating expenses, and overall combined net profit or loss. Goals will be developed on an annual basis and shall be approved by the Deputy for Finance in conjunction with the NABSD budget submission.

c. The Chairman of the Advisory Group shall maintain meeting minutes for all formal sessions. Minutes and an executive summary of findings and recommendations will be forwarded to the Superintendent following each meeting.

7. Treasury Oversight Group. A NAF Treasury Oversight Group shall meet at least two times per year. The appointed group shall review DoN treasury management policies, portfolio objectives, management practices, holdings, strategy, operating results, and approve those policies governing instruments and institutions for investments and borrowing. In accordance with enclosure (9) of reference (a), the group must include a representative from the office of the ASN(M&RA) and an independent financial advisor.

a. Treasury Oversight Group members shall include:

(1) USNA Deputy for Finance (serves as Chairman).

(2) Heads of NAFIs.

(3) Chief Financial Officer, NABSD.

(4) If desired by the Chairman, a representative from the Academic Dean with a strong financial background (e.g., professor of economics).

(5) ASN(M&RA) Representative.

(6) Independent Financial Advisor.

b. Responsibilities of the Treasury Oversight Group include:

(1) Ensure USNA non-appropriated funds are managed in compliance with DoN policies and other guidance regarding safety, liquidity, and yield.

(2) Reviews shall consider policy, shortcomings of policy, and the implications of any changes in fund risk tolerance.

(3) Results of the reviews shall address corrective action taken, if applicable, and shall be reported annually to ASN(M&RA).

c. The Chairman of the Treasury Oversight Group shall maintain meeting minutes for all formal sessions. Minutes and an executive summary of findings and recommendations shall be forwarded to the Superintendent following each meeting. The Chairman is responsible for preparing the annual ASN(M&RA) treasury report.

## 8. Policy

a. Establishment and Oversight of NAFIs. Five NAFIs are established at USNA and have been approved by the Chief of Naval Operations (CNO) pursuant to reference (c) and as detailed in enclosures (1) through (6). The establishment documentation for each NAFI includes its purpose and function, authorized patrons, financial plan and successor NAFI details.

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(1) The CNO is responsible for establishment and disestablishment of NAFIs. An organizational change to enclosures (1) through (6) at the instrumentality level requires CNO approval in accordance with references (a) and (b).

(2) Authorized Patrons. The CNO has authorized the Superintendent to approve patronage policy changes for NABSD. Any significant patronage changes (e.g., opening a NAF activity to the public), however, require CNO notification at least 60 days prior to implementation.

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

(1) All NAF activities within these NAFIs are further classified as funding Category C – Revenue-Generating Activities.

(a) Use of Appropriated Funds (APFs) shall be consistent with section 1301 of Title 31, U.S.C., which requires that funds be used only for the purposes for which appropriated. APFs made available to support operations of Program Group V may do so for Service Academy mixed-funded athletic or recreational extracurricular programs only in accordance with Section 6978 of Title 10, U.S.C. APFs may only be provided to a NAFI under a Memorandum of Agreement (MOA) and treated and expended as NAFs following the procedures in enclosure (6) of reference (a).

(b) APF and NAF funding authorizations for NAFI activities are contained in enclosures (4) and (5) of reference (a). Examples of authorized APF expenses include: Executive Control and Essential Command Supervision (ECECS) of military and civilian personnel; TDY for APF personnel assigned to NAFI programs and activities; utilities and rents; electronic communications in support of command management functions; equipment maintenance; printing and reproduction, except as related to the sale of merchandise or services and internal operations of NAFIs; education and training under certain conditions; legal services; technical advice and assistance; sustainment and restoration; routine grounds maintenance; and supplies and equipment required for ECECS. This is not an all inclusive list, and there are many caveats to the various funding authorizations for NAFI activities. Refer to enclosures (4) and (5) of reference (a) and consult the USNA Comptroller and/or General Counsel if in doubt.

(c) Special note on utilities.

1. APFs are authorized for payment of utilities for all USNA NAF activities.

2. NAFs are authorized for payment of utilities when APFs are not available. However, rates charged shall not include incremental or prorated shares of overhead, maintenance, and repair to utility systems or capital investments in the installation's utility infrastructure systems unless otherwise specified by an MOA or Inter-Service Support Agreement (ISSA).

(2) NAFI Facilities Funding. USNA NAF activities are not authorized APF/MILCON funding for construction of NAFI facilities, except as authorized by law. Use of APFs for Sustainment and Restoration of NAFI facilities is authorized.

(3) Private Resources. Private resources in support of NAFI programs shall be administered in accordance with reference (d). Donations shall be administered in accordance with Volume 12 of reference (e) as well as reference (f). Private Resources may be made available to support operations of any USNA NAFI.

(4) Restrictions on the Use of NAFs. NAFs are to be used only for the general welfare of the military community.

(a) Individuals, units, organizations, or installations shall have no proprietary interest in NAFI funds or other NAFI assets. NAFI funds or assets may not be transferred to private organizations as dividends or other distributions.

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

(c) Enclosure (7) provides examples of common funding authorizations for USNA NAFI activities and whether they are authorized or unauthorized uses of NAFs.

(5) Individual Program Group V NAFIs shall achieve, as a minimum, a break-even or positive net income for each fiscal year sufficient to provide for NAF capital requirements.

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

c. Planning, Programming, and Budgeting. Resources shall be planned, programmed, and budgeted to implement NAFI objectives. Actual performance shall be regularly compared to budgets and action taken to correct unfavorable variances.

(1) APF support of NAFIs shall be planned, programmed, and budgeted in accordance with program and budget review submission procedures in Volumes 2A and 2B of reference (e).

(2) NAF budgets shall be updated annually to provide financial data to managers and leadership for management decision making. The following budgets shall be prepared for each NAFI.

(a) Operating Budgets. The operating budgets shall project NAF income and NAF expenses.

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

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

1. Starting with FY13 budget submissions, cash budgets shall distinguish between cash held for immediate use and funds not required for immediate purposes. In determining funds held for immediate use, NAFIs should not only consider operational cash flow, but should plan for contingencies that may require retention of an appropriate reserve to be available for emergent needs.

2. For the MRA, funds held for immediate use should include sufficient funding to purchase 21 days of rations to assure continuity of operations during periods of unforeseen circumstances that would otherwise disrupt daily food service activities.

(3) Where NAF successor relationships exist from one NAFI to the next (e.g., NABSD as successor to MW), appropriate linkages will be established in budget exhibits to demonstrate the impact to the successor budget.

(4) NAF budget approval process.

(a) Budgets shall be submitted by the Heads of NAFIs via the chain of command to the USNA Comptroller and the Deputy for Finance for review 90 days prior to the new FY.

(b) The Deputy for Finance will provide smooth budgets for review by the Advisory Group at the August meeting.

(c) The Deputy for Finance has been delegated budget approval authority by the Superintendent.

(5) Superintendent's Retained Earnings Account. This NAF account is the sole mechanism for transfer of funds between NAFIs and is maintained by the NABSD accounting office, but under the direction of the USNA Comptroller in order to ensure proper internal controls are in place for receipt of dividends from NABSD and payment of distributions to other NAFIs.

(a) Quarterly distributions for approved budgets shall be made from the account within five business days of the start of each quarter.

(b) Non-budgeted distributions.

1. USNA Comptroller will review the requirement and make a determination of appropriateness for utilization of NAFs and which NAFI's purpose and function best support the expenditure.

2. All expenditures of NAFs shall be within the scope of a NAFI purpose and function at USNA.

3. The Deputy for Finance is the approval authority for all non-budgeted items.

d. Accounting

(1) APF Accounting Systems. APF accounting systems provide financial data to satisfy the accounting and reporting requirements of Volumes 4 and 6A of reference (e).

(2) NAF Accounting Systems. NAF accounting systems must comply with generally-accepted accounting principles in accordance with accounting standards promulgated by the Financial Accounting Standards Board. Accounting records shall provide the detail necessary to report and adequately support the funding categories, activities, and income and expense data as prescribed by enclosure (8) of reference (a). All NAF accounts shall be transparent and fully disclosed. Separate accounting records are required for each NAFI and should take into account the below items.

(a) Restricted Cash and Investments. Cash and investments restricted for non-current purposes shall be classified and reported on the balance sheet as non-current assets. Restricted cash are funds set aside for capital outlays, vehicles, furniture, fixtures, and equipment purchases. The capital expenditure must have been included in the approved budget. In the event funds are not available to cover the entire cost of the capital expenditure at the time of approval, the restricted fund may be increased as funds become available. Cash should be restricted for projects in accordance with a five year recapitalization plan. Restricted cash should be revalidated and approved annually during the budget process. Funds recorded in this account are not available for normal operations and upon completion of an individual project any remaining funds should be returned to operational cash or redistributed to an approved project where cash has not already been restricted.

(b) Dividends and Grants. The declaration of dividends and the distribution of grants shall be recorded and reported as decreases in equity. The receipt of dividends and grants that support recurring operations shall be recorded as non-operating income. The receipt of grants for capital items shall be recorded as equity transactions.

(c) Equity Transactions. Transfers into and out of equity shall be limited to net income; net losses; distribution of grants; prior year material corrections; components of other comprehensive income (loss) prescribed by reference (g); entries associated with the establishment, disestablishment, or consolidation of NAFIs; and distribution and receipt of capital.

(d) Tangible Fixed Assets. Tangible fixed assets purchased with NAFs, or donated or transferred to a NAFI, that have a useful life expectancy of more than two years and an acquisition cost of \$2,500 or more, shall be capitalized in NAF accounting records. USNA shall utilize construction-in-progress to accumulate the cost of real property construction projects. Records for tangible fixed assets shall reflect acquisition cost (or estimated value if acquired by other than purchase), allowance for

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depreciation, and net book value. Acquisition cost includes expenditures necessary to place assets into use such as installation, freight, testing, and initial training costs.

(e) Depreciation and Amortization. Tangible fixed assets shall be depreciated over their expected useful lives. USNA will utilize the straight-line method of depreciation, and shall prescribe the useful lives of assets and disclose them in the notes to the financial statements.

(f) Standard FYs. The FY for all NAFIs begins on 1 October and ends the following year on 30 September.

(g) Uniform Chart of Accounts. NAF accounting systems shall comply with the uniform chart of accounts established in Volume 13 of reference (e) by January 2015. Until that time, accounting systems shall comply with Generally Accepted Accounting Principles (GAAP).

(h) Inventory Valuation. Inventories shall be valued at cost, to include freight, distribution, and purchase discounts. The method for determining cost (e.g., first in first out, last in first out, moving average, etc.) shall be consistently applied and disclosed in the notes to the financial statements.

(i) Prompt Payment Act. NAFIs shall comply with the Prompt Payment Act in accordance with reference (h) and Volume 10 of reference (e).

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

(k) Concessionaire Operations. NAFIs shall disclose net income from concessionaires as operating income on the financial statements.

(l) Reimbursements. USNA shall ensure timely and accurate reimbursements are made when reimbursable transactions are required between NAFs and APFs. APF reimbursable transactions shall be processed according to the procedures in Volume 11A of reference (e).

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

#### e. Reporting

(1) Internal Financial Reporting. Consolidated APF and NAF financial reports shall be issued as often as necessary to be of optimum use to USNA management officials and to meet the standards of fairness of presentation, full disclosure, and timeliness. Reference (b) establishes procedures requiring APF and NAF financial data to be made available as defined in enclosure (7) of reference (a).

(2) Annual Reporting Requirements. Financial and treasury management reports are prepared annually for each Military Service and Joint-Service NAFI. Within the Navy, these two reports are submitted by NAFI program managers to the CNO and are ultimately consolidated by ASN(M&RA) for submission to the Principal Deputy Under Secretary of Defense (Personnel & Readiness). The consolidated financial report shall be based on or be the basis of annual financial statements that comply with the audit requirements of reference (i), which states that annual financial audits shall be conducted for all NAFIs with annual revenues or expenses that exceed \$7 million. This annual financial audit should be contracted with a Certified Public Accounting (CPA) firm. Additionally, reference (j) requires that all contracts for audit services are coordinated with and approved by the Auditor General of the Navy before a solicitation package (or proposed contract) is issued.

(a) The requirement for submittal of consolidated financial reports in accordance with enclosure (8) of reference (a) was cancelled effective 31 March 2011 by reference (u). NABSD and MRA are the

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only two USNA NAFIs that currently meet the greater than \$7 million threshold requiring CPA audits.

(b) USNA's annual NAF treasury management report shall be submitted to the CNO in accordance with enclosure (9) of reference (a) by 1 March each year. The report shall cover the prior calendar year ending 31 December and include all NAFIs and NAF cash and investments managed by USNA.

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

(1) NAF Fiduciary Responsibility. NAF Fiduciary responsibility must be assigned in writing to someone within each NAFI by the Head of the NAFI. Fiduciary responsibility means the person may be held personally responsible (subject to appropriate disciplinary action and assessment of pecuniary liability) for losses suffered due to gross negligence or willful misconduct.

(a) USNA NAFIs shall establish internal policies and procedures necessary to encourage prevention and detection of fraud, waste, and mismanagement. Policies and procedures shall also ensure prompt reporting of suspected violations, proper investigation, and appropriate corrective action.

(b) Suspected violations shall be reported via the CFO, and resolved at the lowest organizational level possible. Individuals reporting NAF-related violations are protected by the Whistleblower Protection Act in accordance with reference (k).

(c) Any criminal activity involving NAFs shall be reported to the Naval Criminal Investigative Service for investigation and prosecution.

(2) Standards of Conduct. The standards of conduct apply to personnel assigned NAF responsibility or assigned to or employed by a NAFI.

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

g. Cash and Investments. NAF accounts shall be maintained in financial institutions that are U.S. Federally insured or designated by the U.S. Treasury and all funds shall be collateralized as required by reference (a). Transactions and investments shall be limited to obligations of organizations or institutions that are sponsored, insured, or backed by a pledge of collateral by the U.S. Government. NAFs on deposit with financial institutions shall be sufficiently liquid to meet requirements and earn a rate of return that, at a minimum, preserves the value of funds invested. Cash and treasury management shall conform to the institutions, investments, procedures, and reporting requirements contained in enclosure (9) of reference (a).

(1) Investment funds shall be audited by an independent CPA or an entity licensed to conduct public audits (no dollar value threshold applies). Additionally, a financial statement audit is required annually for NAFIs with annual revenues or expenses that exceed \$7 million as detailed in paragraph 8e(2) above. A more comprehensive audit to include fund administration and internal controls is required at least biannually. The NAF investment function shall be reported as an assessable unit in the Internal Management Control Program in accordance with reference (l). The statement of assurance and accompanying reports shall be furnished to the investment oversight committee.

(2) Deposits. All cash receipts will be turned in daily and held in a safe overnight. Bank deposits shall be made at a minimum frequency of twice per week. When the amount to be deposited is less than \$100, an activity is permitted to defer the deposit of such small amounts until the amount to be deposited reaches \$100.

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

(1) Debts to NAFIs are obligations to instrumentalities of the U.S. Government. Prompt, efficient action to collect customer debts and other NAFI receivables shall be taken through available voluntary and involuntary means, and to provide collections to the appropriate NAFI.

(2) The decision to issue NAFI-sponsored credit shall not be based on rank or grade. Credit shall be issued based on total family income and commercial credit histories. NAFIs shall obtain commercial credit checks on all new accounts and shall provide both good and bad credit reports to the credit bureaus, consistent with Section 1692 of Title 15, U.S.C, reference (m), and Section 552a of reference (n) (commonly known as the Fair Debt Collection Practices Act and the Privacy Act, respectively).

(a) Commercial credit checks are not required for issuance of credit to Midshipmen as the charges result in a liability against their individual pay accounts.

(b) Commercial credit checks are not required for the Naval Academy Athletic Association, the Naval Academy Alumni Association, nor supported divisions/departments of the Naval Academy itself.

(c) Bad debts will be written off only for those debtors for whom involuntary pay deduction is not effective or authorized, such as persons separated from the service, absentees, deserters, or non-service members. For separating Midshipmen, every effort will be made to collect any pending NAFI indebtedness prior to their completing the official check-out process. Write-offs may be approved by Heads of NAFIs, but only after all other collection efforts have been exhausted and the indebtedness has been submitted to the U.S. Department of Treasury via the Treasury Offset Program (TOP) as authorized by the Debt Collection Act of 1982 and the Debt Collection Improvement Act of 1996.

(3) NAFIs extending credit shall include the credit program in the audit coverage in accordance with reference (i). See paragraph 8h(5) for specific restrictions on extending credit.

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

(5) NABSD is the only NAFI authorized to extend credit, although the MRA may bill supported USNA divisions/departments for meals consumed in King Hall when the practice of purchasing meal tickets in advance would be impractical otherwise (e.g., when a large group of USNA visitors is being hosted by a USNA division/department).

i. Borrowing. Commercial borrowing is not authorized. Inter-NAFI borrowing between USNA NAFIs is authorized. The Deputy for Finance is the approval authority for inter-NAFI borrowing. All borrowing shall be reported as of 31 December of each year as specified in enclosure (9) of reference (a).

j. Severance and Separation Benefits. The Director, NABSD shall establish an equity account based on expected severance or separation benefits due to potential Business Based Actions or other unforeseen circumstances. This equity account will be reviewed annually by the Deputy for Finance in conjunction with the preparation and approval of NAF budgets. Increases to the account will be made if deemed necessary. Use of NAFs to pay for severance or separation entitlements for APF employees is prohibited. Note: APF employees grandfathered as a result of the Trust Fund to NAFI conversion pursuant to Section 6971 of Title 10, U.S.C., are entitled to the special employment status conferred by Section 2105 of Title 5. For these individuals, NAFs may be used for pay purposes, severance or separation entitlements as permitted by law.

k. Installation Closure. Procedures are contained in paragraph 6.12 of reference (a).

l. Disposition of Government Property. Procedures are contained in paragraph 6.13 of reference (a).

m. Retirement Plan Funding. Policies pertaining to the management, investment, and administration of pension plans for NAF employees are contained in reference (o). CNIC is the executive agent for USNA NAFI personnel benefits programs.

n. Regulations and Taxes

(1) Federal Alcoholic Beverage Tax. NABSD is the only NAFI authorized to sell alcohol. NABSD sale of alcohol is authorized for consumption only (i.e., no wholesale or retail sales). Procedures are contained in paragraph 6.16.1 of reference (a).

(2) Federal Taxes Not Applicable. NAFIs are exempt from payment of federal income taxes and are not required to file returns.

(3) State and Local Laws, Regulations and Taxes. NAFIs are not subject to direct taxation, regulation, or control by state or local authorities except when specifically authorized by federal statute.

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

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

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

(7) Further procedures are contained in paragraph 6.16 of reference (a).

o. Distribution of Dividends. All dividends shall be retained by USNA, and distributed as directed by the Superintendent to other USNA NAFIs only.

p. Auditing

(1) Internal Audits and Inspections. The CNO has directed that CNIC perform fiscal oversight of the USNA NAF program. Fiscal oversight will be performed in accordance with reference (p). Additionally, NAFIs are subject to Command Evaluation review at the direction of the Superintendent.

(2) External Audits. Annual financial audits shall be conducted for all NAFIs with annual revenues or expenses that exceed \$7 million. These audits should be contracted with an independent CPA firm. Policy regarding external audits and contracting for external audits is contained in references (i) and (j).

q. Risk Management. Risk management programs, to include self-insurance and commercial coverage, shall be administered for USNA NAFIs by NABSD. NAFIs shall not assume liability for contractors providing services on an installation.

r. Procurement Policy. NAF procurement shall be conducted in accordance with reference (q).

s. Personnel Policy. Management of NAF civilian employees shall be conducted in accordance with references (o) and (r). All USNA NAFIs shall benefit from consolidated Human Resources Management services provided by NABSD. This includes payroll functions, management of benefits, and advertising/filling of positions.

(1) The Superintendent shall delegate classification authority for NF-4 and below positions to a qualified individual within NABSD.

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(2) The Director, NABSD is delegated authority by the Superintendent to implement local pay and incentive policy that supplements reference (r).

(3) CNIC is the executive agent for USNA NAFI personnel benefits programs. Responsibilities are contained in reference (s).

t. Inventory Frequency

(1) NABSD: Minor Property and Fixed Assets – annually. Retail Food Service Activities – monthly. Major Retail Activities (e.g., Midshipmen Store, Gift Shop, and Uniforms) – annually.

(2) MRA: Non-retail Food Service Activity, wall-to-wall inventory – quarterly. Non-retail Food Service Activity, 5% spot inventory – weekly.

(3) MWF, CGF and NAPS BAF: Minor Property and Fixed Assets – annually.

u. Advertising

(1) Paid Advertising

(a) NAF programs may pay to advertise goods, services, entertainment, and social events in DoD newspapers and/or on installation cable television.

(b) NAF programs may also pay to advertise their goods and services in other than DoD newspapers provided the chosen media is circulated to, written for, or geared to, an audience consisting primarily of military or DoD civilian personnel, or other authorized patrons, and not to publications distributed to a more general audience. When advertising in non-DoD publications, a disclaimer shall be used that is similar to “this offer or event is open only to authorized patrons.”

(c) NAF programs may pay to advertise in appropriate civilian media when events are open to the public and when:

1. The events do not directly compete with similar events offered in the local civilian community. Open events shall be coordinated in advance with the local Public Affairs Office.

2. The events are infrequent, not weekly or monthly; increase military and/or civilian interaction; and enhance community relations.

3. Merchandise is not advertised. However, event-related merchandise, food, and beverages may be sold on the premises for consumption.

(2) Sale of Advertising. NAF programs may sell space for commercial advertising in any media (printed, signs, electronic, or .com and .org web-based sites) produced for or prepared by the NAFI program and may accept payment for such advertising provided that:

(a) Publication of paid commercial advertising meets standards similar to those that apply to civilian enterprise publications.

(b) The advertising includes a disclaimer that it does not constitute a DoD endorsement.

(c) No paid commercial advertising on any APF electronic media is used.

(d) Heads of NAFIs make the final decisions on acceptance of advertising, considering public perceptions, and the impact to the local economy.

(e) Advertising in NAF media is based on reaching bona fide users in accordance with established patronage policies.

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(f) The NAF media are not distributed off the base. Mailing to authorized patrons is permitted.

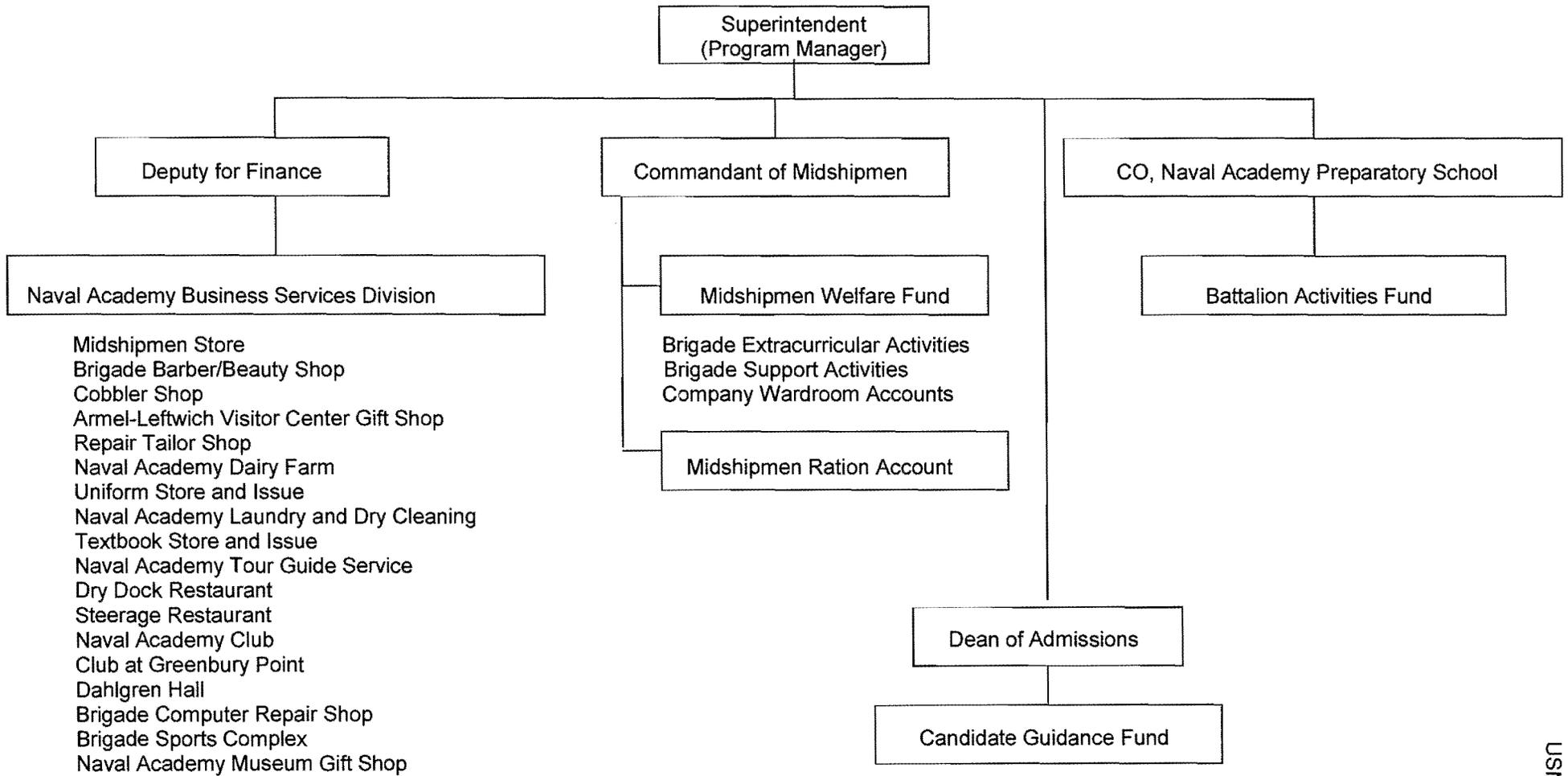
v. Commercial Sponsorship. Establishment of a commercial sponsorship program at USNA is authorized, provided local procedures are developed and implemented in accordance with reference (t).

9. Oversight and Administration. The Deputy for Finance is responsible for the administration and maintenance of this instruction.

/s/  
M. H. MILLER

Distribution:  
All Non Mids (electronically)

**UNITED STATES NAVAL ACADEMY NONAPPROPRIATED FUND (NAF) ORGANIZATION**



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**NAVAL ACADEMY BUSINESS SERVICES DIVISION (NABSD)**

**Purpose and Function:** NABSD operates 18 separate nonappropriated fund (NAF) activities in direct support of the Brigade of Midshipmen and the Naval Academy as the Navy's undergraduate institution. These activities are required to support Midshipmen in the official performance of their duties or provide services for faculty, staff, alumni, and visitors normally found at colleges and universities across the country. For example, one of the primary missions of NABSD is to provide the goods and services required by each Midshipman such as uniforms, textbooks, school supplies, computer equipment, and personal services. These goods and services are required by each Midshipman during his or her time at the Academy. NABSD also provides food service support to Midshipmen during both liberty and non-liberty hours. NABSD functions in a similar manner to campus support services organizations at civilian institutions of higher education.

**Authorized Patrons:** Authorized patronage has been established taking into account several factors as follows: (1) patronage should reflect the unique situation of USNA as the Navy's undergraduate institution, (2) with the exception of food service and visitor services, NABSD activities should not be open to the general public, and (3) patronage should be restrictive so as to not impact on availability and use by Midshipmen. The Superintendent, as the NAF Program Manager, is authorized to approve patronage policy changes as required. The following is the current authorized patronage by activity:

- Midshipmen Store:
- (1) Midshipmen and members of their immediate families.
  - (2) Active duty military personnel attached to USNA and Naval Support Activity (NSA) Annapolis and their dependents.
  - (3) Civilian faculty and staff of USNA and NSA Annapolis and their dependents.
  - (4) Naval Academy Alumni and their dependents.
  - (5) Employees of the Naval Academy Alumni Association & Foundation, the Naval Academy Athletic Association and their dependents.
  - (6) Spouses of deceased Alumni.
  - (7) Members of the Naval Academy Club.
  - (8) Special groups and individuals approved by the Superintendent.

Brigade Barber/  
Beauty Shop:

- (1) Midshipmen.
- (2) Active duty military personnel attached to USNA and NSA Annapolis.
- (3) Others as approved by the Superintendent.

Cobbler Shop:

- (1) Midshipmen.
- (2) Active duty military personnel attached to USNA and NSA Annapolis.
- (3) Civilian faculty and staff of USNA and NSA Annapolis on a not to interfere basis.
- (4) Others as approved by the Superintendent.

Armel-Leftwich  
Gift Shop:

- (1) Open to general visitors to USNA.

Enclosure (2)

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- Repair Tailor Shop:
- (1) Midshipmen.
  - (2) Active duty military personnel attached to USNA and NSA Annapolis.
  - (3) Civilian faculty and staff of USNA and NSA Annapolis on a not to interfere basis.
  - (4) Others as approved by the Superintendent.

- Naval Academy Dairy Farm:
- (1) Not applicable.

- Uniform Store & Issue:
- (1) Midshipmen.
  - (2) Active duty military personnel attached to USNA and NSA Annapolis.
  - (3) Others as approved by the Superintendent.

- Naval Academy Laundry & Dry Cleaning:
- (1) Midshipmen.
  - (2) Active duty military personnel attached to USNA for military uniforms only.

- Textbook Store & Issue:
- (1) Midshipmen.
  - (2) Military and civilian faculty and staff of USNA.

- Naval Academy Tour Guide Service:
- (1) For use by general visitors to USNA.

- Dry Dock Restaurant:
- (1) Open to general visitors to USNA.

- Steerage Restaurant:
- (1) Midshipmen.
  - (2) Active duty military personnel attached to USNA and NSA Annapolis.

- Naval Academy Club:
- (1) All USNA alumni.
  - (2) All active duty and retired military personnel of all services in the grade and rank of E-7 and above.
  - (3) All active and retired civilian members of the USNA faculty.
  - (4) DoD civilian personnel in the graded rating of GS-7 and above for appropriated fund personnel and NF-4 and above for NAF personnel employed by USNA or NSA Annapolis.
  - (5) Retired personnel in category (4) above who were members of the Naval Academy Club upon retirement.
  - (6) Designated employees of the Naval Academy Alumni Association and Foundation and the Naval Academy Athletic Association.
  - (7) Spouses of deceased members may retain membership.

Enclosure (2)

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- (8) First Class Midshipmen.
- (9) Parents of Midshipmen.
- (10) Personnel approved as active sponsors of Midshipmen under the Naval Academy Sponsor Program.
- (11) Blue and Gold Officers, members of the Navy League, Museum Docents, and Visitor Center Tour Guides.
- (12) Others as approved by the Superintendent.

Club at Greenbury  
Point (co-located with  
the USNA golf course):

- (1) Midshipmen and their guests.
- (2) Members of the Naval Academy Golf Association.
- (3) Members of the Naval Academy Club.
- (4) Personnel authorized to play golf at the Naval Academy Golf Course may utilize the facility on the day of play.
- (5) Teams and groups in conjunction with Naval Academy Golf Team matches and tournaments.
- (6) Others as approved by the Superintendent.

Dahlgren Hall:

- (1) Open to general visitors to USNA.

Brigade Computer  
Repair Shop:

- (1) Midshipmen.

Brigade Sports  
Complex:

- (1) Midshipmen.
- (2) Active duty, reservists, and retired military personnel of all services and their families.
- (3) Un-remarried surviving spouses of personnel who died while on active duty or while in a retired status and un-remarried former spouses who were married to military members for at least 20 years while the military member was on active duty in the Armed Forces.
- (4) Department of Defense (DoD) civilians (APF and NAF), both active and retired, and their families have limited access.
- (5) Local leaders as approved by the Superintendent annually.
- (6) Members of the general public may utilize the ice rink and tennis courts when determined by the Superintendent that adequate facilities are available and are underutilized by authorized patrons. This includes support for local school hockey programs, local youth and adult hockey groups, local tennis associations and groups, and open sessions for the local Annapolis community.

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- (7) Employees of the Naval Academy Athletic Association (NAAA) and the Naval Academy Alumni Association and Foundation (NAAA/F) and their families have limited access.

Naval Academy Gift

Shop Museum:

- (1) Open to general visitors to the USNA Museum.

**Financial Plan:** NABSD generates revenues through sales and fees collected from authorized patrons. Each activity within NABSD is designated as a profit and loss center. NABSD maintains a centralized accounting system that provides separate income statements for each activity. Detailed financial statements for each activity are prepared monthly for review by responsible management personnel and the Director, NABSD. Annual financial statements are provided to the Deputy for Finance and the Superintendent. NABSD prepares annual budgets and routinely reviews progress with respect to revenues and expenses. The NABSD accounting system interfaces with the Defense Finance and Accounting System (DFAS) regarding authorized charges against Midshipmen pay accounts. All employees of NABSD activities are compensated with NAF funds. To the extent possible, NABSD is self-supporting with minimal appropriated fund (APF) support. In all cases, APF funding, if provided, is for specific reimbursement for services provided USNA as approved by the Superintendent. The request for establishment of this NAFI is based on a valid requirement for a separate organizational and fiscal entity, the protection and immunities accorded an instrumentality of the U.S. Government are necessary, and there is no prohibition by or conflict with federal statute, Status of Forces Agreements, or other applicable federal regulations.

**Successor NAFI:** Department of the Navy, Central MWR fund.

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**MIDSHIPMEN WELFARE FUND (MWF)**

**Purpose and Function:** The MWF is responsible for assisting the Brigade of Midshipmen by providing opportunities for structured extra-curricular involvement in recreational or other constructive activities at the individual, company, or battalion level. The MWF functions in a similar manner to campus support organizations, including student unions and recreational organizations, at civilian institutions of higher education.

**Authorized Patrons:** Although the programs within the MWF construct, Brigade Extracurricular Activities, Brigade Support Activities, and Company Wardroom Accounts are not structured in a way to lend themselves to a patronage policy per se, funds associated with this Non-Appropriated Funds Instrumentality (NAFI) are dedicated exclusively to programs and activities directly supporting the Brigade of Midshipmen. Where necessary, MWF funds are used to ensure appropriate military or civilian oversight of some structured activities (e.g., officer representation during an away club sporting event). However, such support is viewed as an inherent requirement associated with operating limited aspects of the MWF.

**Financial Plan:** The MWF uses a stand-alone accounting system that provides income statements for the activity of this NAFI. Detailed financial statements are prepared monthly for review by responsible management personnel and the Midshipmen Supply Officer. Annual financial statements are provided to the Commandant of Midshipmen and the Superintendent. Annual budgets are prepared and submitted for review and approval by the USNA Comptroller and the Deputy for Finance. The request for establishment of this NAFI is based on a valid requirement for a separate organizational and fiscal entity, the protection and immunities accorded an instrumentality of the U.S. Government are necessary, and there is no prohibition by or conflict with federal statute, Status of Forces Agreements, or other applicable federal regulations.

**Successor NAFI:** Naval Academy Business Services Division.

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**MIDSHIPMEN RATION ACCOUNT (MRA)**

**Purpose and Function:** The Midshipmen Ration Account is the account used to manage the subsistence allowance prescribed by the Secretary of Defense for Midshipmen. The non-appropriated funds in this account are used to procure the food and food products necessary to provide for the subsistence of Midshipmen. DoD Financial Management Regulations (DoDFMR), Volume 12, Chapter 20 refers.

**Authorized Patrons:** Per the DoDFMR the Superintendent of each Service Academy is authorized to determine who may be authorized to eat in the Academy dining hall. Authorized patrons include: Midshipmen and exchange students assigned to the U.S. Naval Academy. All other "guests" of the dining hall are charged for meals furnished at the rates prescribed by the DoDFMR.

**Financial Plan:** The Navy Personnel Appropriation provides subsistence funds based on the number of Midshipmen present and such funding is received into a Non-Appropriated Fund Instrumentality (NAFI) referred to as the Midshipmen Ration Account. The Midshipmen Ration Account uses a stand-alone accounting system that provides income statements for the activity of this NAFI. Detailed financial statements are prepared monthly for review by responsible management personnel and the Midshipmen Supply Officer. Annual financial statements are provided to the Commandant of Midshipmen and the Superintendent. Annual budgets are not required since ration income is based on the number of Midshipmen present. The request for establishment of this NAFI is based on a valid requirement for a separate organizational and fiscal entity, the protection and immunities accorded an instrumentality of the U.S. Government are necessary, and there is no prohibition by or conflict with federal statute, Status of Forces Agreements, or other applicable federal regulations.

**Successor NAFI:** Naval Academy Business Services Division.

**NAVAL ACADEMY PREPARATORY SCHOOL (NAPS) BATTALION ACTIVITIES FUND (BAF)**

**Purpose and Function:** The BAF is the sole nonappropriated fund used to support NAPS mission. The fund provides for goods and services required by each Midshipman Candidate, such as textbooks, computer equipment, and NAPS personal physical training gear. In addition, the fund provides opportunities for structured extra-curricular involvement in recreational or other constructive activities at the individual, company, or battalion level.

**Authorized Patrons:** BAF funds are dedicated exclusively to programs and activities directly supporting NAPS Midshipman Candidates. Where necessary, BAF funds are used to ensure appropriate military or civilian oversight of some structured activities (e.g., supervision on a New York City trip and the Army-Navy football game).

**Financial Plan:** The BAF uses a stand-alone accounting system that provides a balance sheet and income statement for the activity of this Nonappropriated Fund Instrumentality (NAFI). Detailed financial statements are prepared monthly for review by responsible management personnel and the NAPS CO. Annual financial statements are provided to the Superintendent. Annual budgets are prepared and submitted for review and approval by the NAPS CO. The request for establishment of this NAFI is based on a valid requirement for a separate organizational and fiscal entity, the protection and immunities accorded an instrumentality of the U.S. Government are necessary, and there is no prohibition by or conflict with federal statute, Status of Forces Agreements, or other applicable federal regulations.

**Successor NAFI:** Naval Academy Business Services Division.

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**CANDIDATE GUIDANCE FUND (CGF)**

**Purpose and Function:** The CGF is the sole non-appropriated fund used to support the Dean of Admissions' mission. The fund acts as a collection and disbursing agent for various initiatives sponsored by the Office of Admissions for expenses incurred in connection with all Admissions Strategic Outreach activities through the collection and disbursement of program registration fees. Sponsored activities using the fund include the Naval Academy Summer Seminar (NASS) Program; Science, Technology, Engineering and Math (STEM) Program; and other Strategic Outreach programs.

**Authorized Patrons:** Although the programs within the CGF construct are not structured in a way to lend themselves to a patronage policy per se, funds associated with this Non-Appropriated Funds Instrumentality (NAFI) are dedicated exclusively to programs and activities directly supporting the Office of Admissions Outreach Programs and annual conferences. Where necessary, CGF funds are used to ensure appropriate Admissions staff oversight of some structured activities (e.g., civilian and/or military staff participation in supported activities). However, such support is viewed as an inherent requirement associated with operating limited aspects of the CGF.

**Financial Plan:** Detailed financial statements are prepared monthly for review by responsible management personnel and the Director and/or Dean of Admissions. Annual financial statements are provided to the Dean and Director of Admissions and the Superintendent. Annual budgets are prepared and submitted for review and approval by the USNA Comptroller. The request for establishment of this NAFI is based on a valid requirement for a separate organizational and fiscal entity, the protection and immunities accorded an instrumentality of the U.S. Government are necessary, and there is no prohibition by or conflict with federal statute, Status of Forces Agreements, or other applicable federal regulations.

**Successor NAFI:** Naval Academy Business Services Division.

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**AUTHORIZED AND UNAUTHORIZED USES OF NAFS**

1. Purpose. The below is promulgated to highlight the many types of activities and functions that may, or may not receive the benefit of NAF support from USNA's five NAFIs. This is not intended to be an all inclusive listing. APF and NAF funding authorizations for NAFI activities are contained in enclosures (4) and (5) of reference (a).

2. Clarification. In instances where the appropriate use of NAF resources is in question, heads of NAFIs should contact the USNA Comptroller to seek clarification prior to obligation of funds. Where formal legal consideration of a specific use of funds is deemed necessary, an opinion from the USNA Counsel or Staff Judge Advocate should be obtained.

<b>Naval Academy Business Services Division (NABSD)</b>	
<b>Authorized Uses</b>	<b>Unauthorized Uses</b>
Improvements or enhancements to business practices that directly support the Brigade of Midshipmen, such as: implementation of the Yard Card program, software upgrades that allow on-line access to financial information, and informational and/or spirit related displays.	Expenses outside the purpose and function for which the NAFI was established.
APF employees grandfathered as a result of the Trust Fund to NAFI conversion pursuant to Section 6971 of Title 10, USC, are entitled to special employment status conferred by Section 2105 of Title 5. For these individuals, NAFs may be used for pay purposes, severance or separation entitlements as permitted by law.	
<b>Midshipmen Welfare Fund (MWF)</b>	
<b>Authorized Uses</b>	<b>Unauthorized Uses</b>
Reimbursable funding provided to the Naval Academy Athletic Association IAW operating agreement for support of brigade sports activities and club sports.	NAFs or assets may not be transferred to private organizations as dividends or other distributions.
Broad support of ECAs, including those clubs with membership based on like-minded religious views, e.g. Catholic Midshipmen Club, Protestant Midshipmen Club, etc.	Support of religious programs or activities; contributions to Religious Offering Funds.
Commencement and commissioning garden parties held for Midshipmen and their families during graduation week.	Command representation or protocol functions.
Expenditures that provide general benefit to the Brigade at large including social events, e.g. balls, concerts, etc.; provision of light refreshments during academic and other yard-wide special events; and other expenses associated with providing for the general welfare of the military community.	Proprietary use for individuals, units, or other organizations.
Away game attendance support for various institutional athletics events to include the funding of corresponding social activities such as tailgaters and the purchase/distribution of "spirit-related" items where deemed appropriate.	Tailgater admission for individuals outside the defined military community.

<b>Midshipmen Ration Account (MRA)</b>	
<b>Authorized Uses</b>	<b>Unauthorized Uses</b>
Subsistence items only.	Non-subsistence item expenditures.
<b>Candidate Guidance Fund (CGF)</b>	
<b>Authorized Uses</b>	<b>Unauthorized Uses</b>
Collection of registration fees for execution of Strategic Outreach programs; including NASS and STEM programs; Candidate Visit Weekends (CVWs); Centers of Influence (COI) visits.	
Travel expenses associated with outreach program initiatives.	Travel expenses outside the purposes for which the NAFI was established.
Postage expenses associated with outreach program.	Postage expenses outside the purposes for which the NAFI was established.
Scholarships associated with execution of Strategic Outreach programs.	Scholarships outside the purposes for which the NAFI was established.
<b>Naval Academy Preparatory School Battalion Activities Fund (NAPS BAF)</b>	
<b>Authorized Uses</b>	<b>Unauthorized Uses</b>
Textbooks, cruisebooks and educational supplies.	
Various extra-curricular activities for Midshipmen candidates, such as: Battalion NYC trip, approved sporting events, approved military appreciation events, and approved community relations events.	Community relations events not attended by Midshipmen candidates.
Uniform items and physical education gear.	
Award/recognition items for Midshipmen candidates.	Award/recognition items for non-Midshipmen candidates.
Various command events (Midshipmen candidate attendance), such as: graduation ball and dining-in.	Command event expenses not attended by midshipmen candidates.