



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

USNAINST 7010.3B
4/NABSD
15 Mar 2017

USNA INSTRUCTION 7010.3B

From: Superintendent, U.S. Naval Academy

Subj: U.S. NAVAL ACADEMY NONAPPROPRIATED FUND POLICY

Ref: (a) DoD Instruction 1015.15
(b) SECNAV Instruction 5401.2A
(c) CNO Action Memo Ser N00/100144 of 10 Dec 10
(d) DoD Instruction 1015.10
(e) DoD Instruction 1015.13
(f) DoD Instruction (FMR) 7000.14-R
(g) USNA Instruction 4001.5C
(h) Financial Accounting Standard No. 130
(i) 5 CFR (Code of Federal Regulations) 1315-Prompt Payment
(j) DoD Instruction 7600.6
(k) SECNAVINST 7510.7G
(l) DoD Directive 7050.6
(m) USNA Instruction 5200.4C
(n) 15 U.S. Code § 1692
(o) 5 U.S. Code § 552
(p) DoD Instruction 1400.25
(q) Fiscal Oversight MOA between CNIC and USNA Ser 28/291 of 16 May 16
(r) USNA Instruction 7010.2C
(s) CNIC Instruction 5300.2
(t) Employee Benefit MOA between CNIC and USNA Ser N00/14U89118 of 18 Jul 14
(u) CINC Instruction 1710.3

Encl: (1) U.S. Naval Academy Nonappropriated Fund Organization
(2) Naval Academy Business Services Division
(3) Midshipmen Welfare Fund
(4) Midshipmen Ration Account
(5) Naval Academy Preparatory School Battalion Activities Fund
(6) Candidate Guidance Fund
(7) Authorized and Unauthorized Uses of Nonappropriated Funds

1. Purpose. To revise and reissue U.S. Naval Academy (USNA) Nonappropriated Fund (NAF) policy. This instruction incorporates changes made to various Department of Defense (DoD),

Department of the Navy (DON), and Commander Navy Installation Command (CNIC) instructions since March 12, 2012.

2. Cancellation. USNAINST 7010.3A

3. Scope and Applicability. This instruction applies to all NAF activities for which the Superintendent, USNA is the 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 operating these NAFIs per DoD and DON regulations. The Deputy for Finance, the Commandant of Midshipmen, the NAPS Commanding Officer, and the Dean of Admissions are responsible for providing oversight of the NAFIs and NAF activities operating under their cognizance per this policy and references (a) through (u). 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 establishing staffing levels; directing NAF procurement processes; facilities management, including capital improvement programs and projects, where applicable; implementing policies and procedures 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 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. The 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
- (8) Executive Director for Strategy

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, other than inflation, in existing fees require notification to Congress by the Secretary of Defense.
- (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 and pricing strategies for retail operations. 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. Club Membership numbers will also be reviewed to gauge applicant interest as well as affordability. Sales and promotions to increase patronage and profitability will be left to the NABSD Director's discretion to achieve the desired objectives.

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. Investment Funds. Each NAFI within USNA should have an approved current requirements policy and all funds in excess of the local NAFI requirements should be invested with the CNIC centralized nonappropriated funds investment program administered by CNIC N94. The investment status will be reported to the USNA NAF Advisory Board at the semi-annual review.

8. Policy

a. Establishment and Oversight of NAFIs. The Chief of Naval Operations (CNO) is responsible for establishing and disestablishing NAFIs.

(1) Five NAFIs are established at USNA and have been approved by the CNO pursuant to reference (c) and as detailed in enclosures (2) through (6). The establishment documentation for each NAFI includes its purpose and function, authorized patrons, financial plan, and successor NAFI details.

(2) An organizational change to a NAFI requires CNO approval per references (a) and (b).

(3) Authorized Patrons. The Superintendent is authorized to approve patronage policy associated with the five USNA NAFIs per reference (d).

b. Using 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 NAFIs may do so for Service Academy mixed-funded athletic or recreational extracurricular programs only per 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

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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 selling 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 or General Counsel if in doubt.

(c) Special note on utilities.

1. APFs are authorized to pay utilities for all USNA NAF activities.

2. NAFs are authorized to pay 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 for APF or military construction (MILCON) funding for constructing NAFI facilities, except as authorized by law. Using APFs to sustain and restore NAFI facilities is authorized.

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

(4) Restrictions on using 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.

(b) NAFs are not authorized to be used for or to support command representation or protocol functions; scholarships, free mailing 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 (FY) 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 per program and budget review submission procedures in Volumes 2A and 2B of reference (f).

(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, as applicable.

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

(b) Capital Budgets. Expenditures shall be budgeted for acquiring and replacing fixed assets and constructing, sustaining, restoring, and modernizing 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. 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 retaining 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 MWF), 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.

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 (f).

(2) NAF Accounting Systems. NAF accounting systems must comply with generally-accepted accounting principles per 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 per 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 (h); 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 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 (f).

(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 per reference (i) and Volume 10 of reference (f).

(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 per Volume 13 of reference (f).

(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 (f).

(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 Assistant Secretary of the Navy (Manpower and Reserve Affairs) 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 (j), which states that annual financial audits shall be conducted for all NAFIs with annual revenues or expenses that exceed \$10 million. This annual financial audit should be contracted with a Certified Public Accounting (CPA) firm. Additionally, reference (k) 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) NABSD and MRA are the only two USNA NAFIs that currently meet the greater than \$10 million threshold requiring CPA audits.

(b) USNA's annual NAF treasury management report shall be submitted to the CNO per 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. Managing Resources. Managing 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 per reference (l).

(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 a reasonable assurance of the effectiveness of the organization, efficiency and economy of operations, safeguarding of

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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 (m) 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 \$10 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 per reference (m).

(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 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 (n), and Section 552a of reference (o) (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.

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(b) Commercial credit checks are not required for the Naval Academy Athletic Association, the Naval Academy Alumni Association, or supported USNA divisions and departments.

(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 official check-out. Write-offs may be approved by Heads of NAFIs, but only after all other collection efforts have been exhausted. If circumstances warrant, unresolved indebtedness may be 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 per reference (j). 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 and departments, as well as the Naval Academy Athletic Association and Alumni Association, 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 or 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. Using 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 (p). 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 paying 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 paying 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 U.S. 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 received from the CNIC centralized NAF investment program shall be retained by USNA NAFI's and reinvested in the CNIC centralized NAF investment fund.

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 per reference (q). Additionally, NAFIs are subject to USNA Inspector General 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 \$10 million. These audits should be contracted with an independent CPA firm. Policy regarding external audits and contracting for external audits is contained in references (j) and (k).

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 per reference (r).

s. Personnel Policy. Managing NAF civilian employees shall be conducted per references (p) and (s). All USNA NAFIs shall benefit from consolidated Human Resources Management services provided by Deputy for Finance in support of NABSD. This includes payroll functions, managing benefits, and advertising and filling positions.

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

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

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

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 on installation cable television.

(b) NAF programs may also pay to advertise their goods and services in non-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 or civilian interaction; and enhance community relations.

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

(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 accepting advertising, considering public perceptions, and the impact to the local economy.

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

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

v. Commercial Sponsorship. Establishing a commercial sponsorship program at USNA is authorized, provided local procedures are developed and implemented per reference (u).

9. Records Management. Records created as a result of this notice, regardless of media or format, must be managed per Secretary of the Navy Manual 52 10.1 of January 2012.

10. Review and Effective Date. The NABSD will review this instruction annually on the anniversary of the effective date to ensure applicability, currency, and consistency with Federal, DoD, SECNAV, and Navy policy and statutory authority using OPNAV 52 15/40

Review of Instruction. This instruction will automatically expire five years after the effective date unless reissued or otherwise canceled prior to the five-year anniversary date, or an extension has been granted.

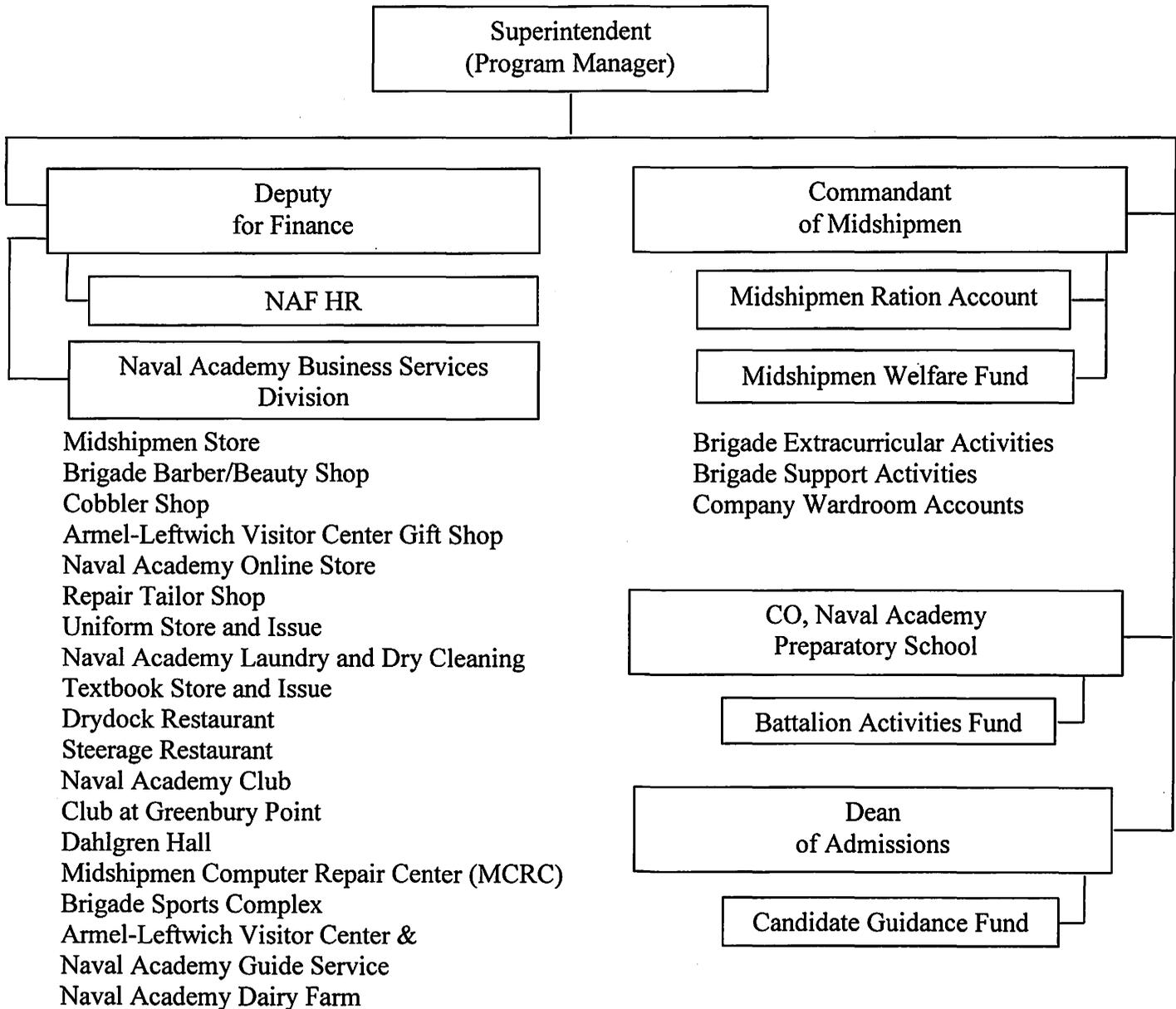


W. E. CARTER, JR

Releasability and distribution:

This instruction is cleared for public release and is available electronically only via USNA's Intranet Web site, <https://www.usna.edu/AdminSupport/Inst/>.

U.S. NAVAL ACADEMY NONAPPROPRIATED FUND ORGANIZATION



NAVAL ACADEMY BUSINESS SERVICES DIVISION

Purpose and Function: NABSD operates 18 separate Non-Appropriated Fund (NAF) activities in direct support of the Brigade of Midshipmen and the Naval Academy as the Navy's undergraduate educational 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 retail goods and services required by each midshipman such as uniforms, textbooks, school supplies, computer equipment, and personal services. These retail goods and services are necessary for each midshipman during his or her time at USNA. NABSD also provides retail 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 educational institution, (2) with the exception of food service, visitor services (including tours, gift shop and online store), and the Brigade Sports Complex, NABSD activities should not be open to the general public, and (3) patronage should be restrictive so as to not impact availability and use by midshipmen. The Superintendent, as the NAF Program Manager, is authorized to approve patronage policy changes as required and per DoD Instruction 1015.10. The following is the current authorized patronage by activity:

1. Midshipmen Store:

- a. Midshipmen and members of their immediate families.
- b. Active duty and retired uniformed personnel (Navy, Marine Corps, Army, Coast Guard, and Air Force) and their dependents.
- c. Civilian faculty and staff of USNA and NSA Annapolis and their dependents.
- d. Naval Academy Alumni and their dependents.
- e. Employees of the Naval Academy Alumni Association and Foundation, the Naval Academy Athletic Association (NAAA), the Naval Academy Business Service Division, the U.S. Naval Institute, and their dependents (retired personnel with 20 years of service from these establishments remain eligible along with their dependents).
- f. Spouses of deceased Alumni.
- g. Members of the Naval Academy Club.
- h. Blue and Gold Officers.
- i. Personnel approved as sponsors of midshipmen under the Naval Academy Sponsor Program during scheduled Sponsor Appreciation shopping periods.

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- j. Retired USNA Professor Emeritus.
 - k. DoD civilians on a limited basis (M-F when visiting USNA staff and faculty during the academic year and when the store is open during weekends and summer break).
 - l. Honorably discharged veterans with 100% service connected disability and Medal of Honor recipients.
 - m. Special groups and individuals approved by the Superintendent.
2. Brigade Barber and Beauty Shop:
- a. Midshipmen.
 - b. Active duty military personnel attached to USNA and NSA Annapolis.
 - c. Civilian staff of USNA on a not to interfere basis (Bancroft Hall Common Access Card (CAC) access or escort required).
 - d. Others as approved by the Superintendent.
3. Cobbler Shop:
- a. Midshipmen.
 - b. Active duty military personnel attached to USNA and NSA Annapolis.
 - c. Civilian faculty and staff of USNA and NSA Annapolis on a not to interfere basis (Bancroft Hall CAC access or escort required).
 - d. Others as approved by the Superintendent.
4. Armel-Leftwich Gift Shop/Online Store: Open to general visitors to USNA.
5. Repair Tailor Shop:
- a. Midshipmen.
 - b. Active duty military personnel attached to USNA and NSA Annapolis.
 - c. Civilian faculty and staff of USNA and NSA Annapolis on a not to interfere basis. (Bancroft Hall CAC access or escort required).
 - d. Others as approved by the Superintendent.

6. Naval Academy Dairy Farm: Navy Goats, official mascots as required.
7. Uniform Store & Issue:
 - a. Midshipmen.
 - b. Active duty military personnel attached to USNA and NSA Annapolis (Bancroft Hall CAC access or escort required).
 - c. Others as approved by the Superintendent.
8. Naval Academy Laundry & Dry Cleaning:
 - a. Midshipmen.
 - b. Active duty military personnel attached to USNA.
 - c. Organizations in support of the Brigade of Midshipmen (e.g., Brigade Medical and Midshipmen Food Services).
 - d. NABSD service organizations (e.g., Naval Academy Club and Barbershop).
 - e. Other NAF organizations (e.g., Navy Gateway Inns and Suites)
9. Textbook Store & Issue:
 - a. Midshipmen.
 - b. Military and civilian faculty and staff of USNA (Bancroft Hall CAC access or escort required).
10. Armel-Leftwich Visitor Center & Naval Academy Guide Service: Open to general visitors of the USNA.
11. Drydock Restaurant: Open to general visitors to USNA.
12. Steerage Restaurant:
 - a. Midshipmen.
 - b. USNA staff (Bancroft Hall CAC access or escort required).
13. Naval Academy Club (membership eligibility):

- a. All USNA alumni.
- b. All active duty and retired military personnel of all services in the grade and rank of E-7 and senior.
- c. All active and retired civilian members of the USNA faculty.
- d. DoD civilian personnel in the graded rating of GS-7 and senior for appropriated fund personnel and NF-3 and senior for NAF personnel.
- e. Retired personnel in category (4) above.
- f. Designated employees of the Naval Academy Alumni Association and Foundation, the NAAA, and the U.S. Naval Institute.
- g. Spouses of deceased members may retain membership.
- h. Midshipmen.
- i. Parents and siblings of midshipmen.
- j. Personnel approved as sponsors of midshipmen.
- k. Blue and Gold Officers, Naval Academy Golf Association (NAGA) members, members of the Navy League, Museum Docents, and Visitor Center Tour Guides.
- l. Retired USNA Professors Emeritus.
- m. Others as approved by the Superintendent.

Note: Dining is open to general visitors to USNA during lunch hours. A change in midshipman status (e.g., commissioning) does not affect membership eligibility of sponsors or parents.

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

- a. Midshipmen.
- b. Members of the Naval Academy Golf Association.
- c. Members of the Naval Academy Club.
- d. Personnel authorized to play golf at the Naval Academy Golf Course may utilize the facility on the day of play.
- e. Teams and groups in conjunction with Naval Academy Golf Team matches and tournaments.

f. Others as approved by the Superintendent.

15. Dahlgren Hall: Open to general visitors to USNA (not including the Midshipmen Activity Center, Fremd Room, or staff office space). The Assembly Hall is available for midshipmen general use on a scheduled basis. NABSD facilities in conjunction with Special Events and Commandant Operations will ensure scheduling occurs to deconflict assembly floor activities with the Class of 53 Reception Area to avoid noise interruptions during various events (e.g., Retirement Ceremonies).

16. Midshipmen Computer Repair Center: Midshipmen.

17. Brigade Sports Complex:

a. Midshipmen.

b. Active duty, reservists, and retired military personnel of all services and their families.

c. 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.

d. DoD civilians (APF and NAF), both active and retired, and their families have limited access.

e. Members of the general public may utilize the ice rink, tennis courts, and other like spaces 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 groups, local tennis associations and groups, and open sessions for the local Annapolis community.

f. Employees of the NAAA and the Naval Academy Alumni Association and Foundation and their families.

g. Others as approved by the Superintendent.

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 briefs 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 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

Purpose and Function: The Midshipmen Welfare Fund (MWF) is responsible for assisting the Brigade of Midshipmen by providing opportunities for structured extra-curricular involvement in recreation or other constructive activities at the individual, company, battalion, or brigade 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 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.

MIDSHIPMEN RATION ACCOUNT

Purpose and Function: The Midshipmen Ration Account (MRA) is the account used to manage the subsistence allowance prescribed by the Secretary of Defense for midshipmen. The NAF 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 USNA. 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 provided subsistence funds based on the number of Midshipmen present and such funding is received into a NAFI referred to as the MRA. The MRA uses a stand-alone accounting system that provides income statement 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. 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, Statutes of Forces Agreements, or other applicable federal regulations.

Successor NAFI: Naval Academy Business Services Division.

NAVAL ACADEMY PREPARATORY SCHOOL BATTALION ACTIVITIES FUND

Purpose and Function: The Naval Academy Preparatory School (NAPS) Battalion Activities Fund (BAF) is the sole NAF used to support the NAPS mission. The fund provides for goods and services required by each midshipman candidate, such as textbooks, non-standard uniform items, and NAPS personnel physical training gear. In addition, the fund provides opportunities for structured extra-curricular involvement in recreational or other constructive activities at the club, platoon, company, or battalion level.

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

Financial Plan: The BAF uses a stand-alone accounting system to capture, compile, and summarize financial data for management decision making. The BAF ensures the availability of funds prior to any purchase, and prepares monthly reports, signed by the CO, to ensure costs are not exceeding revenues. Actual performance is compared to budgeted amounts on a monthly basis and all variances are analyzed. 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.

CANDIDATE GUIDANCE FUND

Purpose and Function: The Candidate Guidance Fund (CGF) is the sole NAF 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 NAFI are dedicated exclusively to programs and activities directly supporting the Office of Admissions Outreach Programs and annual conferences. Where necessary, CGF are used to ensure appropriate Admissions staff oversight of some structured activities (e.g., civilian 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 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.

AUTHORIZED AND UNAUTHORIZED USES OF NONAPPROPRIATED FUNDS

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, obtain an opinion from the USNA Counsel or Staff Judge Advocate.

Naval Academy Business Services Division (NABSD)	
Authorized Uses	Unauthorized Uses
Improvements or enhancements to business practices that support the Brigade of Midshipmen, such as: implementing the Yard Card Program, software upgrades that allow on-line access to financial information, an informational and 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.	
Midshipmen Welfare Fund (MWF)	
Authorized Uses	Unauthorized Uses
Reimbursable funding provided to the Naval Academy Athletic Association per 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 receptions 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 and concerts); providing light refreshments during academic and other Yard-wide special events; and other expenses associated with providing for the general welfare of the military community.	Propriety use for individuals, units, or other organizations.

Away game attendance support for various USNA athletics events to include funding corresponding to social activities such as tailgaters and purchasing or distributing "spirit-related" items when deemed appropriate.	Tailgater admission for individuals outside the defined military community.
Midshipmen Ration Account (MRA)	
Authorized Uses	Unauthorized Uses
Subsistence items Only	Non-Subsistence item expenditures.
Candidate Guidance Fund (CGF)	
Authorized Uses	Unauthorized Uses
Collecting registration fees for 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.
Naval Academy Preparatory School Battalion Activities Fund (NAPS BAF)	
Authorized Uses	Unauthorized Uses
Textbooks, cruise books, and educational supplies.	
Various extra-curricular activities for midshipman candidates, such as battalion trips, approved sporting events, approved military appreciation events, and approved community relations events.	Community relations events not attended by midshipman candidates.
Uniform items and physical education gear.	
Award or recognition items for midshipman candidates.	Award or recognition for non-midshipman candidates.
Various command events (midshipman candidate attendance) such as the graduation ball and dining-in.	Command representation, protocol functions, or other events not including midshipman candidates.