

7 JANUARY 1994



Morale, Welfare, Recreation, and Services

MANAGING NONAPPROPRIATED FUNDS

NOTICE: This publication is available digitally on the SAF/AAD WWW site at: <http://afpubs.hq.af.mil>. If you lack access, contact your Publishing Distribution Office (PDO).

OPR: HQ USAF/MWFO
(Maj Margaret Parkhill)

Certified by: HQ USAF/MWF
(Lt Col Gary C. Bradham)

Pages: 5
Distribution: F

1. High morale in the Air Force community is important in accomplishing Air Force missions. As part of the effort to keep morale high, the Air Force conducts numerous Morale, Welfare, Recreation, and Services (MWRS) activities and supports them with Air Force resources, including nonappropriated funds (NAF). As with its other resources, the Air Force must have policies to ensure sound management of NAFs.
2. Funding for MWRS activities will come from appropriated funds (APF) and NAFs. Financial management (SAF/FM) directives establish three categories of MWRS activities as a means of determining fund source: mission sustaining, community support, and business activities.
 - 2.1. APFs, when available, will provide the funding for MWRS activities to the extent authorized in SAF/FM directives.
 - 2.2. NAFs will provide the funding source for MWRS activities, where APFs are not authorized in SAF/FM directives, as long as those programs contribute to the MWRS mission. The Air Force will not use NAFs to support areas not principally concerned with MWRS and MWRS-related activities.
 - 2.3. NAFs are government funds entitled to the same protection as APFs.
3. NAFs will be used primarily to support business activities and assist those mission sustaining and community support programs that serve active duty military personnel, their dependents, and other authorized patrons. The scope of MWRS programs must be sufficiently broad and varied in nature and number to attract the maximum number of people for whom a commander has support responsibility.
 - 3.1. US Air Force Reserve and Air National Guard units will receive NAF support through use of local base programs when units are located on or near military installations, or as isolated units when not located on an installation.
4. The Air Force will establish NAF instrumentalities (NAFI) to meet the objectives of MWRS and MWRS-related programs.

5. The Air Force will operate NAFIs and MWRS business activities in such a manner as to ensure sound management of resources and to generate enough income to cover NAF operating expenses. To this end, the Air Force will conduct periodic reviews and audits of NAFIs and activities to monitor the continued need for the function and the quality of its management practices.

6. Neither an individual or a group has any right to ownership of NAFI assets because all benefits accrue through participation in programs supported by the NAFI. Individuals will not use NAFs or NAFI affiliation for personal or private gain.

7. The following responsibilities and authorities are established:

7.1. HQ USAF provides and oversees NAF policy, and advocates resource requirements for MWRS. It interfaces with Office of the Secretary of Defense (OSD) staff to develop Department of Defense (DoD) policy and legislative initiatives.

7.2. The Assistant Secretary of the Air Force for Manpower, Reserve Affairs, Installations and Environment (SAF/MI) is responsible for MWRS policy matters as described in Air Force Policy Directive 90-1, *Strategic Planning and Policy Formulation*, paragraph 1.5.2. SAF/MI approval is required before this document is changed, reissued, or rescinded.

7.3. SAF/FM will conduct financial oversight at all organizational levels.

7.4. The Director of Morale, Welfare, Recreation, and Services (HQ USAF/MW) develops and oversees execution of policy and the Air Force Morale, Welfare, and Recreation and Services Agency (HQ AFMWRSA) writes implementing instructions and operating guidance.

7.5. The Air Force Morale, Welfare, and Recreation Advisory Board (AFMWRAB), chaired by the Vice Chief of Staff, recommends policy and management actions to the Chief of Staff, who approves the Air Force-level use of NAFs and governs all HQ USAF military NAFIs.

7.6. Major command (MAJCOM) and installation commanders exercise command supervision over their respective NAFIs and, in so doing, establish, operate and dissolve them as appropriate for local conditions. Additionally, installation commanders provide MWRS benefits for tenants in the same way they do for comparable organizations under their command, according to support agreements.

7.7. Each NAFI below Air Force level has a council responsible to the commander for assisting in NAFI oversight and administration.

7.8. All commanders will take administrative or nonjudicial action against present and former personnel responsible for violation.

8. The terms used in this policy include:

8.1. MWRS-related activities include those which enhance the quality of life and are not the responsibility of other Air Force agencies. MWRS activities include (but are not limited to) the following programs: fitness, sports, library, child development, youth, arts and crafts, auto crafts, recreation equipment checkout, outdoor recreation, clubs and slot machines, bowling, golf, aero club, and other membership programs. For the purpose of this policy directive, mortuary affairs, lodging, laundry and linen exchange, and dining facilities are excluded because they are covered by other specific directives.

8.2. NAFs are cash and other assets that NAFIs both generate and receive from sources other than Congressional appropriations. They are government funds separate from funds of the US Treasury, but entitled to the same privileges, immunities, and fiduciary responsibilities. NAFs include dividends from Army and Air Force Exchange Service (AAFES) operations; fees, charges, dues, and retail proceeds from NAFI-supported activities; income from NAF concessionaire contracts and commercial sponsors; contributions and donations; and grants from other NAFIs.

8.3. NAFIs are instrumentalities of the US Government, as well as fiscal and organizational entities of the DoD, which provide MWRS and MWRS-related programs and services. Air Force NAFIs operate on successor relationships in which higher headquarters NAFIs are financially responsible for lower echelon NAFIs.

8.4. Categories of MWRS activities, as established in SAF/FM directives, are a means of determining sources of funding. Mission sustaining (Category A) activities are those related to fitness and basic recreation such as fitness centers, libraries, and recreation centers; they receive minimal NAF support. Community support (Category B) activities such as child development and craft programs receive a mix of APF and NAF support. Business activities (Category C) such as clubs, golf courses, and bowling centers are operated primarily with NAFs.

9. This policy directive implements DoD Directive 1015.1, *Establishment, Management, and Control of Nonappropriated Fund Instrumentalities*, With Change 1, August 19, 1981; and DoD Directive 1015.6, *Funding of Morale, Welfare, and Recreation Programs*, With Change 1, August 3, 1984; DoD Instruction 1015.2, *Operational Policies for Morale, Welfare, and Recreation (MWR) Activities*, With Change 1, May 17, 1985; and DoD Instruction 1330.18, *Resale Activities Conducted With the Use of Nonappropriated Funds, Other Than by Military Exchanges*, August 28, 1974; and AFR 176-7 (Joint Departmental Publication).

10. Related guidance is contained in AFI 34-201, *Use of NAFs*; AFI 34-202, *Financial Operations and Protection of Assets*; AFI 34-203, *NAF Contracting*; AFI 34-204, *MWRS Logistic Support*; AFI 34-205, *NAF Capital and Facility Requirements*; AFI 34-206, *Vending Facility Program for the Blind on Air Force Property*; AFI 34-207, *Commercial Sponsorship Program*; and other 34-series instructions provided by HQ AFMWRSA. Other related policies may be found in financial management, contracting (acquisition), civil engineering, and civilian personnel directives.

11. See **Attachment 1** for measures of compliance with this directive.

NORMAND G. LEZY, Brig General, USAF
Director of MWR and Services

Attachment 1

MEASURING COMPLIANCE WITH POLICY

A1.1. The Air Force assesses compliance with its policies for managing NAFs by measuring the ability of base-level MWRS NAFIs and major business activities (clubs, golf courses, bowling centers, aero clubs, and other revenue-generators excluding AAFES) to control costs to cover operating expenses and pay bills. Each base reports acid test ratio and adjusted net income (the measurements) quarterly through the MAJCOM to HQ AFMW RSA using RCS: HAF-MWR(Q)7407, *Nonappropriated Fund Financial Statements*. HQ AFMW RSA will evaluate data and advise HQ USAF/MWF of activities not meeting standards. The Air Force goal is 100 percent of all NAFIs and business activities covering their operating expenses, while controlling costs to maintain affordable prices as well as customer satisfaction.

A1.1.1. Acid test ratio (current assets less inventories and prepaid expenses divided by current liabilities) indicates cash availability and the NAFI's ability to pay its bills. The minimum standard ratio is 1.0:1.

A1.1.2. Adjusted net income is calculated by subtracting all expenses (excluding depreciation, extraordinary items, and gains or losses on asset disposal) from all income. The resulting number determines whether a NAFI or activity is operating self-sufficiently. Breakeven operation is acceptable, but net profit is preferable to accommodate future programs and improvements.

A1.2. MWR NAFIs and activities reporting an acid test ratio greater than 1.25:1 and net profits for both the current and cumulative rolling 4 quarters are considered to be operating satisfactorily.

A1.2.1. MWR NAFIs and activities reporting an acid test ratio of less than 1.25:1 but greater than 1.0:1, or net losses for both the current and prior quarter, will be "flagged" for MAJCOM action.

A1.2.2. NAFIs and activities reporting an acid test ratio less than 1.0:1, or net losses for both the current and cumulative rolling 4 quarters, will be "flagged" for Air Force action. However, small MWR Funds (less than \$100,000 cumulative 4-quarter revenue) and their business activities which "flag" are referred for MAJCOM action, unless acid test ratio is less than 1.0:1. In that case, Air Force action is required. NAFIs and activities on closure bases will be reviewed under the same criteria as those on nonclosure bases, but they will be analyzed and briefed separately. MAJCOMs ensure NAFIs and activities on closure bases operate according to policy.

A1.3. Figure A1.1. is the Air Force-level display of NAFI (e.g., MWR fund) or activity performance, including trend data, based on the indicator "flagging" process.

Figure A1.1. Sample Metric of Base MWR Funds.

