

APPENDIX C**ACCOUNTING PROCEDURES FOR NAVY NONAPPROPRIATED FUND**

This appendix of the DoD Financial Management Regulation is for use by all non-appropriated fund accounting offices which use systems developed by the Department of Navy. The appendix contains policies and procedures specific to those systems. General or non-system specific policies and procedures are included in the core regulation and have been excluded from this appendix. For example, the requirement that nonappropriated fund instrumentalities (NAFIs) conform to generally accepted accounting principles is not system-specific and applies to all DoD NAFIs. Therefore, it is included in the core regulation and excluded from this appendix.

This appendix supersedes all previously published policies and procedures. Therefore, in the event of conflicting instructions, the policies and procedures in the regulation itself should be followed.

CHAPTER 1

GENERAL INFORMATIONC0101 GENERAL

C010101 Purpose. This appendix prescribes financial management policies and a uniform accounting system for all nonappropriated funds within the Department of the Navy. These provisions are intended to increase efficiency and effectiveness, permit greater control by management, facilitate the conducting of audits by proper authority, and provide guidance to all participants in the system.

C0102 SCOPEC010201 Policies.

A. Scope. The policies set forth herein are applicable on a worldwide basis to all nonappropriated fund instrumentalities (NAFIs) within the Department of the Navy, including the Navy and Marine Corps Morale, Welfare, and Recreation Support Activity and are to be followed unless specific request for deviation is submitted through and approved by the appropriate chain of command and the Defence Finance and Accounting Service (DFAS). The Navy Exchange and the Marine Corps Morale, Welfare, and Recreation Support Activity Manuals contain accounting procedures for their respective systems and are subject to DFAS review and approval. The Bureau Of Naval Personnel Recreation and Mess Central Accounting System (RAMCAS) Users Handbook contains detailed accounting procedures for NAFIs participating in the RAMCAS and is subject to DFAS review and approval. Recommendations for improvements, modifications and/or additions to this appendix are encouraged and should be submitted to the DFAS.

B. Private Organizations. Private organizations and funds thereof, established and operated by individuals acting

outside the scope of any official capacity as officers, employees, or agents of the Government, and which are established to provide desirable morale enhancing facilities and services, are subject to DOD guidelines. The financial management policies and procedures set forth in this appendix are not applicable to private organizations, however, they may be used as guidelines.

C. This appendix is not intended to approve the establishment or operation of any of the activities referred to herein. Military and civilian NAFIs are established and operated in accordance with instructions issued by the applicable program manager.

C010202 Basic Policies.

A. Establishment and Operation. The Department of the Navy advocates the establishment and operation of well-rounded morale, welfare, and recreational programs to insure the mental and physical well-being of its personnel. Adequate programs and facilities to carry out this policy should be provided, operated, and maintained through financial support tendered by the Department of the Navy. Appropriated and Nonappropriated funds will be used as appropriate to fund the cost of these programs and facilities. Provisions will be made to account for appropriated expenses by categories and activity types.

B. Immunities and Privileges. The programs and facilities provided through morale, welfare, and recreation functions are deemed by the Department of the Navy to be essential to the performance of its functions. As such, they are necessary adjuncts of the department. Morale, welfare, and recreation activities operated as Nonappropriated Fund Instrumentalities (NAFIs) are entities of the Government and as such are entitled to all the

immunities and privileges which are available to the departments and agencies of the Federal Government under the Constitution and statutes.

C. Civilian Employees. Morale, welfare, and recreation programs established primarily for civilian employees of the Navy are intended to provide food and other services where required, and to offer certain recreational activities as inducement to recruitment and retention of the civilian work force.

D. Administration of Programs. Morale, welfare, and recreation programs will be administered in compliance with applicable Federal laws and operate in concert with certain state and municipal laws. Questions involving jurisdiction and compliance which cannot be resolved locally, should be submitted to the appropriate authority for resolution.

E. Nondiscrimination. The facilities and/or services of morale, welfare and recreation programs will not be made available to any group which practices discrimination on the basis of gender, race, creed, color, age, physically/mentally handicap, or national origin. This will not prohibit the establishment of cultural or ethnic private organizations, providing membership is not restricted or discriminatory. Private organizations whose memberships are restricted on the basis of religion may be authorized to operate on DOD installations provided authorization is also approved for requests by similar organizations without preference.

F. Nonappropriated Funds are Government Funds. All nonappropriated funds are government funds dedicated exclusively to the collective welfare and recreation of military and civilian personnel and their dependents. These funds will not be donated to any individual, firm, group, or organization, charitable or otherwise, to the detriment of the joint welfare and recreation of all personnel and their dependents.

G. Cross-Service Borrowing. To the extent funds are not available from within the Department of the Navy, cross-service borrowing of nonappropriated funds is encouraged. Commercial borrowing will be obtained only as a last resort. Approval of either cross-service or commercial borrowing must be obtained in advance from the applicable program manager.

C0103 SYSTEMS APPROVAL. DFAS-HQ has the responsibility for final review and approval of financial management processing systems prior to implementation.

CHAPTER 2

FINANCIAL MANAGEMENTC0201 GENERAL

C020101 Basic Functions of Management. The basic functions of management include planning, coordinating and controlling. Planning is directed toward the establishment of desirable future objectives and the formation of an organizational structure to be followed in their achievement. Coordination consists of integrating individual and group effort with the over-all objectives. Controlling results from the evaluation of individual and group effort in terms of the predetermined goals.

C020102 Discharge of Management Functions. The effective discharge of these functions is essential to sound business management and successful operations. In small activities the manager may personally supervise every phase of operations and the basic functions of management may be performed with little recourse to accounting data. In larger entities, direct personal supervision by one individual is seldom possible and it is necessary to establish a chain of command from top management to departmental supervisors. Under such circumstances, accounting becomes an indispensable tool of management. Accounting not only provides each level of management with relevant financial data, but it also furnishes basic facts required in planning, coordinating, and controlling.

C0202 B U D G E T I N G A N D
MANAGEMENT

C020201 Nature of Budgeting. Budgeting consists of establishing specific future goals and periodically measuring actual results against the planned objectives. A budget is a formal written statement of management's plans for the future, expressed in financial terms. A budget charts the course of future action. Thus, it serves management in the same manner that the architect's blueprints assist the builder and the navigator's flight plan aids the pilot. A budget,

like a blue-print and a flight plan, should contain sound, attainable objectives based on a realistic plan of operations rather than mere wishful thinking.

A. Accounting and Management. Probably no other instrument contributes more directly to management than a budget. A budget embraces both accounting and management functions. It is a management function because it is an expression of management's plans and an accounting function because plans are translated into financial terms for subsequent comparison with actual performance. Each of management's primary functions is directly served by budgeting. Planning is encouraged because careful study, investigations, and research must be given to expected future operations if the budget is to contain sound, attainable goals. Advanced planning, in turn, increases the reliance of management on fact finding in making decisions and lessens the role of hunches and intuition in managing a business enterprise.

B. P r e p a r a t i o n . Coordination is facilitated as each level of management participates in the preparation of the budget. In addition, a budget enables top management to explain its objectives to each stratum of management. For example, planned merchandise purchases are developed in accordance with anticipated sales. Manpower requirements and salary costs can be correlated with anticipated income from services to be rendered.

C. C o n t r o l . While managerial planning and coordination are important, they must be accompanied by control. Budgeting contributes to effective management control through the preparation of frequent budget reports in which actual performance and budget of objectives are compared and variations are revealed. The disclosure of variations enables management to focus attention on the

areas which require immediate corrective action. Budget objectives act as a deterrent against waste and serve to encourage efficiency and cost savings.

D. Budget Revisions. For the budget to remain an effective management tool, revised budgets incorporating significant program changes for the balance of an accounting period should be prepared. Revisions should not be made solely to eliminate variations from planned performance.

C0203 BUDGETING PROCEDURES.

C020301 Responsibility for Preparation.

A. Budget Officer. The responsibility for actual preparation of the budget is assigned to the local budget officer and the MWR Director. Budgets are prepared for both appropriated and nonappropriated funds requirements in accordance with guidance established by the program manager.

B. Budget Input. Requests for budget estimates should be extended to the lowest level in the chain of command to enlist the participation and cooperation of all strata of management. After the estimates have been received, they are reviewed and incorporated into a master plan. This process usually necessitates a revision of some of the estimates, and each supervisor is given an opportunity to defend his estimates and requests. The various budgets are then agreed upon and approved by the commanding officer. Finally, the budgets are distributed and explained to each responsible supervisor as the operating plan against which their performance will be compared.

C. Sources of Information. Budgets are dependent upon the preparation of timely, clear, and accurate financial statements reporting operational results and financial condition of the business entity. The financial condition of an activity is presented in its balance sheet, while its earnings are reported in the income statement. The items appearing in these statements are major considerations in planning.

D. Elements of Financial Planning.

1. Management of Working Capital. The efficient administration and control of capital used in an activity.

2. Financial Plan. Determining the sources and required amount of initial or additional capital. This is an estimate based on past experience.

3. Operating Budget. The projection of income and expense for a future period. Permits comparison and analysis of projected data with actual data. This is an estimated view of future income and expense based on past experience. The estimate will be influenced by management policies such as a reduction of personnel costs which could increase the net profit. It could also be influenced by an anticipated reduction in patronage through military transfers which could result in a decrease in level of operations and net profit.

4. Cash Budget. A projection of cash receipts and disbursements for a specified future period. It is necessary to know how much cash will be necessary to operate during the coming months and at what times and in what amounts cash will be available to meet payment needs. Cash budget shall be derived from and reconciled with the operating and capital budgets.

5. Capital Budget. The projection of expenditures for acquisition, construction, renovation, and expansion of capitalized fixed assets such as furniture, fixtures, equipment, and building improvements. The source of funding and estimated completion date shall be indicated.

6. Annual Appropriated Fund Budget. An itemized listing of required appropriated fund support.

7. Balance Sheet Projection. The projection of assets, liabilities,

and net worth at a future date based on planned operational results.

C0204 OPERATING BUDGET

A. General. In its simplest, the operating budget is expected receipts less desired profits. Planning is designed to increase receipts or reduce allowable costs and expenses, or both, to achieve the desired profit objective. For instance, once the desired profit is determined, there must be planning to obtain this profit. It may be reached by increasing receipts through more aggressive promotion, additional facilities, or a rise in prices. The profit objective, through more effective management, may also be approached by cutting costs (allowable costs) through a reduction in personnel, tighter control on costs, or reduction of administrative expenses.

B. Profit Objective. The profit objective should be consistent with the need for maintaining the lowest possible price to customers, expansion requirements, and other management needs. An activity which has acquired elaborate, or even adequate facilities, may be in a position to budget profits at or near the break-even point, and pass along the usual operating gains to customers through reduced prices, dues, or other service charges. The purpose of the budget under such circumstances is to limit administrative expenses so as to increase the direct benefit accruing to customers through lower charges.

C. Forecasting Receipts. Forecasting future receipts is the most important element in the operating budget since all other elements are dependent upon this figure and must vary accordingly.

1. B a s i c Management Unit. A basic unit of measurement must be determined to forecast future receipts. This unit of measurement is obtained from data collected from past operations. The measurement unit may be selected from such data as the number of customers, meals, and guests applicable to each major activity (bar, dining room, golf course, barber shop, or any

other department). Dollar amounts may be applied to measurement units upon determination of pricing and rate standard.

2. Forecasting Procedure. Future receipts from the sale of goods should be computed separately from income from other activities such as room service, greens fees, and membership dues, etc.

3. Other forecasts. Income from similar activities may forecast in a like manner. Income from nonresale activities may be forecast directly in terms of measured units and by the application of rates as determined by the board or council, or as prescribed in the by-laws in the case of membership dues and assessments. Consideration should be given to such factors as number of dependents, training schedules, seasonal variations, and holidays.

D. Limiting Expenses. When the total gross income from sales and other activity sources has been forecast, the dollar amount of net profit needed to support future requirements may be determined. The difference between these two figures (gross income and net profit) represents the maximum amount which may be used to defray all expenses during the budget period. Major costs such as cost of goods sold, wages and salaries, personnel benefits, utilities, and depreciation should be forecast separately for each month of the budget period. General and administrative expenses representing smaller amounts may be consolidated. The distribution of expense by activity should be accomplished when practicable. Prior experience should be the basis for apportioning expense allowances to the various activity accounts. Past expenses, however, should be examined closely as to propriety and necessity. Savings accomplished and reflected in greater profits may be converted to lower prices in subsequent periods. This factor actually may induce greater dollar volume gross income through increased patronage. Conversely, it may be found that the budgeted gross income is so low as to result in the forced reduction of essential expenses, adversely

affecting sales volume and patronage. These matters cannot be resolved by a predetermined formula but must be resolved by good management.

E. Presentation of Operating Budget. The final form of the operating budget is the same as the income statement, except that provision is made for monthly comparisons. All items should be expressed in terms of percentages of total sales for analysis and comparative purposes.

C0205 CASH BUDGET

C020501 General. A cash budget is an effective tool in planning cash requirements and resources of a business. It is important to note that the excess or deficit of cash receipts over disbursements for a given accounting period may not equal the amount of net profit or loss as reported in the income statement for the same period. Sales on credit, purchases on credit, and other accruals reflected in the income statements prevent a direct comparison.

C020502 Purpose. The primary purpose of the cash budget is to identify existing and anticipated cash resources to finance operations, pay debts as they mature, pay for desired expansion, and maintain the business in a satisfactory or liquid position. Sales volume, inventory levels, pricing, credit policies, and plans for replacement and expansion of fixed assets, should be critically reexamined in the light of the cash budget, and modified as necessary. When the cash budget indicates a deficit during all or part of the budget period, the entire plan of operations may be too ambitious for the resources available. Certain budgeted activities may have to be curtailed or deferred until additional capital can be accrued from future earnings.

C020503 Preparation. In estimating cash receipts and disbursements, other budgets must be carefully studied. Appropriate consideration should be given to future plans of management which will affect cash. After cash receipts and disbursements have been estimated, a minimum cash balance is established that will be adequate

to meet cash requirements. The cash budget should be prepared progressively by monthly revision to provide a perpetual forecast. The period of time covered by a cash budget varies with the type of business and the activity's cash position. When the supply of cash is short, a weekly or even a daily cash budget may be necessary. Ordinarily, however, twelve separate monthly budgets are prepared for the year. Cash budgets are usually accompanied by detailed schedules of the major items summarized in the budget. Forecasts of total income as reflected in the operating budget must be adjusted for cash transactions. Cash receipts arising from credit sales and other charges will necessitate preparation of accounts receivable aging schedules, actual and projected. Monthly comparison should be made with actual cash receipts and disbursements for the purpose of planning future operations.

C0206 CAPITAL BUDGET

A. General. The capital budget is a summary of proposed expenditures of cash for depreciable assets for the following purposes:

1. Additions and extensions to property and equipment.
2. New property and equipment.
3. Replacement of property and equipment unit.
4. Furniture, fixtures, and office equipment.

B. Purpose. The objective of the capital budget is to increase or at least maintain future profits without jeopardizing the financial stability of the activity. Expansion or replacement proposals that do not further sales volume are not in themselves a sufficient basis for expanding capital investment, unless it is to be supported by a continuing high volume.

C. Long Range Planning.

1. Planning for capital expenditure must be considered from a long-range viewpoint to include the following considerations:

a. Long-term estimate of revenue, cost of operations, and profits.

b. Possibly serve an increased patronage without expansion of fixed assets.

c. Determine expansion of property and equipment required to serve increased patronage in terms of physical units.

d. Ability to obtain the required amount of capital when needed.

2. The capital budget may be forecast by calendar quarters for 1 year in advance, and for each year thereafter up to 5 years.

D. Sources of Capital. Failure to carefully budget capital expenditures is likely to result in the diversion of cash required for working capital to the acquisition of fixed assets, thereby impairing the ability of the fund to meet its current financial obligations. If cash required for operations is used for this purpose, it results in a diversion of working capital into fixed capital. The maximum funds available for capital expenditures, without impairment of working capital, are measured by:

1. Reinvested (Retained) earnings for a given period.

2. Annual allowances for depreciation (accumulated depreciation accrued through monthly charges).

3. Proceeds from loans (ultimately to be repaid from future earnings).

E. Financing Replacements and Expansion. Capital expenditures for replacement of fixed assets as a general rule should be limited to the accumulated allowances for depreciation, while expansion of amounts required as additions to working capital.

F. Preparation. The capital budget should be prepared in two forms.

1. A listing of individual projects or fixed asset items to be acquired during a future period stating the estimated cost of each, the date and amount of actual expenditures, and the unexpended balance of budgeted expenditure.

2. Summarized by Period. Capital budget summarized by period. The budgeted project may be summarized for each budget period and computation made of the total funds estimated to become available for capital expenditures.

C0207 BALANCE SHEET PROJECTION

A. General. The balance sheet projection is a preview of the financial condition on a specified future date, based on the plan of operations adopted. The balance sheet projection may be prepared as a culmination of other forecasts and budgets specified in other sections of this Chapter.

B. Purpose. The balance sheet projection may be used to:

1. Note the flow of reinvested profits into current and fixed assets.

2. Check on the accuracy of the operating budgets.

3. Aid in planning capital expansion.

4. Forecast cash balances and requirements.

5. Aid profit planning designed to secure an adequate return on the total investment.

6. Maintain the ratio of current assets to current liabilities and other financial ratios at a desirable level.

C. Preparation. The balance sheet projection should be maintained for periods coinciding with those of the operating budget. It should be prepared in substantially the same form as the balance sheet except that it may be condensed to show only the more significant items. If other budgets discussed in this chapter are regularly prepared, very little additional effort will be required for preparation of the balance sheet projection since most of the projected items have already been ascertained. Only a few additional items such as prepaid expense must be projected. Accounts receivable are estimated by adding to the opening balance the amount of estimated sales on account, less estimated collections during the period. Similarly, other balance sheet items are projected based on data contained in the operating, cash, and capital expenditure budgets.

D. Use of Financial Ratios. Financial ratios referred to in the following paragraph should be used in the analysis of the balance sheet projection. Comparisons of desired financial ratios with projected ratios may result in modification of operational plans and budget elements.

C0208 MANAGEMENT OF WORKING CAPITAL

A. General. Working capital management includes the following terms:

1. Current Assets. Cash and other assets that may reasonably be expected to be realized in cash, sold or consumed, within 1 year through the normal operations of the business. In addition to cash, the assets usually found in this group are accounts receivable, loans receivable, merchandise inventory, short-term investments, and prepaid expenses. They are customarily

listed in order of liquidity, which is the order of their expected conversion to cash.

2. Current Liabilities. Debts that in the ordinary course of business will be liquidated within a year such as accounts payable, loans payable, salaries and wages payable, and collections received in advance for which goods or services will be given within a year.

3. Working Capital. The excess of current assets over current liabilities.

4. Fixed Capital. That portion of total capital (additional to working capital) consisting of relatively permanent assets acquired for use in the conduct of the business. Such capital is not intended for disposal in the ordinary course of events, and includes items such as furniture, fixtures, equipment, and building improvements.

B. Flow of Working Capital. Upon establishing a business, cash may comprise the total capital. A part of cash is invested in fixed assets such as equipment, furnishings, building improvements, etc. The remainder is retained in part as cash to meet operating expenses, and in part to purchase goods as the stock in trade. These goods are sold and converted into cash or accounts receivable, which are ultimately collected in cash, to complete the working capital cycle. Each time the cycle is made, from cash to goods to cash, it should yield a return. A constant and rapid circulation (cycling) of working capital is desirable to compound the yield and increase the return, in relation to the amount of working capital required.

C. Administration of Current Assets.

1. Cash. A cash balance on hand and in banks should be maintained at the minimum amounts required for change funds, petty cash and payables due in the next succeeding month. Additional amounts not used in current operations should be

invested in securities redeemable when cash is desired, and yielding maximum interest.

2. Receivables. The volume of receivables is determined by sales and credit policies and by the effectiveness of collection of outstanding accounts. The efficient collection of receivables is a vital part of working capital management. Laxity in this regard may tie up an undue amount of cash otherwise needed as working capital as well as increase losses from bad debts. It may be necessary to impose customer credit limits on accounts that are in excess of a reasonable period or amount.

3. Inventories. Inventory management involves regulation of the size of the investment in goods on hand, the types of goods carried in stock, and turnover rates. The investment in inventory should be kept at a minimum consistent with maintenance of adequate stocks of proper quality to meet sales demand. Increases or decreases in the inventory investment must be tested against the effect on profits and working capital. Standard levels of inventory should be established as adequate for a given volume of business, and stock control procedures applied so as to limit purchase as required. Such controls should not preclude volume purchase of nonperishable items when price advantages may be obtained under unusual circumstances. The rate of inventory turnover is a valuable test of merchandising efficiency and should be computed monthly.

D. Required Working Capital.

1. The following factors generally affect the amount of working capital required:

- a. Turn-over rate of inventories.
- b. Turn-over rates of accounts receivable.
- c. Terms of purchase.

d. Terms of credit sales.

e. Overall expansion.

f. Seasonal variations.

g. Changes in customer strength.

2. The approximate amount of working capital required to operate at a given date, and the amount of working capital excess or deficit, may be calculated as follows:

Current Assets
 Less: Current Liabilities
 Equals: Working Capital
 Less: One Inventory Turnover
 Less: Net of 1 Month's Expenses and Revenues from other than Sales Activities
 Equals: Working Capital Excess or Deficit

E. Working Capital Ratios. The ratio analysis of working capital can be used by management as a means of checking upon the efficiency with which working capital is being applied. Important ratios for working capital management analysis are the working capital and inventory turnover ratios and the turnover or average collection period for accounts receivable. The behavior of ratios, over a series of accounting periods, is indicative of trends which may signal the need for adjustments in the future. Some of the working capital ratios which may be computed are described below.

1. Capital Ratio. The relationship between current assets and current liabilities is called the current ratio. This ratio measures the ability to pay short term debts and is computed by dividing the total of current assets by the total of current liabilities. Marketable securities, receivables, and inventories may decline in value and there is no certainty as to when they will be converted into cash. On the other hand, current liabilities must

be paid at their face value and at specific dates. It is desirable, therefore, that current assets always be materially in excess of current liabilities. The excess of current assets over current liabilities is also frequently used as an index of current financial condition. It is referred to as working capital or net current assets. There is general rule that a current ratio less than a 2:1 is unsatisfactory. Like most generalities this one is subject to modification in certain specific cases. A ratio that is smaller would indicate that debts may be too high. On the other hand, if the current ratio is too large this means more current assets should be converted to other useful purposes.

2. Acid-Test Ratio.

This ratio is the sum of cash, receivables, and marketable securities (called quick assets) divided by current liabilities. The acid-test ratio is a supplemental measure of liquidity. A ratio of 1:1 indicates that for every dollar of current debt there is available one dollar of quick assets to meet current liabilities. As a general rule, the acid-test ratio should be no less than 1:1. While it is generally desirable that the acid-test be high and improving, it is possible for it to be too high for the good of the business. Cash and most receivables are not earning interest and the return on most temporary investments is not large. Neither too little nor too much working capital is desirable. One of the arts of business management is the ability to determine and maintain the optimum amount of each type of asset.

3. Ratio of Net

Sales to Assets. The ratio of net sales to assets is a measure of the effectiveness of the utilization of assets. Assume that two similar activities have equal amounts of assets but that the sales of one are double the amount of the sales of the other. Obviously, the former is making better use of its assets. In computing the ratio, any long-term investments should be excluded from total assets as they make no contribution to sales. The units of product sold may also be used in place of the dollar amount of sales, if sales can be stated in a common unit. Assets used in determining the ratio may be the total at the end

of the year, the average at the beginning and end of the year, or the average of monthly totals.

4. A c c o u n t s

Receivable Turnover. The relationship between sales volume and accounts receivable is stated as the accounts receivable turnover. It is calculated by dividing net sales on account by the average accounts receivable. The average of the monthly balances of accounts receivable should be used in the computation, as it gives recognition to seasonal fluctuations. When such data are not available it is necessary to use the average of the balances at the beginning and end of the year. Accounts receivable yield no revenue hence it is desirable to keep the amount invested in them at a minimum and the number of turnovers as high as possible. Prompt collection reduces the amount of loss from bad debts. The composition of accounts receivable changes continually during the business cycle. Accounts receivable are increased when charge sales are made and decreased when collections are received. Increases or decreases in the volume of sales will also affect the amount of outstanding accounts. Another method of expressing the result is to divide 365 (days) by the receivable turnover figure to get the average number of days that the receivables were on the books.

5. Merchandise

Inventory Turnover. Most of the observations about receivables discussed in the preceding subsection (d. above) are also applicable to merchandise inventory. Inventory in excess of the needs of the business ties up funds that could be used in other ways to better advantage and may increase the amount of insurance, storage, and other related expenses. There is also added risk of loss through price declines and deterioration or obsolescence of the merchandise. The merchandise inventory turnover rate is computed by dividing the cost of goods sold by the average cost price value of the inventory. If monthly data are not available, it is necessary to use the average of the inventories at the beginning and end of the year.

F. Turnover of Working

Capital. A close relationship exists between sales and working capital. As sales volume increases,

the investment in inventories and receivables increases and therefore, a larger amount of working capital is necessary. The turnover of working capital reflects the extent to which the business is operating on a small or large amount of working capital in relation to sales. This turnover or ratio is composite of number of relationships (inventories, receivables, current liabilities, etc.). These various component elements should be analyzed individually to account for changes from period to period. The turnover of working capital is computed by dividing the net sales for the year by the average working capital.

CHAPTER 3

OPERATIONAL STANDARDSC0301 GENERALC030101 Responsibility.

A. Assistant Secretary of the Navy (Manpower and Reserve Affairs). As the overall policy director for NAFIs, authorizes the establishment of new type activities and assigns their program classification.

B. Program Manager. The program manager, as the administrative manager for morale, welfare, and recreation functions under his command, is responsible for the technical and administrative directives which will:

1. S e t f o r t h requirements for establishment of the programs and activities.

2. I n s u r e i m p l e m e n t a t i o n of budgeting, accounting analysis and evaluation, and auditing.

3. I m p l e m e n t r e p o r t requirements and time frames.

4. A i d i n t h e preparation of budgets for both appropriated and nonappropriated funds.

5. S p e c i f y management policies.

6. S p e c i f y formats and provisions of contracts.

7. I m p l e m e n t policies for the disposition of surplus property.

8. E s t a b l i s h policies for purchasing, contracting, investing, administering and protecting assets in accordance with this handbook.

9. S e t f o r t h liquidation and closing procedures for disestablishment activities consistent with this handbook.

10. E s t a b l i s h and maintain adequate systems of internal control that provide reasonable assurance that the objectives of internal control are met and reviewed periodically (for all functions; not solely financial management).

11. E s t a b l i s h audit programs and management review cycles for NAFIs under his command.

C. Commanding Officer. Fund administration and supervision are command functions. Consequently, commanding officers have the same responsibility for the proper administration of nonappropriated funds as for any other functional element of their command. Under the technical supervision of the appropriate program manager, and in accordance with applicable directives, the commanding officer has jurisdiction over, and is responsible for, the establishment, administration, operation, and financial condition (including solvency, stability, and dissolution) of NAFIs and will:

1. D i r e c t t h e activity operation in accordance with policies and procedures set forth by the program manager and as delineated herein.

2. R e v i e w and evaluate financial statements and where applicable forward as directed to higher authority.

3. A p p o i n t qualified managers and insure that an advisory group is designated for each morale, welfare, and recreation program to act in an advisory capacity to the commanding officer by observing the

overall operation of the activity and making recommendations to the commander for its improvement. Individuals responsible for either the receipt or disbursement of appropriated funds will not be appointed as a manager or custodian of nonappropriated funds. The custodian/treasurer or Other Membership Associations, such as, flying clubs, rod and gun clubs, etc., should be elected or appointed from the memberships of such activities, subject to the approval of the commanding officer.

4. Budget for appropriated funds which are authorized to support morale, welfare, and recreational activities.

5. Insure that technical advice and assistance in the supervision of activity functions is obtained from other staff members on matters in which they have functional responsibility.

6. Effect corrective action on recommendations made by audit, program managers, and/or advisory personnel.

7. Disapprove any recommendation of the manager/custodian or advisory group which is deemed not to be in the best interest of the Department of the Navy.

8. Ascertain that each activity is being properly administered and its monies and property safeguarded, that all income has been received in full, and insure that all disbursements are made only for authorized purposes.

9. Direct that inventories are taken as required by governing directives.

10. Designate a successor manager:

a. When the manager is absent by order, leave of absence, or any other cause for more than 30 days (and there is no designated assistant), the commander will designate a successor manager and require a

physical inventory to be made in support of a statement of assets. Such inventory will be certified by the manager as correct to the best of his knowledge, and signed as a receipt by his successor subject to such exceptions, if any, as may be noted therein. The signed statement will be retained as a part of the activity's records. In the case of Navy Exchanges, successor managers (Navy Exchange Officers) are appointed by the Commander, Naval Supply Systems Command and relieving procedures are provided by the Navy Exchange Manual.

b. A n inventory of the complete system is not necessary when the manager of a morale, welfare, and recreation activity (consisting of branches which have assigned managers with specific duties and responsibilities set forth in writing by the commander) is relieved at a time other than the normal termination of an accounting period. All cash on hand, however, to include receipts for petty cash and change funds rendered by branch managers, the bank accounts and any property with the central office, will be verified by both parties and invoice and receipt accomplished.

c. Unless there is an assistant manager, an acting manager will be appointed by the commanding officer when a manager is to be absent from duty for a limited period of 5 to 30 days. The acting manager becomes responsible by signed receipt for all assets as shown in the records as of the transfer date, subject to confirmation within 30 days thereafter. In the case of Navy Exchanges, an acting Navy Exchange Officer is designated by the commander as provided by the Navy Exchange Manual.

D. Manager. The manager as a direct representative of the commanding officer exercises executive control over the morale, welfare, and recreation function and is charged with the following responsibilities and specific duties and will:

1. Receive, and safeguard monies and other assets in accordance

with this handbook and other applicable regulations, directives and/or manuals.

2. Cause to be put into effect all management policies as directed by the program manager, the commanding officer, and other competent authorities.

3. Employ, train, supervise, and discharge personnel, and establish rates of pay and working hours, subject to the approval of the commanding officer, minimum wage legislation, and DOD wage surveys,

4. Establish a continuous training program for all personnel.

5. Develop, implement, and maintain an internal control system in accordance with this handbook.

6. Be financially liable for losses of monies and property when his dishonesty, fraud, or culpable negligence is established.

7. Insure the adequate protection of cash (including bank deposits) and proper investment of monies is in conformity with this handbook and applicable directives issued by the program manager. (see Appendix B).

8. Prepare necessary budgets in accordance with this handbook and as prescribed by the program manager.

9. Insure that inventories are taken as required by governing directives.

10. Be responsible for all purchasing and contracting and insure compliance with SECNAVINST 7043.5(series) and other pertinent directives.

11. Be responsible for all financial operations of the activity to include all income-producing or service functions.

12. Insure that each fund maintained in support of a retirement program is regularly reviewed by one or more qualified actuaries.

C0302 APPROPRIATED AND NONAPPROPRIATED FUNDS

C030201 Guidance. Guidance for the use of appropriated and nonappropriated funds support to military morale, welfare, and recreation (MWR) programs and activities is contained in NAVCOMPT Man. Vol 7. Base Comptrollers will prepare budgets for annual appropriated and nonappropriated fund support for morale, welfare and recreation programs in accordance with major claimant guidance consistent with the fund use rules prescribed and annual budget guidance provided in NAVCOMPT Notice 7111.

C030202 Use of APF. As prescribed on NAVCOMPT Man. Vol.7, appropriated funds may be used to provide support to morale, Welfare and Recreation Programs. The following outlines procedures used in accounting for appropriated fund support to morale, welfare and recreation activities.

A. Comptrollers will issue quarterly/yearly operating targets (OPTAR) to each Morale, Welfare and Recreation program manager permitting obligation of appropriated funds within the specified monetary limits.

B. The morale, welfare and recreation manager will initiate typical obligating documents (such as travel orders, DD Form 1348's, purchase orders, labor cards for Appropriated fund paid morale, welfare and recreation employees, etc.) when intending to directly cite OPTARED appropriated funds.

C. Order for Work and Services (NAVCOMPT Form 2275) may be issued against unobligated OPTAR balances to morale, welfare and recreation activities to cover anticipated reimbursements of nonappropriated fund costs by appropriated funds for authorized support. The NAVCOMPT Form 2275 should be issued in an amount based on estimated

reimbursement needs and carry an expiration date consistent with the OPTAR. The issuing activity must assign a Navy Standard Document Number to the NAVCOMPT Form 2275 and upon its acceptance, have it recorded as an obligation in the appropriated accounting records. The total OPTAR availability includes both the direct cite obligations and the anticipated reimbursements obligated under the NAVCOMPT Form 2275 (See Appendix C-2).

D. An APF entity may contract with the NAFI for services, functions, or goods that the NAFI is in the unique position to provide. Work and services must be processed by contract, activities will no longer be able to use reimbursable orders to pay for goods or services provided by NAFI.

E. At year-end, base comptrollers prepare reports of appropriated fund support to morale, welfare and recreation activities in accordance with this appendix.

F. When morale, welfare and recreation activities request supplies and services as authorized by NAVCOMPT Manual, Volume 7, they may use NAVCOMPT Form 2275 Order For Work and Services. The requesting MWR activity must completely fill the applicable blocks on NC Form 2275 except that block 12 will be annotated to indicate that the order is to be paid by nonappropriated funds. When an MWR activity requests work and services using Operating Target (OPTAR) appropriated funds, block 12 of NC Form 2275 will be annotated with applicable appropriated accounting data. In both cases, billings will be sent to the activity indicated in block 11.

C0303 F R A U D O R O T H E R D I S H O N E S T A C T S. Any employee or person connected with a morale, welfare, and recreation activity will report to the proper authority any suspected misappropriation, embezzlement, larceny or robbery of property or funds, or other improper matter for action in accordance with Article 1139, U.S. Navy Regulations, 1973 and applicable instructions.

C0304 I N S U R A N C E

C030401 S e l f I n s u r a n c e. The Comptroller General has consistently held that unless otherwise provided by law, appropriated funds are not available for insurance of government property as the government is a self insurer. This prohibition does not extend to nonappropriated funds used to insure nonappropriated fund purchased property. One of the most effective means of protecting assets is through insurance. Certain insurance coverage is mandatory while other types of protection are at the option of the fund or as specified by the program manager.

C030402 M o r a l e , W e l f a r e , a n d R e c r e a t i o n A c t i v i t y I n s u r a n c e R e q u i r e m e n t s. Activities will normally carry as a minimum the following insurance:

A. Worker's Compensation as required by state and territorial laws, and in the employment of foreign nationals as required by local laws. Where no provisions for worker's compensation are applicable, employer's liability insurance shall be provided.

B. Group life and comprehensive medical/health insurance.

C. Property insurance, including fire and extended coverage, sprinkler leakage, robbery, theft, and securities coverage. When the insurable value exceeds \$10,000 it will be provided by commercial insurance or on a self-insurance basis. Insurance may be provided on an optional basis for insurable values of less than \$10,000.

D. Bodily injury and property damage liability insurance (general and automobile) will be provided by commercial insurance or on a self-insurance basis.

E. The methods by which assets are protected will encompass sound risk management principles that will satisfy all applicable insurance laws (both domestic and foreign) while providing the broadest most cost-effective protection available.

F. Amounts of coverage and the techniques of handling risk of loss should be based on risks involved in transactions not protected by internal control procedures and as may be determined by the program manager and/or commanding officer.

G. A plan to provide funding for retirement payments. Program Managers will ensure that retirement plans are funded in accordance with sound actuarial principles. Independent external actuarial review is required every two years. Also required is an examination by a certified public accounting firm during scheduled audits every two years.

C030403 Concessionaire Insurance Requirements

A. Adequate Insurance Coverage. Morale, welfare, and recreation activities which carry on business through concessionaires within the United States will provide in their contracts that adequate worker's compensation, employers' liability, bodily injury and property liability insurance will be carried to protect the interest of the concessionaire, the activity, and the Federal Government. In overseas areas concessionaire contracts will provide that the concessionaire will comply with the local laws or customs of the country or political subdivision in which the concession is located.

B. Named As Additional Insured. With respect to bodily injury and property damage liability insurance, the concessionaires contract must contain a clause which provides that the activity concerned and the United States of America are named as additionally insured parties, in addition to the concessionaires. The activity will obtain from the concessionaire, a certificate of compliance, signed by the insurer, which clearly indicates that the type and amount of insurance stipulated in the agreement, has been issued to the concessionaire.

C030404 Performance Bond. Contractors or vendors under contract for construction or for

the furnishing of supplies or services may be required to post a collateral or performance bond in order to protect the activity from loss by insuring the fulfillment of such contract.

C030405 Insurance and Federal Tort Claims. Procedures for processing insurance and tort claims will be in accordance with JAG Manual, Chapters XX and XXIII.

C0305 CONCESSION OPERATIONS AND CONTRACTS

C030501 Direct Operation. So far as practicable, all facilities, services, and functions should be a direct operation. Where circumstances would preclude realizing comparable service and a reasonable financial return, contractual agreements may be entered into between individuals or commercial organizations and activities with the consent of the commanding officer and/or program manager.

C030502 Utilities. A concessionaire is responsible for payment of the cost of all utilities in connection with his operations. Where utilities are furnished by the Government on a reimbursable basis, charges will be made in accordance with NAVCOMPT Manual, Vol. 3, Chapter 7, Part D or Navy Industrial Fund Procedures, as applicable and NAVCOMPT Manual, Vol. 7 paragraphs 075260 and 075261.

C030503 Policies. Policies regarding the control of concessionaire operations are prescribed in SECNAVINST. 7043.5A(series).

C030504 Commissions. Commissions from concessionaires to the nonappropriated funds will be based on a percentage of sales.

C0306 AUDIT AND INSPECTION

C030601 All Levels. Activities at all levels of command are subject to audit and/or inspection. Activity managers will cooperate with auditing and inspecting personnel. Mishandling of nonappropriated funds and property, and violations of standards of conduct in connection therewith, will be referred to the

commanding officer, and when deemed appropriate, to the Naval Investigative Service. Irregularities of a potentially serious nature will be reported through command channels to the Assistant Secretary of the Navy (Financial Management).

C030602 Audited Annually. Activities will normally be audited annually or as directed by the program manager whenever circumstances warrant and directives require such action in discharge of his responsibility.

C030603 Policies Regarding Audit. Policies regarding the audit of nonappropriated funds and related activities are prescribed in SECNAVINST 7510.7C(series).

C0307 RECORDS MANAGEMENT

C030701 Records Maintenance And Disposition. All records pertaining to the administration of nonappropriated funds will be maintained and disposed of in accordance with SECNAVINST 5212.5C(series).

C030702 Audit Trails. Computerized records are authorized so long as the required data are maintained and necessary audit trails are established.

C0308 LIQUIDATION AND CLOSING

C030801 Liquidation. Upon receipt of notification that an installation and/or activity is to be inactivated or placed in a standby status, the program manager, major claimant and the commanding officer will take such action as is deemed necessary to preclude careless or extravagant expenditure of assets prior to the dissolution of the fund. During the period between proposed inactivation and actual closing, disbursements will be limited to normal essential expenses, future commitments canceled, and the contractual agreements canceled or renegotiated when necessary. These responsibilities and procedures will apply also in the event a fund is dissolved for reasons other than inactivation of an accomplished: Applicable detailed liquidation procedures for exchanges are contained in the Navy and Marine Corps

Exchange Manuals. Applicable detailed liquidation procedures for morale, welfare and recreation funds are provided by the program manager.

A. Question all creditors, past and present, to determine whether any liabilities exist and accordingly liquidate any outstanding payables.

B. Collect all accounts receivable, or charge off to operating expenses those found to be uncollectible.

C. Obtain settlement of all transportation and insurance claims owed to the activity.

D. Remit final withholding tax and social security payments and furnish employees with statements of earnings and deductions.

E. Convert all Government securities into cash. (Note: Some Government securities require time notices before redemption.)

F. Advise the depository to forward final bank statement to the applicable program manager, cognizant auditor, or other designated authority, as appropriate.

G. Perform a terminal audit of the activity.

C030802 Time Period. Within 60 days subsequent to receipt of notification to which reference is made in C030801 above, all outstanding payables will be liquidated and monies remaining forwarded as directed by the program manager.

C030803 Disposition of Property and Records. Upon the disestablishment of an activity the property and records thereof will be disposed of in the following manner unless otherwise prescribed by the program manager:

A. Merchandise may be sold to other activities or returned to vendors for credit, if possible.

B. Transfer merchandise and property to other activities as prescribed by the program manager. Receiving activities will be responsible for payment of all expenses incident to packing, crating, and movements of merchandise of property.

C. All records and related correspondence remaining after the terminal audit will be forwarded to the major claimant for subsequent forwarding to the nearest Federal Records Center.

C030804 Final Disposition of Residual Assets. Upon final dissolution, all residual assets which remain after the transfer of monies cited above, including proceeds from sale of property and merchandise, will be forwarded promptly by check as directed by the applicable program manager. Residual assets will be accompanied by a certified copy of the terminal audit of funds and, if appropriate, by notation of corrective actions taken hereon. Fixed asset disposal entries are normally based on the book values existing at the close of the last month of business operations for the dissolving NAFI and not the last month of the NAFI's existence as a fiscal entity, ie., a fixed asset is not depreciated over the final accounting periods required for liquidation and closing if normal business operations have ceased and the fixed asset is no longer being used or providing service.

CHAPTER 4

UNIFORM CHART OF ACCOUNTS

C0401 GENERAL

C040101 Uniform Chart of Accounts.

A. This Chapter establishes a uniform chart of accounts for recording transactions of all nonappropriated funds within the Department of the Navy with exception of those accounted for by the Navy and Marine Corps Exchange Systems. All NAFIs participating in the (RAMCAS) shall use the chart of accounts listed in the RAMCAS Users Handbook. All classes of transactions are normally first entered in books of original entry and subsequently posted to the ledger accounts.

B. Each type of account coding is listed, described, and categorized in paragraphs 401 and 402. Subclassifications may be established where needed provided all such subclassifications are standardized at the program manager level.

C040102 Schedule of Accounts.

A. To classify the accounts in an orderly manner in accordance with a definite plan for control of operations and facilitate analysis of operating results, a series of three digit account numbers has been assigned to the following major classifications appearing in the general ledger.

Account Categories

<u>Series</u>	<u>Category</u>
100	Assets
200	Liabilities and Net Worth
300	Sales Income
400	Cost of Sales
500	Activity Income
600-700	Operating Expenses
800	Other Income
900	Other Expense

C0402 UNIFORM CHART OF ACCOUNTS.

General ledger accounts will be numbered and titled to conform to the below Uniform Chart of Accounts. These accounts are numbered in such a manner as to provide for the uniform addition of subaccounts by program managers. For example, account 100 Cash can be expanded with 101 Concentration Bank Account; 108 Imprest Bank Account-Payroll; 114 Petty Cash; etc. Program managers will also assign two-digit individual Activity/Department Codes to asterisked accounts so that they are uniform for each morale, welfare, and recreation program category. Some activities will need only a minimum number of accounts to maintain their records in an adequate manner, whereas, large funds may necessarily need to augment the number of accounts listed. Program managers may assign additional detail accounts not otherwise prescribed by this handbook that are consistent with its accounting policies. Requests for approval of any deviations will be submitted to the DFAS-HQ via the appropriate program manager.

ASSETS

CURRENT:

100	Cash
120	Investments
130	Inventories
*150	Receivables
160	Prepayments

NON-CURRENT:

170	Fixed Assets
171	Vehicles/Aircraft
173	Furniture, Fixtures, and Equipment
175	Buildings and Facilities
177	Building and Facilities Improvements

178 Construction in Progress
 180 Accumulated Depreciation
 181 Vehicles/Aircraft Depreciation
 183 Furniture, Fixtures and
 Equipment Depreciation
 185 Buildings and Facilities
 Depreciation
 187 Building and Facility
 Improvements Depreciation
 190 Other Non-Current Assets

LIABILITIES AND NET WORTH

CURRENT:

200 Accounts Payable
 210 Salaries and Wages, Personnel
 Benefits and Taxes Payable
 230 Allocations
 240 Loans Payable
 250 Unearned Income
 260 Other Current Liabilities

LONG-TERM:

270 Loans Payable (Long Term)
 280 Other Long-Term Liabilities
 290 Net Worth
 291 Net Worth Beginning of Fiscal
 Year
 293 Net Income (Loss)
 295 Transfers In
 297 Transfers Out
 299 Distributions

INCOME AND EXPENSES

SALES INCOME:

*300 Sales Revenue
 *310 Sales Returns and Allowances

COST OF SALES:

*400 Cost of Sales

ACTIVITY INCOME:

*500 Participation Fees and Charges
 Revenue
 530 Dues and Assessment Revenue
 550 Mission Support Revenue
 560 Distribution Revenue
 590 Concessionaire Revenue

OPERATING EXPENSES:

*600 Salaries and Wages
 *620 Personnel Benefits
 *640 Utilities and Rents
 *660 Communications
 *680 Maintenance and Repair (incl.
 Minor Construction)
 *700 Supplies and Equipment
 (Expense Type)
 *720 Transportation of Persons
 *730 Transportation of Things
 *740 Common Services
 *760 Depreciation
 *780 Other Operating Expenses

OTHER INCOME:

800 Interest Income
 810 Miscellaneous Income
 890 Extraordinary Income

OTHER EXPENSES:

900 Interest Expense
 910 Miscellaneous Expense
 950 Late Payment Penalty Expense
 990 Extraordinary Expense

CLEARING ACCOUNT:

999 Profit or Loss Clearing Account

*Requires 2-digit individual
 Activity/Dept. Codes
 Use Code 99 for G&A Indirect Expenses.

C0403 DESCRIPTION OF GENERAL
 LEDGER ACCOUNTS

A. This paragraph describes
 the accounts within the General Ledger structure
 and explains the purpose for which each type
 account is normally used. Accounts herein are

described only to a three-digit level. Program managers may assign and describe additional specific detail accounts not otherwise prescribed by this appendix.

100 CASH. This series of debit balance asset accounts is used to record cash balances, such as checking accounts; savings accounts; petty cash; change funds; etc. Accounts maintained in foreign currencies must be converted to equivalent U.S. dollars for financial statement reporting purposes.

120 INVESTMENTS. This series of debit balance asset accounts is used to show the value of temporary interest bearing investments, such as certificates of deposit; federal securities; etc.; that will be converted back into cash within one year. Supporting securities registers will be maintained to record details as to cost, purchase date, yield, maturity date, and other pertinent information.

130 RECEIVABLES. This series of debit balance asset accounts is used to record amounts which are owed to an activity and are expected to be collected within one year, such as accounts receivable-customers; accounts receivable-dues; accounts receivable-returned checks; commuted rations; etc. Subsidiary accounts identifying amounts owed by individual debtors are maintained in support of these control-type accounts. When receivables are subsequently paid, this series of accounts is credited and cash recorded in the appropriate 100 series of accounts.

150 INVENTORIES. This series of debit balance asset accounts represents the monetary value of various types of merchandise on hand. The balance of warehouse/central storeroom control accounts must be in agreement with detail stock record cards. Differences between control totals in these central accounts and official physical inventories are adjusted to inventory shortages/overages accounts as General & Administrative expenses (Activity/Dept Code 99). Retail inventory accounts will be identified with program manager assigned 2-digit Activity/Dept codes uniform within the MWR category. Depart-

mental inventory account overages/shortages are adjustment to cost of sales accounts.

160 PREPAYMENTS. This group of debit balance asset accounts is used to record the unused or unexpired portion of items other than fixed assets whose benefit extends beyond the current accounting period such as prepaid supplies; prepaid insurance; advances; etc.

179 FIXED ASSETS. This series of debit balance asset control accounts is used to record the cost value of fixed assets of durable or costly nature that have been purchased with nonappropriated funds. Detail property record cards will be maintained for each asset item in support of the value of these accounts. (Excepting Acct. 178). Designated accounts (171-177) group assets into depreciable life span groupings (See para. 572). Account 178 is used to accumulate the capitalized value of construction in progress until an item is financially complete. The value is transferred to account 175 or 177 as appropriate.

180 ACCUMULATED DEPRECIATION. This series of credit balance control asset accounts is used to record the total accumulated depreciation on the assets recorded in the 170 series of accounts to show their diminished value due to usage, obsolescence, or passage of time. These accounts are credited with the amount of depreciation charged to operations during an accounting period.

190 OTHER NON-CURRENT ASSETS. This series of debit balance asset control accounts includes interest bearing investments that will be converted back into cash for more than a year and other receivables owed to an activity but not due or collectible within one year. This series of accounts also includes investments established to fund reserves for acquisitions to be made more than a year in the future. Subsidiary accounts or registers will be maintained in support of these control accounts.

200 ACCOUNTS PAYABLE. This series of credit balance liability control accounts is used to record amounts owed trade creditors or organizations for goods or services received

which will be paid within a year in the normal course of business. Also included are accounts for customer security deposits; payables due employees; collections due U.S. Treasury; assessments payable (e.g., on slot machines); etc. At the end of each accounting period supporting schedules and subsidiary ledger accounts will be reconciled to these accounts.

210 SALARIES AND WAGES, PERSONNEL BENEFITS, AND TAXES PAYABLE. This series of credit balance liability accounts is used to record the amounts for salaries, wage, and annual leave earnings of employees that have been accrued but not paid at the end of an accounting period. Accrued payroll and leave schedules will be prepared to support entries to these control accounts. Also included are accounts used to record accrued payroll related expenses such as taxes withheld or other amounts deducted from employees wages to pay for a variety of benefits. Employer contributions owed for any of these taxes or programs are included in the appropriate account with the employee portion.

230 ALLOCATIONS. This series of credit balance liability accounts is used to record the amount of monies held but available to be drawn upon by another activity such as for the use of units which are not authorized to maintain separate recreation funds. The value of funds allowed to activities is credited to these accounts with a debit to prepaid expenses and individual account amounts are supported by subsidiary records. As expenditures are made, by/or in behalf of the units, cash is credited and these accounts and the supporting subsidiary balances are decreased. An equal portion of the deferred (prepaid) expense is credited and an applicable program expense account is charged.

240 LOANS PAYABLE. This series of credit balance liability accounts shows the amounts owed on loans and notes which will be paid in full within one year. For payables with terms of more than a year, only the portion to be paid in the current year will be recorded in these accounts and the remainder of the liability will be recorded as a long-term payable in the 270 account series.

250 UNEARNED INCOME. This series of credit balance liability accounts is used to record amounts of dues, deposits, or other collections accepted in advance but not yet earned. As amounts are earned, they are transferred to an income account. Subsidiary records are maintained to determine the source of prepayments and when amounts will become earned.

260 OTHER CURRENT LIABILITIES. These accounts are used to classify and record amounts of other current short-term payables not categorized or described by any of the above specified liability accounts (e.g., bonuses).

270 LOANS PAYABLE (LONG TERM). This series of credit balance liability accounts represents the amount owed on loans and notes which are not due to be paid within one year. The portion of any of these payables that is to be paid within one year will normally be recorded as a current liability in an account in the 240 series.

280 OTHER LONG-TERM LIABILITIES. These accounts are used to classify and record amounts of long-term payables other than loans, such as retirement and severance allowances; unearned income/dues; advance collections; etc.

290 NET WORTH. This account series is limited to the recording of retained equity; net income (loss); entries associated with establishments, disestablishments, or consolidations of funds; and the distribution of capital (dividends/distributions) by Category C-Business Activities. The periodic closing of the nominal accounts (300 through 900 series of accounts) is made to account 293.

300 SALES INCOME. This series of credit balance income accounts is used to record revenues earned from the sale of merchandise. Two-digit individual Activity/Department codes are maintained for each retail activity/function (such as dining, hobby shop, bar, wine sales, etc.) with related cost of sales accounts in the 400 series, related inventory accounts in the 150 series, and related direct expense accounts in the 600-700 series; suffix codes 00 through 98. Sales

returns are recorded separately in the 310 account and not netted against the 300 sales revenue account for fuller disclosure of gross and adjusted sales revenue.

400 COST OF SALES. This debit balance account is used to record the cost of resale merchandise sold. Separate two-digit Activity/Department codes are maintained relating to each resale income account in the 300 series. The cost of free meals furnished to employees will not be charged to cost of goods sold but charged as either a direct or G & A expense in the 620 account series.

500 PARTICIPATION FEES AND CHARGES REVENUE. This series of credit balance income accounts is used to record use, rental, participation fee, or admissions revenue for various sports, recreation or other program services. Separate suffix accounts are assigned with related direct expense accounts in the 600-700 series.

530 DUES AND ASSESSMENT REVENUE. This series of credit balance income accounts is used to record revenues derived from membership dues and interfund assessments levied on particular activities (such as a percentage of slot machine or mess sales/profits, consolidated accounting offices revenue earned through the performance of services, etc.)

550 MISSION SUPPORT REVENUE. This series of credit balance income accounts is used to record revenues earned from the performance of appropriated funded mission responsibilities (janitorial services for common areas, etc. which are other than reportable morale, welfare, and recreation support costs by appropriated funds).

560 DISTRIBUTION REVENUE. This series of credit balance income accounts is used to record regular recurring revenue derived by a distribution or transfer from other units (such as exchange profit distributions, cafeteria allocations, package store profits) and/or central fund transfers or grants to field activities. It is deemed to be income to the recipient as distinct from amounts (such as initial establishment

capitalizations) creditable as direct increases to net worth in the 290 series of accounts.

590 CONCESSIONAIRE REVENUE. This series of credit balance income accounts is used to record revenues earned from concessionaire agreements of sales functions contracted out vice performed in-house, such as tour desk, ticket services, cafeteria concessions, etc.

600-799 OPERATING EXPENSE. These debit balance expense accounts are used to record by type the direct and/or indirect nonappropriated fund costs of operations (based upon the nature of the services, articles, or other items involved). They parallel appropriated fund classifications and definitions described in DODI 7000.12(series), Financial Management of Morale, Welfare, and Recreational Activities and are structured to meet its reporting requirements. These accounts require the use of two-digit suffix codes 00 through 98 for identifying them as direct activity/department operating expenses. Suffix code 99 is assigned to identify indirect (G&A) operating expenses within these series classifications. Where expenses can be identified to a particular activity/department, they must be recorded as a direct expense.

600 SALARIES AND WAGES. This series includes the NAF cost of personnel compensation such as regular salaries and wages, overtime pay, severance pay, differentials for service abroad, and contract labor. (Excludes costs that are reported under another expense caption e.g., maintenance and repair labor).

620 PERSONNEL BENEFITS. This series includes payroll related costs of benefits and employer contributions for payroll taxes life insurance/health insurance/retirement contribution costs, awards, employee meals, cost of living allowances, relocation expenses of employees, etc.

640 UTILITIES AND RENTS. This series includes the cost of heat, light, power water, gas, electricity, steam and other utility services exclusive of transportation and communications services. Includes rental of equipment (except transportation equipment) and rental of real

property and charges under Purchases Rental Agreements for equipment prior to the time that the title to the equipment is acquired.

660 COMMUNICATIONS. This series includes charges for the transmission of messages, postal charges, (other than parcel post), messenger service, teletype service and telephone service including installation charges and use of telephone instruments and switchboards.

680 MAINTENANCE AND REPAIR (INCL. MINOR CONSTRUCTION). This series includes expenses for the maintenance and repair of equipment, facilities, and real property purchased through commercial contracts or base civil engineers. Maintenance and repair performed in-house will include direct labor and materials. Overhead allocation for G&A expense (supplies, miscellaneous materials, equipment usage) will only be allocated where such is necessary to prevent a gross underestimation of maintenance and repair costs. Minor maintenance and repair not separately identified as a maintenance and repair expense need not be allocated to this expense element series as long as such costs are included under other expense series of accounts (such as salaries, supplies, etc.). Minor construction costs are expensed in these accounts only if less than amounts to be capitalized and reported in the Fixed Assets series of accounts.

700 SUPPLIES AND EQUIPMENT (EXPENSE TYPE). This series includes costs (other than significant maintenance and repair supplies) of operating supplies (e.g., china, glassware, silver, linens, uniforms, and kitchen utensils), equipment, printing and duplicating, and materials ordinarily consumed in use, such as sports gear, office supplies, fuels, punched cards and checks, subscriptions, hand tools, etc. Includes expensed materials used to form a minor part of equipment or fixed property (such as repair parts).

720 TRANSPORTATION OF PERSONS. This series includes charges (such as commercial transportation fares, rental cars fees, per diem allowances, mileage allowances, tolls, charges for

use of passenger carrying vehicles, etc.) for temporary duty (TDY) and permanent change of station (PCS) travel and subsistence for travelers conducting MWR program functions.

730 TRANSPORTATION OF THINGS. This series includes charges (such as those common carriers, parcel post, drayage, cartage, transportation of PCS household goods, rentals of truck and transportation equipment, etc.) for the transportation of things and for the care of such things while in the process of being transported for MWR programs (Where feasible such freight-in costs should be included in Resale Inventory or Fixed Assets accounts).

740 COMMON SERVICES. This series of expenses includes charges received from MWR Support Service Offices by any other benefiting category MWR for such services as accounting, procurement, personnel support, etc.

760 DEPRECIATION. This series includes the annually expiring cost value of fixed assets capitalized in the 170 account series. Expenses charged to these accounts are aligned to the various 180 series of accounts - Accumulated Depreciation.

780 OTHER OPERATING EXPENSES. This series includes all other charges for direct or indirect operating expenses not classifiable in any of the above 600-779 series of accounts (e.g., inventory shortage/overages, spoilage, uncollectible accounts, advertising, insurance premiums, etc.).

800-890 OTHER INCOME. These credit balance accounts are used to record sundry and extraordinary income gained from exceptional nonrecurring nonstandard business operations and not recordable as operating income (e.g., interest income, insurance proceeds, cash overage, bonus merchandise, gains on disposition of fixed assets, income from installation sale of recyclable materials, etc.).

900-998 OTHER EXPENSES. These debit balance accounts are used to record sundry and extraordinary expenses not recordable as direct or indirect operating costs (e.g., lawsuit losses,

finances, cash shortages, losses on disposition of fixed assets, etc.).

999 PROFIT OR LOSS CLEARING ACCOUNT. This account is used to accumulate all revenues and expenses for the purpose of determining the net profit/net loss for an accounting period. After all revenue and expense accounts (nominal accounts) have been closed to this account the final balance is transferred to account 293. A credit balance represents a net profit for the period and a debit balance represents a net loss for the period.

CHAPTER 5

PROCEDURESC0501 TAXES

C050101 General. Taxable wages generally consist of all earnings (regular, overtime, service charges, and reported tips) by an employee for services performed for his employer. Managers should obtain each year a copy of "Employer's Tax Guide, Circular E", and comply with applicable provisions thereof. Other helpful information may be found in the publications "Your Federal Income Tax" and "Tax Guide for Small Business." These publications can be obtained from the Internal Revenue Service. Copies of circular covering state income taxes should also be obtained from appropriate state authorities.

C0502 FEDERAL TAXES

C050201 Reporting And Remittance. Reporting and remittance of Federal taxes will be as prescribed by the Director of Internal Revenue.

A. Federal Income Taxes - Withholding. Withholding taxes are based on the rate established by the Internal Revenue Service and are published in the "Employers Tax Guide, Circular E." Federal income tax will be withheld from nonappropriated funded compensation of civilian and off-duty military personnel employees in conformance with the Internal Revenue Code.

B. Social Security Tax. The Federal Insurance Contributions Act (FICA) tax on wages, imposed by section 3101 of the Internal Revenue Code, will be deducted from the wages of civilian and off-duty military employees; and the excise tax imposed by

section 3111 on employers will be paid on such wages as follows:

1. Within CONUS, Alaska, Hawaii, Puerto Rico, and the U.S. Virgin Islands - on wages of all civilian employees irrespective of their citizenship.

2. Within other areas - on wages of civilian employees who are citizens of the United States.

3. Deduction will be made from the wages of military personnel employed during off-duty hours.

4. Sickness or injury payments made under worker's compensation law or contract insurance or certain employer plan are exempt from Social Security tax. In the absence of an employer's sick pay plan, payments will not be exempt from Social Security tax until the lapse of six calendar months subsequent to the last calendar month the employee worked for the employer. Applicable rates and computation tables are published in NAVCOMPT Manual, Volume 3 Chapter 3, and "Employers Tax Guide, Circular E." Provisions must be made to discontinue deductions when the maximum annual deduction amount has been reached.

5. Social Security taxes should be withheld from the pay of Nonappropriated Fund Instrumentality employees for periods during which they are on sick leave.

C. Federal Unemployment Tax Act - FUTA. It has been determined that employees of Navy paid with nonappropriated funds are considered employees of the Navy for unemployment compensation and are covered by Title XV of the Social Security Act as amended 1 September 1954 (42 U.S.C. 1361 et seq.). Accordingly, filing unemployment tax returns and the payment of unemployment taxes are unnecessary. (See Appendix B concerning the Federal Unemployment Compensation Program for nonappropriated fund paid employees.)

D. Meals, Lodging and Other Facilities. The fair cost of furnishing employees with meals, lodging, or other such facilities, for the convenience of the employees will be considered paid to the employees for purposes of Federal income, FICA, and FUTA taxes. Conversely, the fair cost of furnishing employees such facilities for the convenience of the employer will not be considered wages paid if:

1. In the case of meals, they are furnished on the business premises of the employing NAFL, and

2. In the case of lodging, it is furnished on the business premises of the employing NAFL and acceptance of the lodging provided is a condition of employment.

E. Federal Occupational Taxes. Morale, welfare, and recreation entities located in the continental United States, Alaska, and Hawaii are subject to the following occupational taxes imposed by the Internal Revenue Code. (For the purpose of these type taxes, each category of MWR activity on an installation is subject to the following occupational taxes irrespective of the number of operational locations on the installation.)

1. The tax on a wholesale dealer in beer, imposed by section 5111(b).

2. The tax on a wholesale dealer in liquor, imposed by section 5123.

3. The tax on a retail dealer in beer, imposed by section 5121(a).

4. The tax on a retail dealer in liquor, imposed by section 5121(a).

5. The tax on fuel, imposed by section 4041

6. The tax on heavy trucks, imposed by section 4051

7. All other excise taxes that may be imposed as a result of changes to applicable tax laws.

C0503 STATE, TERRITORIAL, AND LOCAL TAXES

C050301 Immunity. Morale, welfare, and recreation activities of the Navy Department are entitled to immunity from the taxes of states, the District of Columbia, territories and possessions of the United States, the Commonwealth of Puerto Rico, and political subdivisions thereof.

C050302 Income Taxes Withheld From Civilian Employees. Income taxes of states and territories will be withheld from the compensation of all civilian employees whose regular place of employment is within the state or territory, when an agreement exists between the Secretary of the Treasury and the state or territory made pursuant to the Act of 17 July 1952 (66 Stat. 765, 5 U.S.C. 84b, 1952 (17 Fed. Reg. 10131)). Upon the request by, and authorization of, a civilian employee not otherwise subject to withholding of pay under these agreements, voluntary withholding of income tax may be made in favor of the state of residence if that state has entered into such a withholding agreement.

C050303 Income Taxes Withheld From Off-Duty Military. State income tax must be withheld from off-duty military employees for the state in which the MWR activity is located. State and local income tax withholding for active military duty will be in accordance with the DoD Pay Manual.

C050304 State W-2. Copy of the W-2 will be filed with the state indicating taxable wages paid.

C050305 Requests for Rulings. Requests submitted to federal, state, territorial, or local authorities, such as pertaining to requests for rulings, interpretations of tax law, and advice as to procedures in tax matters, shall be cleared via official channels with the applicable program manager. Routine inquiries, for tax forms, filing dates, and such general information that do not

affect determination as to particular applicability or construction of tax laws in conjunction with Navy activities may be made directly to the local Internal Revenue Office and need not be cleared via the program manager unless so directed. In states where applicable, personal income taxes will be withheld and submitted as required by that state's law except as noted above.

C050306 Provisions of 4 U.S.C. 5104. Taxes of a state, the District of Columbia, or a territory of the United States upon, or measured by sales, purchases, storage, or use of gasoline or other motor fuels will be collected and paid according to the provisions of 4 U.S.C. 5104.

C050307 Enforcement. Commanding officers will prescribe and enforce necessary controls, including reasonable quantity limitations where appropriate, to insure that restrictions and limitations governing the sale and disposition of state tax-free items are strictly observed. Commanders will cooperate with state tax officials; will investigate all complaints; and will take prompt and appropriate corrective and disciplinary action with respect to any violation or abuse of the tax exemption privilege.

C050308 Report To State or Local Government. State tax office copies of the Internal Revenue Service Form W-2 will be sorted into groups as determined by the residence address of the employee and forwarded with a letter of transmittal to the appropriate address furnished in NAVCOMPT Manual, Volume III, paragraph 033010. In addition to the taxing authorities listed, naval activities are authorized to furnish withholding statements to any other city or taxing jurisdiction which requests such information provided such city or taxing jurisdiction is actually levying a tax on income and provided that the city or taxing jurisdiction will furnish a copy of its ordinance to the activity so it can be determined whether or not any employees are liable for taxes. When an employee is a resident of a state in which compensation for personal services is subject to income tax and is also subject to a tax levied by a city, county, or other taxing unit, extra copies of the Internal Revenue Service Form W-2 should be prepared for the use of the

taxing units. These instructions are not to be construed as constituting a legal interpretation by the Navy Department of an employee's residence for purpose of taxation. The State Tax Office Copy of the W-2 form covering employees residing in a state, city, or any other taxing jurisdiction not listed nor otherwise requesting such information will be destroyed.

C0504 FOREIGN TAXES Activities located in foreign countries, including occupied areas and the Trust Territory of the Pacific Islands, will not pay to, nor collect for, any foreign country or political subdivision any tax unless the United States has consented to such levy collection by treaty, convention, or executive agreement.

C050401 Federal Income Taxes Relating To Guam Or The Northern Mariana Islands (NMI).

A. General.

1. Guam: 48 U.S.C. 1421h provides that Federal income taxes withheld from the compensation of employees of the U.S. Government employed in Guam shall be paid to the government of Guam.

2. Northern Mariana Islands (NMI): 48 U.S.C. 1681 note (P.L. 94-241, Section 703(b)) contains provisions applicable to NMI which are similar to those for Guam.

B. Defining Income Taxes Derived from Guam or NMI. The term "Federal income taxes" is interpreted to include the Federal income taxes imposed upon the compensation of civilian and military personnel of the U.S. Government for services performed in Guam, or NMI. This include the Federal income taxes imposed upon the compensation of those who are employed on a part-time basis.

C. Certifying of Federal Income Taxes Creditable to Guam. All departments and agencies of the Federal Government and service and social organizations associated with a military or civilian morale,

welfare, and recreation entity, having Federal civilian or military employees stationed in Guam or NMI, must certify each calendar quarter the total amount of Federal income taxes withheld from salaries or such employees, to the Commissioner of Internal Revenue, Attn: TX:R:R, Washington, D.C. 20224. Separate certifications will be required for taxes creditable to Guam and those creditable to NMI. The certification(s) may be in the form of a letter, citing as authority for the certification(s) Section 3-4085 of the TFRM (I TFRM 3-4000) and identifying the certifying entity, the employer identification number, the calendar quarter covered by the certification(s), and the dollar amount withheld. The certification(s) should be submitted as soon as possible after the close of the calendar quarter but not later than the end of the month after the close of the calendar quarter covered by the certification(s). The amount shown in the certification(s) must agree with the amount of income tax withheld included in the quarterly Federal tax return of the employer (Form 941).

C0505 T A X R E P O R T I N G PROCEDURES

C050501 Negotiations With Taxing Authorities. Except as consistent with the above paragraphs, all matters involving the attempt to impose taxes upon, or require collection from morale, welfare, and recreation activities by the Federal Government, a state, the District of Columbia, a territory or possession of the United States, the Commonwealth of Puerto Rico, a foreign nation, or any political subdivision thereof, will be reported through appropriate channels in detail prior to payment or collection to either The Judge Advocate General or The Office of the General Counsel as appropriate. Negotiations with taxing authorities will not be conducted by any Department of the Navy Personnel without the express authorization of the Judge Advocate General or The Office of the General Counsel as appropriate.

C050502 1099 Requirement. Activities making payments under personal services contracts aggregating \$600 or more to anyone other than a corporation during a calendar year

will report the aggregate amount paid, the name, address, and the social security account number of the recipient of such payments on IRS Form 1099. Contracts with entertainers are within the definition of a personal services contract. If an employee, to whom wages or salaries are paid and reported on IRS W-2, also engages in a personal services contract with his employing activity and receives compensation under such contract, it is the responsibility of the activity to report on IRS Form 1099 the total of such contractual payment (even though less than \$600) if the combined total of the wages and the contract compensation was \$600 or more in the calendar year.

C050503 Prizes and/or Awards. Individual prizes and/or awards which total \$600 or more will be reported on IRS Form 1099. One-game winnings of \$1200 or more from a bingo game or slot machine will be reported on IRS FORM W-2G.

C050504 IRS Forms 1096, W-2G, and 1099. Returns made on IRS Forms 1096, W-2G, and 1099 for a calendar year will be filled on or before 28 February of the following year with the appropriate Internal Revenue Center. In addition, a copy of IRS Form 1099 and W-2G will be sent no later than 31 January of the year following payment by the activity to the individual who rendered services or received awards or winnings.

C050505 Collection, Reporting and Payment. Managers must collect, report, and promptly pay all taxes required by law when due.

C0506 CASH

C050601 General. Cash includes: petty cash funds, change funds, bank accounts, and cash receipts. Purpose, policy, and procedure for use of cash are set forth in this part. Cash receipts are covered in paragraph C050702 of this chapter.

C050602 Petty Cash Fund.

A. Imprest Fund. Where a volume of small cash purchases is necessary, a petty cash fund operated under the imprest method may be established to be used for small payments, not to exceed \$150 for any one transaction (\$300 for emergency conditions). Petty cash funds shall not be used for payment of employee's or entertainer's wages. All other purchases shall be processed using purchase orders or contracts. Splitting of purchases to circumvent the limitation is prohibited. The commanding officer will authorize in writing the establishment of this fund, if needed, and specify the amount authorized. The manager will determine the Individual responsible for the petty cash fund.

B. Reimbursement. The amount of cash on hand plus the total of authorized paid petty cash vouchers must always equal the amount shown in the petty cash fund account. For example, the petty cash fund has been established in the amount of \$200.00. The fund is inspected at month end and \$151.25 in cash and vouchers totaling \$48.75 are found. To reimburse the petty cash fund a check for \$48.75 would be written. Thus, at all times cash or cash plus vouchers will equal \$200.00. Before reimbursement is made, the vouchers are examined and it is determined which expense accounts are to be debited. If expenditures were made for minor repairs \$20.75, supplies \$8.00, and miscellaneous expense \$20.00, the following entry would be required:

680-XX	Maintenance and Repair	\$20.75	
700-XX	Supplies	8.00	
780-XX	Other Operating Exp	20.00	
100	Cash		\$48.75

NOTE: The credit goes to cash, not to petty cash.

C. Establishment. Establishment of this fund and replenishment thereof will be made by checks drawn on the regular checking account. The individual responsible for the petty cash fund will obtain signed receipts for all funds advanced. No disbursement will be made from the petty cash fund without a

supporting voucher approved by a responsible official and signed by the person receiving the cash. To prevent alteration, these vouchers should be typewritten, or made out in permanent ink, dated, and the amount written out in full in words, i.e., ten dollars, not \$10.00. Each petty cash voucher will indicate the nature of the expense and be supported by vendor's receipts or invoices where appropriate.

D. Vouchers. Petty cash vouchers will be prenumbered in sequence. This fund will be reimbursed as of the last business day of each accounting period and at any other time when necessary. At the time of reimbursement, the petty cash vouchers shall be examined for possible evidence of fraud and canceled by perforation, date stamp, or some other satisfactory manner so as to prevent their possible reuse.

E. Commingling. Cash receipts shall never be commingled with the petty cash fund.

C050603 Change Fund.

A. Authorizations. The commanding officer will authorize in writing the establishment of each fund, if needed, specifying the amount authorized. The individual responsible for each fund will be determined by the manager and designated in writing, specifying the amount each individual is responsible for. The establishment of the change fund will be by check. This fund is established primarily for the purpose of making change. With proper documentation, it may be used to issue refunds. Other expenditures from change funds are prohibited. Should the commanding officer authorize cashing of checks from the change fund, the following information will be placed on the checks: name, rank, current address, social security number, organization, and telephone number. In the case of membership activities, (and for members only not guests) the above information is not required on each check if already on file within the activity. If the person cashing the check is a dependent, the information should be given on the sponsor. As required by the Privacy Act, of 1974, any request

made to an individual for disclosure of a social security number or other personal information must be accompanied by a privacy act statement at all check cashing locations consistent with the following:

"Note to check cashiers: disclosure of social security number and other personal information is mandatory if you wish to cash a check. All information furnished will be used to identify, to this activity, writers whose checks have been returned unpaid. Request for this information is made pursuant to the authority of Title 5, U.S.C., Section 301 and Title 10, U.S.C., Section 5031."

B. Establishment, Operation, Disestablishment. The manager provides each activity cashier with a separate fixed amount change fund and obtains a signed receipt in duplicate from the custodial cashier. When the activity cashier is reassigned or relieved, the custodian returns the change fund and obtains the original of his receipt. To preclude daily turn-in of change funds, a locked box in which to store change until the next duty day may be provided. When this procedure is used, the locked boxes containing cash should be stored in the activity's safe.

C. Employee Checks. Employee checks, including payroll checks, will not be cashed by the issuing activity except when the employee is utilizing the activity as an authorized patron.

D. Change Fund Balance. In keeping with the principle that the place for excess cash is in the bank, the change fund should be in the absolute minimum amount sufficient for normal operations.

E. Audit. The entire change fund must be available for audit and/or verification at all times.

C050604 Cash Counts.

A. Daily Verification. All funds and cash receipts must be verified daily. Surprise counts of all cash receipts and funds in custody of cashiers will be made on a periodic

and at least quarterly basis (the designee must be independent of the cash function). This includes petty cash, change funds, and all cash receipts for deposit on hand. This count will be accomplished during duty hours while the fund is in operation and the cash counted reconciled to the applicable general ledger accounts and the daily activity records. Any checks included in such surprise counts shall be deposited by the counter or under his supervision. The bank should be requested to notify the counter directly if any such checks are returned for insufficient funds.

B. Surprise Counts. This requirement does not preclude additional surprise cash counts by disinterested personnel as may be prescribed by the program manager or the commanding officer.

C. Certification. A dated and signed certification of each cash count will be kept on file for at least one year to attest the fact that this requirement was accomplished.

C050605 Bank/Credit Union Accounts.

A. Purpose. Accounts with a local bank or credit union are primarily established for depositing daily receipts, making disbursements by check and obtaining change.

B. Policy. Local accounts will be established where necessary for each activity in accordance with policies and standards prescribed by the program manager and in accordance with this handbook. These accounts will be carried in the name of the activity. Activities are permitted to open checking accounts with financial institutions that do not return canceled checks.

C. Deposits. All cash receipts will be deposited daily in the bank. Where authorized, refunds and cash prizes may be made from change funds or cash receipts if proper safeguards are instituted with proper documentation. Weekend and holiday receipts will be deposited daily when there is access to a night depository, or if no night depository on the next first business day. Daily activity records

will be prepared daily to substantiate any deposit. When the amount to be deposited is less than \$100 or exception is authorized by the program manager, an activity is permitted to defer the deposit of such small amounts until the amount to be deposited reaches \$100. However, all undeposited receipts will be recorded at month end and be deposited on the last business day of the accounting period. In these cases, only one deposit slip is necessary. The regular deposit slips furnished by banks will be prepared for all deposits made. The activity identification will be indicated on each deposit slip. The original of the deposit slip will be retained by the bank. The duplicate, properly validated by the bank teller, will be returned and attached to the daily activity records.

1. Remote Locations. In instances where the location of the depository precludes daily deposits, a government check will be obtained from the local disbursing officer or arrangements made to purchase money orders from the nearest U.S. Post Office in exchange for cash. The cost of such money orders will be paid from petty cash; not subtracted from the daily deposit amount.

2. Authenticated Receipt. An authenticated receipt shall be obtained from the bank for each deposit and shall be retained on file as part of the official records. Normally, this will be a receipted copy of the bank deposit slip, but it may also be a printed receipt if a machine record system is used by the bank. The receipted copy of the deposit slip shall be signed by the person making the deposit and retained by the activity until the deposit slip/receipt, authenticated by the bank, has been returned and found correct. Cash, or deposits containing cash, shall not be entrusted to anyone for transmittal to banks unless a fidelity insurance bond covers such risks.

3. Receiving Checks. Each activity receiving checks shall insure that the following information is placed on personal checks by the person presenting the check prior to receiving cash or merchandise: name, rank, social security number, organization,

and phone number. In the case of membership activities (and for members only - not guests) the above information is not required on each check if already on file within the activity. If the person cashing the check is a dependent, the information should be given on the sponsor. Immediately upon receipt, checks will be endorsed "For Deposit Only to Account of (Title of Activity)", thereby limiting the negotiability of the instruments.

4. Securing Cash. Cash on hand will be kept in locked receptacles and cash receipts must be physically segregated from petty cash and change funds. Classified material or personal property will not be kept in safes with cash.

5. Signed Receipts. Persons entrusted with cash will obtain signed receipts for funds turned over to other persons. Custodians of cash will be furnished with locked receptacles for the safekeeping of the funds and will be the only persons to have access to such funds.

D. Deposits By Mail. Since cash is not to be deposited by mail, an "Exchange for Cash" check from the local disbursing officer or money order from the local post office will be obtained. This check and personal checks included in the deposit will be listed individually, as required by the deposit slip. Only checks that are payable in U.S. dollars and drawn on banks of the United States will be included in the deposit.

E. Bank Service Charges. In the event a bank levies a service charge, the charge will be debited to a miscellaneous general and administrative expense account.

F. Returned Checks. When the local bank returns a check, the activity will prepare an entry to show the decrease (credit) in the bank account and an increase (debit) to the returned checks account (accounts receivable). The bank should be instructed to mail returned checks directly to the activity manager or his designee, who is independent of the cashier and bookkeeping functions. Returned checks that

remain uncollectible for a 6-month period will be written off (after the manager is satisfied that all efforts to collect the amounts have been made and the commanding officer has approved such write-offs in advance). The general journal entry will be a debit to a bad debt expense account and a credit to the returned checks accounts (accounts receivable).

G. Replaced Or Redeposited Returned Checks. When the returned check is redeposited or replaced by cash or a new check, it will be included in the applicable daily deposit and reported on the daily activity record as a debit to cash and a credit to the returned checks account (accounts receivable).

H. Check Cashing. The program manager will be responsible for prescribing policy for the cashing of checks. Where practicable, arrangements should be made with banking facilities for automatic redeposit of checks returned for insufficient funds the first time. Checks returned as nonnegotiable will be charged to an accounts receivable-returned checks account until subsequent collection or approved for write-off by the commanding officer and/or program manager.

I. Collection For Dishonored Checks. All debts arising as a result of dishonored checks issued to activities or instrumentalities shall be vigorously pursued by the activities or instrumentalities which have been issued the dishonored checks. This vigorous pursuit of the debt must be evidenced by issuing a written demand for payment; by affording the indebted member the due process rights prescribed by Title 37 USC 1007(c); and by assessing of interest, penalties, and administrative costs when permitted by law.

1. Debt Collections. In the case of debts owed by active duty and reserve personnel, notification of the member's commanding officer is also required in most instances. The offset of a member's pay may be undertaken only when all other reasonable collection action has failed. In those instances, the activity or instrumentality which holds the dishonored check will be responsible for

preparing the forms necessary to effect the withholding from their pay and for certifying to the member's disbursing officer that the provisions of the Title 37 USC 1007(c) as applicable, have been fulfilled.

2. Debt Collection From Retirees. In the case of retired and reserve members, this certification should be made to the Navy or Marine Corps Finance Center, as applicable. The disbursing officer or finance center shall be responsible for executing the withholding and for informing the member of the reason for the withholding. Application of the proceeds of the charge will be by either credit to an appropriation or fund or by remittance of a U.S. Treasury check, depending upon instructions furnished to the disbursing officer by the activity or instrumentality.

3. Policies regarding Collection of Dishonored Checks Accepted by Commissaries, Ships' Stores, and Nonappropriated Fund Instrumentalities are prescribed in SECNAVINST 7200.18(series).

C050606 Reconciliation Of Bank/Credit Union Balances.

A. Monthly Reconciliation. A monthly reconciliation will be made between the checkbook, bank statement, and the general ledger cash account. The reconciliation should be performed by a person who is not a check signer and who is independent of the cashier and cash recording functions. This person should receive directly from the bank or credit union a statement and the canceled bank checks or equivalent listings. The standard procedure for reconciling a bank account is as follows:

1. Arrange checks in numerical sequence;

2. Compare checks or listings with list of checks outstanding at close of previous month as shown on the reconciliation statement and with checks issued during the month as shown in the cash disbursement journal, noting all checks outstanding or issued which are not reported or

returned. This comparison should include check number, name of payee, and amount;

3. List by date, number, payee, and amount, all checks which have not been paid by the bank. Stop payment orders should be filed with the bank, or, other appropriate action taken on checks outstanding for more than six months;

4. Determine that any amounts appearing in the previous month's reconciliation as deposits not credited by the bank are shown by the bank as credits on the current month's bank statement. Such credits should be dated within one or two days of the date deposited as shown by the books. Intervals longer than 2 days should be investigated by the reconciler and satisfactorily resolved;

5. Ascertain that all reconciling items other than checks outstanding and deposits not credited by the bank shown in the previous month's reconciliation are accounted for either as corrections by the bank during the current month or by appropriate entry to the general ledger cash account;

6. Compare amounts listed in the cash receipts journal with deposit amounts shown by the bank statements and list any amounts which have not been credited by the bank;

7. Determine what charges and credits, if any, have been made by the bank during the month which have not been entered in the accounting records;

8. If necessary, compare paid checks returned by bank with debits shown on the bank statement; and

9. Summarize the above information on the statement, or a separate sheet attached to the statement.

10. The person who makes the reconciliation will sign it and show the date the reconciliation was completed.

11. Reconciliations should be reviewed, approved, and dated by an official whose duties do not normally include the handling of cash. After such review and approval, appropriate entries in the accounts should be prepared for all reconciling items other than deposits not credited and checks outstanding, unless such items represent errors by the bank. Any such disclosed errors should be reported to the bank immediately for correction.

12. Savings account passbook balances shall be reconciled with the general ledger balance and the bank records each month for the purpose of timely recording of interest earned.

13. Bank statements, the bank reconciliation, canceled checks and credit union listings shall be filed in chronological and/or numerical order as part of the permanent records of the activity.

C050607 Foreign Currency.

A. Prohibited From Speculating. Morale, welfare, and recreation activities are prohibited from speculating in foreign currencies. They may however, acquire local foreign currency in accordance with the NAVCOMPT Manual, paragraph 042552, provided:

1. Currency held in support of construction and severance/retirement liabilities, as approved by program managers, is for the purpose of avoiding or minimizing losses due to currency fluctuations or revaluations;

2. Currency to pay payrolls and related costs is obtained as needed;

3. Currency holdings to pay the cost of supplies and inventories is held to an absolute minimum and does not exceed that amount required for expenditures occurring in a 30-day period. (Program managers may approve the holding of

a 45-day foreign currency requirement under exceptional conditions);

4. Activities shall not have direct access to the disbursing officer's accounts as means of converting any foreign currency into dollars; and

5. Foreign currencies on deposits are in accounts meeting the requirements set forth in this appendix.

B. Investing of Funds in Foreign Areas. If military banking facilities offer substantially less interest, other U.S. banks in the same foreign area may be utilized for the purpose of holding foreign currencies, when authorized under host country law. Factors to consider in making decisions regarding foreign currency include probability of fluctuations, revaluations, and the comparative rate of return on foreign currency holdings as opposed to dollar instruments. U.S. Military banking facilities or other financial institutions designated by the Treasury Department are to be used to hold currencies when authorized under host country law. In the absence of such institutions, funds shall be held in Foreign banks, as designated by the Treasury Department.

C050608 Borrowing Policies. The NAFI program managers will base all borrowing decisions on sound economic and financial management factors for the best possible cost/benefit relationship for both borrower and lender. To the extent funds are not available from within the Navy, interservice borrowing at DOD component level will be considered as an alternative to commercial borrowing. Applicable program managers will establish procedures to consummate interservice borrowing transactions when the services concerned determine that such loans are mutually advantageous.

C0507 INCOME

C050701 General.

A. Income Defined. Income is money or money equivalents (checks, money orders, bank credit cards, e.g., BankAmericard)

earned or accrued during an accounting period. Receipts can take various forms: sales in the various departments, collections for surcharges, collections of accounts receivable, repayment of returned checks, loans received by the activity, etc. In most cases, income will be received by persons designated as cashiers.

C050702 Cash Receipts.

A. Control. Cash receipts require the fullest possible measure of control. Cash receipts of an entity relate to the receipt of currency, coins, checks, bank drafts, and money orders.

B. Records. It is vital that accurate and timely records be kept of cash receipts. Cash receipts accountability applies to money and charge documents. In order to segregate the functions of handling money and cash items and keeping the records, someone other than the bookkeeper prepares a list of departmental receipts. Cash registers will be used if available and feasible and each sale rung up in view of the customer. Employees receiving cash shall not be permitted to work out of an open register drawer. The drawer must be closed after every deposit of cash to insure proper ring-up and prevent pilferage. Where cash registers are not available, sales must be recorded on prenumbered sales tickets. The original copy of the sales tickets will be attached to the daily activity record as support.

C050703 Cash Registers.

A. Purpose. The cash register is used to safeguard activity funds in the custody of the individual cashiers during hours of operation and to furnish a record of each individual sale.

B. Policy. Each transaction will be recorded on the register at the time of the sale in conformance the internal controls cited in the Volume 13, Chapter 9.

C050704 Cashiers.

A. Individual Cashiers.

Each individual cashier will be provided with a change fund. Sales will be recorded on the register and the cash deposited in the cash drawer and the drawer closed after each sale. Daily, upon completion of the cashier's scheduled working period, the cashier will count the receipts, prepare applicable parts of a daily activity record, and either turn in receipts and the daily activity record to a person designated by the manager, or deposit them in a night depository-type safe as directed. In those instances where daily receipts cannot be turned in at the close of business, each day the daily activity record and the receipts will be delivered the following workday prior to the opening of the day's business. The manager will designate a safe place where those receipts may be kept overnight.

B. Central Cashier.

The central cashier will either receive the receipts and the daily activity record from the individual cashier or will obtain them from the night depository safe. The receipts will be verified and appropriate certification will be recorded on the daily activity record. This form will be forwarded to the person designated to read the register.

C. Person Designated To

Read Register. The person designated by the manager (generally an assistant manager and never the individual cashier) will read the register upon completion of the cashier's scheduled working period but in all cases prior to another cashier's utilizing the register. The tape should be removed from the register and attached to the daily activity record. The register readings and appropriate certifications should be entered on the daily activity record. Cashiers shall not be permitted, at any time, to see cash register readings. The central cashier should never be designated to read the register.

D. Cash Boxes.

When the use of cash registers is not practicable, the cashier will be furnished a cash drawer or metal box. When in use, the cash drawer or box will be in custody of the cashier at all times. In those instances when the cash drawer or box is also

used to turn in the daily receipts, the cash drawer or box will be placed in a safe or other secure place until the cashier is able to present the receipts for verification and removal by the manager or his designated representative.

C050705 Credit Card Sales.

A. Purpose. Credit card sales reduce the amount of cash handling at activities and afford patrons the privilege of paying for their purchases on a delayed basis.

B. Policy. Appropriate regulations authorize certain activities and individuals to have credit card sales. The total of credit card sales will be recorded on a credit draft or invoice (furnished by the credit agency). The patron's credit card (furnished by the credit agency) will be used to imprint the necessary identification and the patron will sign the draft or invoice. The cashier will verify the signature with that on the credit card. The cashier will verify, reconcile, and ensure that the individual credit card sales total, agrees the register tape card sales. These drafts or invoices will be forwarded as directed by the credit card agency and will be recorded as charges on the Daily Activity Record.

C050706 Cash Receipt Vouchers.

A. Prenumbered cash receipt vouchers will be used for receipts of cash not recorded in cash registers or on sales slips. The receipt voucher will be prepared in triplicate for each cash collection. The receipt voucher will be distributed as follows:

Original--to the patron or the individual making the payment

First Copy--attached as support to the Daily Activity Record (used to post Cash Receipt Journal)

Second Copy--retained in numerical sequence

C050707 Cash Received In Mail. Provision must be made to record all cash

(checks, money orders, etc.) received through the mail by a person other than the cashier. As frequently as such cash is received a listing will be prepared in sufficient copies as deemed necessary to provide the required internal control. The person preparing the listing and the person receiving the cash receipts must both sign the form in acknowledgement of accountability.

C050708 Coin Operated Machines.

A. Vending and Amusement Machines. The keys to vending and amusement machines operated by the activity will be held in the custody of the manager or his designated representative. Machines should be emptied by the manager or his designated representative with another person as witness. Cash taken from vending machines will be reconciled with stock needed for refilling such machines. The manager or his designated representative and the witness will sign the daily activity records. Amusement machines will be controlled by nonresettable coin counters and the cash receipts reconciled with the meters each time the machines are serviced.

B. Slot Machines. Due to the sensitive nature of slot machines, close control and supervision over all aspects of operations must be exercised at all times. Slot machines must be owned by the activity in which located or another activity of the same installation and recorded on the appropriate property records in detail to include such items as make, model, serial number(s), and token or coin denomination. Commanding officers and managers must take all measures to insure that:

1. Slot machines are procured in accordance with the procedures prescribed by the program manager.

2. All keys to cash boxes, meter boxes, coin receivers, or internal mechanisms of slot machines are entrusted to carefully selected personnel. At no time shall any one person have available for his use or in his possession sufficient keys which will permit him to have access to either internal or external cash boxes.

a. The casement, meter boxes, and coin receiver keys to all slot machines and one key to one of the locks on the slot machine cash box (for those machines equipped with double locks on the cash box) will be entrusted to the custody of an officer designated by the command such as a command duty officer or other designated officer from a list that provides a frequent, preferably daily change. The designated officer will record each opening of a slot machine and must verify the cash count. One key to the other lock on the cash box shall be retained by the activity manager;

b. For those machines with only one lock to the cash box and access is through the casement, the key to the cash box shall be retained by the activity manager;

c. As indicated above, all keys except the one cash box key in custody of the activity manager shall be retained in the custody of the officer designated by the command such as a command duty officer or other designated officer. However, for those commands maintaining a separate officer list for the purpose of observing cash collections, keys will be transferred directly to and from the place of safekeeping. Control over keys will be established by maintaining a record of the name, social security account number (SSAN), and organization of the persons to whom issued. The record will also state the specific purpose for the issue;

3. Disinterested persons are appointed to collect cash, witness repair work, or free jams. This duty should be rotated to prevent collusion or compromise.

4. All funds collected from slot machines are property safeguarded and accounted for in accordance with provisions of this handbook.

5. The verification of cash removed from slot machines is made by two members of management and the officer designated above.

6. All slot machines are emptied as often as required, but not less than once weekly. Cash must always be collected on the last day of each month in order that income can be credited in the appropriate accounting period.

C050709 Bingo.

A. Bingo Receipts. Receipts will be controlled through the use of a cash register and/or the use of prenumbered coupons or tickets. The tickets will be issued by serial numbers to bingo cashiers, who will be responsible for missing numbers when turning in receipts. When cards are sold at a reduced price, management must take a reading of the ticket numbers or use tickets of a different color or series before the reduced price sale begins. A special Event Report will be prepared for each bingo event as required by this handbook.

B. Bingo Cards. Bingo cards should be marked or date stamped to indicate payment has been received for a card. Before a prize is presented to a bingo winner, the card will be checked to insure that payment has been received.

C. Bingo Awards. Every award shall be properly signed for by the recipient. For additional verification, include the recipient's name, rank (if applicable), social security number, organization, and telephone number. Cash prizes will be paid by check or from an imprest fund established for that purpose. For this purpose the fund limitation is waived.

D. Bingo Merchandise Prize Controls.

1. Procurement. Bingo prizes may be procured on a consignment basis when authorized by the program manager. The consignment basis is similar to a memorandum receipt where the activity has responsibility for the items not present at periodic inventories. The purchase agreement for bingo prizes should permit the return of unaccepted prizes to the vendor for full credit.

2. Inventory. A perpetual inventory of merchandise prizes shall be kept current at all times, and a proper identification number shall be affixed to each merchandise prize. Prizes should not be in a storeroom where employees have easy access. They must be kept under lock and key. Small expensive prizes require additional safeguards. When the display table is set up for the game, the manager or a designated responsible person should personally check the prizes out of the storage area, using the inventory records as a checklist.

3. Sale. The retail sale of bingo prizes is prohibited. Surplus or slow-moving bingo prizes should be returned to vendors for credit or disposed of as a special or consolation prize.

C0508 PURCHASING

C050801 General.

A. Prenumbering. Prenumbered purchase orders or consecutively numbered contracts will be issued for all purchases (including entertainment) made from commercial sources except for purchases paid from the petty cash fund. In certain instances where orders are placed with the vendor by telephone, a confirmation purchase order will be processed and forwarded to the vendor with the notation, "Confirming - Do not duplicate this purchase." Purchase orders will be used to document performance during a merchandise contract relationship. Purchase orders will not be used when purchasing merchandise from Naval Supply Systems sources or when requisitioning documents are prescribed by local supply activities. Sufficient copies will be prepared to enable the activity to process the requisition document in the same manner as prescribed for purchase orders.

1. Purchasing With NAF. To purchase merchandise with nonappropriated funds from the General Services Administration, either one of the following forms must be used: Single line Item Requisition System Document (DD Form 1348),

or Multiuse Standard Requisition/Issue System Document (Standard Form 344). A local fund code established by the Supply Department will be cited on each document to distinguish the transaction from a similar transaction utilizing appropriated funds.

2. Scope. All segments of the Department of the Navy procuring with non-appropriated funds will comply with SECNAVINST 7043.5A.

B. Authorization. The manager or other person specifically authorized in writing to be the purchasing/contracting officer will be responsible for all purchasing for the activity. The manager must approve the purchase of equipment and furnishings and/or services which will be recorded as fixed assets. The person designated should not be authorized to receive such merchandise, operating supplies, equipment, or furnishings. The commanding officer will establish a monetary limit the purchasing/contracting officer can expend at one time for a specific purpose without his prior and specific written approval. Activities shall not make purchases on the installment plan. Lease/purchase agreements, conditional sales contracts, and time contracts are not permitted unless authorized by the program manager.

1. Forms Control. All purchase orders will be numbered consecutively and strictly controlled and accounted for. They will be completed in their entirety before signature and will not be signed in blank.

C050802 Blanket Purchase Orders.

A. Tangible Goods. A purchase order may be issued as a blanket order for tangible goods. It may be used in the following instances where the purchase price remains the same:

1. No competition (one source of supply, e.g., Coca Cola) and frequent deliveries are required.

2. Source of supply is accepted on basis of bids and frequent deliveries are required.

3. When such a purchase order is used, all of the descriptive and unit price information except quantity and total cost should be included. In addition, the following type statement should appear on the purchase order: "You are hereby authorized to deliver the following products in the unit size specified and for the unit price indicated, during the period _____ to _____". Increments of delivery will be determined on a need basis by the purchasing/contracting officer or by the manager. Purchase action of a continuing nature must be documented by a contract.

C050803 Blanket Purchase Agreement.

A. Open Ended Charge Account. A blanket purchase agreement is essentially an open ended charge account kept with a supplier for goods which are usually price volatile in nature, and which necessitate frequent deliveries. Among the advantages of this type agreement are the invoicing terms (one billing a month vice frequent billings and payments) and the ability to "call-in" orders on a frequent basis. The use of blanket purchase agreements is to be limited to tangible goods meeting the criteria stated above (e.g., produce) where a fixed unit price order is not possible (i.e., the use of a blanket purchase is not feasible).

B. Calls. Calls against blanket purchase agreements generally will be made orally. Written calls may be executed on informal correspondence. Documentation of individual numbered calls (such as recording the calls in a log) is required but shall be limited to essential information. Memorandum type forms may be developed locally for this purpose.

C050804 Contracts, Agreements, Leases, Licenses, and Permits.

A. Contracts and Agreements. All contracts for construction

projects will be negotiated by the Public Works Department and will cite a single source of funds either appropriated or nonappropriated funds. Contracts for other than construction projects, negotiated on behalf of the activity, will be charged directly to the respective activity's nonappropriated funds and state that no appropriated fund of the United States will be charged or held liable thereunder. Each contract or agreement, other than construction contracts, will be signed by the manager or his designated representative, and the representative of the person or firm furnishing such work or services.

B. Examination of Contractor's Records. A standard "Examination of Records Clause" will be incorporated in all nonappropriated fund contracts except those with foreign contractors where precluded by the laws of the country involved or where the Secretary of the Navy determines that the inclusion of the clause would not be in the public interest. The wording of the clause will be in accordance with SECNAVINST. 7043.5A(series).

C. Leases, Licenses, and Permits. Instruction concerning the issuance of leases, licenses, and permits for use of government property or facilities, including property and facilities under the control of morale, welfare, and recreation activities, is given in Real Estate Administration, NAVDOCKS P-73.

C050805 Purchase Discounts. In determining the cost of purchased property, discount shall be deducted from the price billed. Such discounts are reductions of costs that represent savings achieved through payments of bills within vendor's stipulated time limits. They are not income and shall not be accounted for as such, since they do not produce an increase in assets based on the sale of goods or services. In determining the cost of purchased property, the amount to be recorded shall be net of discounts. The value of discounts not taken shall be charged to operations as "discounts lost". This instruction applies to inventory accounting systems maintained at cost value.

C0509 RECEIVING

C050901 Policy. Persons other than the purchasing agent or bookkeeper will be designated in writing to be responsible for receiving.

C050902 Procedures For Receiving.

A. Delivery. When delivery is made, the receiving clerk will:

1. Withdraw both filed copies of the purchase order from the "open order" file.

2. Inspect the merchandise to assure it is of the quantity and quality ordered.

3. Record on both copies of the purchase order the quantity received.

4. Record on both copies of the purchase order the serial numbers of all equipment received.

5. If satisfactory, certify both copies of the purchase order in the spaces provided on the bottom and mark on the vendor's delivery slip the purchase order number.

6. If any variance exists between quantity and/or quality of the merchandise ordered and that delivered, bring it to the attention of the purchasing agent prior to accepting delivery of the merchandise.

7. Record on both copies of the purchase order the storeroom or department where the merchandise is placed so the bookkeeper can record the correct account.

8. Obtain countersignature of departmental personnel to whom merchandise is turned over on delivery on both copies of the purchase order and the vendor's delivery slip.

9. Forward a copy of the annotated purchase order and vendor's delivery slip to the bookkeeper as evidence of receipt to support the bill-paying process.

10. Retain a copy of the purchase order at the receiving activity for future reference.

B. Receiving Procedures.

Receiving procedures for partial or incomplete shipments are the same as those prescribed for blanket purchase orders.

C050903 Special Procedures. When a blanket purchase order or agreement is used, or as partial shipments occur, vendors delivery slips and the receiving copies of the purchase order will be certified and processed as outlined above. In addition, the receiving activity must indicate that the receiving documents are for a partial shipment, delivery increments (of a blanket purchase order or agreement), or the final increment of a partial shipment before forwarding the documents to the bookkeeper. A copy of the receiving documents will be retained at the receiving activity for ready reference concerning merchandise received. When a final shipment is received or when it is determined that no further shipment can be expected, the receiving activity will indicate final shipment or cancellation information on both copies of the purchase order and send a copy to the bookkeeper.

C050904 Procedures For Bookkeeper.

A. Receiving Documents.

Upon receipt of receiving documents the bookkeeper will:

1. Partial or Incomplete Shipments. In the case of a partial shipment or uncompleted blanket purchases, delivery slips or invoices will be filed in the open order file pending shipment completion. Invoices will be inspected to insure merchandise received complies with the terms of purchase. When the receiving documents for the final shipment are received, all invoices or delivery

slips will be compared with the final receiving copy of the purchase order.

2. Completed Shipments. In the case of a completed shipment, withdraw the open order file copy of the purchase order and compare it with the final receiving copy of the purchase order and attached invoices or delivery slips.

3. Receiving Documents. Compare the receiving documents with the open order file of the purchase order and the dealer's invoice. If the documents agree, an annotation of accuracy will be made on the documents, a check prepared and all documents submitted to the person designated to sign checks. If a discrepancy appears, it should be brought to the attention of the purchasing agent for resolution. After resolution the check will be prepared and documentation forwarded as noted above. When several purchases are made from a vendor and separate payments are not required, payments may be made by the issuance of one check.

C050905 Storing, Recording and Issuing.

A. Policy. Each storage facility will be kept locked under the custodian of one person designated by the activity manager. Access to the storage area will be governed so as to prevent unauthorized withdrawals. Stock records will be maintained to show perpetual inventory of each type item held in a warehouse or storeroom. Receipts and issues will be posted daily. Custodians and managers will be held responsible for the receiving and issuing of all merchandise. Receiving Reports will be executed promptly and forwarded to the accounting department to take advantage of any discounts. Damaged and short shipments will be investigated promptly to effect adjustments or replacements.

B. Procedure. Merchandise and operating supplies, when received, will be handled in one of two ways:

1. Future Use. Stored in a storeroom when purchased for future

use. The initial positioning of such material will be indicated by the receiving clerk on the receiving/bookkeeper copy of the purchase order and the bookkeeper will debit an applicable storeroom inventory account. When resale items (food, beverages, etc.) are subsequently issued to a department for sale, entries on a requisition will show a debit to the applicable departmental cost of sales account and a credit to the applicable storeroom inventory account. When operating supplies or replacements are issued to a department, entries on a requisition will show a debit to the applicable departmental expense account and a credit to the applicable storeroom inventory account.

2. Delivered to Department. Delivered directly to an operating department (for example, gymnasium, stables, etc.) for immediate use. The initial positioning of such material will be indicated by the receiving clerk on the receiving/bookkeeper copy of the purchase order and the bookkeeper will debit an applicable departmental cost of sales or departmental expense account, as appropriate. If items are subsequently transferred from one department to another, entries on a requisition will show a debit to the appropriate cost of sales or departmental expense account of the department gaining the items and a credit to the appropriate account of the department transferring the items.

C0510 DISBURSING

C051001 Cash Disbursements.

A. Prenumbered Checks. Disbursements will be made by printed prenumbered checks that are maintained under maximum security and issued in strict numerical sequence, however, minor miscellaneous expenditures may be made from a petty cash fund. Also, refunds and cash prizes may be made from change funds or cash receipts if proper safeguards are instituted with proper documentation. All checks will bear the name of the activity and be secured in a locked receptacle. All checks issued should be written in permanent ink preferably by a computer, check-

writing machine, or typewriter. If an error is made in writing a check, the check shall be voided and another issued. Under no circumstances should checks be signed in advance or made payable to cash or bearer. Advance payments are authorized only when specifically approved by the program manager or designated representative. The routing and processing of check payments is vital and should include the following independent and documented steps:

1. Authorization of payment,
2. Preparation of checks,
3. Signing of checks,
4. Mailing or delivering of checks, and
5. Reconciliation of checking account.

B. Validity Check. Prior to the signing of any check, the person designated to sign will determine the validity of the voucher intended for payment. Validity shall be determined by comparing the amount of the voucher to the supporting documents (purchase order, receiving report and the vendor's invoice). All supporting documents will then be stamped with a "Paid/Date" stamp and the voucher annotated with the check number. After signature, the check will be mailed or delivered to the payee. It should not be returned to the bookkeeper or person who prepared it. Spoiled checks will not be destroyed but will be retained, marked "void", and rendered nonnegotiable by at least mutilating the signature area. Voided checks will be held until the account statement is received and then filed therewith. The general ledger cash balance will be reconciled monthly with the balance in the account statement.

C. Designation of signatory. Individuals authorized to sign checks will be

designated in writing by the commanding officer or his designated representative. A dated signature card will be filled with the financial institution for each person authorized to sign checks. Controls may be reinforced by requiring countersignatures. Rubber stamp signatures are not authorized.

C051002 Processing of Bills or Invoices.

A. Bookkeeping Procedures.

Upon receipt of a bill, the bookkeeper will place it in the file with a copy of the purchase order, pending receipt of the material or services. The bill will be verified with the quantity ordered and received, unit price, extension, and terms of payment. Any transportation charges on the invoice are to be checked with the terms on the purchase order. Priority in processing payments will be given to all bills offering cash discount terms. After the bill has been matched to the order, the bookkeeper will indicate in writing on the bill that it is correct, initial the bill, prepare a check and submit the check with the order and all documents attached, to the person designated to sign checks. Any differences will be called to the attention of the person designated to sign checks. No bill will be paid unless covered by an order on which appears a certification of receipt and acceptance signed by the designated representative of the receiving activity concerned. Only invoices fulfilling the following requirements are acceptable for payment:

1. Original,
2. Formal invoice format,
3. Unaltered,
4. Addressed to the activity,
5. If covering multiple deliveries supported by delivery slips,
6. Dated and stating terms,

7. Quantity or quantities,
8. Description of merchandise or services,
9. Unit price or prices,
10. Extension of quantities and unit cost price,
11. Total amount of invoice.

B. Subsidiary Accounts.

A separate account of each creditor will be maintained in a subsidiary ledger supporting the general ledger accounts payable controlling account. An appropriate ledger sheet (procured locally) will be maintained for each creditor in alphabetical order. Each month these subsidiary ledger sheets shall be totaled and reconciled to the general ledger control account. In a small activity where the number of creditors is minimal, the maintenance of a subsidiary ledger may be waived by the commanding officer.

C0511 PAYROLL

C051101 Control of Payroll.

A. Payments of Salaries and Wages.

All salaries and wages will be paid by check except in those foreign countries where a formal working agreement indicates that subject employees must be paid in cash. In the case of a requirement to pay cash, one check will be drawn for the net payroll amount and employees will sign for the amount of cash received.

B. Notification Schedules.

Written notification schedules must be made of the exact hours each employee is expected to be on the job each day.

C. Authorizations.

The manager or designated representative must authorize, in writing, all employment, separation actions, changes in the approved work schedule,

or other changes that affect the pay of employees.

D. Reporting Hours Worked. A system will be devised locally whereby hours worked by each employee can be reported to the payroll clerk. Such a system might be as follows: Employees hours of attendance for work are punched on a time clock (smaller activities may use time sheets or a similar type log). Departmental supervisors certify in writing on the time card, time sheet, or time log, the number of hours worked during the period. These time records are then submitted to the payroll clerk, who computes the employees' wages and keeps their individual earnings records.

E. Pay and Earnings Statement. A check will be prepared for each employee, and when feasible, an individual earnings statement (format developed locally) itemizing information contained on the individual earnings record for each employee. Each check will be signed by the manager or other authorized person.

F. Accuracy Checking. The manager will appoint someone other than the payroll clerk to check the accuracy of the payroll. The manager or his designee will then approve the payroll and sign and distribute the pay checks and the individual earnings statements.

G. Payroll Checking Account. Whenever the size of the payroll warrants, a separate checking account should be established for payroll disbursements.

H. Items Not To Be Used For Payroll Payments. Current cash receipts, petty cash funds, or change funds shall never be used for payroll purposes.

I. Unclaimed Payroll Checks. After an appropriate interval (usually 2 weeks) all unclaimed payroll checks should be voided and recredited to the bank account. Checks issued but not presented for payment within one year will be canceled and upon proper notification to the bank recredited to the

bank account. It is highly important that unclaimed pay be investigated to disclose any irregularities that may exist as the result of "payroll padding" and pocketing of unclaimed wages. Payroll checks should be marked "Not negotiable after 60 days from date of issue."

J. Abnormalities. The manager shall continually examine any abnormal increases in the number of employees, rates, and labor costs.

K. Signing of Blank Checks Not Authorized. Managers will not sign payroll checks in blank for emergency use during their absence.

L. Controls on Time Cards. Payroll time cards/sheets will be canceled or dated in order to prevent their possible reuse.

M. Verification. From time to time, the payroll should be checked to make sure that the number of names corresponds to the number of employees, that W-4's are on file for each employee and that gross pay and deductions are consistent with applicable laws and the employee's desired deductions from gross pay. At least once a year a person not normally associated with the payroll function will distribute the pay, requiring identification of each employee before distributing the check, and document the results.

C051102 Service Charge, Gratuities, and Cash Tips.

A. Service Charges. A service charge is an amount of money automatically added to a patron's bill by the activity. If the service charge is to be retained by the activity, it should be credited to the appropriate revenue account. If the service charge is to be paid to an employee, credit a Salaries & Wages, Personnel Benefits and Taxes Payable Account. The employee shall be paid the service charge on his regular payroll check. Service charges are subject to both the employee's and employer's share of FICA tax.

B. Gratuities. Gratuities are considered to be any charge tip voluntarily added by the patron to his bill. Gratuities shall be credited to a Salaries & Wages, Personnel Benefits and Taxes Payable Account. This type of income is not subject to the employer's share of FICA tax.

C. Cash Tips. Cash tips refer to tips given directly by the patron to the employee.

D. Reporting Gratuities and Cash Tips. Gratuities and cash tips are required by law to be reported by the employee to the employer on or before the tenth of the month following the month the tips were received by the employee if \$20.00 or more for the month. These "Reported Tips" are posted and accumulated for purposes of determining income and FICA tax withholdings. Services charges are not to be included in this reporting as they are included as regular wages. Managers should obtain copies of "Reporting Your Tips For Federal Tax Purposes" (Publication 51) from the District Director of Internal Revenue for distribution to affected employees.

E. Reporting by Certain Large Food or Beverage Establishments with Respect to Tips. To promote full reporting of employee tip income, food and beverage establishments must estimate expected tips in relation to levels of gross receipts from food or beverage cash sales, charge receipts, and the retail value of complimentary food or beverages served to customers. Such establishments (as determined by program managers) are required, under Section 6053(c) of the Internal Revenue Code of 1954, to file an annual tip information return on or before the last day of February of the year following the calendar year for which it was made to the District Internal Revenue Service Center on Form 8027 with Transmittal Form 8027T. Required attachments to the return include photocopies of each employees' W-2 for whom an allocation is made and a copy of any written employer/tipped employees' good faith agreement applicable for the reporting year. Reporting establishments shall assign a unique 15-digit activity reporting number on each Form

8027 report. Additionally, employers shall furnish to each employee to whom a tip amount is allocated a written statement on the employees' Form W-2 showing the aggregate amount allocated to the employee for the calendar year.

C0512 PROPERTY ACCOUNTABILITY AND CONTROL

C051201 General.

A. Recording. Fixed Assets (nonexpendable property) procured with nonappropriated funds will be recorded at original acquisition cost less cash discount plus freight-in and installation cost plus the cost of additions, modifications, or enhancements thereto. If the original cost is not known, an estimated value will be assigned. In determining the estimated value, reference should be made, where possible, to manufacturers; price lists, cost of similar items, and such other sources of information as may be available. When the source of funds for the original procurement of property cannot be determined, it will be considered to have been purchased with appropriated funds. Property on loan will be controlled through use of appropriate issue and signed receipt documents. A Certificate of Disposition must be approved by the commanding officer or his designated representative before a fixed asset may be dropped from a Property and Depreciation Record (NAVCOMPT Form 742). Some fixed asset types:

1. Fixed Assets (Title Remains With Morale, Welfare, and Recreation Activity). To reflect acquisition cost (or estimated value if acquired by other than purchase), allowance for depreciation, and net book value.

2. Other Fixed Assets (Government real property facilities, improvements, and equipment procured with nonappropriated funds, title to which is transferred to the government). To reflect nonappropriated funded acquisition cost, allowance for depreciation, and net book value.

An explanatory footnote will be included in the balance sheet as follows: "The title of real property financed with nonappropriated funds and reported hereon is vested with the U.S. Government."

3. Fixed Assets (Purchased with Nonappropriated Funds to be reimbursed with appropriated funds). As of 1 October 1990 appropriated funds may not be used to reimburse a NAFI. In those instances when property is purchased with nonappropriated funds to be subsequently reimbursed with appropriated funds, such property will not be recorded on the books of the nonappropriated fund instrumentality (NAFI). To record a transaction of this nature, the NAFI will debit accounts receivable and credit cash or accounts payable.

B. Diversion of Assets. A building or structure constructed or purchased using nonappropriated funds will not be diverted to a use other than in direct support of the MWR purpose for which it was acquired without the prior concurrence of the program manager.

C. Proceeds From Sale. In accordance with U.S.C. 485(C) the net proceeds from the sale of a building or structure, acquired or constructed using nonappropriated funds and subsequently sold upon disposition of Government property, will be credited to the applicable fund as determined by the program manager. When it is uneconomical or impractical to ascertain the amount of net proceeds, the proceeds will be credited to Miscellaneous Receipts of the U.S. Treasury.

C051202 Classes of Property.

A. Nonexpendable Property. Nonexpendable property (minor fixed tangible assets) is that which ordinarily retains its original identity during its period of use, is not fully consumed in normal use, has a unit acquisition value of \$1,000 or more and has a life expectancy of more than two years. Examples include furniture, fixtures and office equipment. When purchases are made in bulk for like items

(example, a set of chairs) and the total cost is \$1,000 or more, regardless of the unit cost, the items may be capitalized and depreciated. Nonexpendable property will be recorded in the general ledger as fixed assets and capitalized. Property and depreciation records will be maintained as subsidiary records to the general ledger controlling account. Only one item or group of like items will be recorded on each property and depreciation recorded. At least annually, the total value recorded on the subsidiary records will be reconciled to the corresponding general ledger account balance. Each nonexpendable item will be given a unique identification number which shall be permanently affixed with a tag or by some other method, to identify activity property. Assets in this group will be considered fixed assets for depreciation purposes.

B. Expendable Property. Expendable property consists of any property with a life expectancy of less than 2 years acquired by purchase, gift, or transfer that has a unit acquisition value of less than \$1,000 such as:

1. Supplies and materials which after issue are immediately consumed in use or become incorporated in other property, thus losing their separate identities (examples: paints, glue, fuel, preserving materials, radio and TV tubes, etc.); or

2. Articles which, when issued for immediate installation, are used to repair or complete other articles and thereby lose their identity (examples: spare and repair parts and components).

a. Property obtained for immediate use will be charged directly to operating expense. However, if expendable supplies are purchased by a department to be consumed in future periods, such items must be recorded as prepaid supplies.

b. Those expendable property items in use having a unit value of \$300 or more will be recorded on a consolidated property record with each item

supported by a separate property and depreciation or stock record. Each item in this group shall be permanently affixed with a number tag or identified by some other method. These items will not be recorded in the general ledger as assets but expensed upon receipt.

c. All other expendable property purchased and stored in the warehouse or storeroom will be recorded on stock records. Issues from the storage area will be based on numbered and controlled requisitions and expensed from prepaid supplies.

C. Appropriated Funded Property. Appropriated funded property purchased for or assigned to morale, welfare, and recreation activities will be accounted for and controlled in accordance with NAVCOMPT Manual, Volume 3, Chapter 6. The fund manager will provide guidance to insure that this property is safeguarded from theft, abuse, waste, and unauthorized use.

D. Resale Merchandise. Merchandise purchased and placed in storage for the purpose of resale is considered an asset of the activity and will be recorded by debiting the applicable general ledger inventory account. When merchandise is delivered to a resale department, the cost of goods sold will be charged to the appropriate account series. Stock records (NAVCOMPT Form 742-1) will be maintained for all merchandise carried in warehouses or central storerooms. Issues from the storage area will be based on numbered and controlled requisitions. Frequent reviews should be made to determine if stock is being purchased in economically sufficient but not excess quantities. Stock record cards will be reconciled with the general ledger inventory account at least monthly.

E. Surplus Property. Surplus/excess items are deemed to be those items which have been screened in accordance with current disposal regulations. Items acquired through surplus/excess programs remain appropriated funded property and will be accounted for and controlled as such in

accordance with current regulations and as directed by the program manager. When no longer needed, these items will be turned in to the nearest Defense Reutilization Marketing Office (DRMO) with a statement that they were previously obtained from appropriated funded surplus/excess sources and that no part of any proceeds from sale or other disposition are due the returning activity. Likewise, when the Defense Property Disposal Office sells nonappropriated funded property the proceeds are returned to the activity disposing of the property.

F. Loss or Damage of Property. In instances involving loss or damage to insurable interests of nonappropriated funded property, insurance procedures, as prescribed by the program manager, will be adhered to. In those situations where the recovery involves both insured nonappropriated funded property, and other insured Government property, the recovery of nonappropriated funded property remains with the morale, welfare, and recreation activity. Recovery for appropriated damaged property should be deposited to the Navy General Fund Receipt Accounts as indicated in 2416A of the JAG Manual. Appropriate documentation should be included in every claims file.

G. Donated Property. Includes those assets that are given to an MWR activity at no cost by another MWR activity or a private donor (in accordance with SECNAVINST 4001.2F(series)). Excludes property obtained from appropriated funds surplus sources as described above.

1. Donating MWR Activity Accounts to be Recorded

a. When initially purchased:

Debit: Fixed Assets
Credit: Cash

b. When donated to another activity:

Debit: Miscellaneous Expense
 Debit: Accumulated Depreciation (where appropriate)
 Credit: Fixed Assets

2. Receiving Activity. The receiving activity will record the receipt of donated property as follows:

a. When received from another activity:

Debit: Fixed Assets
 Credit: Miscellaneous Income
 Credit: Accumulated Depreciation (where appropriate)

b. When received from a private donation:

Debit: Fixed Assets
 Credit: Miscellaneous Income

C051203 Depreciation.

A. General. Depreciation is the allocation of asset acquisition value or cost to present and future operations on the basis of some equitable and rational mathematical system. Although the purchase or acquisition of an asset occurs at one time, the benefits derived from an asset's use are received in future periods. Therefore, an asset's value or cost must be allocated to the periods that receive beneficial use. The income would be distorted if the total cost were charged to expense in any one accounting period.

To show these assets in the financial statements at their adjusted real value, (book value, or asset acquisition cost less accumulated depreciation) the amount of such depreciation is recorded in an accumulated depreciation account and is offset from the fixed asset account on the balance sheet.

B. Policy. The following accounting policy is applicable with respect to depreciation.

1. Fixed Assets. Fixed assets will be depreciated in accordance with the following schedule, until the accumulated depreciation account shows 100% of the cost of such assets. Local commanders or appointed designee will determine the estimated useful life of each fixed asset within the guidelines set forth in the following schedule.

Fixed Assets Value	Useful Life Span (years)	Assets	Depreciation
\$1,000 or more	2-10	Furniture, Fixtures, Equipment & Livestock	Straight Line, No Salvage Value
\$1,000 or more	2-10	Vehicles & Aircraft	Straight Line, No Salvage Value
\$1,000 or more	20-40	Buildings & Facilities	Straight Line, No Salvage Value
\$1,000 or more	5-20	Buildings & Facility Improvements	Straight Line, No Salvage Value

2. Depreciable Assets. Assets with remaining depreciable lives expensed in previous years will be capitalized in the general ledger by debiting the fixed assets account for the acquisition cost, crediting the accumulated depreciation account for the total accumulated depreciation since acquisition and crediting prior period income adjustment for the difference between the acquisition cost and the amount posted to accumulated depreciation. These assets will be depreciated during the remaining life of the assets by debiting depreciation expense and crediting accumulated depreciation.

3. Contributed or Donated Assets. Assets acquired from outside sources by contribution or donation will be recorded in general ledger fixed assets account for their fair market value and credited to Miscellaneous Income.

4. Used Assets. Used assets acquired including donated property will be initially recorded in the financial records and depreciated over their estimated remaining useful lives.

5. Computing Depreciation. Assets maintained on computer file are depreciated beginning in the month following acquisition. Assets on non-computer file are depreciated beginning in the first month

of the fiscal year following the fiscal year of acquisition.

C. Method of Computing Depreciation. Within the Department of the Navy, all fixed assets will be depreciated by the straight-line method. Under this method, an equal portion of the cost of the asset is allocated to each accounting period of use; consequently, this is most appropriate when usage of an asset is fairly uniform from year to year. The possibility of a salvage value is ignored and the annual depreciation charge is computed merely by dividing the total cost of the assets by the number of years of estimated useful life.

D. Recording of Depreciation. At the end of each accounting period the following entries will be required to record depreciation:

Debit - Depreciation Expense
 Credit - Accumulated Depreciation

Depreciation is not recorded as a decrease to the fixed asset account but as an increase to a contra-asset account, accumulated depreciation. The fixed asset account will always show the acquisition cost of the fixed assets. The accumulated depreciation account will show the estimated decrease in value of the fixed assets. The difference between the two accounts is book value. Accumulated depreciation is shown on

the asset side of the balance sheet as a reverse of norm amount.

1. Cash Sale of a Fixed Asset. Cash sales of fixed assets are not combined with the operating income from the sales of inventory or services because the activity is not in business to sell fixed assets. When a fixed asset is sold, everything relating to that specific asset must be eliminated from the books. The fixed asset and accumulated depreciation accounts will always be involved. If the market value (amount received) of the asset differs from the book value, a profit or a loss occurs.

2. Trade-ins. When one asset is traded in for another, the acquisition cost of the new asset is the cash value of the consideration parted with; that is, the cash paid and the amount that could be obtained by a sale of the old asset. Unless known, market value for assets traded in will be net book value. If the cash purchase price of the new asset and the market value of the asset to be traded are unknown, the book value of the asset traded will be considered as its market value.

C051204 Disposition of Unserviceable or Excess Property.

A. Navy Plant Property Procured With Appropriated Funds. Property recorded on the Navy Plant Property Records, including nonappropriated procured buildings and improvements, which have become unserviceable or excess to the needs of the activity will be returned to the appropriate accountable officer for disposition in accordance with existing regulations.

B. Other Property Procured With Nonappropriated Funds. Other property procured with nonappropriated funds which has become unserviceable or excess to the needs of the activity will be disposed of as follows:

1. Used as a trade-in on a similar item.

2. Sold to or transferred to another MWR activity.

3. If not desired by another MWR activity within reasonable shipping distance or if it is deemed unfit for redistribution by the Program Manager, it will be disposed of in accordance with current Navy and base disposal regulations. To avoid collusion or chance for private gain at government expense, items for disposal must be advertised or announced using the current estimated price as a basis for the selling price.

C. Recyclable Material. Morale, Welfare and Recreation (MWR) activities are authorized to use the installation MWR contracting service to sell nonappropriated recyclable scrap such as aluminum cans, bottles and newspapers directly to local recycling firms or continue to use the Defense Reutilization Marketing Office (DRMO). However, prior to selling locally, get assurance from the servicing DRMO that no long term collection or surplus sales contracts are in effect for the installation for the specific types of recyclables. If a DRMO contract exists for this type of property, the contract takes precedence until expiration unless exception is granted by the servicing DRMO. All appropriated recyclable materials shall continue to be processed through the DRMO.

C051205 Inventories.

A. Inventory Systems. There are two systems of determining quantities of goods in the inventory, periodic and perpetual. The periodic system relies upon an actual inventory taken at the end of an accounting period to determine the cost of items sold during the period. The revenue from goods sold during the period is recorded in the sales account, but no concurrent entries are made to record the decrease in the inventory. It is therefore only by a count at the end of the period that the inventory can be determined. The perpetual inventory system uses accounting records that continuously disclose the amount of the inventory. Increases in inventory items are recorded as debits to the appropriate accounts

and decreases are recorded as credits. The balance is the book inventory of items on hand.

B. Valuation of Inventories.

All inventories are valued at cost which is defined as invoice price plus freight charges less discounts. Inventory items received at no cost are recorded as a debit to the inventory account and a credit to Bonus Merchandise. End-of-period physical inventories are valued or priced on the weighted average or first-in first-out (FIFO) basis. In FIFO, requisitions are priced at the earliest invoice cost at which the items were placed in stock. Quantities on hand at the inventory date are considered to be those items most recently purchased. Under the weighted average method of inventory valuation, goods are valued at an average cost. Cost of goods on hand at the end of a period is assumed to be the weighted average of the inventory cost of goods on hand at the beginning of the period and all goods purchased during the period. Physical inventories of fixed assets are valued or priced at original acquisition unit costs including freight-in and related installation charges.

C. Inventory Frequency.

Inventory frequency will be prescribed by appropriate program managers. However, as a minimum requirement, all merchandise, consumable supplies, fixed assets, and property on loan require an annual physical inventory; and, cash and resale merchandise will require an inventory at the close of each accounting period. The results of the inventory will be reconciled with property records and the general ledger controlling accounts. Upon the relief of the responsible person, as determined by the program manager, inventories as set forth above will be accomplished.

D. Types of Inventories.

1. Warehouse or central storeroom resale merchandise.

2. Departmental resale Merchandise.

3. Prepaid Supplies such as china, silver, glassware, and maintenance supplies.

4. Fixed Assets, capitalized nonexpendable property (includes such items as furniture, fixtures, and equipment).

5. Expendable property items which are recorded on property records although expensed at time of receipt.

6. Cash, which includes all cash at an activity (such as petty cash funds, change funds, and undeposited receipts).

E. Procedures For Taking A Physical Inventory.

1. General. A physical inventory, when possible, will be taken either before or after regular operating hours. If this is impractical, it will be taken at a time that will be least inconvenient to patrons. Sales will be made during inventory count only in the case of an emergency. Such sales will be included in the count and treated as sales of the subsequent accounting period.

2. Pre-inventory Procedures. Specific inventory instructions will be issued to employees at least ten days prior to the physical inventory. These instructions will describe:

a. Counting and listing procedures that will be utilized;

b. Inventory count forms

c. Pricing of inventory; and

d. Transaction cutoffs.

A pre-inventory meeting will be held with all employees who are to participate in the counting of the inventory. Inventory instructions and

procedures, personnel assignments, and working hours will be reviewed and discussed during this meeting.

3. Personnel. The manager will designate experienced personnel as inventory supervisors who will be responsible for a complete and accurate inventory. In fulfilling these responsibilities, supervisors will select and train the counters and verifiers and make certain that all preliminary preparations are made prior to counting the stock.

4. Layout Sketch. To assure accurate and expeditious inventory taking in the store, warehouse, stockroom, etc., layout sketches should be prepared in which each fixture (i.e., shelves, gondolas, bins, tables, etc.) is illustrated and identified by a number. Large areas will be prepared by inventory supervisors well in advance of the inventory date. A number, identical to the one entered on the layout sketch will be affixed to each fixture.

5. Cut-off Time.

a. A cut-off date for sale and receipt of merchandise will be established by the accounting office. The cut-off date for the receipt of retail merchandise may be set two or three days earlier than the close of the accounting period to permit arrangement and counting of stock prior to the inventory date. All merchandise received prior to the receiving cut-off will be included in inventory. Merchandise received after the cut-off date will be excluded. Vendors and transportation companies may be requested to delay deliveries until after completion of the physical inventory. If merchandise is delivered during the inventory, do not include or record its receipt. If any sale is permitted, the item must be entered on the inventory sheet.

b. A proper cut-off time (date and hour) will be established for each activity by the accounting branch for the return of merchandise to vendors and the transfer of merchandise from the warehouse or storerooms. All branch and activity locations will be notified by the warehouse at cut-off time of

the number of the last requisition against which merchandise was transferred prior to inventory count. This will enable the activities to ascertain whether all the merchandise charged to them has been received.

6. Stock.

a. General. All merchandise on the selling floor and warehouse will be arranged, sorted, and consolidated by identical merchandise and price line to facilitate counting and listing. Merchandise sold but being held for pick-up will be segregated from regular stock and will not be included in the inventory.

b. Retail merchandise will be properly marked with the retail selling price. All other merchandise will be properly marked with the cost price.

c. A I I merchandise returned by patrons and for which credit has been given will be properly remarked and included in the appropriate departmental inventory.

d. A I I merchandise in the receiving room that has been received prior to the inventory cut-off date will be marked and sent to the warehouse, or selling floor, as appropriate, for consolidation with identical merchandise.

e. With the exception of cartons retained for packaging of merchandise on display, all empty cartons will be removed from the selling floor and warehouse, and collapsed so that they will not be included in the inventory count.

f. All slow moving, damaged, and obsolete stock will be properly marked down to the retail price at which it is expected to be sold and the changes will be effected prior to the inventory cut-off date.

G. Inventory Sheets. The manager will cause type written inventory sheets

to be prepared by department for all items. To the maximum extent possible inventory sheets will list the items according to the manner in which they are physically arranged at the inventory site. Nomenclature shall identify the items to be inventoried. Inventory numbers, manufacturer's serial numbers, and component parts of sets shall be shown on the inventory sheet. All sheets will be dated, pre-numbered, and accounted for. Only one department's merchandise or property will be listed on any one inventory sheet. Inventory sheets shall be distributed to the individuals assigned to conduct the inventory. Upon completion of the physical inventory, all sheets will be signed by each person participating in the inventory process.

F. Inventory Taking Procedures.

1. Counting the Merchandise.

a. General. Merchandise will be counted only after completion of all pre-inventory preparations. When possible, individuals familiar with departmental stock will be assigned to taking inventory. Counter will be indoctrinated thoroughly not only in the method of counting but also in the system of recording the count, for example, the count proceeds from left to right, top to bottom, in book-reading fashion. Normally, the work is done by a team of two people. One should call and inspect the inventory while the other enters (in ink) the quantities on the sheets. Each department will be inventoried separately. During the course of the inventory, independent test checks will be conducted to insure the maximum of accuracy. Items found to be on hand, which were omitted from the inventory sheet, will be recorded by the inventory team, provided such items can be positively identified as activity-owned property.

b. Unit Prices. Unit prices for retail department merchandise will be taken from price tickets at the time of count. All merchandise will be listed and counted in the same unit category as priced

for sale; for example, if cakes of soap sell for 3 for 25 cents, the multiple retail sales prices will be used and recorded "25 cents for 3," (not "3/25"). Only the unit cost price will be shown for service department items. This will be taken from the unit cost price shown on the outside of the case or container or from the last invoice. The same person inserting the unit price amount also records the unit "type" such as dz., ea., gr.

c. Inventory Count. All counts, identification, and pricing of inventories are to be adequately rechecked by a disinterested party other than the one who recorded the original data. All inventory counts are to be supervised and audited by the accounting personnel.

d. Extension of Inventory Sheets. Inventory count sheets will be extended by personnel in the accounting office. All inventory sheets will be extended and footed.

e. Departmental Inventory Worksheets. After the inventory work sheets have been extended and footed, inventory sheets will be summarized in value by department. These values will then be compared against the book inventory. Retail variances will be converted to cost by multiplying retail variances by departmental cost ratios.

2. Items Excluded.

a. Merchandise on Order. Merchandise ordered but not received will not be included in the inventory even if the invoice is received prior to the inventory date.

b. Merchandise Sold--Held for Pickup. Merchandise being held for pick-up which has been sold prior to inventory time, including all lay-aways, will be removed from the regular stock so that it will not be included in the inventory count.

c. Items Charged to Expense Accounts. Items charged to

expense accounts, when received, will not be included in the physical inventories. Merchandise on hand that is to be returned to vendors will not be counted unless it has been charged to an inventory account.

3. Items Included.

a. All materials and parts used for rendering a service, all ingredients used for preparing a finished product, and all unsold resale merchandise in stock will be included in the physical inventory of the various departments.

b. The value of containers, empty or full, for which deposits have been placed with vendors will be included in the inventory of the applicable department. Containers which are so damaged that they cannot be returned to the vendor will be inventoried and a notation will be made of their condition so they may be disposed of. Items out on loan for which activity holds custody receipts will be counted as items on hand, after a reasonable sample of custody receipts are verified. Discrepancies will be investigated as required by the inventory team.

4. Cash Counts. A member of the inventory team shall verify by actual count the petty cash fund, the change fund, and undeposited receipts. The total amounts of each fund will be accounted for. All noncash items should be documented on a locally devised form and retained. I.O.U.'s and post dated checks will not be regarded as cash. The manager or designee will be continuously present during the count, and will affirm the return of the cash funds to his possession. Trace amounts of the petty cash and change funds to the general ledger balance. The amount of undeposited receipts should equal the amounts reported on the daily activity sheet since the last deposit plus current sales. Management and Command Evaluation Staffs/Audit Boards should make surprise counts as appropriate.

5. Inventory Discrepancies. All inventory variances will be investigated to the satisfaction of the

commanding officer. The investigation will include, but not be limited to:

- a. Review of inventory counts for proper quantity, measure, identification, and price;
- b. Inventory extensions;
- c. Footing and recapitulation of inventory sheets;
- d. Physical inspection of facilities for inventory not counted or double counted;
- e. Review of sales cut-off;
- f. Review of purchase cut-off;
- g. Review of price changes;
- h. Review of departmental transfers; and verification of Inventory Summary worksheets and variance computation, Physical inventory variances will be charged or credited to the inventory shortages/overages account and the inventory account charged or credited to reflect the physical inventory value. The adjustment will be made based upon the physical inventory extended value after investigation of discrepancies has been completed.

C0513 ADJUSTING AND CLOSING ENTRIES

C051301 General.

A. End Of Accounting Period. At the end of an accounting period, before the financial position of an activity can be determined, it is necessary to make various accruals, adjustments, and closings to certain accounts to effect corrections, and to record transactions not previously made.

B. Accrual Method. Under the accrual method of accounting various income and expense items that have accrued (accumulated) from day to day must be recorded at the end of a period. It is not practical or convenient to record this information daily, but the complete information is needed at the end of a period. These end of period entries are called "adjusting entries". Adjusting entries are needed to record:

1. Prepaid items used and/or consumed during the period.
2. Salaries and wages earned but not paid.
3. Income earned but not received.
4. Decrease in the value of equipment, buildings, and vehicles.
5. Transactions not previously made.

C051302 Adjusting Entries.

A. Prepaid expense accounts will be adjusted by entries debiting the expense accounts for the amount that has been consumed during the accounting period and crediting the applicable asset account. When an activity buys and stores an asset which will be consumed or used in the future, the value of the item will be maintained in an asset account until it is used. When it is consumed or used, the asset account will be decreased (credited) and an expense account will be increased (debit).

B. Many activities will pay their employees in one month for hours worked in a prior month. This situation occurs when employees are paid every two weeks, regardless of calendar date. Using the accrual method of accounting, an expense must be recorded in the month it occurs.

C. The accrual of interest income is accounted for by an entry debiting receivables and crediting interest income.

Investments earn interest on a periodic basis although the cash may not be received.

D. Whenever the activity receives an asset that it has not earned, the individual or business that gave the asset has a legal claim to either services or assets. Therefore, a liability exists, not income. When the activity has performed the service or given the assets to this individual or business, thus earning legal title to the original asset received, an entry will be made transferring the respective ownership from a liability account to an income account. All accrued liability accounts will be adjusted with entries to the appropriate income and expense accounts.

E. It may be necessary to adjust the General Ledger balances of the departmental resale inventories because of physical inventory valuations. These accounts, when approved by the commanding officer, will be adjusted to show only the annual closing inventory. When the closing inventory is greater than the opening inventory, it is apparent that more merchandise was received than was sold. The applicable cost of goods sold account will be decreased, and the inventory account increased by the amount that the closing inventory exceeds the opening inventory. An entry will be made debiting the inventory and crediting cost of goods sold. As a result the inventory accounts will be adjusted to the value of inventory actually on hand and the cost of goods sold account will show the cost of merchandise sold. The above entries will be reversed when the closing inventory is less than the opening inventory.

F. Issues and direct deliveries to a department will be charged to its cost of goods sold, not to an inventory account. At the end of the period, an adjusting entry will be required if the department has used more or less inventory than has been issued during the period.

G. If an activity's inventory increases, the value of all of the goods received has not been used; if it decreases, the value of all of the goods received and part of the beginning

inventory have been used. This procedure is summarized in the cost of goods sold section of the profit and lost statement.

H. Warehouse or storeroom perpetual inventory records normally should agree with the value of the merchandise on hand in storage. However, if the value of the physical inventories is greater than the value of the perpetual inventory, an entry will be made debiting warehouse inventory and crediting an inventory overage account for the difference. If the value of the perpetual inventory is greater than the value of the physical inventory, an entry will be made debiting an inventory shortage expense account and crediting warehouse inventory for the difference. All adjustments will be investigated to the satisfaction of the Commanding Officer. Appropriate documentation for the adjusting entries will be retained for subsequent utilization during investigations or disciplinary actions.

C051303 Closing The Books.

A. Income and expense accounts (nominal accounts) are used to accumulate information concerning current period changes to net worth. At the end of the period, the net worth account does not reflect the true balance. It is necessary to transfer the amount in the income and expense accounts to the net worth account. This process is called "closing the books," and accomplishes two objectives.

1. Clears income and expense accounts of transactions of the past period.

2. Shows the proper balance in the net worth account.

B. To close the books, the following entries are required:

1. Decrease each income account by the full amount with a debit and a credit to Account 999 Profit or Loss Clearing Account.

2. Decrease each expense account by the full amount with a credit and a debit to Account 999.

3. Credit net worth by debiting Account 999 with the difference between income and expense (net profit). If expenses exceed income, the amount of the loss would be a debit to net worth and a credit to Account 999.

C. Notice the accounts closed are the income and expense accounts. Closing the books eliminates the balances in all accounts on the profit and loss statement - the income and expense accounts are thus summarized to arrive at a net profit or loss figure. The profit or loss is transferred to the net worth section of the balance sheet. Formal closing is not required at the end of each month. However, all income and expense accounts must be closed at least annually.

C051304 Post-Closing Trial Balance. After the closing entries have been posted to the accounts, another trial balance is prepared to prove debits equal credits. This is necessary to insure the ledger is in balance before posting the next month's transactions.

C0514 SPECIAL PROCEDURES

C051401 General. The procedures contained in this Section are applicable to the groups or types of activities indicated. They are supplemental to procedures contained elsewhere in this appendix.

C051402 Bachelor Officers Quarters/Billeting Fund.

A. Room Registration. A registration record (NAVCOMPT Form 2104) will be used to register each guest of the activity. As accountable documents, forms will be prenumbered to control occupancy and revenue.

B. Room Rental Charges. Certain individuals (as designated by BUPERS) authorized to utilize housing are required to pay a user fee while occupying quarters. These rents

are collected and accounted for and deposited in a billeting fund. These collections will be used to partially defray operational and facility costs normally paid from appropriated funds.

C. Housekeeping Services. Housekeeping services, including maid and janitorial services or common use areas, will be provided initially through the use of a nonappropriated funded cleaning service. Nonappropriated funded costs for the common use areas will be reimbursed by station operations and maintenance funds to the Billeting Fund. The costs of services for individual room cleaning will be supported with nonappropriated funds derived from charges upon the residents of the activity.

D. Linen Charges. The laundering or dry cleaning of government-owned room linens and equipment will be at the expense of appropriated funds. Certain individuals (as designated by BUPERS) are required to reimburse the activity for these expenses. These costs shall be included in service charges levied upon the individuals as mentioned above and will be retained in the billeting funds.

C051403 Military Student Subsistence and Commuted Rations.

A. NROTC Midshipmen, Contract Students, and Third Class USNA Midshipmen. NROTC midshipmen, contract students, and Third Class USNA midshipmen while on training under orders away from their unit are entitled to rations in kind only. Accordingly, when they are ordered to subsist in a nonappropriated funded mess, the mess will be reimbursed for their subsistence by the host activity submitting a bill to the local disbursing officer for the cost of meals consumed in accordance with the procedures outlined in NAVCOMPT Manual, par. 046397.2.

B. First and Second Class USNA Midshipmen and Aviation Cadets. First and Second Class USNA midshipmen and all Naval Aviation Cadets will either join the mess or pay cash for meals consumed.

C. Army and Air Force Cadets. Payment for subsisting Army or Air Force cadets will be accomplished by submitting a bill to the appropriated military academy for meals consumed following the general guidance contained in NAVCOMPT Manual, par 046397.2 for Naval midshipmen.

D. Commuted Rations. Commuted rations for assigned enlisted personnel detailed to work at the activity will be paid in the manner prescribed in NAVCOMPT Manual, par. 046397.1.

C051404 Guest Houses, Hostess Houses, and Navy Lodges.

A. Room Registration. A registration record will be used to register all guests of Marine Corps temporary lodging facilities and Navy lodges.

B. Room Charges. Each guest will be given a receipt for funds collected for room charges. Receipts will be procured locally, prenumbered, and used in numerical sequence with each number accounted for.

C051405 Transient Family Accommodations.

A. Occupancy Procedures.

1. General. A registration record will be prepared for an signed by each tenant and filed by tenant's name, for ready reference, until the unit is vacated. A visible index file is preferred. When the unit is vacated the registration record will be removed, completed, and filed by month of vacancy for audit purposes. Each tenant will be furnished an inventory of the contents of the unit occupied, and the condition thereof, and will acknowledge receipt in writing.

2. Occupancy Record. The accommodations officer or designated representative will maintain an occupancy record of each unit. The record will indicate the move-in date and the intended date of vacancy. The intended date of vacancy will

be changed to the actual date of vacancy when the tenant actually vacates. The accommodations officer, or designated representative, will verify that the unit is vacated on the date specified and inspect the unit and its contents for loss or damage before the tenant receives a refund or leaves the premises.

B. Charges.

1. General. Each tenant is required to pay rent for the premises occupied which will include furniture, fixtures, and utilities. In addition, each tenant is required to pay for the loss of or damage to the premises occupied, including contents when such loss or damage is caused by deliberate or negligent acts of the tenant, members of his household, or his guests. The tenant will sign an agreement that he accepts financial responsibility.

2. Unit Rental Rate. A daily fixed unit rental rate for each type of unit will be established by the accommodations officer and approved by the commanding officer. The rate will include the following items:

- a. Estimated cost to maintain each unit,
- b. Estimated depreciation cost of the contents of the unit,
- c. A one-time cleaning and linen charge,
- d. Estimated cost of common services,
- e. Estimated cost of utilities furnished, and
- f. Amount to cover the cost of overhead expenses.

3. Direct Charges. The tenant will be required to pay directly for services furnished from sources other than those furnished by the transient family accommodations officer.

4. Advance Payments and Security Deposits. The tenant will be required to pay, in advance, for the estimated number of days he intends to occupy the premises. The establishment of a security deposit to forestall delinquencies, or to cover loss or damage of government property, will be optional and within the discretion of the commanding officer, and, if required, will be in addition to the advance rental payment. The amount of the security deposit, when required, will be established by the accommodations officer and approved by the commanding officer.

5. Refunds. The tenant will be refunded the difference between the advance payment made and the actual rental charge, and the amount of the security deposit or the difference between the amount of the security deposit and any charges assessed for loss or damage to government property. Such refunds will be made in cash from the departure fund, cash receipts, or a change fund when accompanied by proper documentation. In those instances where the charges for loss or damage to government property exceed the amount of the security deposit, the additional funds will be collected from the tenant before he leaves the premises.

C051406 Host Nation Support-Master Labor Contract (MLC) Cost Sharing. In those cases where a foreign country is committed to fund part of the personnel allowances for its nationals, then the NAFI shall be obligated only for the NAFI portion of the cost.

CHAPTER 6

RECORDING FINANCIAL TRANSACTIONS

C0601 GENERAL

C060101 Journals, Ledgers and Forms.

This chapter describes basic journals, ledgers, and forms which will be maintained locally for the purpose of recording and accumulating financial data and preparing related statements and reports. MWR activities participating in centralized accounting systems under the control of the Bureau of Naval Personnel will use program manager prescribed forms and procedures.

C060102 Illustrative Examples. The various records described, and in some instances shown herein, are presented as illustrative examples and, as such, may be modified to fit the type of accounting equipment utilized, the type and volume of transactions processed, and the requirements of program managers. The diversity of operations makes it impractical to prescribe internal records to meet the operational requirements of all morale, welfare, and recreational activities. Commercial type journals, ledgers, and forms may be procured or devised locally.

C060103 Journalizing Rules. The fundamental rules for journalizing are listed below:

- record:
- assets;
- liabilities;
- losses;
- worth.
- A. Debit entries are to
 - 1. Increases in
 - 2. Decreases in
 - 3. Expenses or
 - 4. Decreases in net

- B. Credit entries are to
 - 1. Decreases in
 - 2. Increases in
 - 3. Income or gains;
 - 4. Increases to net
- worth.

C0602 JOURNALS.

A. General Journal. The general journal is the form for recording all financial occurrences and value changes not within the scope of the other books of original entry. Activities in a centralized accounting system submit a general journal voucher to an accounting unit rather than post to this journal. Most financial transactions will be recorded in one of the special journals, limiting the use of the general journal to the recording of unusual transactions. Unlike the special journals, postings from the general journal to the general ledger may be made as they occur and not at the end of an accounting period. NAVCOMPT Form 730 may be used for this purpose.

B. Cash Receipts Journal. The cash receipts journal is the daily record for recording all cash receipts and bank deposits for activities not participating in a centralized banking system. The journal will contain columnar headings to show the date, description, total amount received, amount deposited, and separate columns to provide credits to the most commonly used accounts. All cash received regardless of source will be recorded in this journal. The journal will also include a general ledger credit column for receipts that are not provided for under the separate columnar

headings. At the end of the accounting period, all columns will be totaled and balanced. Each column total is then posted to the general ledger, except the general ledger credit column for which individual entries are posted by account classification. NAVCOMPT Form 732 may be used for this purpose.

C. Cash Disbursements Journal. The cash disbursements journal is used by activities not utilizing a central banking system to record all disbursements. Columnar headings will be provided for the date, description, check number, voucher number, the amount of the check, discounts earned, and separate columns to provide for debits to the most commonly used accounts. This journal will also include a general ledger debit column to record disbursements other than those provided for in the separate columns. At the end of the accounting period, all columns will be totaled, balanced, and posted to the general ledger except the general ledger debit column for which individual entries are posted by account classification.

D. Purchase Journal. The purchase journal is used to record the liability (accounts payable) and make distribution of charges at the time goods or services are received. Columnar headings will be provided for the date, the name of the vendor, invoice number, purchase order or voucher number, accounts payable credits, and separate columns to provide for distribution to the most commonly used accounts. A general ledger debit column will be included for distribution to accounts not provided for under the separate columnar headings. At the end of the accounting period, each column will be totaled and posted to the general ledger except the general ledger debit column for which individual entries are posted by account classification. Activities in a centralized system post all unpaid bills to an accrual journal voucher at the end of an accounting month.

E. Purchase Journal - Check Register. The purchase journal check register may be used in lieu of the purchase and cash disbursement journals. The NAVCOMPT Form

734 serves to combine the functions of these two journals. A section is provided to record the liability for purchases and make distribution of charges at the time goods or services are received. The disbursement section is used to document the payment of funds. Columnar headings are provided for dates, description, name of vendor, invoice, voucher and check number, and separate columns are provided for the most commonly used accounts.

F. Payroll Journal. A payroll journal is used to record all the information necessary for the preparation of an activity's payroll. The use of a payroll journal is not mandatory but is prescribed as an optional procedure where the number of employees is sufficient to justify its maintenance as a desirable practice. Activities employing a small number of employees may record the payment of salaries directly in the cash disbursements journal. The data concerning each employee contained in the payroll journal or the cash disbursements journal are posted to individual earnings records, which must be maintained for each employee. Summary totals from this form are posted directly to applicable accounts in the general ledger or onto a payroll summary form used by a mechanized system. When the use of a payroll journal is deemed appropriate it must contain as a minimum the information recorded when a NAVCOMPT Form 2210 is used.

1. When utilized, this form is prepared for each payroll period. This form consists of two parts; Part A (which is used to record employee work and leave information and gross earnings (including free meals received and tips reported by employees)) and Part B (which is used to record deduction information, net wages, check number and expense distribution). To complete the form, if an employee works more than one shift or more than one job in a single pay period, the information should be recorded for each job or shift on separate lines of the form. An additional line should then be used as a total line for columns (15-29). Part B will then be filled out for this total line only. Though it takes up additional space, this procedure eliminates the most common payroll errors made by payroll

clerks. For example, if an employee works two separate jobs, two individual lines and a total line would be used. Similarly if an employee works two different shift differentials a total of three lines would be used. If an employee works only one job or one shift and works overtime, only one line is used.

2. Note that annual leave expense is the dollar amount for the number of hours of annual leave earned during the pay period (column 6 x column 14) while sick leave expense is the amount of sick leave paid during the pay period (column 21). In general an employee's wages are charged to the department in which he works. If the employee performs an administrative function, record that employee's wages under Salaries and Wages Administrative.

G. Combination Journal - Ledger. This is an alternative record used as a book of original entry. Activities that have a limited number of transactions may utilize the combination journal-ledger. All receipts and disbursements are recorded daily. All entries must be supported by valid receipt and disbursement vouchers. Columnar headings are provided to show the date, explanation, check and voucher numbers. Debit and credit columns are incorporated to meet the operational needs of the activity. As a minimum, the format contains the following three sections: cash in bank, general ledger and net worth. The total of all debit columns must always equal the total of the credit columns. A separate general ledger is not required. Prepare the trial balance and financial statements directly from the information contained in the combination journal-ledger. Subsidiary ledgers for accounts receivable and accounts payable must be maintained.

C0603 LEDGERS.

A. General Ledger. The general ledger is the record in which all accounting entries are ultimately summarized. The accuracy of the information recorded must be absolute in all details. The data contained in this record is used as the basis from which the financial statements are constructed. A separate

ledger sheet will be maintained for each account used. NAVCOMPT Form 733 may be used as the general ledger. At the end of the accounting period, a trial balance will be prepared and each control account reconciled with its related subsidiary ledger.

B. Subsidiary Ledger. A subsidiary ledger is used to support a general ledger account balance. It is mandatory that subsidiary ledgers be maintained for accounts receivable and accounts payable and any other account which management deems necessary for control purposes. The NAVCOMPT Form 733 may also be used as a subsidiary ledger form.

C0604 FORMS.

A. Expenditure Voucher (NAVCOMPT Form 740). This form will be used for recording all purchases and other expenses when a voucher system is desirable. When invoices are payable separately under discount, a voucher will be prepared for each. One voucher is prepared for each vendor when all invoices for that vendor are paid by one check.

B. Property and Depreciation Record (NAVCOMPT Form 742). The property and depreciation record is used to record nonexpendable property (property valued at \$1000 or more per item or set of items) and related depreciation, and may be used to record expendable property and special property items when deemed necessary for control purposes. As a minimum, this record must show a complete description of the asset. Only one item or number of like items will be recorded on each form. Property and depreciation records supporting the fixed assets general ledger accounts must be maintained separately from stock record cards for merchandise inventory.

C. Stock Record (NAVCOMPT Form 742-1). The stock record (NAVCOMPT Form 742-1) is used to record resale merchandise and supplies in a warehouse for storeroom. It may be used to record expendable property. The form is designed to accommodate recording of like items of merchandise and supplies. The stock record

must show a complete description of the merchandise and all pertinent information regarding receipt and issues.

D. Petty Cash Voucher (NAVCOMPT Form 743). This form is used to support all disbursements made from the petty cash fund. Vouchers are prenumbered sequentially and controlled. When the payment is to be charged to more than one control account, the amount applicable to each account is shown on a separate line. These separate lines must total to the amount paid. Persons requesting reimbursement from the petty cash fund must complete a petty cash voucher signing the "Received By" block and attach a valid receipt.

E. Individual Earnings Record (NAVCOMPT Form 2209). This form is used to accumulate payroll information for each employee on a quarterly and annual basis and facilitates the preparation of social security and W-2 earnings statements, which must be furnished as required by federal law. A signed statement of working conditions or a contract of the terms of employment should be obtained from each employee.

F. Daily Activity Record (NAVCOMPT Form 2211). The daily activity record is used to record all activity income, and when properly used creates a built-in internal control system which protects the cash assets. All individual cashiers responsible for receiving cash and charge sales record the required information on a daily activity records upon completion of their assigned work schedule and turn the cash and the NAVCOMPT Form 2211 in to the designated person. The person designated to receive the cash verifies the cash and charge sales and records the required additional information on the NAVCOMPT Form 2211. The person designated reads the register, records the readings on NAVCOMPT Form 2211, and computes cash overage or shortage. All entries on the daily activity record must be made in ink. No corrections may be made to lines 1 through 6. If errors are made on these lines, the cashier must either destroy the form (or if locally required void and surrender the erroneous form)

and prepare a new one. Authorized corrections on other lines of the form are made by drawing a single line through the error and writing the correct amount immediately above. Corrections may be made only by the person making the original and must be initialed and dated.

G. Certificate of Disposition (NAVCOMPT Form 2212). Nonappropriated fund procured property that is controlled by use of a property and depreciation or stock record which has become unserviceable or missing may not be dropped from an activity's records until a certificate of disposition is prepared by the activity and approved by the commanding officer or his designated representative. Annotations are made on the form to indicate the cause of the condition and substantiating documents including custody receipts are attached. In the cases where individual culpability is known or suspected, an investigation concerning the property should be conducted. The safeguards of the Uniform Code of Military Justice (UCMJ) Article 31 must be followed if the individual is a member of the Armed Forces and is suspected of any offense.

H. Purchase Order (NAVCOMPT Form 2213). A purchase order must be used for all purchases of supplies, services, materials and equipment from commercial sources except for purchases made by contract or from the petty cash fund. When requisitioning merchandise from the Naval Supply System, forms are prescribed by the local supply activity. The activity's designated purchasing agent completes NAVCOMPT Form 2213 to initiate the purchasing process. After completion, the original is sent to the vendor. The duplicate is forwarded to the bookkeeper for inclusion in the numerical "open order" file maintained in that department. The triplicate and quadruplicate copies are forwarded to the area where the merchandise will be received, where an "open order" file will be maintained by vendors' name until delivery. The last copy is retained by the purchasing agent for reference purposes. After receipt of goods, the purchase order copies are circulated as described in Chapter V. Activities participating in a centralized system use 2147 in lieu of

NAVCOMPT Form 2213. NAVCOMPT Form 739 may be used by all other activities until present stocks are exhausted.

I. Requisition (NAVCOMPT Form 2214). A requisition must be used to document the transfer of all merchandise or operating supplies from one department of an activity to another department (warehouse to resale location or resale location to resale location). It may also be used to document transfers from one activity to another. Requisitions are prepared by the department or activity requesting the items in a sufficient number of copies to provide copies for the issuing activity, the requesting activity, the accounting department of each of these activities, and an additional copy for a stock control point if different from the issuing or requesting activity. In most instances, requisitions between departments of a single activity are prepared using the three copies of the form. For requisitions between activities, an extra copy must be prepared so that both bookkeeping departments have documentation to support the accounting records. The forms are sequentially prenumbered by stamping, overprinting, or typing and are issued in blocks to the individual departments. Continuation sheets, where necessary, are prepared by the use of a locally developed form that utilizes the same format as the requisition, or by voiding the next successively numbered requisition and annotating it with the requisition number of the original, the words "continuation page" and indicating the number of each page. For example, if three sheets are used in a requisition, the tops of all copies of the first sheet are marked "1 of 3", the second "2 of 3", and third "3 of 3". DD Form 1149 may also be utilized for this purpose.

J. Inventory Record (NAVCOMPT Form 2215). An inventory record is used to list the value and quantity of an activity's inventory as shown by stock records or a physical sighting and count of the resale items, operating supplies, and replacements. This listing is then reconciled with the valuation for these accounts shown in the general ledger. Valuation is made on a first in, first out basis for

both cost and retail values. Last invoice price may be used to price merchandise located in sales outlets. Discrepancies between the valuations shown on the inventory record and the general ledger and/or stock records must be investigated and proper adjustments to the accounting records made. This investigation should ascertain the cause of the discrepancy and the corrective action necessary to prevent it. Investigation results must be documented and made a part of the official records of the activity. Locally developed or procured forms may be substituted as an inventory sheet, provided the information shown is equivalent to the information requirements of the NAVCOMPT Form 2215.

K. Property Receipts. To facilitate control and to insure maximum use of property, the commanding officer or his designated representative will specify time limits for the use of items of property in great demand.

1. Temporary Periods. A signed custody receipt (NAVCOMPT Form 744) will be obtained from each individual borrowing property without charge. This receipt will be returned to the individual when the property is returned. Prenumbered sales vouchers for rentals (such as boats, trailers, golf clubs, etc.) should be used. Returns should be annotated on customer's voucher.

2. Issues for an Indefinite Period. The custodian will maintain a file of signed custody records (NAVCOMPT Form 745) obtained from individuals charged with the accountability of property issued for an indefinite period.

L. Consolidated Property Record. This memorandum record will be maintained to show a complete listing of each expendable item purchased by the activity and stored in the warehouse or storeroom, and special items as defined in Chapter V. Property and depreciation records (NAVCOMPT Form 742) or stock records (NAVCOMPT Form 742-1) will be maintained as subsidiary records to the memorandum consolidated property record.

M. Receipt Voucher. A receipt voucher (procured locally) will be used for receipts of cash not recorded in cash registers or on sales slips. These forms will be prepared in triplicate for each cash collection. The original receipt voucher will be given to the individual making payment. The second copy will be used to post the cash receipts journal. The third copy will be retained for numerical accountability. As a minimum, the form will contain the date of receipt, number of receipt, amount received, received from, received by and received for.

N. Special Event Reports. A special event report (procured locally) will be prepared in ink for each special event and will show the date of the event, collections made, tickets sold, list of prize winners, prizes won, dollar value, signature of persons winning prizes, and any other pertinent data deemed necessary by management. The report will be signed by the individual in charge of the event and one other person who will verify sales and cash collected. If the special event is of a recurring nature, i.e. weekly bingo, then the report is unnecessary provided equivalent data is maintained through Daily Activity Records, Receipt Vouchers, etc. to enable construction of the report if need be.

O. Registration Record (NAVCOMPT Form 2104). The registration record must be prepared for and signed by the tenant of BOQ'S transient accommodations, guest houses, etc.

C0605 REPORTS. In order to provide management with current information pertaining to the financial condition of the activity, the submission of financial statements periodically is of utmost importance. Financial statements are prepared at the end of each accounting period; monthly, quarterly, or as prescribed by the program manager. The accounts prescribed in this handbook have been designed to facilitate the preparation of such statements. All financial statements are prepared from the official accounting records. Financial statements must be submitted by each activity in accordance with instructions issued by the applicable program manager. A sample balance sheet and income

statement are shown in chapter VII, for illustrative purposes only. Reporting requirements and formats for MWR program managers are specified by the Secretary of the Navy and the Comptroller of the Navy, respectively. SECNAVINST 7000.22(series) and Appendix H provide guidance for reporting requirement and formats.

C0606 PROCUREMENT OF FORMS.

A. NAVCOMPT Forms. NAVCOMPT forms prescribed or mentioned in this handbook may be obtained by submitting a DOD Single Line Item Requisition (DD Form 1348), citing the ordering number of the form desired to:

Commanding Officer
Naval Publications and Forms Center
5801 Tabor Avenue
Philadelphia, Pennsylvania 19120

The names, form numbers, and ordering numbers of NAVCOMPT Forms commonly used in morale, welfare and recreation programs are listed on the following page.

B. Other Forms. All other forms deemed necessary at morale, welfare and recreation activities must be procured and/or developed locally, except as prescribed or made available by applicable program managers.

Form Name	NAVCOMPT Form Number	Ordering Number
General Journal	730	0104-701-1900
Cash Receipts Journal	732	0104-701-2100
General Ledger	733	0104-701-2200
Purchase Journal-Check Register	734	0104-701-2302
Budget Record	735	0104-701-2400
Expenditure Voucher	740	0104-701-3000
Property and Depreciation Record	742	0104-701-3200
Stock Record	742-1	0104-701-3250
Petty Cash Voucher	743	0104-701-3300
Custody Receipt	744	0104-701-3400
Custody Record	745	0104-701-3500
Status of Nonappropriated Fund Balances	2062	0104-702-3601
Registration Records	2104	0104-703-8300
Retail Price Change	2145	0104-704-2500
Purchase Order	2147	0104-704-2700
Individual Earnings Record	2209	0104-706-5100
Payroll Journal	2210	0104-706-5150
Daily Activity Record	2211	0104-706-5200
Certificate of Disposition	2212	0104-706-5250
Purchase Order	2213	0104-706-5300
Computer Purchase Order	2213	0104-706-5330
Mess Requisition	2214	0104-706-5350
Inventory Record	2215	0104-706-5400
Order for Work and Services	2275	0104-702-2751
Voucher for Disbursement and/or Collection	2277	0104-702-2770

CHAPTER 7

INVESTMENTSC0701 GENERAL

C070101 Policies. This chapter establishes NAF investment policies as prescribed by DoD program policies and assigns the program managers' responsibilities for financial management of their NAF investment programs. DFAS-HQ/A will annually review and monitor selected investment information provided by program manager.

C070102 Applicability. The policies set forth herein apply to exchanges and all military and civilian Morale, Welfare, and Recreational (MWR) investments within the Department of the Navy, except retirement funds. Policies pertaining to the management, investment and administration of retirement plans are contained in SECNAVINST 5300.22A(series), Navy and Marine Corps Personnel Policy Manual for Nonappropriated Fund Instrumentalities (NAFIs).

C070103 Limitations. Nonappropriated funds may be invested, only as provided for in DoD program policy. The size of the investment program must not exceed the projected need to fund otherwise unfunded MWR requirements. Funds will not be accumulated solely for investment income. However, cash assets in excess of immediate operational needs will be invested as soon as possible after receipt. Program Manager will ensure that adequate investments are established to fund replacement of tangible fixed assets, employee severance pay, pension plans, constructing and alteration of facilities, mobilization contingencies, and new operational programs that may be introduced.

C0702 RESPONSIBILITIES.

C070201 Program managers. Program managers (Commandant of the Marine Corps, Commander, Naval Supply Systems Command, Commander, Naval Military Personnel

Command; and Commander, Military Sealift Command) will:

A. Establish and maintain adequate systems of internal control that provide reasonable assurance that the policies set forth herein are complied with.

B. Establish an investment steering committee and appoint competent membership.

C. Appoint investment officers who are financial management specialists with training in investment banking.

D. Review and approve, at least annually, an investment plan (strategy) prior to authorizing funds to be invested. The plan should also identify the projected requirements for which the funds are being invested. Such annual plan will be modified by the Program Manager as internal and/or market conditions require.

E. Establish a system to review, evaluate and track the investment portfolio performance.

F. Ensure that the procurement and/or sale of investment instruments is conducted on a competitive basis. This process, at a minimum, requires obtaining multiple telephonic quotes and rotation among qualified bidders to assure:

1. Maximum yields subject to risk evaluations and forecasted cash positions;

2. Equitable treatment of bidders. All bids and consummated transactions will be documented.

G. Require an annual review and/or inspection of investment funds to include the evaluation of internal controls and follow-up on corrective action taken on recommendations in Naval Audit Service (NAVAUDSVC) and private sector audits and any other inspection recommendations.

C0703 REPORTING REQUIREMENTS

C070301 Annual Report. Annually, program managers will be requested to submit a summary of NAF investments to DFAS-HQ/A for review.

A. The annual report will be as of 30 November.

B. The report will be submitted for each year in time to reach DFAS by the 5th workday in January.

C. The report will include identification of:

1. Investments placed with financial institutions and a certification that they are properly insured and collateralized as required by DoD program policy.

2. Investments made with foreign financial institutions; and

3. Investments made by field activities.

C070302 Format. In addition to the reports, addressees will provide a copy of all audits performed, by internal as well as external auditors.

ATTACHMENT C.1

RULES RELATIVE TO THE PROTECTION OF BANK DEPOSITS
(CHECKING ACCOUNT)

1. Responsibility. The manager as a direct representative of the commanding officer is responsible for the protection of all nonappropriated funds including deposits with financial institutions and the associated collateral requirements.

2. Deposits with Insured Institutions in the United States. Only banks insured by the Federal Deposit Insurance Corporation, savings and loan associations insured by the Federal Savings and Loan Insurance Corporation, or credit unions insured by the National Credit Union Administration, shall be selected as depositories for nonappropriated funds. Deposits up to \$100,000 may be deposited in such insured institutions for each time account (savings and certificate of deposits), and deposits up to \$100,000 may be made for each demand account (checking).

a. Banks. A deposit in excess of \$100,000 is required to be collateralized, prior to the depositing of the funds, by the institution pledging acceptable collateral with the district Federal Reserve Bank or a third party custodian approved by a Federal Reserve Bank. (Refer to paragraph 5 and 6 of this Attachment).

(1) Insurance coverage for any interest or dividends received during the life of the certificate will not be required until the certificate expires. If the dividends are paid quarterly, then time certificates should only be executed for a one year period.

(2) Provision is made under Section 10 of the Act of June 11, 1974, 56 Stat. 356 amended, (12 U.S.C. of 265) whereby banks insured by the Federal Deposit Insurance Corporation which have been designated depositories by the Secretary of the Treasury may deposit securities in the form of United States Treasury bonds or, otherwise, any other

Federal funds. The deposit is subject to the control or regulation of the United States or any of its officers, agents, or employees. Under regulations of the Treasury Department, such bonds or securities must be deposited with a Federal Reserve Bank of the United States Treasury Department or a designated third party custodian.

b. Credit Unions and Savings and Loan Associations. Although insured credit unions and savings and loan associations are eligible to receive deposits of nonappropriated funds, such deposits are limited to the maximum amount covered by insurance namely, \$100,000. Deposits in excess of insured amounts must be collateralized in accordance with paragraph 5 of this Attachment.

3. Deposits with Overseas Branches. Deposits in overseas branches of United States banks are not insured when deposits are only payable in a foreign country or at an office of the bank located in areas outside the United States, District of Columbia, Puerto Rico, and the Virgin Islands. Therefore, collateral in the full amount will be required to cover such uninsured deposits. Deposits in the currency indigenous to the country may be made in branches of United States banks or in foreign depository banks without collateral but are limited to the amounts required for current operating expenses and construction and severance/retirement liabilities, as collateral cannot normally be obtained from foreign banks.

4. Insured Deposits. The term "insured deposit" contained in the Federal Deposit Insurance Act means the net amount due to any depositor for deposits in an insured bank, after deducting offsets, less any part thereof which is in excess of the maximum coverage. The net amount shall be determined according to such regulations as the Board of Directors of the

Federal Deposit Insurance Corporation may prescribe. The above method also applies to funds deposited in insured credit unions and savings and loan associations.

In determining the amount due any depositor, there shall be added together all deposits in the insured institution maintained in the same capacity and in the same right for his/her benefit either in his/her now name or in the name of others. Deposit maintained in the same insured institution in different rights or capacities are not so added together for insurance computation. When a custodian has custody of several funds/accounts and each fund/account is maintained in a different right or capacity, each fund/account is entitled to the maximum insurance coverage. The foregoing provides that one or more funds/accounts can be administered by a single custodian without impairing the insurance protection.

Under Section 10 of the Act of June 11, 1942, and subsection 2(m) of the Federal Insurance Act, each officer, employee, or agent of the United States having official custody of public funds and lawfully depositing these funds in a bank insured by Federal Deposit Insurance Corporation is, for the purpose of determining the amount of the insured deposit, considered a depositor in such custodian capacity separate and distinct from any other official custody of public funds, and lawfully depositing these funds in the same insured bank in custodial capacity. Since nonappropriated funds under military control have been held to be public funds within the meaning of this Act of June 11, 1942, as amended, each person acting as official custodian of such nonappropriated funds and lawfully depositing then in any insured institution will be insured up to the maximum limit on such deposits maintained in each different right or capacity provided that separate records are maintained for each nonappropriated fund account.

5. Pledge of Collateral. For deposits of Navy or Marine Corps organizational funds in excess of insured amounts, depositors shall request the bank, savings and loan association, or credit union to immediately pledge the

necessary collateral with a designated third party custodian and require that the depositor be notified by message within two (2) days after deposit. If necessary collateral is not pledged as requested, the funds should be removed and no funds in excess of \$100,000 should be deposited in the financial institution.

6. Third Party Custodians. The third party custodian relationship is between the Federal Reserve Bank and the financial institution and is supported by a standard third party agreement. Prior to using a third party custodian you should obtain a copy of the Agreement and advise the Federal Reserve of your intention to use the custodian. You should also have an agreement whereby the custodian will provide you monthly statements which show the type and amount of collateral pledged by each institution for your account.

7. Utilization of Banking Facilities. The services of banking institutions operating on military installations will be utilized to the extent there is a need for such services and the services and the on-base banking institution can provide the types of service needed at a competitive price. The on-base banking facility was established and justified, in part, as a means of providing convenient banking services to custodians of nonappropriated funds. The use of other banks would tend to defeat the purpose for which the facility was established by denying it the support that comes from the maintenance of deposit accounts. This practice is necessary in fairness to the banking facility and to avoid possible subsidy by the Treasury Department and the Department of the Navy relating to such accounts. If an activity has approval to automate its payroll system with a commercial bank or service center and such services are not available at the installation banking facility, such limited service may be contracted for elsewhere.

8. The Investment of Funds. The investment of funds in excess of current operating requirements in insured accounts or in the U.S. Government securities is authorized, subject to the conditions described in paragraph 2 above. See Chapter 8 for investments.

9. Savings and Loan Associations. Savings and Loan Associations which are insured by the Federal Savings and Loan Insurance Corporation are eligible to receive deposits of nonappropriated funds up to a maximum of \$100,000. Because there is no way to obtain collateral from savings and loan associations, deposits are limited to the amount covered by insurance - namely, \$100,000.

ATTACHMENT C.2

FEDERAL UNEMPLOYMENT COMPENSATION PROGRAM FOR
NONAPPROPRIATED FUND PAID EMPLOYEES1. GENERAL

a. Authority. 5 U.S.C. 8501 to 8508 amended the Social Security Act by adding an unemployment insurance program for Federal civilian employees. The Secretary of Labor administers the program through agreements with state employment security agencies. Under terms of each agreement, the state agency, as an agent of the United States, takes claims and pays benefits to eligible Federal service employees under the same terms and conditions of its state unemployment compensation law which apply to industry employees who are covered by and file claims under the state law. In those instances where the Secretary of Labor does not have an agreement with an individual state, the Secretary, under regulations prescribed by him, shall pay a claim in the same amount, on the same terms, and subject to the same conditions as would be paid under the unemployment compensation law of the State if an agreement did exist.

b. Eligibility. Nonappropriated fund paid civilian employees and military personnel employed voluntarily during off-duty hours are considered as having rendered "Federal Service" thereby entitling them to unemployment benefits. To be eligible for unemployment benefits under any state law, a claimant must be ready, willing and able to work, in addition to meeting other conditions prescribed under the state law.

c. Base Period. The amount of unemployment benefits to be paid and the number of weeks for which benefits will be paid is based on the amount of "Federal Service" (and state covered) wages earned in a 52 week period (base Period) preceding the claim. "Base period" is a 52 week period defined in each state law, is variable among the state, and in most states is the first four of the last five completed calendar quarters preceding the claim.

2. COVERAGE. All employees paid nonappropriated funds within the United States, Puerto Rico, Virgin Island, and all United States citizen employees wherever located perform "Federal Service" for unemployment compensation purposes. The program requires no contributions from MWR employers or employees and provides unemployment benefits similar to those provided to workers in private industry. The Department of the Navy pays the cost of any benefits paid to its employees.

3. NOTIFICATION TO EMPLOYEES. Standard Form 8, Notice to Federal Employees about Unemployment Compensation will be issued on or before the last day of active duty to employees whose services terminate for any reason, who transfer to an activity served by a different payroll office, or who are placed in a non-pay status for seven or more days. Additionally, a personnel separation statement will be issued showing the employee's name and social security number, salary rate, date of separation and specific reason(s) for separation or placement in a non-pay status. (The employing unit should maintain a copy of this locally produced personnel action document for reference purposes.) Activities will ensure that the payroll unit designation and address and Navy MWR identification code 426 are inserted in the space provided on SF-8 is current and complete. On presentation of the SF-8 when claim is filed, the state agency addresses its request for wage and separation information (Form ES-931) to the payroll unit address shown on the SF-8.

4. REQUEST FOR WAGE AND SEPARATION INFORMATION

a. Responsibility. Pursuant to 5 U.S.C. 8501-8508 requirements, Navy activities will furnish information requested by state employment security agencies concerning civilian

employees wages and employment to determine claimant's entitlement to unemployment compensation benefits.

b. Submission of Request. The state agency will send Form ES-931, Request for Wage and Separation Information, to the payroll office address shown on SF-8 when a claim is filed by a former employee. The activity will complete all Form ES-931 items on the basis of its payroll records and personnel action documents. Navy Identification Code 426 will be entered in Section II, Item 4, on all Forms-931. One complete form will be retained in a separate alphabetical file by name and the remaining Form ES-931 copies returned to the state employment security agency address shown on the form. The file copy of the Form ES-931 copies and related unemployment compensation forms will be retained for a period of at least two years.

c. Control of Form ES-931. A control (register or card file) will be established to ensure that the completed Form ES-931 and related forms (Form ES-934), Request for Information or Reconsideration of Federal Findings (Form ES-936), and Request for Verification are returned to the state agency within four working days of receipt of the form. If the Form ES-931 cannot be completed and returned within four working days of receipt, the activity will immediately inform the state agency that completion and return will be delayed and will include an estimate as to when the completed form will be returned. If another activity has the wage employment records required for completion of Form ES-931, the form should be sent to that activity for completion and the state agency should be advised of the transfer. If there is no record of employment, all forms should be returned promptly to the state agency with the notation "No record of employment."

5. SOURCE OF INFORMATION TO COMPLETE FORM ES-931. Information for completion of Form ES-931 will be obtained from the individual pay record. The pay record should be retained for 30 days in the event that the state agency may request information in addition to that reported on Form ES-931. If a

Request for Additional Information, Form ES-934 is pending, the pay record should be retained until such request has been processed.

6. COMPLETION OF FORM ES-931

a. Information furnished by state agency. The state agency will have completed the parts of the form which identify the claimant for whom wage and separation information is being requested and which specify the base period for which wage data are needed.

b. Completion of entries by activity payroll office

(1) Item 1a, Federal Service. Check "yes" or "no" as applicable. If no employment was performed during base period specified, briefly explain, complete item 3, sign the form and return to state agency. Any question concerning whether or not a specific type of service is "Federal service" will be referred to the office of Civilian Manpower Management for determination.

(2) Item 1b, Location of last employment. Enter the state or foreign country in which "duty station" was located as described on Form ES-931.

(3) Item 2a, Base Period - Wage Information. Enter gross wage information before reductions for the base period indicated. Complete the item in the manner and only to the extent specified. Include in "base Period wages" all remuneration including cost of living allowances, post differentials, back-pay awards, payments for sick leave, allowances in kind, and retroactive pay increases (allocated to the period in which paid). Report lump-sum terminal leave payments exclusively in item 3a, Form ES-931.

(4) Item 3, Terminal Leave and Separation Information

(a) Item 3a, enter information as to whether or not lump-sum terminal leave payment was made. If "yes", enter dates or period covered by terminal leave

and enter the dollar amount of the lump-sum payment for terminal leave and the date of payment. If "no", so indicate. Also enter the hourly rate of pay and the claimant's hours of regular duty per workday and basic work week hours.

(b) Item 3b, enter the date on which the employee was separated.

(c) Item 3c, enter the date of the employee's last day of active pay status, if earlier than date of separation or if employee has not been separated.

(d) Item 3d, enter reason for separation or non-pay status. If past experience with Forms ES-934 in similar cases shows the information in "Remarks" is inadequate for state agency adjudication purposes (such as "Suspended", "Retired", "Personal Reasons"), enter, in addition, clarifying findings obtained from the personnel office.

7. BACK PAY AWARDS. Back pay awards may require a redetermination of a claimant's benefit rights, or the recovery of benefits already paid. Therefore, the state agency to which a Form ES-931 has been sent for such employee should be informed by letter of the date, amount, and period covered by the back pay award. Upon receipt of this information, the state agency will determine whether such back pay wages are in the claimant's base period. If the back pay wages are in the claimant's base period, the state agency will request a corrected assignment of wages by Form ES-931 to include the amount of back pay wages determined to be in the claimant's base period along with other wages for the period. The activity will not attempt to deduct unemployment compensation benefit payments from back pay awards (35 Comp. Gen 241). Recoveries will be made exclusively by state agencies.

8. REQUEST FOR INFORMATION OR RECONSIDERATION OF FEDERAL FINDINGS, FORM ES-934. It is essential that the state agency have adequate information on which to base its determination of entitlement. If for any reason the information supplied on Form ES-931 is not

adequate, the state agency or state administrative appeal authority will request additional information. Provision is made also for a claimant, within the time limits specified in the state law, to request a Federal agency to supply additional information or to reconsider its findings. The claimant's request will usually be made through the state agency with which his claim was originally filed. These requests may be made by Form ES-934, Request for Information or Reconsideration of Federal Findings, by letter, or by other state forms. To expedite processing, all requests should be subject to the same control as Form ES-931. If an answer cannot be made in 4 days, the state agency should be notified when an answer can be expected. The Federal agency shall furnish any relevant information requested which it is not otherwise prohibited by law from releasing. If the request is for reconsideration of findings, the Federal agency should consider any information supplied by the claimant, the state agency, or the state administrative appeal authority, and should review its findings. It should promptly correct any errors or omissions and should reverse, modify, or affirm its findings, and should advise the state agency of its action and the basis thereof. The Forms ES-934 pertaining exclusively to separation information should be referred to the personnel office for its action. The personnel office should return the completed Form ES-934 should be retained and the remaining completed forms returned to the state agency.

9. VERIFICATION OF WAGE AND SEPARATION REPORTS. Each state agency will request verification of a sampling of Forms ES-931. These requests will be made on Verification Letter Form ES-936. This form should receive the same prompt attention as Form ES-931. In order to provide a proper check, it is desirable that Form ES-936 be completed by an employee other than the person who prepared the original Form ES-931. The state agency will send a representative to visit any activity if a reply to Form ES-936 indicates that there has been a lack of understanding of the program, that errors have been made, or that the activity desires to discuss reporting problems.

10. NOTICE TO STATE AGENCY OF REFUSAL OF WORK OFFER. When an offer of reemployment is refused by a former employee who worked for the activity in the area covered by the personnel and payroll offices where the offer is made, the personnel office should promptly notify the payroll office of the refusal. On receipt of such notice, the payroll office will review its alphabetical file of completed Forms ES-931 to determine whether the file contains a form pertaining to the person who refused reemployment. A copy of a completed Forms ES-931 should be maintained in this file for every former employee in the area covered by the payroll office who filed a claim for unemployment compensation benefits. If the file reveals that the former employee filed claim for unemployment compensation benefits and if the "Date of Request" in the upper right-hand corner of the Form ES-931 is within 12 months of the date on which reemployment was offered, a notice should be sent to the state agency which initiated the Form ES-931, giving the following information: The employee's name and social security number, the date of the job offer, the nature, location and salary of the job offered, and the reasons for the refusal, if known.

11. OTHER STATE FORMS. In addition to receiving Forms ES-931, 934, and 936, payroll units will receive several types of state agency forms furnishing information or requesting information. Two of these forms may be as follows:

a. Notice to Claim Determination. Most state laws require mailing of this form to former employers notifying them about a state decision on a claim filed by a former employee. If it appears from the notice that the state agency may pay benefits where, in the opinion of the payroll or personnel officer, the facts concerning separation should prevent such payment, the activity should file an appeal from such determination as instructed on the form.

b. Request for Wage Information for a Specific Week. When a claimant reports earnings from part time work, state agencies will request employer verification of the amount of such earnings. Request are also made when the

state believes that the claimant had earned wages but failed to report such earnings.

12. DISTRIBUTION OF UNEMPLOYMENT COMPENSATION COSTS TO FORMER EMPLOYING NAFIS. The Department of Labor assigned Federal Agency Codes (FAC) to identify "Bill to Navy Activities". Each "Bill to Activity" must identify each claimants former employing activity and work related information, i.e., wages earned, social security number, period worked, job title, reason for dismissal, etc. The following FAC(s) are assigned to the Navy and should appear on all documents used to process claims.

Federal Agency Code	Bill To Activity	Includes NAFIs Under the Command of
807	Navy Exchange Service	The Navy Exchange System and Military Sealift Command
808	Navy Rec. & Club System	Bureau of Naval Personnel Command and Chief of Naval Operations
809	Marine Corps MWR Support Activity	The Marine Corps Exchange System

FAC 426 should not be used after 30 September 1985.

13. BILLING PERIOD. Billing by the Department of Labor is accomplished on a quarterly basis and started on February 1986. The program manager has the discretion to reimburse the Department of Labor from either the central activity or individual NAFI.

14. REPORTING REQUIREMENTS. The Bureau of Labor Statistics requires an initial identification of all NAFI,s by name and address that fall under each FAC. Subsequent reporting is limited to additions or deletions of NAFIs. These reports should be forwarded to DFAS-HQ-A.

15. REMITTANCE ADDRESS. Remittance checks are payable to the U.S. Department of Treasury and submitted along with the Department of Labor request for reimbursement vouchers to the following address:

U.S. Department of Treasury
Trust Fund Branch
Pennsylvania Avenue and Madison Place NW
Treasury Annex No. 1, Room 326
Washington, D. C. 20226

ATTACHMENT C.3

NONAPPROPRIATED FUND INTERNATIONAL BALANCE OF
PAYMENTS-TRANSACTION REPORTING

1. PURPOSE. These instructions prescribe IBOP reporting requirements for all Navy nonappropriated fund activities located overseas. However, these instructions may be amplified to specific additional requirements promulgated by the Navy Civilian Personnel Instruction Par. 280.12 for civilian morale, welfare, and recreation activities, and the Naval Military Personnel Command instructions issued in the 7010.7(series) for military morale, welfare, and recreation activities.

2. SUBMISSION OF REPORTS

a. General. A Department of the Navy International Balance of Payments Transactions Report for Nonappropriated Fund transactions will be prepared in triplicate by each overseas Naval morale, welfare, and recreation activity (both civilian and military). The original of each report will be submitted to the appropriate office in accordance with the NAVCOMPT Instruction 7020.10 series in time to be received by the date specified in par. 2b. A copy of the report will be furnished the responsible commander and the second copy will be retained for reference.

b. Frequency of Reporting. Reports will be prepared quarterly governing nonappropriated fund transactions during the quarter ending March, June, September, and December. The reports will be submitted no later than twenty (20) calendar days following the close of the quarter. Except as modified in accordance with additional requirements specified by responsible offices the reports will be prepared in accordance with pars. 3 and 4.

3. REPORTING INSTRUCTIONS

a. General. This report will include only payments and receipts affecting nonappropriated funds in accordance with definitions and criteria delineated in the current

NAVCOMPT Instruction 7020.10(series). Payments and receipts affecting appropriated funds used in the operation of morale, welfare, and recreation activities will be excluded from this report. Morale, welfare, and recreation activities aboard ship will include only transactions aboard which are with activities ashore and enter the international balance of payments. All data reported will be stated in dollars or dollar equivalents for payments made in foreign currencies. The amounts reported will cover the reported quarter only and will be noncumulative.

4. PREPARATION. Each activity report will be properly identified by the title of the report, name and location of the reporting morale, welfare, and recreation activity and the quarter which the report covers. Entries will be made in the specified columns opposite the appropriate country as follows:

a. Column 1. Country. List each country, international organization, and applicable country code as provided in par. 027002-3 of the NAVCOMPT Manual.

b. Column 3. Sales. Enter here receipts from the sales of merchandise and services, including commissions from concessionaires. Excluded are concessionaire sales and receipts from any U.S. Government agency or activity.

c. Column 3. Other Revenue. Enter here receipts for membership dues, chaplains funds, net receipts from bingo, slot machines, and similar transactions.

d. Column 4. Total Receipts. Enter the sum of the receipts shown in columns 2 and 3.

e. Column 5. Net Pay, U.S. Personnel. Enter the net pay of U.S. civilian

personnel (part time or full time), and U.S. military personnel employed while off duty.

f. Column 6. Gross Pay, Foreign Nationals. Enter the gross pay of all direct or indirect hire, foreign nationals. Include all payments to or on behalf of the foreign nationals.

g. Column 7 Foreign Payments for Procurement of Merchandise for Resale. Enter here foreign payments for merchandise purchases for resale but exclude payments for purchases from any U.S. Government agency or activity.

ATTACHMENT C.4

FINANCIAL MANAGEMENT, OVERSIGHT AND AUDIT OF THE
NONAPPROPRIATED FUND (NAF) INVESTMENT PROGRAM

1. GENERAL. This Chapter amplifies and implements the NAF investment policies and assigns Department-wide responsibilities for financial management, oversight and audit of the NAF investment program.
2. APPLICABILITY. The policy set forth herein applies to all military and civilian Morale, Welfare, and Recreational (MWR) investments within the Department of the Navy, except retirement funds. Policies pertaining to the management, investment and administration of retirement plans are contained in SECNAVINST 5300.22 (series), Navy and Marine Corps Personnel Policy Manual for Nonappropriated Fund Instrumentalities (NAFIs).
3. POLICY
 - a. General. Nonappropriated funds may be invested only as provided for in paragraph 5. The size of the investment program must not exceed the projected need to fund otherwise unfunded MWR requirements. Funds will not be accumulated solely for investment income. However, cash assets in excess of immediate operational needs will be invested as soon as possible after receipt.
 - b. Risk. Each MWR activity will exercise caution to ensure the protection of funds invested. The most important factor to consider in evaluating any investment is risk. Holding an investment exposes you to some degree of risk. Higher yields often mean more risk and less liquidity. It is important to be informed about the different options available so that the return is maximized without accepting unnecessary risk or loss of liquidity. Investments authorized by paragraph 5 generally carry low levels of risk.
 - c. Liquidity. An asset is said to be liquid if it can be converted into cash easily and rapidly without substantial loss in value. Liquidity is not an absolute property; it varies from asset to asset. MWR activities must have access to their funds when needed to meet operational or planned program requirements; therefore, investments must be readily convertible to cash. The maturity on investments will be limited generally to 36 months. However, investments up to 63 months are authorized provided that they are in support of a capital improvement program. Documentation must be on file to substantiate the existence of the capital improvement program.
 - d. Yield. In an effort to maximize the expected return on funds within the constraints of ensuring security and providing necessary liquidity, prudent action must be exercised to pursue yields of at least equivalent rates of return on portfolios of similar low risk cash management funds. This objective is secondary to the risk and liquidity objectives.
 - e. Investment Planning. Investment program plan (strategy) will be formulated and approved by the investment steering committee prior to investing funds. Emphasis must be placed on fund allocation when constructing the investment portfolio. Fund allocation is the process of distributing monies among the various types of investments: treasury bills; certificates of deposit; bonds; repurchase agreements; etc. This process requires a realistic assessment of the degree of risk that the MWR entity is willing to accept commensurate with the rate of return they wish to earn. In order to minimize interest rate fluctuations, activities should generally employ a hold-to-maturity strategy. The maturity of instruments should be matched with planned capital improvements and other funding requirements to the maximum extent possible. The investment plan should also incorporate the subjective aspects of risk/return management that dominate rational planning

without losing sight of the fact that (1) increases in expected return are accompanied by increases in risk and (2) investors should diversify to reduce risk. Characteristics of investment instruments are illustrated on page I-9 and are provided as guidance in investment selection. It is also a requirement that, at the annual DOD NAF review of Investment Management, an annual update be provided outlining current investment policies, procedures, and audit compliance with Service and DOD IG findings. This information will also be due to ASD(FM&P) not later than the first day of the third month following the end of the organization's fiscal year.

f. Collateralization. Funds shall not be maintained in a bank, savings association, or credit union unless they are insured by the applicable Federal insurer, or notice is received that the financial institution has pledged the necessary collateral with the appropriate Federal Reserve Bank or its designee:

(1) Collateral for checking and savings accounts deposits should cover 100 percent of the last quarter's highest daily balance in excess of the \$100,000 insured limitation. Collateral for time deposits should cover 100 percent in excess of the \$100,000 insured limitation.

(2) Insured Limitation. Investments in fund accounts for several MWR activities are limited to \$100,000 unless records are maintained by both the bank and the investor to show the balance for each activity. If multiple coverage is desired, records must reflect daily changes in amounts for each MWR activity having an interest in the account; and in all cases, the records must be available within three working days. The Federal Deposit Insurance Corporation (FDIC) Regulation, Section 330.1 specifies the record keeping requirements for multiple coverage.

(3) Program managers and/or their designees will coordinate directly with financial institutions and the servicing Federal Reserve Bank or authorized third-party custodians to obtain collateral. Procedures for

securing and pledging of collateral are contained in Treasury Financial Manual 6-9000 and are to be followed without exception.

4. RESPONSIBILITIES

a. The Assistant Secretary of the Navy (ASN) Manpower and Reserve Affairs (M&RA), is responsible for establishing MWR policy and procedures and for the overall management and oversight of matters relating to MWR programs and activities.

b. The ASN Financial Management (FM), is responsible for all policy matters relating to financial management of the MWR investment program. In fulfilling this responsibility, the ASN FM will:

(1) Issue specific guidance for the development and approval of financial management systems and provide procedures for budgeting, financial analyses, internal review, and reporting of financial information.

(2) Oversee execution of policies contained in this handbook. As a minimum, this function will require an annual review of selected investment information and monitoring collateralization requirements. The specific requirements for oversight and review will be the responsibility of the Office of the Comptroller of the Navy.

(3) Participate in the Department of Defense (DOD) investment fund review.

c. Program managers (Commandant of the Marine Corps, Commander, Naval Supply Systems Command, Commander, Naval Military Personnel Command; and Commander, Military Sealift Command) will:

(1) Establish and maintain adequate systems of internal control that provide reasonable assurance that the policies set forth herein are complied with.

(2) Establish an investment steering committee and appoint competent membership.

(3) Appoint investment officers who are financial management specialists with training in investment banking.

(4) Review and approve, at least annually, an investment plan (strategy) prior to authorizing funds to be invested. The plan shall also identify the projected requirements for which the funds are being invested. Such annual plan will be modified by the Program Manager as internal and/or market conditions require.

(5) Establish a system to review, evaluate and track the investment portfolio performance.

(6) Ensure that the procurement and/or sale of investment instruments is conducted on a competitive basis. This process, at a minimum, requires obtaining multiple telephonic quotes and rotation among qualified bidders to assure:

(a) Maximum yields subject to risk evaluations and forecasted cash position.

(b) Equitable treatment of bidders. All bids and consummated transactions will be documented.

(7) Require an annual review and/or inspection of investment funds to include the evaluation of internal controls and follow-up on corrective action taken on recommendations in Naval Audit Service (NAVAUDSVC) and private sector audits and any other inspection recommendations.

d. The Auditor General of the Navy (AUDGENAV), is responsible for the internal auditing function within the Department of the Navy (DON). He/she oversees the conduct of internal audits, including those performed by internal review and nonappropriated fund organizations and audit services provided by

private sector auditors under DON contracts. No contract for audit services may be entered into or a final payment made under an existing contract for such services without the approval of the AUDGENAV.

5. AUTHORIZED INVESTMENTS AND RESTRICTIONS. Investments of nonappropriated funds are limited to the following:

a. Banks. Interest bearing checking accounts, savings accounts, and certificates of deposit to the amount insured by the Federal Deposit Insurance Corporation (FDIC) or Federal Savings and Loan Insurance Corporation (FSLIC) or pledge of collateral with the appropriate Federal Reserve bank or its designee.

b. Savings Associations. Interest bearing checking accounts, share accounts, and certificates of deposit to the amount they are insured by FDIC or FSLIC or pledge of collateral with the appropriate Federal Reserve bank or its designee.

c. Credit Unions. Funds shall only be invested in credit unions to the amount insured by the National Credit Union Share Insurance Fund (NCUSIF) unless excess amounts are covered by pledge of collateral with the appropriate Federal Reserve bank or its designee. Credit unions serving Department of Defense installations may be covered by any state-sponsored or private share insurance plan that is at least equal to the NCUSIF coverage required for Federal credit unions.

d. U.S. Government Securities. Obligations of the Federal Government, guaranteed as to principal and interest by the U.S. Government or obligations issued by U.S. Government-sponsored enterprises. Certain securities are guaranteed by the "full faith and credit" of the U.S. Government (principal and interest) while other securities are issued by "U.S. Government-sponsored enterprises." The "U.S. Government-sponsored enterprises" were established and chartered by the Federal Government, and are sponsored by a government agency although they are privately

owned and generally privately financed. Examples of securities that are "full faith and credit" and those that are "Government-sponsored enterprises" are listed below (not all-inclusive):

Full Faith & Credit

1. All U.S. Treasury Securities (Bills, Notes, & Bonds)
2. Department of Housing & Urban Development Community Development Block Grant
3. Farmers Home Administration Certificates of Beneficial Ownership
4. Government National Mortgage Association (GNMA)
5. Overseas Private Investment Corporation (OPIC)
6. Small Business Administration, Small Business Investment Companies, State/Local Development Companies
7. U. S. Maritime Administration Title XI Ship Mortgage Bonds

Government-Sponsored Enterprises

1. Farm Credit System:
 - a. Banks for Cooperatives
 - b. Federal Intermediate Bank Debentures
 - c. Federal Land Bank
2. Federal Home Loan Bank (FHLB)
3. Federal Home Loan Mortgage Corporation (FHLMC, "Freddie MAC")
4. Federal National Mortgage Association (FNMA, "Fannie Mae")
5. Student Loan Marketing Association (SLMA, "Sallie Mae")

e. Repurchases and Reverse Repurchases of Book Entry and Certificate Securities. Repurchase and Reverse Repurchase Agreements shall be limited to U.S. Government Securities and shall be made only with primary government securities dealers designated by the Federal Reserve Bank of New York, or with banks that meet high capital adequacy standards established by the program manager. Primary government securities dealers must meet and certify to the nonappropriated fund entity their compliance with the "Capital Adequacy Guidelines for U.S. Government Securities Dealers" as published by the Federal Reserve Bank of New York. The bank must meet capital adequacy standards established by the program manager and confirmed by an independent bank rating service external to the program manager's rating procedures. Collateral must be in the amount of 100% of market value of the purchased security, plus interest. Collateral for repurchase agreements is restricted to U.S. Government Full Faith and Credit Securities. To preclude frequent calls to mark-to-the-market, collateral in the amount of 102% of market value plus interest is desirable for U.S. Treasury Securities (Bills, Notes and Bonds). Collateral in the amount of 104% of market value plus interest is desirable for all other U.S. Government Full Faith and Credit Securities.

(1) Safekeeping of Repurchase Instruments. Book entries must be wired to a third-party bank selected by the NAFI. Alternatively, securities must be delivered to a bank designated by the NAFI. In either case, the instruments cannot be commingled with the assets of the bank, and the NAFI must receive a safekeeping receipt for the securities. Third party banks must meet the same rating standards as investment banks. The seller's letter with attachment as shown on Page I-11 contains the necessary language to provide the NAFI with a Power of Attorney to negotiate the securities, if necessary.

(2) Selling Treasury Paper. For temporary use of funds, use the purchaser's letter with attachment as shown in Page I-15 and handle the transaction in the same manner as the repurchase agreement.

(3) Availability of Funds. In both cases (a. and b. above), the funds should be available to the NAFI or the financial institution on the day the transaction is made. Interest begins on date of sale or purchase and ends on the day before the transaction is completed.

f. Eurodollar. If the Eurodollar market offers significantly higher yields, funds can be deposited with a U.S. bank dealing in this market. Funds invested in Eurodollars will not exceed the dollar amount insured by FDIC unless collateralized as required by Treasury Financial Manual 6-9000.

g. Restrictions

(1) Foreign Depositories. Investments are not authorized to be made in foreign financial institutions. Chartered affiliates of American banking institutions operating overseas are not considered foreign depositories for the purpose of this handbook.

(2) Maturity Limitation. The maturity on investments will generally be limited to 36 months. However, investments up to 63 months are authorized provided that they are in support of a documented capital improvement program.

Table C-1, Matrix of Investment Characteristics

Type of Security	Maturity	Marketability	Liquidity	Default Risk	Market Risk	Yield
Overnight Repurchase Agreements	1-3 days	Not Marketable	1	1	1	7
Treasury Bills	3-6 months	Broad Market	2	0	1	8
Federal Agency Discount Notes	60-90 days	Broad Market	3	1	2	6
Treasury Notes	2-5 years	Broad Market	4	0	4	4
Federal Agency Debenture-Not Fully Insured	2-5 years	Thin Market	6	1	5	2
Federal Agency Debenture-Fully Insured	2-5 years	Thin to Good Market	7	0	5	3
Insured CDs	1 year	Not Marketable	8	1	3	1
Collateralized CDs	60-90 days	Not Marketable	5	1	2	5

NOTES:

- LIQUIDITY refers to the ability to readily convert the security to cash with little or no capital loss. Liquidity is related to average length of maturity and to the degree of marketability. The most liquid assets have the lowest score (1) while the least liquid asset is assigned the highest score (8).
- DEFAULT RISK is the risk that the principal will not be repaid in full on a timely basis. The default risk for all approved investments is minimal. A score of "0" means that the security is backed full faith and credit by the U.S. Government and has virtually no default risk. A score of "1" means that the security is not fully guaranteed by the U.S. Government, and thus has slight default risk.
- MARKET RISK is the degree to which the value of the investment will fluctuate with changing market conditions, and is primarily related to length of maturity. Investments are ranked from lowest ("1") to highest ("5") market risk. YIELD refers to the percentage interest income derived from the investment. Instruments are ranked from the highest yield ("1") to the lowest yield ("8").
- YIELD refers to the percentage interest income derived from the investment. Instruments are ranked from the highest yield ("1") to the lowest yield ("8").

Figure C-1, Sample Repurchase Agreement, Seller's Letter

Dear Sirs:

From time to time, you may enter into repurchase transactions with us, evidenced by confirmation from us to you, pursuant to which we purchase from you specific securities and you agree to repurchase the same securities at a specified later date. Attachment 1 to this letter states the general terms and condition that shall apply to each such repurchase transaction. The confirmation of each such repurchase transaction, as supplemented by the attachment, shall constitute a binding agreement between us.

Please acknowledge your acceptance of the foregoing by signing and returning the enclosed copy of this letter.

Sincerely,

Agreed and accepted this

day of 19()

Attachment

Figure C-2 Seller's Agreement, General Terms and Conditions of Repurchase Agreements

1. **Definitions.** (a) (Name of NAFL); (b) "Buyer"; the person purchasing securities from ___ (c) "Specific Repurchase Agreement," the confirmation setting forth the specific terms for an individual repurchase transaction in which ___ sells securities to Buyer and agrees to repurchase them; (d) "Purchased Securities," the securities sold by ___ to Buyer; (e) "Purchase Price," the price at which Purchased Securities are sold by ___ to Buyer; (f) "Purchase Date," the date on which Purchased Securities are sold by ___ to Buyer; (g) "Repurchase Date," the date provided in a Specific Repurchase Agreement on which ___ is to repurchase the Purchased Securities from Buyer; (h) "Repurchase Price," the price at which Purchased Securities are to be repurchased on the Repurchase Date (which is equal to the Purchase Price plus Interest); (i) "Interest," the interest component of the Repurchase Price; (j) "Interest Rate," the rate at which interest is calculated; (k) "Long-Term Specific Repurchase Agreement," a Specific Repurchase Agreement under which the Repurchase Date is more than 21 days after the Purchase Date; (l) "Pledged Securities," securities, other than Purchased Securities, pledged to Buyer by ___ to secure its obligations hereunder; (m) "Cash Collateral," cash pledged to Buyer ___ to secure its obligations hereunder; (n) "Collateral," Pledged Securities and/or Cash Collateral; (o) "Margin," the excess of (i) the market value of the Purchased Securities under a Specific Repurchase Agreement plus Attributable Collateral over (ii) the Repurchase Price thereunder; (p) "Original Margin," the excess on the Purchase Date of (i) the market value of the Purchased Securities under a Specific Repurchase Agreement over (ii) the Repurchase Price thereunder; (q) "Attributable Collateral," for purposes of determining the amount of Margin, Collateral attributed to individual Specific Repurchase Agreements on the basis that Collateral is first attributed to restore the Margin under each Specific Repurchase Agreement to the Original Margin and thereafter attributed pro rata on the basis of the Repurchase Prices; and (r) "Act of Insolvency," with respect to any person, the filing by such person of a petition in bankruptcy, adjudication of such person as insolvent or bankrupt, petition or application by such person for any receiver or trustee for itself or any substantial part of its property, commencement by such person of any proceeding relating to it under any reorganization, arrangement, dissolution or liquidation law, or the initiation of any such proceeding against such person if such person indicates by any act its consent thereto or if such proceeding is not dismissed within 30 days.
2. **Security Interest and Possession.** The Buyer is hereby granted a security interest in and lien upon all Purchased Securities, Pledged Securities and Cash Collateral. Upon Buyer's request, ___ shall deliver Purchased Securities and Pledged Securities to Buyer; provided, that ___ shall, without such request, deliver to Buyer Purchased Securities purchased by Buyer under Long-Term Specific Repurchase Agreements, unless Buyer authorizes ___ to retain such securities. All Cash Collateral shall be delivered by ___ to Buyer, but shall be segregated from other funds of Buyer and identified as Cash Collateral. On the Repurchase Date specified in a Specific Repurchase Agreement, Buyer's security interest in the Purchased Securities subject thereto shall be deemed released upon the tendering of payment therefor by ___ and Buyer shall thereupon deliver to ___ any such Purchased Securities previously delivered by ___ to Buyer.
3. **Margin Maintenance---Obligation.** If at any time the Margin under a Specific Repurchase Agreement is not equal to at least 100% of the Original Margin, Buyer may from time to time require ___ to provide Collateral so that the Original Margin is restored. At the option of ___, the Collateral shall consist of Pledged U.S. Treasury Securities acceptable to buyer and/or Cash Collateral.
4. **Margin Maintenance Buyer's Obligation.** If at any time the Margin under a Specific Repurchase Agreement exceeds 120% of the Original Margin (a "Margin Excess"), ___ may require Buyer to elect either (a) to deliver cash to ___ or (b) to release from its security interest and lien such Collateral (whether or

not Attributable Collateral) and/or Purchased Securities thereunder as ___ selects, or to elect some combination of (a) and (b), so that a Margin Excess no longer exists; provided, however, that ___ shall select Purchased Securities in the case of an election under clause (b) only if there is then no Collateral. Upon the release of any Collateral or Purchased Securities that were previously delivered by ___ to Buyer, Buyer shall return such Collateral or Purchased Securities to ___.

5. Principal Payments, Interest and Dividends. Except as provided in Paragraph 12 below, all principal payments in respect of, and all interest and dividends paid or payable on, the Purchased Securities and Pledged Securities ("Income") shall be the property of and owned by ___. Buyer shall deliver Income to ___ on the date on which it is payable.

6. Substitution. ___ shall be entitled at any time to substitute U.S. Treasury Pledged Securities and/or Cash Collateral (the "Substituted Assets") for Purchased Securities, Pledged Securities or Cash Collateral ("Replaced Assets"), provided that the Substituted Assets are reasonably acceptable to Buyer and have a market value equal to at least the market value of the Replaced Assets.

7. Buyer Representations. The Buyer represents and warrants that it is duly authorized to enter into this Agreement and the transactions contemplated in it and that the person signing this Agreement on behalf of Buyer is duly authorized to act on its behalf.

8. Representations. ___ represents and warrants that it is duly authorized to enter into this Agreement and the transactions contemplated in it and that the person signing this Agreement on behalf of ___ is duly authorized to act on its behalf.

9. Payment and Delivery. Unless otherwise mutually agreed, all payments hereunder and under each Specific Repurchase Agreement shall be in immediately available funds. All deliveries of securities by one party to the other party shall be in suitable form for delivery or shall be accompanied by duly executed instruments of transfer or assignment in blank and such other documentation as the party receiving possession may reasonably request. The buyer shall not, however, cause any such transfer of securities to be registered, except as provided in Paragraph 12 below. All deliveries shall be affected within the delivery time scheduled from time to time by the New York Clearing House Association.

10. Market Value Determination. The market value of all Purchased Securities and Pledged Securities shall be determined daily at the close of business by using the "bid" price for the securities in question as it appears in the most current issue of the Wall Street Journal or such other source as is mutually acceptable to Buyer and ___.

11. Segregation of Securities. All Purchased Securities and Pledged Securities, held by Buyer or his or her designated bank; shall be segregated from other securities in the possession of the holder and shall be identified as subject to this Agreement. Segregation may be accomplished by appropriate identification on the books and records of the holder.

12. Default. In the event that (i) ___ fails to repurchase any Purchased Securities upon the Repurchase Date relating thereto; (ii) ___ fails, after one business day's notice, to comply with Paragraph 3 above or (iii) an Act of Insolvency occurs with respect to ___ (each a "___ Default"):

(A) At the option of Buyer, exercised by written notice to ___ obligations under each Specific Repurchase Agreement to repurchase Purchased Securities shall thereupon become immediately due and payable. In such event, the Repurchase Price under each Specific Repurchase Agreement shall be adjusted to equal the sum of (i) the Purchase Price plus (ii) interest thereon, at the Interest Rate, from the Purchase Date until payment thereof plus (iii) to the extent permitted by applicable law, interest on the Interest

component of such adjusted Repurchase Price, at the Interest Rate, from the date on which the ___ Default occurs until the day of payment of such Interest component. Such adjusted Repurchase Price is hereafter referred to as the "___ Liability."

(B) If Buyer exercises the option referred to in subparagraph (A) of this Paragraph 12, all income payable thereafter shall be applied by Buyer to the Seller's Liability.

(C) The Buyer may, after giving one business day's notice to ___ (but no such notice shall be required in the event of an Act of Insolvency); (i) sell any or all Purchased Securities and/or any or all Pledged Securities and apply the proceeds thereof to the ___ Liability and/or (ii) apply Cash Collateral to the ___ Liability. All sales shall be in a recognized market at such price or prices as Buyer may reasonably deem satisfactory.

(D) The Buyer may register the transfer of any securities delivered to it by whether such delivery occurred subsequent or prior to the ___ Default.

13. Buyer Default. In the event that (i) Buyer fails to deliver any Purchased Securities to ___ upon the relevant Repurchase Date against payment therefor, (ii) Buyer fails to comply with Paragraph 4, above, or (iii) an Act of Insolvency occurs with respect to Buyer (each a "Buyer Default").

Figure C-3, Sample Repurchase Agreement Purchaser's Letter

Dear Sirs:

From time to time, you may enter into repurchase transactions with us, evidenced by confirmations from us to you, pursuant to which you purchase from us specific securities and we agree to repurchase the same securities at a specific later date. Attachment to this letter states the general terms and conditions that shall apply to each such repurchase transactions. The confirmation of each such repurchase transactions, as supplemented by the attachment, shall constitute a binding agreement between us.

Please acknowledge your acceptance of the foregoing by signing and returning the enclosed copy of this letter.

Very truly yours,

Agreed and Accepted this

day of 19()

Attachment

Figure C-4, Purchaser's Agreement, General Terms and Conditions of Repurchase Agreements

1. Definitions. (a) (Name of NAFI); (b) "Seller," the person selling securities to ___; (c) "Specific Repurchase Agreement," the confirmation outlining the specific terms for an individual repurchase transaction in which Seller sells securities to and agrees to repurchase them; (d) "Purchased Securities," the securities sold to ___ by Seller; (e) "Purchase Price," the price at which Purchased Securities are sold to ___ by Seller; (f) "Purchase Date," the date on which Purchased Securities are sold to ___ by Seller; (g) "Repurchase Date," the date provided in a Specific Repurchase Agreement on which Seller is to repurchase the Purchased Securities from ___; (h) "Repurchase Price," the price at which Purchased Securities are to be repurchased on the Repurchase Date (which is equal to the Purchase Price plus Interest); (i) "Interest," the interest component of the Repurchase Price; (j) "Interest Rate," the rate at which Interest is calculated; (k) "Long-Term Specific Repurchase Agreement," a Specific Repurchase Agreement under which the Repurchase Date is more than 21 days after the Purchase Date; (l) "Pledged Securities," securities, other than Purchased Securities, pledged to ___ by Seller to secure its obligations hereunder; (m) "Cash Collateral," cash pledged to ___ by Seller to secure its obligations hereunder; (n) "Collateral," Pledged Securities and/or Cash Collateral; (o) "Margin," the excess of (i) the market value of the Purchased Securities under a Specific Repurchase Agreement plus Attributable Collateral over (ii) the Repurchase Price thereunder; (p) "Original Margin," the excess on the Purchase Date of (i) the market value of the Purchased Securities under a Specific Repurchase Agreement over (ii) the Repurchased Price thereunder; (q) "Attributable Collateral," for purpose of determining the amount of Margin, Collateral attributed to individual Specific Repurchase Agreements on the basis that Collateral is first attributed to restore the Margin under each Specific Repurchase Agreement to the Original Margin and thereafter attributed pro rata on the basis of the Repurchase Prices; and (r) "Act of Insolvency," with respect to any person, the filing by such person of a petition in bankruptcy, adjudication of such person as insolvent or bankrupt, petition or application by such person for any receiver or trustee for itself or any substantial part of its property, commencement by such person or any proceeding relating to it under any reorganization, arrangement, dissolution or liquidation law, or the initiation of any such proceeding against such person if such person indicates by any act its consent thereto or if such proceeding is not dismissed within 30 days.

2. Security Interest and Possession. ___ is hereby granted a security interest in and lien upon all purchased Securities, Pledged Securities and Cash Collateral. Upon ___ request, Seller shall deliver Purchased Securities and Pledged Securities to ___; provided, that Seller shall, without such request, deliver to Purchased Securities purchased by ___ under Long-Term Specific Repurchase Agreements, unless ___ authorizes Seller to retain such securities. All Cash Collateral shall be delivered by Seller to ___ but shall be segregated from other funds of ___ and identified as Cash Collateral. On the Repurchase Date specified in a Specific Repurchase Agreement, ___ security interest in the Purchased Securities subject thereto shall be deemed released upon the tendering of payment therefor by Seller, and ___ shall thereupon deliver to Seller any such Purchased Securities previously delivered by Seller to ___.

3. Margin Maintenance Seller's Obligation. If at any time the Margin under a Specific Repurchase Agreement is not equal to at least 100% of the Original Margin, ___ may from time to time require Seller to provide Collateral so that the original Margin is restored. At the option of Seller, the Collateral shall consist of Pledged Securities reasonably acceptable to ___ and/or Cash Collateral.

4. Margin Maintenance Obligation. If at any time the Margin under a Specific Repurchase Agreement exceeds 120% of the Original Margin (a "Margin Excess"), Seller may require ___ to elect either (a) to deliver cash to Seller or (b) to release from its security interest and lien such Collateral (whether or not Attributable Collateral) and/or Purchased Securities thereunder as Seller selects, or to elect some

combination of (a) and (b), so that a Margin Excess no longer exists; provided, however, that Seller shall select Purchase Securities in the case of an election under clause (b) only if there is then no Collateral. Upon the release of any Collateral or Purchased Securities which were previously delivered by Seller to ___, ___ shall return such Collateral or Purchased Securities to Seller.

5. Principal Payments, Interest and Dividends. Except as provided in Paragraph 11, above, all principal payments in respect of, and all interest and dividends paid or payable on, the Purchased Securities and Pledged Securities ("Income") shall be the property of and owned by Seller. ___ shall deliver Income to Seller on the date on which it is payable.

6. Seller Representation. Seller represents and warrants that it is duly authorized to enter into this Agreement and the transactions contemplated hereunder and that the person signing this Agreement on behalf of Seller is duly authorized to act on its behalf.

7. Representations. ___ represents and warrants that it is duly authorized to enter into this Agreement and the transactions contemplated hereunder and that the person signing this Agreement on behalf of ___ is duly authorized to act on its behalf.

8. Payment and Delivery. Unless otherwise mutually agreed, all payments hereunder and under each Specific Repurchase Agreement shall be in immediately available funds. All deliveries of securities by one party thereto to the other party shall be in suitable form for delivery or shall be accompanied by duly executed instruments of transfer or assignment in blank and such other documentation as the party receiving possession may reasonably request. ___ shall not, however, cause any such transfer of securities to be registered, except as provided in Paragraph 11 below. All deliveries shall be effected within the delivery time scheduled from time to time by bank wire.

9. Market Value Determination. The market value of all Purchased Securities and Pledged Securities shall be determined daily at the close of business, by using the "bid" price for the securities in question as it appears in the most current issue of the Wall Street Journal or such other source as is mutually acceptable to Seller and ___.

10. Segregation of Securities. All Purchase Securities and Pledged Securities, whether held by ___ or Seller shall be segregated from other securities in the possession of the holder and shall be identified as subject to this Agreement. Segregation may be accomplished by appropriate identification on the books and records of the holder.

11. Seller Default. In the event that (i) Seller fails to repurchase any Purchased Securities upon the Repurchase Date relating thereto, (ii) Seller fails, after one business day's notice, to comply with Paragraph 3 above or (iii) an Act of Insolvency occurs with respect to Seller (each a "Seller Default"):

(A) At the option of ___, exercised by written notice to Seller, Seller's obligation under each Specific Repurchase Agreement to repurchase Purchased Securities shall thereupon become immediately due and payable. In such event, the Repurchase Price under each Specific Repurchase Agreement shall be adjusted to equal the sum of (i) the Purchase Price plus (ii) interest thereon, at the Interest Rate, from the Purchase Date until payment thereof plus (iii) to the extent permitted by applicable law, interest on the interest component of such adjusted Repurchase Price, at the Interest Rate, from the date on which the Seller Default occurs until the date of payment of such Interest component. Such adjusted Repurchase Price is hereafter referred to as the "Seller Liability."

(B) If ___ exercises the option referred to in subparagraph (A) of Paragraph 11, all Income payable thereafter shall be applied by buying to the Seller Liability.

(C) ___ may, after giving one business day's notice to Seller (but no such notice shall be required in the event of an act of insolvency, (i) sell any or all Purchased Securities and/or any or all Pledged Securities and apply the proceeds thereof to the Seller Liability and/or (ii) apply Cash Collateral to the Seller Liability. All sales shall be in a recognized market at such price or prices as ___ may reasonable deem satisfactory.

(D) Seller shall immediately deliver to ___ any Purchased Securities and Pledged Securities then in Seller's possession.

(E) ___ may register the transfer of any securities delivered to it by Seller, whether such delivery occurred subsequent or prior to the Seller Default.

12. Default. In the event that (i) ___ fails to deliver any Purchased Securities to Seller upon the relevant Repurchase Date against payment therefor; (ii) ___ fails to comply with Paragraph 4 above of (iii) an Act of Insolvency occurs with respect to ___ (each a "Default"):

(A) At the option of Seller and upon tendering of payment of the aggregate Repurchase prices (reduced as provided in the next sentence), all Specific Repurchase Agreements shall mature. Thereupon, (i) interest in Purchased Securities, Pledged Securities and Cash Collateral shall be deemed released, and ___ shall deliver all such securities and cash to Seller and (ii) interest shall cease to accrue, and each Repurchase Price shall be reduced to reflect such cessation.

(B) Seller may purchase securities ("Replacement Securities") of the same class and amount as, any Purchased Securities or Pledged Securities that are not delivered by ___ to Seller as required hereunder. Such purchase may be made in any recognized market at such prices as Seller may reasonably deem satisfactory. ___ shall be liable to Seller (the "___ Liability") (i), with respect to Purchased Securities, for any excess of the price paid by Seller for the Replacement Securities over the Repurchase Price (reduced as provided above) and (ii) with respect to Pledged Securities, for the price paid by the Seller for the Replacement Securities. In Addition, ___ shall be liable to Seller for interest on the ___ Liability with respect to each such purchase of Replacement Securities from the date thereof until paid in full by __. Such interest shall be at a rate equal to the prime rate for short-term bank commercial loans, as published in The Wall Street Journal, changing as such published rate changes. In the event of __ Default under clause (i) or (ii) of this Paragraph, subparagraphs (A) and (B) hereof shall be effective only upon one business day's notice to Seller.

13. The transactions subject to these terms and conditions shall be governed by the laws of the State of ___.