CNICINST 7040.1
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CNIC INSTRUCTION 7040.1

From: Commander Navy Installations Command

Subj: RECORDING AND FUNDING OF REQUIRED LOCAL NATIONAL
(LN) MORALE, WELFARE AND RECREATION (MWR) AND
NAVY GATEWAY INNS & SUITES (NGIS) FUNDS OPERATING OVERSEAS

Ref: (a) DoDI 1015.15, Establishment, Management, and Control
of Nonappropriated Fund Instrumentalities and
Financial Management of Supporting Resources,
31 October 2007

1. <u>Purpose</u>. To issue policy and procedures on financing of
annual leave, separation payments and other accrued benefits for
local national (LN) nonappropriated fund (NAF) employees. This
instruction is a complete revision and should be reviewed in its
entirety.

2. <u>Cancellation</u>. BUPERSINST 7040.14A

3. <u>Scope</u>. These policies apply to overseas Morale, Welfare and
Recreation (MWR) and Navy Gateway Inns & Suites (NGIS)
Nonappropriated Fund Instrumentalities (NAFIs) where LN
employees are entitled to severance pay, retirement pay and
other benefits.

4. <u>Background</u>. Reference (a) requires NAFs be set aside to
meet direct payments to employees for annual leave, separation
and other benefits when they come due. Failure to record such
liabilities misrepresents the financial condition of the
activity and could lead to a lack of cash when payment of funds
is needed.

5. <u>Information</u>. Restricting cash for LN retirement and
severance pay is a form of self-insurance against eventual
requirements for cash payments to defray liabilities.

6. Action. Commanding Officers (COs) operating MWR and NGIS funds at overseas locations shall ensure:

a. One hundred percent of the liability for LN annual leave (Account No.212001), retirement and severance pay benefits (Account No.281000) and other types of employees' benefits, as may be required by local conditions or status of forces agreement, are reflected on the MWR and NGIS NAF balance sheets.

(1) Revisions to these liability accounts will be made based on changing conditions (e.g., grade or step increases, across the board pay increases, etc.) through monthly charges against operations.

(2) At the end of each month, these liability accounts will be adjusted to reflect any significant changes in the foreign currency exchange rate. This entails applying the exchange rate at the end of the month to the liabilities. A General Journal Voucher (GJV) debiting or crediting the applicable operating expense account and debiting or crediting the applicable liability and cash accounts must be prepared to record these changes.

(3) The actual amount of the liability will be validated at least semi-annually by the local fund. Subsidiary records substantiating the liability shall be maintained by the fund for management and audit review.

b. Seventy-five percent of the liability for Long Term Retirement and Severance Pay Allowance (Account No. 281000) will be recorded to Restricted Cash-Local Nationals (Account No. 103000). However, 100 percent of the liability will be restricted at least 1 year prior to base closure so adequate local funds are available to pay off this obligation.

(1) This entry will be accomplished on a GJV by debiting Restricted Cash – Local Nationals (Account No. 103000) and crediting Central Bank Account (Account No. 101002).

(2) Adjustments to the Restricted Cash Account will be necessary whenever a change occurs in the LN retirement and severance pay liability. It is the responsibility of each command to ensure that the restricted cash amount does not fall below the 75 percent requirement (and 100 percent at least 1 year prior to base closure) to ensure that the activity continues to maintain solvency (ratio of cash plus receivables

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minus restricted cash to current liabilities of at least 1:1).

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