# Issue

# Treatment and disclosure of revenue and expenses from recycling activities varies among the Services. Additionally, the unique provisions related to Recycling (such as its status as an APF activity that can generate NAF funds, the allocation rules related to cost recovery and pollution abatement, and the limitations on the amount available to MWR programs) have not been discussed in the NAF Accounting Working Group meetings. Since there has not been discussion of these complicated provisions and no clear visibility on the Program Metric Report, it is unknown how similar the Recycling program is between the Services and whether there is consistency in accounting treatment.

# Research

Below outlines the current process for how each service treats and discloses revenue and expenses related to recycling and what the regulations, accounting guidance and industry standards are for this area.

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| Recycling and MWR Treatment and Guidelines | Air Force | Army | Navy | Marines |
| NAFSGL Classification of Recycling and MWR Definitions:Recycling Activity Definition: MWR programs authorized to administer recycling programs and receive revenues. Note, Recycling is an APF activity. However, Region MWR activities may provide manpower and support services to maintain collection, accounting, and other program management functions. Prior to undertaking support to a recycling program, a Memorandum of Understanding must be established.Recycling Cost Center Definition – Record income and expense associated with the operation of the recycling program. Include supplies, depreciation, personnel costs, etc. Does not include expenses related to Common Support (Overhead) cost centers.Non-operating Revenue: Earnings or other item(s) of monetary value realized from activities not related to core operations. Other Non-operating Revenue – Revenue amounts that do not fit any other non-operating income GLAC and are not part of the entity’s core revenue-driving operations.Operating Revenue: The amount of revenue realized from a business’s core operations. Operating income includes the gross revenues derived from the ordinary course of business and represent the core revenue-generating functions of the entity.Operating Income is the Operating Revenues minus COGS, and subtracts other operating expenses and then removes depreciation. These operating expenses are costs which are incurred from operating activities and include things such as office supplies and heat and power. Operating Income is a key measure of fiscal health.Other Operating Revenue: Revenue that does not fit any other GLAC income category.Concessionaire Revenue: Revenue received from contracted operations such as (but not limited to) commissions.Other Operating Expense: Holding account for amounts related to operations that do not have a specific expense account, such as cash overages/shortages, unit allocations, flowers and decorations, franchise/royalty fees, and isolated unit allocations. |  Air Force includes within Resource, Recovery and Recycling Program (RRRP) under Other Non-operating Income. | Has two accounts (1) Recyclable Material Income (Grant/Distribution) and (2) Recyclable Material Income (MWR Operation) under Other Operating Income. | Navy includes within Recycling Commissions under Concessionaire Income. Accounts for related expenses within Recycling Expense account under Other Operating Expense. | Includes as Salvage/Recycle Income within Other Non-operating Income. |
| DoDI 1015.10: 15. Recycling Materials Program. According to section 2577 of title 10, U.S.C. (Reference (x)), a qualifying recycling program is an APF responsibility and not an MWR program. MWR programs are authorized to administer recycling programs and receive revenues but cannot use NAF to subsidize them.  | Need more information. | Need more information. | Need more information. | Need more information. |
| DoDI 1015.15: Recycling is listed as a Category C –Revenue Generating Program within C4.1 Resale (MWR-operated audio, photo, recycling, car wash, etc.)6.4.2.12 Concessionaire Operations. NAFIs shall disclose net income from concessionaires as operating income on the financial statements. Armed Services Exchanges shall use a uniform accounting method. | Need more information. | Need more information. | Need more information. | Need more information. |
| FMR Volume 2A, Chapter 3: Recycling is listed under Program - Military MWR Programs; Category - C Revenue Generating Programs; Fund Source - Direct Program Operation; and Activity - C.4.1 Resale Activities (i.e., audio, photo, recycling, car wash, etc.)FMR Volume 3, Chapter 17, 170506. Recycling Programs: Projects for pollution abatement, energy conservation, and occupational safety and health activities may be funded from other than the military construction appropriation when the cost of a project:A. Is funded from the proceeds of sales of recyclable material in accordancewith Volume 11A, Chapter 5 and 10 U.S.C. § 2577, “Disposal of recyclable materials,” andB. Does not exceed 50 percent of the amount established by law as a maximum amount for minor construction projects in accordance with 10 U.S.C. § 2577.FMR Volume 11A, Chapter 5, 050202. D. Sales of Recyclable Material on Military Installations: Distribution of proceeds from direct sales of installation qualified recycling programs is covered by *Title 10, U.S.C. section 2577*, “Disposal of Recyclable Materials,” and *DoD Instruction 4715.4*, “Pollution Prevention.” 1. Proceeds shall be distributed as follows:a. Cost of Recycling Programs. Sale proceeds shall first be used to cover the costs directly attributable to all installation recycling programs, including, but not limited to, manpower, facilities, equipment, overhead, and other capital investments.b. Installation Pollution Abatement. After the costs of the recycling program are recovered, installation commanders may use up to 50 percent of the remaining proceeds for pollution abatement, pollution prevention, composting and alternative fueled vehicle infrastructure support and vehicle conversion, energy conservation, or occupational safety and health projects, with first consideration given to projects included in the installation’s pollution prevention plan.c. Morale, Welfare, and Recreation Accounts. Any remaining proceeds may be transferred to the non-appropriated morale, welfare and recreation account for any approved program.2. An accounting and control system shall be established for recycling programs that provides detailed management and audit information, tracks material quantity handled, calculates sales and handling costs for recycled material, and tracks expenditures made for appropriate projects and morale, welfare, and recreation programs. Integrity of the audit trail will be a priority concern.3. The Director, Defense Logistics Agency (under the Under Secretary of Defense for Acquisition, Technology, and Logistics) shall establish procedures and controls to ensure that when recyclable materials are consigned for disposal to the DRMS on behalf of a qualified recycling program, 100 percent of any proceeds, less the costs of sales and handling, are returned to installations in accordance with established accounting procedures.4. If the balance available to a military installation at the end of any fiscal year is in excess of $2 million, the amount of that excess shall be deposited into the Treasury as miscellaneous receipts.FMR Volume 13, Chapter 5, 050301. M. Recyclable Material Income (April 2013): This general ledger account is for recording revenue from recycling operations.FMR Volume 13, Chapter 7, 070803. I. 3. Other, Line 9c: Report the balances for other income-generating activities. Items reported as other income include commercial sponsorship income, recyclable material income, U.S. Department of Agriculture income, UFM income, cash overages, contributions and donations, intrafund income, interest income, gains on disposition of fixed assets, gains on foreign currency, and other income. | Need more information. | Need more information. | Need more information. | Need more information. |

# Discussion

The 1015.10 states that recycling is an APF activity and is not part of the MWR program, but operations could result in residual NAF revenues. However, the NAFSGL and 1015.15 treat Recycling programs as an Activity, with the NAFSGL placing it as a Category A while the 1015.15 allows it as part of Resale in Category C. The FMR also places Recycling in Category C, but not in Volume 13. In addition to reconciling the policy to classify Recycling as either an Activity or not, an understanding of the treatment of those residual revenues is necessary for consistency and comparability purposes.

The FMR in Volume 2A currently includes Income from Recyclable Materials as Operating Revenue due to its inclusion in the Category C activity of Resale. However, the FMR in Volume 11A Chapter 5 D.1.C states that proceeds from recycling sales can be transferred to MWR for “any approved program”, which would imply recycling proceeds would be non-operating income for the program receiving the proceeds. Some of the Services are currently including income from recyclable materials within Other Operating Income while others include it within Other Non-Operating Income.

# Recommendation

We recommend that the 1015.15, FMR, and NAFSGL be changed to specifically exclude Recycling program as an MWR activity.

Regarding the revenue question related to recycling programs, we contend that residual revenues received from recycling activities should be treated similar to an exchange dividend, as both are outside sources of NAF funds. As such, the revenue will be non-operating revenue. The NAFSGL may require adjustment for a new GLAC to reflect this source of revenue.

# Service Concurrence

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| Service | Concurrence | Reason for Non-concurrence |
| Air Force | **Concurred 12/13/2018.** |  |
| Army | **Concurred 12/13/2018.** |  |
| Marines  | **Concurred 12/13/2018.** |  |
| Navy | **Concurred 12/14/2018.** |  |

# USD(P&R)/MC&FP Disposition

Revise 1015.15 to specifically exclude Recycling Program as an MWR activity.

# DFAS Disposition

Update FMR to specifically exclude Recycling program as an MWR activity.

# Forward to DoDIG?

No DoDIG equities.