Policy Code # A-FN-105-001/AG-001

Chapter 1: Introduction and Basic Concepts

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GENERAL

1. This publication deals with all aspects of Non-Public Property (NPP) accounting and finance for the Canadian Armed Forces (CAF) (Regular Force and Reserves).
2. The Chief of Defence Staff (CDS) has directed that unit activities must be administered either in the Public accountability framework or the Non-Public Property (NPP) accountability framework.

APPLICATION

3. This publication applies at all levels and in all environments of the CAF unless otherwise stated and shall be used in conjunction with other publications, orders and directives directly referenced herein, such as the Personnel Support Programs Policy Manual (PSP PM) and A-PS-110-001/AG-002 - Morale and Welfare Programs in the Canadian Forces: Volume 1 – Public Support for Morale and Welfare Programs and Non-Public Property.
4. Publications, directives, and instructions relating to Ships and Deployed Operations remain in effect and are not superseded by this publication; however, they shall be consistent with this publication and must receive approval from the Canadian Forces Morale and Welfare Services (CFMWS), Chief Financial Officer (CFO).
5. The policies and procedures contained herein are designed to serve all levels of management and their consistent application will result in the most effective use of available resources and help ensure the maximum contribution to the overall effectiveness of the CAF.
6. The standards prescribed for the frequency of reporting and other controls presented in this publication represent the basic acceptable level of internal control. Commanders may introduce additional controls where deemed necessary but may not authorize the relaxation of the measures outlined herein.

TERMINOLOGY

7. For the purposes of this publication:
   a. "**Accounting**" is the process of analyzing and systematically recording, in terms of money, transactions, and events which are, in part at least, of a financial nature, and of summarizing, reporting, and interpreting the results thereof;
   b. **"Base"** means a CAF Base, Wing, Ship, Unit or other element of the CAF unless otherwise stated;
   c. **Canadian Forces Central Fund (CFCF)** means the aggregate of all Non-Public Funds that are on deposit at the credit of NPP organizations and from which all NPP disbursements are made;
   d. "**Mess**" means, the organization whose membership is related to an identifiable rank, formed for the purpose of building esprit de corps and comradeship; or the facility or facilities, which provide space in which to carry out the functions of the organization and may include a wardroom or dining room, bar or anteroom, lounge, games room, patio and other common rooms/areas which, when provided, are operated and administered to provide services to the members of the mess. Messes have been

entrusted to the Commanding Officer pursuant to Sections 38 to 41 of the *National Defence Act*;

e. **"Morale and Welfare (MW) Programs",** as described in A-PS-110-001/AG-002, are those administered by CFMWS, with Public and NPP resources, in support of the chain of command, to enhance the well-being of CAF members and their families, thus contributing to the operational readiness and effectiveness of the CAF;

f. **"Non-Public Funds (NPF)" refers to t**he money component of NPP,) and includes funds from:

   i. revenues from NPP programs, services and activities, including resale activities;

   ii. sale of NPP;

   iii. fees, charges or bar activities of NPP organizations;

   iv. rental of NPP-financed community recreation program facilities or equipment;

   v. fundraising, donations or contributions to NPP organizations;

   vi. investment of NPF through the CFCF; and

   vii. the Public as reimbursement for Public MW Programs delivered using NPP resources.

   Note: NPF is the abbreviation for Non-Public Funds and should be used in that sense only. It is not accurate to imply that NPF is an entity or organization with capacity to perform functions or undertake responsibility as such entity or organization does not exist. The abbreviation may be used in conjunction with facilities or functions to indicate the primary source of resources for an activity but does not necessarily establish the responsibility for its existence.

g. **"Non-Public Property (NPP)"** is as defined in The *National Defence Act* (NDA) and means:

   i. All money and property, other than issues of material, received for or administered by or through messes, institutes or canteens of the Canadian Forces;

   ii. All money and property contributed to or by officers, non-commissioned members, units or other elements of the Canadian Forces for the collective benefit and welfare of those officers, non-commissioned members, units or other elements;

   iii. By-products and refuse and the proceeds of the sale thereof to the extent prescribed under subsection 39(2) of the National Defence Act; and

   iv. All money and property derived from, purchased out of the proceeds of the sale of, or received in exchange for, money and property described in subparagraphs (i) to (iii).

h. "**NPP Accounting Manager"** (NPPAM) refers to the senior NPP accounting person at each Base;

i. **"NPP Organizations"** are legally "administrative constructs" of either the Chief of Defense Staff or Commanding Officers acting in their official NPP capacities. Accordingly, no NPP Organization shall be established or represented as a separate legal entity for any purpose;

j. **"PROPHET"** refers to the NPP accounting information system; and

k. **"PROPHET Business Intelligence"** (BI) refers to the financial reporting mechanism within PROPHET that provides NPP stakeholders direct access to financial information.

8. Words and phrases shall be construed according to the common approved meaning given in the Concise Oxford Dictionary if in English, or in Le Petit Robert, Harraps and/or Dictionnaire

de la comptabilité if in French, except that:

a. technical words and phrases, and words that have acquired a special meaning within the CAF shall be construed according to their special meaning; and

b. words and phrases that are defined within QR & O within the *Interpretation Act* or the *National Defence Act* shall be construed according to that definition.

9. Unless the contrary intention appears, words in the singular include the plural, and words in the plural include the singular, and unless the context requires otherwise words importing male persons includes female persons and words importing female persons include male persons.

10. In this publication:

a. "may" shall be construed as being permissive and "shall" as being imperative; and

b. "should" shall be construed as being information only.

c. "practicable" shall be construed as "physically possible";

d. "practical" shall be construed as reasonable in the circumstances; and

e. “public” with an upper case “P” refers to the Crown in right of Canada.

11. A list of acronyms can be found at the end of this publication.

BASIS OF ACCOUNTING FOR NPP ORGANIZATIONS (ACCOUNTING STANDARDS)

12. **CANEX, SISIP Financial:** follow the Canadian Accounting Standards for Private Enterprises (ASPE).

13. **All Other NPP Organizations:** follow the Canadian Accounting Standards for Not For Profit Organizations and, in circumstances where topics are not addressed therein, ASPE apply.

ACCOUNTING INFORMATION SYSTEMS

14. With the exception of Ships and some Deployed Operations and Reserve Units that use SAGE Accounting Software, all Bases/Wings/Units, have access to and utilize the accounting information system referred to as PROPHET. Basic NPP policies and principles expressed in this publication apply equally to PROPHET and non-PROPHET Bases/Wings/Units.

FUNDAMENTAL ACCOUNTING STRUCTURE AND CONCEPTS BASE/WING FUND

15. As prescribed by the Personnel Support Programs Policy Manual (PSP PM), Chapter 10-2 (Base Funds - Regular Force) and Chapter 10-3 (Unit Funds – Reserve Force), the Base/Wing/Unit Fund Committee is the senior directing board of all NPP activities on the Base/Wing/Unit. CANEX, Messes, Independent Unit Funds, and Museum activities are not part of the Base/Wing Fund.

16. The Base Fund consists of all NPP, exclusive of unit fund operations independent of Base Fund, CANEX, Messes, and CAF Museums which have been entrusted to the Commanding Officer pursuant to Sections 38 to 41 of the *National Defence Act.*

17. The Base/Wing Comd may authorize the CO of a lodger, satellite, or integral unit to establish a unit fund where:

a. the unit is located in an area so remote from its support Base/Wing that it is impractical to share base amenities; or

b. in other circumstances where the Base/Wing Comd considers it is practical and advantageous to do so.

18. A Unit Fund established under these provisions and/or the provisions outlined in the PSP PM, Chapter 10-4 (Branch, Regimental and Group Funds) for national branch, regimental and group funds shall be accounted for as a separate entity with their own set of financial statements. Such funds include any resale activities (e.g. kitshops) they operate and all funds shall normally be deposited with CFCF (see para 23 below for exceptions).

19. Base/Wing Fund shall account for all NPP activities which provide Canadian Forces members and their dependants with facilities and equipment:

    a. Casual recreation activities such as casual swimming, skating, and woodworking;

    b. Commercial services such as bowling and theatre;

    c. Instructional classes such as swimming, spinning, and aerobics;

    d. Recreation clubs such as badminton, computer and figure skating;

    e. Special events such as Community Council events, Canada Day and family days;

    f. Newspapers; and

    g. Branch and social funds.

20. In addition, the Base/Wing Fund shall account for revenues and expenditures of:

    a. Chapel Funds See Note;

    b. grants from public funds; and

    c. such other funds that are donated or collected for specific purposes and held in trust and over which the Base/Wing Fund/Unit Fund exercises only custodial responsibility.

    Note: As per 5111-11 (DPOCS - 3) 4 November 1997, Protestant Chapels have the option of banking within NPP while in contrast, IAW CFO 1157 091300Z OCT 96, the Roman Catholic Chapel Committee is responsible for the accounting and control of RC Chapel Offerings.

21. Any single NPP Event with an aggregate budgeted cost exceeding $50K ($50,000) shall be structured as a separate outlet within the entity's books of account with a full operating income statement. Types of entities that may undertake a NPP Event include Base Fund and subsidiaries, Messes, Museums, Units, Regimental, Branch, Corp and Group Funds. For an event with an aggregate budgeted cost of less than $50K the MW Event leader in collaboration with the NPPAM and/or RAM will decide on the best reporting structure. Options include a separate outlet or simple revenue and expense accounts.

22. A guide has been developed in concert with a number of CFMWS Divisions and provides guidance from a financial perspective to entities engaging in NPP Morale and Welfare events. The guide is a reference tool for planning and undertaking NPP Morale and Welfare events.

23. As per PSP PM, Chapter 10-4 (Branch, Regimental and Group Funds) Corps, regimental and similar funds, (including the Royal Military Colleges Club of Canada), which existed on 1 January 1973, are NPP activities. However, they may continue under their original terms of reference, which may include maintaining accounts that are separate from the CFCF framework.

BASE/WING FUND ACTIVITIES/SUBSIDIARIES

24. Base/Wing Fund activities meeting the following criteria can be established as a subsidiary:

    a. a manager is directly involved with the daily/ongoing activities;

b. use sales and purchases accounts and maintains a merchandise inventory;

c. sells products and/or services to the community and/or membership;

d. has depreciable fixed assets;

e. charges membership dues;

f. receives revenue from two or more sources.

25. A subsidiary must have a complete set of financial statements as per Chapter 14 (Financial Statements). For financial reporting purposes the subsidiary results are included within the Base/Wing Fund Consolidated Statement**.** If the criterion to be reported as a subsidiary is not met, the activity may be accounted for as an outlet under the Base Fund's financial structure.

FINANCIAL STRUCTURE

26. To ensure consolidated financial reporting capabilities and standardization of the financial structure, all types of NPP activities (including clubs) that in essence, provide the same basic services and/or conduct the same activities, shall have the same financial structure. All minor hockey clubs for example shall be established with the same financial structure and if circumstances warrant changing the financial structure for one club, then all minor hockey club's financial structures shall be amended to reflect the new structure.

27. Departure from the standardized financial structure must be approved by the Chief Financial Officer (CFO).

NPP ENTITY/OUTLET

28. A NPP Entity is any NPP activity that presents a complete set of financial statements. It includes messes, CANEX, CF Museums, Unit Funds, Base Funds and their subsidiaries. An outlet is a component of an entity.

NPP ENTITY FUNDS

29. A NPP Entity Fund is a separate economic unit, segregated for the purposes of conducting specific activities or attaining objectives in accordance with special regulations, or limitations as outlined in the Entity Fund constitution. NPP Entity Funds are established to maintain legitimate non-Base/Wing Fund NPP funds within the NPP accountability framework. Details on the accounting for and administration of NPP Entity Funds can be found at Annex A.

GIFT FUNDS

30. If the creation of a separate gift fund has been approved by a simple majority of all members, an entity may give gifts and testimonials of a reasonable amount to members on the occasion of their departure from the entity or for other legitimate purposes such as bereavement commemoration. Gift Funds shall be accounted for as a NPP Entity Fund. The entity's Constitution and By-laws must state the established equitable criteria, amounts, purposes, etc. for gift fund expenditures as well as the appropriate monthly gift fund assessment from members. The gift fund shall be self-sufficient and shall not be created or replenished by transfers of funds from other accounts. However, in circumstances where surpluses have accumulated in entity gift funds, the surplus or a portion thereof may be transferred from the gift fund to another entity account such as mess subscription revenue, upon approval by a simple majority of members. (Care must be taken to consider both current and future needs when determining transfer amounts).

31. Annually, the Mess Committee or Manager, with the assistance of the NPPAM, must review the gift fund to verify its self-sufficiency and ensure that any required changes to the By-laws are made.

EXTERNAL TRUST FUNDS

32. A NPP organization is characterized by the fact that upon the closure of the activity, its funds and other assets accrue to the Base/Wing Fund, the CFCF or some other NPP organization and are used for NPP purposes.

33. If it is considered to be in the best interest of the CAF, a BComd may direct that an External Trust Fund be established to account for the financial and/or other assets of an external "non-NPP" organization or activity such as a charity, the Boy Scouts or other external morale and welfare activity. Details on the accounting for and administration of External Trust Funds can be found at Annex B.

ROLE OF BASE/WING COMPTROLLERS

34. The role of the Base/Wing Comptroller with regards to NPP includes independent financial analysis and provision of a finance member on the Base/Wing and Mess committees.

NPP ACTIVITY COMMITTEES – NPP ACCOUNTING REPRESENTATION

35. The RAM and the NPPAM shall each be ex-officio members of the Base Fund/ Wing committee and shall provide financial information consistent with the responsibilities of their primary positions to assist the Base/Wing Comd or their delegated representative in the stewardship of NPP. At the request of the BComd, the RAM or NPPAM, or their delegated representative may also be required to provide the same level of service for mess or activity committees based on local circumstances/requirements.

MINUTES OF MEETINGS

36. The NPPAM shall be provided with a copy of the Minutes of all General and Committee meetings of the Base/Wing Fund, subsidiaries, messes and NPP Entity Funds. In turn the NPPAM shall review the minutes to ensure that any actions proposed and/or approved therein, such as a change in the constitution or the acquisition, or disposal/write off of Fixed Assets are in compliance with NPP Policies and Procedures and that any required follow up action has taken place.

MESSES

37. Messes are independent financial entities exclusive of the Base/Wing Fund and shall be administered by an elected or appointed mess committee. As outlined in the PSP PM, Chapter 9-2 (Provision, Serving and Consumption of Alcoholic Beverages), within the Mess the sale of alcoholic beverages is not to be subsidized or discounted. Bar operations must operate on a profit-making or break-even basis.

38. PMC/Entertainment bar card expenditures are not considered "*representational expenses*" (as detailed in para 58 below) and PMC/Entertainment bar card expenditure limits shall be approved yearly in the minutes of the particular mess.

39. The Base/ Wing Comd/Unit CO may issue specific directions on the operation of a mess including the contribution from a Mess to the Base/Wing/Unit Fund as prescribed in PSP PM, Chapter 10-2 (Base Funds - Regular Force) and Chapter 10-3 (Unit Funds – Reserve Force). Such contributions shall be shown as a mess general expense.

40. The accounting for a mess shall be comprised of the accounting records for the non-public property used to provide the members with:

a. bar facilities and services;

b. social or entertainment activities; and

c. facilities and events for recreation and relaxation.

SERVICE CLUBS

41. Service Clubs may be authorized as an alternative to Mess bars. They provide a place for CAF members to socialize where consumption of alcohol is not the primary activity. Activities provided in Service Clubs are based on the interests of CAF members and may include a lounge area, food outlet, either in the facility or reasonably accessible, dance area, games, and TV areas.

SUPPORT OUR TROOPS

42. Support Our Troops" is the official benevolent cause of the Canadian Armed Forces Community and, as a NPP organization is a Qualified Donee and can accept donations and issue Official Income Tax Receipts. Support Our Troops was established in 2007 to meet the unique needs and special challenges faced by members of the CAF community as a result of military service and not covered by core public funds. Available financial assistance, in the form of loans and grants promotes family resiliency and supports the recovery, rehabilitation and reintegration of members with physical and/or mental illness or injury. Support Our Troops includes Soldier On Fund, Support Our Troops Fund (restricted and unrestricted), Boomer's Legacy Fund, and various Endowment Funds. Support Our Troops is funded by individual and corporate donations, third party fundraising events, donations from Foundations, proceeds from sales, Yellow Ribbon merchandise sales and partnerships.

SERVICE INCOME SECURITY INSURANCE PLAN FINANCIAL

43. Service Income Security Insurance Plan Financial (SISIP Financial) provides financial products and services to current and former CAF members and their families, including life and disability insurance, financial planning, counseling and education.

MUSEUMS

44. As per CFAO 27-5 (Canadian Forces Museums), CAF Museums are NPP activities and as such are subject to the NPP accountability framework. Military Regular and Reserve Force Unit Museums are independent financial entities exclusive of the Base/Wing Fund with separate accounting records.

45. Museums preserve and interpret Canadian military heritage to increase a sense of identity and esprit de corps within the CAF. Military memorabilia and artefacts that have not been given museum status are designated as historical collections. CAF museums are not MW programs administered through CFMWS, but are NPP programs.

46. Museums are independent, self-financed NPP activities operated in accordance with policies and orders governing such activities A-AD-266-000/AG-001 (Canadian Forces Museums Operations and Administration Manual); therefore, all NPP assets shall be accounted for as per Chapter 28 (Fixed Assets and Museum Collections).

CANEX

47. The **Canadian Forces Exchange System (CANEX)** is a division of CFMWS and operates a diverse resale organization to provide a wide range of goods and services to the military community at competitive prices to meet consumer needs and generate profits in support of MW programs. CANEX resale operations generally include all NPP resale activities including online sales at: https://www.canex.ca/ and, at the unit level may include but are not

limited to:

a. Retail stores: merchandising, clothing, furniture, appliances, kitchenware, hardware, sporting goods, jewellery, watches, cameras and novelties;

b. Grocery stores: merchandising, groceries, including health and beauty aids and miscellaneous household items;

c. Other businesses: operations, including barber shops, beauty salons, newsstands, tailor shops, laundry and dry cleaning, taxi stands, photo shop, banks/credit unions and vending machines, operated either directly by CANEX or through a CANEX concession agreement; and

d. Food Service outlets: operated either directly by CANEX or through a CANEX concession agreement.

48. CANEX resale operations do not include:

a. Deployed Operations;

b. kitshops as authorized IAW PSP PM, Chapter 10-4 (Branch, Regimental and Group Funds);

c. licensed bar, snack bar, and dry canteen operations of a Mess or Service Club or Ship's Exchange which shall be considered as part of Mess or Service Club or Ship Exchange operations; or

d. licensed bar, snack bar, or pro shop type outlets, operated by and as part of a Special Interest Activity and considered to be part of that activity.

49. Other than these exceptions, CANEX has the right of first refusal for any new NPP resale activities contemplated at any unit.

ALIENATION OF NON-PUBLIC PROPERTY

50. As per A-PS-110-001/AG-002 Chapter 2 (Non-Public Property (NPP)), para 12, "*The NDA provides that NPP shall be used for the benefit of serving members, former members, their dependants, or for any other purpose approved by the CDS*". Section 39 (3) of the Act also provides that, except as authorized by the CDS, "*no gift, sale or other alienation or attempted alienation of non-public property" is effectual to pass the property therein".* The policy is to ensure that funds are expended in a context free of any alienation IAW the NDA. This policy applies to all NPP and is not restricted to cash and cash equivalents.

51. Alienation of NPP means the transfer of ownership of NPP to another party so that the property is no longer NPP. This includes:

52. the sale of NPP at less than fair market value;

a. gifts and donations of NPP to individuals, groups, organizations, companies, corporations, registered charities, and Crown entities;

53. the transfer of NPP to the Crown Public at less than the price determined in accordance with instructions issued by the CDS; and

a. any disposition of NPP that may result in personal gain or advantage.

Note: When a person is entitled to an honorarium (or other payment for services) and they choose to have the funds donated to a charity of their choice in lieu of receiving payment, this does not constitute "*Alienation of NPP*".

54. The funds of Base/Wing/Unit Fund, SISIP Financial, CANEX, mess, and Museums shall not be alienated by any disposition of NPP that may result in personal gain or advantage to individuals or a restricted group of individuals, gifts to private or public institutions, to relieve an officer, non commissioned member or civilian employee of his personal responsibility for loss or damage to public or NPP, for testimonials or gifts, for national appeals for financial

assistance, or for the provision of anything connected with religious services.

55. A grant or transfer of Base/Wing funds to a charitable, or other organization that is not specifically part of Base personnel support programs is prohibited. This does not preclude the establishment of a trust account to administer funds donated by individuals for a specific purpose or obtained from fund raising events or activities held for that purpose.

56. As per direction given by CDS on 18 May 2010, in order to improve the administration of NPP as it relates to alienation, CDS has approved the following:

    a. Base/Wing and Unit Commanders may authorize foreign military members, civilian members of the Defence team, or the boyfriend/girlfriend of a CAF mess members to attend a subsidized NPP function on the same basis as serving and former CAF personnel and their families; and

    b. Managing Director NPP may authorize the alienation of NPP real property and tangible property up to a value of $100K. Such alienations are to be reported to the CDS in arrears at the end of each fiscal year.

57. Except for funds held in trust for specific purposes, NPP shall be expended primarily for the benefit of CAF members, former members, their dependants of the Base/Wing and integral and lodger units which includes application towards the aims of:

    a. other NPP institutions, such as the CFCF; and

    b. the benevolent and welfare funds serving members of the CAF.

58. The following are authorized:

    a. Situations where a Mess, Base / Wing or Unit Fund has established equitable criteria applicable to all members for an 'in memoriam' gift or donation including flowers, or cash donation to a designated charity, on behalf of a deceased member or immediate family member;

    b. Situations where a Mess, Base / Wing or Unit Fund has established equitable criteria applicable to all members for a gift such as flowers to a hospitalized member or immediate family member;

    c. Situations where a Mess, Base / Wing or Unit Fund, has established a gift fund to mark the occasion of a member's retirement or departure from the Mess, Base / Wing or Unit, fully financed by contributions directly to the gift fund from members of the Mess, Base / Wing or Unit Fund with equitable criteria applicable to all members; or

    d. End of tour rotation mementos for personnel leaving a special duty area, based on equitable criteria applicable to all personnel serving in that special duty area, and funded through the NPP operations at that special duty area.

59. Such gifts or donations shall be of nominal value.

REPRESENTATIONAL EXPENSES

60. As per the CDS Delegation of Authorities for Financial Administration of Non-Public Property, COs are authorized to use local Base/Wing/Unit NPP funds on representational expenses, when representing the CAF with respect to Morale & Welfare programs. Annually the Managing Director NPP confirms the financial limits. Greater detail may be found in Part 10 (Resources) of the PSP PM.

61. Representational Expenses are not funded by a "*grant*" but rather represent authority for COs to spend local Base/Wing/Unit funds on representational expenses.

ACCOUNTING RECORDS

62. All accounting records of NPP organizations shall be maintained by the NPPAM IAW Annex C (NPP Accounting Records). Source documents and registers (e.g. details of individual

mess charges) maintained by other managers IAW specific paragraphs in this publication shall be made available to the RAM or their representatives as required.

Annex A – Accounting for and Administration of NPP Entity Funds

Annex B – Accounting for and Administration of External Trust Funds

- Appendix 1 – NPP Accounting Procedures for the Military Police Fund for Blind Children (MPFBC)
- Appendix 2 – NPP Accounting Procedures for Canadian Military Family Resource Centres (C/MFRCS)
- Appendix 3 – Accounting Services to non-Public Activities

Annex C – NPP Accounting Records