

# **Canadian Forces Morale and Welfare Services**

**Financial Statements  
March 31, 2015**



December 16, 2015

## **Independent Auditor's Report**

### **To the Non-Public Property Board**

We have audited the accompanying financial statements of Canadian Forces Morale and Welfare Services, which comprise the statement of financial position as at March 31, 2015 and the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Forces Morale and Welfare Services as at March 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**Other matter**

The financial statements of Canadian Forces Morale and Welfare Services for the year ended March 31, 2014 were audited by another firm of Chartered Professional Accountants who expressed an unmodified opinion on those statements on October 10, 2014.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

# Canadian Forces Morale and Welfare Services

## Statement of Financial Position

As at March 31, 2015

	2015 \$	2014 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	13,900	13,900
Accounts receivable	2,491,028	9,342,389
Prepaid expenses	433,698	250,479
	<u>2,938,626</u>	<u>9,606,768</u>
<b>Capital assets (note 4)</b>	<u>4,295,224</u>	<u>1,384,136</u>
	<u>7,233,850</u>	<u>10,990,904</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,937,799	2,768,232
Advances from Canadian Forces Central Fund (note 5)	12,720,040	10,941,285
	<u>15,657,839</u>	<u>13,709,517</u>
<b>Net assets</b>		
Unrestricted	(14,834,312)	(11,454,940)
Internally restricted (note 6)		
Personnel (Public)	3,923,006	6,487,030
Insurance	2,487,317	2,249,297
	<u>(8,423,989)</u>	<u>(2,718,613)</u>
	<u>7,233,850</u>	<u>10,990,904</u>

Approved on behalf of the NPP Board

*Alan Doucet*

for

Shirley Tang-Jassemi, Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

# Canadian Forces Morale and Welfare Services

## Statement of Operations

For the year ended March 31, 2015

	2015 \$	2014 \$
<b>Revenue</b>		
User fees for services (note 8)		
Canadian Forces Exchange System (CANEX)	3,472,628	3,483,063
Service Income Security Insurance Plan (SISIP)	731,482	724,957
Base/Wing Funds/Messes	725,201	736,214
Canadian Forces Central Fund (CFCF)	350,000	350,000
Pension administration	165,000	165,000
	<u>5,444,311</u>	<u>5,459,234</u>
<b>Contributions</b>		
CANEX contribution to Non-Public Fund (NPF) Services and Operations	3,150,000	3,150,000
SISIP contribution to Programs and Distributions	3,231,178	3,256,688
CFCF contribution to Programs and Distributions	585,006	612,467
CFCF contribution to NPF Services and Operations	7,619,376	5,803,037
Other revenue	663,480	273,863
	<u>15,249,040</u>	<u>13,096,055</u>
	<u>20,693,351</u>	<u>18,555,289</u>
<b>Expenses</b>		
<b>NPF Services</b>		
NPF Accounting	4,500,402	4,101,746
Information Management / Information Technology (IM/IT)	3,936,669	3,714,568
Human Resources (HR) Management Services	3,476,103	3,527,585
Consolidated Insurance Program	611,698	769,658
	<u>12,524,872</u>	<u>12,113,557</u>
<b>Corporate operations</b>		
Canadian Forces Morale and Welfare Services (CFMWS) Headquarters (note 1)	2,334,332	1,361,025
Personnel Support Program (PSP) Management – Headquarters	184,052	178,364
Corporate Services	148,545	156,267
	<u>2,666,929</u>	<u>1,695,656</u>

The accompanying notes are an integral part of these financial statements.

## Canadian Forces Morale and Welfare Services

Statement of Operations...continued

For the year ended March 31, 2015

	2015	2014
	\$	\$
<b>Expenses (continued)</b>		
<b>Programs</b>		
Sport Grant	97,778	109,688
Conseil International du Sport Militaire (CISM)	87,754	70,241
Sports Banquet	34,591	29,576
Volunteers Recognition Program	81,179	91,688
Project Access	633,106	564,869
Sponsorship/Donation	208,012	47,497
	<u>1,142,420</u>	<u>913,559</u>
<b>Distributions</b>		
CANEX/SISIP Morale and Welfare Grant	4,037,490	4,005,367
PSP Grant	83,620	72,692
	<u>4,121,110</u>	<u>4,078,059</u>
	<u>20,455,331</u>	<u>18,800,831</u>
<b>Net NPF operating revenue (expense) before Personnel (NPF)</b>	<u>238,020</u>	<u>(245,542)</u>
<b>Personnel (NPF) (note 10)</b>		
Revenue	13,248,737	13,150,666
Expenses	16,628,109	16,715,194
<b>Net expense</b>	<u>(3,379,372)</u>	<u>(3,564,528)</u>
<b>Net NPF operating expense</b>	<u>(3,141,352)</u>	<u>(3,810,070)</u>
<b>Net Public operating expense – Schedule A</b>	<u>(2,564,024)</u>	<u>(2,722,707)</u>
<b>Net expense for the year</b>	<u>(5,705,376)</u>	<u>(6,532,777)</u>

The accompanying notes are an integral part of these financial statements.

## Canadian Forces Morale and Welfare Services

### Statement of Changes in Net Assets

For the year ended March 31, 2015

	<u>2015</u>			<u>2014</u>	
	<u>Unrestricted</u>	<u>Internally restricted</u>		<u>Total</u>	
		<u>Personnel</u>	<u>Insurance</u>		<u>Total</u>
	<u>\$</u>	<u>(Public)</u>	<u>\$</u>	<u>\$</u>	
		<u>\$</u>	<u>\$</u>	<u>\$</u>	
<b>Balance – Beginning of year</b>	(11,454,940)	6,487,030	2,249,297	(2,718,613)	3,814,164
<b>Net revenue (expense) for the year</b>	(3,379,372)	(2,564,024)	238,020	(5,705,376)	(6,532,777)
<b>Balance – End of year</b>	(14,834,312)	3,923,006	2,487,317	(8,423,989)	(2,718,613)

The accompanying notes are an integral part of these financial statements.

## Canadian Forces Morale and Welfare Services

### Statement of Cash Flows

For the year ended March 31, 2015

	2015	2014
	\$	\$
<b>Cash flows provided by (used in)</b>		
<b>Operating activities</b>		
Net expense for the year	(5,705,376)	(6,532,777)
Item not affecting cash – Amortization	493,982	537,875
Net change in operating components of working capital –		
Accounts receivable	6,851,361	9,259,230
Prepaid expenses	(183,219)	(3,755)
Accounts payable and accrued liabilities	169,567	(330,934)
	<u>1,626,315</u>	<u>2,929,639</u>
<b>Investing activity</b>		
Purchase of capital assets	(3,405,070)	(335,507)
<b>Financing activity</b>		
Advances from (to) Canadian Forces Central Fund	<u>1,778,755</u>	<u>(2,589,032)</u>
<b>Net change in cash for the year</b>	–	5,100
<b>Cash – Beginning of year</b>	<u>13,900</u>	<u>8,800</u>
<b>Cash – End of year</b>	<u>13,900</u>	<u>13,900</u>

The accompanying notes are an integral part of these financial statements.



# Canadian Forces Morale and Welfare Services

## Notes to Financial Statements

March 31, 2015

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### 1 Nature of operations

The Canadian Forces Morale and Welfare Services (CFMWS) is both a staff/headquarters organization for the Non-Public Property (NPP), Public reimbursed NPP programs and Public funded programs. CFMWS is operating under the authority of the Chief of the Defence Staff (CDS) in his NPP capacity.

CFMWS provides support services in the areas of NPP accounting, information management and information technology, Non-Public Fund human resources management and corporate services. CFMWS distributes grants and contributions to enhance NPP programs and activities for the military community at all locations. Public funded programs include Morale and Welfare Programs and Military Family Support. Responsibility for directing the affairs of CFMWS rests with the Director General Morale and Welfare Services as delegated by the CDS.

In common with other non-public funds, CFMWS is exempt from paying income tax under Part 1 of the *Income Tax Act*.

### 2 Summary of significant accounting policies

#### Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (note 1).

#### Revenue recognition

Revenue from user fees and contributions from other entities under the directional responsibility of the NPP Board relating to welfare programs, services and activities administered by CFMWS are billed and recognized as revenue in the month the applicable program service or activity is rendered.

In addition to this revenue from related parties, CFMWS also provides support programs for the benefit of the Public (Department of National Defence – DND). The level of Public Support provided to CFMWS is outlined in Chapter 5 of DND Manual A-PS-110-001/AG-002 – Public Support of Personnel Support Programs. These amounts are recognized as revenue in the month the support programs are rendered to the Public.

#### Capital assets

Capital assets are recorded at cost and amortized at the following annual rates.

Computer equipment	17-24%	straight line
Other equipment	5%	straight line
Office furniture	12%	straight line

# Canadian Forces Morale and Welfare Services

## Notes to Financial Statements

March 31, 2015

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### Financial instruments

Cash and advances from Canadian Forces Central Fund (CFCF) are initially recorded and subsequently measured at fair value.

All other financial instruments are subsequently measured at amortized cost.

### Employee future benefits

CFMWS participates in the Canadian Forces Non-Public Funds Employees Pension Plan ("the Plan"), which is a multiemployer, contributory, defined benefit plan. The Plan provides retirement benefits relating to contributions and years of service of staff of all Non-Public Funds. Substantially all CFMWS employees are eligible to be members of the Plan.

CFMWS' portion of the Plan is accounted for as a defined contribution plan as there is insufficient information available to use defined benefit plan accounting. As a result, CFMWS' contributions to the Plan are included as an expense in the statement of operations. A pension asset has not been recorded on the statement of financial position.

### Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Management makes estimates in determining the useful life of capital assets, the net realizable value of accounts receivable and the amount of accrued liabilities. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

## 3 Financial instruments and risk management

CFMWS is exposed to various risks through its financial instruments. The following analysis provides a measure of CFMWS' risk exposure and concentrations.

CFMWS does not use derivative financial instruments to manage its risks.

### Credit risk

CFMWS is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The credit risk arises principally from CFMWS' cash and accounts receivable. It carries out, on a continuing basis, a review of outstanding amounts and maintains provision for uncollectible amounts. The year-end receivable is entirely for March 2015 support programs for the Public that was received in full in April 2015.

# Canadian Forces Morale and Welfare Services

## Notes to Financial Statements

March 31, 2015

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### **Liquidity risk**

Liquidity risk refers to the adverse consequences that CFMWS will encounter difficulty in meeting obligations associated with financial liabilities, which are comprised largely of accounts payable and accrued liabilities.

CFMWS manages this risk by either maintaining sufficient cash and cash equivalents, or as needed, assessing available credit from CFCF, in order to meet their current obligations. In addition, management also establishes budget and cash estimates to determine their future cash flow requirements.

### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

#### *Currency risk*

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

Substantially all of CFMWS' transactions are in Canadian dollars and as a result, the organization is not subject to significant currency risk.

#### *Interest rate risk*

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates.

CFMWS does not have financial instruments that bear interest. As such, the organization is not exposed to interest rate risk.

#### *Other price risk*

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

CFMWS is not exposed to other price risk.

### **Changes in risk**

There have been no material changes in CFMWS' risk exposures from the prior year.

# Canadian Forces Morale and Welfare Services

## Notes to Financial Statements

March 31, 2015

### 4 Capital assets

			2015	2014
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Computer equipment	6,797,481	6,138,217	659,264	911,416
Computer software	3,205,380	–	3,205,380	–
Other equipment	570,623	175,493	395,130	423,583
Office furniture	277,384	241,934	35,450	49,137
	<u>10,850,868</u>	<u>6,555,644</u>	<u>4,295,224</u>	<u>1,384,136</u>

The aggregate amortization expense for the year ended March 31, 2015 is \$493,982 (2014 – \$537,875).

During the year, \$3,205,380 (2014 – \$nil) of computer software costs were capitalized in relation to the development of a new accounting system. These capitalized costs, including external software and consultant costs, and internal salaries, will not be amortized until the project is complete and the system comes into use on April 1, 2015.

### 5 Advances from Canadian Forces Central Fund

The advances from CFCF are non-interest bearing. CFCF and CFMWS both operate under the authority of the Chief of the Defence Staff (CDS) in his Non-Public Property (NPP) capacity. Responsibility for directing the affairs of CFCF and CFMWS rests with the Director General Morale and Welfare Services as delegated by the CDS.

### 6 Internally restricted net assets

#### a) Personnel (Public)

Amounts have been designated to provide funding for personnel costs, such as pension, severance pay, hiring costs, maternity leave and other personnel costs. In accordance with VCDS 3/96 instruction, a fixed employer cost percentage was established to reimburse the Public-funded Staff of Non-Public Funds, Canadian Forces with delivering morale and welfare programs. The difference between the Public reimbursed and actual employer costs has been recorded in this restricted account.

#### b) Insurance

Amounts have been designated to provide funding for NPF insurance claims based on the premium savings resulting from the increase in property self-insured retention levels of \$1 million for each and every loss, and aggregate limit.

# Canadian Forces Morale and Welfare Services

## Notes to Financial Statements

March 31, 2015

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### 7 Pension plan

CFMWS' contributions to the Plan of \$7,967,676 (2014 – \$7,842,498) are included in the applicable expense category on the NPF and public statement of operations.

Actuarial valuations prepared for accounting purposes as at December 31 indicated the following information about the Plan.

	2014	2013
	\$	\$
Fair value of plan assets	266,828,565	234,153,797
Accrual benefit obligation	<u>(208,772,000)</u>	<u>(193,871,000)</u>
Surplus	<u>58,056,565</u>	<u>40,282,797</u>

In addition, the Plan was actuarially valued at December 31, 2014 on a going concern basis as well as on the solvency basis.

Under the going concern basis, this valuation compares the relationship between the value of the Plan's assets and the present value of the expected future benefit cash flows in respect of accrued service, assuming the Plan will be maintained indefinitely. Under this scenario, the valuation resulted in a surplus of \$47.4 million.

Conversely, under the hypothetical solvency (or wind up) basis, the Plan is assumed to be wound up and settled on the valuation date, assuming benefits are settled in accordance with the existing taxation rules and under circumstances producing the maximum wind up liabilities on the valuation date. This valuation resulted in a deficit of \$42.1 million.

These valuations are utilized to assess monthly and annual employer contributions. The Plan is required to have its next actuarial valuation performed as at December 31, 2015.

### 8 Related party transactions

Non-Public Property (NPP), as defined under the *National Defence Act*, consists of money and property contributed by Canadian Forces members and is administered for their benefit by the CFMWS. The CFMWS is responsible for delivering selected morale and welfare programs, services and activities through two operational divisions, Personnel Support Programs and Commercial Services (the Canadian Forces Exchange System (CANEX) and SISIP Financial Services).

Under the *National Defence Act*, NPP is explicitly excluded from the *Financial Administration Act*. The government provides some services to NPP such as accommodation and security for which no charge is made. The cost of providing these services is included in the Public Accounts.

# Canadian Forces Morale and Welfare Services

## Notes to Financial Statements

March 31, 2015

NPP estimated revenues and expenses of approximately \$327 million and \$294 million, respectively, for the year ended March 31, 2015, and net equity of \$708 million at March 31, 2015 are excluded from the financial statements of the Government of Canada.

In addition, during the year, CFMWS charged other Non-Public Fund entities for accounting, human resources management, information management and information technology and consolidated insurance program services.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. The charges are as follows.

	CANEX	SISIP	Bases/ Wings/ Messes	CFCF	Pension administration	2015 Total	2014 Total
	\$	\$	\$	\$	\$	\$	\$
Accounting	1,917,904	151,875	258,754	350,000	165,000	2,843,533	2,887,649
Information management / information technology	568,629	385,285	—	—	—	953,914	944,973
Human resources management services	634,333	194,322	—	—	—	828,655	821,264
Consolidated insurance program	351,762	—	466,447	—	—	818,209	805,348
	<u>3,472,628</u>	<u>731,482</u>	<u>725,201</u>	<u>350,000</u>	<u>165,000</u>	<u>5,444,311</u>	<u>5,459,234</u>

## 9 Gross revenue and gross expenses

The financial statements disclose revenue and expenses on a NPF and Public basis. Gross revenue and expenses on a combined basis are as follows.

	2015 \$	2014 \$
Gross revenue	151,268,952	150,129,294
Gross expenses	<u>156,974,328</u>	<u>156,662,071</u>
Net expense for the year	<u>(5,705,376)</u>	<u>(6,532,777)</u>

## 10 Personnel (NPF and Public)

In accordance with VCDS 3/96 instruction, a fixed employer cost percentage was established to reimburse CFMWS for personnel costs, such as pension, severance pay, hiring costs, maternity leave and other personnel costs.

## Canadian Forces Morale and Welfare Services

### Schedule A – Public Statement of Operations

For the year ended March 31, 2015

	2015 \$	2014 \$
<b>Revenue</b>		
C108 – Military Family Support	27,450,599	27,045,482
C109 – Personnel Support Program (PSP)	70,608,402	71,292,783
Health promotion	6,180,982	6,409,252
Other public funds	475,439	489,334
<b>Total revenue</b>	<b>104,715,422</b>	<b>105,236,851</b>
<b>Expenses</b>		
C108 – Military Family Support	27,450,599	27,045,482
C109 – Personnel Support Program		
CFMWS Headquarters (HQ)	2,000,539	2,630,285
PSP Management – HQ and Field	6,618,671	6,056,020
Military Physical Fitness and Sports Program	29,678,865	30,381,702
Mess management	2,113,274	2,177,797
JPSU and OFS	940,824	1,463,928
PSP for Deployed Operations	1,094,646	1,326,515
Reserve Testing	21,402	209,268
Military Family Support	4,123,929	3,920,896
Project Access	135,239	453,450
SISIP Financial Counselling and Education	2,778,180	2,823,072
Accidental Dismemberment Insurance	450,000	450,000
CANEX Management	2,599,682	2,572,142
NPF Accounting	7,684,038	6,833,274
NPF HR Management	4,366,012	4,356,290
Information Management / Information Technology (IM/IT)	3,810,677	3,407,074
Corporate Services	2,051,424	2,090,070
GECA	141,000	141,000
Health Promotion	6,180,982	6,409,252
Other Public Funds	475,439	489,334
<b>Total expenses</b>	<b>104,715,422</b>	<b>105,236,851</b>
<b>Net Public programs and operating revenue before item below</b>	<b>–</b>	<b>–</b>
<b>Personnel (Public) charged to internally restricted net assets (notes 6 and 10)</b>		
Revenue	12,611,442	13,186,488
Expenses	15,175,466	15,909,195
<b>Net expense for the year</b>	<b>(2,564,024)</b>	<b>(2,722,707)</b>
<b>Net Public operating expense</b>	<b>(2,564,024)</b>	<b>(2,722,707)</b>

The accompanying notes are an integral part of these financial statements.