

Canadian Forces Morale and Welfare Services

Financial Statements
March 31, 2016



January 27, 2017

Independent Auditor's Report

**To the Non-Public Property Board of
Canadian Forces Morale and Welfare Services**

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, 2016 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, 2016 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Canadian Forces Morale and Welfare Services

Statement of Financial Position

As at March 31, 2016

	2016 \$	2015 \$
Assets		
Current assets		
Cash	13,900	13,900
Accounts receivable	9,053,868	2,491,028
Prepaid expenses	467,573	433,698
	<u>9,535,341</u>	<u>2,938,626</u>
Capital assets (note 4)	<u>1,535,244</u>	<u>4,295,224</u>
	<u>11,070,585</u>	<u>7,233,850</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	5,219,039	2,937,799
Advances from Canadian Forces Central Fund (note 5)	16,318,107	12,720,040
	<u>21,537,146</u>	<u>15,657,839</u>
Net assets		
Unrestricted	(17,777,645)	(14,834,312)
Internally restricted (note 6)		
Personnel (Public)	4,708,054	3,923,006
Insurance	2,603,030	2,487,317
	<u>(10,466,561)</u>	<u>(8,423,989)</u>
	<u>11,070,585</u>	<u>7,233,850</u>

Approved on behalf of the NPP Board



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, 2016

	2016	2015
	\$	\$
Revenue		
User fees for services (note 8)		
Canadian Forces Exchange System (CANEX)	3,433,507	3,472,628
Service Income Security Insurance Plan (SISIP)	738,066	731,482
Base/Wing Funds/Messes	662,605	725,201
Canadian Forces Central Fund (CFCF)	350,000	350,000
Pension administration	165,000	165,000
	<u>5,349,178</u>	<u>5,444,311</u>
Contributions		
CANEX contribution to Non-Public Fund (NPF) Services and Operations	3,150,000	3,150,000
SISIP contribution to Programs and Distributions	3,150,000	3,231,178
CFCF contribution to Programs and Distributions	564,993	408,874
CFCF contribution to NPF Services and Operations	9,295,601	7,795,508
Other revenue	611,196	663,480
	<u>16,771,790</u>	<u>15,249,040</u>
	<u>22,120,968</u>	<u>20,693,351</u>
Expense		
NPF Services		
NPF Accounting	4,611,377	4,500,402
Information Management / Information Technology (IM/IT)	5,337,915	3,936,669
Human Resources (HR) Management Services	3,474,775	3,476,103
Consolidated Insurance Program	541,801	611,698
	<u>13,965,868</u>	<u>12,524,872</u>
Corporate operations		
Canadian Forces Morale and Welfare Services (CFMWS) Headquarters (note 1)	2,402,745	2,334,332
Personnel Support Program (PSP) Management - Headquarters	243,319	184,052
Corporate Services	151,564	148,545
	<u>2,797,628</u>	<u>2,666,929</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, 2016

	2016 \$	2015 \$
Expense (continued)		
Programs		
Sport Grant	94,718	97,778
Conseil International du Sport Militaire (CISM)	175,809	87,754
Sports Banquet	23,018	34,591
Volunteers Recognition Program	-	81,179
Project Access	577,532	633,106
Sponsorship/Donation	37,587	208,012
	<u>908,664</u>	<u>1,142,420</u>
Distributions		
CANEX/SISIP Morale and Welfare Grant	4,241,904	4,037,490
SEA Grant	91,191	83,620
	<u>4,333,095</u>	<u>4,121,110</u>
	<u>22,005,255</u>	<u>20,455,331</u>
Net NPF operating revenue before Personnel (NPF)	<u>115,713</u>	<u>238,020</u>
Personnel (NPF) (note 10)		
Revenue	14,672,068	13,248,737
Expenses	17,615,401	16,628,109
Net expense	<u>(2,943,333)</u>	<u>(3,379,372)</u>
Net NPF operating expense	(2,827,620)	(3,141,352)
Net Public operating revenue (expense) - Schedule A	<u>785,048</u>	<u>(2,564,024)</u>
Net expense for the year	<u>(2,042,572)</u>	<u>(5,705,376)</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, 2016

	<u>Internally restricted</u>			<u>2016</u>	<u>2015</u>
	<u>Unrestricted</u>	<u>Personnel</u>	<u>Insurance</u>	<u>Total</u>	<u>Total</u>
	\$	(Public)	\$	\$	\$
		\$			
Balance - Beginning of year	(14,834,312)	3,923,006	2,487,317	(8,423,989)	(2,718,613)
Net revenue (expense) for the year	(2,943,333)	785,048	115,713	(2,042,572)	(5,705,376)
Balance - End of year	<u>(17,777,645)</u>	<u>4,708,054</u>	<u>2,603,030</u>	<u>(10,466,561)</u>	<u>(8,423,989)</u>

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, 2016

	2016 \$	2015 \$
Cash provided by (used in)		
Operating activities		
Net expense for the year	(2,042,572)	(5,705,376)
Items not affecting cash -		
Amortization	406,754	493,982
Capital assets expensed to the Public (note 4)	3,205,380	-
Net change in operating components of working capital -		
Accounts receivable	(6,562,840)	6,851,361
Prepaid expenses	(33,875)	(183,219)
Accounts payable and accrued liabilities	2,281,240	169,567
	<u>(2,745,913)</u>	<u>1,626,315</u>
Investing activity		
Purchase of capital assets	(852,154)	(3,405,070)
Financing activity		
Advances from Canadian Forces Central Fund	3,598,067	1,778,755
Net change in cash for the year	-	-
Cash - Beginning of year	<u>13,900</u>	<u>13,900</u>
Cash - End of year	<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, 2016

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, 2016

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 2016 support programs for the Public that was received in full in April 2016.

Canadian Forces Morale and Welfare Services

Notes to Financial Statements

March 31, 2016

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 of 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, 2016

4 Capital assets

			2016	2015
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Computer equipment	7,641,683	6,479,682	1,162,001	659,264
Computer software	-	-	-	3,205,380
Other equipment	570,623	204,024	366,599	395,130
Office furniture	322,171	315,527	6,644	35,450
	<u>8,534,477</u>	<u>6,999,233</u>	<u>1,535,244</u>	<u>4,295,224</u>

The aggregate amortization expense for the year ended March 31, 2016 is \$406,754 (2015 - \$493,982).

In 2015, CFMWS incurred \$3,205,380 of computer software costs in relation to the development of a new accounting system. These development costs included external software and consultant costs, and internal salaries. These costs were capitalized as the implementation project was still ongoing. During the year, all these costs were fully billed and expensed to the Public under Schedule A.

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, 2016

7 Pension plan

CFMWS' contributions to the Plan of \$8,073,490 (2015 - \$7,967,676) 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.

	2015	2014
	\$	\$
Fair value of plan assets	287,553,713	266,828,565
Accrual benefit obligation	(229,948,000)	(208,772,000)
Surplus	<u>57,605,713</u>	<u>58,056,565</u>

In addition, the Plan was actuarially valued at December 31, 2015 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 \$57.9 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 \$48.2 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, 2016.

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, 2016

NPP estimated revenues and expenses of approximately \$303 million and \$301 million, respectively, for the year ended March 31, 2016, and net equity of \$740 million at March 31, 2016 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	2016 Total	2015 Total
	\$	\$	\$	\$	\$	\$	\$
Accounting	1,913,286	153,242	204,939	350,000	165,000	2,786,467	2,843,533
Information management / information technology	568,723	388,753	-	-	-	957,476	953,914
Human resources management services	634,332	196,071	-	-	-	830,403	828,655
Consolidated insurance program	317,166	-	457,666	-	-	774,832	818,209
	<u>3,433,507</u>	<u>738,066</u>	<u>662,605</u>	<u>350,000</u>	<u>165,000</u>	<u>5,349,178</u>	<u>5,444,311</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.

	2016 \$	2015 \$
Gross revenue	172,508,097	151,268,952
Gross expenses	174,550,669	156,974,328
Net expense for the year	<u>(2,042,572)</u>	<u>(5,705,376)</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, 2016

	2016 \$	2015 \$
Revenue		
C108 - Military Family Support	27,868,387	27,450,599
C109 - Personnel Support Program (PSP)	82,960,232	70,608,402
Health promotion	6,347,238	6,180,982
Other public funds	1,637,121	475,439
Veterans Affairs Canada Trial MFRC	1,153,604	-
Total revenue	119,966,582	104,715,422
Expenses		
C108 - Military Family Support	27,868,387	27,450,599
C109 - Personnel Support Program		
CFMWS Headquarters (HQ)	2,107,292	2,000,539
PSP Management - HQ and Field	7,194,225	6,618,671
Military Physical Fitness and Sports Program	31,160,489	29,678,865
Mess management	2,126,741	2,113,274
JPSU and OFS	744,306	940,824
PSP for Deployed Operations	868,571	1,094,646
Reserve Testing	-	21,402
Military Family Support	3,980,173	4,123,929
Project Access	118,263	135,239
SISIP Financial Counselling and Education	3,145,900	2,778,180
Accidental Dismemberment Insurance	450,000	450,000
CANEX Management	2,620,438	2,599,682
NPF Accounting	13,645,858	7,684,038
NPF HR Management	4,401,469	4,366,012
Information Management / Information Technology (IM/IT)	5,099,657	3,810,677
Corporate Services	5,155,850	2,051,424
GECA	141,000	141,000
Health Promotion	6,347,238	6,180,982
Other Public Funds	1,637,121	475,439
Veterans Affairs Canada Trial MFRC	1,153,604	-
Total expenses	119,966,582	104,715,422
Net Public programs and operating revenue before item below	-	-
Personnel (Public) charged to internally restricted net assets (notes 6 and 10)		
Revenue	15,748,479	12,611,442
Expenses	14,963,431	15,175,466
Net revenue (expense) for the year	785,048	(2,564,024)
Net Public operating revenue (expense)	785,048	(2,564,024)

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

