

# **Canadian Forces Morale and Welfare Services**

Financial Statements  
**March 31, 2018**

November 5, 2018

## **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, 2018 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.

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

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*PricewaterhouseCoopers LLP*  
99 Bank Street, Suite 710, Ottawa, Ontario, Canada K1P 1E4  
T: +1 613 237 3702, F: +1 613 237 3963

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

**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, 2018 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.

**Chartered Professional Accountants, Licensed Public Accountants**

# Canadian Forces Morale and Welfare Services

## Statement of Financial Position

As at March 31, 2018

	2018 \$	2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	15,418	20,038
Accounts receivable	19,150,147	6,506,189
Prepaid expenses	423,221	465,676
	<u>19,588,786</u>	<u>6,991,903</u>
<b>Capital assets (note 4)</b>	<u>1,195,461</u>	<u>2,211,941</u>
	<u>20,784,247</u>	<u>9,203,844</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	5,636,416	4,033,152
Deferred revenues	2,701,339	1,313,900
Due to Canadian Forces Central Fund (note 5)	2,597,008	14,878,418
	<u>10,934,763</u>	<u>20,225,470</u>
<b>Net Assets</b>		
<b>Unrestricted</b>	-	(20,077,999)
<b>Internally restricted (note 6)</b>		
Personnel (public)	6,687,990	6,191,133
Insurance	3,161,494	2,865,240
	<u>9,849,484</u>	<u>(11,021,626)</u>
	<u>20,784,247</u>	<u>9,203,844</u>

Approved on Behalf of the Non-Public Property 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, 2018

	2018 \$	2017 \$
<b>Revenue</b>		
User fees for services (note 8)		
Canadian Forces Exchange System (CANEX)	3,341,883	3,327,873
Service Income Security Insurance Plan (SISIP)	754,208	738,066
Base/Wing Funds/Messes	664,768	659,142
Canadian Forces Central Fund (CFCF)	350,000	350,000
Pension administration	165,000	165,000
	<u>5,275,859</u>	<u>5,240,081</u>
Contributions		
CANEX contribution	3,150,000	3,150,000
SISIP contribution	5,000,000	5,000,000
CFCF contribution	11,556,159	9,032,232
Other revenue	437,706	441,969
	<u>20,143,865</u>	<u>17,624,201</u>
	<u>25,419,724</u>	<u>22,864,282</u>
<b>Expense</b>		
NPF Services		
Corporate Services	807,278	1,077,244
NPF Accounting	4,874,668	4,888,238
Information Management/Information Technology (IM/IT)	8,200,375	5,103,431
Human Resources (HR) Management Services	3,487,890	3,499,866
Consolidated Insurance Program	770,690	857,571
Personal Support Program (PSP)	228,215	250,402
	<u>18,369,116</u>	<u>15,676,752</u>
Programs		
CF Appreciation	709,751	919,939
CFOne Membership	945,339	603,381
Sponsorship	404,254	759,917
National Sports	119,448	105,045
Conseil International du Sport Militaire (CISM)	95,145	97,647
	<u>2,273,937</u>	<u>2,485,929</u>
Distributions		
CANEX/SISIP Morale and Welfare Grant	4,368,091	4,340,100
SEA Grant	112,326	99,291
	<u>4,480,417</u>	<u>4,439,391</u>
	<u>25,123,470</u>	<u>22,602,072</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, 2018

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	2018 \$	2017 \$
<b>Net NPF operating revenue before Personnel (NPF)</b>	296,254	262,210
<b>Personnel (NPF)</b> (note 10)		
Revenue	16,134,688	15,101,442
Gain from writedown of due to CFCF	23,893,001	-
Expense	(19,949,690)	(17,401,796)
	20,077,999	(2,300,354)
<b>Net NPF revenue (expense)</b>	20,374,253	(2,038,144)
<b>Net Public revenue</b> - Schedule A	496,857	1,483,079
<b>Net revenue (expense) for the year</b>	20,871,110	(555,065)

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, 2018

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	<u>2018</u>			<u>2017</u>	
		<u>Internally restricted</u>			
	<u>Unrestricted</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>	(20,077,999)	6,191,133	2,865,240	(11,021,626)	(10,466,561)
Net revenue (expense) for the year	20,077,999	496,857	296,254	20,871,110	(555,065)
<b>Balance - End of year</b>	-	6,687,990	3,161,494	9,849,484	(11,021,626)

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, 2018

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	2018 \$	2017 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net revenue (expense) for the year	20,871,110	(555,065)
Item not affecting cash		
Amortization	1,179,150	643,292
Net change in operating components of working capital		
Accounts receivable	(12,643,958)	2,547,679
Prepaid expenses	42,455	1,897
Accounts payable and accrued liabilities	1,603,264	128,013
Deferred revenues	1,387,439	-
	<hr/> 12,439,460	<hr/> 2,765,816
<b>Investing activities</b>		
Purchase of capital assets	(162,670)	(1,319,989)
<b>Financing activities</b>		
Advances from Canadian Forces Central Fund	<hr/> (12,281,410)	<hr/> (1,439,689)
<b>Change in cash during the year</b>	(4,620)	6,138
<b>Cash - Beginning of year</b>	<hr/> 20,038	<hr/> 13,900
<b>Cash - End of year</b>	<hr/> <hr/> 15,418	<hr/> <hr/> 20,038

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



# Canadian Forces Morale and Welfare Services

Notes to Financial Statements

March 31, 2018

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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 Managing Director of the NPP 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 initially recorded at cost and are then amortized, using the straight-line method as follows:

Computer equipment	17% - 24%
Building	5%
Office furniture	12%

# Canadian Forces Morale and Welfare Services

## Notes to Financial Statements

March 31, 2018

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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's 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's 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense 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 those estimates. The 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's risk exposure and concentrations.

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

# Canadian Forces Morale and Welfare Services

## Notes to Financial Statements

March 31, 2018

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### **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's cash and accounts receivable. It carries out, on a continuing basis, a review of outstanding amounts.

### **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, payroll liabilities 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 its current obligations. In addition, management also establishes budget and cash estimates to determine its future cash flow requirements.

### **Market risk**

Market risk is the risk 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 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's transactions are in Canadian dollars and as a result, CFMWS is not subject to significant currency risk.

- **Interest rate risk**

Interest rate risk refers to the risk 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, CFMWS is not exposed to interest rate risk.

- **Other price risk**

Other price risk refers to the risk the fair value of financial instruments for 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.

# Canadian Forces Morale and Welfare Services

## Notes to Financial Statements

March 31, 2018

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CFMWS is not exposed to other price risk.

### Changes in risk

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

## 4 Capital assets

			2018	2017
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Computer equipment	9,160,045	8,286,696	873,349	1,859,890
Building	572,879	261,086	311,793	338,068
Office furniture	284,212	273,893	10,319	13,983
	<u>10,017,136</u>	<u>8,821,675</u>	<u>1,195,461</u>	<u>2,211,941</u>

The aggregate amortization expense for the year ended March 31, 2018, is \$1,179,150 (2017 - \$643,292).

## 5 Due to Canadian Forces Central Fund

The advances from CFCF are non-interest bearing. CFCF and CFMWS both operate under the authority of the CDS in his NPP capacity. Responsibility for directing the affairs of CFCF and CFMWS rests with the Managing Director, Non-Public Property 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, 2018

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### 7 Pension plan

All eligible employees are members of the defined benefit, Staff of the NPF Pension Plan ('the Plan'). CFMWS's share of contributions to the Plan were \$5,473,415 (2017 - \$5,499,371) and are included in the applicable expense category on the NPF and public statement of operations.

Actuarial valuations prepared as at December 31, 2017, on a going concern basis as well as on a solvency basis, indicated the following information about the Plan:

	2017 \$	2016 \$
Fair value of plan assets	355,840,148	318,135,946
Accrual benefit obligation	(260,814,000)	(243,028,000)
Surplus	<u>95,026,148</u>	<u>75,107,946</u>

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 \$87.9 million (2016 - \$73.4 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 \$29.3 million (2016 - \$41.3 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, 2018.

### 8 Related party transactions

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).

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, 2018

NPP estimated revenue and expense of approximately \$440 million and \$436 million for the year ended March 31, 2018, respectively, and net equity of \$784 million at March 31, 2018, 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.

						2018	2017
	CANEX	SISIP	CFCF	Bases/ wings/ messes	Pension administration	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Accounting	1,896,486	155,386	350,000	209,224	165,000	2,776,096	2,751,524
Human resources management services	634,332	198,816	-	-	-	833,148	830,403
IM/IT	561,125	394,196	-	9,251	-	964,572	957,339
Consolidated Insurance Program	249,940	5,810	-	446,293	-	702,043	700,815
	<u>3,341,883</u>	<u>754,208</u>	<u>350,000</u>	<u>664,768</u>	<u>165,000</u>	<u>5,275,859</u>	<u>5,240,081</u>

## 9 Gross revenue and gross expense

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

	2018	2017
	\$	\$
Gross revenue	197,538,645	168,557,737
Gross expense	200,560,535	169,112,802
Net expense for the year	<u>(3,021,890)</u>	<u>(555,065)</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.

During the year, CFMWS wrote down the amount due to CFCF by \$23,893,002. This reduction was related to special pension solvency payments and other Staff of the NPF employee costs, totalling \$23.9 million, incurred by CFMWS between fiscal year 2011 and fiscal year 2018.

# Canadian Forces Morale and Welfare Services

Notes to Financial Statements

March 31, 2018

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## 11 Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

# Canadian Forces Morale and Welfare Services

Schedule A

## Public Statement of Operations

For the year ended March 31, 2018

	2018 \$	2017 \$
<b>Revenue</b>		
C108 - Military Family Support	34,353,900	28,286,412
C109 - Personnel Support Program (PSP)	91,013,932	75,123,975
Health promotion	6,590,580	6,505,472
Other public funds	4,489,427	2,405,452
Veterans Affairs Canada Trial MFRC	1,908,745	1,397,651
	<u>138,356,584</u>	<u>113,718,962</u>
<b>Expenses</b>		
C108 - Military Family Support	34,353,900	28,286,412
C109 - Personnel Support Program		
CFMWS Headquarters (HQ)	2,678,494	2,212,233
PSP Management - HQ and Field	8,510,379	8,080,266
Military Physical Fitness and Sports Program	33,921,366	30,477,802
Mess management	2,810,382	2,077,623
Receptive Adaptive Fitness Specialists	22,774	773,059
PSP for Deployed Operations	1,590,157	1,005,542
Military Family Support	5,105,414	3,612,061
Project Access	250,852	81,346
SISIP Financial Counselling and Education	2,845,322	2,806,031
Accidental Dismemberment Insurance	900,000	-
CANEX Management	5,412,512	2,390,425
NPF Accounting	7,961,190	7,269,142
NPF HR Management	4,367,135	4,405,055
IM/IT	8,017,544	4,581,691
Corporate Services	6,250,619	5,210,699
GECA	141,000	141,000
Health Promotion	6,590,580	6,505,472
Other Public Funds	4,718,219	2,405,452
Veterans Affairs Canada Trial MFRC	1,908,745	1,397,651
	<u>138,356,584</u>	<u>113,718,962</u>
<b>Net Public programs and operating revenue before item below</b>	<u>-</u>	<u>-</u>
<b>Personnel (Public) charged to internally restricted net assets</b> (notes 6 and 10)		
Revenue	17,627,650	16,873,051
Expense	17,130,793	15,389,972
	<u>496,857</u>	<u>1,483,079</u>
<b>Net revenue for the year</b>	<u>496,857</u>	<u>1,483,079</u>
<b>Net Public operating revenue</b>	<u>496,857</u>	<u>1,483,079</u>