

Canadian Forces Morale and Welfare Services

Financial Statements
March 31, 2019



Independent auditor's report

To the Non-Public Property Board

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Canadian Forces Morale and Welfare Services (the Organization) as at March 31, 2019 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.

What we have audited

The Organization's financial statements comprise:

- the statement of financial position as at March 31, 2019;
- the statement of operations for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

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



In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
November 25, 2019

Canadian Forces Morale and Welfare Services

Statement of Financial Position

As at March 31, 2019

	2019 \$	2018 \$
Assets		
Current assets		
Cash	15,100	15,418
Accounts receivable	15,363,112	19,150,147
Prepaid expenses	645,568	423,221
	<u>16,023,780</u>	<u>19,588,786</u>
Capital assets (note 4)	<u>13,706,735</u>	<u>12,218,833</u>
	<u>29,730,515</u>	<u>31,807,619</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	962,355	5,636,416
Deferred revenue	3,233,116	2,701,339
Due to Canadian Forces Central Fund (note 7)	2,920,649	2,597,008
	<u>7,116,120</u>	<u>9,934,763</u>
Deferred contributions for capital assets (non-cash) (note 4)	12,727,784	11,023,372
	<u>19,843,904</u>	<u>20,958,135</u>
Net assets		
Internally restricted (note 5)		
Personnel (Public)	6,583,724	6,687,990
Insurance	3,302,887	3,161,494
	<u>9,886,611</u>	<u>9,849,484</u>
	<u>29,730,515</u>	<u>31,807,619</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, 2019

	2019			2018
	NPP \$ Schedule A	Public \$ Schedule B	Total \$	Total \$
Revenue				
User fees for services (note 7)	5,266,128	-	5,266,128	5,275,859
Contributions (note 7)	19,633,571	-	19,633,571	20,143,865
Reimbursement of Public responsibilities	-	138,715,455	138,715,455	138,356,583
Deferral of contributions for capital assets (note 4)	(1,817,319)	(2,106,810)	(3,924,129)	(5,956,241)
Amortization of deferred contributions for capital assets (non-cash) (note 4)	577,655	1,249,648	1,827,303	1,072,062
	<u>23,660,035</u>	<u>137,858,293</u>	<u>161,518,328</u>	<u>158,892,128</u>
Expense				
Services	17,487,958	24,036,151	41,524,109	43,416,851
Programs	2,701,855	98,103,638	100,805,493	102,594,032
Other Public responsibilities	-	16,575,666	16,575,666	12,988,752
Capitalization of capital assets (note 4)	(1,817,319)	(2,106,810)	(3,924,129)	(5,956,241)
Amortization of capital assets (non-cash) (note 4)	577,655	1,249,648	1,827,303	1,072,062
	<u>18,950,149</u>	<u>137,858,293</u>	<u>156,808,442</u>	<u>154,115,456</u>
Distributions	4,568,493	-	4,568,493	4,480,417
	<u>23,518,642</u>	<u>137,858,293</u>	<u>161,376,935</u>	<u>158,595,873</u>
Revenue before the undernoted	<u>141,393</u>	<u>-</u>	<u>141,393</u>	<u>296,255</u>
Personnel (note 5)				
Entity cost recoveries (note 7)	16,816,383	19,288,289	36,104,672	33,762,335
Contributions (note 7)	2,780,060	-	2,780,060	-
Gain from writedown of due to CFCF (note 7)	-	-	-	23,893,001
Expense	(19,596,443)	(19,392,555)	(38,988,998)	(37,080,481)
	<u>-</u>	<u>(104,266)</u>	<u>(104,266)</u>	<u>20,574,855</u>
Net revenue for the year	<u>141,393</u>	<u>(104,266)</u>	<u>37,127</u>	<u>20,871,110</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, 2019

	Balance – Beginning of year \$	Net revenue for the year \$	Transfers \$	Balance – End of year \$
Unrestricted	-	37,127	(37,127)	-
Internally restricted (note 6)				
Personnel (Public)	6,687,990	-	(104,266)	6,583,724
Insurance	3,161,494	-	141,393	3,302,887
	<u>9,849,484</u>	<u>37,127</u>	<u>-</u>	<u>9,886,611</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, 2019

	2019 \$	2018 \$
Cash provided by (used in)		
Operating activities		
Net revenue for the year	37,127	20,871,110
Items not affecting cash		
Depreciation	2,132,061	2,251,212
Amortization of deferred contributions for capital assets	(1,827,303)	(1,072,062)
Net change in non-cash working capital items		
Accounts receivable	3,787,035	(12,643,958)
Prepaid expenses	(222,347)	42,455
Accounts payable and accrued liabilities	(4,674,061)	1,603,264
Deferred revenue	531,777	1,387,439
Due to Canadian Forces Central Fund	323,641	(12,281,410)
	<hr/> 87,930	<hr/> 158,050
Investing activities		
Purchase of capital assets	(4,115,137)	(5,523,287)
Proceeds from disposals of capital assets	495,174	-
	<hr/> (3,619,963)	<hr/> (5,523,287)
Financing activity		
Contributions for capital assets received	<hr/> 3,531,715	<hr/> 5,360,617
Net change in cash for the year	(318)	(4,620)
Cash – Beginning of year	<hr/> 15,418	<hr/> 20,038
Cash – End of year	<hr/> <hr/> 15,100	<hr/> <hr/> 15,418

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

Canadian Forces Morale and Welfare Services

Notes to Financial Statements

March 31, 2019

1 Nature of operations

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

CFMWS is responsible for delivering selected morale and welfare programs, activities and services through operational divisions, Personnel Support Programs and Military Family Services.

CFMWS provides support services in the areas of NPP accounting, information management and information technology, human resources and corporate services. CFMWS distributes grants and contributions to enhance NPP programs and activities for the military community at all locations.

NPP programs and services are funded through contributions from SISIP, CANEX and CFCE, while funding for public responsibilities are reimbursed by the Department of National Defence (DND) primarily through two corporate accounts (C108 and C109).

C108 is the core funding for the delivery of the Military Family Service Program (MFSP) through Military Family Resource Centers (MFRC). C109 is the funding for Public programs and services delivered by CFMWS, which comprises governance (Public, NPP and MFSP) and program delivery.

In common with other non-public funds, CFMWS is exempt from paying income tax under Part I 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.

Revenue recognition

Revenue from user fees and contributions is 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)). These amounts are recognized as revenue in the month the support programs are rendered to the Public.

Canadian Forces Morale and Welfare Services

Notes to Financial Statements

March 31, 2019

Capital assets

Capital assets are initially recorded at cost and are then amortized on a straight-line basis at the following annual rates:

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

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 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.

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 that they become known.

3 Concentration of credit risk

Substantially all accounts receivable are owing from DND.

Canadian Forces Morale and Welfare Services

Notes to Financial Statements

March 31, 2019

4 Capital assets

			2019	2018
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Computer equipment	21,730,482	12,548,744	9,181,738	7,677,689
Building	570,623	289,617	281,006	311,793
Office furniture	303,203	278,489	24,714	10,319
Work-in-progress	4,219,277	-	4,219,277	4,219,032
	26,823,585	13,116,850	13,706,735	12,218,833

Prior to fiscal 2019, CFMWS expensed all capital technology projects that included a Public responsibility. This is due to DND's requirement to expend funding in the period received. With the inclusion of non-cash adjustments, CFMWS now capitalizes all technology projects, and amortizes them over their appropriate useful lives. The associated revenue is deferred and amortized on the same basis as the related capital asset.

With no overall impact to the statement of operations, these non-cash adjustments have been applied to 2018 for comparison purposes. The statement of financial position now reflects the cumulative impact, resulting in increased capital assets and an equal increase in deferred contributions for capital assets under liabilities.

5 Internally restricted net assets

Personnel (Public)

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 charged with delivering morale and welfare programs. The difference between the actual employer costs and those reimbursed by Public has been internally restricted to provide funding for personnel costs, such as pension, severance pay, hiring costs, maternity leave and other personnel costs.

Insurance

Amounts have been internally restricted to provide funding for NPF insurance claims.

6 Pension plan

CFMWS' share of contributions to the Plan were \$6,490,397 (2018 – \$5,867,678) and are included as an expense in the statement of operations.

Canadian Forces Morale and Welfare Services

Notes to Financial Statements

March 31, 2019

An extrapolation of an actuarial valuation prepared as at December 31, 2018 (2018 – December 31, 2017) indicated the following information about the overall Plan:

	2018 \$	2017 \$
Fair value of plan assets	362,094,715	355,840,148
Accrual benefit obligation	(282,280,000)	(260,814,000)
Surplus	<u>79,814,715</u>	<u>95,026,148</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 \$93.5 million (2017 – \$87.9 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 \$41.8 million (2017 – \$29.3 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, 2019.

7 Related party transactions

Among the other entities that operate under the authority of the CDS in his NPP capacity are the Canadian Forces Exchange System (CANEX), SISIP Financial, Canadian Forces Central Fund (CFCF) and individual bases wings and messes.

Revenue includes user fees for services charged to related parties for accounting, human resources management, information management and information technology and consolidated insurance program services, as follows.

						2019	2018
	CANEX \$	SISIP \$	Bases/ wings/ messes \$	CFCF \$	Pension administration \$	Total \$	Total \$
Accounting	1,897,595	158,185	209,407	350,000	165,000	2,780,187	2,776,096
Human resources management services	561,296	401,291	9,308	-	-	971,895	833,148
IM/IT	634,332	202,395	-	-	-	836,727	964,572
Consolidated Insurance Program	249,940	5,811	421,568	-	-	677,319	702,043
	<u>3,343,163</u>	<u>767,682</u>	<u>640,283</u>	<u>350,000</u>	<u>165,000</u>	<u>5,266,128</u>	<u>5,275,859</u>

Canadian Forces Morale and Welfare Services

Notes to Financial Statements

March 31, 2019

Related party transactions are measured at their exchange amounts, which are the amounts established and agreed to by the related parties involved.

In addition, in fiscal 2018, CFMWS wrote down the amount due to CFCF by \$23,893,001. 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 2011 and fiscal 2018.

Amounts due to CFCF are non-interest bearing and have no specified terms of repayment.

NPP revenue and expense of approximately \$410 million and \$405 million, respectively, for the year ended March 31, 2019 and net equity of \$784 million at March 31, 2019, are excluded from the financial statements of the Government of Canada.

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.

8 Government remittances

Government remittances of \$nil (2018 – \$nil) are included in accounts payable and accrued liabilities.

Canadian Forces Morale and Welfare Services

Schedule A – Statement of Operations – NPP

For the year ended March 31, 2019

	2019 \$	2018 \$
Revenue		
User fees for services (note 7)		
Canadian Forces Exchange System (CANEX)	3,343,163	3,341,883
Service Income Security Insurance Plan (SISIP)	767,682	754,208
Bases/wings/messes	640,283	664,768
Canadian Forces Central Fund (CFCF)	350,000	350,000
Pension administration	165,000	165,000
	5,266,128	5,275,859
Contributions		
CANEX (note 7)	3,150,000	3,150,000
SISIP (note 7)	12,745,151	5,000,000
CFCF (note 7)	3,008,729	11,556,159
Other	729,691	437,706
	19,633,571	20,143,865
Deferral of contributions for capital assets (note 4)	(1,817,319)	(2,326,929)
Amortization of deferred contributions for capital assets (non-cash) (note 4)	577,655	242,184
	23,660,035	23,334,979
Expense		
NPP Services		
Corporate Services	1,045,468	843,108
NPP Accounting	4,996,646	4,874,669
Information Management/Information Technology (IM/IT)	5,486,018	5,927,406
Technology Investment Program (TIP)	1,593,109	2,080,634
Human Resources (HR) Management Services	3,584,220	3,487,890
Consolidated Insurance Program	517,575	770,690
Personal Support Program (PSP)	264,922	228,213
	17,487,958	18,212,610
Programs		
CF Appreciation	1,162,024	866,255
CFOne Membership	703,219	945,339
Sponsorship	660,155	404,254
National Sports	88,131	119,448
Conseil International du Sport Militaire (CISM)	88,326	95,145
	2,701,855	2,430,441
Capitalization of capital assets (note 4)	(1,817,319)	(2,326,929)
Amortization of capital assets (non-cash) (note 4)	577,655	242,184
	18,950,149	18,558,306

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

Canadian Forces Morale and Welfare Services

Schedule A – Statement of Operations – NPP ...continued

For the year ended March 31, 2019

	2019 \$	2018 \$
Distributions		
CANEX/SISIP Morale and Welfare Grant (note 7)	4,451,046	4,368,091
SEA Grant	117,447	112,326
	<u>4,568,493</u>	<u>4,480,417</u>
	<u>23,518,642</u>	<u>23,038,723</u>
Revenue before the undernoted	<u>141,393</u>	<u>296,256</u>
Personnel (note 5)		
Entity cost recoveries (note 7)	16,816,383	16,134,688
CFCF and SISIP contributions (note 7)	2,780,060	-
Gain from writedown of due to CFCF (note 7)	-	23,893,001
Expense	<u>(19,596,443)</u>	<u>(19,949,690)</u>
	<u>-</u>	<u>20,077,999</u>
Net revenue for the year	<u>141,393</u>	<u>20,374,255</u>

Canadian Forces Morale and Welfare Services

Schedule B – Statement of Operations – Public

For the year ended March 31, 2019

	2019 \$	2018 \$
Revenue		
C108 – Military Family Services	34,594,521	34,353,900
C109 – Morale and Welfare	87,545,268	91,013,932
Health promotion	7,224,805	6,590,580
Other Public Funds	6,105,312	4,489,427
Veterans Affairs Canada Trial MFRC	3,245,549	1,908,745
Deferral of contributions for capital assets (note 4)	(2,106,810)	(3,629,312)
Amortization of deferred contributions for capital assets (non-cash) (note 4)	1,249,648	829,878
	<u>137,858,293</u>	<u>135,557,150</u>
Expense		
C108 – Military Family Support	34,594,521	34,353,900
C109 – Morale and Welfare		
NPP governance on behalf of Chief of the Defence Staff		
Corporate Services	4,710,862	4,616,458
Accounting	8,070,319	7,961,190
Information Management / Information Technology (IMIT)	5,356,478	5,737,846
Technology Investment Program (TIP)	1,418,439	2,521,612
Human Resources (HR)	4,480,053	4,367,135
CANEX Management	2,555,334	5,412,512
Corporate costs	3,333,898	4,694,529
Program Governance		
Military Family Support Program	5,844,666	4,890,101
Comprehensive Military Family Plan	378,599	224,251
PSP Management – Field (HQ & Field)	8,480,964	8,373,777
CAF Mess Management	3,323,545	2,810,382
CAF Community Recreation Management	2,132,872	2,363,929
Programs		
CAF Physical Fitness and Sports Program	32,641,593	31,704,731
SISIP Financial Counselling and Education	3,346,531	3,745,322
Support to Deployed Operations	1,471,115	1,590,157
Health promotion	7,224,805	6,590,580
Other Public Funds	6,105,312	4,489,427
Veterans Affairs Canada Trial MFRC	3,245,549	1,908,745
Capitalization of capital assets (note 4)	(2,106,810)	(3,629,312)
Amortization of capital assets (non-cash) (note 4)	1,249,648	829,878
	<u>137,858,293</u>	<u>135,557,150</u>
Revenue before the undernoted	<u>-</u>	<u>-</u>
Personnel (note 5)		
Cost recovery	19,288,289	17,627,650
Expense	(19,392,555)	(17,130,793)
	<u>(104,266)</u>	<u>496,857</u>
Net revenue (expense) for the year	<u>(104,266)</u>	<u>496,857</u>