

FINANCIAL STATEMENTS
For
CANADIAN FORCES MORALE AND WELFARE SERVICES
For year ended
MARCH 31, 2014

INDEPENDENT AUDITOR'S REPORT

To the Non-Public Property Board

We have audited the accompanying financial statements of the Canadian Forces Morale and Welfare Services, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, changes in net assets and cash flows for the year then ended, and 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Forces Morale and Welfare Services as at March 31, 2014, 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 Accountants
Licensed Public Accountants

Ottawa, Ontario
October 10, 2014.

CANADIAN FORCES MORALE AND WELFARE SERVICES

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2014

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 13,900	\$ 8,800
Accounts receivable	9,342,389	18,601,619
Prepaid expenses	<u>250,479</u>	<u>246,724</u>
	9,606,768	18,857,143
CAPITAL ASSETS (note 4)	<u>1,384,136</u>	<u>1,586,504</u>
	<u>\$ 10,990,904</u>	<u>\$ 20,443,647</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,768,232	\$ 3,099,166
Advances from Canadian Forces Central Fund (note 5)	<u>10,941,285</u>	<u>13,530,317</u>
	<u>13,709,517</u>	<u>16,629,483</u>
NET ASSETS		
Unrestricted	(11,454,940)	(7,890,412)
Internally restricted (note 6)		
Personnel (Public)	6,487,030	9,209,737
Insurance	<u>2,249,297</u>	<u>2,494,839</u>
	<u>(2,718,613)</u>	<u>3,814,164</u>
	<u>\$ 10,990,904</u>	<u>\$ 20,443,647</u>

Approved:



Shirley Tang-Jassemi
Chief Financial Officer
Chef des services financiers
613-996-5797

(See accompanying notes)

CANADIAN FORCES MORALE AND WELFARE SERVICES
STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2014

	<u>2014</u>	<u>2013</u>
Revenue		
User Fees for Services (note 8)		
Canadian Forces Exchange System (CANEX)	\$ 3,483,063	\$ 3,399,441
Service Income Security Insurance Plan (SISIP)	724,957	714,244
Base/Wing Funds/Messes	736,214	715,227
Canadian Forces Central Fund (CFCF)	350,000	350,000
Pension Administration	<u>165,000</u>	<u>165,000</u>
	<u>5,459,234</u>	<u>5,343,912</u>
Contributions		
CANEX Contribution to Non-Public Fund (NPF) Services and Operations	3,150,000	3,038,000
SISIP Contribution to Programs and Distributions	3,256,688	3,286,074
CFCF Contribution to Programs and Distributions	612,467	771,700
CFCF Contribution to NPF Services and Operations	5,803,037	6,369,731
Other Revenue	<u>273,863</u>	<u>145,117</u>
	<u>13,096,055</u>	<u>13,610,622</u>
	<u>18,555,289</u>	<u>18,954,534</u>
Expenses		
NPF Services		
NPF Accounting	4,101,746	4,638,663
Information Management/Information Technology (IM/IT)	3,714,568	3,666,068
Human Resources (HR) Management Services	3,527,585	3,433,276
Consolidated Insurance Program	<u>769,658</u>	<u>669,661</u>
	<u>12,113,557</u>	<u>12,407,668</u>
Corporate Operations		
Canadian Forces Morale and Welfare Services (CFMWS)		
Headquarters (note 1)	1,361,025	1,103,984
Personnel Support Program (PSP) Management - Headquarters	178,364	6,346
Corporate Services	<u>156,267</u>	<u>156,588</u>
	<u>1,695,656</u>	<u>1,266,918</u>
Programs		
Sports Grant	109,688	99,271
Conseil International du Sport Militaire (CISM)	70,241	142,153
Sports Banquet	29,576	55,291
Volunteers Recognition Program	91,688	86,074
Project Access	564,869	442,310
Sponsorship/Donation	<u>47,497</u>	<u>40,858</u>
	<u>913,559</u>	<u>865,957</u>
Distributions		
CANEX/SISIP Morale and Welfare Grant	4,005,367	4,153,667
PSP Grant	<u>72,692</u>	<u>76,149</u>
	<u>4,078,059</u>	<u>4,229,816</u>
	<u>18,800,831</u>	<u>18,770,359</u>
Net NPF operating revenue (expense) before Personnel (NPF)	<u>(245,542)</u>	<u>184,175</u>
Personnel (NPF)		
Revenue	13,150,666	13,112,781
Expenses	<u>16,715,194</u>	<u>13,011,895</u>
Net revenue (expense)	<u>(3,564,528)</u>	<u>100,886</u>
Net NPF operating revenue (expense)	<u>(3,810,070)</u>	<u>285,061</u>
Net Public operating revenue (expense) - schedule A	<u>(2,722,707)</u>	<u>4,640,672</u>
Net revenue (expense)	<u>\$ (6,532,777)</u>	<u>\$ 4,925,733</u>

(See accompanying notes)

Welch LLP

CANADIAN FORCES MORALE AND WELFARE SERVICES
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2014

	<u>2014</u>				<u>2013</u>
	<u>Unrestricted</u>	<u>Internally restricted</u>		<u>Total</u>	<u>Total</u>
		<u>Personnel (Public)</u>	<u>Insurance</u>		
Balance, beginning of year	\$ (7,890,412)	\$ 9,209,737	\$ 2,494,839	\$ 3,814,164	\$ (1,111,569)
Net revenue (expense)	<u>(3,564,528)</u>	<u>(2,722,707)</u>	<u>(245,542)</u>	<u>(6,532,777)</u>	<u>4,925,733</u>
Balance, end of year	<u>\$ (11,454,940)</u>	<u>\$ 6,487,030</u>	<u>\$ 2,249,297</u>	<u>\$ (2,718,613)</u>	<u>\$ 3,814,164</u>

(See accompanying notes)

CANADIAN FORCES MORALE AND WELFARE SERVICES

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2014

	<u>2014</u>	<u>2013</u>
CASH PROVIDED BY (USED IN)		
Operating activities		
Net revenue (expense)	\$ (6,532,777)	\$ 4,925,733
Items not affecting cash:		
Amortization	537,875	1,312,293
Impairment loss on capital assets	<u>-</u>	<u>1,134,513</u>
	(5,994,902)	7,372,539
Changes in level of:		
Accounts receivable	9,259,230	(15,303,619)
Prepaid expenses	(3,755)	170,666
Accounts payable and accrued liabilities	<u>(330,934)</u>	<u>657,467</u>
	<u>2,929,639</u>	<u>(7,102,947)</u>
Investing activities		
Purchase of capital assets	<u>(335,507)</u>	<u>(450,102)</u>
Financing activities		
Advances from (to) Canadian Forces Central Fund	<u>(2,589,032)</u>	<u>7,560,999</u>
Increase in cash	5,100	7,950
Cash at beginning of year	<u>8,800</u>	<u>850</u>
Cash at end of year	<u>\$ 13,900</u>	<u>\$ 8,800</u>

(See accompanying notes)

**CANADIAN FORCES MORALE AND WELFARE SERVICES
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014**

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.

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 rates:

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

Financial instruments

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

All other financial instruments are subsequently measured at amortized costs.

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.

CANADIAN FORCES MORALE AND WELFARE SERVICES
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2014

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.

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 2014 support programs for the Public that was received in full in April 2014.

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.

i) 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.

ii) 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.

iii) 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 THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2014

4. CAPITAL ASSETS

Capital assets consist of the following:

	<u>2014</u>			<u>2013</u>
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Net book value</u>
Buildings	\$ 570,623	\$ 147,040	\$ 423,583	\$ 452,036
Computer equipment	6,592,569	5,681,153	911,416	1,070,696
Office furniture	<u>282,606</u>	<u>233,469</u>	<u>49,137</u>	<u>63,772</u>
	<u>\$ 7,445,798</u>	<u>\$ 6,061,662</u>	<u>\$ 1,384,136</u>	<u>\$ 1,586,504</u>

The aggregate amortization expense for the year ended March 31, 2014 is \$537,875 (2013 - \$1,312,293).

At March 31, 2013, CFMWS concluded that certain of its computer equipment were impaired. This resulted in a non-cash impairment charge of \$1,134,513 for the year ended March 31, 2013. In addition, CFMWS acquired new computer equipment in the amount of \$2,047,483 which was fully funded by the Public. All of these amounts were included in NPF Accounting expenses in the public statement of operations (see Schedule A).

5. ADVANCES FROM CANADIAN FORCES CENTRAL FUND (CFCF)

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, accumulated leave, 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.

7. PENSION PLAN

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

Plan contributions made by CFMWS for the year ended December 31, 2013 amounted to \$7.8 million (2012 - \$5.32 million) and have been included in the applicable expense category on the NPF and public statement of operations.

At December 31, 2013, the Plan's statement of financial position was as follows:

Net assets available for benefits	\$234,153,797
Actuarial value of accrued benefits	<u>193,871,000</u>
Surplus	<u>\$ 40,282,797</u>

CANADIAN FORCES MORALE AND WELFARE SERVICES

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2014

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 and is reported annually within the Department of National Defence in accordance with the requirements of the Financial Administration Manual Chapter 1019-8.

NPP estimated revenues and expenses of approximately \$400 million and \$331 million for the year ended March 31, 2014, respectively, and net equity of \$685 million at March 31, 2014 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:

	<u>CANEX</u>	<u>SISIP</u>	<u>Bases/ Wings/ Messes</u>	<u>CFCF</u>	<u>Pension Administration</u>	<u>2014 Total</u>	<u>2013 Total</u>
Accounting	\$ 1,945,524	\$ 150,520	\$ 276,605	\$ 350,000	\$ 165,000	\$ 2,887,649	\$ 2,805,312
Information management/ Information technology	563,126	381,847	-	-	-	944,973	928,492
Human resources management services	628,674	192,590	-	-	-	821,264	809,127
Consolidated insurance program	<u>345,739</u>	<u>-</u>	<u>459,609</u>	<u>-</u>	<u>-</u>	<u>805,348</u>	<u>800,981</u>
Total	<u>\$3,483,063</u>	<u>\$ 724,957</u>	<u>\$ 736,214</u>	<u>\$ 350,000</u>	<u>\$ 165,000</u>	<u>\$5,459,234</u>	<u>\$5,343,912</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:

	<u>2014</u>	<u>2013</u>
Gross revenue	\$ 150,129,294	\$ 171,705,037
Gross expenses	<u>156,662,071</u>	<u>166,779,304</u>
Net revenue (expense)	<u>\$ (6,532,777)</u>	<u>\$ 4,925,733</u>

CANADIAN FORCES MORALE AND WELFARE SERVICES
PUBLIC STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2014

	<u>2014</u>	<u>2013</u>
Revenue		
C108 - Military Family Support	\$ 27,045,482	\$ 27,895,105
C109 - Personnel Support Program (PSP)	71,292,783	86,792,586
Health Promotion	6,409,252	6,406,247
Other Public Funds	<u>489,334</u>	<u>853,306</u>
Total revenue	<u>105,236,851</u>	<u>121,947,244</u>
Expenses		
C108 - Military Family Support	27,045,482	27,895,105
C109 - Personal Support Program		
CFMWS Headquarters (HQ)	2,630,285	3,094,379
PSP Management - HQ and Field	6,056,020	6,390,425
Military Physical Fitness and Sports Program	30,381,702	31,264,701
Mess Management	2,177,797	3,354,067
JPSU, OFS, SOF	1,463,928	1,559,666
PSP for Deployed Operations	1,326,515	1,862,325
Youth Program	-	844,618
Reserve Testing	209,268	214,652
Military Family Support	3,920,896	4,139,037
Project Access	453,450	377,833
SISIP Financial Counselling and Education	2,823,072	3,604,734
Accidental Dismemberment Insurance	450,000	450,000
CANEX Management	2,572,142	2,598,964
NPF Accounting	6,833,274	10,324,214
NPF HR Management	4,356,290	4,252,741
Information Management/Information Technology (IM/IT)	3,407,074	3,426,468
Corporate Services	2,090,070	8,892,762
GECA	141,000	141,000
Health Promotion	6,409,252	6,406,247
Other Public Funds	<u>489,334</u>	<u>853,306</u>
Total expenses	<u>105,236,851</u>	<u>121,947,244</u>
Net Public programs and operating revenue before item below	<u>-</u>	<u>-</u>
Personnel (Public) charged to internally restricted net assets (note 6)		
Revenue	13,186,488	17,690,478
Expenses	<u>15,909,195</u>	<u>13,049,806</u>
Net revenue (expense)	<u>(2,722,707)</u>	<u>4,640,672</u>
Net Public operating revenue (expense)	<u>\$ (2,722,707)</u>	<u>\$ 4,640,672</u>