

Canadian Forces Personnel Assistance Fund

**Financial Statements
December 31, 2014**



December 16, 2015

Independent Auditor's Report

To the Non-Public Property Board

We have audited the accompanying financial statements of Canadian Forces Personnel Assistance Fund, which comprise the statement of financial position as at December 31, 2014, and the statements of revenue and expenses and 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 Personnel Assistance Fund as at December 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.

Other matter

The financial statements of Canadian Forces Personnel Assistance Fund for the year ended December 31, 2013 were audited by another firm of Chartered Professional Accountants who expressed an unmodified opinion on those statements on October 10, 2014.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Canadian Forces Personnel Assistance Fund

Statement of Financial Position

As at December 31, 2014

	2014 \$	2013 \$
Assets		
Current assets		
Deposit with Canadian Forces Central Fund	4,961,330	4,290,365
Contributions and other receivables	22,945	19,764
Current portion of self-improvement loans receivable (note 4)	4,523,025	4,765,175
Current portion of distress loans receivable (note 4)	1,042,580	756,598
Current portion of education loans receivable (note 4)	1,357,470	1,584,258
	<u>11,907,350</u>	<u>11,416,160</u>
Self-improvement loans receivable (note 4)	2,094,689	2,103,826
Distress loans receivable (note 4)	1,398,282	1,251,450
Education loans receivable (note 4)	1,626,309	2,017,284
	<u>17,026,630</u>	<u>16,788,720</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	10,288	5,796
Trust liabilities (note 5)	307,382	26,044
	<u>317,670</u>	<u>31,840</u>
Net assets	<u>16,708,960</u>	<u>16,756,880</u>
	<u>17,026,630</u>	<u>16,788,720</u>

Approved on behalf of the NPP Board

Alan Donnet for

Shirley Tang-Jassemi, Chief Financial Officer

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

Canadian Forces Personnel Assistance Fund
Statement of Revenue and Expenses and Changes in Net Assets
For the year ended December 31, 2014

	2014	2013
	\$	\$
Revenue		
Interest on deposits	156,017	116,990
Contributions from levies	260,091	265,659
Interest on loans receivable	509,366	557,828
Donations	9,136	38,316
	<u>934,610</u>	<u>978,793</u>
Expenses		
Salaries and employee benefits	395,147	387,144
Grants	235,149	221,737
Loan loss provision – net of recoveries	346,364	165,976
Miscellaneous	5,870	8,624
	<u>982,530</u>	<u>783,481</u>
Net revenue (expense) for the year	(47,920)	195,312
Net assets – Beginning of year	<u>16,756,880</u>	<u>16,561,568</u>
Net assets – End of year	<u>16,708,960</u>	<u>16,756,880</u>

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

Canadian Forces Personnel Assistance Fund

Statement of Cash Flows

For the year ended December 31, 2014

	2014	2013
	\$	\$
Cash flows provided by (used in)		
Operating activities		
Net revenue (expense) for the year	(47,920)	195,312
Item not affecting cash – Loans written off	223,146	95,695
Self-improvement loans advanced	(6,366,354)	(6,598,568)
Distress loans advanced	(1,459,113)	(1,464,759)
Education loans advanced	(1,175,500)	(1,511,000)
Repayment of self-improvement loans	6,473,891	7,338,370
Repayment of distress loans	977,790	1,103,498
Repayment of education loans	1,762,376	1,977,875
Net change in operating components of working capital –		
Contributions and other receivables	(3,181)	(15,053)
Accounts payable and accrued liabilities	4,492	601
Trust liabilities	281,338	(11,543)
	<hr/>	<hr/>
	670,965	1,110,428
Financing activity		
Advances to Canadian Forces Central Fund	(670,965)	(1,110,428)
	<hr/>	<hr/>
Net change in cash for the year	-	-

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

Canadian Forces Personnel Assistance Fund

Notes to Financial Statements

December 31, 2014

1 Authority, organization and purpose

The Canadian Forces Personnel Assistance Fund (CFPAF) was established under the authority of the National Defence Act Section 39, by the Chief of the Defence Staff (CDS) Order – CFPAF, on December 8, 1969. CFPAF operates under the authority of the CDS in his Non-Public Property (NPP) capacity. Responsibility for directing the affairs of CFPAF rests with the Director General Morale and Welfare Services as delegated by the CDS.

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

The purpose of CFPAF is to provide financial assistance to serving or former members of the Canadian Forces and their dependants when warranted by distress or other deserving circumstances. These objectives are achieved by means of counselling and financial assistance in the form of self-improvement loans, distress loans, education loans and grants.

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).

Financial instruments

Cash and deposits are initially recognized and subsequently measured at fair value.

All other financial instruments (loans receivable) are measured at amortized cost using the effective interest rate method less provision for loan losses.

Contributions from levies

Contributions from the Canadian Forces Central Fund (CFCF) are recorded monthly upon allocation in accordance with the January 2004 agreement between CFCF and CFPAF. These contributions are comprised of 0.25% from the Canadian Forces Base/Wing/Unit Fund and Mess retail sales and 0.15% from CANEX retail sales.

Interest on loans receivable

Interest on loans receivable is recorded as revenue over the term of the related loan.

Grants

Grants are recorded as expenses when paid or when conversions of loans to grants are approved by the CFPAF manager.

Canadian Forces Personnel Assistance Fund

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Employee future benefits

CFPAF 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 CFPAF employees are eligible to be members of the Plan.

CFPAF'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, CFPAF's contributions to the Plan are included as an expense in the statement of revenue and expenses and changes in net assets. A pension asset has not been recorded on the statement of financial position.

Contributed services

The Canadian Forces Morale and Welfare Services (CFMWS) is an entity also under the authority of the CDS. CFMWS provides office accommodation, telephone charges, information technology and human resources to CFPAF. In addition, departmental employees participate in the administration of loan applications, cheque issuance and collection of monies by payroll deductions on behalf of CFPAF. Because of the difficulty of determining the fair value of these amounts, contributed services are not recognized in the financial statements.

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 accounting estimates when determining the net realizable value of accounts receivable and loans receivable and in the determination of accrued liabilities. Actual results could differ from these estimates, the impact of which would be recorded in future period.

3 Financial instruments and risk management

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

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

Credit risk

CFPAF is exposed to credit risk resulting from the possibility that parties may default on their financial obligations.

Canadian Forces Personnel Assistance Fund

Notes to Financial Statements

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Financial instruments, which potentially subject CFPAF to a concentration of credit risk, consist principally of the deposit with CFCF and loans receivable. Funds are deposited with CFCF and are part of CFCF's investment portfolio performance.

CFPAF does not require collateral or other security to support loans advanced to serving and former members of the Canadian Forces and therefore, bears an element of credit risk. CFPAF has credit evaluation, counselling and an approval and monitoring process intended to mitigate potential credit risks. All of the loan repayment programs are either by monthly automatic deduction from payroll through the pay allotment system or by monthly pre-authorized debit. As outlined in note 4, anticipated bad debts of \$484,700 (2013 – \$475,000) have been provided on these loans.

Liquidity risk

Liquidity risk is the risk that CFPAF cannot meet its debts. CFPAF manages this risk by reviewing its expected 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 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 CFPAF's transactions are denominated in Canadian dollars. As a result, management does not believe it is exposed 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.

CFPAF's exposure to interest rate risk arises from its loans receivable. Interest rate risk is minimal given that the interest rates are fixed by policy.

Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market. CFPAF is not exposed to other price risk.

Canadian Forces Personnel Assistance Fund

Notes to Financial Statements

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Changes in risk

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

4 Loans receivable

a) Self-improvement loans

Member loans range from \$1,000 to \$5,000. Terms of repayment are up to 30 months and bear an annual interest rate of 5.5%.

b) Distress loans

Individual loans of up to \$25,000 may be granted with payment terms extending to 5 years and bear an annual interest rate of 2%.

c) Education loans

Applicants may request a maximum of \$4,000 per student with repayment over 12, 24, 36 or 48 months at an annual interest rate of 3%. The lifetime maximum per student is \$16,000.

Loans receivable are comprised of the following.

	Self-Improvement		Distress		Education	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Total loans receivable	6,847,114	7,066,001	2,609,162	2,191,048	3,070,779	3,696,542
Loan loss provision	(229,400)	(197,000)	(168,300)	(183,000)	(87,000)	(95,000)
	6,617,714	6,869,001	2,440,862	2,008,048	2,983,779	3,601,542
Less: Current portion	4,523,025	4,765,175	1,042,580	756,598	1,357,470	1,584,258
Long-term portion	2,094,689	2,103,826	1,398,282	1,251,450	1,626,309	2,017,284

5 Trust assets and liabilities

CFPAF administers two trust funds.

The Distress Trust Account was established to provide distressed individuals and their immediate families with loans or grants to provide immediate relief. The loans and grants are determined by CFPAF and payments are distributed upon receipt of invoices or supporting documents.

Canadian Forces Personnel Assistance Fund

Notes to Financial Statements

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Mrs. Isabelle MacDonald established a Memorial Trust Fund in memory of her son, Corporal Ronald MacDonald, who died on December 10, 1975 while serving with the Canadian Forces in West Germany. The purpose of the fund is to assist in alleviating financial problems incurred by members of the Canadian Forces and their families. Grants will be paid out of the Trust Fund by the CFPAF Manager to a maximum of \$500 per case. The original contribution of \$20,000 is to remain in perpetuity. Interest is paid monthly to the Trust Fund calculated at the monthly CFCF interest rate payable to CFPAF less 1%.

The following is a summary of transactions for the year.

	Distress Trust \$	Corporal Ronald MacDonald Memorial Trust Fund \$	2014 Total \$	2013 Total \$
Balance – Beginning of year	3,664	22,380	26,044	37,587
Deposits	1,560,340	–	1,560,340	201,920
Interest received	–	509	509	497
Disbursements	(1,279,511)	–	(1,279,511)	(213,960)
Balance – End of year	284,493	22,889	307,382	26,044

6 Pension plan

CFPAF's contributions to the Plan of \$22,822 (2013 – \$20,905) are included in salaries and employee benefits on the statement of revenue and expenses and changes in net assets.

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

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

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

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

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

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

7 Subsequent event

Effective April 1, 2015, CFPAP ceased to operate as a separate fund and its assets were amalgamated with the Military Family Fund (MFF) and other charity like initiatives under a new fund named "Support Our Troops Fund". Assets of MFF as at March 31, 2015 amounted to \$3,805,615.