

Support Our Troops Funds

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 Support Our Troops Funds ("SOT Funds"), which comprise the statement of financial position as at March 31, 2018, and the statements of revenue and expense and changes in fund balances 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 qualified audit opinion.

Basis for qualified opinion

In common with many not-for-profit organizations, SOT Funds derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of SOT Funds. Therefore, we were not able to determine whether any adjustments might be necessary to donations, net revenue and cash flows from operations for the years ended March 31, 2018 and 2017, current assets as at March 31, 2018 and 2017, and fund balances as at the beginning and end of the years ended March 31, 2018 and 2017. Our audit opinion on the financial statements for the year ended March 31, 2017, was modified accordingly because of the possible effects of this limitation in scope.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of SOT Funds 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Support Our Troops Funds

Statement of Financial Position

As at March 31, 2018

| | 2018 \$ | 2017 \$ |
|---|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash | 84,095 | 67,972 |
| Due from Canadian Forces Central Fund | 19,219,701 | 17,511,547 |
| Inventory | 38,183 | 109,196 |
| Current portion of small-preventive loans receivable (note 4) | 2,208,033 | 3,002,896 |
| Current portion of distress loans receivable (note 4) | 728,970 | 879,000 |
| Current portion of education loans receivable (note 4) | 92,960 | 375,343 |
| | <u>22,371,942</u> | <u>21,945,954</u> |
| Capital assets (note 7) | 89,570 | - |
| Small-preventive loans receivable (note 4) | 924,833 | 1,060,121 |
| Distress loans receivable (note 4) | 981,411 | 1,379,847 |
| Education loans receivable (note 4) | 8,870 | 125,856 |
| | <u>24,376,626</u> | <u>24,511,778</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 4,850 | 39,249 |
| Trust liabilities (note 5) | 138,210 | 12,245 |
| | <u>143,060</u> | <u>51,494</u> |
| Fund balances | | |
| Unrestricted | 22,059,759 | 22,610,137 |
| Restricted | 2,173,807 | 1,850,147 |
| | <u>24,233,566</u> | <u>24,460,284</u> |
| | <u>24,376,626</u> | <u>24,511,778</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.

Support Our Troops Funds

Statement of Revenue and Expense and Changes in Fund Balances

For the year ended March 31, 2018

| | General | Restricted | 2018 | 2017 |
|---|-------------------|-------------------|-------------------|-------------------|
| | \$ | \$ | Total | Total |
| | | | \$ | \$ |
| Revenue | | | | |
| Donations | 2,121,291 | 437,040 | 2,558,331 | 2,686,348 |
| Investment income | 971,833 | 82,696 | 1,054,529 | 1,203,677 |
| Interest income | 615,033 | - | 615,033 | 639,165 |
| Other | 80,857 | - | 80,857 | 280,511 |
| | <u>3,789,014</u> | <u>519,736</u> | <u>4,308,750</u> | <u>4,809,701</u> |
| Expense | | | | |
| Program expense | 3,615,262 | 168,926 | 3,784,188 | 3,653,525 |
| Fundraising | 342,780 | - | 342,780 | 118,411 |
| Administration and other | 381,350 | 27,150 | 408,500 | 1,230,407 |
| | <u>4,339,392</u> | <u>196,076</u> | <u>4,535,468</u> | <u>5,002,343</u> |
| Net revenue (expense) for the year | <u>(550,378)</u> | <u>323,660</u> | <u>(226,718)</u> | <u>(192,642)</u> |
| Fund balances – Beginning of year | <u>22,610,137</u> | <u>1,850,147</u> | <u>24,460,284</u> | <u>24,652,926</u> |
| Fund balances – End of year | <u>22,059,759</u> | <u>2,173,807</u> | <u>24,233,566</u> | <u>24,460,284</u> |

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

Support Our Troops Funds

Statement of Cash Flows

For the year ended March 31, 2018

| | 2018 \$ | 2017 \$ |
|--|-----------------|-----------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net revenue (expense) for the year | (226,718) | (192,642) |
| Item not affecting cash | | |
| Recovery of provision on loans | 61,000 | (3,000) |
| Small-preventive loans advanced | (2,929,397) | (3,613,356) |
| Distress loans advanced | (525,002) | (818,725) |
| Education loans advanced | 11,564 | 12,430 |
| Repayment of small-preventive loans | 3,808,548 | 4,807,785 |
| Repayment of distress loans | 1,051,468 | 1,196,634 |
| Repayment of education loans | 399,805 | 784,243 |
| Net change in non-cash working capital items | 162,579 | 374,032 |
| | <hr/> 1,813,847 | <hr/> 2,547,401 |
| Investing activities | | |
| Purchase of capital assets | (89,570) | - |
| Financing activities | | |
| Advances to Canadian Forces Central Fund | (1,708,154) | (2,479,429) |
| | <hr/> 16,123 | <hr/> 67,972 |
| Net change in cash for the year | | |
| Cash - Beginning of year | 67,972 | - |
| Cash - End of year | <hr/> 84,095 | <hr/> 67,972 |

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

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Notes to Financial Statements

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1 Authority, organization and purpose

On April 1, 2015, the Support Our Troops (SOT) program was officially launched with the amalgamation of the Military Family Fund, other charity like programs and the Canadian Forces Personnel Assistance Fund (CFPAF). The SOT program is a qualified donee of Her Majesty in Right of Canada for the Canadian Armed Forces Community and is administered by Canadian Forces Morale and Welfare Services (CFMWS). It is but one element of support that currently exists to help CAF members and their families meet unique challenges and individual circumstances, most often associated with the demands of military service. The team within CFMWS works closely with the Department of National Defence (DND) staff, as well as with provincial and municipal community agencies and other charitable organizations, to help find the best support for our members and their families. The financial resources are held within the Canadian Forces Central Fund as Non-Public Funds.

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

The purpose of SOT is to provide financial assistance to serving or former members of the Canadian Armed 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.

Responsibility for directing the affairs of the SOT program rests with the Managing Director Non-Public Property as delegated by the Chief of the Defence Staff (CDS).

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).

Fund accounting

The accounts of SOT are maintained in accordance with the principles of fund accounting. Resources received and expended are classified for accounting and reporting purposes into funds according to objectives specified externally by donors or internally by the CDS.

SOT has the following funds.

- a) **SOT Fund** - The purpose of the SOT Fund is to provide emergency financial support to members, veterans and their respective families in financial distress. The SOT Fund also provides opportunities for ill and injured CAF members and veterans to adopt an active and healthy lifestyle through participation in recreational, sporting and other physically challenging activities. Support from the fund is for those not covered through public funds. Examples of the type of expenditures, include grants for specialized

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equipment and travel/participation in events. Other initiatives under this SOT Fund are the provision of Christmas care packages for all deployed CAF members and the provision of basic comforts of home such as newspapers, access to television and internet and commissary goods to CAF members hospitalized for more than 48 hours. The SOT Fund also benefits from various NPP fundraising events.

- b) **Boomer's Legacy** - Restricted - The mission of Boomer's Legacy is "Helping Our Soldiers Help Others." This program is used to fund projects identified by CAF members, inside or outside of Canada that would otherwise be unaddressed, in order to provide an opportunity for goodwill and a positive view of the CAF members in the eyes of the local population being assisted through the project.
- c) **Special Needs Children** - Restricted - The funds received from a third party are restricted in that they are for a specific purpose; in this case special needs children.
- d) **License Plate Program Rebate** - Restricted - The funds received from the sale of specialty Support Our Troops License Plates from the provinces of Alberta, Manitoba and Saskatchewan are restricted in use within the province based on approved expenditure frameworks. Signed collaboration agreements are in place with each province.
- e) **Cpl Ronald MacDonald Trust** - Restricted - 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 CAF and their families. Grants will be paid out of the Memorial Trust Fund to a maximum of \$500 per case. The original contribution of \$20,000 is to remain in perpetuity. Interest is paid monthly to the fund.

Financial instruments

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

Loans receivable are measured at amortized cost using the effective interest rate method less provision for loan losses.

Revenue recognition

Externally restricted contributions (including donations and sponsorships) are recognized as revenue of the appropriate externally restricted fund and unrestricted contributions are recognized as revenue of the appropriate unrestricted fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted contributions received that relate to a future year are deferred and recorded as revenue in the year to which it relates.

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

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Interest on deposits is recorded as revenue based on SOT's share of the consolidated bank account maintained by CFCF in the year earned.

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

Donations in-kind are recorded at their fair values in the year received or receivable.

Grants

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

Employee future benefits

SOT participates in the Canadian Forces Non-Public Funds Employees' Pension Plan ("the Plan"), which is a defined benefit plan. The Plan provides retirement benefits relating to contributions and years of service of staff of all Non-Public Funds. Substantially all SOT employees are eligible to be members of the Plan.

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

Contributed services

CFMWS is an entity also under the authority of the CDS. CFMWS provides office accommodation, telephone charges, information technology and human resources to SOT. In addition, departmental employees participate in the administration of loan applications, cheque issuance and collection of monies by payroll deductions on behalf of SOT. Because of the difficulty of determining the fair value of these amounts, these contributed services are not recognized in the financial statements. Starting 2018, salaries and other employee benefits were transferred to SISIP Financial. The roles and responsibilities of these employees in relation to SOT remain the same.

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 revenue and expense 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 a future period.

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Capital assets

Capital assets are initially recorded at cost and are then amortized, using the straight-line method as follows:

| | |
|--------------------|---------------|
| Computer equipment | 24% per annum |
|--------------------|---------------|

3 Financial instruments and risk management

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

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

Credit risk

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

Financial instruments, which potentially subject SOT 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.

SOT does not require collateral or other security to support loans advanced to serving and former members of the CAF and therefore, bears an element of credit risk. SOT 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 \$536,000 (2017 - \$475,000) have been provided on these loans.

Liquidity risk

Liquidity risk is the risk that SOT cannot meet its debts. SOT 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.

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Substantially all of SOT'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.

SOT'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. SOT is not exposed to other price risk.

4 Loans receivable

a) Small-preventive 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 five 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. Education loans are no longer provided.

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Loans receivable are comprised of the following.

| | Small-preventive | | Distress | | Education | |
|------------------------|------------------|-----------|-----------|-----------|-----------|----------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Total loans receivable | 3,349,866 | 4,229,017 | 1,986,381 | 2,512,847 | 144,830 | 556,199 |
| Loan loss provision | (217,000) | (166,000) | (276,000) | (254,000) | (43,000) | (55,000) |
| | 3,132,866 | 4,063,017 | 1,710,381 | 2,258,847 | 101,830 | 501,199 |
| Less: Current portion | 2,208,033 | 3,002,896 | 728,970 | 879,000 | 92,960 | 375,343 |
| Long-term portion | 924,833 | 1,060,121 | 981,411 | 1,379,847 | 8,870 | 125,856 |

5 Trust liabilities

SOT administers the Distress Trust fund which 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 SOT and payments are distributed upon receipt of invoices or supporting documents.

The following is a summary of transactions for the year.

| | 2018 | 2017 |
|-----------------------------|-----------|-------------|
| | \$ | \$ |
| Balance - Beginning of year | 12,245 | 47,506 |
| Deposits | 933,546 | 999,030 |
| Disbursements | (807,581) | (1,034,291) |
| Balance - End of year | 138,210 | 12,245 |

6 Pension plan

All eligible employees are members of the defined benefit, Staff of the NPF Pension Plan ('the Plan'). For 2018, SOT employees were transferred to SISIP, therefore SOT's share of contributions to the Plan were \$nil (2017 - \$59,031) and are included in the applicable expense category on the statement of revenue and expense and changes in fund balances.

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 | 95,026,148 | 75,107,946 |

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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 (2017 - \$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 (2017 - \$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.

7 Capital assets

| | | | 2018 | 2017 |
|--------------------|------------|-----------------------------------|-----------|-----------|
| | Cost \$ | Accumulated amortization \$ | Net \$ | Net \$ |
| Computer equipment | 89,570 | - | 89,570 | - |

8 Salaries and benefits

Starting 2018, salary, benefits and other employee related expenses are now accounted for under SISIP Financial.

9 Comparative figures

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

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Schedule A - Statement of Revenue and Expense and Changes in Fund Balances

For the year ended March 31, 2018

| | General | | Restricted | | | 2018 | 2017 |
|---|------------|-----------------|----------------|-----------------------|-----------------------|-----------|------------|
| | SOT | Boomer's Legacy | SOT Restricted | License Plate Program | Cpl. Ronald MacDonald | Total | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Non-philanthropic revenue | | | | | | | |
| Interest on deposits | 971,833 | - | - | 81,257 | 1,439 | 82,696 | 1,203,677 |
| Contributions from levies | 362,492 | - | - | - | - | - | 296,526 |
| Interest on loans receivable | 252,541 | - | - | - | - | - | 342,639 |
| Program rebates | 58,411 | - | - | - | - | - | 40,586 |
| Merchandise sales | 27,402 | - | - | - | - | - | 70,286 |
| Sponsorships | (7,738) | - | - | - | - | - | 163,825 |
| Philanthropic revenue | | | | | | | |
| Donations | 1,932,110 | 66,637 | 42,961 | 327,442 | - | 437,040 | 2,471,906 |
| Donations in-kind | 189,181 | - | - | - | - | - | 214,442 |
| Other | 2,782 | - | - | - | - | - | 5,814 |
| | 3,789,014 | 66,637 | 42,961 | 408,699 | 1,439 | 519,736 | 4,809,701 |
| Expense | | | | | | | |
| Program expense | | | | | | | |
| Salaries and benefits (note 8) | - | - | - | - | - | - | 460,373 |
| Good works grants | 3,426,081 | 80,187 | 45,659 | 43,080 | - | 168,926 | 2,933,605 |
| Program rebate expenses | - | - | - | - | - | - | 45,105 |
| Donations in-kind | 189,181 | - | - | - | - | - | 189,181 |
| Fundraising | | | | | | | |
| Salaries and benefits (note 8) | - | - | - | - | - | - | 37,732 |
| Contract services | 312,344 | - | - | - | - | - | 8,994 |
| Marketing | 30,436 | - | - | - | - | - | 71,685 |
| Administration and other | | | | | | | |
| Salaries and benefits (note 8) | - | - | - | - | - | - | 313,758 |
| Bad debts | 270,476 | - | - | - | - | - | 737,908 |
| Administrative fees | 5,301 | - | - | - | - | - | 5,301 |
| Other | 105,573 | 4,720 | - | 22,430 | - | 27,150 | 178,741 |
| | 4,339,392 | 84,907 | 45,659 | 65,510 | - | 196,076 | 5,002,343 |
| Net revenue (expense) for the year | (550,378) | (18,270) | (2,698) | 343,189 | 1,439 | 323,660 | (192,642) |
| Fund balances - Beginning of year | 22,610,137 | 445,347 | 35,015 | 1,345,639 | 24,146 | 1,850,147 | 24,460,284 |
| Fund balances - End of year | 22,059,759 | 427,077 | 32,317 | 1,688,828 | 25,585 | 2,173,807 | 24,460,284 |