

Support Our Troops Funds

Financial Statements
March 31, 2016



January 27, 2017

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, 2016, 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 audit opinion.

Basis for qualified opinion

In common with many not-for-profit organizations, the 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 the 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 year ended March 31, 2016, current assets as at March 31, 2016 and 2015, and fund balances as at the beginning and end of the year ended March 31, 2016.

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 the SOT Funds as at March 31, 2016 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

Without modifying our opinion, we draw attention to note 1 to the financial statements which describes that SOT Funds' comparative information in these financial statements, including the statement of financial position as at March 31, 2015, and the statements of revenue and expense and changes in fund balances and cash flows for the year ended March 31, 2015 and related disclosures are unaudited.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

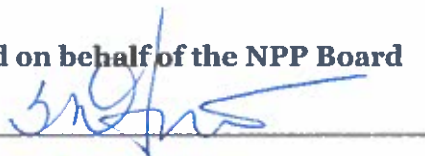
Support Our Troops Funds

Statement of Financial Position

As at March 31, 2016

	2016 \$	2015 \$ (unaudited)
Assets		
Current assets		
Deposit with Canadian Forces Central Fund	15,032,118	11,623,477
Accounts receivable	400,884	747,982
Inventory	96,017	111,770
Current portion of small-preventive loans receivable (note 4)	3,745,765	4,417,368
Current portion of distress loans receivable (note 4)	911,913	1,138,552
Current portion of education loans receivable (note 4)	735,304	1,225,198
Prepaid expenses	121,223	-
	<u>21,043,224</u>	<u>19,264,347</u>
Small-preventive loans receivable (note 4)	1,489,681	2,049,115
Distress loans receivable (note 4)	1,753,843	1,611,148
Education loans receivable (note 4)	552,568	1,363,231
	<u>24,839,316</u>	<u>24,287,841</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	138,884	41,814
Trust liabilities (note 5)	47,506	134,647
	<u>186,390</u>	<u>176,461</u>
Fund balances		
Unrestricted	22,822,676	22,682,011
Restricted	1,830,250	1,429,369
	<u>24,652,926</u>	<u>24,111,380</u>
	<u>24,839,316</u>	<u>24,287,841</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, 2016

	Unrestricted	Restricted				Total	2016	2015
	SOT	Boomer's Legacy	Special Needs Children	License Plate Program	Cpl. Ronald MacDonald		Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
								(unaudited)
Revenue								
Interest on deposits	831,376	-	-	-	306	306	831,682	761,446
Contributions from levies	215,207	-	-	-	-	-	215,207	261,310
Interest on loans receivable	443,365	-	-	-	-	-	443,365	503,244
Merchandise sales	83,360	-	-	-	-	-	83,360	174,419
Donations in-kind	300,044	-	-	-	-	-	300,044	315,194
Sponsorships	130,076	-	-	-	-	-	130,076	21,858
Donations	1,477,593	52,905	155,150	863,100	-	1,071,155	2,548,748	3,214,228
Program rebates	54,909	-	-	-	-	-	54,909	11,723
Other	11,208	-	-	-	-	-	11,208	(28,190)
	<u>3,547,138</u>	<u>52,905</u>	<u>155,150</u>	<u>863,100</u>	<u>306</u>	<u>1,071,461</u>	<u>4,618,599</u>	<u>5,235,232</u>
Expense								
Program delivery	2,885,771	34,360	394,236	241,984	-	670,580	3,556,351	3,769,083
Overhead	520,702	-	-	-	-	-	520,702	388,505
	<u>3,406,473</u>	<u>34,360</u>	<u>394,236</u>	<u>241,984</u>	<u>-</u>	<u>670,580</u>	<u>4,077,053</u>	<u>4,157,588</u>
Net revenue (expense) for the year	<u>140,665</u>	<u>18,545</u>	<u>(239,086)</u>	<u>621,116</u>	<u>306</u>	<u>400,881</u>	<u>541,546</u>	<u>1,077,644</u>
Fund balances - Beginning of year	<u>22,682,011</u>	<u>462,790</u>	<u>480,712</u>	<u>462,866</u>	<u>23,001</u>	<u>1,429,369</u>	<u>24,111,380</u>	<u>23,033,736</u>
Fund balances - End of year	<u>22,822,676</u>	<u>481,335</u>	<u>241,626</u>	<u>1,083,982</u>	<u>23,307</u>	<u>1,830,250</u>	<u>24,652,926</u>	<u>24,111,380</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, 2016

	2016 \$	2015 \$ (unaudited)
Cash provided by (used in)		
Operating activities		
Net revenue for the year	541,546	1,077,644
Item not affecting cash -		
Recovery of provision on loans	(28,000)	(31,000)
Small-preventive loans advanced	(4,448,455)	(6,394,490)
Distress loans advanced	(1,497,070)	(2,044,498)
Education loans advanced	-	(989,721)
Repayment of small-preventive loans	5,746,493	6,424,144
Repayment of distress loans	1,525,013	1,283,868
Repayment of education loans	1,317,557	1,704,528
Net change in non-cash working capital items	251,557	340,624
	<hr/> 3,408,641	<hr/> 1,371,099
Financing activity		
Advances to Canadian Forces Central Fund	(3,408,641)	(1,371,099)
	<hr/> -	<hr/> -
Net change in cash for the year	<hr/> <hr/> -	<hr/> <hr/> -

The accompanying notes are an integral part of these 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 the official charity of the Canadian Armed Forces (CAF) 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 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 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 equipment and travel/participation in events. Other initiatives under this fund are the provision of Christmas care packages for all deployed CAF members and the provision of basic comforts of home such as newspapers,

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access to television and internet and commissary goods to CAF members hospitalized for more than 48 hours. The 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 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 Canadian Forces and their families. Grants will be paid out of the 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 and 0.15% from CANEX retail sales.

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

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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 expenses 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 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 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.

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 a future period.

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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 Canadian Forces 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 \$478,000 (2015 - \$506,000) 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.

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.

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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.

Loans receivable are comprised of the following.

	<u>Small-preventive</u>		<u>Distress</u>		<u>Education</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	\$	\$	\$	\$	\$	\$
	(unaudited)		(unaudited)		(unaudited)	
Total loans receivable	5,423,446	6,721,483	2,890,756	2,918,700	1,352,872	2,670,429
Loan loss provision	(188,000)	(255,000)	(225,000)	(169,000)	(65,000)	(82,000)
	5,235,446	6,466,483	2,665,756	2,749,700	1,287,872	2,588,429
Less: Current portion	3,745,765	4,417,368	911,913	1,138,552	735,304	1,225,198
Long-term portion	1,489,681	2,049,115	1,753,843	1,611,148	552,568	1,363,231

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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.

	2016 \$	2015 \$ (unaudited)
Balance - Beginning of year	134,647	6,634
Deposits	954,807	2,201,670
Disbursements	(1,041,948)	(2,073,657)
Balance - End of year	<u>47,506</u>	<u>134,647</u>

6 Pension plan

SOT's contributions to the Plan of \$50,654 (2015 - \$44,971) are included in salaries and employee benefits on the statement of revenue and expenses and changes in fund balances.

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

	2015 \$	2014 \$
Fair value of plan assets	287,553,713	266,828,565
Accrual benefit obligation	<u>(229,948,000)</u>	<u>(208,772,000)</u>
Surplus	<u>57,605,713</u>	<u>58,056,565</u>

In addition, the Plan was actuarially valued at December 31, 2015 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 \$57.6 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 \$48.2 million.

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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, 2016.

