

FINANCIAL STATEMENTS
For
CANADIAN FORCES PERSONNEL ASSISTANCE FUND
For year ended
DECEMBER 31, 2013

INDEPENDENT AUDITOR'S REPORT

To the Non-Public Property Board

We have audited the accompanying financial statements of the Canadian Forces Personnel Assistance Fund, which comprise the statement of financial position as at December 31, 2013, and the statements of revenue and expenses and fund balance 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 Canadian Forces Personnel Assistance Fund as at December 31, 2013, 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 PERSONNEL ASSISTANCE FUND

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	\$ 4,264,321	\$ 3,142,350
Contributions and other receivables	19,764	34,817
Current portion of self-improvement loans receivable (note 4)	4,765,175	5,515,543
Current portion of distress loans receivable (note 4)	756,598	680,478
Current portion of education loans receivable (note 4)	<u>1,584,258</u>	<u>1,758,929</u>
	<u>11,390,116</u>	<u>11,132,117</u>
SELF-IMPROVEMENT LOANS RECEIVABLE (note 4)	2,103,826	2,229,022
DISTRESS LOANS RECEIVABLE (note 4)	1,251,450	881,299
EDUCATION LOANS RECEIVABLE (note 4)	<u>2,017,284</u>	<u>2,324,325</u>
	<u>5,372,560</u>	<u>5,434,646</u>
TRUST ASSETS		
Deposit with Canadian Forces Central Fund (note 5)	<u>26,044</u>	<u>37,587</u>
	<u>\$ 16,788,720</u>	<u>\$ 16,604,350</u>
<u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 5,796	\$ 5,195
TRUST LIABILITIES (note 5)	<u>26,044</u>	<u>37,587</u>
	31,840	42,782
FUND BALANCE	<u>16,756,880</u>	<u>16,561,568</u>
	<u>\$ 16,788,720</u>	<u>\$ 16,604,350</u>

Approved:

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

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF REVENUE AND EXPENSE AND FUND BALANCE
YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
Revenue		
Interest on deposits	\$ 116,990	\$ 80,328
Contributions from levies	265,659	271,785
Interest on loans receivable	557,828	617,090
Donations	<u>38,316</u>	<u>17,192</u>
	<u>978,793</u>	<u>986,395</u>
Expenses		
Salaries and employee benefits	387,144	356,902
Grants	221,737	232,872
Bad debts - net of recoveries	165,976	356,063
Amortization	-	406
Miscellaneous	<u>8,624</u>	<u>11,487</u>
	<u>783,481</u>	<u>957,730</u>
Net revenue	195,312	28,665
Fund balance at beginning of year	<u>16,561,568</u>	<u>16,532,903</u>
Fund balance at end of year	<u>\$ 16,756,880</u>	<u>\$ 16,561,568</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue	\$ 195,312	\$ 28,665
Items not affecting cash		
Loans written off	95,695	185,348
Amortization	<u>-</u>	<u>406</u>
	291,007	214,419
Changes in level of:		
Contributions and other receivables	(15,053)	(18,301)
Accounts payable and accrued liabilities	601	(7,231)
Trust liabilities	<u>(11,543)</u>	<u>(3,068)</u>
	<u>265,012</u>	<u>185,819</u>
Investing activities		
Self-improvement loans advanced	(6,598,568)	(7,509,472)
Distress loans advanced	(1,464,759)	(888,875)
Education loans advanced	(1,511,000)	(1,889,200)
Repayment of self-improvement loans	7,338,370	8,439,137
Repayment of distress loans	1,103,498	1,055,417
Repayment of education loans	<u>1,977,875</u>	<u>2,093,042</u>
	<u>845,416</u>	<u>1,300,049</u>
INCREASE IN CASH	1,110,428	1,485,868
CASH AND DEPOSITS AT BEGINNING OF YEAR	<u>3,179,937</u>	<u>1,694,069</u>
CASH AND DEPOSITS AT END OF YEAR	<u>\$ 4,290,365</u>	<u>\$ 3,179,937</u>
<hr/>		
Cash and deposits consist of:		
Deposits with Canadian Forces Central Fund		
- operating fund	\$ 4,264,321	\$ 3,142,350
- trust fund	<u>26,044</u>	<u>37,587</u>
	<u>\$ 4,290,365</u>	<u>\$ 3,179,937</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

1. AUTHORITY, ORGANIZATION AND PURPOSE

The Canadian Forces Personnel Assistance Fund (CFPAF) operates as a charitable organization and 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 Chief of the Defence Staff 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.

CFPAF is registered with the Canada Revenue Agency as a charitable organization and is exempt from paying income tax under Part I of 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.

Financial instruments

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

All other financial instruments are measured at amortized cost.

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.

Contributed services

The Canadian Forces Morale and Welfare Services is an entity also under the authority of the Chief of Defence Staff. This entity 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 the CFPAF. Because of the difficulty of determining the fair value of these amounts, contributed services are not recognized in the financial statements.

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

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 periods. Actual results could differ from these estimates, the impact of which would be recorded in future periods.

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.

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 \$475,000 (2012 - \$489,000) 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.

i) *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.

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2013

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - Cont'd.

Market risk - Cont'd.

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.

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.

iii) 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.

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:

	<u>Self-Improvement</u>		<u>Distress</u>		<u>Education</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Total loans receivable	\$ 7,066,001	\$ 7,924,565	\$ 2,191,048	\$ 1,763,777	\$ 3,696,542	\$ 4,190,254
Allowance for doubtful accounts	<u>(197,000)</u>	<u>(180,000)</u>	<u>(183,000)</u>	<u>(202,000)</u>	<u>(95,000)</u>	<u>(107,000)</u>
Current portion	<u>6,869,001</u>	<u>7,744,565</u>	<u>2,008,048</u>	<u>1,561,777</u>	<u>3,601,542</u>	<u>4,083,254</u>
	<u>4,765,175</u>	<u>5,515,543</u>	<u>756,598</u>	<u>680,478</u>	<u>1,584,258</u>	<u>1,758,929</u>
Long-term portion	<u>\$ 2,103,826</u>	<u>\$ 2,229,022</u>	<u>\$ 1,251,450</u>	<u>\$ 881,299</u>	<u>\$ 2,017,284</u>	<u>\$ 2,324,325</u>

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2013

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.

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 endowment 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:

	<u>Distress Trust</u>	<u>Corporal Ronald MacDonald Memorial Trust Fund</u>	<u>2013 Total</u>	<u>2012 Total</u>
Balance at beginning of year	\$ 15,704	\$ 21,883	\$ 37,587	\$ 40,655
Deposits	201,920	-	201,920	128,104
Interest received	-	497	497	488
Disbursements	<u>(213,960)</u>	<u>-</u>	<u>(213,960)</u>	<u>(131,660)</u>
	<u>\$ 3,664</u>	<u>\$ 22,380</u>	<u>\$ 26,044</u>	<u>\$ 37,587</u>

6. PENSION PLAN

Substantially all CFPAF 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 CFPAF for the year ended December 31, 2013 amounted to \$23,385 (2012 - \$20,905) and are included in salaries and employee benefits on the statement of revenue and expense.

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>