

Canadian Forces Central Fund

Financial statements

March 31, 2022



Independent auditor's report

To the Members of the Non-Public Property Oversight and Advisory Board of
Canadian Forces Central Fund

Opinion

We have audited the accompanying financial statements of **Canadian Forces Central Fund** [the "Organization"], which comprise the statement of financial position as at March 31, 2022 and the statement of operations and changes in net assets and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Organization in accordance with ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst + Young LLP

Ottawa, Canada
October 28, 2022

Chartered Professional Accountants
Licensed Public Accountants



Canadian Forces Central Fund

Statement of financial position

As at March 31

	2022	2021
	\$	\$
Assets		
Current		
Cash <i>[note 4]</i>	14,637,151	16,454,879
Accrued interest and dividend receivable <i>[note 7]</i>	173,552	183,737
Accounts receivable <i>[note 5]</i>	104,849,103	84,505,448
Current portion of project loans receivable <i>[note 6]</i>	3,099,672	2,921,804
Prepaid expenses	109,162	93,605
Total current assets	122,868,640	104,159,473
Project loans receivable <i>[note 6]</i>	37,533,035	38,351,194
Portfolio investments <i>[note 7]</i>	208,222,313	195,411,244
Equity investments <i>[note 8]</i>	18,117,500	18,329,542
	386,741,488	356,251,453
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities <i>[note 5]</i>	66,520,155	41,970,156
Total current liabilities	66,520,155	41,970,156
Trust liabilities <i>[note 9]</i>	159,543,900	159,564,393
Total liabilities	226,064,055	201,534,549
Net assets	160,677,433	154,716,904
	386,741,488	356,251,453

See accompanying notes

Approved on behalf of the Non-Public Property Board:



Julie Peckham
Chief Financial Officer

Canadian Forces Central Fund

Statement of operations and changes in net assets

Year ended March 31

	2022	2021
	\$	\$
Revenue		
Dividends and interest	5,613,454	4,944,357
Realized gains on portfolio investments	8,729,106	7,218,067
Unrealized gains (losses) on portfolio investments	(1,541,676)	23,868,926
Interest on project loans receivable	1,622,516	1,698,221
Earnings (loss) from Queensway Corporate Campus <i>[note 8]</i>	224,372	(828,548)
Loss from Michael Street Property <i>[note 8]</i>	(436,414)	(423,298)
Re-insurance guarantee fee <i>[note 10]</i>	250,000	250,000
CANEX credit plan administration fees <i>[note 11]</i>	689,129	671,241
Other	96,451	12,164
	15,246,938	37,411,130
Expenses		
CFCF management fee	420,816	436,350
Interest to bases/wings/funds/messes and trusts <i>[note 11]</i>	6,555,725	5,262,075
CFMWS user fees for services <i>[note 11]</i>	350,000	350,000
Investment services	469,872	414,061
Other	363,404	271,815
	8,159,817	6,734,301
Excess of revenue over expenses before the undernoted	7,087,121	30,676,829
CFCF contributions <i>[note 11]</i>	(802,477)	—
Contribution to Wainwright Community Centre	(324,115)	(2,655,502)
Excess of revenue over expenses for the year	5,960,529	28,021,327
Net assets, beginning of year	154,716,904	126,695,577
Net assets, end of year	160,677,433	154,716,904

See accompanying notes

Canadian Forces Central Fund

Statement of cash flows

Year ended March 31

	2022	2021
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	5,960,529	28,021,327
Add (deduct) items not affecting cash		
Change in fair value of investments	(7,187,430)	(31,086,993)
Loss (earnings) from Queensway Corporate Campus	(224,372)	828,548
Loss from Michael Street Property	436,414	423,298
Write-off of project loans	316,166	259,755
Changes in non-cash working capital		
Accrued interest and dividend receivable	10,185	38,480
Accounts receivable	(20,343,655)	445,988
Prepaid expenses	(15,557)	39,001
Accounts payable and accrued liabilities	24,549,999	7,763,813
Trust liabilities	(20,493)	12,871,362
Cash provided by operating activities	3,481,786	19,604,579
Investing activities		
Acquisition of portfolio investments	(60,443,086)	(80,828,784)
Proceeds from disposal of portfolio investments	54,819,447	75,845,946
New project loans issued balances related to operations	(2,653,105)	(344,334)
Principal repayment of project loans	2,977,230	3,126,322
Cash used in investing activities	(5,299,514)	(2,200,850)
Net increased (decrease) in cash during the year	(1,817,728)	17,403,729
Cash, beginning of year	16,454,879	(948,850)
Cash, end of year	14,637,151	16,454,879

See accompanying notes

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

1. Nature of operations

Canadian Forces Central Fund ["CFCF" or the "Organization"] was established by the Chief of the Defence Staff ["CDS"] on February 1, 1968, under Section 2 and Sections 38 to 41 of the *National Defence Act*, to provide banking services to units and trusts from Non-Public funds, and financial assistance to units in establishing and improving messes and recreational and social facilities for the benefit of Canadian Forces personnel and their dependants.

Non-Public Property ["NPP"], as defined under the *National Defence Act*, consists of money and property contributed by Canadian Forces members. The Organization operates under the authority of the CDS in his NPP capacity.

In common with other Non-Public Funds, CFCF is exempt from paying income tax under Part I of the *Income Tax Act* (Canada).

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.

Cash and bank indebtedness

Cash consists of balances with banks, cash in the broker accounts and short-term investments with a short maturity of approximately three months or less from the date of purchase unless they are held for investment rather than liquidity purposes, in which case they are classified as investments.

Portfolio and equity investments

Portfolio investments consist of treasury bills, fixed income pooled funds, Canadian and international equities, and infrastructure and real estate pooled funds. Portfolio investments are measured at fair value, determined by reference to published price quotations in an active market at year-end. Changes in fair value are recognized in the statement of operations for the year.

Investments in Queensway Corporate Campus ["QCC"] and Michael Street Property are accounted for using the equity method. The excess of revenue over expenses of these investments are reflected in the statement of operations of CFCF during the year the excess or deficiency occurs, either increasing or decreasing the value of the investment, respectively.

Revenue recognition

Dividends, interest, re-insurance guarantee fee and the CANEX credit plan administration fees are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

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 the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Management makes estimates in determining the estimated net realizable value of accounts receivable, project loans receivable and the amount of accrued liabilities. Actual results could differ from those estimates. The estimates are reviewed annually and, as adjustments become necessary, they are recognized in the financial statements in the year they become known.

Financial instruments

CFCF initially measures its financial assets and financial liabilities, issued or assumed in an arm's length transaction at fair value. Related party debt or equity instruments that are quoted in an active market, debt instruments with observable inputs that are significant to the determination of their fair value, and derivative instruments are also initially recorded at fair value.

Related party financial instruments that have repayment terms are initially recorded at cost, representing the undiscounted cash flows of that instrument, excluding interest and dividend payments. Related party financial instruments that do not have repayment terms are recorded at cost, determined using the consideration transferred or received by CFCF. If the consideration transferred or received has repayment terms, then the cost is determined using the undiscounted cash flows, excluding interest and dividend payments, of the financial instrument transferred as consideration. If, however, the consideration transferred is an asset or liability that does not have repayment terms, the cost is initially recognized at the carrying or exchange amount of the consideration transferred or received, depending on the circumstances. The exchange amount is used when the transaction is in the normal course of operations or the transaction is not in the normal course of operations but has commercial substance, the change in ownership interest in the related financial item transferred is substantive and the amount of consideration transferred or received is established and agreed to by the related parties and is supported by independent evidence. Otherwise, the carrying amount of the consideration transferred or received is used as the cost of the related party financial instrument.

CFCF subsequently measures its financial assets and financial liabilities, including related party financial instruments, at amortized cost, with the exception of portfolio investments, which are subsequently measured at fair value.

Financial assets subsequently measured at amortized cost are tested for impairment when there are indicators of possible impairment. Any impairment loss is recognized in excess of revenue over expenses. The previously recognized impairment loss may subsequently be reversed to a maximum of the amortized cost that would have been reported at the date of the reversal had the impairment not been recognized previously.

The carrying amount of the financial asset or liability is adjusted by the transaction costs, which are recognized in excess of revenue over expenses using the straight-line method.

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

3. Change in accounting policy

Financial instruments in a related party transaction, risk disclosure and other amendments

Effective April 1, 2021, CFCF adopted the amendments to Section 3856 of Part II of the *CPA Canada Handbook – Accounting, Financial Instruments*, [“Section 3856” or the “standard”] issued by the Canadian Accounting Standards Board. Under the amended standard, the measurement of related party financial instruments is now incorporated into Section 3856 as opposed to Section 3840, *Related Party Transactions* [“Section 3840”].

CFCF adopted the amendments to Section 3856 retrospectively. There was no impact of the adoption of the amendments to Section 3856 on the financial statements of CFCF as at and for the year ended March 31, 2022.

4. Cash

CFCF maintains cash in its consolidated bank account on behalf of other funds, trusts and units. The interest earned on such funds is recorded as revenue of CFCF. CFCF pays the respective funds, trusts and units for cash managed on their behalf. In fiscal 2022, similar to 2021, base/wing/unit funds, messes and museums received a fixed 3% interest. Trust accounts continue to receive varying percentages based on cash balances and options selected. These amounts are recorded as interest expense in the statement of operations and changes in net assets.

CFCF’s main banking provider is Bank of Montreal, however it also holds bank accounts with other financial institutions. Bank accounts in an overdraft position which do not have a legally enforceable right of offset with other cash balances are reported as bank indebtedness on the statement of financial position.

CFCF has an operating credit facility of \$20 million, which bears interest at the bank’s prime [2021 – \$20M at bank’s prime].

5. Accounts receivable and account payable and accrued liabilities

CFCF assumes and manages the accounts receivable and accounts payable and accrued liabilities of all activities undertaken by Canadian Forces Morale and Welfare Services [“CFMWS”], base/wing/unit funds, messes and museums, the Canadian Forces Exchange System [“CANEX”], Service Income Security Insurance Financial Services [“SISIP Financial”] and specialty interest activities.

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

Accounts receivable comprise of the following:

	2022 \$	2021 \$
NPP balances		
CANEX	51,396,390	54,741,331
CFMWS	45,780,517	21,563,121
Canadian Armed Forces Charitable Fund ["CAFCF"]	137,730	121,093
Strathcona Trust	4,105	—
SISIP Financial	47,434	58,353
Base/wing/unit funds, messes, museums	3,433,874	2,922,418
	100,800,050	79,406,316
Trade and other receivables	4,607,593	5,623,293
	105,407,643	85,029,609
Less allowance for doubtful accounts	558,540	524,161
	104,849,103	84,505,448

In regard to the accounts receivable assumed on behalf of CANEX, approximately \$49 million [2021 – approximately \$52.4 million] relates to CANEX's interest-free credit plans that are available for eligible patrons with the balance being for trade receivables. There are varying repayment terms in regard to the CANEX credit plans ranging from one-year to three-year plans.

Included in accounts receivable are net government sales tax remittances of \$387,927 [2021 – \$644,122].

Accounts payable and accrued liabilities comprise of the following:

	2022 \$	2021 \$
NPP balances		
CANEX	4,773,743	5,588,080
CFMWS	3,123,010	5,179,370
CAFCF	121,510	39,463
SISIP Financial	45,023,902	19,625,429
Base/wing/unit funds, messes, museums	1,905,220	1,401,656
	54,947,385	31,833,998
Trade and other payables	11,572,770	10,136,158
	66,520,155	41,970,156

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

6. Project loans receivable

CFCF provides unsecured loans to NPP entities related to military bases and ships to share in the financing of capital projects. CFCF provides interest-free working capital loans to units on deployed operations for the duration of the deployment. Repayment terms vary from three to 20 years.

	2022 \$	2021 \$
Interest-bearing loans [at 4%]		
CANEX	40,223,241	40,425,009
Other	409,466	837,686
Relocation	—	10,303
	40,632,707	41,272,998
Less current portion	3,099,672	2,921,804
	37,533,035	38,351,194

7. Portfolio investments

CFCF's surplus assets are held in a segregated fund. The fund value is presented at fair value and any unrealized gains or losses are recorded in the statement of operations in the period in which the change occurs. The segregated assets are invested in accordance with the guidelines set out in the investment policy. The investment policy has set a targeted investment mix of cash and fixed income 20%–55%, Canadian equity 6%–26%, Global equities 22%–42%, and infrastructure, alternatives and real estate 0%–20%. The actual allocation of funds is as follows:

	2022		2021	
	Fair value \$	Cost \$	Fair value \$	Cost \$
Accrued interest and dividend receivable	173,552	173,552	183,737	183,737
Portfolio investments	208,222,313	183,121,484	195,411,244	168,768,739
	208,395,865	183,295,036	195,594,981	168,952,476

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

	2022		2021	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Cash	4,714,814	4,716,092	6,253,563	6,253,105
Canadian bond fund	71,398,890	78,405,864	62,653,529	64,340,784
Canadian equities	41,751,645	31,513,128	41,464,437	31,819,291
International equities	56,930,420	37,481,041	55,688,527	36,146,495
Real estate	22,232,462	21,079,679	19,983,384	20,672,636
Infrastructure and alternatives	11,367,634	10,099,232	9,551,541	9,720,165
	208,395,865	183,295,036	195,594,981	168,952,476

Long-term investments of \$34.8 million [2021 – \$33.6 million] are exposed to fluctuations in the US dollar.

The portfolio investments are externally managed by CIBC Asset Management, with CIBC Mellon acting as custodian.

The cash comprise short-term investments including cash and fixed income securities with maturities of 12 months or less held by investment managers for investment purposes.

The Canadian bond fund uses a laddered portfolio with varying terms to maturity to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations.

Equities are diversified in different business sectors and corporation sizes.

8. Equity investments

Equity investments comprise of the following:

	2022	2021
	\$	\$
Equity in Queensway Corporate Campus	14,419,525	14,195,153
Equity in Michael Street Property	3,697,975	4,134,389
	18,117,500	18,329,542

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

Queensway Corporate Campus

The Queensway Corporate Campus [the "Campus"] was acquired by CFCF on December 24, 2009. The Campus encompasses the real estate located at 4200 Labelle Street, 4210 Labelle Street and 1223 Michael Street in Ottawa, Ontario. In common with other Non-Public funds, the Campus is exempt from paying income tax under Part I of the *Income Tax Act* (Canada). The Campus is externally managed by the property management firm, Inside Edge Properties.

	2022	2021
	\$	\$
Total assets	41,493,352	43,015,741
Total liabilities	27,073,826	28,820,588
Net assets	14,419,526	14,195,153
	2022	2021
	\$	\$
Rental revenue	8,447,948	9,021,570
Rental expenses	8,223,575	9,850,118
Excess (deficiency) of revenue over expenses	224,373	(828,548)
	2022	2021
	\$	\$
Cash flows provided by operating activities	2,876,051	4,212,365
Cash flows used in investing activities	(1,797,557)	(1,536,625)
Cash flows used in financing activities	(1,440,436)	(1,397,998)
	(361,942)	1,277,742

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

Michael Street Property

This property is located at 1209 Michael Street in Ottawa, Ontario acquired on December 24, 2009. In common with other Non-Public funds, the property is exempt from paying income tax under Part I of the *Income Tax Act* (Canada). The property is externally managed by the property management firm, Inside Edge Properties.

	2022 \$	2021 \$
Total assets	3,897,848	4,150,838
Total liabilities	199,873	16,449
Net assets	3,697,975	4,134,389
	2022 \$	2021 \$
Rental revenue	77,295	84,462
Rental expense	513,709	507,760
Deficiency of revenue over expenses	(436,414)	(423,298)
	2022 \$	2021 \$
Cash flows used in operating activities	(110,122)	(227,178)
Cash flows provided by (used in) investing activities	34,364	(43,169)
	(75,758)	(270,347)

9. Trust liabilities

CFCF maintains assets and liabilities on behalf of the following related parties [note 10]:

	2022 \$	2021 \$
Base/wing/unit funds, messes	118,425,031	106,650,332
CANEX	8,341,303	7,565,786
CFMWS	3,150,371	(13,372,050)
CAFCE	18,971,149	19,611,282
Museums, Regimental Funds and alike [RMC Club]	33,535,837	22,482,322
NPF pension/benefits	14,714,874	26,164,959
Queensway Corporate Campus/Michael Street Property	2,460,179	4,775,883
SISIP Financial	(40,054,844)	(14,314,121)
	159,543,900	159,564,393

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

CFCF pays interest on net trust liabilities to the units and funds based on the bank's prime rate or CFCF's investment rate of return.

10. Re-insurance guarantee fee

CFCF is contingently liable to a maximum of \$100 million as part of the SISIP Financial re-insurance coverage for Canadian wartime efforts with the annual fee being calculated at 0.25% of the amount guaranteed. This fee has been recorded at its exchange amount, which is the amount agreed to by the related parties involved *[note 11]*.

11. Related party transactions

Among the other entities that operate under the authority of the CDS in his NPP capacity are CFMWS, CANEX, SISIP Financial, CAFCF, QCC, Michael Street Property, NPF Employee Group Insurance Plan and NPF Employee Group Pension Plan.

CFCF receives administration fees of \$689,129 [2021 – \$671,241] related to credit plans purchased from CANEX *[note 5]*.

CFCF paid interest of \$6,555,725 [2021 – \$5,262,075] to NPP entities [including base/wing/unit funds, messes, museums and trusts] that hold shares in the internal consolidated bank account administered by CFCF.

Expenses include user fees of \$350,000 [2021 – \$350,000] paid for services received from CFMWS in relation to accounting.

During the year, CFCF contributed \$802,477 [2021 – nil] to CFMWS to support NPP morale and welfare services, programs and governance.

The aforementioned related party transactions have repayment terms and on initial recognition were recorded at costs, representing the undiscounted cash flows of that instrument, excluding interest payments.

12. Contingent liabilities

CFCF, along with CANEX and SISIP Financial *[note 11]*, has also provided a letter of acknowledgement to the Bank of Montreal to fund any shortfall in the long-term debt payments to be made by QCC. As at March 31, 2022, this long-term debt amounted to \$25,445,289 [2021 – \$26,885,725].

13. Financial instruments and risk management

CFCF is exposed to various risks through its financial instruments. The following analysis provides a measure of CFCF's risk exposure as at the statement of financial position date:

Foreign currency risk

CFCF is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because of fluctuations in the relative value of foreign currencies against the Canadian dollar.

Canadian Forces Central Fund

Notes to financial statements

March 31, 2022

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. CFCF is exposed to credit risk on its project loans receivable and short-term investments, including interest and dividends receivable.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. CFCF is exposed to interest rate risk on its fixed-interest short-term financial instruments, which include cash and cash equivalents and Canadian bond fund.

Market risk

Market risk arises as a result of trading in equity the portfolio investments. Fluctuations in the market expose CFCF to a risk of loss.

Liquidity risk

Liquidity risk is the risk CFCF will have difficulty in meeting obligations associated with financial liabilities, which include accounts payable and accrued liabilities and trust liabilities. Prudent management of liquidity risk implies retaining a sufficient level of liquidities and arranging for appropriate credit facilities. CFCF believes that its recurring financial resources are adequate to cover all its expenditures.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices [other than those arising from interest rate risk or currency risk], whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Management believes that no material other price risk factors exist.