

# Canadian Forces Central Fund

Financial statements

March 31, 2023



# 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 financial statements of **Canadian Forces Central Fund** [the "Organization"], which comprise the statement of financial position as at March 31, 2023 and the statement of operations and changes in net assets and 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, 2023, 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 scepticism 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*

Chartered Professional Accountants  
Licensed Public Accountants

Ottawa, Canada  
February 20, 2024



# Canadian Forces Central Fund

## Statement of financial position

As at March 31

	2023	2022
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash <i>[note 3]</i>	2,868,206	14,637,151
Accounts receivable <i>[note 4]</i>	112,916,424	104,849,103
Current portion of project loans receivable <i>[note 5]</i>	3,338,217	3,099,672
Accrued interest and dividend receivable <i>[note 6]</i>	358,396	173,552
Prepaid expenses	701,483	109,162
<b>Total current assets</b>	<b>120,182,726</b>	122,868,640
Project loans receivable <i>[note 5]</i>	37,347,485	37,533,035
Portfolio investments <i>[note 6]</i>	200,727,934	208,222,313
Equity investments <i>[note 7]</i>	18,098,605	18,117,500
	<b>376,356,750</b>	386,741,488
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities <i>[note 4]</i>	70,623,924	66,520,155
<b>Total current liabilities</b>	<b>70,623,924</b>	66,520,155
Trust liabilities <i>[note 8]</i>	152,716,144	159,543,900
<b>Total liabilities</b>	<b>223,340,068</b>	226,064,055
<b>Net assets</b>	<b>153,016,682</b>	160,677,433
	<b>376,356,750</b>	386,741,488

See accompanying notes

Approved on behalf of the Non-Public Property Oversight & Advisory Board:

  
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Michel Landry  
Acting Chief Financial Officer

## Canadian Forces Central Fund

### Statement of operations and changes in net assets

Year ended March 31

	2023	2022
	\$	\$
<b>Revenue</b>		
Dividends and interest	5,330,277	5,613,454
Realized gains (losses) on portfolio investments	(3,359,449)	8,729,106
Unrealized losses on portfolio investments	(9,280,363)	(1,541,676)
Interest on project loans receivable	1,458,351	1,622,516
Earnings from Queensway Corporate Campus <i>[note 7]</i>	10,866	224,372
Loss from Michael Street Property <i>[note 7]</i>	(29,761)	(436,414)
CANEX credit plan administration fees <i>[note 9]</i>	818,071	689,129
Consolidated Insurance Program Premiums	739,692	—
Other	309,264	346,451
	<b>(4,003,052)</b>	<b>15,246,938</b>
<b>Expenses</b>		
CFCF management	405,801	420,816
Consolidated Insurance Program Claims <i>[note 11]</i>	3,363,808	—
Interest to bases/wings/funds/messes and trusts <i>[note 9]</i>	1,262,482	6,555,725
CFMWS user fees for services <i>[note 9]</i>	350,000	350,000
Investment services	464,512	469,872
Other	270,906	363,404
	<b>6,117,509</b>	<b>8,159,817</b>
Excess (deficiency) of revenue over expenses before the undernoted CFCF contributions <i>[note 9]</i>	<b>(10,120,561)</b>	7,087,121
Contribution to Wainwright Community Centre	(56,513)	(324,115)
<b>Excess (deficiency) of revenue over expenses for the year</b>	<b>(10,177,074)</b>	<b>5,960,529</b>
Net assets, beginning of year	160,677,433	154,716,904
Capital transfer – Consolidated Insurance Program <i>[note 11]</i>	2,516,323	—
<b>Net assets, end of year</b>	<b>153,016,682</b>	<b>160,677,433</b>

See accompanying notes

## Canadian Forces Central Fund

### Statement of cash flows

Year ended March 31

	2023	2022
	\$	\$
<b>Operating activities</b>		
Excess (deficiency) of revenue over expenses for the year	(10,177,074)	5,960,529
Add (deduct) items not affecting cash		
Change in fair value of investments	12,639,812	(7,187,430)
Earnings from Queensway Corporate Campus [note 7]	(10,866)	(224,372)
Loss from Michael Street Property [note 7]	29,761	436,414
Write-off of project loans	463,313	316,166
Changes in non-cash working capital balances related to operations		
Accrued interest and dividend receivable	(184,844)	10,185
Accounts receivable	(8,067,321)	(20,343,655)
Prepaid expenses	(592,321)	(15,557)
Accounts payable and accrued liabilities	4,103,769	24,549,999
Trust liabilities	(6,827,756)	(20,493)
<b>Cash provided by (used in) operating activities</b>	<b>(8,623,527)</b>	<b>3,481,786</b>
<b>Investing activities</b>		
Acquisition of portfolio investments	(343,223,320)	(60,443,086)
Proceeds from disposal of portfolio investments	338,077,887	54,819,447
New project loans issued balances related to operations	(3,861,543)	(2,653,105)
Principal repayment of project loans	3,345,235	2,977,230
<b>Cash used in investing activities</b>	<b>(5,661,741)</b>	<b>(5,299,514)</b>
<b>Financing activities</b>		
Capital transfer – Consolidated Insurance Program [note 11]	2,516,323	—
<b>Cash provided by financing activities</b>	<b>2,516,323</b>	<b>—</b>
<b>Net decrease in cash during the year</b>	<b>(11,768,945)</b>	<b>(1,817,728)</b>
Cash, beginning of year	14,637,151	16,454,879
<b>Cash, end of year</b>	<b>2,868,206</b>	<b>14,637,151</b>

See accompanying notes

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2023

#### 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 dependents.

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

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 and changes in net assets for the year.

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

##### Revenue recognition

Dividends, interest, and the Canadian Forces Exchange System ["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, 2023

#### 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 (deficiency) of revenue over expenses using the straight-line method.

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2023

#### **Change in accounting policy**

Effective April 1, 2022, CFCF adopted the amendments to Section 3400 of Part II of the *CPA Canada Handbook – Accounting, Revenue*.

The amended standard provides additional guidance on determining whether an arrangement consists of a group of contracts or a single contract, identifying the units of account in an arrangement, allocating consideration in multiple-element arrangements to separate units of account on a relative stand-alone selling price basis and methods for estimating the stand-alone selling price when it is not directly observable, and accounting for revenue under the percentage of completion method.

CFCF adopted the amendments to Section 3400 retrospectively. The adoption of these amendments had no impact on CFCF's financial statements.

#### **3. 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 2023, CANEX, base/wing/unit funds, messes and museums received zero interest due to CFCF's investment loss [2022 – 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 that 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 rate [2022 – \$20 million at the bank's prime rate].

#### **4. Accounts receivable, accounts payable and accrued liabilities**

CFCF assumes and manages the accounts receivable, 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 CANEX, Service Income Security Insurance Financial Services ["SISIP Financial"] and specialty interest activities.

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2023

Accounts receivable are comprised of the following:

	<b>2023</b>	<b>2022</b>
	\$	\$
NPP balances		
CANEX	<b>53,737,138</b>	51,396,390
CFMWS	<b>49,502,190</b>	45,780,517
Canadian Armed Forces Charitable Fund ["CAF CF"]	<b>517,046</b>	137,730
Strathcona Trust	<b>4,545</b>	4,105
SISIP Financial	<b>39,744</b>	47,434
Base/wing/unit funds, messes, museums	<b>4,123,845</b>	3,433,874
	<b>107,924,508</b>	100,800,050
Trade and other receivables	<b>5,504,254</b>	4,607,593
	<b>113,428,762</b>	105,407,643
Less allowance for doubtful accounts	<b>(512,338)</b>	(558,540)
	<b>112,916,424</b>	104,849,103

In regard to the accounts receivable assumed on behalf of CANEX, approximately \$51 million [2022 – approximately \$49 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 \$750,866 [2022 – \$387,927].

Accounts payable and accrued liabilities are comprised of the following:

	<b>2023</b>	<b>2022</b>
	\$	\$
NPP balances		
CANEX	<b>3,996,622</b>	4,773,743
CFMWS	<b>5,973,803</b>	3,123,010
CAF CF	<b>119,867</b>	121,510
SISIP Financial	<b>41,560,150</b>	45,023,902
Base/wing/unit funds, messes, museums	<b>2,212,378</b>	1,905,220
	<b>53,862,820</b>	54,947,385
Trade and other payables	<b>16,761,104</b>	11,572,770
	<b>70,623,924</b>	66,520,155

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2023

#### 5. 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.

	2023 \$	2022 \$
Interest-bearing loans [at 4%]		
CANEX	36,717,488	39,805,115
QCC	2,966,570	—
Other	976,955	827,592
Relocation	24,689	—
	<u>40,685,702</u>	<u>40,632,707</u>
Less current portion	<u>(3,338,217)</u>	<u>(3,099,672)</u>
	<u>37,347,485</u>	<u>37,533,035</u>

#### 6. 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 and changes in net assets 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%–40%. The actual allocation of funds is as follows:

	2023		2022	
	Fair value \$	Cost \$	Fair value \$	Cost \$
Accrued interest and dividend receivable	358,396	360,193	173,552	173,552
Portfolio investments	<u>200,727,934</u>	<u>184,905,672</u>	208,222,313	183,121,484
	<u>201,086,330</u>	<u>185,265,865</u>	208,395,865	183,295,036

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2023

	2023		2022	
	Fair value \$	Cost \$	Fair value \$	Cost \$
Cash	7,036,471	7,038,288	4,714,814	4,716,092
Canadian bond fund	51,899,724	53,797,274	71,398,890	78,405,864
Canadian equities	61,913,629	57,989,626	41,751,645	31,513,128
International equities	50,103,656	34,926,789	56,930,420	37,481,041
Real estate	19,128,528	21,899,723	22,232,462	21,079,679
Infrastructure and alternatives	11,004,322	9,614,165	11,367,634	10,099,232
	<b>201,086,330</b>	<b>185,265,865</b>	208,395,865	183,295,036

Long-term investments of \$29 million [2022 – \$34.8 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 comprises 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.

#### 7. Equity investments

Equity investments comprise of the following:

	2023 \$	2022 \$
Equity in QCC	14,430,391	14,419,525
Equity in Michael Street Property	3,668,214	3,697,975
	<b>18,098,605</b>	18,117,500

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2023

#### Queensway Corporate Campus

QCC was acquired by CFCF on December 24, 2009. QCC 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, QCC is exempt from paying income tax under Part I of the *Income Tax Act* (Canada). QCC is externally managed by the property management firm, Inside Edge Properties.

	2023	2022
	\$	\$
Total assets	37,576,877	41,493,352
Total liabilities	23,146,486	27,073,826
<b>Net assets</b>	<b>14,430,391</b>	<b>14,419,526</b>
	2023	2022
	\$	\$
Rental revenue	8,527,322	8,447,948
Rental expenses	8,516,456	8,223,575
<b>Excess of revenue over expenses</b>	<b>10,866</b>	<b>224,373</b>
	2023	2022
	\$	\$
Cash flows provided by operating activities	3,008,483	2,876,051
Cash flows used in investing activities	(345)	(1,797,557)
Cash flows used in financing activities	(4,570,182)	(1,440,436)
<b>Net decrease in cash during the year</b>	<b>(1,562,044)</b>	<b>(361,942)</b>

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2023

#### Michael Street Property

This property is located at 1209 Michael Street in Ottawa, Ontario and was 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.

	2023 \$	2022 \$
Total assets	3,750,433	3,897,848
Total liabilities	82,219	199,873
<b>Net assets</b>	<b>3,668,214</b>	<b>3,697,975</b>
	2023 \$	2022 \$
Rental revenue	619,546	77,295
Rental expense	649,307	513,709
<b>Deficiency of revenue over expenses</b>	<b>(29,761)</b>	<b>(436,414)</b>
	2023 \$	2022 \$
Cash flows used in operating activities	104,567	(110,122)
Cash flows provided by (used in) investing activities	(121,493)	34,364
<b>Net decrease in cash during the year</b>	<b>(16,926)</b>	<b>(75,758)</b>

#### 8. Trust liabilities

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

	2023 \$	2022 \$
Base/wing/unit funds, messes	119,527,242	118,425,031
CANEX	1,883,650	8,341,303
CFMWS	2,811,550	3,150,371
CAFCE	18,404,852	18,971,149
Museums, Regimental Funds and alike [RMC Club]	34,138,127	33,535,837
NPF pension/benefits	11,160,304	14,714,874
Queensway Corporate Campus/Michael Street Property	1,746,045	2,460,179
SISIP Financial	(36,955,626)	(40,054,844)
	<b>152,716,144</b>	<b>159,543,900</b>

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2023

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.

#### 9. 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 received administration fees of \$818,071 [2022 – \$689,129] related to credit plans purchased from CANEX [note 5].

CFCF paid interest of \$1,262,482 [2022 – \$6,555,725] 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 [2022 – \$350,000] paid for services received from CFMWS in relation to accounting.

During the year, CFCF contributed nil [2022 – \$802,477] to CFMWS to support NPP morale and welfare services, programs and governance.

During the year, CIP transferred from CFMWS and received premiums of \$2,516,322 [2022 – nil] from NPP entities.

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

CFCF provided SISIP Financial with a guarantee up to a maximum of \$100M for which it received a fee of \$250k [0.25% of the guarantee amount] in 2023 [2022 – \$250,000]. CFCF's guarantee ended in 2023.

#### 10. 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:

##### 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.

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.

## Canadian Forces Central Fund

### Notes to financial statements

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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.

#### **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.

#### **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.

#### **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.

#### **11. Capital transfer**

The consolidated insurance program ["CIP"] was moved from CFMWS to CFCF in fiscal year 2023 to better align its purpose and funding source with its reporting entity.