

# Canadian Forces Central Fund

Financial statements

March 31, 2020



# Independent auditor's report

To the Members of the Non-Public Property 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, 2020 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, 2020, 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 audit of the financial statement* 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.

## Other matter – change in auditor

The financial statements of the Organization for the year ended March 31, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on November 25, 2019.

## 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organization to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 26, 2020

Chartered Professional Accountants  
Licensed Public Accountants



## Canadian Forces Central Fund

### Statement of financial position

As at March 31

	2020	2019
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash <i>[note 3]</i>	1,104,906	3,884,837
Accrued interest and dividend receivable <i>[note 6]</i>	222,217	192,102
Accounts receivable <i>[note 4]</i>	84,951,436	80,584,538
Current portion of project loans receivable <i>[note 5]</i>	2,933,274	2,697,339
Prepaid expenses	132,606	687,839
<b>Total current assets</b>	<b>89,344,439</b>	<b>88,046,655</b>
Project loans receivable <i>[note 5]</i>	41,381,467	39,078,064
Portfolio investments <i>[note 6]</i>	159,341,413	178,089,581
Equity investments <i>[note 7]</i>	19,581,388	19,283,966
	<b>309,648,707</b>	<b>324,498,266</b>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Bank indebtedness <i>[note 3]</i>	2,053,756	—
Accounts payable and accrued liabilities <i>[note 4]</i>	35,661,892	20,407,955
	<b>37,715,648</b>	<b>20,407,955</b>
<b>Trust liabilities <i>[note 8]</i></b>	<b>145,237,482</b>	<b>173,475,787</b>
	<b>182,953,130</b>	<b>193,883,742</b>
<b>Net assets</b>	<b>126,695,577</b>	<b>130,614,524</b>

See accompanying notes

Approved on behalf of the Non-Public Property Board:

 Chief Financial Officer

## Canadian Forces Central Fund

### Statement of operations and changes in net assets

Year ended March 31

	2020	2019
	\$	\$
<b>Revenue</b>		
Dividends and interest	5,834,793	4,729,965
Gain on sale of portfolio investments	7,817,149	4,399,750
Unrealized change in fair value of portfolio investments	(15,969,822)	1,186,221
Interest on project loans receivable	1,552,165	1,785,557
Earnings (loss) from Queensway Corporate Campus <i>[note 7]</i>	200,693	121,566
Earnings (loss) from Michael Street Property <i>[note 7]</i>	96,730	(49,951)
Re-insurance guarantee fee <i>[note 9]</i>	250,000	250,000
CANEX credit plan administration fees <i>[note 10]</i>	916,439	886,180
Other	179,780	88,198
	<b>877,927</b>	<b>13,397,486</b>
<b>Expenses</b>		
CFCF management	434,533	681,165
Interest to bases/wings/funds/messes and trusts <i>[note 10]</i>	1,852,271	8,557,669
CFMWS user fees for services <i>[note 10]</i>	350,000	350,000
Investment services	460,558	293,625
Other	204,745	(171,608)
	<b>3,302,107</b>	<b>9,710,851</b>
<b>Excess (deficiency) of revenue over expenses before the undernoted</b>	<b>(2,424,180)</b>	<b>3,686,635</b>
CFCF contributions <i>[note 10]</i>	—	(3,686,635)
Contribution to Wainwright Community Centre	(1,494,767)	—
<b>Deficiency of revenue over expenses for the year</b>	<b>(3,918,947)</b>	<b>—</b>
<b>Net assets – beginning of year</b>	<b>130,614,524</b>	<b>130,614,524</b>
<b>Net assets – end of year</b>	<b>126,695,577</b>	<b>130,614,524</b>

See accompanying notes

## Canadian Forces Central Fund

### Statement of cash flows

Year ended March 31

	2020	2019
	\$	\$
<b>Operating activities</b>		
Deficiency of revenue over expenses for the year	<b>(3,918,947)</b>	—
Items not affecting cash		
Change in fair value of investments	<b>8,152,672</b>	(5,585,970)
Earnings from Queensway Corporate Campus	<b>(200,693)</b>	(121,566)
Loss (earnings) from Michael Street Property	<b>(96,730)</b>	49,951
Write-off of project loans	<b>353,105</b>	373,839
Net change in non-cash working capital		
Accrued interest and dividend receivable	<b>(30,115)</b>	6,557
Accounts receivable	<b>(4,366,898)</b>	(7,955,710)
Prepaid expenses	<b>555,233</b>	930,403
Accounts payable and accrued liabilities	<b>15,253,937</b>	(251,547)
Trust liabilities	<b>(28,238,305)</b>	7,863,531
<b>Cash used in operating activities</b>	<b>(12,536,741)</b>	(4,690,512)
<b>Investing activities</b>		
Acquisition of portfolio investments	<b>(168,216,410)</b>	(162,730,950)
Proceeds from disposal of portfolio investments	<b>178,811,907</b>	157,994,427
New project loans issued	<b>(6,314,369)</b>	(5,900,368)
Principal repayment of project loans	<b>3,421,926</b>	3,319,609
<b>Cash provided by (used in) investing activities</b>	<b>7,703,054</b>	(7,317,282)
<b>Net decrease in cash during the year</b>	<b>(4,833,687)</b>	(12,007,794)
<b>Cash – beginning of year</b>	<b>3,884,837</b>	15,892,631
<b>Cash (bank overdraft) – end of year</b>	<b>(948,850)</b>	3,884,837

See accompanying notes

# Canadian Forces Central Fund

## Notes to financial statements

March 31, 2020

### 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 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 (deficiency) 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 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, 2020

#### 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 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 at fair value. CFCF subsequently measures its financial assets and financial liabilities at amortized cost.

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 (deficiency) 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.

#### 3. Cash and bank indebtedness

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. Bases/wings/funds and messes receive either 3%, the bank's prime rate plus 0.25% or CFCF's investment rate of return less 0.5% for their cash balances in excess of CFCF liabilities, while trust accounts 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 holds numerous bank accounts with different 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 \$10 million, which bears interest at the bank's prime rate plus 0.35% [2019 – plus 0.35%].



## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2020

#### 4. Accounts receivable and account payable and accrued liabilities

As part of the Non-Public Property Board approved Customer Relationship Management Project, 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"], bases/wings/funds/messes, the Canadian Forces Exchange System ["CANEX"], Service Income Security Insurance Financial Services ["SISIP Financial"] and specialty interest activities.

Accounts receivable are comprised of the following:

	2020	2019
	\$	\$
NPP balances <i>[note 10]</i>		
CANEX	61,526,191	61,293,217
CFMWS	14,167,386	10,053,706
Support Our Troops	293,537	326,422
SISIP Financial	22,202	32,750
Bases/wings/funds/messes	3,707,034	3,520,025
	<u>79,716,350</u>	<u>75,226,120</u>
Trade and other receivables	5,822,698	5,946,028
	<u>85,539,048</u>	<u>81,172,148</u>
Less: Allowance for doubtful accounts	587,612	587,610
	<u>84,951,436</u>	<u>80,584,538</u>

In regard to the accounts receivable assumed on behalf of CANEX, approximately \$58.7 million [2019 – approximately \$58.8 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 \$140,313 [2019 – nil].

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2020

Accounts payable and accrued liabilities are comprised of the following:

	2020 \$	2019 \$
NPP balances <i>[note 10]</i>		
CANEX	7,766,752	4,495,489
CFMWS	3,516,994	3,089,275
Support Our Troops	128,258	220,836
SISIP Financial	13,617,199	132,073
Bases/wings/funds/messes	2,271,762	4,891,817
	<u>27,300,965</u>	<u>12,829,490</u>
Trade and other payables	8,360,481	7,578,018
	<u>35,661,446</u>	<u>20,407,508</u>

Included in payables are net government sales tax remittances of nil [2019 – \$43,108].

#### 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.

	2020 \$	2019 \$
Interest-bearing loans [at 4%]		
CANEX	43,754,154	40,239,516
Other	530,695	978,509
Relocation	29,892	47,637
Interest-free loans		
CANEX	—	509,741
	<u>44,314,741</u>	<u>41,775,402</u>
Less: Current portion	2,933,274	2,697,339
	<u>41,381,467</u>	<u>39,078,064</u>

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2020

#### 6. Portfolio investments

	2020		2019	
	Market value \$	Cost \$	Market value \$	Cost \$
Accrued interest and dividend receivable	222,217	222,217	192,102	192,012
Portfolio investments	159,341,413	156,567,835	178,089,581	159,346,273
	<b>159,563,630</b>	<b>156,790,052</b>	178,281,683	159,538,285

  

	2020		2019	
	Market value \$	Cost \$	Market value \$	Cost \$
Cash and cash equivalents	12,809,244	12,809,951	4,957,320	4,957,180
Canadian bond fund	57,612,483	57,161,463	69,131,438	70,181,007
Canadian equities	30,128,149	31,741,694	42,275,618	37,574,188
International equities	37,326,493	28,936,924	51,629,476	36,825,911
Real estate	13,926,296	17,577,058	5,224,089	5,000,000
Infrastructure and alternatives	7,760,965	8,562,962	5,063,742	5,000,000
	<b>159,563,630</b>	<b>156,790,052</b>	178,281,683	159,538,286

\$21.5 million [2019 – \$26.2 million] of CFCF's long-term investments is exposed to fluctuations in the US dollar.

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

	2020 \$	2019 \$
Equity in Queensway Corporate Campus	15,023,701	14,823,008
Equity in Michael Street Property	4,557,687	4,460,958
	<b>19,581,388</b>	19,283,966

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2020

#### 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).

	2020	2019
	\$	\$
Total assets	44,127,341	44,978,466
Total liabilities	29,103,640	30,155,458
Net assets	15,023,701	14,823,008

	2020	2019
	\$	\$
Rental revenue	9,713,111	9,488,823
Rental expenses	9,512,418	9,367,257
Net income for the year	200,693	121,566

	2020	2019
	\$	\$
Cash flows provided by operating activities	6,168,502	716,586
Cash flows provided by (used in) investing activities	(3,992,053)	245,224
Cash flows provided by (used in) financing activities	(1,365,157)	(1,289,469)
	811,292	(327,659)

#### 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 Campus is exempt from paying income tax under Part I of the *Income Tax Act* (Canada).

	2020	2019
	\$	\$
Total assets	4,603,493	4,567,936
Total liabilities	45,806	106,979
Net assets	4,557,687	4,460,957

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2020

	2020	2019
	\$	\$
Rental revenue	668,647	512,995
Rental expense	571,917	562,946
Net revenue (expense) for the year	96,730	(49,951)

  

	2020	2019
	\$	\$
Cash flows provided by (used in) operating activities	171,962	(10,393)
Cash flows provided by (used in) investing activities	—	(118,430)
	171,962	(128,823)

#### 8. Trust liabilities

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

	2020	2019
	\$	\$
Bases/wings/funds/messes	96,947,283	101,471,703
CANEX	7,497,538	14,721,700
CFMWS	(4,548,682)	(2,922,626)
Support Our Troops	20,060,530	19,859,902
Museums, Regimental Funds and alike (RMC Club)	16,683,690	13,042,046
NPF pension/benefits	7,216,157	6,053,264
Queensway Corporate Campus/Michael Street Property	4,383,850	1,612,271
SISIP Financial	(3,002,884)	19,637,527
	145,237,482	173,475,787

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. 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 10]*.

#### 10. Related party transactions

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

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2020

CFCF receives administration fees of \$916,439 [2019 – \$886,180] related to credit plans purchased from CANEX [note 4].

CFCF paid interest of \$1,852,271 [2019 – \$8,557,669] to NPP entities (including bases/wings/funds/messes and trusts) that hold shares in the internal Consolidated Bank Account [“CBA”] administered by CFCF, as outlined in note 3.

Expenses include user fees of \$350,000 [2019 – \$350,000] paid for services received from CFMWS in relation to accounting.

During the year, CFCF contributed nil [2019 – \$3,686,635] to CFMWS to support NPP morale and welfare services, programs and governance.

Related party transactions are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties involved.

#### 11. Contingent liabilities

CFCF, along with CANEX and SISIP Financial [note 10], 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 Queensway Corporate Campus. As at March 31, 2020, this long-term debt amounted to \$28,283,722 [2018 – \$29,648,879].

#### 12. Financial instruments

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.

##### 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.

## Canadian Forces Central Fund

### Notes to financial statements

March 31, 2020

#### **Market risk**

Market risk arises as a result of trading in equity securities and fixed-income securities. 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.

### **13. Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.

### **14. COVID-19 pandemic**

Beginning March 2020, the outbreak of the Coronavirus disease ["COVID-19"] has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak is unknown at this time, nor is the efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions. As a result, the possibility of poor performance of the investment portfolio exists for CFCF, as well as the possibility of lower collection on receivables, however it is not possible to reliably estimate the length and severity of these developments nor the impact on the consolidated financial position and consolidated financial results of CFCF in current and future periods.