

Canadian Forces Central Fund

Financial Statements
March 31, 2019



Independent auditor's report

To the Non-Public Property Board

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Canadian Forces Central Fund (the Fund) as at March 31, 2019 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.

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at March 31, 2019;
- the statement of operations and change in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



In preparing the financial statements, management is responsible for assessing the Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund'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 Fund 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
November 25, 2019

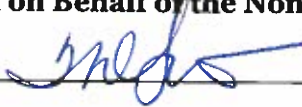
Canadian Forces Central Fund

Statement of Financial Position

As at March 31, 2019

	2019 \$	2018 \$
Assets		
Current assets		
Cash (note 3)	-	15,892,631
Accrued interest and dividend receivable (note 6)	192,102	198,659
Accounts receivable (note 4)	80,454,686	72,628,828
Current portion of project loans receivable (note 6)	2,697,339	2,421,635
Prepaid expenses	687,839	1,618,242
	<u>84,031,966</u>	<u>92,759,995</u>
Project loans receivable (note 5)	39,030,427	37,146,401
Portfolio investments (note 6)	178,089,581	167,767,088
Equity investments (note 7)	19,283,519	19,212,351
	<u>320,435,493</u>	<u>316,885,835</u>
Liabilities and Net Assets		
Current liabilities		
Bank overdraft (note 3)	1,771,618	-
Accounts payable and accrued liabilities (note 4)	14,573,564	20,659,055
	<u>16,345,182</u>	<u>20,659,055</u>
Trust liabilities (note 8)	173,475,787	165,612,256
	<u>189,820,969</u>	<u>186,271,311</u>
Net assets	<u>130,614,524</u>	<u>130,614,524</u>
	<u>320,435,493</u>	<u>316,885,835</u>

Approved on Behalf of the Non-Public Property Board



Shirley Tang-Jassemi, Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

Canadian Forces Central Fund

Statement of Operations and Changes in Net Assets

For the year ended March 31, 2019

	2019 \$	2018 \$
Revenue		
Dividends and interest	4,729,965	4,432,914
Gain on sale of portfolio investments	4,399,750	9,316,823
Unrealized change in fair value of portfolio investments	1,186,221	(3,560,090)
Interest on project loans receivables	1,785,557	1,589,387
Earnings (Loss) from Queensway Corporate Campus (note 7)	121,119	(342,626)
Loss from Lisgar Street Property (note 7)	-	(75,589)
Earnings (Loss) from Michael Street Property (note 7)	(49,951)	219,332
Re-insurance guarantee fee (note 9)	250,000	250,000
CANEX credit plan administration fees	886,180	990,875
Other	88,645	13,397
	<u>13,397,486</u>	<u>12,834,423</u>
Expense		
CFCF management	681,165	375,745
Interest to bases/wings/funds/messes and trusts	8,557,669	8,048,460
CFMWS user fees for services (note 10)	350,000	350,000
Investment services	293,625	281,950
Other	(171,608)	319,356
	<u>9,710,851</u>	<u>9,375,511</u>
Revenue before the undernoted	3,686,635	3,458,912
CFCF contributions (note 10)	(3,686,635)	(11,556,159)
SISIP Financial contribution (note 10)	-	24,000,000
Writedown of due from CFMWS (note 10)	-	(23,893,002)
	<u>-</u>	<u>(7,990,249)</u>
Net expense for the year	-	(7,990,249)
Net assets – Beginning of year	<u>130,614,524</u>	<u>138,604,773</u>
Net assets – End of year	<u>130,614,524</u>	<u>130,614,524</u>

The accompanying notes are an integral part of these financial statements.

Canadian Forces Central Fund

Statement of Cash Flows

For the year ended March 31, 2019

	2019 \$	2018 \$
Cash provided by (used in)		
Operating activities		
Net expense for the year	-	(7,990,249)
Items not affecting cash		
Change in fair value of investments	(5,585,970)	(5,756,733)
Loss (Earnings) from Queensway Corporate Campus	(121,119)	342,626
Loss from Lisgar Street Property	-	75,589
Loss on disposal of Lisgar Street Property	-	156,385
Loss (Earnings) from Michael Street Property	49,951	(219,332)
Writeoff of project loans	373,392	215,110
Net change in non-cash working capital items		
Accrued interest and dividend receivable	6,557	45,001
Accounts receivable	(7,825,858)	(1,939,396)
Accounts payable and accrued liabilities	(6,085,491)	5,412,522
Prepaid expenses	930,403	(1,443,110)
Trust liabilities	7,863,531	13,302,117
	<u>(10,394,604)</u>	<u>2,200,530</u>
Investing activities		
Acquisition of portfolio investments	(158,814,883)	(78,756,682)
Proceeds from disposal of portfolio investments	154,078,360	94,278,767
New project loans issued	(5,843,243)	(5,665,085)
Principal repayment of project loans	3,310,121	6,144,161
Proceeds from sale of Lisgar Street Property	-	1,200,000
	<u>(7,269,645)</u>	<u>17,201,161</u>
Net change in cash for the year	(17,664,249)	19,401,691
Cash (Bank overdraft) – Beginning of year	<u>15,892,631</u>	<u>(3,509,060)</u>
Cash (Bank overdraft) – End of year	<u>(1,771,618)</u>	<u>15,892,631</u>

The accompanying notes are an integral part of these financial statements.

Canadian Forces Central Fund

Notes to Financial Statements

March 31, 2019

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 operated 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, short-term investments and cash in the brokers' accounts.

Portfolio investments

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 net expense for the year.

Equity investments

Investments in Queensway Corporate Campus (QCC) and Michael Street Property are accounted for using the equity method.

Revenue recognition

Dividends and interest 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, 2019

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.

3 Consolidated bank account

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. Basse/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 has an operating credit facility of \$10 million, which bears interest at the bank's prime rate plus 0.35% (2018 – plus 0.50%).

4 Accounts receivable and accounts 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), specialty interest activities and messes.

Canadian Forces Central Fund

Notes to Financial Statements

March 31, 2019

Accounts receivable are comprised of the following:

	2019 \$	2018 \$
NPP balances (note 10)		
CANEX	61,299,872	63,945,036
CFMWS	9,660,892	110,684
SOT	315,960	298,743
SISIP Financial	4,900	4,172
Regimental funds and alike	535	-
Bases/wings/funds/messes	3,814,109	4,378,119
	<hr/>	<hr/>
Trade and other receivables	75,096,268	68,736,754
	5,946,028	4,421,851
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Less: Allowance for doubtful accounts	81,042,296	73,158,605
	587,610	529,777
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	80,454,686	72,628,828
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In regard to the accounts receivable assumed on behalf of CANEX, approximately \$58.8 million (2018 – approximately \$61.3 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 receivables are net government sales tax remittances of \$nil (2018 – \$639,363).

Accounts payable and accrued liabilities are comprised of the following:

	2019 \$	2018 \$
NPP balances (note 10)		
CANEX	4,502,144	6,812,488
CFMWS	2,696,460	6,068,548
SOT	210,375	113,592
SISIP Financial	67,449	87,105
Regimental funds and alike	37,310	-
Bases/wings/funds/messes	5,185,900	4,844,890
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Trade and other payables	12,699,638	17,926,623
	1,873,926	2,732,432
	<hr/>	<hr/>
	14,573,564	20,659,055
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Included in payables are net government sales tax remittances of \$43,108 (2018 – \$nil).

Canadian Forces Central Fund

Notes to Financial Statements

March 31, 2019

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.

	2019 \$	2018 \$
Interest-bearing loans (at 4%)		
CANEX	40,239,516	36,497,437
Other	978,509	976,549
CANEX interest-free loans	509,741	2,094,050
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	41,727,766	39,568,036
Less: Current portion	2,697,339	2,421,635
	<hr/>	<hr/>
	39,030,427	37,146,401

6 Long-term investments

Portfolio investments

	2019		2018	
	Market value \$	Cost \$	Market value \$	Cost \$
Accrued interest and dividend receivable	192,102	192,012	198,659	200,248
Portfolio investments	178,089,581	159,346,273	167,767,088	150,208,322
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	178,281,683	159,538,285	167,965,747	150,408,570
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	2019		2018	
	Market value \$	Cost \$	Market value \$	Cost \$
Cash and cash equivalents	4,957,320	4,957,180	3,612,446	3,614,053
Canadian bond fund	59,891,469	61,547,599	64,035,329	66,818,053
Canadian equities	44,350,101	39,561,831	49,736,445	44,498,780
International equities	69,082,793	53,471,675	50,581,527	35,477,684
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	178,281,683	159,538,285	167,965,747	150,408,570

\$26.2 million (2018 – \$23.6 million) of CFCF's long-term investments is exposed to fluctuations in the US dollar.

Canadian Forces Central Fund

Notes to Financial Statements

March 31, 2019

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

	2019 \$	2018 \$
Equity in Queensway Corporate Campus	14,822,561	14,701,442
Equity in Michael Street Property	4,460,958	4,510,909
	<u>19,283,519</u>	<u>19,212,351</u>

Queensway Corporate Campus

This campus encompasses the real estate located at 4200 Labelle Street, 4210 Labelle Street and 1223 Michael Street in Ottawa.

	2019 \$	2018 \$
Total assets	44,978,466	46,216,369
Total liabilities	30,155,458	31,514,927
Net assets	<u>14,823,008</u>	<u>14,701,442</u>

	2019 \$	2018 \$
Rental revenue	9,488,823	9,187,058
Rental expenses	9,367,257	9,529,684
Net income (loss) for the year	<u>121,566</u>	<u>(342,626)</u>

	2019 \$	2018 \$
Cash flows from operating activities	716,586	2,546,678
Cash flows from investing activities	245,224	(1,216,816)
Cash flows from financing activities	(1,289,469)	(1,291,461)
	<u>(327,659)</u>	<u>38,401</u>

Canadian Forces Central Fund

Notes to Financial Statements

March 31, 2019

Lisgar Street Property

The Lisgar Street Property is accounted for under the equity method. This property is located at 66 Lisgar Street in Ottawa.

CFCF finalized the sale of the Lisgar Street Property on June 20, 2017 for \$1,200,000.

	2019 \$	2018 \$
Rental expense	-	75,589
Net loss for the period	-	(75,589)
	2019 \$	2018 \$
Cash flows from operating activities	-	(1,275,589)
Cash flows from investing activities	-	1,200,000
	-	(75,589)

Michael Street Property

This property is located at 1209 Michael Street in Ottawa.

	2019 \$	2018 \$
Total assets	4,567,936	4,613,917
Total liabilities	106,979	103,008
Net assets	4,460,957	4,510,909
	2019 \$	2018 \$
Rental revenue	512,995	793,141
Rental expense	562,946	573,809
Net revenue (expense) for the year	(49,951)	219,332
	2019 \$	2018 \$
Cash flows from operating activities	(49,951)	219,332

Canadian Forces Central Fund

Notes to Financial Statements

March 31, 2019

8 Trust liabilities

CFCF maintains assets in trust on behalf of the following related parties (note 10):

	2019	2018
	\$	\$
Bases/wings/funds/messes	101,471,703	101,994,838
CANEX	14,721,700	25,577,353
CFMWS	(2,922,626)	(2,597,008)
SOT	19,859,902	19,219,701
Museums, Regimental Funds and alike (RMC Club)	13,042,046	13,818,223
NPF pension/benefits	6,053,264	4,360,425
Queensway Corporate Campus/Michael Street Property	1,612,271	3,230,494
SISIP Financial	19,637,527	8,230
	<u>173,475,787</u>	<u>165,612,256</u>

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 Canadian Forces Morale and Welfare Services (CFMWS), the Canadian Forces Exchange System (CANEX), SISIP Financial and the Support Our Troops Funds (SOT).

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 is contingently liable for \$nil (2018 – \$44,000) in letters of credit supplied to various provincial liquor boards on behalf of unit messes.

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, 2019, this long-term debt amounted to \$29,648,879 (2018 – \$30,938,348).