Queensway Corporate Campus

Financial statements
March 31, 2020

Building a better
working world

Independent auditor's report

To the Directors of the Non-Public Property Board of
Queensway Corporate Campus

Opinion

We have audited the accompanying financial statements of **Queensway Corporate Campus** ["the Campus"], 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 Campus 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 Campus 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 Campus 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 Campus'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 Campus or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Campus'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 Campus'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 Campus'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 Campus 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 Campus 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

Queensway Corporate Campus

Statement of financial position

As at March 31

	2020	2019
	$	$
Assets		
Current		
Cash	**2,549,505**	1,738,213
Due from Canadian Forces Central Fund [*note 6]*	**3,730,441**	1,104,603
Accounts receivable [*note 6]*	**1,173,802**	3,306,975
Deferred leasing commissions	**5,266**	21,065
Prepaid expenses	**252,089**	420,531
Total current assets	**7,711,103**	6,591,387
Income-producing properties *[note 4]*	**34,409,594**	36,832,131
Deferred tenant recoveries	**955,887**	629,103
Deferred leasing commissions	**935,278**	783,729
Deferred tenant inducements	**115,479**	142,116
	44,127,341	44,978,466
Liabilities and net assets		
Accounts payable and accrued liabilities	**695,149**	269,709
Government remittances payable	**64,211**	48,861
Accrued interest	**60,558**	188,009
Current portion of mortgages and loan payable [*note 5]*	**1,397,996**	23,894,931
Total current liabilities	**2,217,914**	24,401,510
Mortgages and loan payable *[note 5]*	**26,885,726**	5,753,948
Total liabilities	**29,103,640**	30,155,458
Net assets	**15,023,701**	14,823,008
	44,127,341	44,978,466

Commitment *[note 7]*

See accompanying notes

Approved on behalf of the Non-Public Property Board:

Julie Pecke Chief Financial Officer

Queensway Corporate Campus

Statement of operations and changes in net assets

Year ended March 31

	2020	2019
	$	$
Rental revenue *[note 6]*	**9,713,111**	9,488,823
Rental expenses		
Amortization of income-producing properties	**3,052,372**	2,972,884
Payment in lieu of property taxes	**1,517,749**	1,718,508
Administration, legal and other	**1,114,107**	1,085,164
Utilities	**1,021,561**	1,014,249
Repairs and maintenance	**980,530**	860,751
Interest	**908,239**	941,361
Property and asset management fees *[note 7]*	**741,645**	648,920
Office and general	**120,352**	89,020
Insurance	**55,863**	36,400
	9,512,418	9,367,257
Net revenue for the year	**200,693**	121,566
Net assets, beginning of year	**14,823,008**	14,701,442
Net assets, end of year	**15,023,701**	14,823,008

See accompanying notes

Queensway Corporate Campus

Statement of cash flows

Year ended March 31

	2020	2019
	$	$
Operating activities		
Net revenue for the year	**200,693**	121,566
Items not affecting cash		
Amortization of income-producing properties	**3,052,372**	2,972,884
Amortization of deferred tenant recoveries	**62,602**	50,602
Amortization of deferred leasing commissions	**211,244**	200,570
Amortization of deferred tenant inducement	**26,637**	26,637
Net change in non-cash working capital items related to operations		
Accounts receivable	**2,133,173**	(2,605,242)
Prepaid expenses	**168,442**	19,570
Accounts payable and accrued liabilities	**425,440**	(154,460)
Government remittances payable	**15,350**	(21,782)
Accrued interest	**(127,451)**	106,241
Cash provided by operating activities	**6,168,502**	716,586
Investing activities		
Net change in due from Canadian Forces Central Fund	**(2,625,838)**	1,663,396
Investment in income-producing properties	**(629,836)**	(1,131,246)
Net investment in tenant recoveries	**(389,386)**	(153,747)
Net investment in leasing commissions	**(346,993)**	(33,179)
Net investment in tenant inducement	**—**	(100,000)
Cash provided by (used in) investing activities	**(3,992,053)**	245,224
Financing activities		
Repayments of mortgages and loan payable	**(1,365,157)**	(1,289,469)
Cash used in financing activities	**(1,365,157)**	(1,289,469)
Net increase (decrease) in cash during the year	**811,292**	(327,659)
Cash, bginning of year	**1,738,213**	2,065,872
Cash, end of year	**2,549,505**	1,738,213

See accompanying notes

Notes to financial statements

March 31, 2020

1. Nature of property

Queensway Corporate Campus ["the Campus"] was acquired by the Canadian Forces Central Fund ["CFCF"] on December 24, 2009, for $56.8 million. This Campus encompasses the real estate located at 4200 Labelle Street, 4210 Labelle Street and 1223 Michael Street.

Non-public property ["NPP"], as defined under the *National Defence Act,* consists of money and property constituted by the Canadian Forces members. The Campus operates under the authority of the Chief of the Defence Staff ["CDS"] in his NPP capacity.

In common with other non-public funds, the Campus 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.

Deferred tenant recoveries

Tenant recoveries are expenditures such as improvements and paving, which are initially deferred and are then amortized over the respective term of the lease or useful life of the respective asset to repairs and maintenance expense on the statement of operations and changes in net assets. In the event that a tenant vacates its leased space prior to the amortization of the related asset, any unamortized balance will result in a charge to net revenue at that time.

Deferred leasing commissions

Leasing commissions are initially deferred and are then amortized over the respective term of the lease to administration, legal and other expense on the statement of operations and changes in net assets. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance will result in a charge to net revenue at that time.

Deferred tenant inducements

Tenant inducements such as free rent or move-in allowances, which are provided on signing a lease, are initially deferred and are then amortized over the respective term of the lease against rental revenue. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance will result in a charge to net revenue at that time.

Notes to financial statements

March 31, 2020

Income-producing properties

Income-producing properties are initially recorded at cost and are then amortized on a straight-line basis at the following annual rates:

Buildings	5%
Paving	9%
Equipment	12%

Rental revenue

Rental revenue is recognized on a monthly basis in accordance with the terms and conditions of the lease agreements with each of the tenants. Operating expenses incurred by the Campus for common areas such as hallways, bathrooms, landscaping and snow removal are recovered from tenants in the period incurred.

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 expense during the reporting period. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period that they become known.

Financial instruments

The Campus initially measures its financial assets and financial liabilities at fair value. The Campus 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 net revenue. 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.

New accounting standards

During the year, the Campus adopted the new accounting standards Section 4433, *Tangible Capital Assets*, and Section 4434, *Intangible Capital Assets*, as of April 1, 2019. Section 4433, *Tangible Capital Assets,* replaces the previous Section 4431, *Tangible Capital Assets,* and provides additional guidance on contributed assets and the write-down [partial impairment] of assets. Section 4434, *Intangible Capital Assets,* replaces the previous Section 4432, *Intangible Capital Assets,* and provides additional guidance on contributed assets and the write-down [partial impairment] of assets. The changes did not have any impact on these financial statements.

Notes to financial statements

March 31, 2020

3. Concentration of credit risk

Substantially all of the accounts receivable are owing from ten tenants.

4. Income producing properties

Long-term debt consists of the following:

	2020		
	Cost $	Accumulated amortization $	Net book value $
Land	**11,521,801**	**—**	**11,521,801**
Buildings	**40,367,223**	**20,066,092**	**20,301,131**
Paving	**10,362,445**	**8,594,465**	**1,767,980**
Equipment	**1,725,000**	**991,797**	**733,203**
Construction-in-progress	**85,479**	**—**	**85,479**
	64,061,948	**29,652,354**	**34,409,594**

	2019		
	Cost $	Accumulated amortization $	Net book value $
Land	11,521,801	—	11,521,801
Buildings	39,133,506	18,030,144	21,103,362
Paving	10,362,445	7,659,507	2,702,938
Equipment	910,330	910,330	—
Construction-in-progress	1,504,030	—	1,504,030
	63,432,112	26,599,981	36,832,131

5. Mortgages and loan payable

The mortgages and loan payable consist of the following debt with the Bank of Montreal:

	2020	2019
	$	$
Mortgage payable #1 – 3.63%, repayable in blended monthly payments of principal and interest of $55,446, due January 1, 2023	**7,602,476**	7,985,721
Mortgage payable #2 –3.02%, repayable in blended monthly payments of principal and interest of $50,124, due January 2, 2023	**7,192,409**	7,565,211
Mortgage payable #3 – 3.11%, repayable in blended monthly payments of principal and interest of $51,099, due November 2, 2022	**7,287,683**	7,678,642
Loan payable – 2.56%, repayable in blended monthly payments of principal and interest of $30,832, due February 28, 2023	**6,201,154**	6,419,305
	28,283,722	29,648,879
Current portion of mortgages and loans payable	**(1,397,996)**	(23,894,931)
	26,885,726	5,753,948

The above-mentioned amounts are secured by a general security agreement covering all assets pertaining to the Campus, a first charge on the Campus' real estate, a general assessment of rents and an assignment of insurance to the bank. The amounts are also secured by a letter of acknowledgement from Canadian Forces Central Fund ["CFCF"], Canadian Forces Exchange System ["CANEX"] and Service Income Security Insurance Financial Services ["SISIP"] *[note 6].*

Principal repayments under the existing agreements are as follows:

	$
2021	1,397,996
2022	1,440,436
2023	25,445,290
	28,283,722

As at the date of these financial statements, the Campus is in compliance with all the restrictive covenants as required by the banking agreement.

6. 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"], and CFCF. CFMWS is responsible for delivering selected morale and welfare programs, services and activities through two operational divisions, Personnel Support Programs and Commercial Services [CANEX and SISIP Financial].

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

Notes to financial statements

March 31, 2020

Rental revenue includes amounts charged to related parties as follows:

	2020	2019
	$	$
Canadian Forces Exchange System	**143,480**	141,116
Canadian Forces Central Fund subsidy for Canadian Forces Exchange System rent	**195,270**	188,106
Canadian Forces Morale and Welfare Services	**532,378**	566,918
Service Income Security Insurance Financial Services	**116,378**	116,254
	987,506	1,012,394

Included in accounts receivable is $142,933 [2019 – $13,221] owing from CFMWS and nil [2019 – nil] owing from CANEX. Amounts due from CFMWS and CANEX are non-interest bearing and have no specified terms of repayment.

Amounts 'Due from Canadian Forces Central Fund' of $3,730,441 [2019 – $1,104,603] represent amounts held in an internal Consolidated Bank Account ["CBA"] administered by CFCF. The amounts are non-interest bearing and have no specific terms of repayment

7. Commitment

In August 2019, the Campus entered into a five-year contract with a property management firm to manage the Campus on its behalf. This contract expires in November 2024 with the annual management fee being a base rate of approximately $431,490, adjusted quarterly for actual gross revenue and net operating income of the property. Furthermore, the base rate is adjusted for inflation on an annual basis.

8. Financial instruments and risk management

The Campus is exposed to various risks through its financial instruments. The following analysis provides a measure of the Campus' risk exposure as at March 31, 2020.

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.

The Campus is exposed to credit risk on its accounts receivable. The Campus determines, on a continuing basis, the probable losses and sets up a provision for losses based on the estimated realizable value.

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.

The Campus is exposed to interest rate risk on its mortgages and loan payable.

Notes to financial statements

March 31, 2020

Liquidity risk

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

9. Comparative figures

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

10. 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 are unknown at this time, as is the efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions. As a result, the possibility of tenant defaults exists for the Campus; however, it is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Campus in current and future periods.