

FINANCIAL STATEMENTS
For
CANADIAN FORCES CENTRAL FUND
For year ended
MARCH 31, 2012

INDEPENDENT AUDITOR'S REPORT

To the Non-Public Property Board

We have audited the accompanying financial statements of the Canadian Forces Central Fund, which comprise the statement of financial position as at March 31, 2012 and the statements of revenue and expense and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Forces Central Fund as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
November 5, 2012.

CANADIAN FORCES CENTRAL FUND
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2012

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 5)	\$ 3,255,105	\$ 819,717
Accrued interest receivable	143,916	104,589
Accounts receivable (note 6)	78,199,770	87,108,076
Prepaid expenses	207,592	174,063
Current portion of project loans receivable (note 7)	<u>2,780,761</u>	<u>3,153,415</u>
	<u>84,587,144</u>	<u>91,359,860</u>
OTHER ASSETS		
Project loans receivable (note 7)	29,615,298	31,263,124
Long-term investments (note 8)	<u>25,842,418</u>	<u>24,937,318</u>
	<u>55,457,716</u>	<u>56,200,442</u>
	<u>140,044,860</u>	<u>147,560,302</u>
TRUST ASSETS (note 9)		
Cash and long-term investments	<u>132,672,379</u>	<u>120,200,846</u>
	<u>\$ 272,717,239</u>	<u>\$ 267,761,148</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and employee deductions payable (note 6)	\$ 14,734,949	\$ 17,538,129
TRUST LIABILITIES		
	<u>132,672,379</u>	<u>120,200,846</u>
	<u>147,407,328</u>	<u>137,738,975</u>
NET ASSETS		
Unrestricted (note 14)	<u>125,309,911</u>	<u>130,022,173</u>
	<u>\$ 272,717,239</u>	<u>\$ 267,761,148</u>

Approved:

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(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF REVENUE AND EXPENSE AND CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2012

	<u>2012</u>	<u>2011</u>
Operating revenue		
Dividends and interest	\$ 3,654,295	\$ 3,393,264
Gain on sale of portfolio investments	1,036,137	3,385,965
Loan interest	1,125,723	1,078,049
Loss from Queensway Corporate Campus (note 8)	(1,469,223)	(572,809)
Re-insurance guarantee fee (note 10)	250,000	250,000
Other	<u>1,488,036</u>	<u>934,498</u>
	<u>6,084,968</u>	<u>8,468,967</u>
Operating expenses		
CFCF management	336,377	359,647
Interest to base/wing funds, messes and trusts	3,288,306	5,388,704
CFFPSS user fees for services (note 11)	350,000	350,000
Investment services and other	<u>309,721</u>	<u>244,110</u>
	<u>4,284,404</u>	<u>6,342,461</u>
Net operating income before CFCF contributions	<u>1,800,564</u>	<u>2,126,506</u>
CFCF contributions (note 12)		
Programs and distributions	655,256	298,484
NPF services and operations	<u>5,992,355</u>	<u>4,257,468</u>
	<u>6,647,611</u>	<u>4,555,952</u>
Net expense before items below	(4,847,047)	(2,429,446)
Unrealized gain on portfolio investments (note 8)	<u>134,785</u>	<u>4,610,893</u>
Net revenue (expense)	(4,712,262)	2,181,447
Net assets, beginning of year	<u>130,022,173</u>	<u>127,840,726</u>
Net assets, end of year	<u>\$ 125,309,911</u>	<u>\$ 130,022,173</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2012

	<u>2012</u>	<u>2011</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue (expense)	\$ (4,712,262)	\$ 2,181,447
Items not affecting cash:		
Gain on sale of portfolio investments	(1,036,137)	(3,385,965)
Loss from Queensway Corporate Campus	1,469,223	572,809
Unrealized gain on portfolio investments	<u>(134,785)</u>	<u>(4,610,893)</u>
	(4,413,961)	(5,242,602)
Changes in level of:		
Accrued interest receivable	(39,327)	35,465
Accounts receivable	8,908,306	4,500,114
Prepaid expenses	(33,529)	(21,023)
Accounts payable and employee deductions payable	<u>(2,803,180)</u>	<u>6,039,464</u>
	<u>1,618,309</u>	<u>5,311,418</u>
Investing activities		
Decrease (increase) in project loans receivable	2,020,480	(2,019,188)
Increase in long-term investments	<u>(1,203,401)</u>	<u>(2,494,816)</u>
	<u>817,079</u>	<u>(4,514,004)</u>
Increase in cash and cash equivalents	2,435,388	797,414
Cash and cash equivalents, beginning of year	<u>819,717</u>	<u>22,303</u>
Cash and cash equivalents, end of year	<u>\$ 3,255,105</u>	<u>\$ 819,717</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012

1. NATURE OF OPERATIONS

The Canadian Forces Central Fund (CFCF) 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, recreational and social facilities for the benefit of Canadian Forces personnel and their dependants. Responsibility for directing the affairs of CFCF rests with the Director General Personnel and Family Support Services as delegated by the CDS.

In common with other non-public funds, CFCF is exempt from paying income tax under Part 1 of the Income Tax Act.

A significant portion of the transactions in these financial statements relate to military base activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Cash and cash equivalents*

Cash and cash equivalents consist of balances with banks, short-term investments and cash at brokers' account.

Short-term investments are stated at cost, which together with accrued interest income, approximates fair value given the short-term nature of these investments.

(b) *Long-term Investments*

Portfolio investments

The organization has classified its investments as held for trading and records them at their fair value.

Fair values of long-term investments are determined by reference to published price quotations in an active market at year-end.

The purchase and sale of investments are accounted for using settlement date accounting.

Investment management services are expensed as incurred.

Queensway Corporate Campus (QCC)

QCC is accounted for under the equity method.

(c) *Revenue recognition*

Revenue from investments are recognized when earned.

(d) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CANADIAN FORCES CENTRAL FUND
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2012

3. FUTURE ACCOUNTING STANDARDS

The Accounting Standards Board of the Canadian Institute of Chartered Accountants approved a financial reporting framework designed specifically to meet the needs of users of financial statements prepared by not-for-profit organizations. Not-for-profit organizations are also given the option to adopt International Financial Reporting Standards (IFRS) instead of the new not-for-profit accounting standards. One of these new frameworks must be applied by the organization by its March 31, 2013 fiscal year-end and the organization is permitted to adopt these standards earlier, if desired. Management is currently evaluating the impact of these new reporting frameworks on their financial statements.

4. FINANCIAL INSTRUMENTS

Financial instruments recognized in the statement of financial position consist of cash and cash equivalents, accrued interest receivable, accounts receivable, project loans receivable, long-term investments and accounts payable and employee deductions payable.

With the exception of long-term investments and project loans receivable, the fair value of all other financial instruments approximates their carrying value due to their short-term nature. The portfolio investments are carried at their fair value in the financial statements. The fair value of the equity in QCC and project loans receivable is not readily available.

Credit risk

Financial instruments which potentially subject CFCF to concentrations of credit risk consist principally of cash and cash equivalents, accrued interest receivable, accounts receivable, project loans receivable and long-term investments. CFCF generally places its cash and cash equivalents in Canadian federal and provincial government bonds, bonds of corporations with high credit ratings and bankers' acceptances.

CFCF does not require collateral or other security to support project loans advanced to military bases and ships and therefore, these loans bear an element of credit risk. However, losses due to amounts proving uncollectible have traditionally been low due in part to the fact that CFCF administers the cash balances of most of its creditors.

Currency risk

CFCF operates primarily in Canadian dollars and is not exposed to significant currency risk.

Liquidity risk

Liquidity risk refers to the adverse consequences that CFCF will encounter difficulty in meeting obligations associated with financial liabilities, which are comprised of accounts payable and accrued liabilities.

CFCF manages this risk by maintaining sufficient cash and cash equivalents to meet their current obligations and management establishes budget and cash estimates to determine their future cash flow requirements.

CANADIAN FORCES CENTRAL FUND
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2012

5. CONSOLIDATED BANK ACCOUNT

CFCF maintains cash, which it does not control, in its consolidated bank account on behalf of other funds, trusts and units. CFCF controls the interest earned on such funds less a percentage paid back to the units and funds (Base/Wing/Funds and Messes receive 3% with options to elect at the bank's prime rate plus 0.25% or CFCF's investment rate of return less 0.5% for its cash balance in excess of CFCF liabilities while trust accounts receive varying percentages based on cash balances and options selected).

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 18,097,005	\$ 6,681,788
Allocated to trust assets	<u>(14,841,900)</u>	<u>(5,862,071)</u>
	<u>\$ 3,255,105</u>	<u>\$ 819,717</u>

6. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

In February 2007, as part of the Non-Public Property Board approved Customer Relationship Management Project, CFCF now assumes and manages the accounts receivable and accounts payable of all activities undertaken by Base/Wing/Unit Funds, CANEX, Specialty Interest Activities and Messes.

To cover credit losses relating to credit risk and uncollectible accounts, each accounts receivable item purchased from Base/Wing/Unit Funds, CANEX, Specialty Interest Activities and Messes has been assessed a fee to cover an estimated amount that will not be collected. If, at the end of a fiscal year, the actual recovery rate of accounts receivable from a specific entity is different than the fee assessed, the assessed fee is adjusted for the subsequent year. Any amount in excess of the actual credit losses is returned to the entity at the end of each fiscal year.

Accounts receivable are comprised of the following:

	<u>2012</u>	<u>2011</u>
CANEX	\$ 57,245,673	\$ 62,762,710
CFPFSS	8,761,847	12,289,825
Base/Wing/Funds/Messes	<u>5,280,710</u>	<u>5,710,340</u>
	71,288,230	80,762,875
Trade receivables of CFCF	<u>6,911,540</u>	<u>6,345,201</u>
	<u>\$ 78,199,770</u>	<u>\$ 87,108,076</u>

In regards to the accounts receivable that are assumed on behalf of CANEX, approximately \$54.6 million (2011 - \$59 million) relates to CANEX's interest free credit plans that are available for eligible patrons with the balance of the accounts receivable being for trade receivables. There are varying repayment terms in regards to the CANEX credit plans ranging from one year to three year plans.

As to the accounts receivable assumed on behalf of CFPFSS and Base/Wing/Funds/Messes, approximately \$11.6 million (2011 - \$15 million) is a receivable from the Department of National Defence pertaining to the reimbursement to Non-Public Property with the balance of the accounts receivable being for membership fees and dues and trade receivables.

CANADIAN FORCES CENTRAL FUND
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2012

6. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE - Cont'd.

Accounts payable and employee deductions payable relate to these amounts owing by the following:

	<u>2012</u>	<u>2011</u>
CANEX	\$ 4,471,575	\$ 3,736,656
CFPFSS	2,730,426	7,273,657
Base/Wing/Funds/Messes	<u>3,375,014</u>	<u>2,868,407</u>
	10,577,015	13,878,720
CFCF	<u>4,157,934</u>	<u>3,659,409</u>
	<u>\$ 14,734,949</u>	<u>\$ 17,538,129</u>

7. PROJECT LOANS RECEIVABLE

CFCF provides unsecured loans to military bases and ships to share in the financing of capital projects. CFCF provides interest free working capital loans to units on United Nations operations for the duration of the deployment. Starting in May 2002, ships may obtain a line of credit on their Consolidated Bank Account when being deployed on various operations instead of an interest free loan. Loans to CANEX and to bases bear interest at 4%. Repayment terms vary from 3 to 20 years. Periodically, the Non-Public Property Board approves the full or partial forgiveness of specific loan balances. No loans were forgiven in either the 2011 or 2012 fiscal year-ends.

	<u>2012</u>	<u>2011</u>
Interest bearing loans	\$ 29,482,742	\$ 32,236,661
Interest free loans	<u>2,913,317</u>	<u>2,179,878</u>
	32,396,059	34,416,539
Less current portion	<u>2,780,761</u>	<u>3,153,415</u>
	<u>\$ 29,615,298</u>	<u>\$ 31,263,124</u>

8. LONG-TERM INVESTMENTS

	<u>2012</u>		<u>2011</u>	
	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>
Portfolio investments				
Canadian stocks	\$ 77,643,720	\$ 75,730,053	\$ 73,877,899	\$ 70,327,609
Canadian bond fund	50,020,923	48,739,561	48,073,211	48,555,478
Foreign stocks	<u>152,494</u>	<u>144,715</u>	-	-
Total - portfolio investments	127,817,137	<u>\$ 124,614,329</u>	121,951,110	<u>\$ 118,883,087</u>
Equity in Queensway				
Corporate Campus	<u>15,855,760</u>		<u>17,324,983</u>	
Sub-totals	143,672,897		139,276,093	
Less allocation to trusts	<u>(117,830,479)</u>		<u>(114,338,775)</u>	
	<u>\$ 25,842,418</u>		<u>\$ 24,937,318</u>	

CANADIAN FORCES CENTRAL FUND
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2012

8. **LONG-TERM INVESTMENTS** - Cont'd.

Portfolio investments

Portfolio investments are managed by external investment managers who are under the direction of the Investment committee reporting to the Non-Public Property Board.

Interest rate risk

The organization manages its interest rate risk exposure through its investment in the aforementioned Canadian bond fund. This fund minimizes its interest rate risk by using a laddered portfolio with varying terms to maturity. The laddered structure of maturity helps to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations.

Credit and market risk

Risk and volatility of investment returns are mitigated through the diversification of investments in different business sectors and corporation sizes.

The unrealized gain on portfolio investments is calculated as follows:

	<u>2012</u>	<u>2011</u>
Current year's unrealized gain	\$ 3,202,808	\$ 3,068,023
Reversal of prior year's unrealized loss (gain)	<u>(3,068,023)</u>	<u>1,542,870</u>
	<u>\$ 134,785</u>	<u>\$ 4,610,893</u>

Equity in Queensway Corporate Campus

The Queensway Corporate Campus (QCC) is accounted for under the equity method. The QCC was acquired by CFCF on December 24, 2009 for \$56.8 million with \$18 million provided at the time of the purchase and the balance of \$38.8 million financed through long-term debt. This campus encompasses the real estate located at 4200 Labelle Street, 4210 Labelle Street and 1223 Michael Street.

The equity in QCC as at March 31 is comprised as follows:

Balance Sheet of QCC as at March 31st is as follows:

	<u>2012</u>	<u>2011</u>
Cash	\$ 705,429	\$ 2,510,800
Accounts receivable	2,903,232	302,215
Prepaid expenses	<u>2,779,964</u>	<u>612,169</u>
	6,388,625	3,425,184
Real estate	<u>52,204,414</u>	<u>55,089,807</u>
Total assets	58,593,039	58,514,991
Less		
Accounts payable and accrued liabilities	\$ 2,699,021	
Due to CFCF	1,753,868	
Long-term debt	<u>38,284,390</u>	<u>41,190,008</u>
	<u>42,737,279</u>	<u>41,190,008</u>
Equity	<u>\$ 15,855,760</u>	<u>\$ 17,324,983</u>

CANADIAN FORCES CENTRAL FUND
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2012

8. LONG-TERM INVESTMENTS - Cont'd.

Statement of Operations of QCC for the year ended March 31st is as follows:

	<u>2012</u>	<u>2011</u>
Rental revenue	\$ 7,614,750	\$ 8,601,825
Expenses		
Amortization	2,775,383	2,766,597
Property taxes	1,693,635	1,679,056
Interest	1,646,949	1,669,605
Repairs and maintenance	1,178,191	1,213,607
Utilities	865,716	865,543
Management fees	625,316	611,710
Other operating costs	<u>298,783</u>	<u>368,576</u>
	<u>9,083,973</u>	<u>9,174,634</u>
Net loss	\$ (1,469,223)	\$ (572,809)

9. TRUST ASSETS

CFCF maintains trust assets on behalf of the following entities:

	<u>2012</u>	<u>2011</u>
Base funds, messes and others	\$ 92,567,402	\$ 73,602,356
CANEX	26,014,084	27,340,670
CFPFSS	(5,969,318)	366,489
MFF	3,192,519	3,248,664
Regimental funds and alike	14,126,057	13,192,380
NPF Pension/Benefits	1,950,584	1,452,956
QCC	(1,753,868)	(741,278)
SISIP/CFPAF	<u>2,544,919</u>	<u>1,738,609</u>
	<u>\$ 132,672,379</u>	<u>\$ 120,200,846</u>

10. RE-INSURANCE GUARANTEE FEE

CFCF is contingently liable to a maximum of \$100 million as part of the SISIP re-insurance coverage for Canadian wartime efforts. During the 2010 fiscal year-end, a re-insurance guarantee fee of \$500,000 was received from SISIP with CFCF being entitled to an annual fee from hereon of \$250,000 while this guarantee is still provided by CFCF with the fee being calculated at 0.25% of the amount guaranteed. This fee has been recorded at its carrying amount which is the amount agreed to by the management of both organizations.

CANADIAN FORCES CENTRAL FUND
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2012

11. RELATED PARTY TRANSACTIONS

Non-Public Property ("NPP"), as defined under the National Defence Act, consists of money and property contributed by Canadian Forces members and is administered for their benefit by the Canadian Forces Personnel and Family Support Services ("CFPFSS"). The CFPFSS is responsible for delivering selected morale and welfare programs, services and activities through three operational divisions, CANEX, Personnel Support Programs and SISIP Financial Services (including the Canadian Forces Personnel Assistance Fund).

Under the National Defence Act, NPP is explicitly excluded from the Financial Administration Act. The government provides some services to NPP such as accommodation and security for which no charge is made. The cost of providing these services is included in the Public Accounts and is reported annually within the Department of National Defence in accordance with the requirements of the Financial Administration Manual Chapter 1019-8.

NPP estimated revenues and expenses of approximately \$361 million and \$376 million for the year ended March 31, 2012, respectively, and net equity of \$578 million at March 31, 2012 are excluded from the financial statements of the Government of Canada.

During the year, there was a charge to CFCF by CFPFSS in the amount of \$350,000 (2011 - \$350,000) for accounting services provided by CFPFSS. These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

12. CFCF CONTRIBUTIONS

During the year, \$655,256 (2011 - \$298,484) was provided by CFCF to programs and distributions provided by CFPFSS. CFCF also contributed \$5,992,355 (2011 - \$4,257,468) to Non-Public Fund ("NPF") services and operations representing financial support provided for the NPF wide services of accounting, human resources management, information management and information technology and consolidated insurance programs as well as the corporate operating costs.

13. CONTINGENT LIABILITIES

CFCF is contingently liable for \$305,000 (2011 - \$305,000) for letters of credit supplied to various provincial liquor boards on behalf of unit messes.

In addition, CFCF is contingently liable to a maximum of \$100 million as part of the SISIP re-insurance coverage for Canadian wartime efforts.

CFCF, along with CANEX and SISIP, has also provided a letter of acknowledgement to the Bank of Montreal to fund any shortfall in the long-term debt payments to be made by QCC. At March 31, 2012, this long-term debt of QCC amounted to \$38,284,390 (see note 8).

14. CAPITAL DISCLOSURES

The organization defines its capital as its unrestricted net assets and is not subject to external restrictions on its capital. The organization's objective when managing its capital is to hold sufficient unrestricted net assets to maintain the stability of its financial structure enabling it to focus its efforts on serving its members and also to accumulate sufficient net assets to settle any potential contingent liabilities (see note 13).

15. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to conform to the presentation adopted for the current year.