

FINANCIAL STATEMENTS
For
CANADIAN FORCES CENTRAL FUND
For year ended
MARCH 31, 2009

AUDITORS' REPORT

To the Non-Public Property Board

CANADIAN FORCES CENTRAL FUND

We have audited the statement of financial position of the Canadian Forces Central Fund as at March 31, 2009 and the statements of revenue and expense and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2009 and the changes in net assets, the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
May 22, 2009.

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2009**

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 5)	\$ 87,061	\$ 6,121,842
Accrued interest receivable	118,721	106,030
Accounts receivable (note 6)	71,332,544	59,350,604
Current portion of project loans receivable (note 7)	<u>3,161,859</u>	<u>3,596,507</u>
	<u>74,700,185</u>	<u>69,174,983</u>
OTHER ASSETS		
Due from Canadian Forces Personnel and Family Support Services (notes 8 and 12)	768,480	2,070,306
Project loans receivable (note 7)	18,068,397	19,824,747
Long-term investments (note 9)	<u>18,192,925</u>	<u>48,786,803</u>
	<u>37,029,802</u>	<u>70,681,856</u>
	<u>111,729,987</u>	<u>139,856,839</u>
TRUST ASSETS (note 10)		
Cash and long-term investments	<u>87,695,377</u>	<u>86,780,587</u>
	<u>\$ 199,425,364</u>	<u>\$ 226,637,426</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and employee deductions payable (note 6)	\$ 9,874,971	\$ 12,989,791
TRUST LIABILITIES		
	<u>87,695,377</u>	<u>86,780,587</u>
	<u>97,570,348</u>	<u>99,770,378</u>
NET ASSETS		
Unrestricted	<u>101,855,016</u>	<u>126,867,048</u>
	<u>\$ 199,425,364</u>	<u>\$ 226,637,426</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF REVENUE AND EXPENSE AND CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2009

	<u>2009</u>	<u>2008</u>
Operating revenue		
Investment income (loss) (note 9)	\$ (2,648,404)	\$ 2,720,139
Loan interest	1,059,726	1,742,807
Other	849,660	704,023
	<u>(739,018)</u>	<u>5,166,969</u>
Operating expenses		
CFCF management	306,670	457,319
Interest to base/wing funds, messes and trusts	3,308,162	3,714,728
CFCF user fees	350,000	493,073
Investment services and other	262,124	256,667
	<u>4,226,956</u>	<u>4,921,787</u>
Net operating income (loss) before CFCF contributions	<u>(4,965,974)</u>	<u>245,182</u>
CFCF contributions (note 11)		
Programs and distributions	427,880	763,500
NPF services and operations	2,615,581	1,639,586
	<u>3,043,461</u>	<u>2,403,086</u>
Net expense before item below	(8,009,435)	(2,157,904)
Adjustment to held for trading investments	<u>(17,002,597)</u>	<u>(5,193,438)</u>
Net expense	(25,012,032)	(7,351,342)
Net assets, beginning of year	<u>126,867,048</u>	<u>134,218,390</u>
Net assets, end of year	<u>\$ 101,885,016</u>	<u>\$ 126,867,048</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2009

	<u>2009</u>	<u>2008</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net expense	\$ (25,012,032)	\$ (7,351,342)
Changes in level of:		
Accrued interest receivable	(12,691)	(75,756)
Accounts receivable	(11,981,940)	(11,530,769)
Accounts payable and employee deductions payable	<u>(3,114,820)</u>	<u>437,590</u>
	<u>(40,121,483)</u>	<u>(18,520,277)</u>
Financing activities		
Advances from (to) Canadian Forces Personnel and Family Support Services	1,301,826	(2,070,306)
Decrease in project loans receivable	<u>2,190,998</u>	<u>1,284,036</u>
	<u>3,492,824</u>	<u>(786,270)</u>
Investing activities		
Decrease (increase) in long-term investments	<u>30,593,878</u>	<u>(48,786,803)</u>
Decrease in cash	(6,034,781)	(68,093,350)
Cash and cash equivalents, beginning of year	<u>6,121,842</u>	<u>74,215,192</u>
Cash and cash equivalents, end of year	\$ <u>87,061</u>	\$ <u>6,121,842</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2009

1. NATURE OF OPERATIONS

The Canadian Forces Central Fund ("CFCF") was established by the Chief of the Defence Staff 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.

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 activity.

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

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.

(c) 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.

(d) Change in accounting policy

The Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard, Handbook Section 1535 (Capital Disclosures), which establishes standards for disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what is considered capital and whether an entity has complied with any capital requirements and consequences of non-compliance with such capital requirements. The standard is effective for reporting periods beginning on or after October 1, 2007. CFCF applied the new accounting standard at the beginning of its current fiscal year and its implementation did not have an impact on its financial statements (note 14).

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2009

3. NEW ACCOUNTING STANDARDS

In September 2008, the CICA issued Handbook Section 4470 (Disclosure of Allocated Expenses by Not-for-Profit Organizations). This standard is effective for fiscal years beginning on or after January 1, 2009 and will apply to the organization's March 31, 2010 year end. This new section provides guidance on the disclosure requirement with respect to allocating fundraising and administrative costs. The organization is currently evaluating the impact this new standard will have on its financial statement disclosure.

On December 1, 2008, the CICA decided to defer the requirement for not-for-profit-organizations to adopt Handbook Sections 3862 (Financial Instruments - Disclosures) and 3863 (Financial Instruments - Presentation) and to permit these organizations to continue to apply Section 3861 (Financial Instruments - Disclosure and Presentation) instead. Since new financial instrument standards for not-for-profit-organizations may be forthcoming, the organization has decided to continue to apply Section 3861 and has not adopted Sections 3862 and 3863.

4. FINANCIAL INSTRUMENTS

Financial instruments recognized in the statement of financial position consist of cash and cash equivalents, accrued interest receivable, accounts receivable, due from Canadian Forces Personnel and Family Support Services, project loans receivable, long-term investments and accounts payable and employee deductions payable.

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash, accrued interest receivable, accounts receivable and project loans receivable. CFCF generally places its cash and short-term investments 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 the Fund administers the cash balances of most of its creditors.

With the exception of long-term investments, the fair value of all other financial instruments approximates their carrying value due to their short-term nature. The long-term investments are carried at their fair value in the financial statements.

5. CONSOLIDATED BANK ACCOUNT

CFCF maintains cash, which it does not control, in its consolidated bank account ("CBA") 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>2009</u>	<u>2008</u>
Guaranteed Investment Certificates (GIC's) and other fixed income securities	\$ 2,306,049	\$ 1,512,032
Cash (cash deficiency)	<u>(1,804,027)</u>	<u>14,285,099</u>
	502,022	15,797,131
Less allocated to trust assets	<u>(414,961)</u>	<u>(9,675,289)</u>
	<u>\$ 87,061</u>	<u>\$ 6,121,842</u>

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2009

6. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

CFCF, in the context of the Non Public Property Board approved Customer Relationship Management project, assumed CANEX, Base/Wing/Funds and Messes accounts receivable and accounts payable at their fair value, effective February 26, 2007. To cover credit losses relating to credit risk and uncollectible accounts, the accounts receivable assumed by CFCF are net of a 1% fee to cover the 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 1%, the actual recovery rate will be adjusted the subsequent year. Any amount charged in excess of the actual credit losses will be returned to the entity in the year subsequent. As of March 31, 2009, the assumed accounts receivable and accounts payable amounted to \$57,954,267 (2008 - \$45,474,813) and \$7,068,854 (2008 - \$7,536,782), respectively.

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 UN operations for the duration of the deployment. Starting in May 2002, ships may obtain a line of credit on their CBA 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 2008 or 2009 fiscal year-ends.

	<u>2009</u>	<u>2008</u>
Interest bearing loans	\$ 20,563,734	\$ 22,606,477
Interest free loans	<u>666,522</u>	<u>814,777</u>
	21,230,256	23,421,254
Less current portion	<u>(3,161,859)</u>	<u>(3,596,507)</u>
	<u>\$ 18,068,397</u>	<u>\$ 19,824,747</u>

8. DUE FROM CANADIAN FORCES PERSONNEL AND FAMILY SUPPORT SERVICES (CFPFSS)

The amount due from CFPFSS represents the net amount owing to CFCF at March 31, 2009 for amounts paid on behalf of CFPFSS in the fiscal year. This amount is non-interest bearing and has no fixed terms of repayment. CFCF and CFPFSS both operate under the authority of the Chief of the Defence staff in his Non-Public Property (NPP) capacity. Responsibility for directing the affairs of CFCF and CFPFSS rests with the Non-Public Property Board.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2009

9. LONG-TERM INVESTMENTS

	<u>2009</u>		<u>2008</u>	
	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>
Canadian stocks	\$ 63,588,429	\$ 87,295,313	\$ 77,516,924	\$ 83,139,817
Canadian bond fund	<u>41,884,912</u>	<u>40,374,063</u>	<u>48,375,177</u>	<u>47,945,722</u>
	105,473,341	\$ 127,669,376	125,892,101	\$ 131,085,539
Less allocation to trusts	<u>(87,280,416)</u>		<u>(77,105,298)</u>	
	<u>\$ 18,192,925</u>		<u>\$ 48,786,803</u>	

Investment income includes net losses from the sale of investments which amounted to \$7,554,525 (2008 - net losses of \$716,437).

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.

10. TRUST ASSETS

CFCF maintains trust assets on behalf of the following entities:

	<u>2009</u>	<u>2008</u>
Base funds and messes	\$ 51,865,496	\$ 48,364,334
CANEX	18,118,400	21,177,235
SISIP/CFPAF	2,494,226	2,723,359
NPF Pension/Benefits	2,053,897	2,249,322
MFF	2,001,639	1,458,371
Museums, Regimental funds and alike	<u>11,161,719</u>	<u>10,807,966</u>
	<u>\$ 87,695,377</u>	<u>\$ 86,780,587</u>

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2009

11. CFCF CONTRIBUTIONS

CFCF contributed \$427,880 (2008 - \$763,500) to programs and distributions provided by CFPFSS. CFCF also contributed \$2,615,581 (2008 - \$1,639,586) 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.

12. 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.

CFPFSS administered estimated revenues and expenses of \$297 million and \$318 million, respectively, and net equity of \$518 million at March 31, 2009 which are excluded from the financial statements of the Government of Canada.

13. CONTINGENT LIABILITY

CFCF is contingently liable for \$307,000 (2008 - \$307,000) 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.

14. CAPITAL DISCLOSURES

CICA Handbook Section 1535 (Capital Disclosures) requires that the organization disclose information about its capital and how it is managed.

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.