F I N A N C I A L S T A T E M E N T S

For

CANADIAN FORCES CENTRAL FUND

For year ended

MARCH 31, 2010

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, 2010 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, 2010 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.

Welch LLP

Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
June 18, 2010.

Welch LLP – Chartered Accountants
1200-151 Slater Street, Ottawa, ON K1P 5H3
T: 613 236 9191 F: 613 236 8258 W: www.welchllp.com
An Independent Member of BKR International

CANADIAN FORCES CENTRAL FUND

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2010

ASSETS

	2010	2009
CURRENT ASSETS		
Cash and cash equivalents (note 5)	$ 22,303	$ 5,688
Accrued interest receivable	140,054	118,721
Accounts receivable (note 6)	91,608,190	71,332,544
Prepaid expenses	153,040	-
Current portion of project loans receivable (note 7)	3,345,757	3,161,859
	95,269,344	74,618,812
OTHER ASSETS		
Due from Canadian Forces Personnel and Family Support Services (notes 8 and 12)	-	768,480
Project loans receivable (note 7)	29,051,595	18,068,397
Long-term investments (note 9)	6,069,557	18,192,925
	35,121,152	37,029,802
	130,390,496	111,648,614
TRUST ASSETS (note 10)		
Cash and long-term investments	112,801,750	87,695,377
	$ 243,192,246	$ 199,343,991

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES		
Accounts payable and employee deductions payable (note 6)	$ 11,498,666	$ 9,793,598
TRUST LIABILITIES	112,801,750	87,695,377
	124,300,416	97,488,975
NET ASSETS		
Unrestricted	118,891,830	101,855,016
	$ 243,192,246	$ 199,343,991

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, 2010

	2010	2009
Operating revenue		
Dividends and interest	$ 4,138,505	$ 4,906,121
Loss on sale of portfolio investments	(2,839,914)	(7,554,525)
Loan interest	730,608	1,059,726
Share of loss from Queensway Corporate Campus (note 9)	(51,104)	-
Re-insurance guarantee fee (note 11)	500,000	-
Other	873,682	849,660
	3,351,777	(739,018)
Operating expenses		
CFCF management	321,736	306,670
Interest to base/wing funds, messes and trusts	2,565,594	3,308,162
CFPFSS user fees for services (note 12)	350,000	350,000
Investment services and other	306,218	262,124
	3,543,548	4,226,956
Net operating loss before CFCF contributions	(191,771)	(4,965,974)
CFCF contributions (note 13)		
Programs and distributions	-	427,880
NPF services and operations	3,424,580	2,615,581
	3,424,580	3,043,461
Net expense before item below	(3,616,351)	(8,009,435)
Adjustment to held for trading investments	20,653,165	(17,002,597)
Net revenue (expense)	17,036,814	(25,012,032)
Net assets, beginning of year	101,855,016	126,867,048
Net assets, end of year	$ 118,891,830	$ 101,855,016

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2010

	2010	2009
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue (expense)	$ 17,036,814	$ (25,012,032)
Changes in level of:		
Accrued interest receivable	(21,333)	(12,691)
Accounts receivable	(20,275,646)	(11,981,940)
Prepaid expenses	(153,040)	-
Accounts payable and employee deductions payable	1,705,068	(3,196,193)
	(1,708,137)	(40,202,856)
Investing activities		
Advances from Canadian Forces Personnel and Family Support Services	768,480	1,301,826
Decrease (increase) in project loans receivable	(11,167,096)	2,190,998
Decrease in long-term investments	12,123,368	30,593,878
	1,724,752	34,086,702
Increase (decrease) in cash	16,615	(6,116,154)
Cash and cash equivalents, beginning of year	5,688	6,121,842
Cash and cash equivalents, end of year	$ 22,303	$ 5,688

(See accompanying notes)

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*

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.

Investment in Queensway Corporate Campus ("QCC")

The investment in QCC is accounted for using the equity method.

(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.

3. NEW ACCOUNTING STANDARDS

On December 1, 2008, the Canadian Institute of Chartered Accountants 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 are 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, 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 included in long-term investments approximates their carrying value due to their short-term nature. The portfolio investments are carried at their fair value in the financial statements while the fair value of the investment in QCC is not readily available.

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).

	2010	2009
Guaranteed Investment Certificates (GIC's) and other fixed income securities	$ 2,523,810	$ 2,306,049
Cash deficiency	(2,110,229)	(1,885,400)
	413,581	420,649
Less allocated to trust assets	(391,278)	(414,961)
	$ 22,303	$ 5,688

6. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Effective February 26, 2007, the CFCF, in the context of the Non Public Property Board, approved through the Customer Relationship Management Project, the purchase of accounts receivable and accounts payable of Base/Wing/Unit Funds, CANEX, Specialty Interest activities and Messes by CFCF.

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 assessed 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:

	2010	2009
CANEX	$ 65,173,735	$ 52,908,459
Base/Wing/Funds/Messes	16,096,747	5,045,808
	81,270,482	57,954,267
Trade receivables	10,337,708	13,378,277
	$ 91,608,190	$ 71,332,544

Accounts payable and employee deductions payable are comprised of the following:

	2010	2009
CANEX	$ 4,436,576	$ 4,162,324
Base/Wing/Funds/Messes	3,866,650	2,906,530
	8,303,226	7,068,854
Trade payables and employee deductions payable	3,195,440	2,724,744
	$ 11,498,666	$ 9,793,598

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 2009 or 2010 fiscal year-ends.

	2010	2009
Interest bearing loans	$ 26,812,334	$ 20,563,734
Interest free loans	5,585,018	666,522
	32,397,352	21,230,256
Less current portion	(3,345,757)	(3,161,859)
	$ 29,051,595	$ 18,068,397

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 and was fully repaid during the March 31, 2010 fiscal year-end. 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.

9. LONG-TERM INVESTMENTS

	2010		2009	
	Market value	Cost	Market value	Cost
Portfolio investments				
Canadian stocks	$ 66,203,070	$ 67,833,374	$ 63,588,429	$ 87,295,313
Canadian bond fund	42,866,913	42,779,479	41,884,912	40,374,063
Total - portfolio investments	109,069,983	$ 110,612,853	105,473,341	$ 127,669,376
Investment in Queensway Corporate Campus	9,410,046		-	
Sub-totals	118,480,029		105,473,341	
Less allocation to trusts	(112,410,472)		(87,280,416)	
	$ 6,069,557		$ 18,192,925	

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.

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

Investment in Queensway Corporate Campus

The investment in Queensway Corporate Campus ("QCC") is accounted for under the equity method. The QCC is a joint venture with a related division within the CFPFSS organization, SISIP Financial Services ("SISIP"), with the investment owned equally by both divisions. The QCC was purchased on December 24, 2009 for $56.8 million with this campus encompassing the real estate located at 4200 Labelle Street, 4210 Labelle Street and 1223 Michael Street.

The investment in QCC at March 31, 2010 is comprised as follows:

Original investment in QCC on purchase	$ 9,000,000
Share of operating loss to March 31, 2010	(51,104)
Sub-total	8,948,896
Payments made on behalf of QCC since purchase	461,150
Investment in QCC as at March 31, 2010	$ 9,410,046

Balance Sheet of QCC as at March 31, 2010 is as follows:

Cash	$ 1,232,113
Accounts receivable	116,634
Prepaid expenses	485,940
	1,834,687
Real estate	57,804,636
Total assets	59,639,323
Less	
Accounts payable and accrued liabilities	942,629
Mortgage payable	40,337,752
	41,280,381
Total equity as at March 31, 2010	18,358,942
Less SISIP's share of equity	(8,948,896)
CFCF's investment in QCC at March 31, 2010	$ 9,410,046

Statement of Operations of QCC from the date of purchase, December 24, 2009 to March 31, 2010 is as follows:

Rental revenue		$ 2,073,088
Expenses		
Real estate operations		460,457
Mortgage interest		445,403
Property taxes		374,010
Property management		228,252
Amortization		667,174
		2,175,296
Net loss		
CFCF (50%)	$ (51,104)	
SISIP (50%)	(51,104)	$ (102,208)

10. TRUST ASSETS

CFCF maintains trust assets on behalf of the following entities:

	2010	2009
Base funds and messes	$ 62,668,872	$ 51,865,496
CANEX	28,409,446	18,118,400
SISIP/CFPAF	1,798,745	2,494,226
NPF Pension/Benefits	800,704	2,053,897
CFPFSS	4,146,127	-
MFF	2,574,750	2,001,639
Museums, Regimental funds and alike	12,403,106	11,161,719
	$ 112,801,750	$ 87,695,377

11. 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.

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.

During the year, there was a charge to CFCF by CFPFSS in the amount of $350,000 (2009 - $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.

CFPFSS administered estimated revenues and expenses of approximately $405 million and $362 million, respectively, and net equity of $571 million at March 31, 2010 which are excluded from the financial statements of the Government of Canada.

13. CFCF CONTRIBUTIONS

During the year, no contributions (2009 - $427,880) were provided by CFCF to programs and distributions provided by CFPFSS. CFCF did contribute $3,424,580 (2009 - $2,615,581) 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.

14. CONTINGENT LIABILITIES

CFCF is contingently liable for $305,000 (2009 - $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.

15. CAPITAL DISCLOSURES

The Canadian Institute of Chartered Accountants 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.