

FINANCIAL STATEMENTS
For
CANADIAN FORCES CENTRAL FUND
For the fiscal year ended
MARCH 31, 2008

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, 2008 and the statements of revenue and expense and changes in net assets and cash flows for the fiscal 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, 2008 and the changes in net assets, the results of its operations and cash flows for the fiscal year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Welch LLP". The signature is written in a cursive, flowing style.

Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
June 23, 2008.

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2008**

	<u>March 31, 2008</u>	<u>April 1, 2007</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 6)	\$ 6,121,842	\$ 74,215,192
Accrued income receivable	106,030	30,274
Accounts receivable (note 7)	59,350,604	47,819,835
Current portion of project loans receivable (note 8)	<u>3,596,507</u>	<u>4,250,417</u>
	<u>69,174,983</u>	<u>126,315,718</u>
OTHER ASSETS		
Due from Canadian Forces Personnel Support Agency (note 9)	2,070,306	-
Project loans receivable (note 8)	19,824,747	20,454,873
Long-term investments (note 10)	<u>48,786,803</u>	<u>-</u>
	<u>70,681,856</u>	<u>20,454,873</u>
	<u>139,856,839</u>	<u>146,770,591</u>
TRUST ASSETS (note 11)		
Cash and long-term investments	<u>86,780,587</u>	<u>76,218,596</u>
	<u>\$ 226,637,426</u>	<u>\$ 222,989,187</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and employee deductions payable (note 7)	\$ 12,989,791	\$ 12,552,201
TRUST LIABILITIES		
	<u>86,780,587</u>	<u>76,218,596</u>
	<u>99,770,378</u>	<u>88,770,797</u>
NET ASSETS		
Unrestricted	<u>126,867,048</u>	<u>134,218,390</u>
	<u>\$ 226,637,426</u>	<u>\$ 222,989,187</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF REVENUE AND EXPENSE AND CHANGES IN NET ASSETS
FISCAL YEAR ENDED MARCH 31, 2008

	<u>March 31,</u> <u>2008</u>	<u>April 1,</u> <u>2007</u>
Operating revenue		
Investment income (note 10)	\$ 2,720,139	\$ 20,810,449
Loan interest	1,742,807	903,264
Other	<u>704,023</u>	<u>1,039,818</u>
	<u>5,166,969</u>	<u>22,753,531</u>
Operating expenses		
CFCF management	457,319	482,276
Interest to base/wing funds, messes and trusts	3,714,728	4,659,071
CFCF user fees	493,073	482,459
Investment services	256,667	-
Bad debts	<u>-</u>	<u>198,662</u>
	<u>4,921,787</u>	<u>5,822,468</u>
Net operating income before CFCF contributions	<u>245,182</u>	<u>16,931,063</u>
CFCF contributions (note 12)		
Programs and distributions	763,500	1,057,890
NPF services and operations	<u>1,639,586</u>	<u>2,014,078</u>
	<u>2,403,086</u>	<u>3,071,968</u>
Net revenue (expense) before items below	<u>(2,157,904)</u>	<u>13,859,095</u>
Adjustment to held for trading investments (note 3)	(5,193,438)	-
Reimbursement of Public underfunded expenditures (note 15)	<u>-</u>	<u>2,466,600</u>
	<u>(5,193,438)</u>	<u>2,466,600</u>
Net revenue (expense)	(7,351,342)	16,325,695
Net assets, beginning of year	<u>134,218,390</u>	<u>117,892,695</u>
Net assets, end of year	<u>\$ 126,867,048</u>	<u>\$ 134,218,390</u>

(See accompanying notes)

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED MARCH 31, 2008**

	<u>March 31, 2008</u>	<u>April 1, 2007</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue (expense)	\$ (7,351,342)	\$ 16,325,695
Changes in level of:		
Accrued income receivable	(75,756)	963,803
Accounts receivable	(11,530,769)	(47,819,835)
Accounts payable and employee deductions payable	<u>437,590</u>	<u>12,359,731</u>
	<u>(18,520,277)</u>	<u>(18,170,606)</u>
Financing activities		
Advances to Canadian Forces Personnel Support Agency	(2,070,306)	-
Decrease in project loans receivable	<u>1,284,036</u>	<u>805,076</u>
	<u>(786,270)</u>	<u>805,076</u>
Investing activities		
Decrease (increase) in long-term investments	(48,786,803)	82,211,237
Repayments from Canadian Forces Personnel Support Agency	<u>-</u>	<u>769,802</u>
	<u>(48,786,803)</u>	<u>82,981,039</u>
Increase (decrease) in cash	(68,093,350)	65,615,509
Cash and cash equivalents, beginning of year	<u>74,215,192</u>	<u>8,599,683</u>
Cash and cash equivalents, end of year	<u>\$ 6,121,842</u>	<u>\$ 74,215,192</u>

(See accompanying notes)

**CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED MARCH 31, 2008**

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

Effective April 2, 2007, the organization has classified its investments as held for trading and have recorded 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.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED MARCH 31, 2008

3. CHANGE IN ACCOUNTING POLICY

Effective April 2, 2007, the organization adopted The Canadian Institute of Chartered Accountants Handbook (CICA) Sections 3855 and 3861. Section 3855 (Financial Instruments - Recognition and Measurement) addresses when financial instruments should be recognized and how they should be measured. Section 3861 (Financial Instruments - Disclosure and Presentation) provides standards on how financial instruments should be presented and disclosed in the financial statements. Applying these new standards has resulted in the organization carrying its investments at their fair value.

These recommendations have been applied prospectively in accordance with the transitional provisions reflected in the Handbook. Since the organization did not have investments in marketable securities, derivatives or other complex financial instruments at April 2, 2007, there were no adjustments required. However, the change resulted in the organization recording unrealized losses for 2008 of \$5,193,438 (comprised of an unrealized loss on Canadian stocks of \$5,622,893 and an unrealized gain on the Canadian bond fund of \$429,455) resulting in an equivalent decrease in long-term investments.

4. NEW ACCOUNTING STANDARDS

On December 1, 2006, the CICA issued two new accounting standards, Handbook Section 3862 (Financial Instruments - Disclosures) and Handbook Section 3863 (Financial Instruments - Presentation). These new standards are effective for the organization's annual financial statements for the year ended March 31, 2009. The new Sections replace Handbook 3861 (Financial Instruments - Disclosure and Presentation), revising and enhancing its disclosure requirements, and carrying forward unchanged its financial presentation requirements. The organization is currently assessing the impact of these new accounting standards on its financial statements.

5. FINANCIAL INSTRUMENTS

Financial instruments recognized in the statement of financial position consist of cash and cash equivalents, accrued income 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 income 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 cash and cash equivalents, accrued income receivable, accounts receivable, project loans receivable and accounts payable and employee deductions payable approximates their carrying value due to their short-term nature. The long-term investments are carried at their fair value in the financial statements.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED MARCH 31, 2008

6. CONSOLIDATED BANK ACCOUNT ("CBA")

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>March 31,</u> <u>2008</u>	<u>April 1,</u> <u>2007</u>
Guaranteed Investment Certificates (GIC's) and other fixed income securities	\$ 1,512,032	\$ 130,000,000
Cash	<u>14,285,099</u>	<u>20,433,788</u>
	15,797,131	150,433,788
Less allocated to trust assets	<u>(9,675,289)</u>	<u>(76,218,596)</u>
	<u>\$ 6,121,842</u>	<u>\$ 74,215,192</u>

The GIC's and other fixed income securities of \$130,000,000 at April 1, 2007 represent proceeds resulting from the transfer of the previously internally managed long-term investments to external investment managers. These investments matured on April 2, 2007 at which time the investments were converted into long-term investments (refer to note 10 for additional information).

7. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

CFCF, in the context of the Non Public Property Board approved Customer Relationship Management project, assumed 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 it was charged. As of March 31, 2008, the assumed accounts receivable and accounts payable amounted to \$45,474,813 (2007 - \$33,414,532) and \$7,536,782 (2007 - \$7,654,271), respectively.

8. 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 2007 or 2008 fiscal year-ends.

	<u>March 31,</u> <u>2008</u>	<u>April 1,</u> <u>2007</u>
Interest bearing loans	\$ 22,606,477	\$ 23,444,262
Interest free loans	<u>814,777</u>	<u>1,261,028</u>
	23,421,254	24,705,290
Less current portion	<u>(3,596,507)</u>	<u>(4,250,417)</u>
	<u>\$ 19,824,747</u>	<u>\$ 20,454,873</u>

\CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED MARCH 31, 2008

9. DUE FROM CANADIAN FORCES PERSONNEL SUPPORT AGENCY (CFPSA)

The amount due from CFPSA represents the net amount owing to CFCF at March 31, 2008 for amounts paid on behalf of CFPSA in the fiscal year. This amount is non-interest bearing and has no fixed terms of repayment.

10. LONG-TERM INVESTMENTS

	March 31, 2008		April 1, 2007	
	Market value	Cost	Market value	Cost
Canadian stocks	\$ 77,516,924	\$ 83,139,817	\$ -	\$ -
Canadian bond fund	48,375,177	47,945,722	-	-
	125,892,101	\$ 131,085,539	-	\$ -
Less allocation to trusts	(77,105,298)		-	
	\$ 48,786,803		\$ -	

Investment income includes net losses from the sale of investments which amounted to \$716,437 (2007 - net gain of \$15,936,325). Prior to the April 1, 2007 fiscal year-end, the previously internally managed long-term investments were transferred to external investment managers with a total transfer of \$130,000,000 included in cash and cash equivalents as at April 1, 2007 (refer to note 6 for additional information).

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.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED MARCH 31, 2008

11. TRUST ASSETS

CFCF maintains trust assets on behalf of the following entities:

	<u>March 31,</u> <u>2008</u>	<u>April 1,</u> <u>2007</u>
Base funds and messes	\$ 48,364,334	\$ 43,772,749
CANEX	21,177,235	12,221,948
Canadian Forces Personnel Support Agency	-	2,158,711
SISIP/CFPAF	2,723,359	3,936,293
NPF Pension/Benefits	2,249,322	3,739,408
Museums, Regimental funds and alike	<u>12,266,337</u>	<u>10,389,487</u>
	<u>\$ 86,780,587</u>	<u>\$ 76,218,596</u>

12. CFCF CONTRIBUTIONS

CFCF contributed \$763,500 (2007 - \$1,057,890) to programs and distributions. CFCF also contributed \$1,639,586 (2007 - \$2,014,078) to 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. 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 Support Agency ("CFPSA"). The CFPSA 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.

CFPSA administered estimated revenues and expenses of \$305 million and \$300 million, respectively, and net equity of \$560 million at March 31, 2008 which are excluded from the financial statements of the Government of Canada.

14. CONTINGENT LIABILITY

CFCF is contingently liable for \$307,000 (2007 - \$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.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED MARCH 31, 2008

15. REIMBURSEMENT OF PUBLIC UNDERFUNDED EXPENDITURES

The Department of National Defence ("DND Public") is responsible for funding 100% of the costs associated with the delivery of Personnel Support Programs established through the Vice-Chief of the Defence Staff Instruction 3/96 including any revisions thereto. DND Public also has a responsibility for providing Public support to Non-Public Property ("NPP") programs and activities, in particular for the accountability and management reporting framework, and other federal legislation that impacts the operation of NPP activities.

The management of CFCF identified that Non-Public Funds previously provided by CFCF were being used to support the administration of Public Personnel Support Programs as well as to fulfill the Public's responsibilities for Public support to NPP programs and activities. During the 2007 fiscal year, CFCF received \$2,466,000 from DND Public for reimbursement of the aforementioned costs.

16. COMPARATIVE FIGURES

During the year, management discovered that the 2007 fiscal comparative amounts for trust assets and trust liabilities were both overstated by \$24,534,502 relating to accounts receivable ("A/R") and accounts payable and employee deductions payable ("A/P") amounts assumed by CFCF under the Customer Relationship Management project (refer to note 7) had been recorded twice in error (reduction in A/R of \$24,754,433 and reduction in A/P of \$219,931 for net overstatement of \$24,534,502).

This restatement also results in the 2007 fiscal amount for cash and cash equivalents being increased by the corresponding amount from \$49,680,690 to \$74,215,192. In addition, the 2007 fiscal amount for A/R was reduced from \$72,574,268 to \$47,819,835 and A/P was also reduced from \$12,772,132 to \$12,552,201. These restatements only affect the statement of financial position and have had no effect on the statement of revenue and expense and changes in net assets for the 2007 fiscal year-end.