

**Financial Statements
2002-2003**

PLEASE NOTE: This publication is an addendum to the Canadian Forces Personnel Support Agency's (CFPSA) Annual Report 2002-2003. The NPP Board of Directors approved these financial statements on June 27, 2003. This detailed financial report is printed as a *separate* document from the Annual Report to address the needs of specific parties requiring such details while minimizing publication and distribution costs of the annual report.

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Section 1



CANEX

AUDITORS' REPORT

To the Non-Public Property Board of Directors:

We have audited the balance sheet of CANEX as at 23 February 2003 and the statements of income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of CANEX'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 CANEX as at 23 February 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at February 24, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated May 14, 2002.

May 16, 2003
Ottawa, Canada

Deloitte & Touche LLP

CANEX

BALANCE SHEET

(In 000's of Canadian dollars)

	As at 23 February 2003 \$	As at 24 February 2002 \$
ASSETS		
Current		
Cash and cash equivalents (note 3)	3,791	4,195
Accounts receivable	12,445	9,711
Inventory	17,734	16,440
Prepaid expenses	209	348
Total current assets	34,179	30,694
Long-term		
Capital assets (notes 4 and 10)	20,711	16,166
Accounts Receivable - long-term	1,250	-
Total long-term assets	21,961	16,166
Cash, held in trust (note 3)	1,233	960
Less: related liability (note 3)	(1,233)	(960)
	-	-
Total assets	56,140	46,860
LIABILITIES		
Current		
Accounts payable and accrued liabilities	13,635	8,887
Current portion of loans payable (note 5)	1,615	1,649
Total current liabilities	15,250	10,536
Long-term portion of loans payable (note 5)	9,634	8,916
Total liabilities	24,884	19,452
EQUITY		
Contributed capital (note 6)	23,112	23,112
Retained earnings	7,280	5,879
Currency conversion adjustments (note 2)	864	(1,583)
Total equity	31,256	27,408
Total liabilities and equity	56,140	46,860

The accompanying notes are an integral part of these financial statements.

CANEX

STATEMENT OF INCOME AND RETAINED EARNINGS

(In 000's of Canadian dollars)

	Year ended 23 February 2003 \$	Year ended 24 February 2002 \$
Sales	134,376	122,461
Cost of merchandise sold and services provided	<u>102,536</u>	<u>93,859</u>
Gross profit	31,840	28,602
Other revenue (note 7)	<u>7,016</u>	<u>5,862</u>
	<u>38,856</u>	<u>34,464</u>
Operating expenses		
Payroll and benefits	18,687	16,569
Other operating expenses (note 8)	9,698	8,625
Depreciation and amortization	2,614	2,375
Levies to central funds (note 9)	580	458
Interest (note 5)	443	384
	<u>32,022</u>	<u>28,411</u>
Income from operations	6,834	6,053
Write-down of capital assets (note 10)	-	(927)
Gas bar decommissioning costs (note 11)	(640)	(330)
Royalties and contributions (note 12)	<u>(4,793)</u>	<u>(4,278)</u>
Net income	1,401	518
Retained earnings, beginning of year	<u>5,879</u>	<u>5,361</u>
Retained earnings, end of year	<u><u>7,280</u></u>	<u><u>5,879</u></u>

The accompanying notes are an integral part of these financial statements.

CANEX

STATEMENT OF CASH FLOWS

(In 000's of Canadian dollars)

	Year ended 23 February 2003 \$	Year ended 24 February 2002 \$
OPERATING ACTIVITIES		
Net income	1,401	518
Add items not affecting cash		
Depreciation and amortization	2,614	2,375
Loss on disposal of capital assets	179	123
Write-down of capital assets	-	927
	4,194	3,943
Net change in non-cash operating assets and liabilities	(374)	1,623
	3,820	5,566
INVESTING ACTIVITIES		
Purchase of capital assets	(7,229)	(3,107)
Proceeds on disposal of capital assets	139	63
	(7,090)	(3,044)
FINANCING ACTIVITIES		
Issuance of loans payable	2,436	2,660
Repayment of loans payable	(1,752)	(2,119)
	684	541
Effect of exchange rate changes on cash and cash equivalents	2,182	(9)
Net increase (decrease) in cash and cash equivalents	(404)	3,054
Cash and cash equivalents, beginning of year	4,195	1,141
Cash and cash equivalents, end of year	3,791	4,195
Supplemental cash flow information		
Cash paid for interest	443	384

The accompanying notes are an integral part of these financial statements.

CANEX

NOTES TO FINANCIAL STATEMENTS

23 February 2003 and 24 February 2002

(In 000's of Canadian dollars)

1. BASIS OF ORGANIZATION

The Canadian Forces Exchange System (CANEX) is a Division of the Canadian Forces Personnel Support Agency (CFPSA), operating under the authority of the Chief of the Defence Staff in his Non-Public Funds capacity. Responsibility for directing the affairs of CANEX rests with the Non-Public Property Board of Directors.

In Canada, business consists of merchandising operations at Canadian Forces Bases, Wings and Units, operating under the name CANEX. In Germany, similar businesses are operated at the NATO Air Base at Geilenkirchen ("NATO Air Base"), under the name NATEX, in accordance with the Concession Contract ("NATEX contract") between CANEX and the NAEWF E-3A Component HQ. CANEX also operates an automotive sales transaction office in Germany under the name AMSTO.

Substantially all of the profit of CANEX is distributed to Bases, Wings and Units at which CANEX operates. NATEX distributes profits to the NATO Air Base in accordance with the NATEX contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. As a government business enterprise carrying on a business, the financial statements of CANEX are prepared on the same basis as a private sector business. The more significant accounting policies are as follows:

Financial Presentation

These financial statements include the accounts of CANEX, NATEX and AMSTO. These entities are collectively referred to as CANEX for purposes of these financial statements. All significant transactions between the various entities have been eliminated.

The Department of National Defence provides certain facilities and services at no cost to CANEX. Accordingly, the accompanying financial statements reflect only those assets and costs which are owned or paid for by CANEX.

Revenue Recognition

Revenue from the sale of merchandise is realized upon acceptance by the customer. Concession and administration fees are recognized each period in accordance with the term of the agreements. Credit plan receivables that are due beyond a one year period are recorded as long-term receivables.

Foreign Currency Conversion

CANEX has certain transactions in currencies other than the functional currencies. These transactions are converted to the functional currency at the exchange rate in effect at the time the transactions occur. Monetary assets and liabilities, which are denominated in currencies other than the functional currency, are translated at year-end exchange rates. Exchange gains and losses resulting from the translation of these amounts are included in the determination of net income.

CANEX

NOTES TO FINANCIAL STATEMENTS

23 February 2003 and 24 February 2002

(In 000's of Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currency assets and liabilities of NATEX and AMSTO have been translated at the rate of exchange prevailing at the balance sheet date. Foreign currency revenues and expenses have been translated at the average rate of exchange for the year. Gains and losses resulting from translation of foreign currencies are recorded in equity as currency conversion adjustments.

Inventory

Inventory is recorded at the lower of cost and net realizable value less normal profit margins, as determined by the retail method for substantially all of the inventory.

Income Taxes

CANEX, an unincorporated entity, operating within the Department of National Defence is not subject to income taxes in Canada or Germany.

Capital Assets

Capital assets are recorded at cost and are depreciated and amortized on a straight-line basis over their estimated useful lives at the following rates:

Buildings	5%
Motor vehicles and computer equipment	24%
Fixtures and equipment	12%
Building improvements	9%

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates.

Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and loans payable. Except for the loans payable, these balances, as presented in the financial statements for FY 2002/03 and FY 2001/02, approximate their fair values. The loans payable are not listed securities and accordingly, the fair value of these loans is not readily determinable.

CANEX

NOTES TO FINANCIAL STATEMENTS

23 February 2003 and 24 February 2002

(In 000's of Canadian dollars)

3. CASH AND CASH EQUIVALENTS

CANEX utilizes the Canadian Forces Central Fund (CFCF) banking facility for its Canadian operations. Cash includes amounts on deposit and overdraft arrangements with the CFCF. NATEX operations utilize local banking arrangements and certain funds are held on deposits with the bank for periods of one year or less.

Cash held in trust represents cash held by NATEX on behalf of other Canadian Non-Public Funds entities.

4. CAPITAL ASSETS

	As at 23 February 2003 \$		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Buildings	15,110	9,457	5,653
Motor vehicles and computer equipment	2,217	1,332	885
Fixtures and equipment	11,456	7,109	4,347
Building improvements	<u>17,938</u>	<u>8,112</u>	<u>9,826</u>
	<u>46,721</u>	<u>26,010</u>	<u>20,711</u>
	As at 24 February 2002 \$		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Buildings	14,242	9,099	5,143
Motor vehicles and computer equipment	1,681	1,050	631
Fixtures and equipment	10,063	6,167	3,896
Building improvements	<u>13,526</u>	<u>7,030</u>	<u>6,496</u>
	<u>39,512</u>	<u>23,346</u>	<u>16,166</u>

CANEX

NOTES TO FINANCIAL STATEMENTS

23 February 2003 and 24 February 2002

(In 000's of Canadian dollars)

5. LOANS PAYABLE

Loans payable, held by the CFCE, bear interest at the rate of 4% per annum and are unsecured. Principal repayments over the next five years and thereafter are as follows:

	\$
FY 2003/04	1,615
FY 2004/05	1,490
FY 2005/06	1,262
FY 2006/07	1,150
FY 2007/08	1,085
Thereafter	4,647
	11,249
Less: Current portion	1,615
Long-term portion	9,634

6. CONTRIBUTED CAPITAL

During FY 2001/02, CANEX disposed of capital assets that had initially been transferred from CFB Wainwright Base Funds. Accordingly, the net book value of these capital assets was removed from contributed capital.

	Year ended 23 February 2003 \$	Year ended 24 February 2002 \$
Contributed capital, beginning of year	23,112	23,132
Disposal of capital assets	-	(20)
Contributed capital, end of year	23,112	23,112

7. OTHER REVENUE

Other revenue consists primarily of income from concessions at Bases, Wings and Units across Canada and administration fees for the Home Heating Oil and insurance programs.

CANEX

NOTES TO FINANCIAL STATEMENTS

23 February 2003 and 24 February 2002

(In 000's of Canadian dollars)

8. OTHER OPERATING EXPENSES

Included in the other operating expenses are \$715 of litigation expenses and a foreign exchange gain of \$862 (FY 2001/02 \$122).

9. LEVIES TO CENTRAL FUNDS

Levies are paid to the CFCF and the Canadian Forces Personnel Assistance Fund generally at the rate of 0.40% of total sales. Levies on AMSTO revenue are paid at a rate of 20% solely on automotive sales.

10. WRITE-DOWN OF CAPITAL ASSETS

During FY 2001/02, CANEX recorded a write-down of buildings and leasehold improvements of \$559 related to capital assets at certain bases and wings where the estimated net recoverable value of the capital assets was less than the net book value. In addition, during FY 2001/02, NATEX recorded a \$368 write-down of capital assets as the related assets had no future use or salvage value.

11. GAS BAR DECOMMISSIONING COSTS

CANEX continues to work closely with Shell Canada Products Limited and the Department of National Defence on the decommissioning of former CANEX gas bars and the remediation of contaminated sites. During FY 2002/03, CANEX incurred an additional \$640 (FY 2001/02 \$330) related to decommissioning efforts. Total closure and remediation costs incurred to date by CANEX are \$3,600. The ultimate cost of this decommissioning cannot be determined at this time. A reserve of \$506 (FY 2001/02 \$119) is included in accounts payable and accrued liabilities and represents managements' best estimate of CANEX's known future liability relating to this matter.

12. ROYALTIES AND CONTRIBUTIONS

CANEX paid royalties of \$3,307 (FY 2001/02 - \$2,933) to Canadian Forces Bases, Wings and Units. In Canada, royalties consist of CANEX's contribution to the per capita CFPSA grant and a direct distribution of 1.5% of total sales plus 30% of net concession revenues, with the exception of CFB Suffield and CFB Wainwright. Royalties at these two bases are based on 5% of total sales plus 30% of net concession revenues.

NATEX contributed \$1,486 (FY 2001/02 - \$1,345) to the NATO Air Base. NATEX contributions are based on various percentages of consumer sales, in accordance with the NATEX contract.

13. PENSION PLAN

Substantially all CANEX employees are eligible to be members of the Non-Public Funds Employees Pension Plan (the Plan). This Plan is a multi-employer, defined benefit pension plan, which provides retirement benefits relating to contributions and years of service. The most recent actuarial valuation indicated that the net liabilities of the Plan exceeded the net assets. CANEX's estimated annual obligation for this shortfall is \$295 over a five-year period of time. As a result CANEX contributed \$295 in FY 2002/03 for this shortfall in addition to \$142 (FY 2001/02 - \$209) of regular employer contributions to the Plan. Plan contributions are included in payroll and other benefits.

14. RELATED PARTY TRANSACTIONS

CFCF provides accounting and human resources services to CANEX. These transactions are in the normal course of operations and are recorded at the exchange amount of \$1,605 (FY 2001/02 - \$1,631), which is the amount of consideration established and agreed to by the related parties, and represents managements' best estimate of fair market value.

15. CONTINGENCIES

CANEX is involved in lawsuits, claims and other proceedings that arise in the ordinary course of business. There are no matters pending that management expects to be material in relation to its financial position or results of operations.

Section 2



SISIP Treasury Board Supported Plans
SISIP Proper



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**AUDITORS' REPORT ON THE SCHEDULE OF PREMIUM COLLECTED,
INVESTMENT INCOME, CLAIMS PAID AND EXPENSES PAID
FOR THE SERVICE INCOME SECURITY INSURANCE PLAN – PROPER**

To the Non-Public Property Board of Directors

We have audited the attached schedule of premium collected, investment income, claims paid and expenses paid in connection with the amounts reported in the Income Statement for the Service Income Security Insurance Plan (“SISIP”) – Proper for the year ended December 31, 2002. This financial information is the responsibility of the management of SISIP. Our responsibility is to express an opinion on this financial information based on our audit.

Except as explained in the following paragraph, 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 information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

Included in investment income is interest income totaling \$9,465,298 for SISIP – Proper which is calculated based on actuarial reserves. Management has engaged independent actuaries to assess the valuation of SISIP’s actuarial reserves. As a result, we were instructed not to perform any procedures in this area and were not able to satisfy ourselves whether any adjustments might be necessary to investment income which is calculated based on actuarial reserves.

SISIP accounts for its investment in segregated funds on a mark to market basis with unrealized gains of \$1,994,160 being recorded as investment income. In this respect, this financial information is not in accordance with Canadian generally accepted accounting principles as life and health insurance enterprises are required to account for such investments on a moving average market basis. If investment income relating to segregated funds were accounted for in accordance with Canadian generally accepted accounting principles, investment income for SISIP – Proper would have increased by \$ 1,661,521.



KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss nonoperating association.



SISIP accounts for capital expenditures as expenses paid in the year of acquisition. In this respect, this financial information is not in accordance with Canadian generally accepted accounting principles, which require capital expenditures to be deferred and amortized over their estimated useful life in a rational and systematic manner. If capital expenditures were accounted for in accordance with Canadian generally accepted accounting principles, expenses paid for SISIP – Proper would have decreased by \$231,445. An estimate of the amount of depreciation expense in respect of SISIP – Proper's capital expenditures has not been determined.

In our opinion, except for the effects of the accounting treatment of investments in segregated funds and capital expenditures, as described in the preceding paragraphs, and the effects of adjustments to investment income, if any, which we might have determined to be necessary had we been allowed to perform procedures regarding the valuation of actuarial reserves, the attached schedule presents fairly, in all material respects, the premium collected, investment income, claims paid and expenses paid as reported in the Income Statement for SISIP – Proper for the year ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada
March 20, 2003



SERVICE INCOME SECURITY INSURANCE PLAN
YEAR ENDED DECEMBER 31, 2002

PROPER

Premium collected	<u>\$ 31,993,289</u>
Investment income	<u>\$ 11,405,802</u>
Claims paid	<u>\$ 21,783,465</u>
Expenses paid	<u>\$ 7,060,954</u>

SISIP - Treasury Board Supported Plans
Balance Sheet
from January 01, 2002 to December 31, 2002

	(In 000s of dollars)	
	2002	2001
	\$	\$
ASSETS		
Funds	352,702	322,378
Total Assets	352,702	322,378
LIABILITIES		
Liabilities - Reserves	305,726	289,497
Total Liabilities	305,726	289,497
SURPLUS/(DEFICIT)		
Total Surplus/(Deficit)	46,976	32,881
Total Liabilities & Surplus	352,702	322,378

**SISIP Treasury Board Supported Plans
Year End Financial Results - FY 2002**

	(In 000s of dollars)	
	Year End	Year End
	2002	2001
	\$	\$
	(Note 1)	(Note 1)
Revenues		
Premiums	45,801	43,224
Investments	19,816	19,143
Total Revenues	65,617	62,367
Operating Expenses		
Claims and Related Expenses	25,437	23,747
Reserve Increase	16,229	18,425
Other	9,433	7,854
Total Operating Expenses	51,099	50,026
Operating Income (Loss)	14,518	12,341
Extraordinary Items	(423)	400
Net Income (Loss)	14,095	12,741

Note 1: Premiums, investment income, claims and other expenses verified by KPMG.

**SISIP - Proper
Balance Sheet
from January 01, 2002 to December 31, 2002**

	(In 000s of dollars)	
	2002	2001
	\$	\$
ASSETS		
Funds	331,251	331,157
Total Assets	331,251	331,157
LIABILITIES		
Liabilities - Reserves	151,609	148,095
Total Liabilities	151,609	148,095
SURPLUS/(DEFICIT)		
Total Surplus/(Deficit)	179,642	183,062
Total Liabilities & Surplus	331,251	331,157

SISIP Proper
Year End Financial Results - FY 2002

	(In 000s of dollars)	
	Year End	Year End
	2002	2001
	\$	\$
	(Note 1)	(Note 1)
Revenues		
Premiums	31,993	29,837
Investments	11,406	16,059
Total Revenues	43,399	45,896
Operating Expenses		
Claims and Related Expenses	21,783	21,966
Reserve Increase	3,514	1,587
Other	7,061	5,807
Total Operating Expenses	32,358	29,360
Operating Income (Loss)	11,041	16,536
Extraordinary Items		
Transfer to Re-capitalization Project	(14,000)	(20,000)
Other	(461)	(855)
Total Extraordinary Items	(14,461)	(20,855)
Net Income (Loss)	(3,420)	(4,319)
Adjusted Net Income (Loss) (note 2)	10,580	15,681

Note 1: Premiums, investment income, claims and other expenses verified by KPMG.

Note 2: Eliminating the Re-capitalization Project transfers

Section 3

Canadian Forces Personnel Assistance Plan

FINANCIAL STATEMENTS
For
CANADIAN FORCES PERSONNEL ASSISTANCE FUND
For ten months ended
DECEMBER 31, 2002

AUDITORS' REPORT

To the board of directors of

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

We have audited the statement of financial position of Canadian Forces Personnel Assistance Fund as at December 31, 2002 and the statements of revenue and expense and fund balance and cash flows for the ten month period 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 December 31, 2002 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Welch & Company LLP

CHARTERED ACCOUNTANTS

Ottawa, Ontario
March 8, 2003.

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2002

	<u>Dec. 31,</u> <u>2002</u>	<u>Feb. 28,</u> <u>2002</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	\$ 2,908,767	\$ 4,140,973
Cash held by bases for loans	178,677	187,177
Contributions and other receivables	21,400	32,652
Current portion of self-improvement loans receivable (note 3)	6,172,205	5,963,202
Current portion of distress loans receivable (note 3)	942,788	801,881
Current portion education of loans receivable (note 3)	<u>1,158,675</u>	<u>992,712</u>
	<u>11,382,512</u>	<u>12,118,597</u>
OFFICE EQUIPMENT , net of accumulated amortization of \$13,053 (2001 - \$20,845)	8,725	12,053
EDUCATION LOANS RECEIVABLE (note 3)	713,821	489,901
SELF-IMPROVEMENT LOANS RECEIVABLE (note 3)	1,494,922	1,257,679
DISTRESS LOANS RECEIVABLE (note 3)	<u>1,525,586</u>	<u>1,181,384</u>
	<u>3,743,054</u>	<u>2,941,017</u>
TRUST ASSETS (note 4)		
Deposit with Canadian Forces Central Fund	<u>41,060</u>	<u>39,572</u>
	<u>\$ 15,166,626</u>	<u>\$ 15,099,186</u>
<u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 4,681	\$ 11,614
TRUST LIABILITIES (note 4)	<u>41,060</u>	<u>39,572</u>
	45,741	51,186
FUND BALANCE	<u>15,120,885</u>	<u>15,048,000</u>
	<u>\$ 15,166,626</u>	<u>\$ 15,099,186</u>

Approved by the Board:

..... Director

..... Director

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF REVENUE AND EXPENSE AND FUND BALANCE
TEN MONTHS ENDED DECEMBER 31, 2002

(With comparative figures for the year ended February 28, 2002)

	Ten months ended Dec. 31, 2002	Year ended Feb. 28, 2002
Revenue		
Interest on loans receivable	\$ 364,028	\$ 421,346
Contributions from Canadian Forces Central Fund	204,583	247,804
Interest on deposits	91,265	176,372
Miscellaneous	<u>3,294</u>	<u>65,388</u>
	<u>663,170</u>	<u>910,910</u>
Expense		
Salaries and employee benefits	327,414	362,734
Grants	154,396	204,560
Loans written off - net of recoveries	99,767	146,654
Amortization	3,328	4,711
Loss on disposal of capital assets	-	502
Miscellaneous	<u>5,380</u>	<u>6,092</u>
	<u>590,285</u>	<u>725,253</u>
Net revenue (expense) for the year	72,885	185,657
Fund balance - beginning of year	<u>15,048,000</u>	<u>14,862,343</u>
Fund balance - end of year	<u>\$ 15,120,885</u>	<u>\$ 15,048,000</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

STATEMENT OF CASH FLOWS

TEN MONTHS ENDED DECEMBER 31, 2002

(With comparative figures for the year ended February 28, 2002)

	Ten months ended Dec. 31, <u>2002</u>	Year ended Feb. 28, <u>2002</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue (expense) for the year	\$ 72,885	\$ 185,657
Items not affecting cash -		
Loans written off	104,594	150,854
Amortization	3,328	4,711
Loss on disposal of capital assets	-	502
Changes in level of:		
Contributions and other receivables	14,298	(13,278)
Accounts payable	<u>(5,445)</u>	<u>(59,085)</u>
	<u>189,660</u>	<u>269,361</u>
Investing activities		
Self Improvement loans advanced	(8,408,245)	(9,500,400)
Distress loans advanced	(1,368,480)	(1,200,404)
Education loans advanced	(1,561,400)	(1,595,900)
Repayment of loans	<u>9,909,247</u>	<u>11,789,163</u>
	<u>(1,428,878)</u>	<u>(507,541)</u>
Increase (decrease) in cash for the year	(1,239,218)	(238,180)
Cash and deposits, beginning of year	<u>4,367,722</u>	<u>4,605,902</u>
Cash and deposits, end of year	\$ <u>3,128,504</u>	\$ <u>4,367,722</u>
Cash and deposits consists of:		
Deposits with Canadian Forces Central Fund	\$ 2,949,827	\$ 4,180,545
Cash held by bases for loans	<u>178,677</u>	<u>187,177</u>
	\$ <u>3,128,504</u>	\$ <u>4,367,722</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
NOTES TO FINANCIAL STATEMENTS
TEN MONTHS ENDED DECEMBER 31, 2002

1. AUTHORITY, PURPOSE AND OBJECTIVES

The Canadian Forces Personnel Assistance Fund operates as a charitable organization and was established under the authority of the National Defence Act Section 39, by CDS Order - CFPAF, the 8 December 1969. CFPAF is registered with Canada Customs and Revenue Agency as a charitable organization and is exempt from paying income tax under Part I of Income Tax Act. CFPAF's purpose is to provide financial assistance to serving or former members of the Canadian Forces and their dependants when warranted by distress or other deserving circumstances. These objectives are achieved by means of counselling and financial assistance in the form of self-improvement loans, distress loans, education loans and grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Financial instruments*

Financial instruments recognized in the balance sheet consist of cash, deposit with Canadian Forces Central Fund, contributions and other receivables, loans receivable and liabilities. Financial instruments, which potentially subject the fund to concentration of credit risk, consist principally of cash deposit with CFCF and loans receivable. Funds are deposited with CFCF and are part of the CFCF investment portfolio performance. CFPAF does not require collateral or other security to support loans advanced to former members of the Canadian Forces and therefore bears an element of credit risk. Interest risk is heightened for loans receivable given that interest rates are fixed or loans are non-interest bearing.

(b) *Office equipment*

Office equipment is recorded at cost and amortized on a straight-line basis over its estimated useful life at an annual rate of 24%.

(c) *Contributions*

Contributions from CFCF are recorded monthly upon allocation in accordance with the agreement between the CFCF and the Fund.

(d) *Interest on loans receivable*

Interest on loans receivable are recorded as revenue over the term of the related loan.

(e) *Grants*

Grants are recorded as expenses when paid or when conversions of loans to grants are approved by the CFPAF manager.

(f) *Services provided without charge*

SISIP Financial Services provides office accommodation to the Fund. In addition, departmental employees participate in the administration of loan applications, cheque issuance and collection of monies by payroll deductions, on behalf of the Fund. Because of the difficulty of determining their fair value, these services are not recognized in the financial statements.

(g) *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 PERSONNEL ASSISTANCE FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
TEN MONTHS ENDED DECEMBER 31, 2002

3. LOANS RECEIVABLE

(a) *Self-improvement loans*

Member loans range from \$500 to \$4,000. Terms of repayment vary from 12 to 24 months and bear an annual interest rate of 5.5%.

(b) *Distress loans*

Individual loans of up to \$15,000 may be granted with payment terms extending to 10 years. These loans became interest free effective July 1, 1995.

(c) *Education loans*

Applicants may request a maximum of \$2,500 per student, with repayment over 12 or 24 months at an annual interest rate of 2%.

4. TRUST LIABILITIES

The Canadian Forces Personnel Assistance Fund administers four trust funds.

The Corporal Ronald MacDonald Memorial Trust Fund assists members of the Canadian Forces and their families through grants paid out of interest earned. The original endowment of \$20,000 is to remain in perpetuity.

The Logistics Branch Bursary Fund was established in January 1994 by members of the Logistics Branch of the Canadian Forces to provide educational bursaries to dependants of Logistics members to assist with their post secondary studies. Adjudication of awards rests solely with a special committee established by the Logistics Advisor.

The Signals Welfare Incorporated (SWI) provides financial assistance to veterans or dependants thereof who served in the Royal Canadian Corps of Signals during World War II and members of the Canadian Forces who served or are serving with the communications service whose enlistment date is subsequent to September 30, 1946.

The Distress Trust Account was established during the current year to control the outstanding grant balances. The grants are determined by CFPAF and payments are distributed upon receipt of invoices.

The following is a summary of transactions for the year.

	<u>Distress Trust</u>	<u>Corporal Ronald MacDonald Memorial Trust Fund</u>	<u>Logistics Branch Bursary Fund</u>	<u>Signals Welfare Inc.</u>	<u>Total</u>
Balance, beginning of year	\$ -	\$ 20,532	\$ 15,937	\$ 3,103	\$ 39,572
Interest received	-	567	311	-	878
Disbursements	-	(550)	-	(500)	(1,050)
Receipts to Trust Account	<u>1,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,660</u>
Balance, end of year	<u>\$ 1,660</u>	<u>\$ 20,549</u>	<u>\$ 16,248</u>	<u>\$ 2,603</u>	<u>\$ 41,060</u>

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS - Cont'd.

TEN MONTHS ENDED DECEMBER 31, 2002

5. PENSION

The Non-Public Funds Employees Pension Plan (the "Plan") is a multi-employer, defined benefit pension plan, which provides retirement benefits relating to contributions and years of service. The most recent actuarial valuation of the pension plan was performed as at December 31, 2002 and indicated that the net liabilities of the Plan exceeded the net assets.

6. CHANGE IN FISCAL YEAR

In order to comply with SISIP's fiscal year-end, the year-end of the Canadian Forces Personnel Assistance Fund was changed to December 31st. The year-end financial statements reflect the results of operations for the ten month period ended December 31, 2002.

Canadian Forces Central Fund

FINANCIAL STATEMENTS
For
CANADIAN FORCES CENTRAL FUND
For year ended
FEBRUARY 23, 2003

AUDITORS' REPORT

To the board of directors of

CANADIAN FORCES CENTRAL FUND

We have audited the statement of financial position of Canadian Forces Central Fund as at February 23, 2003 and the statements of fund balances, revenue and expense 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 February 23, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Welch & Company LLP

CHARTERED ACCOUNTANTS

Ottawa, Ontario
April 30, 2003.

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF FINANCIAL POSITION
FEBRUARY 23, 2003**

	<u>Feb. 23, 2003</u>	<u>Feb. 24, 2002</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 3)	\$ 7,680,992	\$ 7,138,706
Accrued interest receivable	1,009,238	1,207,012
Accounts receivable	6,186,521	4,522,611
Prepaid expenses	144,296	81,085
Current portion of project loans receivable (note 4)	<u>2,347,827</u>	<u>3,066,816</u>
	<u>17,368,874</u>	<u>16,016,230</u>
OTHER ASSETS		
Project loans receivable (note 4)	16,769,164	15,325,549
Advance to TFBH	1,437,000	1,437,000
Long-term investments (note 5)	60,765,605	75,856,851
Furnishings and equipment (note 6)	<u>903,566</u>	<u>938,796</u>
	<u>79,875,335</u>	<u>93,558,196</u>
	<u>97,244,209</u>	<u>109,574,426</u>
TRUST ASSETS		
Cash and investments	35,174,435	39,118,206
Receivable	<u>328,206</u>	<u>241,373</u>
	<u>35,502,641</u>	<u>39,359,579</u>
	<u>\$ 132,746,850</u>	<u>\$ 148,934,005</u>
<u>LIABILITIES AND FUND BALANCES</u>		
CURRENT LIABILITIES		
Accounts payable and employee deductions payable	\$ 11,504,672	\$ 9,455,118
TRUST LIABILITIES		
	<u>35,502,641</u>	<u>39,359,579</u>
	<u>47,007,313</u>	<u>48,814,697</u>
FUND BALANCES		
Unappropriated	79,455,329	94,431,548
Appropriated for grants (note 7)		
Minor projects	1,632,457	1,616,320
Future personnel costs	4,464,891	4,071,440
Future insurance costs	<u>186,860</u>	<u>-</u>
	<u>85,739,537</u>	<u>100,119,308</u>
	<u>\$ 132,746,850</u>	<u>\$ 148,934,005</u>

Approved on behalf of the board:

..... Director

.....Director

(See accompanying notes)

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF FUND BALANCES
YEAR ENDED FEBRUARY 23, 2003**

	<u>Unappropriated surplus</u>	<u>Minor projects</u>	<u>Future Personnel costs</u>	<u>Future Insurance costs</u>	<u>Feb. 23, 2003</u>	<u>Feb. 24, 2002</u>
Balance, beginning of year	\$ 94,431,548	\$ 1,616,320	\$ 4,071,440	\$ -	\$ 100,119,308	\$ 108,856,618
Net expense for year	(13,519,516)	-	-	-	(13,519,516)	(8,421,303)
Project and personnel expenditure	<u>-</u>	<u>(674,926)</u>	<u>(185,329)</u>	<u>-</u>	<u>(860,255)</u>	<u>(316,007)</u>
	<u>(13,519,516)</u>	<u>(674,926)</u>	<u>(185,329)</u>	<u>-</u>	<u>(14,379,771)</u>	<u>(8,737,310)</u>
Interfund transfers (appropriation)	<u>(1,456,703)</u>	<u>691,063</u>	<u>578,780</u>	<u>186,860</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 79,455,329</u>	<u>\$ 1,632,457</u>	<u>\$ 4,464,891</u>	<u>\$ 186,860</u>	<u>\$ 85,739,537</u>	<u>\$ 100,119,308</u>

(See accompanying notes)

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF REVENUE AND EXPENSE**

YEAR ENDED FEBRUARY 23, 2003

(With comparative figures for the year ended February 24, 2002)

	Year ended Feb. 23, <u>2003</u>	Year ended Feb. 24, <u>2002</u>
Revenue		
Investment income (note 5)	\$ 1,364,760	\$ 1,969,442
Writedown of corporate stocks and options	<u>(1,116,953)</u>	<u>-</u>
	247,807	1,969,442
Less:		
Interest attributed to Trust and Welfare Funds	<u>(328,358)</u>	<u>(448,798)</u>
Net investment income (loss)	(80,551)	1,520,644
Interest - loans	623,033	617,784
CFCF levies	478,083	398,860
Provided by Public to PSP	42,300,968	37,171,545
Other Public PSP Revenue	176,615	148,371
Accounting services (note 12)	2,296,331	2,225,949
Pension administration fees (note 12)	167,678	154,058
Miscellaneous	292,386	279,768
Foreign exchange gain (loss)	(99)	(80,229)
SISIP contribution to CPFSA/Youth	600,000	600,000
CANEX contribution to CFPSA	1,000,000	888,000
Personnel services	1,372,500	1,297,358
PSP activities	923,415	815,912
Production Centre	<u>-</u>	<u>731,415</u>
	<u>50,150,359</u>	<u>46,769,435</u>
Expense		
Salaries - Publicly-Funded PSP (schedule A)	29,162,478	26,091,617
- NPF (schedule A)	8,084,128	6,974,282
Bank charges	393,241	339,960
Distribution to units - interest on CBA (note 3)	1,189,132	1,043,556
IM/IT support	1,773,806	1,337,050
Miscellaneous grants	3,815,652	3,709,816
Grants issued for major projects	4,800,000	2,600,000
Grants issued for minor projects	674,926	66,277
PSP Personnel Appropriation Expense	185,329	249,730
Insurance	854,607	769,938
Litigation payments	-	47,948
Miscellaneous - Recovery from Public (schedule B)	9,034,245	7,500,596
- NPF (schedule C)	613,026	1,314,089
Travel	1,889,950	782,130
Training	536,427	224,968
PSP programs and sports	1,253,299	1,261,485
Production Centre	-	962,310
Amortization	<u>269,884</u>	<u>230,993</u>
	<u>64,530,130</u>	<u>55,506,745</u>
Net expense for the year	<u>\$ (14,379,771)</u>	<u>\$ (8,737,310)</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 23, 2003

	Year ended Feb. 23, <u>2003</u>	Year ended Feb. 24, <u>2002</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net expense for the year	\$ (14,379,771)	\$ (8,737,310)
Items not affecting cash -		
Writedown of corporate stocks and options	1,116,953	-
Amortization	<u>269,884</u>	<u>230,993</u>
	(12,992,934)	(8,506,317)
Changes in level of:		
Accrued interest receivable	197,774	823,889
Accounts receivable	(1,663,910)	(281,345)
Prepaid expenses	(63,211)	(13,779)
Accrued levies receivable	-	2,603
Accounts payable and employee deductions payable	<u>2,049,554</u>	<u>(8,417,221)</u>
	<u>(12,472,727)</u>	<u>(16,392,170)</u>
Financing activities		
Decrease (increase) in project loans receivable	<u>(724,626)</u>	<u>71,516</u>
Investing activities		
Decrease in long-term investments	13,974,293	13,245,062
Advance to TFBH	-	(1,437,000)
Purchase of furnishings and equipment - net	<u>(234,654)</u>	<u>(437,190)</u>
	<u>13,739,639</u>	<u>11,370,872</u>
Total cash provided (used)	542,286	(4,949,782)
Cash and cash equivalents, beginning of year	<u>7,138,706</u>	<u>12,088,488</u>
Cash and cash equivalents, end of year	<u>\$ 7,680,992</u>	<u>\$ 7,138,706</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 23, 2003

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) *Furnishings and equipment*

Furnishings and equipment are recorded at cost and amortized at the following annual rates:

Leasehold improvements	9% straight-line
Office furniture	12% straight-line
Computer equipment	24% straight-line

(b) *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 carried at the lower of cost and market. Fair value of securities is based upon the quoted market prices.

(c) *Long-term investments*

Investments are actively traded to generate capital, interest and dividend income. Equity securities are recorded at cost while bonds and debentures are recorded at their amortized cost. Bond premiums and discounts are amortized over the term of the investment. Long-term investments are written down to fair value when declines in value are other than temporary.

Investment income includes interest, gains and losses on disposal of investment securities, and dividends. Gains and losses on disposal are calculated based on the average cost of the security sold.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED FEBRUARY 23, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

(d) *Financial instruments*

Financial instruments recognized in the balance sheet consist of cash and cash equivalents, accounts receivable, project loans receivable, advance to TFBH, long-term investments and liabilities.

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash, investments, 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.

Credit risk with respect to accounts receivable is considered moderate owing to historically high turnover rates. 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.

Up to 13.5% of the CFCF investment portfolio may be denominated in foreign currency, and the Fund accepts the market risks associated with foreign currency exchange rate fluctuations.

Interest rate risk is heightened for project loans receivable given that interest rates are generally fixed at 4%. Risk of this nature is reduced for long-term investments given the extended maturity dates. Rates on short-term investments are subject to higher volatility depending on the stability of the market.

(e) *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.

(f) *Translation of foreign currencies*

Investments acquired and paid for in foreign currencies are carried at their Canadian dollar equivalent at the date of acquisition. Income received in foreign currencies is translated to Canadian dollars at the rate of exchange in effect at the date of the receipt.

3. 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 interest earned on such funds less a percentage paid back to the units and funds (3% for units, varying percentage for trusts based on balances).

	Feb. 23, 2003 <u>Cost</u>	Feb 24, 2002 <u>Cost</u>
Guaranteed Investment Certificates and other fixed income securities	\$ 10,708,253	\$ 6,269,236
Cash	<u>856,592</u>	<u>4,234,149</u>
Less allocated to trust assets	<u>(3,883,853)</u>	<u>(3,364,679)</u>
	<u>\$ 7,680,992</u>	<u>\$ 7,138,706</u>

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED FEBRUARY 23, 2003

4. 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 Board of Directors approves the full or partial forgiveness of specific loan balances.

	<u>Feb. 23, 2003</u>	<u>Feb 24, 2002</u>
Interest bearing loans	\$ 19,016,991	\$ 17,667,365
Interest free loans	<u>100,000</u>	<u>725,000</u>
	19,116,991	18,392,365
Less current portion	<u>(2,347,827)</u>	<u>(3,066,816)</u>
	<u>\$ 16,769,164</u>	<u>\$ 15,325,549</u>

5. LONG-TERM INVESTMENTS

	February 23, 2003		February 24, 2002	
	Fair value	Cost	Fair value	Cost
Corporate stocks and options	\$ 41,188,022	\$ 42,304,975	\$ 46,210,062	\$ 46,358,487
Government bonds	43,629,618	42,895,988	60,229,307	58,995,458
Other indexed securities	<u>6,126,107</u>	<u>7,972,177</u>	<u>5,070,451</u>	<u>6,256,433</u>
	<u>\$ 90,943,747</u>	93,173,140	<u>\$ 111,509,820</u>	111,610,378
Less writedown of corporate stocks and options		(1,116,953)		-
Less allocation to trusts		<u>(31,290,582)</u>		<u>(35,753,527)</u>
		<u>\$ 60,765,605</u>		<u>\$ 75,856,851</u>

Terms to maturity of bonds and debentures range from 2003 to 2031 with the majority of these investments maturing within 5 to 6 years. Interest rates on government bonds vary from 4.8% to 8.8%.

Investment income includes net losses from sales of investments which amounted to \$2,400,988 (2002 net losses - \$2,805,656).

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED FEBRUARY 23, 2003

6. FURNISHINGS AND EQUIPMENT

	February 23, 2003			February 24, 2002
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Net book value</u>
Leasehold improvements	\$ 14,554	\$ 5,085	\$ 9,469	\$ 15,483
Office furniture	77,506	3,491	74,015	252,934
Computer equipment	<u>2,618,454</u>	<u>1,798,372</u>	<u>820,082</u>	<u>670,379</u>
	<u>\$ 2,710,514</u>	<u>\$ 1,806,948</u>	<u>\$ 903,566</u>	<u>\$ 938,796</u>

7. APPROPRIATION FOR GRANTS

(a) *Minor projects grants*

CFCF annually appropriates an amount for projects given specific approval during the year.

(b) *Future Personnel Costs*

Amounts have been appropriated to provide funding for future PSP personnel costs, such as severance pay, hiring costs, accumulated leave, maternity leave, etc.

(c) *Future Insurance Costs*

Amounts have been appropriated to provide funding for future NPF insurance claims based on 40% risk retention on CIP property coverage.

8. CONTINGENT LIABILITY

CFCF is contingently liable for \$515,000 (2002 - \$515,000) for letters of credit supplied to various provincial liquor boards on behalf of unit messes.

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the financial statement presentation adopted for the current year.

10. COMMITMENTS

As at February 23, 2003, CFCF had approved loans to bases and ships totalling \$1,285,500 (2002 - \$1,970,091) which were not yet advanced.

In addition, the Fund has entered into a contract for radio and television satellite broadcasting with an annual cost as follows:

2004	<u>\$ 2,400,000</u>
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CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED FEBRUARY 23, 2003

11. PENSION

The Non-Public Funds Employees Pension Plan (the "Plan") is a multi-employer, defined benefit pension plan, which provides retirement benefits relating to contributions and years of service. The most recent actuarial valuation of the pension plan was performed as at December 31, 2002 and indicated that the net liabilities of the Plan exceeded the net assets.

12. RELATED PARTY TRANSACTIONS

During the year CFCF charged other non-public fund entities for accounting services, personnel and payroll services.

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.

CANADIAN FORCES CENTRAL FUND
SCHEDULE OF EXPENSES
YEAR ENDED FEBRUARY 23, 2003

SCHEDULE A: SALARIES

	2003		
	Publicly-Funded		Total
	PSP	Non-Public	
Exec VP PSP administrative	\$ 1,869,976	\$ 398,448	\$2,268,424
VP HR administrative	451,422	1,678,954	2,130,376
Deployed Ops	2,723,674	-	2,723,674
Audit	637,134	130,734	767,868
PSP managers	1,332,198	-	1,332,198
Mess managers	2,008,526	-	2,008,526
Physical education	12,378,273	-	12,378,273
Regional accounting	3,146,469	1,645,037	4,791,506
CFO VPI accounting	300,575	858,784	1,159,359
Regional HR	-	2,013,478	2,013,478
CANEX administrative	1,706,250	-	1,706,250
PSP Support to small bases	732,577	-	732,577
CFO VPI and regional IM/IT	399,813	1,052,231	1,452,044
CEO/CS	291,943	306,462	598,405
Recreation and Comm svcs	<u>1,183,648</u>	<u>-</u>	<u>1,183,648</u>
	<u>\$29,162,478</u>	<u>\$ 8,084,128</u>	<u>\$37,246,606</u>

	2002		
	Publicly-Funded		Total
	PSP	Non-Public	
Exec VP PSP administrative	\$ 1,327,082	\$ 202,995	\$ 1,530,077
VP HR administrative	372,027	1,891,245	2,263,272
Deployed Ops	2,469,267	-	2,469,267
Audit	585,840	120,410	706,250
PSP managers	1,148,372	-	1,148,372
Mess managers	1,901,082	-	1,901,082
Physical education	12,307,320	-	12,307,320
Regional accounting	2,955,015	1,357,359	4,312,374
CFO VPI accounting	250,871	653,313	904,184
Regional HR	-	1,454,147	1,454,147
CANEX administrative	1,706,220	-	1,706,220
PSP support to small bases	242,985	-	242,985
CFO VPI and regional IM/IT	323,919	760,529	1,084,448
CEO/CS	<u>501,617</u>	<u>534,284</u>	<u>1,035,901</u>
	<u>\$26,091,617</u>	<u>\$ 6,974,282</u>	<u>\$33,065,899</u>

CANADIAN FORCES CENTRAL FUND
SCHEDULE OF EXPENSES - Cont'd.
YEAR ENDED FEBRUARY 23, 2003

SCHEDULE B: MISCELLANEOUS

	<u>2003</u>	<u>2002</u>
Recovery from Public		
Deployment Support	\$ 6,374,481	\$ 3,949,453
Chief Executive Officer/Corporate Services	40,568	240,451
DMFS/MFNAB	277,091	287,452
Equipment	(1,565)	807,506
Other expenses	210,595	439,091
Deployed operations	146,946	266,688
Exec VP PSP fitness and sports	1,559,396	1,368,955
Personnel liabilities and GECA	141,000	141,000
CFO VPI IM/IT and building services	119,858	-
VP HR expenses	18,129	-
VP IA&R expenses	<u>147,746</u>	<u>-</u>
	<u>\$ 9,034,245</u>	<u>\$ 7,500,596</u>

SCHEDULE C: MISCELLANEOUS

	<u>2003</u>	<u>2002</u>
NPF		
CFCF	\$ 117,159	\$ 152,999
VP HR	214,277	186,954
CEO/CS	39,773	778,181
CFO VPI	74,040	55,178
Exec VP PSP	20,152	12,362
VP IA&R	3,925	4,311
Regional accounting	121,070	100,952
Regional HR	<u>22,630</u>	<u>23,152</u>
	<u>\$ 613,026</u>	<u>\$ 1,314,089</u>

Section 5

Non-Public Funds Employees Pension Plan

Financial Statements

**Canadian Forces Non-Public Funds
Employees Pension Plan**

December 31, 2002

AUDITORS' REPORT

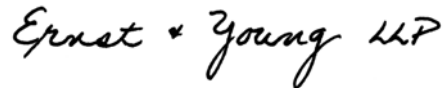
To the Chairperson and Members of the Employee Pension Plan Committee,
Canadian Forces Non-Public Funds Employees Pension Plan

We have audited the statement of net assets available for benefits and accrued pension benefits and deficit of **Canadian Forces Non-Public Funds Employees Pension Plan** as at December 31, 2002 and the statements of changes in surplus (deficit), accrued pension benefits and net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan 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 net assets available for benefits and accrued pension benefits, surplus and deficit of the Plan as at December 31, 2002 and the changes in surplus (deficit), accrued pension benefits and net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,
January 31, 2003.



Chartered Accountants

Canadian Forces Non-Public Funds Employees Pension Plan

**STATEMENT OF NET ASSETS AVAILABLE FOR
BENEFITS AND ACCRUED PENSION BENEFITS**

As at December 31

NET ASSETS AVAILABLE FOR BENEFITS

	2002	2001
	\$	\$
Investments at Manulife, at market <i>[Schedule A]</i>	51,850,981	56,551,968
Bank	380,394	457,796
Pension receivable	2,290,557	—
Prepaid expense	11,385	7,988
Capital assets <i>[note 4]</i>	56,478	108,068
	54,589,795	57,125,820
Less: accrued liabilities	95,792	48,888
Net assets available for benefits	54,494,003	57,076,932

ACCRUED PENSION BENEFITS AND DEFICIT

Actuarial value of accrued pension benefits <i>[note 5]</i>	64,413,000	62,494,486
Deficit	(9,918,997)	(5,417,554)
Accrued pension benefits and surplus	54,494,003	57,076,932

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

STATEMENT OF CHANGES IN SURPLUS (DEFICIT)

Year ended December 31

	2002	2001
	\$	\$
Surplus (deficit) of net assets available for benefits versus accrued pension benefits, beginning of year	(5,417,554)	4,929,630
Net decrease in net assets available for benefits	(2,582,929)	(5,179,493)
Net increase in accrued pension benefits	(1,918,514)	(5,167,691)
Deficit of net assets available for benefits versus accrued pension benefits, end of year	(9,918,997)	(5,417,554)

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

**STATEMENT OF CHANGES
IN ACCRUED PENSION BENEFITS**

[note 5]

Year ended December 31

	2002	2001
	\$	\$
INCREASE IN BENEFITS		
Interest accrued on benefits	3,914,484	3,771,614
Benefits accrued	6,320,960	5,051,326
Increase in accrued benefits	10,235,444	8,822,940
DECREASE IN ACCRUED BENEFITS		
Annuity payments and refunds	3,651,305	3,655,249
Adjustment to valuation	4,665,625	—
Decrease in accrued benefits	8,316,930	3,655,249
Net increase in accrued pension benefits	1,918,514	5,167,691
Accrued pension benefits, beginning of year	62,494,486	57,326,795
Accrued pension benefits, end of year [note 5]	64,413,000	62,494,486

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

**STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS**

Year ended December 31

	2002	2001
	\$	\$
INCREASE IN NET ASSETS		
Contributions		
Employer	3,363,319	801,877
Employees	2,164,712	1,645,383
	5,528,031	2,447,260
INVESTMENTS		
Unrealized market gain (loss)	2,459,578	(3,722,957)
Interest income	722,875	1,404,787
Dividend income	428,557	464,686
Capital gain (loss) - fixed income	237,589	(270,252)
Loss on currency	(290)	(339)
Capital loss - equities	(7,544,121)	(1,260,923)
	(3,695,812)	(3,384,998)
	1,832,219	(937,738)
DECREASE IN NET ASSETS		
Withdrawals		
Annuity payments	2,996,561	2,824,838
Refunds	654,745	830,411
	3,651,306	3,655,249
OPERATING EXPENSES		
Professional fees	269,444	75,696
Investment management fees	208,180	220,806
Pension administration	167,679	154,058
Miscellaneous expenses	66,949	80,376
Amortization expense	51,590	55,570
	763,842	586,506
	4,415,148	4,241,755
Net decrease in net assets during the year	(2,582,929)	(5,179,493)
Net assets available for benefits, beginning of year	57,076,932	62,256,425
Net assets available for benefits, end of year	54,494,003	57,076,932

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

1. PENSION PLAN

The Canadian Forces Non-Public Funds Employees Pension Plan [the "Plan"] was established under the provisions of Section 38 of the National Defence Act to account for the accumulation of employee deductions and employer contributions from participating bases, the transfer of such funds to the custodian for investment purposes and the recording of fund assets and liabilities. The Plan is a contributory defined benefit plan integrated with the Canada/Quebec Pension Plan and registered under the Pension Benefits Standards Act of Canada. Plan membership is compulsory for all full-time employees over 18 years of age and having four years of service. The Plan is funded by the employee and employer. The employee contributes 4.5% of earnings which are not in excess of the Canada/Quebec Pension Plan Year's Maximum Pensionable Earnings [YMPE], and 6% of the member's annualized earnings in excess of the YMPE. The employer contributes actuarially recommended amounts sufficient to satisfy any experience deficiency and provide pension benefits accruing to plan members during the current year. The most recent actuarial valuation of the Plan was as at December 31, 2002.

Employees meeting eligibility conditions are entitled to annual pension benefits beginning at age sixty-five for service on or after January 1, 1997 equal to 1.5% of the employees' average pensionable earnings up to the average YMPE plus 2% of the employees' average pensionable earnings above the average YMPE times the number of years of pensionable service since January 1, 1997 plus, for service before January 1, 1997, the greatest of: a) 40% of the employees' total required contributions before January 1, 1997, b) 1.5% of the employees' average pensionable earnings up to the average YMPE plus 2% of the employees' average pensionable earnings above the average YMPE times the years of pensionable service before January 1, 1997, or c) 1.8% of the employees' average pensionable earnings for 1994, 1995 and 1996 up to \$34,900 plus 2.4% of the employees' average pensionable earnings for 1994, 1995 and 1996 above \$34,900 but below \$52,350 plus 2% of the employees' average pensionable earnings for 1994, 1995 and 1996 above \$52,350 times the number of years of pensionable service before January 1, 1997. Employees with less than three years of pensionable service are only eligible for the greater of a) or b) for their service prior to January 1, 1997.

The normal form of pension provides for monthly payments for life with 180 payments guaranteed. Should the Employee die before receiving the guaranteed 180 monthly payments, the remainder will continue to be paid to the beneficiary. If the Employee has a spouse at retirement, the automatic option provides that a joint pension in an amount that is the actuarial equivalent of the normal form is payable throughout the joint lifetime of the Employee and spouse, reducing to 60% on the death of the Employee. Although, an Employee may elect a joint and survivor pension which provides for a benefit of 100% to the surviving spouse after death. In the event the normal form is not the form payable, the benefit payable will be the actuarial equivalent of the normal form, which cannot exceed the amount payable under the normal form.

An Employee who retires early from active service and who satisfies the eligibility requirements as follows; a) has attained age fifty-five at retirement, b) must have completed at least five years of pensionable service at retirement, and c) the sum of the Employee's age and pensionable service at retirement must be equal to at least sixty-five, is entitled to also receive an annual bridge

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

benefit payable in equal monthly installments in an amount equal to \$15 per month for each completed year of pensionable service, to a maximum of twenty years. Such bridge benefit is payable from the date that early retirement pension commences and ceases with the payment immediately preceding or coinciding with the earlier of the Employee's normal retirement date or the date of death.

Pensionable earnings means base salary and wages including overtime and performance pay, but excluding bonuses or other special remuneration. Average pensionable earnings means the employee's average earnings as a plan member during the three highest-paid consecutive years in the ten years before the retirement date. If the employee has less than three years of pensionable service, then the actual average of earnings received will be used.

Employees who have ten or more years of pensionable service may retire at age sixty and receive an immediate unreduced pension. Employees who are age fifty with ten or more years of pensionable service may elect to retire early and receive a pension reduced by 0.25% for each month that the actual retirement date precedes their sixtieth birthday. Employees who are age fifty-five with less than ten years of pensionable service may elect to retire early and receive a pension reduced by 0.25% for each month that the actual retirement date precedes their sixty fifth birthday.

An employee with less than two years Plan membership is entitled to a refund of employee contribution plus interest on termination. After two years of Plan membership, the employee is entitled upon termination to a deferred pension under the Plan and depending on the circumstances may transfer the lump sum value of the employees pension to a locked in RRSP, purchase a deferred life annuity or transfer to a new employer's pension plan.

The beneficiary of a plan member who dies with less than two years service receives a refund of the member's contribution with interest.

If death occurs two or more year after Plan membership, the surviving spouse will be entitled to elect among the following alternative; transfer to a locked-in RRSP; or transfer to a registered pension plan; or purchase an immediate life annuity or a deferred life annuity.

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

2. SIGNIFICANT ACCOUNTING POLICY

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. Fund assets, liabilities, contributions and expenses are reported on the accrual basis of accounting.

3. PENSION INVESTMENTS

Pension investments, administered by an independent trustee, are valued at market, representing the value at the balance sheet date which could be realized in the event that such investments were converted to cash. The net unrealized market gain or loss is reflected in the statement of changes in net assets available for benefits.

4. CAPITAL ASSETS

	<u>2002</u>		<u>2001</u>	
	<u>Cost</u>	<u>Accumulated</u>	<u>Cost</u>	<u>Accumulated</u>
	\$	\$	\$	\$
Software	216,143	159,665	216,143	108,075
Accumulated amortization	(159,665)		(108,075)	
Net book value	56,478		108,068	

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful life at 24% per annum.

5. ACCRUED PENSION BENEFITS

Accrued pension benefits is the actuarially determined present value amount required to satisfy all future pension obligations for active and retired plan members at the balance sheet date. The most recent actuarial valuation of the Plan was made as at December 31, 2002, by Mercer Human Resources Consulting, the Plan's actuaries. The valuation was determined using the accrued benefit actuarial cost method. The significant assumptions used are:

- life expectancy of participants as listed in the 1994 Group Annuity Mortality Table
- 6.5% interest rate
- 4% salary escalation rate

INVESTMENTS

Year ended December 31

	2002		2001	
	Market \$	Acquisition Cost \$	Market \$	Acquisition Cost \$
EQUITIES				
Canadian stocks	18,601,445	18,110,413	19,767,758	18,734,862
Indexed US equity fund	9,247,845	8,717,000	—	—
Indexed EAFA fund	5,929,389	5,479,100	—	—
International stocks	—	—	14,561,094	15,749,489
	33,778,679	32,306,513	34,328,852	34,484,351
BONDS AND DEBENTURES				
Bond index fund	11,598,497	11,313,077	—	—
Government of Canada real return bonds	6,014,013	5,571,708	—	—
Corporate	—	—	4,393,295	4,300,264
Government	—	—	13,248,805	13,521,508
Mortgage backed securities	—	—	3,692,152	3,620,305
	17,612,510	16,884,785	21,334,252	21,442,077
Short term notes	400,000	400,000	662,406	658,769
OTHER				
Accrued investment income	58,320	58,320	226,458	226,458
Cash	1,472	1,472	—	—
	459,792	459,792	888,864	885,227
Total investments	51,850,981	49,651,090	56,551,968	56,811,655

See accompanying notes

**CANADIAN FORCES
PERSONNEL SUPPORT AGENCY**



**AGENCE DE SOUTIEN DU PERSONNEL
DES FORCES CANADIENNES**

CFPSA Executive Compensation Plan

PREFACE

The Canadian Forces Personnel Support Agency (CFPSA) operates with a fundamental principle in mind: “*the focus is on the customer*”, and the customers are the men and women of the Canadian Forces (CF), and their families. Our reason for being is as our motto states, “*Serving Those Who Serve*”, and our existence is relevant only to the extent that it lets us meet this goal.

As President and Chief Executive Officer of the CFPSA, I have a fundamental responsibility to ensure that the Agency and the CF members, our customers/clients, benefit from a management cadre ready and willing to fulfill our raison d’être. Compensation and performance measures play an important role in this process. Rewards and recognition have always been fundamental in motivating employees and recognizing excellence, especially in the areas of our core activities.

It is with this in mind that a fundamental review of the Executive Compensation Plan was undertaken. The one constant in the executive compensation arena is change. As the nature of organizations, their key constituencies, competitive markets and the regulatory environment have also changed, executive compensation philosophy and practice have changed accordingly. Efforts were undertaken during the 2000-2001 fiscal year to provide the CFPSA with exceptional leadership able to carry the responsibility of “*Serving Those Who Serve*”, by coming closer to the market on compensation in an ever increasing competition for talent. In developing the Executive Compensation Plan as recommended by Hay Group Canada, authors of the Strong Report, the following guiding principles were implemented:

The Plan

- Must compare to private sector organizations, crown corporations and government departments for recruitment strategy in certain positions (Excellence/Top Capacity)
- Must be in line with external (revenue generator organizations) and internal culture
- Must make all compensation components attainable
- Must contribute to building morale

This Plan represents an essential investment in our human capital and is both equitable and market-driven. It fits within the values and culture of the CF and the CFPSA.

Consistent with our values of accountability, this document elaborating the CFPSA Executive Compensation Plan is referenced in our fiscal year 2002-2003 annual report.

Yours truly,



John F. Geci
President and Chief Executive Officer

The Fiscal Year 2002-2003 CFPSA Executive Compensation Plan

The Non-Public Property (NPP) Board of Directors (BoD) of the Canadian Forces Personnel Support Agency (CFPSA) commissioned Hay Group Canada in 2000 to conduct a study to assist in formulating an effective, workable and affordable Executive Compensation Plan to serve as the compensation strategy for the CFPSA Executive Management Board (ExMB). The Hay study provided an overview of compensations to the NPP Board of Directors and the NPP Human Resources and Compensation Committee, the latter being chaired by the Vice Chief of Defence Staff (VCDS). This study positioned the current CFPSA senior executive salaries with respect to three similar external markets: financial and industry related organizations in the private sector; crown corporations; and government departments in the public sector. It also provided recommendations regarding salary structure ranges and movement within ranges, along with performance pay concepts for the Agency's senior executive positions with respect to the above external market forces.

The Executive Management Board (ExMB)

The Executive Compensation Plan is applicable to members of the Executive Management Board. The ExMB is constituted of individuals whose roles and responsibilities for operational and support divisions contribute to the objectives of the CFPSA. An "executive" is defined as a member of CFPSA's ExMB, as designated by the President and Chief Executive Officer (CEO). The ExMB includes the following positions: President CANEX/NATEX; President SISIP Financial Services; Executive Vice-President Personnel Support Programs (PSP); Chief Financial Officer/Vice-President Informatics; Vice-President Human Resources; and, Vice-President Internal Audit and Review.

The Executive Compensation Plan takes into account for some, the responsibilities and accountabilities that are much closer to the private sector than the public sector. These positions are involved in revenue generation and are oriented with for-profit-like enterprises. This grouping recognizes the risk/return aspects of the business unit and the impact of potential contributions to bottom-line results based on the achievement of predetermined business/financial goals of the participant's business unit. Understanding and striving to excel within these parameters ensures the viability of NPF activities at the base, wing and unit level for the CF members and their families. Notwithstanding the above, focus on customer service remains paramount. Other executives are typically assigned specific financial service levels and/or non-financial management objectives and are strongly involved in impacting the service delivery and customer satisfaction areas in a positive manner. They generally support the implementation of business plans or improve baseline operations. Yet, others have a strong due diligence, compliance, analytical as well as execution component and reflect accomplishments, which support and enhance business plans and policy goals.

The Plan is intended to be internally equitable and comparable with relevant organizations in the sectors analyzed. The salary structure was developed based on internal relativity and market positions.

Salary structure

The Hay Study methodology focused on a broad market comparison of 325 private sector organizations and 25 public sector organizations. This was further segmented to 92 private sector organizations and 17 public sector organizations to establish a range of salaries that reflected the different orientation of the positions. This approach provided the Agency with the capacity of positioning the salaries of individual positions to correspond to either private sector or public sector type challenges. In implementing the design proposed by Hay, the Agency has adopted a minimum and maximum range for each executive level.

These salary ranges also favour the CFPSA's recruitment and retention strategies. In making adjustments to the pay ranges while remaining consistent with our CFPSA policy of being at the median, the Hay market data helped establish a salary range for ExMB positions for FY2000-2001 and allowed for the application of the Consumer Price Index to these pay schedules in subsequent years. This consideration established the salary ranges for FY2002-2003 at a minimum of \$102,800 and a maximum of \$152,700.

Performance Pay

The Executive Compensation Plan recommended by the Hay Group contains an approach to providing a portion of the salary package at risk based on performance. This is a highly appropriate manner of recognizing and rewarding high performance and motivating all employees and is consistent with private business sector, crown corporations and government department policies. The three levels of performance pay—*“threshold, superior, and outstanding”*—have been retained to ensure a proper balance between pay and results. Also, the eligibility groups have different opportunities at “threshold”, “superior”, and “outstanding” based on the differences in opportunities for these positions to influence CFPSA level of services and results. When objectives are met or surpassed, performance pay ranges from 5% to 30%. CFPSA executive management performance measurement tools are used to determine achievement and level of such.

Conclusion

The salary structure for the CFPSA executives is sound and balanced in distinguishing between the commercial and service oriented operations for which the different executives in the Agency are responsible.

The base salaries put the Agency in a position for recruiting and retaining the executive level talent it requires in order to provide excellent service to its member clients/customers, the men and women of the CF, and their families. It also provides for a clear distinction between the different orders of executive talent required to manage the Agency's varied operations. The variable pay portion of the salary structure provides for notable rewards for exceptional performance.

The Executive Compensation Program was endorsed by the NPP Board of Directors following a presentation by the HR and Compensation Committee in June 2001. It was intended that this matter would be revisited regularly after 3 years in application to adjust to the existing conditions of the time. This will be addressed during FY 2003-2004 for implementation as of June 2004.

The Human Resources and Compensation Committee of the NPP BoD is as follows:

Chair: Lieutenant-General G.E.C. Macdonald
Vice Chief of the Defence Staff

Members: Vice-Admiral R.D. Buck
Chief of the Maritime Staff

Lieutenant-General J.M.C. Couture
Assistant Deputy Minister (Human Resources-Military)

Mr. M. H. Zazulak
DND/CF Legal Advisor

Chief Petty Officer First Class R. M. Lupien
CF Chief Warrant Officer

Chief Warrant Officer J.L.D. Gilbert
Chief of the Air Staff, Chief Warrant Officer

Mr. J. Millar, (external member)
Vice-President Strategic Planning, Risk Management &
Communications
Canada Mortgage and Housing Corporation

Mr. J.F. Geci, (Ex Officio)
President and Chief Executive Officer
Canadian Forces Personnel Support Agency

Advisor: Mr. G. Étienne
Vice-President Human Resources
Canadian Forces Personnel Support Agency

Section 7

Non-Public Funds Employee Group Insurance Plans

NPF EMPLOYEE GROUP INSURANCE PLANS
UNAUDITED FINANCIAL STATEMENTS
AS AT 28 FEBRUARY 2003

NPF EMPLOYEE GROUP INSURANCE PLANS

BALANCE SHEET (Note 1)

AS AT 28 FEBRUARY 2003

	28 February 2003 Unaudited	28 February 2002
ASSETS		
Current Assets		
Bank	\$3,577,134	\$3,813,889
TOTAL ASSETS	<u>\$3,577,134</u>	<u>\$3,813,889</u>
LIABILITIES		
Current Liabilities		
Accrued Payables	\$224,306	\$254,534
Group Life Waiver (Note 2)	137,482	157,904
IBNR* (Note 3)	<u>144,768</u>	<u>136,182</u>
Total Liabilities	<u>\$506,556</u>	<u>\$548,620</u>
SURPLUSES		
Beginning of Year (Note 4)	\$3,265,269	\$3,465,842
Change for the Year	<u>(194,691)</u>	<u>(200,573)</u>
End of Year (Note 5)	<u>\$3,070,578</u>	<u>\$3,265,269</u>
TOTAL LIABILITIES AND SURPLUSES	<u>\$3,577,134</u>	<u>\$3,813,889</u>

* Incurred But Not Reported

The accompanying notes are an integral part of these financial statements.

NPF EMPLOYEE GROUP INSURANCE PLANS

STATEMENT OF CONTRIBUTIONS AND EXPENSES (Note 1)

FOR THE PERIOD 1 MARCH 2002 TO 28 FEBRUARY 2003

	2002/2003 Unaudited	2001/2002
CONTRIBUTIONS AND INCOME		
Employee Contribution– Canada & NATEX	\$833,975	\$723,980
Employer Contribution – Canada & NATEX	1,113,222	963,912
Interest Income (CBA) *	111,555	142,919
GECA Revenue ** (Note 6)	141,000	141,000
Employee/Employer Contribution – Bosnia	129,354	127,435
Bosnia Tax Revenue	2,493	2,066
Group Life Waiver Revenue	<u>...20,422</u>	<u>32,525</u>
TOTAL INCOME	<u>\$2,352,022</u>	<u>\$2,133,836</u>
EXPENSES		
Premiums Paid Canada & NATEX (Note 7)	\$2,055,390	\$1,778,129
Premiums Paid - Bosnia	89,574	87,822
Professional Fees	70,954	74,002
Tax Arrears	14,632	14,019
Miscellaneous Expense	158	6
IBNR Expense (Note 3)	8,586	22,532
GECA Expenses	<u>...307,419</u>	<u>357,899</u>
		-
TOTAL EXPENSES	<u>\$2,546,713</u>	<u>\$2,334,408</u>
SURPLUS FOR THE YEAR	<u>\$(194,691)</u>	<u>\$ (200,573)</u>

* Consolidated Bank Account

** Government Employees' Compensation Act

NPF EMPLOYEE GROUP INSURANCE PLANS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2003

Note 1 Significant Accounting Policies

The NPF EMPLOYEE GROUP INSURANCE PLANS includes assets and liabilities acquired and incurred in providing unit level employee and employer long term disability, life, optional life, health and dental insurance plans. Fund assets, liabilities, contributions, and expenses are reported on a modified cash basis.

Note 2 Group Life Waiver

In 1987 a decision was made to discontinue the Premium Waiver provision of the life insurance policy. This provision was replaced by an agreement whereby the CFPSA (NPF) would continue to pay premiums on behalf of these members. CFPSA (NPF) established an internal reserve to protect the Agency against the increased risk of insurance payouts on this group of members, based upon their increased mortality and morbidity rates. This agreement covers all employees who commenced LTD benefits between 1 March 1987 and 29 February 2000. The accounting action to reflect this change was approved and included initially in the Fiscal Year 1999/2000 statements. The Premium Waiver clause was reinstated for the new plan year, 1 March 2000. The reserve has been reduced to \$137,482 as at 28 February 2003 and will eventually reduce down to zero as this fixed group of members retire or terminate LTD benefits.

Note 3 Claims Incurred But Not Reported (IBNR)

Group Plan expense does not include amounts for claims incurred by policyholders but not reported to the insurer by the end of the policy period. These amounts, on termination, are the direct responsibility of the NPF EMPLOYEE GROUP INSURANCE PLANS. As at 28 February 2003, incurred but not reported (IBNR) claims estimated by actuarial formula is \$144,768. This amount is based on information provided by Manulife in their 2002/2003 report. This liability is reflected on the FY2002/2003 Balance Sheet.

The actuarial formula for IBNR claims provided by Manulife was used to estimate the above amount of \$144,768 and is as follows:

<u>Benefit</u>	<u>Claims Paid</u>	<u>IBNR %</u>	<u>Required Reserve</u>
Major Medical	\$ 434,530	21.4%	\$ 92,989
Dental	\$ 502,707	10.3%	\$ 51,779
	Total		<u>\$ 144,768</u>

Note 4 Surplus – Beginning of Year

The amount of \$3,265,269, shown as “Surplus at Beginning of Year”, is made up of the following Reserve balances as at 1 March 2002:

Reserve LTD 1 (Non Taxable)	\$ 163,451
Reserve GECA	1,949,453
Reserve Dental	(73,812)
Reserve Dental – Bosnia	13,576
Reserve Medical	(137,587)
Reserve Medical – Bosnia	10,475
Reserve LTD 2 (Taxable)	999,486
Reserve LTD 2 – Bosnia	22,527
Reserve Group Life	463,918
Reserve Group Life – Bosnia	11,687
Group Life Waiver	<u>(157,904)</u>
Total	<u>\$ 3,265,269</u>

Note 5 Surplus – End of Year

The amount of \$3,070,578, shown as “Surplus at End of Year”, is made up of the following Reserve balances as at 28 February 2003:

Reserve LTD 1 (Non Taxable)	\$ 163,451
Reserve GECA	1,833,016
Reserve Dental	(86,698)
Reserve Dental Bosnia	23,226
Reserve Medical	(151,255)
Reserve Medical Bosnia	20,434
Reserve LTD 2 (Taxable)	900,237
Reserve LTD 2 – Bosnia	36,994
Reserve Group Life	448,771
Reserve Group Life Bosnia	19,885
Group Life Waiver	<u>(137,482)</u>
Total	<u>\$ 3,070,578</u>

Note 6 Government Employees Compensation Act (GECA)

Effective 1 January 1999, the employer had stopped contributing to Government Employees Compensation Act until the surplus is reduced to a reasonable level.

Note 7 Premiums Paid

Premiums paid is the amount of premium estimated and requested by the insurer to meet cash expenses anticipated to be incurred in the twelve months ended 28 February 2003. The premium includes amounts collected on an experience rated basis to reimburse the insurer for prior year’s deficits, if applicable (deficit recovery) and those to fund current and subsequent year’s deficits. These premiums are paid in advance for the following month.