

**Audited and Reviewed Financial Statements
2001-2002**

PLEASE NOTE: This publication is an addendum to the Canadian Forces Personnel Support Agency's (CFPSA) Annual Report 2001-2002. The NPP Board of Directors approved these audited and reviewed financial statements on March 12, 2002. 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 sheets of CANEX as at 24 February 2002 and 25 February 2001 and the statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of CANEX management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 24 February 2002 and 25 February 2001 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Arthur Andersen
May 14, 2002
Ottawa, Canada

CANEX
BALANCE SHEETS

(In 000's of dollars)

	As at 24 February 2002 \$	As at 25 February 2001 \$
ASSETS		
Current		
Cash and cash equivalents (note 3)	4,195	1,141
Accounts receivable	9,711	9,272
Inventory	16,440	17,002
Prepaid expenses	348	311
	30,694	27,726
Total current assets		
Capital assets (notes 4 and 9)	16,166	16,547
	960	1,200
Cash, held in trust (note 3)	(960)	(1,200)
Less: related liability (note 3)	-	-
	46,860	44,273
Total assets		
LIABILITIES		
Current		
Accounts payable and accrued liabilities	8,887	7,343
Current portion of loans payable (note 5)	1,649	1,672
	10,536	9,015
Total current liabilities		
Long-term portion of loans payable (note 5)	8,916	8,352
	19,452	17,367
Total liabilities		
EQUITY		
Contributed capital (note 6)	23,112	23,132
Retained earnings	5,879	5,361
Currency conversion adjustments	(1,583)	(1,587)
	27,408	26,906
Total equity		
Total liabilities and equity	46,860	44,273

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

CANEX

STATEMENTS OF INCOME AND RETAINED EARNINGS

(In 000's of dollars)

	Year ended 24 February 2002 \$	Year ended 25 February 2001 \$
Sales	122,461	116,524
Cost of merchandise sold and services provided	<u>93,859</u>	<u>89,041</u>
Gross profit	28,602	27,483
Other revenue (note 7)	<u>5,862</u>	<u>5,312</u>
	<u>34,464</u>	<u>32,795</u>
Operating expenses		
Payroll	16,569	15,655
Other operating expenses	8,625	7,857
Depreciation and amortization	2,375	2,161
Levies to Central Funds (note 8)	458	371
Interest (note 5)	384	348
	<u>28,411</u>	<u>26,392</u>
Income from operations	6,053	6,403
Write-down of capital assets (note 9)	(927)	-
Gas bar decommissioning costs (note 10)	(330)	-
Royalties and contributions (note 11)	<u>(4,278)</u>	<u>(3,584)</u>
Net income	518	2,819
Retained earnings, beginning of year	<u>5,361</u>	<u>2,542</u>
Retained earnings, end of year	<u><u>5,879</u></u>	<u><u>5,361</u></u>

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

CANEX
STATEMENTS OF CASH FLOWS

(In 000's of dollars)

	Year ended 24 February 2002 \$	Year ended 25 February 2001 \$
OPERATING ACTIVITIES		
Net income	518	2,819
Add items not affecting cash		
Depreciation and amortization	2,375	2,161
Loss on disposal of capital assets	123	43
Write-down of capital assets	927	-
	<u>3,943</u>	<u>5,023</u>
Net change in non-cash operating assets and liabilities	<u>1,623</u>	<u>(2,348)</u>
Cash provided by operating activities	<u>5,566</u>	<u>2,675</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(3,107)	(3,554)
Proceeds on disposal of capital assets	63	79
	<u>(3,044)</u>	<u>(3,475)</u>
Cash used in investing activities	<u>(3,044)</u>	<u>(3,475)</u>
FINANCING ACTIVITIES		
Issuance of loans payable	2,660	2,006
Repayment of loans payable	(2,119)	(1,716)
	<u>541</u>	<u>290</u>
Cash provided by financing activities	<u>541</u>	<u>290</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(9)</u>	<u>(45)</u>
Net increase (decrease) in cash and cash equivalents	<u>3,054</u>	<u>(555)</u>
Cash and cash equivalents, beginning of year	<u>1,141</u>	<u>1,696</u>
Cash and cash equivalents, end of year	<u>4,195</u>	<u>1,141</u>
Cash and cash equivalents comprise:		
Indebtedness to CFCF	(4,006)	(6,853)
Short-term investments	8,201	7,994
	<u>4,195</u>	<u>1,141</u>
Supplemental cash flow information		
Cash paid for interest	<u>384</u>	<u>348</u>

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

CANEX

NOTES TO FINANCIAL STATEMENTS

24 February 2002 and 25 February 2001

(In 000's of 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.

Foreign Currency Conversion

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.

CANEX

NOTES TO FINANCIAL STATEMENTS

24 February 2002 and 25 February 2001

(In 000's of dollars)

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

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%
Leasehold 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 2001/02 and FY 2000/01, approximate their fair values. The loans payable are not listed securities and accordingly, the fair value of these loans is not readily determinable.

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.

CANEX

NOTES TO FINANCIAL STATEMENTS

24 February 2002 and 25 February 2001

(In 000's of dollars)

4. CAPITAL ASSETS

	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
Leasehold 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>

	As at 25 February 2001 \$		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Buildings	16,376	10,538	5,838
Motor vehicles and computer equipment	1,554	908	646
Fixtures and equipment	9,766	6,057	3,709
Leasehold improvements	<u>13,133</u>	<u>6,779</u>	<u>6,354</u>
	<u>40,829</u>	<u>24,282</u>	<u>16,547</u>

CANEX

NOTES TO FINANCIAL STATEMENTS

24 February 2002 and 25 February 2001

(In 000's of dollars)

5. LOANS PAYABLE

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

	<u>\$</u>
FY 2002/03	1,649
FY 2003/04	1,422
FY 2004/05	1,241
FY 2005/06	1,005
FY 2006/07	956
Thereafter	<u>4,292</u>
	10,565
Less: Current portion	<u>1,649</u>
Long-term portion	<u>8,916</u>

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 has been removed from contributed capital.

	Year ended 24 February 2002 \$	Year ended 25 February 2001 \$
	<u> </u>	<u> </u>
—		
Contributed capital, beginning of year	23,132	23,132
Disposal of capital assets	<u>(20)</u>	<u>0</u>
Contributed capital, end of year	<u>23,112</u>	<u>23,132</u>

CANEX

NOTES TO FINANCIAL STATEMENTS

24 February 2002 and 25 February 2001

(In 000's of dollars)

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.

8. LEVIES TO CENTRAL FUNDS

Levies are paid to the CFCF and the Canadian Forces Personnel Assistance Fund generally at the rate of 0.35% of total sales. Levies on AMSTO revenue are paid at a rate of 20% solely on automotive sales.

9. 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, NATEX recorded a \$368 write-down of capital assets as the related assets had no future use or salvage value.

10. 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 2001/02, CANEX incurred an additional \$330 related to decommissioning efforts. Total closure and remediation costs incurred to date by CANEX are \$2,762. The ultimate cost of this decommissioning cannot be determined at this time. A reserve of \$119 is included in accounts payable and accrued liabilities and represents managements' best estimate of CANEX's future liability relating to this matter.

11. ROYALTIES AND CONTRIBUTIONS

CANEX paid royalties of \$2,933 (FY 2000/01 - \$2,258) to Canadian Forces Bases, Wings and Units. In Canada, royalties consist of CANEX' 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 \$1,345 (FY 2000/01 - \$1,326) to the NATO Air Base. NATEX contributions are based on various percentages of consumer sales, in accordance with the NATEX contract.

12. PENSION PLAN

All eligible employees of CANEX are members of the Non-Public Funds Employees Pension Plan, which provides retirement benefits relating to contributions and years of service. The most recent actuarial valuation indicated that the net assets of the plan exceed the net liabilities. During FY 2001/02, CANEX contributed \$209 (FY 2000/01 - \$200) to the plan.

13. RELATED PARTY TRANSACTIONS

During FY 2001/02 and FY 2000/01, CFCF provided accounting and human resources services to CANEX. These transactions were in the normal course of operations and were recorded at the exchange amount of \$1,631 (FY 2000/01 - \$1,616), which is the amount of consideration established and agreed to by the related parties, and represents managements' best estimate of fair market value.

14. 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

SISIP - TB Supported Plans
Balance Sheet
as at 31 December 2001

	2001	2000
<u>ASSETS</u>		
<i>Funds:</i>		
	322,377,877	291,212,146
Total Assets	322,377,877	291,212,146
<u>LIABILITIES & SURPLUS</u>		
<i>Liabilities - Reserves:</i>		
	289,496,779	271,071,630
Total Liabilities	289,496,779	271,071,630
Surplus/(Deficit):		
	32,881,098	20,140,516
Total Surplus/(Deficit)	32,881,098	20,140,516
Total Liabilities & Surplus	322,377,877	291,212,146

Annex B

**SISIP TB Supported Plans
Year End Financial Results - FY 2001**

		Current Year Year End (Note 1)	Previous Year Year End
<u>REVENUES</u>			
	Premiums	43,224,163	41,208,847
	Investment	19,143,100	18,554,278
Total Revenues		62,367,263	59,763,125
<u>OPERATING EXPENSES</u>			
	Claims & Related	23,747,247	17,903,153
	Reserve Increase	18,425,152	45,066,551
	Other	7,853,486	5,954,394
Total Operating Expenses		50,025,885	68,924,098
Operating Income / (Loss)		12,341,378	(9,160,973)
<u>Extraordinary Items</u>			
	Premium tax adjust.	399,936	164,954
	Change in valuation	0	27,071,191
	Other	3	(6,327)
Total Extraordinary Items		399,939	27,229,818
Net Income/(Loss)		\$12,741,317	\$18,068,845

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

**SISIP - Proper
Balance Sheet
as at 31 December 2001**

	2001	2000
<u>ASSETS</u>		
<i>Funds:</i>	331,157,081	333,888,057
Total Assets	331,157,081	333,888,057
<u>LIABILITIES & SURPLUS</u>		
<i>Liabilities - Reserves:</i>	148,094,778	146,507,234
Total Liabilities	148,094,778	146,507,234
Surplus/(Deficit):	183,062,303	187,380,823
Total Surplus/(Deficit)	183,062,303	187,380,823
Total Liabilities & Surplus	331,157,081	333,888,057

Annex B

**SISIP Proper
Year End Financial Results - FY 2001**

	Current Year Year End (Note1)	Previous Year Year End
REVENUES		
Premiums	29,836,500	27,955,794
Investment	16,059,457	21,329,274
Total Revenues	45,895,957	49,285,068
OPERATING EXPENSES		
Claims & Related	21,965,634	18,352,307
Reserve Increase	1,587,548	(3,482,602)
Other	5,807,193	5,123,080
Total Operating Expenses	29,360,375	19,992,785
Operating Income / (Loss)	16,535,582	29,292,283
Extraordinary Items		
Transfer to CEP	(20,000,000)	-
Other	(854,270)	5,665,040
Total Extraordinary Items	(20,854,270)	5,665,040
Net Income/(Loss)	(4,318,688)	34,957,323
Adjusted Net Income/(Loss) (Note 2)	\$15,681,312	\$34,957,323

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
CANADIAN FORCES PERSONNEL ASSISTANCE FUND
For year ended
FEBRUARY 28, 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 February 28, 2002 and the statements of revenue and expense and fund balance 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 28, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

CHARTERED ACCOUNTANTS

Ottawa, Ontario
April 10, 2002.

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

STATEMENT OF FINANCIAL POSITION

FEBRUARY 28, 2002

	<u>2002</u>	<u>2001</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	\$ 4,141,073	\$ 4,373,910
Cash held by bases for loans	187,177	192,520
Contributions and other receivables	32,552	19,274
Current portion of self-improvement loans receivable (note 3)	5,963,202	5,875,918
Current portion of distress loans receivable (note 3)	801,881	839,221
Current portion education of loans receivable (note 3)	<u>992,712</u>	<u>948,906</u>
	<u>12,118,597</u>	<u>12,249,749</u>
OFFICE EQUIPMENT , net of accumulated amortization of \$13,053 (2001 - \$20,845)	12,053	17,266
EDUCATION LOANS RECEIVABLE (note 3)	489,901	340,767
SELF-IMPROVEMENT LOANS RECEIVABLE (note 3)	1,257,679	1,232,947
DISTRESS LOANS RECEIVABLE (note 3)	<u>1,181,384</u>	<u>1,092,313</u>
	<u>2,941,017</u>	<u>2,683,293</u>
TRUST ASSETS (note 4)		
Deposit with Canadian Forces Central Fund	<u>39,572</u>	<u>42,218</u>
	<u>\$ 15,099,186</u>	<u>\$ 14,975,260</u>
<u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 11,614	\$ 70,699
TRUST LIABILITIES (note 4)	<u>39,572</u>	<u>42,218</u>
	51,186	112,917
FUND BALANCE	<u>15,048,000</u>	<u>14,862,343</u>
	<u>\$ 15,099,186</u>	<u>\$ 14,975,260</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF REVENUE AND EXPENSE AND FUND BALANCE
YEAR ENDED FEBRUARY 28, 2002

	<u>2002</u>	<u>2001</u>
Revenue		
Interest on loans receivable	\$ 421,346	\$ 427,407
Contributions from Canadian Forces Central Fund	247,804	230,438
Interest on deposits	176,372	212,207
Miscellaneous	<u>65,388</u>	<u>4,063</u>
	<u>910,910</u>	<u>874,115</u>
Expense		
Salaries and employee benefits	362,734	374,710
Grants	204,560	193,224
Loans written off - net of recoveries	146,654	307,751
Amortization	4,711	3,662
Loss on disposal of capital assets	502	-
Miscellaneous	<u>6,092</u>	<u>9,711</u>
	<u>725,253</u>	<u>889,058</u>
Net revenue (expense) for the year	185,657	(14,943)
Fund balance - beginning of year	<u>14,862,343</u>	<u>14,877,286</u>
Fund balance - end of year	<u>\$ 15,048,000</u>	<u>\$ 14,862,343</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

STATEMENT OF CASH FLOWS

YEAR ENDED FEBRUARY 28, 2002

	<u>2002</u>	<u>2001</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue (expense) for the year	\$ 185,657	\$ (14,943)
Items not affecting cash -		
Loans written off	150,854	307,751
Amortization	4,711	3,662
Loss on disposal of capital assets	502	-
Changes in level of:		
Contributions and other receivables	(13,278)	(7,019)
Accounts payable	<u>(59,085)</u>	<u>70,356</u>
	<u>269,361</u>	<u>359,807</u>
Investing activities		
Purchase of office equipment - net	-	(14,640)
Self Improvement loans advanced	(9,500,400)	(9,695,479)
Distress loans advanced	(1,200,404)	(1,083,470)
Education loans advanced	(1,595,900)	(1,659,900)
Repayment of loans	<u>11,789,163</u>	<u>12,861,123</u>
	<u>(507,541)</u>	<u>407,634</u>
Increase (decrease) in cash for the year	(238,180)	767,441
Cash and deposit, beginning of year	<u>4,566,430</u>	<u>3,798,989</u>
Cash and deposit, end of year	\$ <u>4,328,250</u>	\$ <u>4,566,430</u>
Cash and deposit consists of:		
Deposits with Canadian Forces Central Fund	\$ 4,141,073	\$ 4,373,910
Cash held by bases for loans	<u>187,177</u>	<u>192,520</u>
	\$ <u>4,328,250</u>	\$ <u>4,566,430</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 28, 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-employment 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) *Service charges*

Service charges 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 Executive Committee.

(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.
YEAR ENDED FEBRUARY 28, 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%, approximating current market rates.

(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 three 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 following is a summary of transactions for the year.

	Corporal Ronald MacDonald Memorial Trust Fund	Logistics Branch Bursary Fund	Signals Welfare Inc.	<u>Total</u>
Balance, beginning of year	\$ 20,719	\$ 15,396	\$ 6,103	\$ 42,218
Interest received	913	541	-	1,454
Disbursements	<u>(1,100)</u>	<u>-</u>	<u>(3,000)</u>	<u>(4,100)</u>
Balance, end of year	<u>\$ 20,532</u>	<u>\$ 15,937</u>	<u>\$ 3,103</u>	<u>\$ 39,572</u>

5. PENSION

The Non-Public Funds Employees Pension Plan is a defined benefit plan covering substantially all full-time employees of CFPF which provides retirement benefits relating to contributions and years of service. The most recent actuarial valuation of the pension plan was performed at December 31, 1998 and extrapolated to December 31, 2000. The actuarial valuation shows that the net assets of the plan exceed the net liabilities.

Section 4

Canadian Forces Central Fund

FINANCIAL STATEMENTS
For
CANADIAN FORCES CENTRAL FUND
For year ended
FEBRUARY 24, 2002

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 24, 2002 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 24, 2002 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

CHARTERED ACCOUNTANTS

Ottawa, Ontario
April 12, 2002.

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF FINANCIAL POSITION
FEBRUARY 24, 2002**

	<u>Feb. 24, 2002</u>	<u>Feb. 25, 2001</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 3)	\$ 7,709,922	\$ 12,088,488
Accrued interest receivable	1,207,012	2,030,901
Accounts receivable	4,522,611	4,240,988
Prepaid expenses	81,085	67,306
Current portion of project loans receivable (note 4)	3,066,816	3,085,456
Accrued levies receivable	-	2,603
	<u>16,587,446</u>	<u>21,515,742</u>
OTHER ASSETS		
Project loans receivable (note 4)	15,325,549	15,378,425
Advance to TFBH	1,437,000	-
Long-term investments (note 5)	75,285,635	89,024,110
Capital assets (note 6)	938,796	810,680
	<u>92,986,980</u>	<u>105,213,215</u>
	<u>109,574,426</u>	<u>126,728,957</u>
TRUST ASSETS		
Cash and investments	39,118,206	35,260,763
Receivable	241,373	114,434
	<u>39,359,579</u>	<u>35,375,197</u>
	<u>\$ 148,934,005</u>	<u>\$ 162,104,154</u>
<u>LIABILITIES AND FUND BALANCES</u>		
CURRENT LIABILITIES		
Accounts payable and employee deductions payable	\$ 9,455,118	\$ 17,872,339
TRUST LIABILITIES		
	<u>39,359,579</u>	<u>35,375,197</u>
	<u>48,814,697</u>	<u>53,247,536</u>
FUND BALANCES		
Unappropriated	94,431,548	105,388,662
Appropriated for grants (note 7)		
Minor projects	1,616,320	669,320
Future personnel costs	4,071,440	2,798,636
	<u>100,119,308</u>	<u>108,856,618</u>
	<u>\$ 148,934,005</u>	<u>\$ 162,104,154</u>

(See accompanying notes)

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF FUND BALANCES
YEAR ENDED FEBRUARY 24, 2002**

	<u>Unappropriated surplus</u>	<u>Minor projects</u>	<u>Personnel costs</u>	<u>Feb. 24, 2002</u>	<u>Feb. 25, 2001</u>
Balance, beginning of year	\$ 105,388,662	\$ 669,320	\$ 2,798,636	\$ 108,856,618	\$ 101,847,537
Net revenue (expense) for year	(8,421,303)	-	-	(8,421,303)	7,143,559
Project and personnel expenditure	<u>-</u>	<u>(66,277)</u>	<u>(249,730)</u>	<u>(316,007)</u>	<u>(134,478)</u>
	<u>(8,421,303)</u>	<u>(66,277)</u>	<u>(249,730)</u>	<u>(8,737,310)</u>	<u>7,009,081</u>
Interfund transfers (appropriation)	<u>(2,535,811)</u>	<u>1,013,277</u>	<u>1,522,534</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 94,431,548</u>	<u>\$ 1,616,320</u>	<u>\$ 4,071,440</u>	<u>\$ 100,119,308</u>	<u>\$ 108,856,618</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF REVENUE AND EXPENSE
YEAR ENDED FEBRUARY 24, 2002

(With comparative figures for the year ended February 25, 2001)

	Year ended Feb. 24, <u>2002</u>	Year ended Feb. 25, <u>2001</u>
Revenue		
Investment income (note 5)	\$ 1,969,442	\$ 13,865,951
Less:		
Interest attributed to Trust and Welfare Funds	<u>(448,798)</u>	<u>(521,995)</u>
Net investment income	1,520,644	13,343,956
Interest - loans	617,784	632,031
CFCF levies	398,860	304,413
Provided by Public to PSP	37,171,545	30,768,105
Other Public PSP Revenue	148,371	120,105
Accounting services (note 12)	2,225,949	2,142,995
Pension administration fees (note 12)	154,058	97,389
Miscellaneous	279,768	34,546
Foreign exchange gain (loss)	(80,229)	2,500
SISIP contribution to CPFSA/Youth	600,000	-
CANEX contribution to CFPSA	888,000	384,355
Personnel services	1,297,358	1,078,247
PSP activities	815,912	569,831
Production Centre	<u>731,415</u>	<u>662,123</u>
	<u>46,769,435</u>	<u>50,140,596</u>
Expense		
Salaries - Publicly-Funded PSP (schedule A)	26,091,617	21,925,024
- NPF (schedule A)	6,974,282	5,449,738
Bank charges	339,960	313,247
Distribution to units - interest on CBA (note 3)	1,043,556	959,288
IM/IT support	1,337,050	976,274
Miscellaneous grants	3,709,816	3,652,315
Grants issued for major projects	2,600,000	273,168
Grants issued for minor projects	66,277	(7,444)
PSP Personnel Appropriation Expense	249,730	141,922
Insurance	769,938	611,477
Litigation payments	47,948	10,555
Miscellaneous - Recovery from Public (schedule B)	7,500,596	5,530,451
- NPF (schedule C)	1,314,089	768,881
Travel	782,130	753,353
Training	224,968	204,081
PSP programs and sports	1,261,485	1,046,772
Production Centre	962,310	651,504
Amortization	<u>230,993</u>	<u>180,896</u>
	<u>55,506,745</u>	<u>43,441,502</u>
	(8,737,310)	6,699,094
Gain from closure of stations	<u>-</u>	<u>309,987</u>
Net revenue (expense) for the year	<u>\$ (8,737,310)</u>	<u>\$ 7,009,081</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 24, 2002

	<u>Year ended Feb. 24, 2002</u>	<u>Year ended Feb. 25, 2001</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue (expense) for the year	\$ (8,737,310)	\$ 7,009,081
Items not affecting cash -		
Amortization	<u>230,993</u>	<u>253,084</u>
	(8,506,317)	7,262,165
Changes in level of:		
Accrued interest receivable	823,889	(122,617)
Accounts receivable	(281,345)	(393,080)
Prepaid expenses	(13,779)	(34,968)
Accrued levies receivable	2,603	26,685
Accounts payable and employee deductions payable	(8,417,221)	11,863,726
Deferred accident benefit liability	<u>-</u>	<u>(320,780)</u>
	<u>(16,392,170)</u>	<u>18,281,131</u>
Financing activities		
Decrease (increase) in project loans receivable	<u>71,516</u>	<u>(195,252)</u>
Investing activities		
Decrease (increase) in long-term investments	13,816,278	(19,051,453)
Advance to TFBH	(1,437,000)	-
Purchase of capital assets - net	(437,190)	(169,060)
Repayment of long-term receivable	<u>-</u>	<u>(208,068)</u>
	<u>11,942,088</u>	<u>(19,428,581)</u>
Total cash used	(4,378,566)	(1,342,702)
Cash and short-term investments, beginning of year	<u>12,088,488</u>	<u>13,431,190</u>
Cash and short-term investments, end of year	<u>\$ 7,709,922</u>	<u>\$ 12,088,488</u>

(See accompanying notes)

**CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 24, 2002**

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) *Capital assets*

Capital assets 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 24, 2002

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.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED FEBRUARY 24, 2002

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. 24, 2002 <u>Cost</u>	Feb 25, 2001 <u>Cost</u>
Guaranteed Investment Certificates and other fixed income securities	\$ 6,730,232	\$ 17,516,117
Cash	<u>4,137,378</u>	<u>(1,039,937)</u>
	10,867,610	16,476,180
Less allocated to trust assets	<u>(3,157,688)</u>	<u>(4,387,692)</u>
	<u>\$ 7,709,922</u>	<u>\$ 12,088,488</u>

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 deployed ships for six months and to units on UN operations for the duration of the deployment. 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.

	Feb. 24, 2002 <u></u>	Feb 25, 2001 <u></u>
Interest bearing loans	\$ 17,667,365	\$ 17,775,255
Interest free loans	<u>725,000</u>	<u>688,626</u>
	18,392,365	18,463,881
Less current portion	<u>(3,066,816)</u>	<u>(3,085,456)</u>
	<u>\$ 15,325,549</u>	<u>\$ 15,378,425</u>

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED FEBRUARY 24, 2002

5. LONG-TERM INVESTMENTS

	February 24, 2002		February 25, 2001	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Corporate stocks and options	\$ 46,210,062	\$ 46,358,487	\$ 40,379,073	\$ 41,756,314
Government bonds	59,826,737	58,631,233	70,422,380	69,794,257
Other fixed income securities	<u>5,070,451</u>	<u>6,256,433</u>	<u>7,491,047</u>	<u>8,346,609</u>
	<u>\$ 111,107,250</u>	111,246,153	<u>\$ 118,292,500</u>	119,897,180
Less allocation to trusts		<u>(35,960,518)</u>		<u>(30,873,070)</u>
		<u>\$ 75,285,635</u>		<u>\$ 89,024,110</u>

Terms to maturity of bonds and debentures range from 2002 to 2029 with the majority of these investments maturing within 5 to 10 years. Interest rates on government bonds vary from 5.4% to 9.50%.

Investment income includes net losses from sales of investments which amounted to \$2,805,656 (2001 net gains - \$8,391,141).

6. CAPITAL ASSETS

	February 24, 2002		February 25, 2001	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Net book value</u>
Leasehold improvements	\$ 25,843	\$ 10,360	\$ 15,483	\$ 17,797
Office furniture	666,105	413,171	252,934	228,836
Computer equipment	<u>2,210,642</u>	<u>1,540,263</u>	<u>670,379</u>	<u>564,047</u>
	<u>\$ 2,902,590</u>	<u>\$ 1,963,794</u>	<u>\$ 938,796</u>	<u>\$ 810,680</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.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED FEBRUARY 24, 2002

8. CONTINGENT LIABILITY

CFCF is contingently liable for \$515,000 (2001 - \$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 24, 2002, CFCF had approved loans to bases and ships totalling \$1,700,751 (2001 - \$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:

2003	<u>\$ 2,400,000</u>
------	---------------------

11. PENSION

The Non-Public Funds Employees Pension Plan is a defined benefit plan covering substantially all full-time employees of CFCF which provides retirement benefits relating to contributions and years of service. The most recent actuarial valuation of the pension plan was performed at December 31, 1998 and extrapolated to December 31, 2001. The actuarial valuation shows that the net assets of the plan exceed the net liabilities.

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 24, 2002

SCHEDULE A: SALARIES

	2002		
	Publicly-Funded PSP	Non-Public	Total
CPSP administrative	\$ 1,327,082	\$ 202,995	\$ 1,530,077
CHR 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 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 and regional IM/IT	323,919	760,529	1,084,448
CEO/DCS	501,617	534,284	1,035,901
	<u>\$ 26,091,617</u>	<u>\$ 6,974,282</u>	<u>\$ 33,065,899</u>

	2001		
	Publicly-Funded PSP	Non-Public	Total
CPSP administrative	\$ 697,680	\$ 148,989	\$ 846,669
CHR administrative	336,124	1,076,046	1,412,170
Deployed Ops	987,172	-	987,172
CEO/DCS	373,232	-	373,232
Audit	414,758	85,437	500,195
PSP managers	1,003,229	-	1,003,229
Mess managers	1,672,970	-	1,672,970
Physical education	11,612,772	-	11,612,772
Regional accounting	2,739,245	1,301,886	4,041,131
CFO accounting	492,833	1,538,369	2,031,202
Regional HR	-	1,277,815	1,277,815
CANEX administrative	1,595,009	-	1,595,009
National Sports	-	21,196	21,196
	<u>\$ 21,925,024</u>	<u>\$ 5,449,738</u>	<u>\$ 27,374,762</u>

CANADIAN FORCES CENTRAL FUND
SCHEDULE OF EXPENSES - Cont'd.
YEAR ENDED FEBRUARY 24, 2002

SCHEDULE B: MISCELLANEOUS

	<u>2002</u>	<u>2001</u>
Recovery from Public		
Deployment Support	\$ 3,949,453	\$ 3,202,076
Chief Executive Officer/Director Corporate Services	240,451	309,267
DMFS/MFNAB	287,452	275,650
Equipment	807,506	258,739
Other expenses	439,091	320,116
Deployed operations	266,688	-
CPSP fitness and sports	1,368,955	1,164,603
Personnel liabilities and GECA	<u>141,000</u>	<u>-</u>
	<u>\$ 7,500,596</u>	<u>\$ 5,530,451</u>

SCHEDULE C: MISCELLANEOUS

	<u>2002</u>	<u>2001</u>
NPF		
CFCF	\$ 152,999	\$ 227,984
CHR	186,954	196,830
CEO/DCS	778,181	154,349
CFO	55,178	32,978
CPSP	12,362	6,299
DRIA	4,311	2,672
Regional accounting	100,952	116,964
Regional HR	<u>23,152</u>	<u>30,805</u>
	<u>\$ 1,314,089</u>	<u>\$ 768,881</u>

Section 5

Non-Public Funds Employees Pension Plan

Financial Statements

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

December 31, 2001

AUDITORS' REPORT

To the Chairman and Members of the Employee Benefits and
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, surplus and deficit of **Canadian Forces Non-Public Funds Employees Pension Plan** as at December 31, 2001 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, 2001 and the changes in surplus, accrued pension benefits and net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,
May 17, 2002.

Ernst + Young LLP

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

	2001	2000
	\$	\$
Investments at market <i>[schedule A]</i>	56,551,968	61,834,047
Cash	457,796	360,324
Prepaid expense	7,988	6,099
Capital assets <i>[note 4]</i>	108,068	163,638
	57,125,820	62,364,108
Less: accrued liabilities	48,888	107,683
Net assets available for benefits	57,076,932	62,256,425

ACCRUED PENSION BENEFITS, SURPLUS AND DEFICIT

Actuarial value of accrued pension benefits <i>[note 5]</i>	62,494,486	57,326,795
Surplus (deficit)	(5,417,554)	4,929,630
Accrued pension benefits, surplus and deficit	57,076,932	62,256,425

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

STATEMENT OF CHANGES IN SURPLUS (DEFICIT)

Year ended December 31

	2001	2000
	\$	\$
Surplus of net assets available for benefits over		
accrued pension benefits, beginning of year	4,929,630	11,594,732
Decrease in net assets available for benefits	(5,179,493)	(2,676,414)
Net increase in accrued pension benefits	(5,167,691)	(3,988,688)
Surplus (deficit) of net assets available for benefits over		
accrued pension benefits, end of year	(5,417,554)	4,929,630

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

**STATEMENT OF CHANGES
IN ACCRUED PENSION BENEFITS**

[note 5]

Year ended December 31

	2001 \$	2000 \$
INCREASE IN BENEFITS		
Interest accrued on benefits	3,771,614	3,483,399
Benefits accrued	5,051,326	3,995,719
Increase in accrued benefits	8,822,940	7,479,118
DECREASE IN ACCRUED BENEFITS		
Annuity payments and refunds	3,655,249	3,490,430
Net increase in accrued pension benefits	5,167,691	3,988,688
Accrued pension benefits, beginning of year	57,326,795	53,338,107
Accrued pension benefits, end of year <i>[note 5]</i>	62,494,486	57,326,795

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

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

Year ended December 31

	2001 \$	2000 \$
INCREASE IN NET ASSETS		
Contributions		
Employees	1,645,383	1,301,537
Employer	801,877	638,793
	2,447,260	1,940,330
Investments		
Interest income	1,404,787	1,650,502
Dividend income and distribution	464,686	1,666,307
Capital loss - fixed income	(270,252)	(230,414)
Capital (loss) gain - equities	(1,260,923)	2,840,091
Unrealized market loss	(3,722,957)	(6,467,104)
Loss on currency	(339)	(577)
	(3,384,998)	(541,195)
	(937,738)	1,399,135
DECREASE IN NET ASSETS		
Withdrawals		
Annuity payments	2,824,838	2,682,659
Refunds	830,411	807,771
	3,655,249	3,490,430
Operating expenses		
Investment management fees	220,806	222,864
Other professional fees	75,696	119,736
Miscellaneous	80,376	99,690
Pension administration	154,058	97,389
Amortization	55,570	45,440
	586,506	585,119
	4,241,755	4,075,549
Net decrease in net assets during the year	(5,179,493)	(2,676,414)
Net assets available for benefits, beginning of year	62,256,425	64,932,839
Net assets available for benefits, end of year	57,076,932	62,256,425

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

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, 1998.

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.

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.

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

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.

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>2001</u>		<u>2000</u>	
	<u>Cost</u>	<u>Accumulated</u>	<u>Cost</u>	<u>Accumulated</u>
	\$	\$	\$	\$
Software	216,143	108,075	216,143	52,505
Accumulated amortization	(108,075)		(52,505)	
Net book value	108,068		163,638	

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

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

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, 1998 and extrapolated to December 31, 2001 by Mercer Human Resources Consulting, the Plan's actuaries. Comparative amounts for 1998 were extrapolated by Mercer Human Resources Consulting. The valuation was determined using the accrued benefit actuarial cost method. The significant assumptions used are:

- life expectancy of participants as listed in the 1983 Group Annuity Mortality Table
- 6.5% interest rate
- 4% salary escalation rate

The accrued pension benefits, surplus and deficit, if determined by an actuarial valuation at December 31, 2001, might differ from the amount extrapolated as a result of termination, death, disability and retirement experience, and salary increases being different from that assumed during the last actuarial valuation period. The last actuarial valuation was performed as at December 31, 1998.

INVESTMENTS

Year ended December 31

	December 31, 2001		December 31, 2000	
	Market \$	Acquisition Cost \$	Market \$	Acquisition Cost \$
EQUITIES				
Canadian stocks	19,767,758	18,734,862	22,237,624	18,562,542
International stocks	14,561,094	15,749,489	12,376,699	12,324,997
	34,328,852	34,484,351	34,614,323	30,887,539
BONDS AND DEBENTURES				
Corporate	4,393,295	4,300,264	6,983,753	7,119,217
Government	13,248,805	13,521,508	17,157,518	17,317,791
Mortgage backed securities	3,692,152	3,620,305	991,001	966,314
	21,334,252	21,442,077	25,132,272	25,403,322
Short term notes	662,406	658,769	1,638,307	1,630,770
OTHER				
Accrued investment income	226,458	226,458	412,428	412,428
Cash	—	—	36,717	36,717
	888,864	885,227	2,087,452	2,079,915
Total investments	56,551,968	56,811,655	61,834,047	58,370,776

See accompanying notes

Section 6

CFPSA Executive Compensation Plan

CFPSA EXECUTIVE COMPENSATION PLAN

FISCAL YEAR 2001-2002

**CANADIAN FORCES
PERSONNEL SUPPORT AGENCY**



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

PREFACE

The Canadian Forces Personnel Support Agency (CFPSA) operates with a fundamental principle in mind: “*the customer is king*”, and the customers are the men and women of the Canadian Forces (CF), and their families. Our reason for being is “*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 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.

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. As such, the efforts undertaken during the 2000-2001 fiscal year were intended to provide the CFPSA with exceptional leadership able to carry the responsibility of “*Serving Those Who Serve*”, and this means being 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 taken into account and 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 transparency and communication, this document detailing the CFPSA Executive Compensation Plan has been produced for our fiscal year 2001-2002 annual report.

Yours truly,



John F. Geci
President and Chief Executive Officer

The Fiscal Year 2001-2002 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 (HR) 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 the CFPSA ExMB, as designated by the President and Chief Executive Officer (CEO). The ExMB includes the following positions: President CANEX; President SISIP; Executive Vice-President Personnel Support Programs (PSP); Chief Financial Officer (CFO) and Vice-President Finance; 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. 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. 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. This consideration established the salary ranges for FY2001-2002 at a minimum of \$101,800 and a maximum of \$151,200.

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 **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 is anticipated that this item will be revisited regularly after 3 years in application to adjust to the existing conditions of the time.

The NPP BoD HR and Compensation Committee is as follows:

Chair: VCDS

Members: CMS
ADM(HR-Mil)
DND/CF LA
CFCWO
CAS CCWO
ADM, Health Products and Food Branch, Health Canada
CFPSA/President and CEO (Ex Officio)

Section 7

Non-Public Funds Employee Group Insurance Plans

NPF EMPLOYEE GROUP INSURANCE PLANS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2002

NPF EMPLOYEE GROUP INSURANCE PLANS

AUDITOR'S REPORT

The Chief of Defence Staff:

In order to satisfy requirements of the National Defence Act and Queen's Regulations and Orders with respect to the Non Public Property (NPP) Board of Directors fiduciary responsibility, an audit of the financial statements of the NPF Employee Group Insurance Plans, for the NPF fiscal year 2001/2002, was carried out by the Vice President, Internal Audit and Review, Canadian Forces Personnel Support Agency.

Audit Certification:

I have reviewed the balance sheet of the Non-Public Funds Employee Group Insurance Plans, a component of the Non-Public Funds Employee Benefits Fund (*instituted under Section 38 of the National Defence Act*), as at 28 February 2002 and the statement of contributions and expenses for the period 1 March 2001 to 28 February 2002. The audit of the financial statements was conducted in accordance with generally accepted auditing standards and, accordingly, included tests of the accounting records and other auditing procedures as considered necessary in the circumstances. The audit did not include the accounting related to the group insurance plans performed by Manulife Insurance Company (insurer). However, the annual report prepared by the Manulife Insurance Company was used as a source document for the audit.

In my opinion, the accompanying balance sheet and statement of contributions and expenses present fairly the financial position of the NPF Employee Group Insurance plans as at 28 February 2002. The results of its operations for the year then ended are in conformity with generally accepted accounting principles that were applied on a basis consistent with that of the preceding year.

Terry P. Payan
Vice President, Internal Audit and Review
Canadian Forces Personnel Support Agency

Ottawa, Canada
July 2002

NPF EMPLOYEE GROUP INSURANCE PLANS

BALANCE SHEET (Note 1)

AS AT 28 FEBRUARY 2002

	28 February 2002	28 February 2001
ASSETS		
Current Assets		
Bank	\$3,813,889.31	\$3,796,169.43
TOTAL ASSETS	<u>\$3,813,889.31</u>	<u>\$3,796,169.43</u>
LIABILITIES		
Current Liabilities		
Accrued Payables	\$254,534.19	\$ 26,248.66
Group Life Waiver (Note 2)	157,904.00	190,429.00
IBNR* (Note 3)	<u>136,182.00</u>	<u>113,650.00</u>
Total Liabilities	\$548,620.19	\$330,327.66
SURPLUSES		
Beginning of Year (Note 4)	\$3,465,841.77	\$3,266,838.99
Change for the Year	<u>(200,572.65)</u>	<u>199,002.78</u>
End of Year (Note 5)	\$3,265,269.12	\$3,465,841.77
TOTAL LIABILITIES AND SURPLUSES	<u>\$3,813,889.31</u>	<u>\$3,796,169.43</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 2001 TO 28 FEBRUARY 2002

	2001/2002	2000/2001
CONTRIBUTIONS AND INCOME		
Employee Contribution– Canada & NATEX	\$723,979.56	\$ 654,762.39
Employer Contribution – Canada & NATEX	963,911.97	889,234.90
Interest Income (CBA) *	142,918.77	187,418.93
GECA Revenue ** (Note 6)	141,000.00	255,000.00
Employee/Employer Contribution – Bosnia	127,434.79	52,823.39
Bosnia Tax Revenue	2,065.58	653.39
Group Life Waiver Revenue	<u>32,525.00</u>	<u>114,377.00</u>
TOTAL INCOME	<u>\$2,133,835.67</u>	<u>\$2,154,270.00</u>
 EXPENSES		
Premiums Paid Canada & NATEX (Note 7)	\$1,778,128.90	\$1,539,814.19
Premiums Paid - Bosnia	87,822.03	36,853.61
Professional Fees	74,002.27	4,315.91
Tax Arrears	14,019.00	23,710.00
Miscellaneous Expense	5.52	9,424.35
IBNR Expense (Note 3)	22,532.00	19,879.00
GECA Expenses	<u>357,898.60</u>	<u>321,270.16</u>
		-
TOTAL EXPENSES	<u>\$2,334,408.32</u>	<u>\$1,955,267.22</u>
 SURPLUS FOR THE YEAR	 <u>\$(200,572.65)</u>	 <u>\$ 199,002.78</u>

* Consolidated Bank Account

** Government Employees' Compensation Act

NPF EMPLOYEE GROUP INSURANCE PLANS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2002

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 \$157,904.00 as at 28 February 2002 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 2002, incurred but not reported (IBNR) claims estimated by actuarial formula is \$136,182. This amount is based on information provided by Manulife in their 2001/2002 report. This liability is reflected on the FY2001/2002 Balance Sheet.

The actuarial formula for IBNR claims provided by Manulife was used to estimate the above amount of \$136,182 and is as follows:

<u>Benefit</u>	<u>Claims Paid</u>	<u>IBNR %</u>	<u>Required Reserve</u>
Major Medical	\$ 417,220	21.4%	\$ 89,286
Dental	\$ 455,308	10.3%	\$ 46,897
	Total		<u>\$ 136,182</u>

Note 4 Surplus – Beginning of Year

The amount of \$3,465,841.77, shown as “Surplus at Beginning of Year”, is made up of the following Reserve balances as at 1 March 2001:

Reserve LTD 1 (Non Taxable)	\$ 163,451.30
Reserve GECA	2,101,277.08
Reserve Dental	(70,652.54)
Reserve Dental – Bosnia *	3,633.75
Reserve Medical	(110,070.75)
Reserve Medical - Bosnia	1,918.28
Reserve LTD 2 (Taxable)	1,081,045.21
Reserve LTD 2 - Bosnia	7,647.13
Reserve Group Life	474,633.87
Reserve Group Life - Bosnia	3,387.44
Group Life Waiver	<u>(190,429.00)</u>
Total	<u>\$ 3,465,841.77</u>

* Bosnia totals represent 6 months activity for FY 2000/01

Note 5 Surplus – End of Year

The amount of \$3,265,269.12, shown as “Surplus at End of Year”, is made up of the following Reserve balances as at 28 February 2002:

Reserve LTD 1 (Non Taxable)	\$ 163,451.30
Reserve GECA	1,949,453.24
Reserve Dental	(73,812.38)
Reserve Dental Bosnia	13,576.21
Reserve Medical	(137,587.33)
Reserve Medical Bosnia	10,474.61
Reserve LTD 2 (Taxable)	999,485.75
Reserve LTD 2 - Bosnia	22,527.26
Reserve Group Life	463,917.60
Reserve Group Life Bosnia	11,686.86
Group Life Waiver	<u>(157,904.00)</u>
Total	<u>\$ 3,265,269.12</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 2002. 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.