

FINANCIAL STATEMENTS
For
NPF EMPLOYEE GROUP INSURANCE PLAN
For year ended
MARCH 31, 2011

INDEPENDENT AUDITOR'S REPORT

To the Non-Public Property Board

We have audited the accompanying financial statements of the NPF Employee Group Insurance Plan, which comprise the statement of financial position as at March 31, 2011 and the statements of operations and deficit for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2011 and the changes in its deficit and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
January 16, 2012.

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**NPF EMPLOYEE GROUP INSURANCE PLAN
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2011**

	<u>2011</u>	<u>2010</u>
<u>LIABILITIES AND DEFICIT</u>		
CURRENT LIABILITIES		
Advances from Canadian Forces Central Fund (note 4)	\$ 133,399	\$ 78,554
Accounts payable and accrued liabilities	183,389	204,747
Group life waiver (note 5)	51,730	59,117
Claims incurred but not reported	<u>346,229</u>	<u>335,466</u>
TOTAL DEFICIT (note 6)	<u>\$ 714,747</u>	<u>\$ 677,884</u>

Approved:

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(See accompanying notes)

**NPF EMPLOYEE GROUP INSURANCE PLAN
STATEMENT OF OPERATIONS AND DEFICIT
YEAR ENDED MARCH 31, 2011**

	<u>2011</u>	<u>2010</u>
Income		
Employee/employer contributions	\$ 7,497,977	\$ 7,019,035
Interest and other income	19,964	13,357
Employer contributions for Government Employees Compensation Act	<u>845,043</u>	<u>319,147</u>
	<u>8,362,984</u>	<u>7,351,539</u>
Expenses		
Premiums paid	7,503,023	7,090,503
Government Employees Compensation Act	869,735	794,364
Professional fees and general	16,326	11,733
Claims incurred but not reported	<u>10,763</u>	<u>71,445</u>
	<u>8,399,847</u>	<u>7,968,045</u>
Net expense	(36,863)	(616,506)
Deficit at beginning of year	<u>(677,884)</u>	<u>(61,378)</u>
Deficit at end of year	<u>\$ (714,747)</u>	<u>\$ (677,884)</u>

(See accompanying notes)

NPF EMPLOYEE GROUP INSURANCE PLAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011

1. DESCRIPTION OF PLAN

The Non-Public Funds (NPF) Employee Group Insurance Plan provides health, dental, long-term disability and employer sponsored life insurance to full-time NPF/Canadian Forces Personnel and Family Support Services ("CFPFSS(NPF)") employees. Full-time employees are required to participate except where exemptions are specified. The Plan is funded by employee and employer contributions.

All rights with respect to a covered person are governed solely by the group contracts issued by the insurance carriers to the Chief of the Defence Staff operating under section 38 of the National Defence Act. Services with respect to hospital, major medical and dental benefits as well as long-term disability and optional life insurance are provided on a cross-experience rated refund basis. Services with respect to long-term disability and life insurance are underwritten and insured by the Great-West Life Assurance Company. Services with respect to accidental death and dismemberment and global medical are underwritten by the Chartis Insurance Company of Canada. Sick leave benefits are self insured by CFPFSS(NPF).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Employee and employer contributions (Premiums)

Employee and employer contributions are the amount of premiums that are reviewed and negotiated by the insurer and NPF and ultimately approved by NPF. These premiums are the anticipated cash expenses to be incurred in the upcoming twelve month period. The premiums include amounts collected on an experience rated basis to reimburse the insurer for prior years' deficits, if applicable, and those to fund current and subsequent years' costs. These premiums are paid in advance for the following month.

Claims incurred but not reported

The group Plan does not include an amount for claims incurred by policy holders but not reported to the insurer by the end of the policy period for only the dental coverage. These amounts, on termination, are the direct responsibility of the plan. This provision is estimated by an actuarial formula on an annual basis.

Government Employees Compensation Act (GECA)

Effective January 1, 2010, the employer's contribution to GECA premiums is based on 0.6% of salaries.

Services provided without charge

Canadian Forces Personnel and Family Support Services provides administrative services to the Plan. As the amount is not significant, these services are not recognized in the financial statements.

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.

NPF EMPLOYEE GROUP INSURANCE PLAN
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2011

3. FINANCIAL INSTRUMENTS

The Plan's financial instruments consist of the advances from the Canadian Forces Central Fund and accounts payable and accrued liabilities. The fair value of these amounts approximates their carrying values due to their short-term nature.

4. ADVANCES FROM CANADIAN FORCES CENTRAL FUND ("CFCF")

The advances from CFCF represent amounts advanced by CFCF to fund the cash deficiencies of the Plan. The advances are non-interest bearing and are to be repaid during the 2012 fiscal year-end. CFCF and CFPFSS both operate under the authority of the Chief of the Defence staff in his Non-Public Property (NPP) capacity. Responsibility for directing the affairs of CFCF and CFPFSS rests with the NPP Board.

5. 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 CFPFSS (NPF) would continue to pay the premiums on behalf of these members. CFPFSS (NPF) established a provision to protect the Staff of the Non-Public Fund, Canadian Forces, 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 March 1, 1987 and February 29, 2000. The Premium Waiver clause was reinstated effective March 1, 2000 and will eventually be eliminated as these members retire or terminate LTD benefits.

6. DEFICIT

The deficit is comprised of the following:

	<u>2011</u>	<u>2010</u>
Reserve LTD	\$ 292,831	\$ 275,489
Deficit Dental	(269,316)	(257,882)
Deficit Medical	(448,372)	(425,594)
Reserve Group Life	27,246	32,874
Group Life Waiver	<u>(51,730)</u>	<u>(59,117)</u>
Sub-total	(449,341)	(434,230)
 Reserve GECA	 <u>(265,406)</u>	 <u>(243,654)</u>
 Total	 <u>\$ (714,747)</u>	 <u>\$ (677,884)</u>

With the employer now contributing to GECA since January 2010 as well as funding the premiums for accidental death and dismemberment, the Plan generated adequate funding for the 2011 fiscal year-end. Management will continue to monitor the Plan's funding levels for the 2012 and 2013 fiscal year-ends so that any anticipated funding deficiencies will be addressed promptly.

7. STATEMENT OF CASH FLOWS

A statement of cash flows has not been provided as information about significant funding and investing activities is readily available from other financial statements.