Audited and Reviewed
Financial Statements
2003-2004

PLEASE NOTE: This publication is an addendum to the Canadian Forces Personnel Support Agency's Annual Report 2003-2004. The NPP Board of Directors approved these audited and reviewed financial statements on July 7, 2004. 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.

Index

Section 1

CANEX

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Auditors' Report

To the Non-Public Property Board of Directors

We have audited the balance sheet of CANEX as at February 29, 2004 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 February 29, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

May 7, 2004

CANEX
BALANCE SHEET
(In 000's of Canadian dollars)

	As at 29 February 2004 $	As at 23 February 2003 $
ASSETS		
Current		
Cash and cash equivalents	**1,740**	1,721
Short-term investments	**1,978**	2,070
Accounts receivable	**11,622**	12,445
Inventory	**17,116**	17,734
Prepaid expenses	**370**	209
Total current assets	**32,826**	34,179
Long-term		
Capital assets (note 3)	**21,952**	20,711
Accounts receivable	**1,827**	1,250
Total long-term assets	**23,779**	21,961
Cash, held in trust	**-**	1,233
Less: related liability	**-**	(1,233)
	-	-
Total assets	**56,605**	56,140
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**11,586**	13,635
Current portion of loans payable (note 4)	**1,652**	1,615
Total current liabilities	**13,238**	15,250
Long-term portion of loans payable (note 4)	**9,832**	9,634
Total liabilities	**23,070**	24,884
EQUITY		
Contributed capital	**23,112**	23,112
Retained earnings	**9,033**	7,280
Currency conversion adjustments	**1,390**	864
Total equity	**33,535**	31,256
Total liabilities and equity	**56,605**	56,140

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 29 February 2004 $	Year ended 23 February 2003 $
Sales	**137,584**	134,376
Cost of merchandise sold and services provided	**104,595**	102,536
Gross profit	**32,989**	31,840
Other revenue (note 5)	**7,774**	7,016
	40,763	38,856
Operating expenses		
Payroll and benefits	**19,662**	18,687
Other operating expenses (note 12)	**10,269**	9,698
Depreciation and amortization	**2,984**	2,614
Levies to central funds (note 6)	**646**	580
Interest on loans payable (note 4)	**453**	443
Total Operating Expenses	**34,014**	32,022
Income before royalties and other items	**6,749**	6,834
Gas bar decommissioning costs (note 7)	**(100)**	(640)
Royalties and contributions (note 8)	**(4,896)**	(4,793)
Net income	**1,753**	1,401
Retained earnings, beginning of year	**7,280**	5,879
Retained earnings, end of year	**9,033**	7,280

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

CANEX
STATEMENT OF CASH FLOWS
(In 000's of Canadian dollars)

	Year ended 29 February 2004 $	Year ended 23 February 2003 $
OPERATING ACTIVITIES		
Net income	**1,753**	1,401
Add items not affecting cash		
Depreciation and amortization	**2,984**	2,614
Loss on disposal of capital assets	**221**	179
	4,958	4,194
Net change in non-cash operating assets and liabilities	**(1,372)**	(374)
Cash provided by operating activities	**3,586**	3,820
INVESTING ACTIVITIES		
Disposal/(Purchase) of short-term investments	**92**	(2,070)
Purchase of capital assets	**(4,367)**	(7,229)
Proceeds on disposal of capital assets	**-**	139
Cash used in investing activities	**(4,275)**	(9,160)
FINANCING ACTIVITIES		
Issuance of loans payable	**1,986**	2,436
Repayment of loans payable	**(1,751)**	(1,752)
Cash provided by financing activities	**235**	684
Effect of exchange rate changes on cash and cash equivalents	**473**	2,182
Net increase (decrease) in cash and cash equivalents	**19**	(2,474)
Cash and cash equivalents, beginning of year	**1,721**	4,195
Cash and cash equivalents, end of year	**1,740**	1,721
Supplemental cash flow information		
Cash paid for interest on loans payable	**453**	443

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

CANEX

NOTES TO FINANCIAL STATEMENTS

29 February 2004

(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.

Personnel Support Programs is the term used to describe those activities of the Department of National Defence (DND) designed to contribute to the morale, well being and efficiency of Canadian Forces personnel, and which are normally supported by both Public and Non-Public resources. CANEX is included in these activities.

The level of Public Support provided to CANEX is outlined in Chapter 6 of DND Manual A-PS-110-001/AG-002 – "Public Support of Personnel Support Programs" and under Treasury Board Directive No. 689194, which states in part that:

"A reasonable level of goods, services and recreation facilities should be available to Canadian Forces personnel in their area of service. Where the levels are inadequate, the Department's responsibility, as an employer, to ensure their availability, where practical and desirable, may be discharged through a system of non-public fund organizations."

DND provides direct and indirect Public Support to CANEX based on the location of the Base, Wings and Unit. Bases, Wings and Units are classified as being remote, rural, semi-urban or urban, with each classification having a specified level of DND Public Fund Support.

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:

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

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 and balances between the various entities have been eliminated.

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less. CANEX uses both the Canadian Forces Central Fund (CFCF) banking facility and local banking arrangements. Cash and cash equivalents include amounts on deposit and overdraft arrangements with the CFCF.

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

Short-Term Investments

Short-term investments consist of readily tradable triple A rated bonds and guaranteed investment certificates with terms to maturity of greater than three months. It is CANEX's practice to hold these securities until maturity. All negotiable securities are valued at cost and the unrealized interest is accrued.

Revenue Recognition

Revenue from the sale of merchandise is realized upon acceptance by the customer. CANEX recognizes revenue from sales under its credit plan when the customer takes possession of the merchandise and collectibility is assured. Amounts due under the credit plan beyond the next fiscal year are recorded as long-term accounts receivable. Concession and administration fees are recognized each period in accordance with the term of the agreements

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

Foreign Currency Conversion

CANEX's reporting currency and functional currency is the Canadian dollar. The functional currency of NATEX and AMSTO is the Euro. Transactions in currencies other than the functional currencies are converted to the functional currency at the exchange rate in effect at the time the transaction occurs. 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.

The accounts of NATEX and AMSTO, which are considered self-sustaining foreign operations, have been translated into Canadian dollars 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. Cost is substantially determined using average cost.

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.

(In 000's of Canadian dollars)

3. CAPITAL ASSETS

	As at 29 February 2004 $		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Buildings	**18,739**	**9,964**	**8,775**
Motor vehicles and computer equipment	**2,668**	**1,412**	**1,256**
Fixtures and equipment	**11,184**	**6,852**	**4,332**
Building improvements	**15,230**	**7,641**	**7,589**
	47,821	**25,869**	**21,952**

	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	17,938	8,112	9,826
	46,721	26,010	20,711

(In 000's of Canadian dollars)

4. 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:

	$
FY 2004/05	1,652
FY 2005/06	2,185
FY 2006/07	1,928
FY 2007/08	1,726
FY 2008/09	1,473
Thereafter	2,520
	11,484
Less: Current portion	1,652
Long-term portion	9,832

5. 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 program.

6. LEVIES TO CENTRAL FUNDS

Levies are paid to the CFCF and the Canadian Forces Personnel Assistance Fund generally at the rate of 0.45% (FY 2002/03 - 0.40%) of total sales. Levies on AMSTO revenue are paid at a rate of 20% (FY 2002/03 - 20%) solely on automotive sales.

7. 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 2003/04, CANEX incurred an additional $100 (FY 2002/03 - $640) related to decommissioning efforts. Total closure and remediation costs incurred to date by CANEX are $3,700. The ultimate cost of this decommissioning cannot be determined at this time. A reserve of $406 (FY 2002/03 - $506) is included in accounts payable and accrued liabilities and represents managements' best estimate of CANEX's known future liability relating to this matter. No provision for known or probable site restoration costs for current gas bar operations have been recorded as of 29 February 2004.

8. ROYALTIES AND CONTRIBUTIONS

CANEX paid royalties of $3,298 (FY 2002/03 - $3,307) 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 $1,598 (FY 2002/03 - $1,486) to the NATO Air Base. NATEX contributions are based on various percentages of consumer sales, in accordance with the NATEX contract.

9. 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 remaining obligation for this shortfall is $765, to be paid over the next three years. In FY 2003/04 CANEX contributed $295 (FY 2002/03 - $295) for this shortfall in addition to $662 (FY 2002/03 - $142) of regular employer contributions to the Plan. Plan contributions are included in payroll and other benefits.

10. RELATED PARTY TRANSACTIONS

During FY 2003/04, DND contributed $1,775 (FY 2002/03 $1,706) to CANEX in support of payroll costs and $164 (FY 2002/03 $183) in support of travel, audit, and office expenses. All amounts received are recorded against the corresponding operating expense in the statement of income. DND also pays for and provides other services on behalf of, and at no cost to CANEX. These include payments in lieu of taxes and the use of legal, environmental and other advisory services. The value of these payments and services has not been determined.

The CFCF provides accounting, information technology, and human resources services to CANEX. These transactions are in the normal course of operations and are recorded at the exchange amount of $2,135 (FY 2002/03 - $1,605), which is the amount of consideration established and agreed to by the related parties, and represents managements' best estimate of fair market value.

11. 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.

12. FINANCIAL INSTRUMENTS

Fair Value

The fair value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

The estimated fair value of long-term accounts receivable and loans payable has not been determined as that information is not readily available. Long-term accounts receivable mature within 24 months at inception of the contract and are non-interest bearing.

Credit Risk

CANEX provides credit to its customers through its credit plan. CANEX has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Anticipated bad debt losses have been provided for in the allowance for doubtful accounts.

Currency Risk

CANEX earns certain revenue and incurs certain expenses in currencies other than its functional currencies (Canadian dollar and Euro) and is therefore subject to foreign currency risk. Included in the other operating expenses is a foreign exchange gain of $285 (FY 2002/03 - $921).

Interest Rate Risk

CANEX has exposure to fluctuations in interest rates as a result of its short-term investments and loans payable.

13. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year’s presentation.

SISIP Financial Services 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, 2003. This financial information is the responsibility of the management of SISIP Financial Services ("SISIP FS"). 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 $9,011,215 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.

SISIP FS accounts for its investment in segregated funds on a mark to market basis with unrealized gains of $16,992,901 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 decreased by $11,336,637.

SISIP FS 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 $176,948. 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, 2003 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada
March 19, 2004

SERVICE INCOME SECURITY INSURANCE PLAN

Year ended December 31, 2003

Proper

Premium collected	$ 34,472,765
Investment income	$ 25,874,553
Claims paid	$ 27,495,611
Expenses paid	$ 8,149,265

SISIP Proper
Balance Sheet (Note 1)

	(In 000s of dollars)	
	2003	**2002**
	$	**$**
ASSETS		
Funds	344,256	331,251
Total Assets	**344,256**	**331,251**
LIABILITIES		
Liabilities - Reserves	157,292	151,609
Total Liabilities	**157,292**	**151,609**
SURPLUS/(DEFICIT)		
Total Surplus/(Deficit)	**186,964**	**179,642**
Total Liabilities & Surplus	**344,256**	**331,251**

Note: 1. This balance sheet was reviewed by Mercer HR in their financial experience report.

SISIP Proper
Year End Financial Results - FY 2003

	(In 000's of dollars)	
	Year End 2003 $ (Note 1)	**Year End 2002 $** (Note 1)
Revenues		
Premiums	34,473	31,993
Investment income on acturarial reserves	8,881	9,412
Investment income on segregated fund	16,993	1,994
Total Revenues	**60,347**	**43,399**
Operating Expenses		
Claims and Related Expenses	27,496	21,783
Reserve Increase	5,714	3,514
Other	8,149	7,061
Total Operating Expenses	**41,359**	**32,358**
Operating Income (Loss)	**18,988**	**11,041**
Extraordinary Items		
Transfer to Re-capitalization Project	(10,000)	(14,000)
CFPSA Morale & Welfare Grant		
Other	(1,666)	(461)
Net Income (Loss)	**7,322**	**(3,420)**
Adjusted Net Income (Loss) (note 2)	**17,322**	**10,580**

<u>Notes:</u>

1. Premiums, investment income, claims and other expenses verified by KPMG.
2. Eliminating the Re-capitalization Project transfers.

Canadian Forces Personnel Assistance Fund

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

For

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

For year ended

DECEMBER 31, 2003

Welch & Company LLP
Lévesque Marchand, Chartered Accountants

AUDITORS' REPORT

To the Non-Public Property 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, 2003 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 December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Welch & Company LLP

CHARTERED ACCOUNTANTS

Ottawa, Ontario
March 8, 2004.

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CANADIAN FORCES PERSONNEL ASSISTANCE FUND

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2003

	2003	2002
ASSETS		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	$ 1,372,920	$ 2,908,767
Cash held by bases for loans	251,387	178,677
Contributions and other receivables	25,248	21,400
Current portion of self-improvement loans receivable (note 3)	6,490,633	6,172,205
Current portion of distress loans receivable (note 3)	932,917	942,788
Current portion of education loans receivable (note 3)	1,388,040	1,158,675
	10,461,145	11,382,512
OFFICE EQUIPMENT, net of accumulated amortization of $20,425 (2002 - $13,053)	5,746	8,725
SELF-IMPROVEMENT LOANS RECEIVABLE (note 3)	1,469,463	1,494,922
DISTRESS LOANS RECEIVABLE (note 3)	1,601,522	1,525,586
EDUCATION LOANS RECEIVABLE (note 3)	1,539,043	713,821
	4,615,774	3,743,054
TRUST ASSETS (note 4)		
Deposit with Canadian Forces Central Fund	37,165	41,060
	$ 15,114,084	$ 15,166,626
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable	$ 6,927	$ 4,681
TRUST LIABILITIES (note 4)	37,165	41,060
	44,092	45,741
FUND BALANCE	15,069,992	15,120,885
	$ 15,114,084	$ 15,166,626

Approved by the Board:

. . . . Director

. . . . Director

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

STATEMENT OF REVENUE AND EXPENSE AND FUND BALANCE

YEAR ENDED DECEMBER 31, 2003

(With comparative figures for the ten month period ended December 31, 2002)

	Ended 2003	Ten months Dec. 31, 2002
Revenue		
Interest on loans receivable	$ 473,526	$ 364,028
Contributions from Canadian Forces Central Fund	290,352	204,583
Interest on deposits	107,794	91,265
Miscellaneous	3,150	3,294
	874,822	663,170
Expense		
Salaries and employee benefits	411,499	327,414
Grants	185,284	154,396
Loans written off - net of recoveries	284,013	99,767
Amortization	4,044	3,328
Miscellaneous	8,995	5,380
Employer pension plan contributions (note 5)	31,880	-
	925,715	590,285
Net revenue (expense) for the period	(50,893)	72,885
Fund balance - beginning of period	15,120,885	15,048,000
Fund balance - end of period	$ 15,069,992	$ 15,120,885

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2003

(With comparative figures for the ten month period ended December 31, 2002)

	Ended 2003	Ten months Dec. 31, 2002
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue (expense)	$ (50,893)	$ 72,885
Items not affecting cash -		
Loans written off	292,175	104,594
Amortization	4,044	3,328
Changes in level of:		
Contributions and other receivables	(3,848)	14,298
Accounts payable	(1,649)	(5,445)
	239,829	189,660
Investing activities		
Self Improvement loans advanced	(10,043,800)	(8,408,245)
Distress loans advanced	(1,380,487)	(1,368,480)
Education loans advanced	(2,558,000)	(1,561,400)
Repayment of loans	12,276,491	9,909,247
Purchase of office equipment	(1,065)	-
	(1,706,861)	(1,428,878)
Decrease in cash	(1,467,032)	(1,239,218)
Cash and deposits, beginning of period	3,128,504	4,367,722
Cash and deposits, end of period	$ 1,661,472	$ 3,128,504
Cash and deposits consists of:		
Deposits with Canadian Forces Central Fund	$ 1,410,085	$ 2,949,827
Cash held by bases for loans	251,387	178,677
	$ 1,661,472	$ 3,128,504

(See accompanying notes)

1. AUTHORITY, PURPOSE AND OBJECTIVES

The Canadian Forces Personnel Assistance Fund ("CFPAF") operates as a charitable organization and was established under the authority of the National Defence Act Section 39, by CDS Order – CFPAF on December 8, 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 ("CFCF"), contributions and other receivables, loans receivable and liabilities. Financial instruments, which potentially subject the fund to a 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.

The fair value of deposit with Canadian Forces Central Fund, cash held by bases for loans, contributions and other receivables and accounts payable approximates their carrying value due to their short term nature. It is not practicable to determine the fair value of the self-improvement, distress and education loans receivable. The terms and conditions of these loans have been enclosed in the notes.

(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.

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 $25,000 may be granted with payment terms extending to 10 years and bear an annual interest rate of 2%, effective as at June 1, 2003. Prior to this the loans were interest free.

(c) *Education loans*

Applicants may request a maximum of $4,000 per student, with repayment over 12, 24, 36 or 48 months at an annual interest rate of 3%, effective as at June 1, 2003. Prior to this the annual interest rate was 2%. The lifetime maximum per student is $16,000.

4. TRUST LIABILITIES

The Canadian Forces Personnel Assistance Fund administers four trust funds.

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

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 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 period:

	Distress Trust	Corporal Ronald MacDonald Memorial Trust Fund	Logistics Branch Bursary Fund	Signals Welfare Inc.	2003 Total	2002 Total
Balance, beginning of period	$ 1,660	$ 20,549	$ 16,248	$ 2,603	$ 41,060	$ 39,572
Interest received	-	814	476	-	1,290	878
Disbursements	(7,414)	(622)	(2,000)	(2,800)	(12,836)	(1,050)
Receipts to Trust Account	6,954	-	500	197	7,651	1,660
Balance, end of period	$ 1,200	$ 20,741	$ 15,224	$ -	$ 37,165	$ 41,060

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. In accordance with the Pension Benefits Standards Act, the deficit must be eliminated over a period of 5 years, from January 2002 to December 2006. A full year of payments arrears from the 2002 fiscal year was charged to income in 2003, along with the regular monthly solvency shortfall installment. Monthly installments are expected to approximate $1,100 until the shortfall is eliminated.

Canadian Forces Central Fund

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

For

CANADIAN FORCES CENTRAL FUND

For year ended

FEBRUARY 29, 2004

Welch & Company LLP
Lévesque Marchand, Chartered Accountants

AUDITORS' REPORT

To the Non-Public Property Board of Directors of

CANADIAN FORCES CENTRAL FUND

We have audited the statement of financial position of Canadian Forces Central Fund as at February 29, 2004 and the statements of changes in net assets, 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 29, 2004 and the changes in net assets, the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Welch & Company LLP

CHARTERED ACCOUNTANTS

Ottawa, Ontario
May 21, 2004.

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CANADIAN FORCES CENTRAL FUND

STATEMENT OF FINANCIAL POSITION

FEBRUARY 29, 2004

	Feb. 29, 2004	Feb. 23, 2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 3)	$ 4,736,579	$ 7,680,992
Accrued interest receivable	707,731	1,009,238
Accounts receivable (note 4)	17,391,582	6,186,521
Prepaid expenses	299,152	144,296
Current portion of project loans receivable (note 5)	2,741,526	2,347,827
	25,876,570	17,368,874
OTHER ASSETS		
Project loans receivable (note 5)	18,124,111	16,769,164
Advance to Task Force Bosnia – Herzegovina ("TFBH")	1,438,600	1,437,000
Long-term investments (note 6)	56,275,785	60,765,605
Furnishings and equipment (note 7)	1,589,941	903,566
	77,428,437	79,875,335
	103,305,007	97,244,209
TRUST ASSETS		
Cash and investments	44,644,780	35,174,435
Receivable	267,188	328,206
	44,911,968	35,502,641
	$ 148,216,975	$ 132,746,850
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and employee deductions payable	$ 8,168,641	$ 11,504,672
TRUST LIABILITIES	44,911,968	35,502,641
	53,080,609	47,007,313
NET ASSETS		
Unrestricted	89,285,540	79,455,329
Internally restricted (note 8)		
Minor projects	1,584,633	1,632,457
Future personnel costs (Public)	3,770,441	4,464,891
Future insurance costs	495,752	186,860
	95,136,366	85,739,537
	$ 148,216,975	$ 132,746,850

Approved on behalf of the board:

. . . . Director

.... .Director

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND

STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED FEBRUARY 29, 2004

		Internally Restricted				
	Unrestricted	Minor projects	Future personnel costs (public)	Future insurance costs	Feb. 29, 2004	Feb. 23, 2003
Balance, beginning of year	$ 79,455,329	$ 1,632,457	$ 4,464,891	$ 186,860	$ 85,739,537	$ 100,119,308
Net revenue (expense) for year	10,362,338	-	-	-	10,362,338	(13,519,516)
Project and personnel expenditures	-	(608,324)	(357,185)	-	(965,509)	(860,255)
	10,362,338	(608,324)	(357,185)	-	9,396,829	(14,379,771)
Net asset reallocations	(532,127)	560,500	(337,265)	308,892	-	-
Balance, end of year	$ 89,285,540	$ 1,584,633	$ 3,770,441	$ 495,752	$ 95,136,366	$ 85,739,537

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND

STATEMENT OF REVENUE AND EXPENSE

YEAR ENDED FEBRUARY 29, 2004

(With comparative figures for the year ended February 23, 2003)

	Year ended Feb. 29, 2004	Year ended Feb. 23, 2003
Operating revenue		
Investment income (note 6)	$ 10,552,722	$ 1,264,345
Loan interest	679,387	623,033
Other	208,687	173,992
	11,440,796	2,061,370
Operating expenses		
CFCF management	396,565	403,999
Interest to base/wing funds, messes and trusts	2,581,341	1,517,490
CFCF user fees	460,936	498,818
	3,438,842	2,420,307
Net operating income (expense) before CFCF contributions	8,001,954	(358,937)
CFCF contributions		
Programs	302,848	256,734
Distributions		
Capital projects	6,208,324	5,474,926
CANEX/SISIP moral, welfare and other grants	190,962	1,360,738
	6,702,134	7,092,398
NPF services and operations (note 9)	3,203,168	4,094,517
	9,905,302	11,186,915
Net CFCF operating expense	(1,903,348)	(11,545,852)
Net Public operating revenue (expense) - schedule A	11,300,177	(2,833,919)
Net revenue (expense)	$ 9,396,829	$ (14,379,771)

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND

STATEMENT OF CASH FLOWS

YEAR ENDED FEBRUARY 29, 2004

	Year ended Feb. 29, 2004	Year ended Feb. 23, 2003
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue (expense)	$ 9,396,829	$ (14,379,771)
Items not affecting cash -		
Writedown of corporate stocks and options	-	1,116,953
Amortization	350,128	269,884
	9,746,957	(12,992,934)
Changes in level of:		
Accrued interest receivable	301,507	197,774
Accounts receivable	(11,205,061)	(1,663,910)
Prepaid expenses	(154,856)	(63,211)
Accounts payable and employee deductions payable	(3,336,031)	2,049,554
	(4,647,484)	(12,472,727)
Financing activities		
Increase in project loans receivable	(1,748,646)	(724,626)
Investing activities		
Decrease in long-term investments	4,489,820	13,974,293
Advance to TFBH	(1,600)	-
Purchase of furnishings and equipment - net	(1,036,503)	(234,654)
	3,451,717	13,739,639
Total cash provided (used)	(2,944,413)	542,286
Cash and cash equivalents, beginning of year	7,680,992	7,138,706
Cash and cash equivalents, end of year	$ 4,736,579	$ 7,680,992

(See accompanying notes)

1. NATURE OF OPERATIONS

The Canadian Forces Central Fund ("CFCF") was established by the Chief of the Defence Staff on February 1, 1968, under Section 2 and Sections 38 to 41 of the National Defence Act, to provide banking services to units and trusts from non-public funds and financial assistance to units in establishing and improving messes, recreational and social facilities for the benefit of Canadian Forces personnel and their dependants.

In common with other non-public funds, CFCF is exempt from paying income tax under Part 1 of the Income Tax Act.

A significant portion of the transactions in these financial statements relate to military base activity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *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.

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 Task Force Bosnia - Herzegovina, long-term investments and accounts payable and employee deductions payable.

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

The fair value of cash and cash equivalents, accounts receivable, project loans receivable, accounts payable and employee deductions payable approximates their carrying value due to their short term nature.

Up to 18% 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. CONCENTRATED BANK ACCOUNT ("CBA")

CFCF maintains cash, which it does not control in its concentrated 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 (Base/Wing Funds and Messes receive 3% with options to elect at the bank prime rate plus 0.25% or CFCF's investment rate of return less 0.5% for its cash balance in excess of liabilities; while trust accounts receive varying percentages based on cash balances and options selected).

	Feb. 29, 2004 Cost	Feb 23, 2003 Cost
Guaranteed Investment Certificates and other fixed income securities	$ 5,603,927	$ 10,708,253
Cash	2,598,565	856,592
	8,202,492	11,564,845
Less allocated to trust assets	(3,465,913)	(3,883,853)
	$ 4,736,579	$ 7,680,992

4. FUNDING SHORTFALL

Included in accounts receivable is a receivable of $13,896,258 from the Public for a funding shortfall pertaining to underfunded services of human resources management and IM/IT of Public reimbursed Personnel Support Program costs for the 1998 to 2004 fiscal year-ends. The portion specifically pertaining to the 2004 fiscal year-end of $2,722,694 has already been reflected in the revenue amount for Personnel Support Program with the balance of $11,173,564 pertaining to the previous fiscal year-ends being reflected as a separate line item on the statement of Public Operating Revenue and Expense outlined on schedule A.

5. 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. There were no loan balances forgiven in either the 2003 or 2004 fiscal year-end.

	Feb. 29, 2004	Feb 23, 2003
Interest bearing loans	$ 20,496,492	$ 19,016,991
Interest free loans	369,145	100,000
	20,865,637	19,116,991
Less current portion	(2,741,526)	(2,347,827)
	$ 18,124,111	$ 16,769,164

6. LONG-TERM INVESTMENTS

	February 29, 2004		February 23, 2003	
	Fair value	Cost	Fair value	Cost
Corporate stocks and options	$ 46,197,375	$ 40,887,361	$ 41,188,022	$ 42,304,975
Government bonds	49,830,050	48,373,651	43,629,618	42,895,988
Other indexed securities	8,513,348	8,193,640	6,126,107	7,972,177
	$ 104,540,773	97,454,652	$ 90,943,747	93,173,140
Less writedown of corporate stocks and options		-		(1,116,953)
Less allocation to trusts		(41,178,867)		(31,290,582)
		$ 56,275,785		$ 60,765,605

Terms to maturity of bonds and debentures range from 2005 to 2035 with the majority of these investments maturing within 5 to 6 years. Interest rates on government bonds vary from 4.1% to 8.65%.

Investment income includes net gains from sales of investments which amounted to $6,599,076 (2003 net losses - $2,400,988).

7. FURNISHINGS AND EQUIPMENT

	February 29, 2004			February 23, 2003
	Cost	Accumulated amortization	Net book value	Net book value
Leasehold improvements	$ 14,554	$ 6,412	$ 8,142	$ 9,469
Office furniture	198,242	92,241	106,001	74,015
Computer equipment	3,623,884	2,148,086	1,475,798	820,082
	$ 3,836,680	$ 2,246,739	$ 1,589,941	$ 903,566

8. INTERNALLY RESTRICTED NET ASSETS

(a) *Minor projects*

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

(b) *Future Personnel Costs (Public)*

Amounts have been designated 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 designated to provide funding for future NPF insurance claims based on premium savings resulting from the increase in property self insured retention levels to $1 million for each and every loss, and aggregate limit.

9. CFCF CONTRIBUTIONS TO NPF SERVICES AND OPERATIONS

CFCF contributions to NPF services and operations represent financial support provided of $3,203,168 (2003 - $4,094,517) to the NPF wide services of accounting, human resources management, information management and information technology and consolidated insurance program as well as the corporate operating costs.

10. CONTINGENT LIABILITY

CFCF is contingently liable for $523,000 (2003 - $515,000) for letters of credit supplied to various provincial liquor boards on behalf of unit messes.

11. COMPARATIVE FIGURES

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

12. COMMITMENTS

As at February 29, 2004, CFCF had approved loans to bases and ships totalling $3,505,981 (2003 - $1,285,500) which were not yet advanced.

In addition, the Fund has entered into a contract for radio and television satellite broadcasting with an annual cost for the 2005 fiscal year-end of approximately $4,465,000. This contract is part of the Public reimbursed Personnel Support Program and will be reimbursed by the Public and is included as part of the Public Operating Revenue and Expense statement within Deployed Operations.

13. 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. In accordance with the Pension Benefits Standards Act, the deficit must be eliminated over a period of 5 years, from January 2003 to December 2007. A full year of payments arrears from the 2003 fiscal year was charged to income in 2003, along with the regular monthly solvency shortfall installment. Monthly installments are expected to approximate $31,810 (CFCF) and $83,480 (Public reimbursed employees) until the shortfall is eliminated.

14. RELATED PARTY TRANSACTIONS

During the year, CFCF charged other Non-Public Fund entities for accounting, human resources management, information management and information technology and consolidated insurance program 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. The charges are as follows:

	February 29, 2004				February 23, 2003			
	CANEX	SISIP	Bases/ Wings/ Messes	Total	CANEX	SISIP	Bases/ Wings/ Messes	Total
Accounting	$1,166,274	$ 69,324	$1,152,874	$2,388,472	$1,172,255	$ -	$1,124,076	$2,296,331
HR	683,255	138,374	888,425	1,710,054	432,555	-	939,945	1,372,500
IM/IT	250,000	202,566	-	452,566	-	-	-	-
CIP	436,972	-	123,653	560,625	349,555	-	86,814	436,369
	$2,536,501	$ 410,264	$2,164,952	$5,111,717	$1,954,365	$ -	$2,150,835	$4,105,200

Schedule A

CANADIAN FORCES CENTRAL FUND

STATEMENT OF PUBLIC OPERATING REVENUE AND EXPENSE

YEAR ENDED FEBRUARY 29, 2004

(With comparative figures for the year ended February 23, 2003)

	Year ended Feb. 29, 2004	Year ended Feb. 23, 2003
Revenue		
Military Family Support (C108)	$ 18,861,401	$ 17,560,099
Personnel Support Program (C109) – note 4	53,946,520	47,473,958
Other	1,226,541	1,000,030
	74,034,462	66,034,087
Expense		
Military family support	18,861,401	18,078,101
PSP HQ and field ops support management	18,398,483	16,918,573
Military fitness/sports	6,720,003	6,276,069
Deployed operations	11,024,430	9,746,210
CANEX management	1,938,336	1,889,404
SISIP financial counselling and education	2,816,159	2,213,860
Health promotion	3,450,815	2,775,977
Internal audit and review	1,027,683	951,424
NPF accounting	3,658,373	3,297,997
NPF human resources	2,835,716	2,846,518
Information management/information technology	1,725,563	1,700,930
Miscellaneous	1,450,887	2,172,943
	73,907,849	68,868,006
Net Public operating revenue (expense)	126,613	(2,833,919)
Funding adjustment for prior years' Personnel Support Program (note 4)	11,173,564	-
Net Public operating revenue (expense) after adjustment	$ 11,300,177	$ (2,833,919)

Non-Public Funds Employees Pension Plan

Financial Statements

Canadian Forces Non-Public Funds Employees Pension Plan

December 31, 2003

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, 2003 and the statements of changes in 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, deficit of the Plan as at December 31, 2003 and the changes in deficit, accrued pension benefits and net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ottawa, Canada,
March 26, 2004.

Chartered Accountants

Canadian Forces Non-Public Funds Employees Pension Plan

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

As at December 31

NET ASSETS AVAILABLE FOR BENEFITS

	2003 $	2002 $
Investments at Manulife, at market *[note 3 and schedule A]*	**66,252,820**	51,850,981
Bank	**568,138**	380,394
Pension receivable	**—**	2,290,557
Prepaid expense	**12,198**	11,385
Capital assets *[note 4]*	**9,947**	56,478
	66,843,103	54,589,795
Less: accrued liabilities	**32,356**	95,792
Net assets available for benefits	**66,810,747**	54,494,003

ACCRUED PENSION BENEFITS AND DEFICIT

Actuarial value of accrued pension benefits *[note 5]*	**71,007,000**	64,413,000
Deficit	**(4,196,253)**	(9,918,997)
Accrued pension benefits and deficit	**66,810,747**	54,494,003

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

STATEMENT OF CHANGES IN DEFICIT

Year ended December 31

	2003 $	2002 $
Deficit of net assets available for benefits versus accrued pension benefits, beginning of year	**(9,918,997)**	(5,417,554)
Net increase (decrease) in net assets available for benefits	**12,316,744**	(2,582,929)
Net increase in accrued pension benefits	**(6,594,000)**	(1,918,514)
Deficit of net assets available for benefits versus accrued pension benefits, end of year	**(4,196,253)**	(9,918,997)

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS *[note 5]*

Year ended December 31

	2003 $	2002 $
INCREASE IN BENEFITS		
Interest accrued on benefits	**4,283,566**	3,914,484
Benefits accrued	**6,670,040**	6,320,960
Increase in accrued benefits	**10,953,606**	10,235,444
DECREASE IN ACCRUED BENEFITS		
Annuity payments and refunds	**3,693,991**	3,651,305
Adjustment to valuation	**665,615**	4,665,625
Decrease in accrued benefits	**4,359,606**	8,316,930
Net increase in accrued pension benefits	**6,594,000**	1,918,514
Accrued pension benefits, beginning of year	**64,413,000**	62,494,486
Accrued pension benefits, end of year *[note 5]*	**71,007,000**	64,413,000

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31

	2003 $	2002 $
INCREASE IN NET ASSETS		
Contributions		
Employer	**6,386,325**	3,363,319
Employees	**2,284,260**	2,164,712
	8,670,585	5,528,031
INVESTMENTS		
Unrealized market gain	**7,564,194**	2,459,578
Interest income	**290,652**	722,875
Dividend income	**434,569**	428,557
Capital gain - fixed income	**—**	237,589
Loss on currency	**(615)**	(290)
Capital loss - equities	**(210,829)**	(7,544,121)
	8,077,971	(3,695,812)
	16,748,556	1,832,219
DECREASE IN NET ASSETS		
Withdrawals		
Annuity payments	**3,105,454**	2,996,561
Refunds	**588,537**	654,745
	3,693,991	3,651,306
OPERATING EXPENSES		
Professional fees	**204,056**	269,444
Investment management fees	**119,971**	208,180
Custodial fees	**111,980**	—
Pension administration	**177,379**	167,679
Miscellaneous	**77,904**	66,949
Amortization	**46,531**	51,590
	737,821	763,842
	4,431,812	4,415,148
Net increase (decrease) in net assets during the year	**12,316,744**	(2,582,929)
Net assets available for benefits, beginning of year	**54,494,003**	57,076,932
Net assets available for benefits, end of year	**66,810,747**	54,494,003

See accompanying notes

Canadian Forces Non-Public Funds Employees Pension Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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, 2003.

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 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 years after Plan membership, the surviving spouse will be entitled to elect among the following alternatives; transfer to a locked-in RRSP; or transfer to a registered pension plan; or purchase an immediate life annuity or a deferred life annuity.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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

	2003		**2002**	
	Cost $	**Accumulated Amortization** $	**Cost** $	**Accumulated Amortization** $
Software	**216,143**	**206,196**	216,143	159,665
Accumulated amortization	**(206,196)**		(159,665)	
Net book value	**9,947**		56,478	

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, 2003, by Mercer Human Resource Consulting, the Plan's actuaries. The Plan is required to have its next actuarial valuation performed as at December 31, 2004. The significant assumptions used are:

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

INVESTMENTS

Year ended December 31

	2003		2002	
	Market $	Acquisition Cost $	Market $	Acquisition Cost $
EQUITIES				
Canadian stocks	**28,001,853**	**22,733,414**	18,601,445	18,110,413
Indexed US equity fund	**10,470,974**	**9,377,784**	9,247,845	8,717,000
Indexed EAFA fund	**7,081,104**	**5,725,325**	5,929,389	5,479,100
	45,553,931	**37,836,523**	33,778,679	32,306,513
BONDS AND DEBENTURES				
Bond index fund	**13,096,885**	**12,033,033**	11,598,497	11,313,077
Government of Canada real return bonds	**6,554,534**	**5,571,708**	6,014,013	5,571,708
	19,651,419	**17,604,741**	17,612,510	16,884,785
Short-term notes	**898,578**	**898,578**	400,000	400,000
OTHER				
Accrued investment income	**76,476**	**76,476**	58,320	58,320
Cash	**72,416**	**72,416**	1,472	1,472
	1,047,470	**1,047,470**	459,792	459,792
Total investments	**66,252,820**	**56,488,734**	51,850,981	49,651,090

See accompanying notes

Section 6

Non-Public Funds Employee Group Insurance Plans

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

For

NPF EMPLOYEE GROUP INSURANCE PLAN

For year ended

FEBRUARY 29, 2004

Welch & Company LLP
Lévesque Marchand, Chartered Accountants

AUDITORS' REPORT

To the Non-Public Property Board of Directors of

NPF EMPLOYEE GROUP INSURANCE PLAN

We have audited the statement of financial position of the NPF Employee Group Insurance Plan as at February 29, 2004 and the statements of operations and reserves available for future claims for the year then ended. These financial statements are the responsibility of the Plan'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 Plan as at February 29, 2004 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Welch & Company LLP

CHARTERED ACCOUNTANTS

Ottawa, Ontario
June 4, 2004.

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Ottawa • Hull • Belleville • Cornwall • Pembroke • Picton • Trenton • Campbellford • Renfrew
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NPF EMPLOYEE GROUP INSURANCE PLAN

STATEMENT OF FINANCIAL POSITION

FEBRUARY 29, 2004

	Feb. 29, 2004	Feb. 28, 2003
ASSETS		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	$ 3,376,410	$ 3,577,134
Accounts receivable	1,535	-
	$ 3,377,945	$ 3,577,134
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 229,199	$ 224,306
Group life waiver (note 3)	97,497	137,482
Claims incurred but not reported (IBNR)	176,241	144,768
	502,937	506,556
RESERVES AVAILABLE FOR FUTURE CLAIMS (note 4)	2,875,008	3,070,578
	$ 3,377,945	$ 3,577,134

Approved by:

. . . . .Director

. . . . .Director

(See accompanying notes)

NPF EMPLOYEE GROUP INSURANCE PLAN

STATEMENT OF OPERATIONS AND NET ASSETS

YEAR ENDED FEBRUARY 29, 2004

(With comparative figures for the year ended February 28, 2003)

	Year ended Feb. 29, 2004	Year ended Feb. 28, 2003
Income		
Employee contribution - Canada and NATEX	$ 1,099,186	$ 833,975
Employer contribution - Canada and NATEX	1,471,428	1,113,222
Interest income	115,502	111,555
GECA	141,000	141,000
Employee/employer contribution - Deployed Operations	148,408	131,847
Group life waiver	39,986	20,422
	3,015,510	2,352,021
Expenses		
Premiums paid - Canada and NATEX	2,603,917	2,070,180
Premiums paid - Deployed Operations	92,021	89,574
GECA	436,801	307,418
Professional fees	46,868	70,954
IBNR	31,473	8,586
	3,211,080	2,546,712
Net expense	(195,570)	(194,691)
Reserves available for future claims at beginning of year	3,070,578	3,265,269
Reserves available for future claims at end of year	$ 2,875,008	$ 3,070,578

(See accompanying notes)

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 Support Agency ("CFPSA(NPF)") employees. Full-time employees who have completed three month's employment 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 Manufacturers Life Insurance Company ("Manulife") to the Chief of the Defence Staff operating under section 38 of the National Defence Act. Manulife's services with respect to hospital, major medical and dental benefits are provided on an administrative basis only. Such benefits are not incurred by Manulife. All other benefits are underwritten and insured by Manulife Financial Corporation except for sick leave benefits which are self insured by CFPSA(NPF).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Employee and employer contributions (Premiums)

Employee and employer contributions are the amount of premiums estimated and requested by the insurer to meet cash expenses anticipated to be incurred in the twelve month ended February 29, 2004. The premiums include amounts collected on an experience rated basis to reimburse the insurer for prior year's deficits, if applicable, and those to fund current and subsequent year's deficits. These premiums are paid in advance for the following month.

Claims incurred but not reported (IBNR)

The group Plan does not include amount 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 plan. This provision is estimated by an actuarial formula on an annual basis.

Government Employees Compensation Act (GECA)

Effective January 1, 1999, the employees stopped contributing to GECA until the surplus is reduced to a reasonable level.

Services provided without charge

Canadian Forces Central Fund provides administrative services to the Plan. Because of the difficulty of determining the fair market value, 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.

Financial instruments

The Plan's financial instruments consist of deposit with Canadian Forces Central Fund, accounts receivable and accounts payable. The fair value of these amounts approximate their carrying value due to their short-term nature.

3. 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 a provision 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 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.

4. RESERVES AVAILABLE FOR FUTURE CLAIMS

The reserves available for future claims are comprised of the following:

	Feb. 29, 2004	Feb. 28, 2003
Reserve LTD 1 (Non Taxable)	$ 163,451	$ 163,451
Reserve GECA	1,606,691	1,833,016
Reserve Dental	(99,834)	(86,698)
Reserve Dental - Deployed Operations	35,077	23,226
Reserve Medical	(181,642)	(151,255)
Reserve Medical - Deployed Operations	34,989	20,434
Reserve LTD 2 (Taxable)	894,890	900,237
Reserve LTD 2 - Deployed Operations	57,908	36,994
Reserve Group Life	432,023	448,771
Reserve Group Life - Deployed Operations	28,952	19,884
Group Life Waiver	(97,497)	(137,482)
Total	$ 2,875,008	$ 3,070,578

Management monitors the reserve balances on a regular basis. Furthermore, the premiums for the 2005 fiscal year-end have been adjusted accordingly to fund the deficits that currently exist in the reserve for dental and medical.

5. 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.

6. COMPARATIVE FIGURES

The comparative figures have been prepared without audit or review and have been reclassified to conform with the financial statement presentation adopted for the current year.

CANADIAN FORCES
PERSONNEL SUPPORT AGENCY

SISIP RARM

PSP CANEX

AGENCE DE SOUTIEN DU PERSONNEL
DES FORCES CANADIENNES

CFPSA Executive Compensation Plan

The CFPSA Executive Compensation Plan
Fiscal Year 2003-2004

The Canadian Forces Personnel Support Agency (CFPSA) operates with two essential principles in mind. These are: "***people matter***" and "***the focus is on the customer***" and the customers are the men and women of the Canadian Forces (CF), and their families. The goal of our existence is as our motto states, "*Serving Those Who Serve"*, and it is in working together and in building a strong workforce that the Staff of the Non-Public Funds, Canadian Forces (NPF Staff) can achieve this goal.

As President and Chief Executive Officer of the CFPSA, I have a fundamental responsibility to ensure that CF members and their families, and NPF Staff supported through CFPSA, benefit from a system of Human Resources Management and an Executive 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 "S*erving 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 (now called the Stephenson report), the following guiding principles were implemented:

- 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 2003-2004 annual report.

Yours truly,

John F. Geci
President and Chief Executive Officer

The Fiscal Year 2003-2004 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 internal and 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) and approved by the NPP Board of Directors. The ExMB includes the following positions: President CANEX/NATEX; President SISIP Financial Services (SISIP FS); 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 yearly 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 FY2003-2004 at a minimum of $105,800 and a maximum of $157,100.

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 best business practices in private sector organizations, crown corporations and government departments. 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 CFPSA in a position for recruiting and retaining the executive level talent it requires in order to provide excellent service to its 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 and thereafter.

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:	Lieutenant-General J.M.C. Couture (10 months) Admiral G. Jarvis (2 months) Assistant Deputy Minister (Human Resources-Military)
	Vice-Admiral R.D. Buck Chief of the Maritime Staff
	Ms. L. Holland 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 at Canada Mortgage and Housing Corporation
	Mr. R. Verdon, (external member) Corporate Director / retired senior executive Member of multiple boards in Canada and the USA
	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