

CANADIAN FORCES
PERSONNEL SUPPORT AGENCY



AGENCE DE SOUTIEN DU PERSONNEL
DES FORCES CANADIENNES



CFPSA/NPP

Reviewed
Financial Statements

2006-2007

**Audited and Reviewed
Financial Statements
2006-2007**

This publication is an addendum to the Canadian Forces Personnel Support Agency's Annual Report 2006-2007. The Audit and Accountability Committee of the NPP Board approved these audited and reviewed financial statements in July and October 2007.

Index

Section 1	Page 2
Canadian Forces Personnel Support Agency	
Section 2	Page 12
CANEX	
Section 3	Page 26
SISIP Financial Services	
Section 4	Page 31
Canadian Forces Personnel Assistance Fund	
Section 5	Page 40
Canadian Forces Central Fund	
Section 6	Page 51
Non-Public Funds Employee Pension Plan	
Section 7	Page 62
Non-Public Funds Employee Group Insurance Plan	

Section 1

**CANADIAN FORCES
PERSONNEL SUPPORT AGENCY**



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

CANADIAN FORCES PERSONNEL SUPPORT AGENCY

FINANCIAL STATEMENTS
For
CANADIAN FORCES PERSONNEL SUPPORT AGENCY
For the fiscal year ended
APRIL 1, 2007

AUDITORS' REPORT

To the Non-Public Property Board

CANADIAN FORCES PERSONNEL SUPPORT AGENCY

We have audited the statement of financial position of the Canadian Forces Personnel Support Agency as at April 1, 2007 and the statements of changes in net assets, revenue and expense and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Agency'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 Agency as at April 1, 2007 and the changes in net assets, the results of its operations and cash flows for the fiscal year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in cursive script that reads "Weld & Company LLP".

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Ottawa, Ontario
August 31, 2007.

CANADIAN FORCES PERSONNEL SUPPORT AGENCY

STATEMENT OF FINANCIAL POSITION

APRIL 1, 2007

	<u>April 1, 2007</u>	<u>April 2, 2006</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 1,300	\$ 1,300
Deposit with Canadian Forces Central Fund	2,158,711	-
Accounts receivable	1,045,252	8,880,533
Prepaid expenses	<u>250,403</u>	<u>260,118</u>
	3,455,666	9,141,951
OTHER ASSETS		
Furnishings and equipment (note 4)	<u>1,554,734</u>	<u>1,732,312</u>
	<u>\$ 5,010,400</u>	<u>\$ 10,874,263</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,761,905	\$ 6,949,656
Due to Canadian Forces Central Fund	<u>-</u>	<u>769,802</u>
	<u>2,761,905</u>	<u>7,719,458</u>
NET ASSETS		
Unrestricted	554,836	640,836
Internally restricted (note 5)		
Future personnel costs (Public)	495,279	1,547,012
Future insurance costs	<u>1,198,380</u>	<u>966,957</u>
	<u>2,248,495</u>	<u>3,154,805</u>
	<u>\$ 5,010,400</u>	<u>\$ 10,874,263</u>

Signed:

.....

(See accompanying notes)

CANADIAN FORCES PERSONNEL SUPPORT AGENCY
STATEMENT OF CHANGES IN NET ASSETS
FISCAL YEAR ENDED APRIL 1, 2007

	April 1, 2007			April 2, 2006	
	<u>Unrestricted</u>	<u>Internally restricted</u>		<u>Total</u>	<u>Total</u>
		<u>Future Personnel Costs (Public)</u>	<u>Future insurance costs</u>		
Balance, beginning of year	\$ 640,836	\$ 1,547,012	\$ 966,957	\$ 3,154,805	\$ 3,718,871
Net NPF operating revenue	3,739	-	-	3,739	809,878
Net Public programs and operating expense	(287,477)	-	-	(287,477)	(424,093)
Employer costs charged to restricted future personnel costs	-	(622,572)	-	(622,572)	(949,851)
Net expense	(283,738)	(622,572)	-	(906,310)	(564,066)
	357,098	924,440	966,957	2,248,495	3,154,805
Net asset reallocations	197,738	(429,161)	231,423	-	-
Balance, end of year	\$ 554,836	\$ 495,279	\$ 1,198,380	\$ 2,248,495	\$ 3,154,805

(See accompanying notes)

CANADIAN FORCES PERSONNEL SUPPORT AGENCY
STATEMENT OF REVENUE AND EXPENSE
FISCAL YEAR ENDED APRIL 1, 2007

	<u>April 1, 2007</u>	<u>April 2, 2006</u>
Revenue		
User Fees for Services		
Canadian Forces Exchange System (CANEX)	\$ 2,965,079	\$ 2,964,246
Service Income Security Insurance Plan (SISIP)	640,457	595,064
Base/Wing Funds/Messes	4,097,183	3,542,764
Canadian Forces Central Fund (CFCF)	482,459	434,899
Pension Administration	<u>167,351</u>	<u>156,838</u>
	<u>8,352,529</u>	<u>7,693,811</u>
Contributions		
CANEX Contribution to Non-Public Fund (NPF) Services and Operations	750,000	750,000
SISIP Contribution to Programs and Distributions	4,100,954	4,203,829
CFCF Contribution to Programs and Distributions	1,057,890	982,500
CFCF Contribution to NPF Services and Operations	2,014,078	2,898,000
Other Revenue	<u>147,304</u>	<u>543,310</u>
	<u>8,070,226</u>	<u>9,377,639</u>
	<u>16,422,755</u>	<u>17,071,450</u>
Expenses		
NPF Services		
NPF Accounting	4,061,812	3,888,627
Information Management/Information Technology (IM/IT)	2,123,041	1,991,977
Human Resources (HR) Management Services	2,722,433	2,681,679
Consolidated Insurance Program	<u>839,222</u>	<u>887,631</u>
	<u>9,746,508</u>	<u>9,449,914</u>
Corporate Operations		
Canadian Forces Personal Support Agency (CFPSA)		
Executive Management	751,355	794,543
Personnel Support Program (PSP) Management - Headquarters	90,287	1,441
Internal Audit and Review	173,482	180,116
Services Support/Shipping & Receiving	341,440	284,814
Other	<u>61,100</u>	<u>137,516</u>
	<u>1,417,664</u>	<u>1,398,430</u>
Programs		
Sports Grant	138,823	64,602
Conseil International du Sport Militaire (CISM)	424,365	42,687
Sports Banquet	158,570	96,773
Volunteers Recognition Program	88,954	96,180
Youth Program	746,416	188,930
Customer Relationship Management	212,592	185,048
Amenities	1,823	4,677
Sponsorship/Donation	<u>41,839</u>	<u>-</u>
	<u>1,813,382</u>	<u>678,897</u>
Distributions		
Capital Projects	675,000	2,000,000
CANEX/SISIP Morale and Welfare Grant	2,697,535	2,674,451
PSP Grant	<u>68,927</u>	<u>59,880</u>
	<u>3,441,462</u>	<u>4,734,331</u>
	<u>16,419,016</u>	<u>16,261,572</u>
Net NPF operating revenue	3,739	809,878
Net Public operating expense - schedule A	<u>(910,049)</u>	<u>(1,373,944)</u>
Net expense	<u>\$ (906,310)</u>	<u>\$ (564,066)</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL SUPPORT AGENCY
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED APRIL 1, 2007

	April 1, <u>2007</u>	April 2, <u>2006</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net expense	\$ (906,310)	\$ (564,066)
Item not affecting cash		
Amortization	<u>752,310</u>	<u>693,896</u>
	(154,000)	129,830
Changes in level of:		
Accounts receivable	7,835,281	(8,880,533)
Prepaid expenses	9,715	127,938
Accounts payable and accrued liabilities	<u>(4,187,751)</u>	<u>6,949,656</u>
	<u>3,503,245</u>	<u>(1,673,109)</u>
Investing activities		
Purchase of furnishings and equipment	<u>(574,732)</u>	<u>(834,693)</u>
Financing activities		
Advances from (repayments to) Canadian Forces Central Fund (CFCF)	<u>(769,802)</u>	<u>769,802</u>
Other activities		
Assets transferred from CFCF at their net carrying value:		
Prepaid expenses	-	(388,056)
Furnishings and equipment	<u>-</u>	<u>(1,591,515)</u>
	-	(1,979,571)
Internally restricted net assets transferred from CFCF	<u>-</u>	<u>3,718,871</u>
	<u>-</u>	<u>1,739,300</u>
Increase in cash	2,158,711	1,300
Cash and deposit at beginning of year	<u>1,300</u>	<u>-</u>
Cash and deposit at end of year	\$ <u>2,160,011</u>	\$ <u>1,300</u>
Cash and deposit consist of:		
Cash	\$ 1,300	\$ 1,300
Deposit with Canadian Forces Central Fund	<u>2,158,711</u>	<u>-</u>
	\$ <u>2,160,011</u>	\$ <u>1,300</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL SUPPORT AGENCY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED APRIL 1, 2007

1. NATURE OF OPERATIONS

The Canadian Forces Personnel Support Agency ("CFPSA"), created on April 4, 2005, is both a staff/headquarters organization for the NPF and Public funded programs, Public reimbursed NPF programs as well as Public funded programs. In common with other non-public funds, CFPSA is exempt from paying income tax under Part 1 of the Income Tax Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Furnishings and equipment*

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

Office furniture	12% straight-line
Computer equipment	24% straight-line

(b) *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. FINANCIAL INSTRUMENTS

Financial instruments recognized in the statement of financial position consist of cash, deposit with Canadian Forces Central Fund, accounts receivable and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to their short-term nature.

4. FURNISHINGS AND EQUIPMENT

	<u>April 1, 2007</u>	<u>April 2, 2006</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Net book value</u>
Office furniture	\$ 203,691	\$ 138,579	\$ 65,112	\$ 72,509
Computer equipment	<u>5,841,529</u>	<u>4,351,907</u>	<u>1,489,622</u>	<u>1,658,803</u>
	<u>\$ 6,045,220</u>	<u>\$ 4,490,486</u>	<u>\$ 1,554,734</u>	<u>\$ 1,732,312</u>

CANADIAN FORCES PERSONNEL SUPPORT AGENCY

NOTES TO FINANCIAL STATEMENTS - Cont'd.

FISCAL YEAR ENDED APRIL 1, 2007

5. INTERNALLY RESTRICTED NET ASSETS

(a) *Future Personnel Costs (Public)*

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

(b) *Future Insurance Costs*

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

6. PENSION PLAN

The Non-Public Funds Employees Pension Plan (the "Plan") is a defined benefit pension plan which provides retirement benefits relating to contributions and years of service. Substantially all CFPSA employees are eligible to be members of the Plan. Based on an actuarial valuation of December 31, 2006, the net assets of the Plan exceeded the net liabilities.

7. RELATED PARTY TRANSACTIONS

Non-Public Property (NPP), as defined under the National Defence Act, consists of money and property contributed by Canadian Forces members and is administered for their benefit by the CFPSA. The CFPSA is responsible for delivering selected morale and welfare programs, services and activities through three operational divisions, CANEX, Personnel Support Programs and SISIP Financial Services (including the Canadian Forces Personnel Assistance Fund). Under the National Defence Act, NPP is explicitly excluded from the Financial Administration Act. The government provides some services to NPP such as accommodation and security for which no charge is made. The cost of providing these services is included in the Public Accounts and is reported annually within the Department of National Defence in accordance with the requirements of the Financial Administration Manual Chapter 1019-8.

CFPSA administered estimated revenues and expenses of \$330 million and \$295 million, respectively, and net equity of \$540 million at March 31, 2007 which are excluded from the financial statements of the Government of Canada.

In addition, during the fiscal year, CFPSA 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:

	<u>CANEX</u>	<u>SISIP</u>	<u>Bases/ Wings/ Messes</u>	<u>CFCF</u>	<u>Total</u>
Accounting	\$ 1,555,193	\$ 129,029	\$ 2,203,752	\$ 201,230	\$ 4,089,204
Information management/ Information technology	491,842	320,934	-	259,291	1,072,067
Human resources management	585,042	165,427	1,313,081	21,938	2,085,488
Consolidated insurance program	333,002	-	580,350	-	913,352
Graphic fee	<u>-</u>	<u>25,067</u>	<u>-</u>	<u>-</u>	<u>25,067</u>
Total	<u>\$ 2,965,079</u>	<u>\$ 640,457</u>	<u>\$ 4,097,183</u>	<u>\$ 482,459</u>	<u>\$ 8,185,178</u>

CANADIAN FORCES PERSONNEL SUPPORT AGENCY
STATEMENT OF PUBLIC OPERATING REVENUE AND EXPENSE
FISCAL YEAR ENDED APRIL 1, 2007

	April 1, <u>2007</u>	April 2, <u>2006</u>
Revenue		
C108 - Military Family Support	\$ 21,775,620	\$ 19,663,023
C109 - Personnel Support Program	51,932,068	46,927,770
Other Public Funds	<u>4,632,709</u>	<u>10,579,620</u>
Total Revenue	<u>78,340,397</u>	<u>77,170,413</u>
Expenses		
C108 - Military Family Support	21,775,620	19,663,023
C109 - Personal Support Program		
CFPSA Executive Management	666,941	675,037
Human Performance	367,997	82,666
PSP Management - HQ and Field	4,513,166	3,984,058
Military Physical Fitness and Sports Program	20,476,906	19,334,552
Mess Management	2,562,300	2,257,130
PSP for Deployed Operations (SDDA)	3,911,757	3,837,201
PSP in Support to Small Units	904,731	859,623
Youth Program	566,191	321,601
Customer Relationship Management	960,000	-
SISIP Financial Counseling and Education	2,954,557	2,842,856
Accidental Dismemberment Insurance	1,204,319	900,000
CANEX Management	2,277,572	2,295,168
NPF Accounting	4,977,768	4,589,789
NPF HR Management	3,071,347	2,972,179
Information Management/Information Technology (IM/IT)	1,428,689	1,293,331
Internal Audit and Review	1,028,196	961,384
Other	650,180	346,616
Other Public Funds	<u>4,329,637</u>	<u>10,378,292</u>
Total Expenses	<u>78,627,874</u>	<u>77,594,506</u>
Net Public programs and operating expense before item below	(287,477)	(424,093)
Employer costs charged to restricted future personnel costs	<u>(622,572)</u>	<u>(949,851)</u>
Net Public operating expense	<u>\$ (910,049)</u>	<u>\$ (1,373,944)</u>

Section 2



CANEX

Deloitte & Touche LLP
800 - 100 Queen Street
Ottawa ON K1P 5T8
Canada

Tel: (613) 236-2442
Fax: (613) 236-2195
www.deloitte.ca

Auditors' Report

To the Non-Public Property Board

We have audited the balance sheet of CANEX as at 1 April 2007 and the statements of earnings 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 1 April 2007 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
Licensed Public Accountants

16 July 2007

CANEX

Balance Sheet

as at 1 April 2007

(in 000's of Canadian dollars)

	<u>1 April 2007</u>	<u>2 April 2006</u>
CURRENT ASSETS		
Cash and cash equivalents	\$7,654	\$5,216
Due from Canadian Forces Central Fund (Note 3)	11,031	-
Accounts and accrued receivables	3,478	17,562
Inventory	16,162	16,376
Prepaid expenses	1,062	1,648
	39,387	40,802
CAPITAL ASSETS (Note 4)	21,415	21,146
ACCOUNTS RECEIVABLE	-	3,361
	\$60,802	\$65,309
CURRENT LIABILITIES		
Due to Canadian Forces Central Fund (Note 3)	\$ -	\$5,901
Accounts payable and accrued liabilities	9,851	13,564
Current portion of loans payable (Note 5)	1,979	1,858
	11,830	21,323
LOANS PAYABLE (Note 5)	10,672	11,200
	22,502	32,523
CONTINGENCIES (Note 11)		
EQUITY		
Contributed capital	23,280	23,280
Retained earnings	14,962	11,270
Foreign currency translation adjustment	58	(1,764)
	38,300	32,786
	\$60,802	\$65,309

Refer to the accompanying notes to the financial statements

Approved by

CANEX
Statement of Earnings and Retained
Earnings

year ended 1 April 2007

(in 000's of Canadian dollars)

	<u>1 April</u> <u>2007</u>	<u>2 April</u> <u>2006</u>
Sales	\$140,773	\$136,253
Cost of merchandise sold and services provided	106,904	104,227
Gross profit	33,869	32,026
Other revenue (Note 6)	10,175	8,617
	44,044	40,643
Operating expenses		
Payroll and benefits	18,788	18,210
Other operating expenses	11,646	12,017
Amortization of capital assets	2,819	2,888
Interest on loans payable (Note 5)	500	560
Levies (Note 7)	344	323
	34,097	33,998
Earnings before royalties and contributions	9,947	6,645
Royalties and contributions (Note 10)	(6,255)	(4,600)
NET EARNINGS	3,692	2,045
RETAINED EARNINGS, BEGINNING OF YEAR	11,270	9,225
RETAINED EARNINGS, END OF YEAR	\$14,962	\$11,270

Refer to the accompanying notes to the financial statements

CANEX
Statement of Cash Flows
year ended 1 April 2007
(in 000's of Canadian dollars)

	<u>1 April 2007</u>	<u>2 April 2006</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	\$3,692	\$2,045
Add items not affecting cash		
Amortization of capital assets	2,819	2,888
Loss on disposal of capital assets	79	977
	6,590	5,910
Net changes in non-cash operating working capital items (Note 13)	(3,519)	931
Cash provided by operating activities	3,071	6,841
INVESTING		
Purchase of capital assets	(3,190)	(1,050)
Proceeds on disposal of capital assets	23	54
Proceeds from sale of short-term investments	-	127
Cash used for investing activities	(3,167)	(869)
FINANCING		
Issuance of loans payable	1,500	336
Repayment of loans payable	(1,907)	(3,047)
Cash used in financing activities	(407)	(2,711)
Effect of exchange rate on foreign currency translation adjustment	2,941	(1,111)
NET CASH INFLOW	2,438	2,150
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,216	3,066
CASH AND CASH EQUIVALENTS, END OF YEAR	\$7,654	\$5,216
Refer to the accompanying notes to the financial statements		
Supplemental cash flow information:		
Cash paid for interest on loans payable	\$500	\$560

CANEX

Notes to the Financial Statements

year ended 1 April 2007
(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 Property (NPP) capacity. Responsibility for directing the affairs of CANEX rests with the Non-Public Property Board.

Morale and Welfare (MW) 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 Bases, Wings and Units. 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.

CANEX distributes profits to Bases, Wings and Units at which CANEX operates. NATEX distributes profits to the NATO Air Base in accordance with the NATEX contract.

CANEX

Notes to the Financial Statements

year ended 1 April 2007
(in 000's of Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. As a Non-Public Property (NPP) enterprise carrying on a business, the financial statements of CANEX are prepared on the same basis as a private sector business and include the following significant accounting policies:

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.

Revenue recognition

Revenue from the sale of merchandise is recorded upon acceptance by the customer. CANEX records 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 (see Note 3). Concession and administration fees are recognized each period in accordance with the terms of the agreements.

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 with the CFCF.

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 inventory. Cost is substantially determined using average cost.

CANEX

Notes to the Financial Statements

year ended 1 April 2007
(in 000's of Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets

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

Buildings	5%
Motor vehicles and computer equipment	24%
POS system	17%
Fixtures and equipment	12%
Building improvements	9%

Impairment of capital assets

Capital assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. No impairment loss was recorded in FY 2006/07 or FY 2005/06.

Foreign currency translation

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.

NATEX and AMSTO are considered self-sustaining foreign operations. NATEX and AMSTO assets and liabilities have been translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. NATEX and AMSTO revenues and expenses are translated at the average rate of exchange for the year. Gains and losses resulting from translation of the accounts of NATEX and AMSTO are recorded in equity as a foreign currency translation adjustment.

CANEX

Notes to the Financial Statements

year ended 1 April 2007
(in 000's of Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

CANEX is an unincorporated Crown NPP entity and is therefore not subject to income taxes in Canada or Germany. Accordingly, no provision for income taxes has been recorded in these financial statements.

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. The significant estimates included in these financial statements relate to inventory valuation, useful lives of capital assets, pension plan and gas bar decommissioning costs.

3. AMOUNTS DUE TO AND FROM CANADIAN FORCES CENTRAL FUND

The Canadian Forces Central Fund (CFCF), which provides banking services and financial assistance to NPP activities at Bases, Wings and Stations as well as to CANEX/NATEX is a separate entity under the directional responsibility of the NPP Board which also has ultimate responsibility for CANEX/NATEX. The amount due to or from CFCF is non-interest-bearing and due on demand with the exception of \$8,125 (2005 - \$7,467) bearing interest at a rate of prime plus 0.25% per annum and due on demand.

At the conclusion of fiscal 2006/07, CFCF assumed all trade payables from CANEX for consideration at their fair value. In addition, the risk and rewards of receivable collection related to the credit plan and other trade receivables were assumed by CFCF for consideration at their fair value. On a go-forward basis, all credit plans and other trade receivables and all trade payables will be assumed by CFCF on a monthly basis at fair value, with a 1% fee being charged to CANEX by the CFCF for credit losses on the net balance. On an annual basis, the fee charged will be evaluated based on the actual credit loss for the preceding year. Any amount charged as part of the fee in excess of actual credit losses can be returned to CANEX.

CANEX
Notes to the Financial Statements
year ended 1 April 2007
(in 000's of Canadian dollars)

4. CAPITAL ASSETS

	1 April 2007			2 April 2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	\$ 21,831	\$ 11,647	\$ 10,184	\$ 10,333
Motor vehicles and computer equipment	2,125	1,763	362	486
POS system	2,061	1,102	959	1,088
Fixtures and equipment	10,558	7,107	3,451	3,050
Building improvements	17,994	11,535	6,459	6,189
	\$ 54,569	\$ 33,154	\$ 21,415	\$ 21,146

5. LOANS PAYABLE

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

FY 2007/2008	\$ 1,979
FY 2008/2009	1,915
FY 2009/2010	1,658
FY 2010/2011	1,282
FY 2011/2012	1,029
Thereafter	4,788
	12,651
Less: Current portion	1,979
Long-term portion	\$ 10,672

CANEX
Notes to the Financial Statements
year ended 1 April 2007
(in 000's of Canadian dollars)

6. OTHER REVENUE

Other revenue consists primarily of concession fees at Bases, Wings and Units across Canada and administration fees for the Home Heating Oil and Insurance programs. In addition, in FY 2006/07, \$753 of interest revenue was earned (FY 2005/06 - \$524) and is recorded in other revenue.

7. LEVIES

Levies are paid to the Canadian Forces Personnel Assistance Fund at the rate of 0.15% of total sales. Levies on AMSTO revenue are paid to CFCF at a rate of 20% of revenue earned by AMSTO.

8. GAS BAR DECOMMISSIONING COSTS

CANEX continues to work closely with Shell Canada Products Limited and DND on the decommissioning of former CANEX gas bars and the remediation of contaminated sites. During FY 2006/07 and FY 2005/06, CANEX incurred no additional costs related to the 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 \$100 (FY 2005/06 - \$117) is included in accounts payable and accrued liabilities. The estimate for FY 2006/07 represents management's 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 1 April 2007.

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. Based on the actuarial valuation dated 31 December 2006, the net assets of the Plan exceeded the net liabilities. In FY 2006/07 CANEX contributed \$1,571 (FY 2005/06 - \$1,170) to the Plan. Plan contributions are included in payroll and other benefits.

CANEX
Notes to the Financial Statements
year ended 1 April 2007
(in 000's of Canadian dollars)

10. RELATED PARTY TRANSACTIONS

Royalties and contributions

In FY 2006/07, CANEX paid royalties of \$3,263 (FY 2005/06 - \$3,108) 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.

In FY 2006/07, NATEX contributed \$1,492 (FY 2005/06 - \$1,492) to the NATO Air Base. NATEX contributions are based on various percentages of consumer sales, in accordance with the NATEX contract.

During FY 2006/07 CANEX contributed an additional \$1,000 to the Canadian Forces Bases, Wings and Units from profits generated from the Support Our Troops Campaign. An additional \$500 was contributed in FY 2006/07 to the Military Families Fund to support the morale and welfare of CF members and their families.

Department of National Defence

During FY 2006/07, DND contributed \$2,111 (FY 2005/06 - \$2,067) to CANEX in support of payroll costs and \$183 (FY 2005/06 - \$183) in support of travel, audit, and office expenses. All amounts received are recorded against the corresponding operating expense in the statement of earnings. In addition, in FY 2005/06, DND contributed \$45 to CANEX as reimbursement for the closure of certain outlets.

DND provides certain facilities, pays for, and provides other services on behalf of, and at no cost to CANEX. These services include payments in lieu of taxes and the use of legal, environmental and other advisory services. The fair value of the facility and services provided to CANEX by DND has not been determined and has not been recorded in the financial statements.

Canadian Forces Central Fund

The Canadian Forces Central Fund (CFCF) provides accounting, information technology, and human resources services to CANEX. These transactions are in the normal course of operations and are recorded in other operating expenses at the exchange amount of \$2,795 (FY 2005/06 - \$2,440). This is the amount of consideration established and agreed to by the related parties and represents management's best estimate of fair value.

CANEX
Notes to the Financial Statements
year ended 1 April 2007
(in 000's of Canadian dollars)

11. CONTINGENCIES

From time to time, CANEX is involved in claims in the normal course of business. Management assesses such claims and where considered likely to result in a material exposure and, where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. CANEX does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlement or awards under such claims are provided for when reasonably determinable.

12. FINANCIAL INSTRUMENTS

Fair value

The fair values of cash and cash equivalents, accounts and accrued receivables, accounts payable and accrued liabilities and amounts due to and from the CFCF approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

The estimated fair value of loans payable has not been determined as that information is not readily available.

Credit risk

In the past, CANEX provided credit to its customers through its credit plan. CANEX has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks (see Note 3).

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 \$189 (FY 2005/06 - \$121).

CANEX
Notes to the Financial Statements
year ended 1 April 2007
(in 000's of Canadian dollars)

13. NET CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	<u>1 April 2007</u>	<u>2 April 2006</u>
Accounts and accrued receivables	\$ 17,497	\$ (4,550)
Inventory	313	2,267
Prepaid expenses	601	(1,295)
Due to and from CFCF	(16,932)	3,097
Accounts payable and accrued liabilities	(4,998)	1,412
	<u>\$ (3,519)</u>	<u>\$ 931</u>

14. SEGMENTED INFORMATION

Included in the financial statements of CANEX/NATEX are the results of operations for NATEX and AMSTO. Summary financial information for NATEX/AMSTO is as follows:

	<u>FY 2006/07</u>	<u>FY 2005/06</u>
Total assets	\$ 28,897	\$ 26,463
Sales and other revenue	39,912	40,133
Net earnings	670	1,668

15. COMPARATIVE FIGURES

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

Section 3



SISIP FS Proper

KPMG LLP
Chartered Accountants
Suite 1500 Purdy's Wharf Tower I
1959 Upper Water Street
Halifax NS B3J 3N2
Canada

Telephone (902) 492-6000
Telefax (902) 492-1307
www.kpmg.ca

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, 2006. 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.

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.

In our opinion, 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, 2006 in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly wavy line that extends to the right.

Chartered Accountants

Halifax, Canada
April 2, 2007

SERVICE INCOME SECURITY INSURANCE PLAN

Year ended December 31, 2006

Proper

Premium collected	\$ 42,867,992
Investment income	\$ 31,546,275
Claims paid	\$ 37,535,381
Expenses paid	\$ 10,674,671

SISIP Proper
Balance Sheet (note 1)

	(In 000s dollars)	
	As at 31 Dec 06	As at 31 Dec 05
ASSETS		
Funds	457,782	437,089
Total Assets	457,782	437,089
LIABILITIES		
Liabilities - Reserves	178,178	173,786
Total Liabilities (note 2)	178,178	173,786
SURPLUS		
Total Surplus (note 3)	279,604	263,303
Total Liabilities & Surplus	457,782	437,089

Notes:

1. Balance Sheet reviewed by Mercer HR Consulting.
2. The above liabilities represent the actuarial reserves established in respect to the existing legal obligation of the insurer for various plans under SISIP Proper. In addition, SISIP FS may have future liabilities not yet recognized by the insurer related to the Coverage After Release (CAR) paid-up policy and Supplementary Survivor Benefit (SSB) for which no future premium payment will be made. The present value of these future liabilities has been assessed at \$123.0 million as at December 31, 2006.
3. In accordance with the Reinsurance Funding Agreement that took effect October 11th, 2006, Manulife can draw from SISIP Proper surplus funds up to \$260 million to cover claims in excess of reinsurance coverage made in relation to Hostile Events (as defined under the Agreement). SISIP FS must provide Manulife with at least 9 months notice should it intend to reduce surplus funds below \$260 million.

SISIP Proper
Year end Financial Results - FY 2006 (note 1)

	(In 000s dollars)		
	Budget 2006	Year end 2006	Year end 2005
Revenues			
Premiums	40,295	42,868	38,681
Investment income on actuarial reserves	7,020	8,110	7,816
Investment income on segregated fund	8,479	23,436 (note 2)	20,002
Total Revenues	55,794	74,414	66,499
Operating Expenses			
Claims and Related Expenses	30,222	37,535 (note 3)	29,104
Reserve Increase	4,500	5,363 (note 4)	6,862
Other	10,463	10,675	8,273
Total Operating Expenses	45,185	53,573	44,239
Operating Income (Loss)	10,609	20,841	22,260
Extraordinary Items			
Transfer to Re-capitalization Project - Shilo	(1,600)	(1,600)	43,177 (note 5)
Transfer to CFPSA - Morale & Welfare Unit Grant	(2,500)	(2,500)	(2,500)
Other	(2,809)	(439)	(523)
Net Income (Loss)	3,700	16,302	62,414
Adjusted Net Income (Loss) before Shilo project	5,300	17,902	19,237

Notes:

1. Premiums, investment income, claims and other expenses verified by KPMG.
2. Better than expected segregated fund gains due to Canadian equity performance and the positive impact on the bond portfolio of lower than expected interest rate increases.
3. Higher than expected claims experience due to the Afghanistan casualties.
4. Reserve increases are higher than expected due to more Survivor Income Benefit claims than forecasted and more paid up certificates of insurance being issued under the Coverage After Release plan than what was forecasted.
5. Partial reimbursement of SISIP's contributions to the CEP, eliminating the Re-capitalization Project transfers.

Section 4

Canadian Forces Personnel Assistance Fund

FINANCIAL STATEMENTS
For
CANADIAN FORCES PERSONNEL ASSISTANCE FUND
For year ended
DECEMBER 31, 2006

AUDITORS' REPORT

To the Non-Public Property Board

We have audited the statement of financial position of the Canadian Forces Personnel Assistance Fund as at December 31, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Weld & Company LLP

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Ottawa, Ontario
May 14, 2007.

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	\$ 3,205,643	\$ 2,043,575
Cash held by bases for loans	-	300,715
Contributions and other receivables	17,331	8,276
Current portion of self-improvement loans receivable (note 4)	4,392,856	5,071,548
Current portion of distress loans receivable (note 4)	759,927	775,295
Current portion of education loans receivable (note 4)	<u>2,042,218</u>	<u>1,809,352</u>
	<u>10,417,975</u>	<u>10,008,761</u>
OFFICE EQUIPMENT , net of accumulated amortization of \$21,991 (2005 - \$21,542)	1,094	469
SELF-IMPROVEMENT LOANS RECEIVABLE (note 4)	992,833	1,307,829
DISTRESS LOANS RECEIVABLE (note 4)	1,037,893	1,190,090
EDUCATION LOANS RECEIVABLE (note 4)	<u>2,693,547</u>	<u>2,558,458</u>
	<u>4,725,367</u>	<u>5,056,846</u>
TRUST ASSETS		
Deposit with Canadian Forces Central Fund	<u>49,992</u>	<u>39,118</u>
	<u>\$ 15,193,334</u>	<u>\$ 15,104,725</u>
<u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 9,696	\$ 8,196
TRUST LIABILITIES (note 5)	<u>49,992</u>	<u>39,118</u>
	59,688	47,314
FUND BALANCE	<u>15,133,646</u>	<u>15,057,411</u>
	<u>\$ 15,193,334</u>	<u>\$ 15,104,725</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND
STATEMENT OF REVENUE AND EXPENSE AND FUND BALANCE
YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
Revenue		
Interest on deposits	\$ 154,016	\$ 111,911
Contributions from levies	289,951	281,740
Interest on loans receivable	491,961	483,878
Donations and miscellaneous	<u>8,879</u>	<u>3,220</u>
	<u>944,807</u>	<u>880,749</u>
Expenses		
Salaries and employee benefits	464,377	409,421
Grants	103,601	170,865
Bad debts - net of recoveries	289,465	284,326
Amortization	449	1,428
Miscellaneous	<u>10,680</u>	<u>10,269</u>
	<u>868,572</u>	<u>876,309</u>
Net revenue	76,235	4,440
Fund balance at beginning of year	<u>15,057,411</u>	<u>15,052,971</u>
Fund balance at end of year	<u>\$ 15,133,646</u>	<u>\$ 15,057,411</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue	\$ 76,235	\$ 4,440
Items not affecting cash -		
Loans written off	297,502	294,666
Amortization	<u>449</u>	<u>1,428</u>
	374,186	300,534
Changes in level of:		
Contributions and other receivables	(9,055)	19,625
Accounts payable and accrued liabilities	1,500	3,991
Trust liabilities	<u>10,874</u>	<u>4,592</u>
	<u>377,505</u>	<u>328,742</u>
Investing activities		
Purchase of office equipment	(1,074)	-
Self-improvement loans advanced	(6,289,169)	(7,724,892)
Distress loans advanced	(1,035,209)	(1,050,370)
Education loans advanced	(2,600,100)	(2,561,900)
Repayment of self-improvement loans	7,173,353	8,074,612
Repayment of distress loans	1,058,254	1,075,491
Repayment of education loans	<u>2,188,667</u>	<u>1,942,700</u>
	<u>494,722</u>	<u>(244,359)</u>
Increase in cash	872,227	84,383
Cash and deposits at beginning of year	<u>2,383,408</u>	<u>2,299,025</u>
Cash and deposits at end of year	<u>\$ 3,255,635</u>	<u>\$ 2,383,408</u>
Cash and deposits consist of:		
Deposits with Canadian Forces Central Fund		
- operating fund	\$ 3,205,643	\$ 2,043,575
- trust fund	<u>49,992</u>	<u>39,118</u>
	3,255,635	2,082,693
Cash held by bases for loans	<u>-</u>	<u>300,715</u>
	<u>\$ 3,255,635</u>	<u>\$ 2,383,408</u>

(See accompanying notes)

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

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 the Canada Revenue Agency as a charitable organization and is exempt from paying income tax under Part I of Income Tax Act. The purpose of CFPAF 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 counseling and financial assistance in the form of self-improvement loans, distress loans, education loans and grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *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%.

(b) *Contributions from levies*

Contributions from the Canadian Forces Central Fund ("CFCF") are recorded monthly upon allocation in accordance with the agreement between CFCF and the Fund.

(c) *Interest on loans receivable*

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

(d) *Grants*

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

(e) *Services provided without charge*

SISIP Financial Services and the Canadian Forces Personnel Support Agency provides office accommodation, telephone charges, information technology and human resources 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.

(f) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2006

3. FINANCIAL INSTRUMENTS

Financial instruments recognized in the statement of financial position consist of a deposit with Canadian Forces Central Fund ("CFCF"), contributions and other receivables, loans receivable and accounts payable. Financial instruments, which potentially subject the fund to a concentration of credit risk, consist principally of the deposit with CFCF and loans receivable. Funds are deposited with CFCF and are part of the CFCF's investment portfolio performance. CFPAF does not require collateral or other security to support loans advanced to serving and 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. CFPAF has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. As outlined in note 4, anticipated bad debts of \$388,524 (2005 - \$369,357) have been provided at year-end on these loans.

The fair value of the deposit with CFCF, 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 outlined in note 4.

4. 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 5 years and bear an annual interest rate of 2%.

(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%. The lifetime maximum per student is \$16,000.

Loans receivable are comprised of the following:

	<u>Self-Improvement</u>		<u>Distress</u>		<u>Education</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Total loans receivable	\$ 5,534,679	\$ 6,575,697	\$ 1,981,419	\$ 2,091,679	\$ 4,791,700	\$ 4,414,553
Allowance for doubtful accounts	<u>(148,990)</u>	<u>(196,320)</u>	<u>(183,599)</u>	<u>(126,294)</u>	<u>(55,935)</u>	<u>(46,743)</u>
	5,385,689	6,379,377	1,797,820	1,965,385	4,735,765	4,367,810
Current portion	<u>4,392,856</u>	<u>5,071,548</u>	<u>759,927</u>	<u>775,295</u>	<u>2,042,218</u>	<u>1,809,352</u>
Long-term portion	<u>\$ 992,833</u>	<u>\$ 1,307,829</u>	<u>\$ 1,037,893</u>	<u>\$ 1,190,090</u>	<u>\$ 2,693,547</u>	<u>\$ 2,558,458</u>

CANADIAN FORCES PERSONNEL ASSISTANCE FUND

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2006

5. TRUST LIABILITIES

The Canadian Forces Personnel Assistance Fund administers three trust funds.

The Distress Trust Account was established to control loans or grant payments disbursed by CFPAF. The loans and grants are determined by CFPAF and payments are distributed upon receipt of invoices or supporting documents.

Mrs. Isabelle MacDonald established a Memorial Trust Fund in memory of her son, Corporal Ronald MacDonald, who died on December 10, 1975 while serving with the Canadian Forces in West Germany. The purpose of the fund is to assist in alleviating financial problems incurred by members of the Canadian Forces and their families. Grants will be paid out of the Trust Fund by the CFPAF Manager to a maximum of \$500 per case. The original endowment of \$20,000 is to remain in perpetuity. Interest is paid monthly to the Trust Fund calculated at the monthly CFCF interest rate payable to CFPAF less 1%.

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 Branch Adviser. Interest is paid monthly to the Trust Fund calculated at the monthly CFCF interest rate payable to CFPAF less 2%.

The following is a summary of transactions for the year:

	<u>Distress Trust</u>	<u>Corporal Ronald MacDonald Memorial Trust Fund</u>	<u>Logistics Branch Bursary Fund</u>	<u>2006 Total</u>	<u>2005 Total</u>
Balance at beginning of year	\$ 6,030	\$ 20,173	\$ 12,915	\$ 39,118	\$ 34,526
Deposits	154,586	-	-	154,586	20,104
Interest received	-	1,029	468	1,497	1,108
Disbursements	<u>(142,209)</u>	<u>(500)</u>	<u>(2,500)</u>	<u>(145,209)</u>	<u>(16,620)</u>
Balance at end of year	<u>\$ 18,407</u>	<u>\$ 20,702</u>	<u>\$ 10,883</u>	<u>\$ 49,992</u>	<u>\$ 39,118</u>

6. PENSION PLAN

The Non-Public Funds Employees Pension Plan (the "Plan") is a defined benefit pension plan which provides retirement benefits relating to contributions and years of service. Substantially all CFPAF employees are eligible to be members of the Plan. Based on an actuarial valuation of December 31, 2006, the net assets of the Plan exceeded the net liabilities. Plan contributions are included in salaries and employee benefits.

Section 5

Canadian Forces Central Fund

FINANCIAL STATEMENTS
For
CANADIAN FORCES CENTRAL FUND
For the fiscal year ended
APRIL 1, 2007

AUDITORS' REPORT

To the Non-Public Property Board

CANADIAN FORCES CENTRAL FUND

We have audited the statement of financial position of the Canadian Forces Central Fund as at April 1, 2007 and the statements of changes in net assets, revenue and expense and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at April 1, 2007 and the changes in net assets, the results of its operations and cash flows for the fiscal year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in cursive script that reads "Welch & Company LLP".

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Ottawa, Ontario
August 31, 2007.

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF FINANCIAL POSITION
APRIL 1, 2007**

	<u>April 1, 2007</u>	<u>April 2, 2006</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 4)	\$ 49,680,690	\$ 8,599,683
Accrued interest receivable	30,274	994,077
Accounts receivable (note 5)	72,574,268	-
Current portion of project loans receivable (note 6)	<u>4,250,417</u>	<u>3,368,437</u>
	<u>126,535,649</u>	<u>12,962,197</u>
OTHER ASSETS		
Due from Canadian Forces Personnel Support Agency	-	769,802
Project loans receivable (note 6)	20,454,873	22,141,929
Long-term investments (note 7)	-	<u>82,211,237</u>
	<u>20,454,873</u>	<u>105,122,968</u>
	<u>146,990,522</u>	<u>118,085,165</u>
TRUST ASSETS (note 8)		
Cash and long-term investments	<u>100,753,098</u>	<u>48,802,573</u>
	<u>\$ 247,743,620</u>	<u>\$ 166,887,738</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and employee deductions payable (note 5)	\$ 12,772,132	\$ 192,470
TRUST LIABILITIES		
	<u>100,753,098</u>	<u>48,802,573</u>
	<u>113,525,230</u>	<u>48,995,043</u>
NET ASSETS		
Unrestricted	<u>134,218,390</u>	<u>117,892,695</u>
	<u>\$ 247,743,620</u>	<u>\$ 166,887,738</u>

Signed:

.....

(See accompanying notes)

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF CHANGES IN NET ASSETS
FISCAL YEAR ENDED APRIL 1, 2007**

	<u>April 1, 2007</u>	<u>April 2, 2006</u>
Balance, beginning of year	\$ 117,892,695	\$ 110,397,775
Net revenue	16,325,695	11,213,791
Internally restricted amounts transferred to CFPSA at inception of new financial entity	<u>-</u>	<u>(3,718,871)</u>
Balance, end of year	<u>\$ 134,218,390</u>	<u>\$ 117,892,695</u>

(See accompanying notes)

**CANADIAN FORCES CENTRAL FUND
STATEMENT OF REVENUE AND EXPENSE
FISCAL YEAR ENDED APRIL 1, 2007**

	<u>April 1, 2007</u>	<u>April 2, 2006</u>
Operating revenue		
Investment income (note 7)	\$ 20,810,449	\$ 18,441,595
Loan interest	903,264	1,003,264
Other	<u>1,039,818</u>	<u>510,200</u>
	<u>22,753,531</u>	<u>19,955,059</u>
Operating expenses		
CFCF management	482,276	535,574
Interest to base/wing funds, messes and trusts	4,659,071	3,722,505
CFCF user fees	482,459	434,899
Bad debts	198,662	-
Project loans written off (note 6)	<u>-</u>	<u>167,790</u>
	<u>5,822,468</u>	<u>4,860,768</u>
Net operating income before CFCF contributions	<u>16,931,063</u>	<u>15,094,291</u>
CFCF contributions (note 9)		
Programs and distributions	1,057,890	982,500
NPF services and operations	<u>2,014,078</u>	<u>2,898,000</u>
	<u>3,071,968</u>	<u>3,880,500</u>
Net revenue before item below	13,859,095	11,213,791
Reimbursement of Public underfunded expenditures (note 10)	<u>2,466,600</u>	<u>-</u>
Net revenue	<u>\$ 16,325,695</u>	<u>\$ 11,213,791</u>

(See accompanying notes)

CANADIAN FORCES CENTRAL FUND
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED APRIL 1, 2007

	<u>April 1,</u> <u>2007</u>	<u>April 2,</u> <u>2006</u>
CASH PROVIDED FROM (USED IN)		
Operating activities		
Net revenue	\$ 16,325,695	\$ 11,213,791
Item not affecting cash		
Loans written off	-	167,790
	<u>16,325,695</u>	<u>11,381,581</u>
Changes in level of:		
Accrued interest receivable	963,803	(468,896)
Accounts receivable	(72,574,268)	19,044,264
Accounts payable and employee deductions payable	12,579,662	(7,336,620)
	<u>(42,705,108)</u>	<u>22,620,329</u>
Financing activities		
Decrease in project loans receivable	<u>805,076</u>	<u>4,002,010</u>
Investing activities		
Decrease (increase) in long-term investments	82,211,237	(17,386,788)
Repayments from (advances to) Canadian Forces Personnel Support Agency (CFPSA)	769,802	(769,802)
	<u>82,981,039</u>	<u>(18,156,590)</u>
Other activities		
Assets transferred to CFPSA at their carrying value		
Prepaid expenses	-	388,056
Furnishings and equipment	-	1,591,515
	-	1,979,571
Internally restricted net assets transferred to CFPSA	-	(3,718,871)
	<u>-</u>	<u>(1,739,300)</u>
Increase in cash	41,081,007	6,726,449
Cash and cash equivalents, beginning of year	<u>8,599,683</u>	<u>1,873,234</u>
Cash and cash equivalents, end of year	<u>\$ 49,680,690</u>	<u>\$ 8,599,683</u>

(See accompanying notes)

**CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED APRIL 1, 2007**

1. NATURE OF OPERATIONS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

Cash and cash equivalents consist of balances with banks, short-term investments and cash at brokers' account.

Short-term investments are carried at the lower of cost and market. Fair value of securities is based upon the quoted market prices.

(b) 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.

(c) 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.

(d) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED APRIL 1, 2007

3. FINANCIAL INSTRUMENTS

Financial instruments recognized in the statement of financial position consist of cash and cash equivalents, accounts receivable, project loans receivable and accounts payable and employee deductions payable.

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash, accounts receivable and project loans receivable. CFCF generally places its cash and short-term investments in Canadian federal and provincial government bonds, bonds of corporations with high credit ratings and bankers' acceptances.

CFCF does not require collateral or other security to support project loans advanced to military bases and ships and therefore these loans bear an element of credit risk. However, losses due to amounts proving uncollectible have traditionally been low due in part to the fact that the Fund administers the cash balances of most of its creditors.

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

4. CONCENTRATION BANK ACCOUNT ("CBA")

CFCF maintains cash, which it does not control in its concentration bank account on behalf of other funds, trusts and units. CFCF controls the interest earned on such funds less a percentage paid back to the units and funds (Base/Wing/Funds and Messes receive 3% with options to elect at the bank's prime rate plus 0.25% or CFCF's investment rate of return less 0.5% for its cash balance in excess of CFCF liabilities while trust accounts receive varying percentages based on cash balances and options selected).

	<u>April 1, 2007</u>	<u>April 2, 2006</u>
Guaranteed Investment Certificates (GIC's) and other fixed income securities	\$ 130,000,000	\$ 12,231,041
Cash	<u>20,433,788</u>	<u>990,187</u>
	150,433,788	13,221,228
Less allocated to trust assets	<u>(100,753,098)</u>	<u>(4,621,545)</u>
	<u>\$ 49,680,690</u>	<u>\$ 8,599,683</u>

The GIC's and other fixed income securities of \$130,000,000 represent proceeds resulting from the transfer of long-term investments from BMO Nesbitt Burns to CIBC Asset Management. These investments will mature on April 2, 2007 at which time the investments will be converted into long-term investments (refer to note 7 for additional information).

5. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

CFCF, in the context of the Non Public Property Board approved Customer Relationship Management project, assumed Base/Wing/Funds and Messes accounts receivable and accounts payable at their fair value, effective February 26, 2007. To cover credit losses relating to credit risk and uncollectible accounts, the accounts receivable assumed by CFCF are net of a 1% fee to cover the estimated amount that will not be collected. If, at the end of a fiscal year, the actual recovery rate of accounts receivable from a specific entity is different than 1%, the actual recovery rate will be adjusted the subsequent year. Any amount charged in excess of the actual credit losses will be returned to the entity in the year it was charged. As of April 1, 2007, the assumed accounts receivable and accounts payable amounted to \$58,168,965 and \$7,874,203, respectively.

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED APRIL 1, 2007

6. PROJECT LOANS RECEIVABLE

CFCF provides unsecured loans to military bases and ships to share in the financing of capital projects. CFCF provides interest free working capital loans to units on UN operations for the duration of the deployment. Starting in May 2002, ships may obtain a line of credit on their CBA when being deployed on various operations instead of an interest free loan. Loans to CANEX and to bases bear interest at 4%. Repayment terms vary from 3 to 20 years. Periodically, the Non-Public Property Board approves the full or partial forgiveness of specific loan balances. During the year, a project loan receivable in the amount of \$nil (2006 - \$167,790) was forgiven.

	<u>April 1, 2007</u>	<u>April 2, 2006</u>
Interest bearing loans	\$ 23,444,262	\$ 25,104,651
Interest free loans	<u>1,261,028</u>	<u>405,715</u>
	24,705,290	25,510,366
Less current portion	<u>(4,250,417)</u>	<u>(3,368,437)</u>
	<u>\$ 20,454,873</u>	<u>\$ 22,141,929</u>

7. LONG-TERM INVESTMENTS

	<u>April 1, 2007</u>		<u>April 2, 2006</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Corporate stocks and options	\$ -	\$ -	\$ 64,908,146	\$ 57,259,257
Government bonds	-	-	64,664,645	59,509,177
Other indexed securities	-	-	<u>11,884,385</u>	<u>9,623,831</u>
	<u>\$ -</u>	-	<u>\$ 141,457,176</u>	126,392,265
Less allocation to trusts		-		<u>(44,181,028)</u>
		<u>\$ -</u>		<u>\$ 82,211,237</u>

Investment income includes net gains from the sale of investments which amounted to \$15,936,325 (2006 - \$14,357,229). Prior to the April 1, 2007 fiscal year-end, the long-term investments were transferred from BMO Nesbitt Burns to CIBC Asset Management with a total transfer of \$130,000,000 included in cash and cash equivalents as at April 1, 2007 (refer to note 4 for additional information).

8. TRUST ASSETS

CFCF maintains trust assets on behalf of the following entities:

	<u>April 1, 2007</u>	<u>April 2, 2006</u>
Base funds and messes	\$ 43,772,749	\$ 37,751,142
CANEX (overdraft)	36,756,450	(5,901,237)
Canadian Forces Personnel Support Agency	2,158,711	-
SISIP/CFPAF	3,936,293	2,866,513
NPF Pension/Benefits	3,739,408	3,729,698
Museums, Regimental funds and alike	<u>10,389,487</u>	<u>10,356,457</u>
	<u>\$ 100,753,098</u>	<u>\$ 48,802,573</u>

CANADIAN FORCES CENTRAL FUND
NOTES TO FINANCIAL STATEMENTS - Cont'd.
FISCAL YEAR ENDED APRIL 1, 2007

9. CFCF CONTRIBUTIONS

CFCF contributed \$1,057,890 (2006 - \$982,500) to programs and distributions. CFCF also contributed \$2,014,078 (2006 - \$2,898,000) to NPF services and operations representing financial support provided for the NPF wide services of accounting, human resources management, information management and information technology and consolidated insurance programs as well as the corporate operating costs.

10. REIMBURSEMENT OF PUBLIC UNDERFUNDED EXPENDITURES

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

The management of CFCF identified that Non-Public Funds previously provided by CFCF were being used to support the administration of Public Personnel Support Programs as well as to fulfill the Public's responsibilities for Public support to NPP programs and activities. During the year, CFCF received \$2,466,600 from DND Public for reimbursement of the aforementioned costs.

11. RELATED PARTY TRANSACTIONS

Non-Public Property (NPP), as defined under the National Defence Act, consists of money and property contributed by Canadian Forces members and is administered for their benefit by the Canadian Forces Personnel Support Agency ("CFPSA"). The CFPSA is responsible for delivering selected morale and welfare programs, services and activities through three operational divisions, CANEX, Personnel Support Programs and SISIP Financial Services (including the Canadian Forces Personnel Assistance Fund). Under the National Defence Act, NPP is explicitly excluded from the Financial Administration Act. The government provides some services to NPP such as accommodation and security for which no charge is made. The cost of providing these services is included in the Public Accounts and is reported annually within the Department of National Defence in accordance with the requirements of the Financial Administration Manual Chapter 1019-8.

CFPSA administered estimated revenues and expenses of \$330 million and \$295 million, respectively, and net equity of \$540 million at March 31, 2007 which are excluded from the financial statements of the Government of Canada.

12. CONTINGENT LIABILITY

CFCF is contingently liable for \$307,000 (2006 - \$300,000) for letters of credit supplied to various provincial liquor boards on behalf of unit messes.

Section 6

Non-Public Funds Employee Pension Plan

FINANCIAL STATEMENTS
For
CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN
For year ended
DECEMBER 31, 2006

AUDITORS' REPORT

To the Chairperson and Members of the Employee Pension Plan Committee of:

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

We have audited the statement of net assets available for benefits and accrued pension benefits and surplus of the Canadian Forces Non-Public Funds Employees Pension Plan as at December 31, 2006 and the statements of changes in surplus, accrued pension benefits and net assets available for benefits 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 net assets available for benefits and accrued pension benefits and surplus of the Plan as at December 31, 2006 and the changes in the surplus, accrued and pension benefits and net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Welch & Company LLP

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Ottawa, Ontario
June 8, 2007.

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

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

DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
<u>NET ASSETS AVAILABLE FOR BENEFITS</u>		
Cash	\$ 88,178	\$ 743,354
Investments (note 3 and schedule A)	117,859,863	98,661,308
Due from Canadian Forces Central Fund (note 6)	947,133	1,055,331
Pension receivable (note 4)	551,900	826,286
Prepaid expenses	-	12,198
	<u>119,447,074</u>	<u>101,298,477</u>
Less accounts payable and accrued liabilities	<u>102,334</u>	<u>109,208</u>
	<u>\$ 119,344,740</u>	<u>\$ 101,189,269</u>
<u>ACCRUED PENSION BENEFITS AND SURPLUS</u>		
Actuarial value of accrued pension benefits (note 5)	\$ 104,821,000	\$ 95,406,000
Surplus (note 5)	<u>14,523,740</u>	<u>5,783,269</u>
Net assets available for benefits	<u>\$ 119,344,740</u>	<u>\$ 101,189,269</u>

(See accompanying notes)

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
INCREASE IN BENEFITS		
Interest accrued on benefits	\$ 6,254,365	\$ 5,768,273
Benefits accrued	9,168,708	8,072,998
Adjustment to valuation	-	1,423,585
Increase in accrued benefits	<u>15,423,073</u>	<u>15,264,856</u>
DECREASE IN ACCRUED BENEFITS		
Annuity payments and refunds	5,534,612	4,207,856
Adjustment to valuation	473,461	-
Decrease in accrued benefits	<u>6,008,073</u>	<u>4,207,856</u>
NET INCREASE IN ACCRUED PENSION BENEFITS	9,415,000	11,057,000
ACCRUED PENSION BENEFITS AT BEGINNING OF YEAR	<u>95,406,000</u>	<u>84,349,000</u>
ACCRUED PENSION BENEFITS AT END OF YEAR	<u>\$ 104,821,000</u>	<u>\$ 95,406,000</u>

(See accompanying notes)

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

STATEMENT OF CHANGES IN SURPLUS

YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
Surplus (deficit) of net assets available for benefits versus accrued benefits at beginning of year	\$ 5,783,269	\$ (2,466,783)
Net increase in net assets available for benefits	18,155,471	19,307,052
Net increase in accrued pension benefits	<u>(9,415,000)</u>	<u>(11,057,000)</u>
Surplus of net assets available for benefits versus accrued benefits at end of year	<u>\$ 14,523,740</u>	<u>\$ 5,783,269</u>

(See accompanying notes)

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
INCREASE IN ASSETS		
Contributions - employer	\$ 7,870,703	\$ 7,841,778
- employee	<u>3,475,136</u>	<u>3,150,825</u>
	11,345,839	10,992,603
Realized gain - equities	3,913,930	4,123,935
Current period increase in market value of investments	7,896,148	7,988,337
Dividend income	926,291	732,862
Interest earned on investments	267,139	348,968
Loss on currency	<u>(89)</u>	<u>(1,296)</u>
Total increase in assets	<u>24,349,258</u>	<u>24,185,409</u>
DECREASE IN ASSETS		
Withdrawals		
Annuity payments	3,576,101	3,361,577
Refunds	<u>1,958,511</u>	<u>846,279</u>
	<u>5,534,612</u>	<u>4,207,856</u>
Operating expenses		
Pension administration	209,348	156,839
Investment management fees	284,892	176,156
Professional fees	141,328	205,079
Miscellaneous	<u>23,607</u>	<u>132,427</u>
	<u>659,175</u>	<u>670,501</u>
Total decrease in assets	<u>6,193,787</u>	<u>4,878,357</u>
INCREASE IN NET ASSETS	18,155,471	19,307,052
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	<u>101,189,269</u>	<u>81,882,217</u>
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	<u>\$ 119,344,740</u>	<u>\$ 101,189,269</u>

(See accompanying notes)

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

1. DESCRIPTION OF PENSION PLAN

The Canadian Forces Non-Public Funds Employee 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 from the date of hire for all full-time employees over 18 years of age. The Plan is funded by the employee and employer. The employee contributes 4.5% of earnings which are not in excess of the Canada/Québec 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, 2006.

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 greater 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. Pensions in payment have been indexed on an adhoc basis at a rate of 75% of the consumer price index. The most recent adjustment was effective January 1, 2004.

The Chief Executive Officer approved an initiative to give the Canadian Forces Non-Public Funds full-time and part-time employees the opportunity to buy-back pensionable services during the previously imposed mandatory or the voluntary waiting periods. The pension buy-back commenced in year 2004. For the previously imposed mandatory periods, the buy-back cost is shared between the employee and the employer and for the voluntary waiting periods, the employee is fully responsible for the cost.

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 services at retirement, and c) the sum of the employees' 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 instalments 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 the 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.

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. 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.

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2006

1. DESCRIPTION OF PLAN - Cont'd.

Pensionable earnings means base salary and wages including overtime and performance pay, but excluding bonuses or other special remuneration. Average pensionable earnings mean 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, transfer to a registered pension plan or purchase an immediate life annuity or a deferred life annuity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Basis of presentation*

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsors and plan members. They are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period.

b) *Financial instruments*

The Plan's financial instruments consist of cash, investments, due from Canadian Forces Central Fund, pension receivable and accounts payable and accrued liabilities. The Plan's investments consist predominantly of assets whose values are exposed to fluctuations in interest rates, foreign exchange rates and financial markets. Other financial instruments are not exposed to significant interest, currency or credit risks arising from these instruments.

c) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

d) *Investments*

Investments are stated at market value.

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2006

3. PENSION INVESTMENTS

Pension investments, administered by an independent trustee, are valued at market, representing the value at the statement 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. PENSION RECEIVABLE

The pension receivable in the amount of \$551,900 consists of the remaining 2004 and 2005 pension buy-back instalments owing from employees of which will be paid over 97 equal monthly payments.

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 statement date. The most recent actuarial valuation of the Plan was made as at December 31, 2006, by Mercer Human Resource Consulting, the Plan's actuaries. The Plan is required to have its next actuarial valuation performed as at December 31, 2009.

The significant assumptions used are:

- life expectancy of participants as per the Uninsured Pensioners 1994 table projected to 2015;
- 6.25% interest rate; and
- 4.0% salary escalation rate with a one time additional increase of 2% in 2008.

Based on Canadian generally accepted accounting principles, the surplus in net assets available for benefits versus accrued pension benefits as at December 31, 2006 is \$14,523,740. The actuarial valuation completed as at December 31, 2006 assessed the financial position of the Plan for future funding purposes on both the going-concern basis and the solvency basis which resulted in a surplus of \$2,613,000 and \$5,052,000 respectively. These valuations are utilized to assess monthly and annual employer contributions.

6. DUE FROM CANADIAN FORCES CENTRAL FUND (CFCF)

The amount due from CFCF of \$947,133 (2005 - \$1,055,331) represents amounts held in trust by a related party.

7. COMPARATIVE FIGURES

Comparative figures have been audited by another firm of chartered accountants and certain of the prior year's figures have been reclassified in order to conform with presentation adopted in the current year.

CANADIAN FORCES NON-PUBLIC FUNDS EMPLOYEES PENSION PLAN

INVESTMENTS

DECEMBER 31, 2006

	2006		2005	
	Market	Acquisition Cost	Market	Acquisition Cost
EQUITIES				
Canadian stocks	\$ 44,949,974	\$ 30,524,922	\$ 41,697,565	\$ 29,039,337
Indexed US equity fund	19,654,633	15,567,907	14,197,929	12,717,907
Indexed EAFA fund	<u>14,251,574</u>	<u>8,360,325</u>	<u>9,680,067</u>	<u>6,625,325</u>
	<u>78,856,181</u>	<u>54,453,154</u>	<u>65,575,561</u>	<u>48,382,569</u>
BONDS AND DEBENTURES				
Bond index fund	29,012,205	24,708,033	23,573,583	20,358,033
Government of Canada real return bonds	<u>7,747,080</u>	<u>5,571,708</u>	<u>8,172,600</u>	<u>5,571,708</u>
	<u>36,759,285</u>	<u>30,279,741</u>	<u>31,746,183</u>	<u>25,929,741</u>
SHORT-TERM NOTES	2,086,031	2,086,031	1,172,578	1,172,578
OTHER				
Accrued investment income	<u>158,366</u>	<u>158,366</u>	<u>166,986</u>	<u>166,986</u>
	<u>2,244,397</u>	<u>2,244,397</u>	<u>1,339,564</u>	<u>1,339,564</u>
TOTAL INVESTMENTS	<u>\$117,859,863</u>	<u>\$ 86,977,292</u>	<u>\$ 98,661,308</u>	<u>\$ 75,651,874</u>

Section 7

Non-Public Funds Employee Group Insurance Plan

FINANCIAL STATEMENTS
For
NPF EMPLOYEE GROUP INSURANCE PLAN
For the year ended
MARCH 31, 2007

AUDITORS' REPORT

To the Non-Public Property Board

NPF EMPLOYEE GROUP INSURANCE PLAN

We have audited the statement of financial position of the NPF Employee Group Insurance Plan as at March 31, 2007 and the statement 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 March 31, 2007 and the changes in its reserves available for future claims and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in cursive script that reads "Welch & Company LLP".

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Ottawa, Ontario
September 23, 2007.

NPF EMPLOYEE GROUP INSURANCE PLAN
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2007

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	\$ 2,678,231	\$ 2,816,128
Accounts receivable	<u>77,329</u>	<u>351,373</u>
	<u>\$ 2,755,560</u>	<u>\$ 3,167,501</u>
<u>LIABILITIES AND RESERVES AVAILABLE FOR FUTURE CLAIMS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 827,724	\$ 661,950
Group life waiver (note 4)	64,689	97,497
Claims incurred but not reported (IBNR)	<u>219,876</u>	<u>141,770</u>
	1,112,289	901,217
RESERVES AVAILABLE FOR FUTURE CLAIMS (note 5)	<u>1,643,271</u>	<u>2,266,284</u>
	<u>\$ 2,755,560</u>	<u>\$ 3,167,501</u>

Signed:

.....

(See accompanying notes)

NPF EMPLOYEE GROUP INSURANCE PLAN
STATEMENT OF OPERATIONS AND RESERVES AVAILABLE FOR FUTURE CLAIMS
YEAR ENDED MARCH 31, 2007

(With comparative figures for the period from July 1, 2005 to March 31, 2006)

	Year ended Mar. 31, <u>2007</u>	Nine month period ended Mar. 31, <u>2006</u>
Income		
Employee/employer contributions	\$ 3,643,662	\$ 2,474,552
Interest and other income	184,534	122,535
Government Employees Compensation Act (GECA)	<u>141,000</u>	<u>105,750</u>
	<u>3,969,196</u>	<u>2,702,837</u>
Expenses		
Premiums paid - Canada and Europe	3,999,014	2,590,960
GECA	404,086	335,605
Professional fees and general	22,795	28,724
IBNR	<u>166,314</u>	<u>141,770</u>
	<u>4,592,209</u>	<u>3,097,059</u>
Net expense	(623,013)	(394,222)
Reserves available for future claims at beginning of year	<u>2,266,284</u>	<u>2,660,506</u>
Reserves available for future claims at end of year	<u>\$ 1,643,271</u>	<u>\$ 2,266,284</u>

(See accompanying notes)

NPF EMPLOYEE GROUP INSURANCE PLAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2007

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 months 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 Great-West Life Assurance Company (Great-West) to the Chief of the Defence Staff operating under section 38 of the National Defence Act. Great-West's services with respect to hospital, major medical and dental benefits are provided on an administrative basis only. Such benefits are not incurred by Great-West. All other benefits are underwritten and insured by Great-West 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 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' 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 employer stopped contributing to GECA until the Support Agency surplus is reduced to a reasonable level.

Services provided without charge

Canadian Forces Personnel Support Agency 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.

NPF EMPLOYEE GROUP INSURANCE PLAN
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2007

3. FINANCIAL INSTRUMENTS

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

4. 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.

5. RESERVES AVAILABLE FOR FUTURE CLAIMS

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

	<u>2007</u>	<u>2006</u>
Reserve LTD 1 (Non Taxable)	\$ 163,451	\$ 163,451
Reserve GECA	958,941	1,144,216
Reserve Dental	(153,377)	(58,187)
Reserve Medical	(226,940)	(92,930)
Reserve LTD 2 (Taxable)	692,929	821,476
Reserve Group Life	272,956	385,755
Group Life Waiver	<u>(64,689)</u>	<u>(97,497)</u>
Total	<u>\$ 1,643,271</u>	<u>\$ 2,266,284</u>

Management monitors the reserve balances on a regular basis. Furthermore, the premiums for the 2008 fiscal year-end have been adjusted accordingly to fund the deficits that currently exist in the reserve for dental and medical.

6. 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.