

FINANCIAL STATEMENTS
For
NPF EMPLOYEE GROUP INSURANCE PLAN
For year ended
MARCH 31, 2012

INDEPENDENT AUDITOR'S REPORT

To the Non-Public Property Board

We have audited the accompanying financial statements of the NPF Employee Group Insurance Plan, which comprise the statement of financial position as at March 31, 2012 and the statements of operations and deficit for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2012 and the changes in its deficit and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
November 5, 2012.

NPF EMPLOYEE GROUP INSURANCE PLAN
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2012

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Deposit with Canadian Forces Central Fund	\$ 104,998	\$ -
<u>LIABILITIES AND DEFICIT</u>		
CURRENT LIABILITIES		
Advances from Canadian Forces Central Fund	\$ -	\$ 133,399
Accounts payable and accrued liabilities	231,732	183,389
Group life waiver (note 4)	21,266	51,730
Claims incurred but not reported	<u>372,821</u>	<u>346,229</u>
	625,819	714,747
DEFICIT (note 5)	<u>(520,821)</u>	<u>(714,747)</u>
	<u>\$ 104,998</u>	<u>\$ -</u>

Approved:

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(See accompanying notes)

**NPF EMPLOYEE GROUP INSURANCE PLAN
STATEMENT OF OPERATIONS AND DEFICIT
YEAR ENDED MARCH 31, 2012**

	<u>2012</u>	<u>2011</u>
Income		
Employee/employer contributions	\$ 7,607,715	\$ 7,497,977
Interest and other income	50,047	19,964
Employer contributions for Government Employees Compensation Act	<u>856,852</u>	<u>845,043</u>
	<u>8,514,614</u>	<u>8,362,984</u>
Expenses		
Premiums paid	7,495,631	7,503,023
Government Employees Compensation Act	788,514	869,735
Professional fees and general	9,951	16,326
Claims incurred but not reported	<u>26,592</u>	<u>10,763</u>
	<u>8,320,688</u>	<u>8,399,847</u>
Net income (expense)	193,926	(36,863)
Deficit at beginning of year	<u>(714,747)</u>	<u>(677,884)</u>
Deficit at end of year	<u>\$ (520,821)</u>	<u>\$ (714,747)</u>

(See accompanying notes)

NPF EMPLOYEE GROUP INSURANCE PLAN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2012

1. DESCRIPTION OF PLAN

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Employee and employer contributions (Premiums)

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

Claims incurred but not reported

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

Government Employees Compensation Act (GECA)

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

Services provided without charge

CFPFSS(NPF) provides administrative services to the Plan. As the amount is not significant, these services are not recognized in the financial statements.

Use of estimates

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

NPF EMPLOYEE GROUP INSURANCE PLAN
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2012

3. FINANCIAL INSTRUMENTS

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

Unless otherwise noted, it is management's opinion that the group plan is not exposed to significant interest, currency or credit risks arising from these financial instruments.

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 CFPFSS (NPF) would continue to pay the premiums on behalf of these members. CFPFSS (NPF) established a provision to protect the Staff of the Non-Public Fund, Canadian Forces, against the increased risk of insurance payouts on this group of members based upon their increased mortality and morbidity rates. This agreement covers all employees who commenced LTD benefits between March 1, 1987 and February 29, 2000. The Premium Waiver provision was reinstated effective March 1, 2000 and the Group Life Waiver will eventually be eliminated as these members retire or terminate LTD benefits.

5. DEFICIT

The deficit is comprised of the following:

	<u>2012</u>	<u>2011</u>
Reserve LTD	\$ 335,054	\$ 292,831
Deficit Dental	(246,450)	(269,316)
Deficit Medical	(433,649)	(448,372)
Reserve Group Life	38,411	27,246
Group Life Waiver	<u>(21,266)</u>	<u>(51,730)</u>
Sub-total	(327,900)	(449,341)
Reserve GECA	<u>(192,921)</u>	<u>(265,406)</u>
 Total	 <u>\$ (520,821)</u>	 <u>\$ (714,747)</u>

Even though the Plan is still in a deficit, management will continue to monitor the Plan's funding levels for the 2013 and 2014 fiscal year-ends so that any anticipated funding deficiencies will be addressed promptly.

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.