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AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of net assets available for benefits of the Contributory Pension Fund as at July 31, 2001 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Contributory Pension Fund as at July 31, 2001 and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Hamilton, Bermuda
October 17, 2002

Larry T. Dennis, C.A.
Auditor General

CONTRIBUTORY PENSION FUND

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

JULY 31, 2001

	2001	2000
	$	$
ASSETS		
Investments (note 3)		
Bonds	180,041,714	144,575,240
Equities	450,662,521	500,310,361
	630,704,235	644,885,601
Receivables		
Contributions - gross	20,382,284	20,932,148
Less: allowance for doubtful accounts	5,700,000	5,700,000
	14,682,284	15,232,148
Accrued interest and dividends	2,990,771	3,454,073
Due from the Consolidated Fund of the Government of Bermuda (note 4)	3,593,196	6,928,821
	21,266,251	25,615,042
Cash and deposits (note 5)	131,193,869	109,623,585
Total assets	783,164,355	780,124,228
LIABILITIES		
Accrued benefits payable	2,600,625	2,408,041
Accounts payable and accrued liabilities	1,673,049	1,031,537
Total liabilities	4,273,674	3,439,578
NET ASSETS AVAILABLE FOR BENEFITS	778,890,681	776,684,650

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

CONTRIBUTORY PENSION FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED JULY 31, 2001

	2001	2000
	$	$
INCREASE IN ASSETS		
Investment income		
Gain on sale of investments	83,526,036	67,681,562
Interest and dividends	20,384,437	17,878,448
	103,910,473	85,560,010
Change in fair value of investments	(114,395,463)	1,032,509
Contributions	77,624,012	73,558,049
Total increase in assets	67,139,022	160,150,568
DECREASE IN ASSETS		
Benefits paid	60,404,582	57,690,089
Administrative expenses (note 6)	4,528,409	4,557,694
Total decrease in assets	64,932,991	62,247,783
INCREASE IN NET ASSETS	2,206,031	97,902,785
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	776,684,650	678,781,865
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	778,890,681	776,684,650

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

CONTRIBUTORY PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2001

1. AUTHORITY

The Contributory Pension Fund ("the Fund") was established under The Contributory Pensions Act 1970 and its subsequent amendments.

The purpose of the Fund is to provide old age pension, disability and death benefits for persons satisfying certain contribution, citizenship and/or residency requirements. Contributions to the Fund are compulsory for persons employed in Bermuda, the self-employed and employers. This social insurance program enables members of the labour force to acquire and retain protection for themselves and their families against loss of income due to retirement, disability or death. If certain conditions are satisfied, the Fund also provides benefits to persons who have not contributed to the Fund.

Benefits and expenses incurred in the administration of the Fund are financed from contributions made by the employees and employers noted above and from investment income. Funds are invested in accordance with the Public Funds Act 1954 and its subsequent amendments.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada and include the following significant accounting policies:

(a) Basis of Presentation

These financial statements are prepared on the going concern basis, under the assumption that the Fund will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. The statements present the aggregate financial position of the Fund as a separate financial reporting entity independent of the Government of Bermuda.

The financial statements show only the net assets available for benefits of the Fund and do not purport to show the adequacy of the Fund to meet future benefit obligations.

(b) Investments

Investments are stated at fair value.

(c) Translation of Foreign Currencies

U.S. currency amounts are translated into Bermuda dollars at par.

Investments and cash deposits denominated in other foreign currencies are translated into Bermuda dollars at the year-end exchange rates.

Revenues and expenses are translated at the exchange rate in effect at the transaction date.

2. ACCOUNTING POLICIES (continued)

(d) Use of estimates

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

3. INVESTMENTS

Investments in bonds and equities are valued using published mid-market quotations.

4. DUE FROM THE CONSOLIDATED FUND OF THE GOVERNMENT OF BERMUDA

The amount of $3,593,196 (2000 - $6,928,821) represents the net position of Consolidated Fund contributions due to the Fund and expenses paid by the Consolidated Fund on behalf of the Fund, which has not been settled at the year-end. The rate of interest accruing on the balance is 7% per annum.

5. CASH AND DEPOSITS

Cash and deposits include cash positions of $26,825,990 (2000 - $65,799,039) held in the investment portfolios.

6. ADMINISTRATIVE EXPENSES

	2001	2000
	$	$
Investment management fees	2,923,590	3,250,989
Salaries	886,444	738,235
Investment monitoring fees	327,545	167,352
Custodial fees	246,970	263,925
Printing, stationery and office	118,860	112,193
Audit	25,000	25,000
	4,528,409	4,557,694

7. OBLIGATION FOR PENSION BENEFITS

The present value of accrued pension benefits was determined using the projected benefit method prorated on contributions and the administrator's best estimate assumptions. An actuarial valuation was completed as of July 31, 1996 by the Actuary's Department of the Government of the United Kingdom. This is the most recent valuation and no extrapolations have been performed subsequent to July 31, 1996.

The actuarial valuation noted that the Fund accrued pension benefits of $1,739 million and accumulated assets of $372 million as of July 31, 1996. This represents a total estimated obligation for future pension benefits of $1,367 million as of that date.

In accordance with generally accepted accounting principles, disclosure of the obligation for future pension benefits is required. For a private occupational pension fund the issue of solvency of the fund and security of benefits are impacted by the value of the accrued liability. However, the sustainability of a national social insurance scheme is customarily based on the adequacy of the current and projected contribution rate to provide for future benefits.

Funding of the Scheme is on a pay-as-you-go basis where essentially contributions of the current workforce are used to meet the obligations to the current beneficiaries. For the fiscal year ending, July 31, 2001, net assets available for benefits are more than twelve times the current benefit payments. This is a relatively high level of funding when compared to national social insurance schemes of other countries.

8. RELATED PARTY TRANSACTION

The Government of Bermuda provides accounting and certain administrative services to the Fund. Significant expenses are as follows:

	2001	2000
	$	$
ACG overhead	80,711	79,289

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.

9. SIGNIFICANT EVENT

The custodian function was consolidated from three custodians to one master custodian. The conversion date was November 2000. There was also a major restructuring of the pension fund's assets under management. During the previous fiscal year, the Ministry of Finance engaged the services of an investment-consulting firm to complete an asset liability study on the Contributory Pension Fund. Due to the significant under-funded position of the Fund the consultant recommended numerous changes to the current asset allocation of the Fund. The recommendations made by the consultant were accepted and approved by the Public Funds Investment Committee and the Ministry of Finance. These recommendations were implemented in March 2001. Four of the eight investment managers previously retained were discharged and fourteen new managers hired. A qualified transition manager performed the transition on March 1, 2001 with all new managers funded accordingly.