

HEALTH INSURANCE FUND

FINANCIAL STATEMENTS

MARCH 31, 2015



GOVERNMENT OF BERMUDA
Ministry of Health

Health Insurance Department

Management's Responsibility for the Financial Statements

These financial statements have been prepared by management, which is responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgments, where appropriate.

Management is responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorized and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

The Health Insurance Committee (the "Committee") is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Committee meets periodically with management to discuss matters relating to financial reporting, internal control and audits. The Committee also review the financial statements before their approval. The financial statements have been approved by the Committee and have been examined by the Office of the Auditor General.

The accompanying Independent Auditor's Report is presented herein.

Laquita Burrows
Director

Gabriel Broomes
Financial Controller

13-9-17

(Date of approval)



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INDEPENDENT AUDITOR'S REPORT

To the Minister of Health

I have audited the accompanying financial statements of Health Insurance Fund, which comprise the statement of financial position as at March 31, 2015, and the statements of operations and accumulated deficit, change in net debt and cash flows 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 public sector accounting standards generally accepted in Bermuda and Canada, 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

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 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

I was unable to obtain sufficient appropriate audit evidence with respect to premiums receivable totalling \$232,633 and bad debt recovery of \$279,035. As a result, I was unable to determine whether adjustments to revenues, expenses, annual operating deficit and net debt might be necessary.

In addition, with respect to the year ended March 31, 2014, I did not express an opinion on the financial statements due to serious deficiencies in the accounting records. Since opening balances enter into the determination of the results of operations, I was unable to satisfy myself over the accuracy of the opening net assets as at April 1, 2014.

Qualified Opinion

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Health Insurance Fund as at March 31, 2015 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.



Hamilton, Bermuda
September 13, 2017

Heather Thomas, CPA, CFE, CGMA
Auditor General

HEALTH INSURANCE FUND
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2015

	2015	2014
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	661,774	2,235,761
Premiums due from policyholders, net of allowance of \$144,592 (2014 - \$423,627)	232,633	349,578
Due from the Mutual Re-Insurance Fund (note 4)	3,090,257	-
Other receivables	94	92
	<u>3,984,758</u>	<u>2,585,431</u>
LIABILITIES		
Claims payable (note 6)	4,461,086	2,221,643
IBNR	-	514,000
Deferred revenue	489,251	211,394
Accounts payable and accrued liabilities	170,792	106,223
Other payables	108,494	4,047
Due to the FutureCare Fund (note 5)	-	363
	<u>5,229,623</u>	<u>3,057,670</u>
NET DEBT	<u>(1,244,865)</u>	<u>(472,239)</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	<u>30,261</u>	<u>-</u>
ACCUMULATED DEFICIT	<u>(1,214,604)</u>	<u>(472,239)</u>
CONTRACTUAL OBLIGATIONS (note 8)		

The accompanying notes are an integral part of these financial statements

HEALTH INSURANCE FUND
STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT
FOR THE YEAR ENDED MARCH 31, 2015

	2015	2014
	\$	\$
REVENUES		
Policyholder premiums	13,452,290	15,401,166
Prescribed sum (note 4)	7,926,750	3,941,007
Provision for interfund (note 5)	4,449,679	
Government grant (note 9)	3,571,551	-
Bad debt recovery	279,035	42,986
Interfund write-offs (note 5)	<u>-</u>	<u>18,396,855</u>
	<u>29,679,305</u>	<u>37,782,014</u>
EXPENSES		
Claims	26,930,697	18,696,522
Administrative	2,405,944	1,666,642
Premiums ceded to the Mutual Re-insurance Fund (note 4)	1,085,029	1,524,340
Other expenses	-	374
Foreign exchange loss	<u>-</u>	<u>27</u>
	<u>30,421,670</u>	<u>21,887,905</u>
ANNUAL OPERATING (DEFICIT) SURPLUS	(742,365)	15,894,109
ACCUMULATED DEFICIT, BEGINNING OF YEAR	<u>(472,239)</u>	<u>(16,366,348)</u>
ACCUMULATED DEFICIT, END OF YEAR	<u><u>(1,214,604)</u></u>	<u><u>(472,239)</u></u>

The accompanying notes are an integral part of these financial statements

HEALTH INSURANCE FUND
STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED MARCH 31, 2015

	2015	2014
	\$	\$
NET DEBT, BEGINNING OF YEAR	(472,239)	(16,366,348)
Annual operating (deficit) surplus	(742,365)	15,894,109
Change in prepaid expenses	<u>(30,261)</u>	<u>-</u>
NET DEBT, END OF YEAR	<u>(1,244,865)</u>	<u>(472,239)</u>

The accompanying notes are an integral part of these financial statements

HEALTH INSURANCE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2015

	2015	2014
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Annual operating (deficit) surplus	<u>(742,365)</u>	<u>15,894,109</u>
Changes in non-cash working capital:		
Decrease in premiums due from policyholders	116,945	3,904,888
Decrease in due from the Future Care Fund	-	8,467,255
(Increase) decrease in due from the Mutual Re-insurance Fund	(3,090,257)	10,816,714
Decrease in due from the Consolidated Fund of the Government of Bermuda	-	3,138,231
Increase in prepaid expenses	(30,261)	-
Increase in claims payable	2,239,443	181,956
(Decrease) increase in IBNR	(514,000)	109,000
Increase in other receivables	(2)	(92)
Decrease in due to the Future Care Fund	(363)	(27,379,460)
Decrease in due to the Mutual Re-insurance Fund	-	(6,018,664)
(Increase) decrease in deferred revenues	277,857	(63,261)
Increase (decrease) in accounts payable and accrued liabilities	64,569	(98,713)
Increase in other payables	104,447	-
Decrease in due to the Consolidated Fund of the Government of Bermuda	<u>-</u>	<u>(9,273,708)</u>
Net cash used in operating activities	<u>(1,573,987)</u>	<u>(321,745)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,573,987)	(321,745)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,235,761</u>	<u>2,557,506</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>661,774</u></u>	<u><u>2,235,761</u></u>

The accompanying notes are an integral part of these financial statements

HEALTH INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

1. AUTHORITY

The Health Insurance Fund (the "Fund") was established to provide hospital and medical insurance for all residents of Bermuda, irrespective of age and state of health. The Fund and the Health Insurance Committee (the "Committee"), which administers and manages the Fund, were established under the Health Insurance Act 1970 and subsequent amendments (the "Act"). In general, the Fund receives all policyholder premiums and pays all policyholder claims (subject to prescribed premium rates and claims limits). In addition, certain expenses incurred by the Committee are included in these financial statements.

Insurance policies are written exclusive of claims related to the indigent, aged or youth (termed subsidy claims, as further defined by the Act) which are paid from the Consolidated Fund of the Government of Bermuda (the "Consolidated Fund").

2. SIGNIFICANT ACCOUNTING POLICIES

Pursuant to standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, the Fund is classified as an other government organization. These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada and the accounting policies considered particularly significant are as follows:

(a) Revenue recognition

Policyholder premiums are recorded on the accrual basis.

(b) Cash and cash equivalents

Cash and cash equivalents include all cash on deposit with financial institutions that can be withdrawn without prior notice and time deposits with an original maturity of 90 days or less.

(c) Provision for claims

The provision for claims comprises both reported claims which are outstanding as at the statement of financial position date together with the Fund's estimate of claims incurred but not reported as at the statement of financial position date. Although the Fund believes that the provision for claims is adequate, there is no absolute assurance that the ultimate settlement of the liability may not be greater or less than that which has been estimated as at the statement of financial position date. The method of making such estimates and establishing the provision for claims is continually reviewed and updated, and any resulting adjustments will be reflected in the statement of operations and accumulated deficit in the year in which they become known.

HEALTH INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation

United States currency amounts are translated into Bermuda dollars at par.

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

(e) Financial instruments

The Fund's financial instruments consist of cash and cash equivalents, premiums due from policyholders, other receivables, due from the Mutual Re-insurance Fund, claims payable, accounts payable and accrued liabilities and other payables. These financial instruments are measured at cost or amortized cost.

Transaction costs related to financial instruments in the cost or amortized cost category are added to the carrying value of the instrument when initially recognized.

Write-downs on financial assets are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations and accumulated deficit.

It is management's opinion that the Fund is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

(f) Measurement uncertainty

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These standards require 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 year. Significant areas requiring the use of estimates include allowance for doubtful accounts and provision for claims and accruals. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

(g) Going concern

These financial statements have been prepared on the basis that the Fund is a going concern, meaning it will continue in operation for the foreseeable future. The Fund's continuation as a going concern depends on financial support from the Government of Bermuda (the "Government"). The Fund is economically dependent upon the financial assistance provided by the Government of Bermuda (the "Government") to fund its daily operations, cash flow and capital acquisitions.

HEALTH INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

3. RELATED PARTY TRANSACTIONS

The Fund is related to all Government agencies, ministries, departments, funds and quasi-autonomous non-governmental organizations under the common control of the Government. Also, the Fund is related to organizations that the Government jointly controls or significantly influences.

The Fund enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

Included in these financial statements are transactions with various government entities including the Bermuda Hospitals Board (the "BHB"), the Consolidated Fund, the FutureCare Fund (the "FCF") and the Mutual Re-Insurance Fund (the "MRF"), which are all under the common control of the Government. In addition, the Fund, the FCF and the MRF are under the direct management, supervision and control of the Committee which is under the direct control of the Minister of Health and Seniors.

4. DUE FROM THE MUTUAL RE-INSURANCE FUND

The MRF acts as a re-insurer of the Fund (as prescribed by the Act) with respect to certain claims. The premiums due are based on rates per insured as defined by the Health Insurance (Standard Hospital Benefit) Amendment Regulations 2013. In addition, the MRF is required to remit a prescribed sum to the Fund as further defined by the Health Insurance (Mutual Re-insurance Fund) (Prescribed Sum) Order 2012. The sum to be paid by MRF to the Fund amounted to \$14 per month, per insured from April 1, 2014 (2014 - \$7 per month, per insured).

As at March 31, 2015, the amount due from the MRF comprised of prescribed sum payable by the MRF. Amounts due are carried interest free.

5. PROVISION FOR INTERFUND BALANCES

On January 28, 2014, Cabinet approved the following Interfund write-off of various expenses between the Consolidated Fund, the MRF, the FCF and the Fund amounting to \$18,396,855. At March 31, 2015 application to write off inter-fund payables and receivables had not been submitted to Cabinet for approval. However, since it is doubtful whether payment of these amounts will materialize, full provision has been made for these balances. The total amount of the provision is detailed below.

	\$
Net due to the Mutual Re-insurance Fund	706,485
Net due to the FutureCare Fund	<u>3,743,194</u>
	<u>4,449,679</u>

HEALTH INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

6. CLAIMS PAYABLE

The majority of claims are submitted by the BHB on behalf of patients/insured persons. These claims are valued in accordance with the Bermuda Hospitals Board (Hospital Fees) Regulations 2013. The claims payable is as follows:

	2015	2014
	\$	\$
Claims incurred:		
Bermuda Hospital Board	23,793,348	13,990,731
Portability and medical	3,433,468	3,961,156
Dental	<u>217,882</u>	<u>230,635</u>
Total incurred	<u>27,444,698</u>	<u>18,182,522</u>
Claims paid:		
Bermuda Hospital Board	21,535,278	14,337,286
Portability and medical	3,458,352	3,837,080
Dental	<u>211,625</u>	<u>231,200</u>
Total paid	<u>25,205,255</u>	<u>18,405,566</u>
Increase (decrease) in claims payable	2,239,443	(223,044)
Claims payable, beginning of year	<u>2,221,643</u>	<u>2,444,687</u>
Claims payable, end of year	<u>4,461,086</u>	<u>2,221,643</u>
Represented by		
Bermuda Hospitals Board	3,858,148	1,614,972
Portability and medical	575,173	576,534
Dental	<u>27,765</u>	<u>30,137</u>
	<u>4,461,086</u>	<u>2,221,643</u>

7. STATEMENT OF REMEASUREMENT GAINS AND LOSSES

These financial statements do not include a statement of remeasurement gains and losses as the Fund has no activities that give rise to remeasurement gains or losses.

HEALTH INSURANCE FUND
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 31, 2015

8. CONTRACTUAL OBLIGATIONS

The Fund has entered into various contracts relating to operational support and delivery of services. The aforementioned contracts have commencement terms prior to March 31, 2015 and the latest contract termination date is January 31, 2018. These contractual obligations will become liabilities in the future when the terms of the contracts are met. The remaining obligations of the contracts are as follows:

Description of services	2016	2017	2018
	\$	\$	\$
Consulting services	786,253	59,827	-
Claims processing	470,480	300,980	21,373
Office cleaning services	4,400	4,400	4,400
Rental of premises	48,190	48,190	48,190
Information Technology support	1,320	1,320	1,320
	1,310,643	414,717	75,283

9. GOVERNMENT GRANT

In accordance with section 12(1) of the Act, "There shall be paid to the credit of the Health Insurance Fund an initial sum of one hundred thousand dollars which shall be paid out of the Consolidated Fund at such times and in such amounts as the Committee with the approval of the Minister, may require."

Subject to the approval of the House of Assembly signified by resolution, the initial sum paid in the preceding paragraph may from time to time be increased by resolution of the committee and any increase of that sum, approved as aforesaid, shall be charged on the Consolidated Fund.

The Fund received \$3,087,000 (2014 - \$nil) as Government grant for the fiscal year March 31, 2015. In addition, administration fees totalling \$484,551 (2014 - \$nil) was paid by the Consolidated Fund on behalf of the Fund.

HEALTH INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

10. FINANCIAL RISK MANAGEMENT

The Fund is exposed to various risks through its financial instruments. The Committee has overall responsibility for the establishment and oversight of its risk management framework. The Fund manages its risks and risk exposures through sound business practices. The following analysis provides a measure of the risks at the reporting date, March 31, 2015.

(a) Credit Risk

The Fund's credit risk arises primarily from the following:

	2015	2014
	\$	\$
Cash and cash equivalents	661,774	2,235,761
Premiums due from policyholders	232,633	349,578
Other receivable	94	92
Due from the Mutual Re-insurance Fund	3,090,257	-

The maximum exposure to credit risk is limited to the carrying value of the financial assets summarized above. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Committee determines, on a continuous basis, amounts receivable on the basis of amounts it is virtually certain to receive based on their estimated realizable value. It is management's opinion that the Fund is not exposed to significant credit risk.

(i) Cash and cash equivalents

Cash and cash equivalents consists of cash in checking and savings accounts. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested with highly rated financial institutions.

(ii) Receivables and interfund balances

The Fund's credit risk arises from the possibility that a counterparty which owes the Fund money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Fund, which would result in a financial loss for the Fund. This risk is mitigated through established credit management techniques, including ongoing reviews of outstanding balances.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure credit risk.

HEALTH INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

10. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's objective in managing liquidity is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund manages exposure to liquidity risk by closely monitoring liabilities, focusing on generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

The expected cash flows of financial liabilities for claims payable, accounts payable and accrued liabilities, other payable and due to the FutureCare Fund are current.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure liquidity risk.

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value of recognized assets and liabilities or future cash flows of the fund's results of operations. The Fund has minimal exposure to market risk.

(i) Foreign exchange risk

The Fund's business transactions are mainly conducted in Bermuda dollars and, as such, it has minimal exposure to foreign exchange risk.

(ii) Interest rate risk

The Fund is exposed to changes in interest rates, which may impact interest earned on short-term deposits.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure market risk.

HEALTH INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

11. CAPITAL MANAGEMENT

The Fund's objective when managing capital is to hold sufficient accumulated surplus to enable it to withstand negative unexpected financial events. The Fund seeks to achieve this objective through receipt of grant from the Government, policyholder premiums and an annual surplus. The Fund seeks to maintain sufficient liquidity to meet its short-term obligations as they come due. The Fund is not subject to any externally imposed capital requirements.

12. COMPARATIVE FIGURES

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

13. SUBSEQUENT EVENTS

Effective July 1, 2015, as per the Health Insurance (Miscellaneous) Amendment Act 2015, amendment to the Health Insurance (Mutual Re-Insurance Fund) (Prescribed Sum) Order 2014, the Prescribed Sum of \$63.74 will be allocated as noted below:

- \$18.40 to the HIF
- \$14.00 to the FCF
- \$1.00 to the Bermuda Health Council (BHEC)
- \$23.64 to the BHB

Effective April 1, 2016, as per the Health Insurance Amendment Act 2016, amendment to the Health Insurance (Mutual Re-Insurance Fund) (Prescribed Sum) Order 2014, the Prescribed Sum of \$70.72 will be allocated as noted below:

- \$25.00 to the HIF
- \$14.00 to the FCF
- \$1.09 to the BHEC
- \$16.40 to the BHB
- \$7.53 to the Consolidated Fund

Effective June 1, 2017, as per the Health Insurance Amendment Act 2017, amendment to the Health Insurance (Mutual Re-Insurance Fund) (Prescribed Sum) Order 2014, the prescribed sum of \$91.57 will be allocated as noted below:

- \$31.53 to the HIF
- \$16.50 to the FCF
- \$ 1.09 to the BHEC
- \$13.16 to the BHB

HEALTH INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

13 SUBSEQUENT EVENTS (continued)

In September 2015 the Personal Home Care and Wellness Benefits were introduced. In addition, HIF Youth was introduced for ages new-born to eighteen.

The Fund received the following Government grant contributions for the fiscal years:

- 2015-2016 - \$3,425,000
- 2016-2017 - \$5,080,825

In addition, administration fees were paid by the Consolidated Fund on behalf of the Fund for the fiscal years:

- 2015-2016 - \$347,310
- 2016-2017 - \$323,370