

MUTUAL RE-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 Mutual Re-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 the completeness of the recorded re-insurance fees from Government Employees Health Insurance Fund totalling \$2,755,176 and related accounts receivable totalling \$701,837. As a result, I was unable to determine whether adjustments to revenues, annual operating deficit and net financial assets 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 Mutual Re-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

A handwritten signature in black ink that reads "Heather T." with a stylized flourish at the end.

Heather Thomas, CPA, CFE, CGMA
Auditor General

MUTUAL RE-INSURANCE FUND
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2015

	2015	2014
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	4,224,695	1,398,858
Re-insurance fees receivable	2,055,201	4,093,970
Due from the Bermuda Hospital Board (net of allowance of \$673,182 (2014-nil)) (note 6)	<u>-</u>	<u>673,182</u>
	<u>6,279,896</u>	<u>6,166,010</u>
LIABILITIES		
Accounts payable and accrued liabilities	136,745	209,830
Claims payable (note 1)	-	2,062,543
IBNR - Portability claims	-	165,600
Due to the Bermuda Health Council (note 7)	147,891	-
Due to the FutureCare Fund (note 5)	3,090,257	7,745
Due to the Health Insurance Fund (note 4)	<u>3,090,257</u>	<u>-</u>
	<u>6,465,150</u>	<u>2,445,718</u>
NET (DEBT) FINANCIAL ASSETS	<u>(185,254)</u>	<u>3,720,292</u>
ACCUMULATED (DEFICIT) SURPLUS	<u>(185,254)</u>	<u>3,720,292</u>
CONTRACTUAL OBLIGATIONS (note 10)		

The accompanying notes are an integral part of these financial statements

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

	2015	2014
	\$	\$
REVENUES		
Re-insurance fees	16,521,615	24,514,865
Government grant (note 3)	484,551	-
Interfund write-offs (note 8)	-	15,664,955
	<u>17,006,166</u>	<u>40,179,820</u>
EXPENSES		
Prescribed Sum (note 1)	16,232,852	3,941,007
Administrative fees	2,213,513	1,730,330
Provision for interfund (note 8)	1,698,739	-
Bad debt (note 6)	678,182	-
Claims incurred (note 1)	88,426	20,649,853
	<u>20,911,712</u>	<u>26,321,190</u>
ANNUAL OPERATING (DEFICIT) SURPLUS	(3,905,546)	13,858,630
ACCUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>3,720,292</u>	<u>(10,138,338)</u>
ACCUMULATED (DEFICIT) SURPLUS, END OF YEAR	<u>(185,254)</u>	<u>3,720,292</u>

The accompanying notes are an integral part of these financial statements

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

	2015	2014
	\$	\$
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	3,720,292	(10,138,338)
Annual operating (deficit) surplus	<u>(3,905,546)</u>	<u>13,858,630</u>
NET (DEBT) FINANCIAL ASSETS, END OF YEAR	<u>(185,254)</u>	<u>3,720,292</u>

The accompanying notes are integral part of these financial statements

MUTUAL RE-INSURANCE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2015

	2015	2014
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Annual operating (deficit) surplus	(3,905,546)	13,858,630
Changes in non-cash working capital:		
Decrease (increase) in re-insurance fees receivable	2,038,769	(698,502)
Decrease in due from the FutureCare Fund	-	3,913,990
Decrease in due from the Health Insurance Fund	-	6,018,664
Decrease in due from BHB	673,182	-
Decrease in due to the Consolidated Fund of the Government of Bermuda	-	(38,300)
Increase (decrease) in due to the Health Insurance Fund	3,090,257	(10,816,714)
Increase (decrease) in due to the FutureCare Fund	3,082,512	(12,592,870)
Increase in due to the Bermuda Health Council	147,891	-
(Decrease) increase in accounts payable and accrued liabilities	(73,085)	19,894
Decrease in claims payable	(2,062,543)	(93,274)
(Decrease) increase in IBNR - portability claims	(165,600)	165,600
Net cash provided by (used in) operating activities	<u>2,825,837</u>	<u>(262,882)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,825,837	(262,882)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,398,858</u>	<u>1,661,740</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>4,224,695</u></u>	<u><u>1,398,858</u></u>

The accompanying notes are an integral part of these financial statements

MUTUAL RE-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

1. NATURE OF OPERATIONS

The Mutual Re-insurance Fund ("the Fund") was established under the Health Insurance Act 1970 (the "Act"). The Fund was authorized for the purpose of spreading the cost of certain claims amongst all licensed insurers and approved schemes. The following risks were covered: haemodialysis treatment, long-stay hospital care, kidney transplants and the required anti-rejection drugs.

Effective April 1, 2014, the Fund benefits were repealed by the Health Insurance (Miscellaneous) Amendment Act 2014 and are now included as Standard Hospital Benefits under the Health Insurance (Standard Hospital Benefit) Regulations 1971. The impact on the Fund was a significant decrease in claims incurred and claims payable. In addition, the prescribed sum will be allocated to the Health Insurance Fund (HIF), the FutureCare Fund (FCF) and the Bermuda Health Council (BHEC) as defined by the Health Insurance (Mutual Re-insurance Fund) (Prescribed Sum) Order 2014, with a small percentage remaining in the Fund for operating expenses.

The Fund receives re-insurance fees from all licensed insurers and employers who operate approved schemes.

As of January 1, 2006, the Bermuda Health Council Act 2004 came into operation and the Hospital Insurance Act 1970 was retitled as the Health Insurance Act 1970. All references made to the Health Insurance Council were replaced with the BHEC.

On April 1, 2009, the administrative responsibility for the Fund was shifted to the Health Insurance Department within the Ministry of Health from the Social Insurance Department under the Ministry of Finance.

On December 15, 2009, the management of the Fund was transferred from the BHEC to the Health Insurance Committee (the "Committee") under the Health Insurance Amendment (No. 2) Act 2009.

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

Re-insurance fees are recorded on the accrual basis.

MUTUAL RE-INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Cash and cash equivalents

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

(c) Financial instruments

The Fund's financial instruments consist of cash and cash equivalents, re-insurance fees receivable, due from the Bermuda Hospital Board, accounts payable and accrued liabilities, due to the Bermuda Health Council, due to the FutureCare Fund and due to the Health Insurance Fund. 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.

(d) 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.

(e) 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 to fund its daily operations, cash flow and capital acquisitions.

MUTUAL RE-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 (BHB), the Consolidated Fund of the Government of Bermuda (Consolidated Fund), the Government Employees Health Insurance Fund (GEHI), the FCF and the HIF, which are all under the common control of the Government. In addition, the Fund, the FCF and the HIF are under the direct management, supervision and control of the Committee, which is under the direct control of the Minister of Health and Seniors.

During the year, re-insurance fees of \$1,085,029 (2014 - \$1,524,340), \$1,240,646 (2014 - \$1,697,879) and \$2,755,176 (2014 - \$4,035,410) were recorded from HIF, FCF and GEHI, respectively. As at March 31, 2015, re-insurance fees receivable from HIF, FCF and GEHI amounted to \$nil (2014 - \$nil), \$nil (2014 - \$nil) and \$701,837 (2014 - \$2,020,515), respectively. The Fund received a Government grant amounting to \$484,551 (2014 - \$nil) in form of administration fees paid on its behalf by the Consolidated Fund.

4. DUE TO THE HEALTH INSURANCE FUND

The Fund receives re-insurance fees from the HIF and is required to remit a prescribed sum to the HIF (as further defined by the Health Insurance (Mutual Re-insurance Fund) (Prescribed Sum) Order 2014). The sum to be paid amounted to \$14 per insured person per month effective from April 1, 2014.

The amount due to the HIF as at March 31, 2015 represents the prescribed sum payable.

5. DUE TO FUTURECARE FUND

The Fund receives re-insurance fees from the FCF and is required to remit a prescribed sum to the FCF (as further defined by the Health Insurance (Mutual Re-insurance Fund) (Prescribed Sum) Order 2014). The sum to be paid amounted to \$14 per insured person per month effective from April 1, 2014.

The amount due to the FCF as at March 31, 2015 represents the prescribed sum payable.

MUTUAL RE-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

6. DUE FROM THE BERMUDA HOSPITALS BOARD

The amount due from the Bermuda Hospitals Board represents an overpayment on haemodialysis claims for the period April 1, 2010 to March 31, 2012. Amount is fully provided for.

7. DUE TO THE BERMUDA HEALTH COUNCIL

The Fund is required to remit a prescribed sum to the BHEC (as further defined by the Health Insurance (Mutual Re-insurance Fund) (Prescribed Sum) Order 2014). The sum to be paid amounted to \$0.67 per insured person per month effective from April 1, 2014.

The amount due to the BHEC as at March 31, 2015 represents the prescribed sum payable.

8. PROVISION FOR INTERFUND BALANCES

On January 28, 2014, Cabinet approved the following Interfund write-off of various expenses between the Consolidated Fund, the HIF, the FCF and the Fund amounting to \$15,664,955. At March 31, 2015 application to write off interfund 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 from the FutureCare Fund	(992,255)
Net due from the Health Insurance Fund	<u>(706,484)</u>
	<u>(1,698,739)</u>

9. 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.

10. 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:

MUTUAL RE-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

10. CONTRACTUAL OBLIGATIONS (continued)

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
	<u>1,310,643</u>	<u>414,717</u>	<u>75,283</u>

11. 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	4,224,695	1,398,858
Re-insurance fees receivable	2,055,201	4,093,970
Due from the Bermuda Hospitals Board	-	673,182

MUTUAL RE-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

11. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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 Fund 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

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.

(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, establishing and maintaining good relationships with various financial institutions.

The expected cash flows of financial liabilities for accounts payable and accrued liabilities, due to the FutureCare Fund, due to the Health Insurance Fund and due to Bermuda Health Council are current.

MUTUAL RE-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

11. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

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.

12. CAPITAL MANAGEMENT

The Fund's objective when managing capital is to hold sufficient unrestricted net financial assets to enable it to withstand negative unexpected financial events. The Fund seeks to achieve this objective through management of cash flows. 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.

13. COMPARITIVE FIGURES

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

MUTUAL RE-INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

14. 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 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

The Department signed the first Enhanced Care Pilot Program contract on January 30, 2017 and it started to receive Encounter Claims in March 2017. Under the program, the Government will reimburse the Provider using a capitated payment model on a per Pilot Program Participant basis at a rate of \$100 per Pilot Program Participant per month beginning from the date of the first encounter.

Effective June 1, 2017, all claims for the use of haemodialysis facilities when provided by the BHB or any other facility approved by the BHEC will be paid out of the MRF, along with the cost of a kidney transplant and all maintenance drugs.

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