

FUTURECARE FUND
FINANCIAL STATEMENTS
MARCH 31, 2016



GOVERNMENT OF BERMUDA

Ministry of Health

Health Insurance Department


Management's Responsibility for the Financial Statements

These financial statements have been prepared by management, who are 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



Roxanne Eve
Financial Controller



(Date of approval)



Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Health

I have audited the accompanying financial statements of the FutureCare Fund, which comprise the statement of financial position as at March 31, 2016, 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 audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the FutureCare Fund as at March 31, 2016, 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.

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

Hamilton, Bermuda
September 7, 2018

Heather Thomas, CPA, CFE, CGMA
Auditor General

FUTURECARE FUND
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2016

	2016 \$	2015 \$
FINANCIAL ASSETS		
Cash and cash equivalents	738,273	1,157,623
Premiums due from policyholders net of allowance of \$64,276 (2015 - \$42,653)	270,527	217,173
Due from the Mutual Re-insurance Fund (note 5)	1,983,982	3,090,257
Other receivables	<u>115,651</u>	<u>63,546</u>
	<u>3,108,433</u>	<u>4,528,599</u>
LIABILITIES		
Claims payable (note 7)	3,926,933	2,750,249
Accounts payable and accrued liabilities	208,858	236,061
Deferred revenue	<u>583,912</u>	<u>537,658</u>
	<u>4,719,703</u>	<u>3,523,968</u>
NET (DEBT) FINANCIAL ASSETS	<u>(1,611,270)</u>	<u>1,004,631</u>
ACCUMULATED (DEFICIT) SURPLUS	<u>(1,611,270)</u>	<u>1,004,631</u>
CONTRACTUAL OBLIGATIONS (note 9)		

The accompanying notes are an integral part of these financial statements

FUTURECARE FUND
STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT
FOR THE YEAR ENDED MARCH 31, 2016

	2016	2015
	\$	\$
REVENUES		
Policyholder premiums	21,328,951	18,436,335
Prescribed sum (note 5)	7,976,824	7,926,750
Government grant (note 10)	1,271,543	1,807,551
Bad debt recovery	<u>-</u>	<u>82,639</u>
	<u>30,577,318</u>	<u>28,253,275</u>
EXPENSES		
Claims incurred	23,653,543	22,485,996
Provision for interfund (note 6)	5,443,473	2,753,193
Premiums ceded to the Mutual Re-insurance Fund (note 5)	2,461,051	1,240,646
Administrative (note 9)	1,613,523	2,310,239
Bad debt	21,622	-
Foreign exchange loss	<u>7</u>	<u>23</u>
	<u>33,193,219</u>	<u>28,790,097</u>
ANNUAL OPERATING DEFICIT	(2,615,901)	(536,822)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>1,004,631</u>	<u>1,541,453</u>
ACCUMULATED (DEFICIT) SURPLUS, END OF YEAR	<u>(1,611,270)</u>	<u>1,004,631</u>

The accompanying notes are an integral part of these financial statements

FUTURECARE FUND
STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED MARCH 31, 2016

	2016 \$	2015 \$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	1,004,631	1,541,453
Annual operating deficit	<u>(2,615,901)</u>	<u>(536,822)</u>
NET (DEBT) FINANCIAL ASSETS, END OF YEAR	<u>(1,611,270)</u>	<u>1,004,631</u>

The accompanying notes are an integral part of these financial statements

FUTURECARE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2016

	2016	2015
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Annual operating deficit	(2,615,901)	(536,822)
Changes in non-cash working capital:		
Increase in premiums due from policyholders	(53,354)	(45,890)
Decrease in due from the Consolidated Fund of the Government of Bermuda	-	44,853
Increase in other receivables	(52,105)	-
Decrease (increase) in due from the Mutual Re-insurance Fund	1,106,276	(3,082,512)
Increase in deferred revenue	(27,203)	431,077
Increase in claims payable	1,176,684	1,421,215
Decrease in IBNR	-	(234,000)
Decrease in due to the Consolidated Fund of the Government of Bermuda	-	(10,777)
Decrease in accounts payable and accrued liabilities	46,253	(22,354)
Net cash used in operating activities	<u>(419,350)</u>	<u>(2,035,210)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(419,350)	(2,035,210)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,157,623</u>	<u>3,192,833</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>738,273</u></u>	<u><u>1,157,623</u></u>

The accompanying notes are an integral part of these financial statements

FUTURECARE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

1. AUTHORITY

The FutureCare Fund ("the Fund") was established to provide hospital and medical insurance for all residents of Bermuda, who are over the age of 65 years. 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 have been prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada and include the following significant accounting policies:

(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 or penalty 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 will be 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.

FUTURECARE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

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, and accounts payable and accrued liabilities. 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, 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 to fund its daily operations, cash flow and capital acquisitions.

FUTURECARE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

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 Health Insurance Fund (the "HIF") and the Mutual Re-Insurance Fund (the "MRF"), which are all under the common control of the Government. In addition, the Fund, the HIF 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.

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

The net balance due from the Consolidated Fund is subsidy claims paid by the Fund but recoverable from the Consolidated Fund. As at March 31, 2016, full provision for doubtful account totalling \$nil (2015 - \$2,617) was made bringing the balance receivable to nil.

5. DUE FROM THE MUTUAL RE-INSURANCE FUND

The MRF acts as re-insurer of the Fund (as prescribed by the Act) with respect to certain claims. The premiums are based on rates per insured as defined by the Health Insurance (Standard Premium) Regulations 2009. 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 2014. The sum to be paid by the MRF to the Fund is \$14 per month, per insured person effective from April 1, 2014 (2015 - \$14).

As at March 31, 2016, the amount due from the MRF represents the prescribed sum. Amounts receivable are carried interest free.

FUTURECARE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

6. PROVISION FOR INTERFUND BALANCES

On January 28, 2014, Cabinet approved Interfund write-offs of various expenses between the Consolidated Fund, the HIF, the MRF and the Fund amounting to \$36,481,707. At March 31, 2015 and March 31, 2016 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 impact on the statement of operations and accumulated deficit is as follows:

	<u>2016</u>	<u>2015</u>
	\$	\$
Net due from the Consolidated Fund	-	(2,617)
Net due (from) to the Mutual Re-insurance Fund	(450,000)	992,255
Net due from the Health Insurance Fund	<u>(4,993,473)</u>	<u>(3,742,831)</u>
	<u>(5,443,473)</u>	<u>(2,753,193)</u>

7. 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 2015. The provision for claims is as follows:

	<u>2016</u>	<u>2015</u>
	\$	\$
Claims incurred:		
Bermuda Hospitals Board	10,869,828	10,171,761
Portability and medical	7,932,721	8,228,511
Prescription drugs	3,698,580	3,383,116
Dental	<u>1,152,413</u>	<u>936,608</u>
Total incurred	<u>23,653,542</u>	<u>22,719,996</u>
Claims paid;		
Bermuda Hospitals Board	10,374,084	9,030,024
Portability and medical	7,327,590	7,962,935
Prescription drugs	3,634,907	3,403,362
Dental	<u>1,140,277</u>	<u>902,460</u>
Total paid	<u>22,476,858</u>	<u>21,298,781</u>
Increase in claims payable	1,176,684	1,421,215
Claims payable, beginning of year	<u>2,750,249</u>	<u>1,329,034</u>
Claims payable, end of year	<u>3,926,933</u>	<u>2,750,249</u>
Represented by:		
Bermuda Hospitals Board	2,050,651	1,554,907
Portability and medical	1,525,758	920,628
Prescription drugs	183,411	119,738
Dental	<u>167,113</u>	<u>154,976</u>
	<u>3,926,933</u>	<u>2,750,249</u>

FUTURECARE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

8. STATEMENT OF REMEASUREMENT GAIN AND LOSSES

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

9. 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, 2016 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	<u>2017</u>	<u>2018</u>	<u>2019</u>
	\$	\$	\$
Claims processing	354,480	51,373	-
Office cleaning services	4,400	4,400	4,400
Rental of premises	1,320	1,320	1,320
	<u>\$408,390</u>	<u>\$97,252</u>	<u>\$5,720</u>

10. GOVERNMENT GRANT

In accordance with section 13A(2) of the Health Insurance Act 1970, "There shall be paid to the credit of the FutureCare Fund an initial sum of ten million dollars which shall be paid out if 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 \$925,000 (2015 - \$1,323,000) as Government grant for the fiscal year March 31, 2016. In addition, administration fees totalling \$346,543 (2015 - \$484,551) were paid by the Consolidated Fund on behalf of the Fund.

FUTURECARE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

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, 2016.

(a) Credit Risk

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

	2016 \$	2015 \$
Cash and cash equivalents	738,273	1,157,623
Premiums due from policyholders	270,527	217,173
Other receivables	115,651	63,546
Due from the Mutual Re-insurance Fund	1,983,982	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 Council 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 is minimized substantially by ensuring that these financial assets are invested with highly rated financial institutions.

(ii) Receivables and inter-fund 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.

FUTURECARE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

11. 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, and accounts payable and accrued liabilities 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.

FUTURECARE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

12. 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 policyholder premiums and contributions from the Government. 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. SUBSEQUENT EVENTS

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 Fund
- \$ 1.09 to the BHEC
- \$16.40 to the BHB
- \$ 7.53 to the Consolidated Fund

The balance of \$6.70 is to remain in the MRF for operating expenses.

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 Fund
- \$ 1.09 to the BHEC
- \$13.16 to the BHB

The balance of \$29.29 is to remain in the MRF for operating expenses.

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

- 2016-2017 - \$4,600,966
- 2017-2018 - \$3,851,425

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

- 2016-2017 - \$323,370
- 2017-2018 - \$319,700

FUTURECARE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

13. SUBSEQUENT EVENTS (continued)

Effective April 1, 2018, as per the Health Insurance Amendment Act 2018, amendments were made to the Health Insurance Act 1970, Health Insurance (Audit of Accounts) Regulations 1971 and the Health Insurance (Mutual Re-insurance Fund) Prescribed Sum Order 2014 to provide for the merging of the HIF and the Fund while preserving the Health Insurance plan and the FutureCare plan as two distinct plans. The Fund was wound up and the Committee paid any balance standing to the credit of the Fund into the HIF and all the assets and liabilities of the Fund were transferred to the HIF. The Health Insurance Plan and the FutureCare Plan continued as two product lines and, therefore, there was no impact on policyholders.