

MUTUAL RE-INSURANCE 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

7 September 2018
(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, 2016, and the statements of operations and accumulated surplus, change in net financial assets 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 \$5,182,783 and related re-insurance fees receivable totalling \$986,886. As a result, I was unable to determine whether adjustments to revenues, annual operating surplus and accumulated surplus might be necessary.

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, 2016, and the results of its operations, changes in its net financial assets, 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

MUTUAL RE-INSURANCE FUND
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2016

	2016	2015
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	7,644,284	4,224,695
Re-insurance fees receivable		
net of allowance of \$126,251 (2015 - nil)	<u>3,766,767</u>	<u>2,055,201</u>
	<u>11,411,051</u>	<u>6,279,896</u>
LIABILITIES		
Accounts payable and accrued liabilities	104,542	136,745
Due to the Bermuda Health Council (note 7)	141,713	147,891
Due to the FutureCare Fund (note 5)	1,983,983	3,090,257
Due to the Health Insurance Fund (note 4)	2,607,520	3,090,257
Due to the Bermuda Hospitals Board (note 6)	<u>3,350,096</u>	<u>-</u>
	<u>8,187,854</u>	<u>6,465,150</u>
NET FINANCIAL ASSETS (DEBT)	<u>3,223,197</u>	<u>(185,254)</u>
ACCUMULATED SURPLUS (DEFICIT)	<u>3,223,197</u>	<u>(185,254)</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 SURPLUS
FOR THE YEAR ENDED MARCH 31, 2016

	2016	2015
	\$	\$
REVENUES		
Re-insurance fees	31,623,285	16,521,615
Provision for interfund (note 8)	1,664,158	-
Government grant (note 3)	346,543	484,551
Other income	<u>12,320</u>	<u>-</u>
	<u>33,646,306</u>	<u>17,006,166</u>
EXPENSES		
Prescribed sum (note 1)	28,542,913	16,232,852
Administrative fees	1,529,273	2,213,513
Bad debt	126,251	678,182
Enhanced Care Pilot	39,418	
Provision for interfund (note 8)	-	1,698,739
Claims incurred (note 1)	<u>-</u>	<u>88,426</u>
	<u>30,237,855</u>	<u>20,911,712</u>
ANNUAL OPERATING SURPLUS (DEFICIT)	3,408,451	(3,905,546)
ACCUMULATED (DEFICIT) SURPLUS , BEGINNING OF YEAR	<u>(185,254)</u>	<u>3,720,292</u>
ACCUMULATED SURPLUS (DEFICIT), END OF YEAR	<u><u>3,223,197</u></u>	<u><u>(185,254)</u></u>

The accompanying notes are an integral part of these financial statements

MUTUAL RE-INSURANCE FUND
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED MARCH 31, 2016

	2016	2015
	\$	\$
NET (DEBT) FINANCIAL ASSETS, BEGINNING OF YEAR	(185,254)	3,720,292
Annual operating surplus (deficit)	<u>3,408,451</u>	<u>(3,905,546)</u>
NET FINANCIAL ASSETS (DEBT), END OF YEAR	<u><u>3,223,197</u></u>	<u><u>(185,254)</u></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, 2016

	2016	2015
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Annual operating surplus (deficit)	3,408,451	(3,905,546)
Changes in non-cash working capital:		
(Increase) decrease in re-insurance fees receivable	(1,711,566)	2,038,769
Decrease in due from Bermuda Hospitals Board	-	673,182
(Decrease) increase in due to the Health Insurance Fund	(482,737)	3,090,257
(Decrease) increase in due to the FutureCare Fund	(1,106,274)	3,082,512
(Decrease) increase in due to the Bermuda Health Council	(6,178)	147,891
Increase in due to the Bermuda Hospitals Board	3,350,096	-
Decrease in accounts payable and accrued liabilities	(32,203)	(73,085)
Decrease in provision for claims	-	(2,062,543)
Decrease in IBNR - portability claims	-	(165,600)
	<hr/>	<hr/>
Net cash provided by operating activities	3,419,589	2,825,837
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,419,589	2,825,837
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,224,695	1,398,858
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CASH AND CASH EQUIVALENTS, END OF YEAR	7,644,284	4,224,695
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The accompanying notes are an integral part of these financial statements

MUTUAL RE-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

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 was allocated to the Health Insurance Fund (HIF), the FutureCare Fund (FCF) and the Bermuda Health Council the (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. Effective July 1, 2015, the Health Insurance (Mutual Re-insurance Fund) (Prescribed Sum) Order 2014 was amended to allocate the prescribed sum to the HIF, the FCF, the BHEC and the Bermuda Hospitals Board (BHB), with a percentage remaining in the Fund for operating expenses and the Enhanced Care Pilot (ECP).

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, 2016

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, accounts payable and accrued liabilities, due to the Bermuda Health Council, due to the FutureCare Fund, due to the Health Insurance Fund and due to the Bermuda Hospitals Board. 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 surplus.

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 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, 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 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.

During the year, re-insurance fees of \$2,117,118 (2015 - \$1,085,029), \$2,461,051 (2015 - \$1,240,646) and \$5,182,783 (2015 - \$2,755,176) were recorded from HIF and FCF and GEHI, respectively. As at March 31, 2016, re-insurance fees receivable from HIF, FCF and GEHI amounted to \$nil (2015 - \$nil), \$nil (2015 - \$nil) and \$986,886 (2015 - \$701,837), respectively. The Fund received a Government grant amounting to \$346,543 (2015 - \$484,551) 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 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. Effective July 1, 2015, the sum to be paid was changed to \$18.40 per insured person per month.

The amount due to the HIF as at March 31, 2016 represents the prescribed sum payable.

5. DUE TO THE FUTURECARE FUND

The Fund receives re-insurance fees from 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, 2016 represents the prescribed sum payable.

MUTUAL RE-INSURANCE FUND
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 31, 2016

6. DUE TO THE BERMUDA HOSPITALS BOARD

The Fund is required to remit a prescribed sum to the BHB (as further defined by the Health Insurance (Mutual Re-insurance Fund) (Prescribed Sum) Order 2014. The sum to be paid amounted to \$23.64 per insured person per month effective from July 1, 2015.

The amount due to the BHB as at March 31, 2016 represents prescribed sum payable.

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. Effective July 1, 2015, the sum to be paid was changed to \$1.00 per insured person per month.

The amount due to the BHEC as at March 31, 2016 represents the prescribed sum payable.

8. PROVISION FOR INTERFUND BALANCES

On January 28, 2014 Cabinet approved Interfund write-offs of various expenses between the Consolidated Fund, the HIF, the FCF and the Fund amounting to \$15,664,955. 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, 100% provision was made for these balances. The impact in the statement of operations and accumulated surplus is as follows.

	<u>2016</u>	<u>2015</u>
	\$	\$
Net due to (from) the FutureCare Fund	450,000	(992,255)
Net due to (from) the Health Insurance Fund	<u>1,214,158</u>	<u>(706,484)</u>
	<u>1,664,158</u>	<u>(1,698,739)</u>

9. 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.

MUTUAL RE-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

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, 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	48,190	40,159	-
Information Technology support	1,320	1,320	1,320
	<u>\$408,390</u>	<u>\$97,252</u>	<u>\$5,720</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, 2016.

(a) Credit Risk

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

	<u>2016</u>	<u>2015</u>
	\$	\$
Cash and cash equivalents	7,644,284	4,224,695
Re-insurance fees receivable	3,766,767	2,055,201

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.

MUTUAL RE-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

12. FINANCIAL RISK MANAGEMENT (continued)

(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 and 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, due to the Bermuda Hospitals Board and due to the Bermuda Health Council 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.

MUTUAL RE-INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

12. FINANCIAL RISK MANAGEMENT (continued)

(c) Market Risk (continued)

(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.

13. 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 reinsurance fees. The Fund maintains sufficient liquidity to meet its short-term obligations as they come due. The Fund is not subject to any externally imposed capital requirements.

14. 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 FCF
- \$ 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 Fund for operating expenses.

MUTUAL RE-INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

14. SUBSEQUENT EVENTS (Continued)

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

The Department signed the first Enhanced Care Pilot (ECP) 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:

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

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 FCF while preserving the Health Insurance plan and the FutureCare plan as two distinct plans. The FCF was wound up and the Committee paid any balance standing to the credit of the FCF into the HIF and all the assets and liabilities of the FCF 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 policy holders.