

ST KITTS-NEVIS SOCIAL SECURITY BOARD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2017

ST KITTS-NEVIS SOCIAL SECURITY BOARD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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Chartered Accountants
& business advisers

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF ST KITTS-NEVIS SOCIAL SECURITY BOARD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of St Kitts-Nevis Social Security Board, which comprise the statement of financial position as at 31 December 2017, and the income and expenditure account, statements of other comprehensive income, changes in reserve funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Board as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Board in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those charged with governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF ST KITTS-NEVIS SOCIAL SECURITY BOARD

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PKF

Chartered Accountants:

BASSETERRE - ST KITTS
25 September 2018

PKF


ST KITTS-NEVIS SOCIAL SECURITY BOARD

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017
 (Expressed in Eastern Caribbean Dollars)

| | <u>Notes</u> | <u>2017</u> | <u>2016</u> |
|--|--------------|------------------------|------------------------|
| FUNDS EMPLOYED | | | |
| Social Security Fund | | | |
| - Long Term Benefits Fund | | 1,088,901,284 | 1,063,381,963 |
| - Short Term Benefits Fund | | 131,054,908 | 125,536,251 |
| - Employment Injury Benefits Fund | | 231,865,016 | 217,943,237 |
| National Provident Fund | | | |
| - Members' Account | 3 | 3,647,942 | 3,608,622 |
| - Reserve Fund | 4 | 26,472,729 | 25,699,667 |
| Revaluation Reserve | 5 | <u>30,061,652</u> | <u>16,023,628</u> |
| RESERVE FUNDS (Page 6) | | 1,512,003,531 | 1,452,193,368 |
| STAFF SUPPLEMENTAL BENEFITS RESERVE FUND | 6 | <u>10,429,255</u> | <u>10,949,259</u> |
| TOTAL FUNDS | | <u>\$1,522,432,786</u> | <u>\$1,463,142,627</u> |
| REPRESENTED BY: | | | |
| NON-CURRENT ASSETS | | | |
| Property, Plant and Equipment (Schedule III - Page 11) | 7 | 15,928,599 | 18,689,418 |
| Intangible Assets | 8 | 270,662 | 312,734 |
| Investment Properties | 9 | 137,323,304 | 135,891,770 |
| Other Investments | 9 | <u>1,302,863,898</u> | <u>1,232,446,154</u> |
| TOTAL NON-CURRENT ASSETS | | <u>1,456,386,463</u> | <u>1,387,340,076</u> |
| CURRENT ASSETS | | | |
| Cash at Bank and in Hand | 10 | 23,644,044 | 30,257,122 |
| Accrued Interest Receivable | 11 | 21,426,855 | 25,086,981 |
| Accounts Receivable and Prepayments | 12 | <u>28,597,286</u> | <u>28,486,238</u> |
| TOTAL CURRENT ASSETS | | <u>73,668,185</u> | <u>83,830,341</u> |
| LESS: CURRENT LIABILITIES | | | |
| Accounts Payable | | 864,359 | 724,201 |
| Sundry Creditors and Accruals | 15 | <u>6,757,503</u> | <u>7,303,589</u> |
| | | <u>7,621,862</u> | <u>8,027,790</u> |
| NET CURRENT ASSETS | | <u>66,046,323</u> | <u>75,802,551</u> |
| TOTAL NET ASSETS | | <u>\$1,522,432,786</u> | <u>\$1,463,142,627</u> |

The attached Notes form an integral part of these Financial Statements.

Approved by the Board of Directors on


 Oscar Walters - Chairman

25-9-18


 for Elvin Bailey - Acting Director

ST KITTS-NEVIS SOCIAL SECURITY BOARD
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017
(Expressed in Eastern Caribbean Dollars)

| | -----Social Security Fund ----- | National Provident Fund | Total 2017 | Total 2016 |
|--|---------------------------------|-------------------------|---------------------|---------------------|
| | Long Term | Short Term | Injury | |
| INCOME (Note 14) | | | | |
| Contributions | 68,908,382 | 17,225,700 | 8,612,850 | 94,746,932 |
| Investments | 36,710,320 | 4,333,792 | 7,523,888 | 49,442,929 |
| CLICO Judgement Debt Settlement (Note 11 - Page 30) | - | - | - | - |
| Other | 412,956 | 179,188 | 140,226 | 732,370 |
| TOTAL INCOME | <u>106,031,658</u> | <u>21,738,680</u> | <u>16,276,964</u> | <u>144,922,231</u> |
| EXPENDITURE (Note 14 - Page 33) | | | | |
| Benefits (Schedule I - Page 9) | 68,635,412 | 13,561,539 | 1,483,375 | 83,680,326 |
| Administration Expenses (Schedule II - Page 10) | 10,932,797 | 2,447,153 | 802,508 | 14,195,460 |
| Loss on Revaluation of Land and Buildings (Note 9 - Page 27) | 1,010,253 | 226,132 | 74,156 | 1,310,541 |
| Provision for Impairment of Debt (Net of Recovery) (Note 12 - Page 31) | (66,125) | (14,801) | (4,854) | (85,780) |
| Provision for Impairment - Statutory Corporations (Note 9 - Page 25) | - | - | - | - |
| Total Administration and Other Expenses (Schedule II-Page 10) | <u>11,876,925</u> | <u>2,658,484</u> | <u>871,810</u> | <u>15,420,221</u> |
| TOTAL EXPENDITURE | <u>80,512,337</u> | <u>16,220,023</u> | <u>2,355,185</u> | <u>99,100,547</u> |
| NET SURPLUS FOR THE YEAR (Note 13 - Page 32) | <u>\$25,519,321</u> | <u>\$5,518,657</u> | <u>\$13,921,779</u> | <u>\$45,821,684</u> |

(Page 5)

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
 (Expressed in Eastern Caribbean Dollars)

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Net Surplus for the Year (Page 4) (Note 13) | 45,821,684 | 55,409,407 |
| Other Comprehensive Income: | | |
| Unrealised Holding Gain – Investments (Notes 2 (e)(i) & 5) | 14,224,666 | 2,229,816 |
| Revaluation Surplus Credited to Income (Page 6 & Note 7 – Page 22) | (186,642) | - |
| Bonus Shares Received | - | <u>990,000</u> |
| Total Comprehensive Income for the Year (Page 6) | <u>\$59,859,708</u> | <u>\$58,629,223</u> |

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

STATEMENT OF CHANGES IN RESERVE FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Expressed in Eastern Caribbean Dollars)

| | -----Social Security Fund ----- | Injury Benefits Fund | National Provident Fund Members' Account | Reserve Fund | Revaluation Reserve | Unrealised Holding Gain/(Loss) | Capital Reserve | Total |
|--|---------------------------------|--------------------------|--|---------------------|---------------------|--------------------------------|---------------------|------------------------|
| | Long Term Benefits Fund | Short Term Benefits Fund | | | | | | |
| Balance as at 31 December 2015 | | | | | | | | |
| - As previously reported | 1,029,166,798 | 120,076,799 | 202,980,969 | 24,742,910 | 2,381,102 | 1,272,131 | 10,200,705 | 1,394,370,972 |
| - Prior Year Adjustment | <u>186,414</u> | <u>28,417</u> | <u>25,295</u> | - | <u>(1,050,126)</u> | - | - | <u>(810,000)</u> |
| - As restated | 1,029,353,212 | 120,105,216 | 203,006,264 | 24,742,910 | 1,330,976 | 1,272,131 | 10,200,705 | 1,393,560,972 |
| NPF Treasury Balance Transferred to Reserve | - | - | - | 32,197 | - | - | - | 32,197 |
| Net Refund to NPF Members | - | - | - | (29,024) | - | - | - | (29,024) |
| Total Comprehensive Income (Page 5) | <u>34,028,751</u> | <u>5,431,035</u> | <u>14,936,973</u> | <u>924,560</u> | - | <u>2,229,816</u> | <u>990,000</u> | <u>58,629,223</u> |
| Balance at 31 December 2016 (Page 3) | <u>\$1,063,381,963</u> | <u>\$125,536,251</u> | <u>\$217,943,237</u> | <u>\$25,699,667</u> | <u>\$1,330,976</u> | <u>\$3,501,947</u> | <u>\$11,190,705</u> | <u>\$1,452,193,368</u> |
| Balance at 31 December 2016 | 1,063,381,963 | 125,536,251 | 217,943,237 | 25,699,667 | 1,330,976 | 3,501,947 | 11,190,705 | 1,452,193,368 |
| Revaluation Surplus transferred to Income (Page 5) | - | - | - | - | (186,642) | - | - | (186,642) |
| Refund to NPF Members (Note 3 – Page 18) | - | - | - | (49,545) | - | - | - | (49,545) |
| Total Comprehensive Income - (Page 5) | <u>25,519,321</u> | <u>5,518,657</u> | <u>13,921,779</u> | <u>773,062</u> | - | <u>14,224,666</u> | - | <u>60,046,350</u> |
| Balance at 31 December 2017 (Page 3) | <u>\$1,088,901,284</u> | <u>\$131,054,908</u> | <u>\$231,865,016</u> | <u>\$26,472,729</u> | <u>\$1,144,334</u> | <u>\$17,726,613</u> | <u>\$11,190,705</u> | <u>\$1,512,003,531</u> |

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARDSTAFF SUPPLEMENTAL BENEFITS RESERVE
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017
(Expressed in Eastern Caribbean Dollars)

| | <u>2017</u> | <u>2016</u> |
|---|--------------------|------------------|
| INCOME | | |
| Contributions | 625,479 | 635,130 |
| Investments | <u>351,108</u> | <u>416,765</u> |
| | <u>976,587</u> | <u>1,051,895</u> |
| EXPENDITURE | | |
| Benefits (Schedule I - Page 9) | 1,480,564 | 675,692 |
| Administration Expense: | | |
| Actual | 5,527 | 38,224 |
| Allocated (Schedule II – Page 10) | <u>10,500</u> | <u>10,500</u> |
| | <u>1,496,591</u> | <u>724,416</u> |
| NET (DEFICIT)/SURPLUS FOR THE YEAR (Note 6 - Page 20) | <u>\$(520,004)</u> | <u>\$327,479</u> |

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Expressed in Eastern Caribbean Dollars)

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Cash provided by operating activities: | | |
| Net surplus for the year | | |
| - SSF and NPF (Page 4) | 45,821,684 | 55,409,407 |
| - SSBP (Page 7) | (520,004) | 327,479 |
| Add non-cash items | | |
| Depreciation and Amortisation (Notes 7 & 8 - Pages 21 & 23) | 1,218,043 | 1,185,717 |
| Loss/(Gain) on disposal of property, plant and equipment | 12,917 | (1,858) |
| Surplus on Revaluation credited to Income re Chapel Street | (186,642) | - |
| | 46,345,998 | 56,920,745 |
| Non-cash working capital change | | |
| Accrued interest receivable | 3,660,126 | 2,827,655 |
| Accounts receivable and prepaid expenses | (111,048) | 8,258,931 |
| Accounts payable | 140,158 | 254,358 |
| Sundry creditors and accruals | (546,086) | (133,096) |
| Cash provided by operating activities | <u>49,489,148</u> | <u>68,128,593</u> |
| Cash flows from investing activities | | |
| Net increase in investments | (55,706,034) | (51,745,366) |
| Purchase of property, plant and equipment | (295,708) | (992,645) |
| Proceeds from disposal of property, plant and equipment | 13,700 | 2,214 |
| Refund to NPF Members | (49,545) | (29,024) |
| Purchase of intangible assets | (64,639) | (115,116) |
| Cash used in investing activities | <u>(56,102,226)</u> | <u>(52,879,937)</u> |
| (Decrease)/Increase in cash for the year | (6,613,078) | 15,248,656 |
| Cash at beginning of year | <u>30,257,122</u> | <u>15,008,466</u> |
| Cash at end of year | <u>\$23,644,044</u> | <u>\$30,257,122</u> |
| Cash at bank and in hand (Page 3) | <u>\$23,644,044</u> | <u>\$30,257,122</u> |

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

BENEFITS PAID
FOR THE YEAR ENDED 31 DECEMBER 2017
 (Expressed in Eastern Caribbean Dollars)

SCHEDULE I

| | <u>2</u> | <u>0</u> | <u>1</u> | <u>7</u> | <u>2</u> | <u>0</u> | <u>1</u> | <u>6</u> |
|------------------------------------|---------------------|----------|---------------------|----------|---------------------|----------|---------------------|----------|
| a) Social Security Fund: | Number of Claims | | \$ | | Number of Claims | | \$ | |
| <u>Long Term Benefits</u> | | | | | | | | |
| Elderly Entrant Refund | 19 | | 5,825 | | 14 | | 5,911 | |
| Survivors Pension | 1,095 | | 3,678,881 | | 1,080 | | 3,470,707 | |
| Invalidity | 359 | | 3,731,870 | | 343 | | 3,655,972 | |
| Age Pension | 3,854 | | 58,595,170 | | 3,474 | | 51,443,802 | |
| Age Grant | <u>187</u> | | <u>1,318,720</u> | | <u>159</u> | | <u>1,254,062</u> | |
| | <u>5,514</u> | | <u>67,330,466</u> | | <u>5,070</u> | | <u>59,830,454</u> | |
| Assistance Pension (Age) | 286 | | 881,105 | | 301 | | 928,513 | |
| Assistance Pension (Invalidity) | <u>139</u> | | <u>423,841</u> | | <u>148</u> | | <u>421,693</u> | |
| | <u>425</u> | | <u>1,304,946</u> | | <u>449</u> | | <u>1,350,206</u> | |
| Sub-Total (Page 4) | <u>5,939</u> | | <u>68,635,412</u> | | <u>5,519</u> | | <u>61,180,660</u> | |
| <u>Short Term Benefits</u> | | | | | | | | |
| Sickness | 13,163 | | 10,051,774 | | 11,902 | | 9,127,818 | |
| Funeral | 271 | | 657,269 | | 305 | | 724,814 | |
| Maternity Allowance | 529 | | 2,604,546 | | 481 | | 2,327,842 | |
| Maternity Grant | <u>542</u> | | <u>247,950</u> | | <u>492</u> | | <u>223,650</u> | |
| Sub-Total (Page 4) | <u>14,505</u> | | <u>13,561,539</u> | | <u>13,180</u> | | <u>12,404,124</u> | |
| <u>Employment Injury</u> | | | | | | | | |
| Injury | 462 | | 510,876 | | 524 | | 724,405 | |
| Travelling Expenses | 5 | | 8,548 | | 8 | | 9,814 | |
| Medical Care Expenses | 199 | | 123,280 | | 234 | | 135,773 | |
| Death Benefits | 23 | | 184,963 | | 23 | | 188,431 | |
| Constant Care | 2 | | 27,235 | | 2 | | 27,235 | |
| Disablement - Pension | 66 | | 596,456 | | 62 | | 528,009 | |
| Disablement - Grant | <u>1</u> | | <u>32,017</u> | | <u>2</u> | | <u>26,471</u> | |
| Sub-Total (Page 4) | <u>758</u> | | <u>1,483,375</u> | | <u>855</u> | | <u>1,640,138</u> | |
| TOTAL (Page 4) | <u>21,202</u> | | <u>\$83,680,326</u> | | <u>19,554</u> | | <u>\$75,224,922</u> | |
| b) Staff Supplemental Benefits: | | | | | | | | |
| Refunds | 6 | | 1,479,867 | | 5 | | 674,995 | |
| Pension | <u>1</u> | | <u>697</u> | | <u>1</u> | | <u>697</u> | |
| Sub-Total (Page 7) | <u>7</u> | | <u>1,480,564</u> | | <u>6</u> | | <u>675,692</u> | |
| GRAND TOTAL BENEFITS PAID | <u>21,209</u> | | <u>\$85,160,890</u> | | <u>19,560</u> | | <u>\$75,900,614</u> | |

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

ADMINISTRATION AND OTHER EXPENSES
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

SCHEDULE II

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| <u>ADMINISTRATION EXPENSES</u> | | |
| Advertising and Publicity | 108,368 | 155,547 |
| Bad Debt Written Off | - | 2,000 |
| Donations | 61,016 | 31,550 |
| Anniversary Expenses | 8,820 | 16,947 |
| Audit Fees and Expenses | 200,000 | 291,888 |
| Bank Charges and Interest | 12,213 | 15,348 |
| Books, Periodicals, etc | 1,407 | 2,579 |
| Cleaning Expenses | 16,871 | 15,593 |
| Commission | 1,000 | 10,868 |
| Committee Expenses | 31,665 | 49,601 |
| Contribution for National Projects | 78,701 | 138,567 |
| Depreciation and Amortisation (Notes 2(c) & 2(d)) | 1,218,043 | 1,185,717 |
| Electricity | 598,473 | 576,735 |
| Hospitality | 77,977 | 92,892 |
| Insurances | 670,477 | 572,206 |
| Land and House Tax | 2,710 | 3,434 |
| Other Professional Fees | 45,700 | 161,088 |
| Maintenance of Computer System | 224,933 | 230,956 |
| Maintenance of Premises | 142,840 | 157,038 |
| Medical Expenses | 16,608 | 4,534 |
| Members of Social Security Board - Allowance and Other Expenses | 305,471 | 212,468 |
| Motor Vehicle Expenses | 43,026 | 83,466 |
| Postages, Telephone and Telegraph | 297,123 | 263,430 |
| Repairs, Maintenance and Related Minor Purchases | 107,590 | 111,762 |
| Rental | 700 | 200 |
| Salaries and Allowances | 7,955,443 | 8,152,271 |
| Scholarships | 219,625 | 109,292 |
| Security Services | 25,187 | 55,742 |
| Social Security, Social Services, etc | 677,550 | 686,130 |
| Staff Pension | 310,561 | 317,565 |
| Stationery, Printing and Office Expenses | 306,831 | 317,109 |
| Subscriptions | 71,514 | 84,601 |
| Training Seminars and Conferences | 365,042 | 235,117 |
| Travelling and Subsistence | 31,440 | 51,290 |
| Uniforms | 124,941 | 5,316 |
| Wages - Other Employees | 312,881 | 311,657 |
| Less: Recovery from Comptroller of Inland Revenue, Labour Commissioner and Treasurer Nevis Island Administration | (562,602) | (590,816) |
| Maintenance Equipment Written Off | <u>95,815</u> | <u>-</u> |
| TOTAL ADMINISTRATION EXPENSES | <u>14,205,960</u> | <u>14,121,688</u> |
| <u>OTHER EXPENSES</u> | | |
| Loss on Revaluation of lands and buildings (Note 9 – Page 27) | 1,310,541 | 1,878,221 |
| Provision for Impairment of Debt Net of Recovery (Note 12 – Page 31) | (85,780) | 7,755,895 |
| Provision for Impairment – Statutory Corporations (Note 9 – Page 26) | - | <u>6,263,145</u> |
| TOTAL OTHER EXPENSES | <u>1,224,761</u> | <u>15,897,261</u> |
| TOTAL ADMINISTRATION AND OTHER EXPENSES | <u>\$15,430,721</u> | <u>\$30,018,949</u> |
| Allocated as follows: | | |
| - Long Term Benefits Fund (Page 4) | 11,876,925 | 22,960,687 |
| - Short Term Benefits Fund (Page 4) | 2,658,484 | 5,228,166 |
| - Injury (Page 4) | 871,810 | 1,806,594 |
| - National Provident Fund (Page 4) | <u>13,002</u> | <u>13,002</u> |
| Sub-total (Page 4) | 15,420,221 | 30,008,449 |
| - Staff Supplemental Benefits Reserve Fund (Page 7) | <u>10,500</u> | <u>10,500</u> |
| TOTAL (As Above) | <u>\$15,430,721</u> | <u>\$30,018,949</u> |

The attached Notes form an integral part of these Financial Statements.

ST. KITTS-NEVIS SOCIAL SECURITY BOARD

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED 31 DECEMBER 2017
 (Expressed in Eastern Caribbean Dollars)

SCHEDULE III

| Item | GROSS CARRYING AMOUNTS | | | D E P R E C I A T I O N | | | NET CARRYING AMOUNTS | | |
|--|------------------------|---------------------------|--------------------|-------------------------|---------------|----------------------------|----------------------|-------------|------------------|
| | 31/12/16 | Additions/ (Disposals) | Reclassification | 31/12/17 | 31/12/16 | Charge/ (Disposals) | Reclassification | 31/12/17 | 31/12/16 |
| Freehold Properties | | | | | | | | | |
| - Liverpool Row Property St. Kitts - Land at Valuation | 500,000 | - | - | 500,000 | - | - | - | - | 500,000 |
| - E St. John Payne Annex Building - At Valuation | 7,750,000 | - | - | 7,750,000 | 193,750 | 193,750 | - | 387,500 | 7,556,250 |
| - Bay Road St Kitts - Land | 1,427,637 | - | - | 1,427,637 | - | - | - | - | 1,427,637 |
| - Bay Road St Kitts Building - At Valuation | 5,014,593 | - | - | 5,014,593 | 124,809 | 125,365 | - | 250,174 | 4,889,784 |
| - Chapel Street Nevis - Land | 357,500 | - | (357,500) | - | - | - | - | - | 357,500 |
| - Chapel Street Nevis - Building | <u>1,632,500</u> | - | <u>(1,632,500)</u> | - | <u>40,813</u> | <u>30,609</u> | <u>(71,422)</u> | - | <u>1,591,687</u> |
| Furniture and Equipment - At Cost | 16,682,230 | - | (1,990,000) | 14,692,230 | 359,372 | 349,724 | (71,422) | 637,674 | 14,054,556 |
| Computer Equipment - At Cost | 3,824,681 | 129,274 (73,297) | - | 3,880,658 | 2,208,474 | 481,485 (54,790) | - | 2,635,169 | 1,245,489 |
| Motor Vehicles - At Cost | 1,296,344 | 81,434 (29,449) | - | 1,348,329 | 928,867 | 113,494 (26,339) | - | 1,016,022 | 332,307 |
| TOTAL | \$22,722,000 | \$295,708 \$(175,846) | \$(1,990,000) | \$20,851,862 | \$4,032,582 | \$1,111,332 \$(149,229) | \$(71,422) | \$4,923,263 | \$15,928,599 |

(Page 3 and note 7 - Page 21)

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

1 ESTABLISHMENT OF FUND

- Social Security Act 1977:

The Social Security Fund was established by The Social Security Act No 13 of 1977 on 29 December 1977. The Act repealed the National Provident Fund Act and established a system of Social Security providing pecuniary payments by way of various benefits to insured persons and social assistance by way of non-contributory old age pensions to insured and other persons not qualifying for benefits and for connected purposes. The Fund came into operation on 1 February 1978.

The Social Security Board ("Board") was established as a corporate body by The Act and is domiciled in the Federation of St Kitts and Nevis. The principal place of business is Bay Road, Basseterre, St Kitts.

- Transfer of National Provident Fund Assets and Liabilities:

According to the provisions of Section 55 (1) and (2) of the Social Security Act No 13 of 1977, on the appointed date (1 February 1978), all assets and liabilities of the National Provident Fund shall become assets and liabilities of the Social Security Fund - that is to say:

- a) All sums standing to the credit of and accruing to other assets of the National Provident Fund;
- b) All assets of the body charged with the administration of the provisions of the National Provident Fund;
- c) Any liabilities accrued on or accruing after the appointed day to which the assets mentioned in (a) and (b) above would have been applicable but for this Act shall be liabilities of the Social Security Fund.

- Actuarial Review of the Fund:

Section 39 (1) of the Social Security Act 1977 (as amended) makes provision for an actuarial review of the operation of the Fund during the period ended 31 December 1980 and thereafter during the period ending 31 December in every third year.

The eleventh actuarial review of the Social Security Board was carried out in December 2015 by the actuarial firm, Morneau Shepell, which was privately engaged to conduct the review for the period 2012 to 2014. The report, which was submitted in 2016, stated that the Fund was financially and actuarially sound. A net surplus was recorded in each year of operation. The twelfth actuarial review for the period 2015 to 2017 is currently in progress and is being carried out by the actuarial firm Morneau Shepell.

ST KITTS-NEVIS SOCIAL SECURITY BOARDNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES

a) Basis of Accounting:

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost basis of accounting except for the revaluation of certain property, plant and equipment and available-for-sale investments.

The accounting policies which are followed are set out below.

The accounting policies adopted are consistent with those of the previous year including the adoption of the new and amended IAS, IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations:

New and Amended Standards and Interpretations in effect and applicable

IAS 7 – Statement of Cash Flows – clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Applicable to annual periods beginning on or after 1 January 2017.

Adoption of this standard and interpretation did not have any effect on the performance of the Board.

New and Amended Standards and Interpretations in issue but not yet effective and not early adopted.

IFRS 9 Financial Instruments (2014) - effective 1 January 2018

IFRS 15 Revenue from Contracts with Customers - effective 1 January 2018

IFRS 16 Leases - effective 1 January 2019

IFRIC 22 Foreign Currency Transactions and Advance Consideration – effective 1 January 2018

IAS 40 Investment Property – effective 1 January 2018

Annual Improvements to IFRS Standards 2015-2017 Cycle – Amends IAS 23 – Effective 1 January 2019

Assessment is being made of the potential impact of these new standards and amendments.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

b) Foreign Currencies:

All amounts are stated in Eastern Caribbean Dollars, which is the Board's functional currency. During the year, transactions involving foreign currencies are converted into Eastern Caribbean Dollars at the exchange rates prevailing at the dates of the transactions.

Assets and liabilities in foreign currencies are translated at the exchange rates prevailing at the year end. Exchange gains or losses arising therefrom are accounted for in the Income and Expenditure Account.

c) Property, Plant and Equipment and Depreciation:

Property, plant and equipment are stated at cost and valuation. Provision for depreciation is calculated on the straight line basis at rates estimated to write off the assets over their expected useful lives.

Depreciation rates are as follows:

| | |
|---|---------------|
| Buildings (Non residential real estate) | 2.5% to 3.34% |
| Buildings (Rental Property) | 3.34% |
| Furniture | 15% |
| Computer System and Equipment | 20% |
| Motor Vehicles | 20% |

Freehold Property

Land and buildings are measured at fair value less depreciation. Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses. Subsequent additions are at cost. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's length transaction at valuation date.

A gain on revaluation is first credited to the Income and Expenditure Account to the extent that the gain reverses a loss on the asset that was previously recognized as an expense in the Income and Expenditure Account. Any revaluation surplus is credited to the asset revaluation reserve included in the Reserve Funds section of the statement of financial position. Any revaluation deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. Losses on revaluation for which there was no prior surplus are charged to the Income and Expenditure Account. Upon disposal of revalued assets, the Board has elected to transfer in full, the revaluation reserve relating to the particular asset being sold to the respective reserve accounts.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income and expenditure account in the year the item is derecognized.

Revaluation

The Board revalued all its land and buildings as at 13 June 2016. As there were no significant improvements to the buildings or properties from 31 December 2015 to the date of valuation with the exception of Pinneys Building, the Board of Directors decided to adopt these values at 31 December 2015. Depreciation is charged at the rate of 2.5%.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

d) Intangible Assets:

Acquired computer software licences, upgrades to software and related costs that are expected to contribute to the future economic benefit of the Board are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives at a rate of 20% per annum.

Costs associated with maintaining computer software programmes are recognized as an expense when incurred.

e) Investments: Classification, Recognition, Subsequent Measurements and Derecognition:

Investments are classified in the following four categories: Available-for-Sale, Held-to-maturity, Loans Receivable and Investment Property. The classification depends on the purpose for which the assets were acquired and the Board determines the classification at initial recognition.

(i) Available-for-sale Investments - Debt and Equity:

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; they are initially recognised at cost. After initial recognition, all available-for-sale investments are measured at their fair values based on market quoted prices where available with gains and losses on remeasurement recognised directly in the Revaluation Reserve until sold, collected or otherwise disposed of, at which time the cumulative gain or loss previously recognized in equity is included in the Income and Expenditure Account. Fair Values for unlisted securities are at cost less provision for diminution in value.

(ii) Held-to-Maturity Investments:

Investments classified as held-to-maturity are measured at cost less provision for diminution in value.

(iii) Loans Receivable:

Where the Board creates financial assets by providing money directly to a debtor, these assets are classified as loans and are measured at amortised cost less provisions for impairment except for staff loans which are reported at cost. For delinquent mortgages, specific provisions are established based on the extent of delinquency of the mortgages.

(iv) Investment Properties:

Investment properties include lands and land developments which are held to earn rental and other income, for capital appreciation or for both. A property that is both rented and owner-occupied but cannot be sold or rented separately under a financial lease is classified as investment property if an insignificant portion of the property is exclusively used to conduct the business of the Board.

Investment properties are measured at fair value.

Investments are primarily derecognised when:

- the rights to receive cash flows from the assets have expired;
- the Board has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the cash flows in full without material delay to a third party.

ST KITTS-NEVIS SOCIAL SECURITY BOARDNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)
(Continued)

2 ACCOUNTING POLICIES (cont'd)

f) Accounts Receivable:

Accounts receivable are recognised and carried at original invoice amounts less an allowance for any uncollectible amounts. Provisions are made specifically for any debts considered to be doubtful. Known bad debts are written off. Due to their short-term nature, the carrying value of accounts receivable, net of provision for impairment, approximates their fair value.

g) Accrued Interest Receivable:

Interest on interest-bearing investments is accrued from the date of the last payment on the investments to 31 December 2017, at the rates quoted for the period of the investments.

h) Revenue and Expenses:

Contributions are accounted for when actually received and paid. Other revenues and expenses are accounted for on the accrual basis of accounting except for dividends on equities which are accounted for on a cash basis.

Investment Income on the overseas Investment Portfolio is shown net of Management Fees which is charged against the Investment Income earned on the Portfolio.

i) Staff Supplemental Benefits Plan:

Effective February 1, 1998 the Board approved a Staff Supplemental Benefits Plan to be managed by the Social Security Board. Contributions to the Plan would represent 9% of salaries to be shared equally between the Board and Staff Members.

j) Trade Creditors and Accruals

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Board.

A financial liability is derecognised when the obligation is discharged, cancelled or has expired.

k) Provisions

Provisions are recognised when the Board has a present obligation (legal or constructive) as a result of a past event where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

l) Critical accounting estimates and judgement:

Use of Estimates:

The preparation of these Financial Statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Board's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed below:

i) Impairment of Financial Assets:

Unquoted available-for-sale debt securities, loans or receivables are considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected.

This determination is made after considering the payment history of the borrower, the discounted value of collateral, guarantees, and the financial condition and financial viability of the borrower.

An unquoted available-for-sale equity investment is considered impaired when there is a significant or prolonged decline in the fair value below cost. Determination of what is significant or prolonged requires judgement which includes consideration of the volatility of the fair value, and the financial condition and viability of the investee. These investments continue to be carried at cost less provision for impairment as no active market exists.

ii) Fair Value of Financial Assets:

Fair value measurement of financial assets:

A number of assets included in the Board's financial statements require measurement at, and /or disclosure of, fair value. Fair value measurement of the Board's financial and non-financial assets utilizes market observable inputs and data as far as possible.

Inputs used in determining fair value measurement are categorized into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1 – quoted prices in active markets for identical assets that the entity can access at the measurement date
- Level 2 – inputs other than quoted market price are included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 – unobservable inputs for the asset

The Board measures the following at fair value:

- Revalued land and buildings – property, plant and equipment (See note 7 – Page 22)
- Investment property (See note 9 – Page 27)
- Quoted and unquoted investments

iii) Depreciation of property, plant and equipment:

The Board estimates the useful lives and residual values of property, plant and equipment based on the intended use of these assets, the periodic review of actual assets and the resulting depreciation determined thereon.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)
(Continued)

2 ACCOUNTING POLICIES (cont'd)

m) Current versus Non-Current Distinction

The Board presents assets and liabilities in the statement of financial position based on current/non-current classifications. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in a normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in a normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Board classifies all other liabilities as non-current.

3 NATIONAL PROVIDENT FUND - MEMBERS' ACCOUNT

During the year under review, the Social Security Fund repaid a total amount of \$50,636 to 31 members of the National Provident Fund (2016 = \$29,345 to 25 members) (See Page 6). The repayment represents members' claims against the Fund up to the date of settlement of their balances.

Summary of Member Account Movement 2017

| | <u>Amount</u> | <u>No of Members</u> |
|--|--------------------|----------------------|
| Opening Balance 2017 | 3,608,622 | 4,453 |
| Amounts Paid During 2017: | | |
| Age Refunds | (49,564) | (30) |
| Other Refunds | <u>(1,072)</u> | (1) |
| Unclaimed Payments added back | 1,091 | 2 |
| Interest Posted to Members' Account (Note 4) | <u>88,865</u> | - |
| Closing Balance 2017 (Page 3) | <u>\$3,647,942</u> | <u>4,424</u> |

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

4 NATIONAL PROVIDENT FUND - RESERVE FUND

Section 26 (1) of The National Provident Fund Act, 1968 states that:

"There shall be a Reserve Fund of the National Provident Fund to be known as the National Provident Reserve Fund, hereinafter in this Act referred to as "the Reserve Fund", and into which shall be paid -

- a) all fines and penalties collected under this Act;
- b) contributions by employers or workers which for any reason may not be allocated to individual accounts in the Fund; and
- c) any other moneys authorised to be so paid under this Act or any Regulations made thereunder".

The sum of \$32,197 representing National Provident Fund Treasury balance was carried to the Reserve Fund in the previous year.

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Opening Balance, January 2017 | 25,699,667 | 24,742,910 |
| Redistribution to Reserve | - | 32,197 |
| | 25,699,667 | 24,775,107 |
| Investment Income (Page 4) | 874,929 | 1,025,650 |
| Interest distributed to members' account (Note 3) | (88,865) | (88,088) |
| Administration Expense (Page 4) | (13,002) | (13,002) |
| Closing Balance, December 2017 (Page 3) | <u>\$26,472,729</u> | <u>\$25,699,667</u> |

5 REVALUATION RESERVE

The revaluation reserve reflects gains on revaluation of freehold properties and available-for-sale investments as follows:

| | <u>Freehold</u> <u>Properties</u> | <u>Available-for-</u> <u>Sale Investments</u> | <u>Bonus</u> <u>Shares</u> | <u>Total</u> <u>2017</u> | <u>Total</u> <u>2016</u> |
|---|--------------------------------------|--|-------------------------------|-----------------------------|-----------------------------|
| Balance as at 01 January 2017 | 1,330,976 | 3,501,947 | 11,190,705 | 16,023,628 | 13,853,938 |
| Unrealised Holding Gain | - | 14,224,666 | - | 14,224,666 | 2,229,816 |
| Adjustment in Reserve due to reclassification | (186,642) | - | - | (186,642) | (1,050,126) |
| Bonus Shares – S L Horsford | - | - | - | - | 990,000 |
| Balance as at 31 December 2017 | <u>\$1,144,334</u> | <u>\$17,726,613</u> | <u>\$11,190,705</u> | <u>\$30,061,652</u> | <u>\$16,023,628</u> |

(Page 3)

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)
(Continued)

| | | | |
|---|--|---------------------|---------------------|
| 6 | STAFF SUPPLEMENTAL BENEFITS RESERVE FUND | <u>2017</u> | <u>2016</u> |
| | BALANCE - At Beginning of Year | 10,949,259 | 10,621,780 |
| | Net (Deficit)/ Surplus for the Year (Page 7) | <u>(520,004)</u> | <u>327,479</u> |
| | BALANCE - At End of Year (Page 3) | <u>\$10,429,255</u> | <u>\$10,949,259</u> |

The Social Security Board operates a defined benefit pension scheme. The effective date of the Staff Supplemental Benefit Plan (SSBP) which provides coverage for substantially all full-time employees was February 1998. In accordance with SRO No. 27 of 2003, SSBP reserve is constituted by transferring every year the excess of income over expenditure to the branch. Actuarial valuation of the SSBP which is to be done every three years was done by independent and qualified actuarial and financial consultants, Horizonow in 2014 in respect of the fund as at 31 December 2013 using the projected Unit Credit Method. The actuarial valuation in respect of the funds as at 31 December 2017 is currently in progress.

The SSBP was valued in accordance with IAS 19. It was assumed that IAS 19 was adopted on 1st January 2012. The full value of the obligation was assumed to be established on this day. Assets held in the name of the SSBP are not segregated but instead form part of the reserves of the Social Security Fund. For the purpose of IAS disclosure, therefore, SSBP is assumed to have no assets. The present value of the obligation for benefits was \$6,529,956 at 31 December 2013. Net assets available for benefits at 31 December 2017 was \$10,429,255 (2016 = \$10,949,259).

The Social Security Board has decided to move to a defined contribution plan and to have the assets of the SSBP separated from Social Security Fund and the necessary measures are being put in place to give effect to this.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

7 PROPERTY, PLANT AND EQUIPMENT

| | <u>Land & Buildings at At Fair Value</u> | <u>Furniture & Equipment At Cost</u> | <u>Computer Equipment At Cost</u> | <u>Motor Vehicles At Cost</u> | <u>Total</u> |
|------------------------------------|--|--|---|---------------------------------------|----------------------------|
| Year Ended 31 December 2017 | | | | | |
| Gross Carrying Amounts | | | | | |
| Balance at 1 January 2017 | 16,682,230 | 3,824,681 | 1,296,344 | 918,745 | 22,722,000 |
| Additions | - | 129,274 | 81,434 | 85,000 | 295,708 |
| Disposals | - | (73,297) | (29,449) | (73,100) | (175,846) |
| Reclassification | (1,990,000) | - | - | - | (1,990,000) |
| Balance at 31 December 2017 | <u>14,692,230</u> | <u>3,880,658</u> | <u>1,348,329</u> | <u>930,645</u> | <u>20,851,862</u> |
| Accumulated Depreciation | | | | | |
| Balance at 1 January 2017 | (359,372) | (2,208,474) | (928,867) | (535,869) | (4,032,582) |
| Additions | (349,724) | (481,485) | (113,494) | (166,629) | (1,111,332) |
| Disposals | - | 54,790 | 26,339 | 68,100 | 149,229 |
| Reclassification | <u>71,422</u> | - | - | - | <u>71,422</u> |
| Balance at 31 December 2017 | <u>(637,674)</u> | <u>(2,635,169)</u> | <u>(1,016,022)</u> | <u>(634,398)</u> | <u>(4,923,263)</u> |
| Net Carrying Amounts 2017 | <u>\$14,054,556</u> | <u>\$1,245,489</u> | <u>\$332,307</u> | <u>\$296,247</u> | <u>\$15,928,599</u> |
| | | | | | (Pages 3 & 11) |
| Year Ended 31 December 2016 | | | | | |
| Gross Carrying Amounts | | | | | |
| Balance at 1 January 2016 | 35,960,000 | 3,128,462 | 1,028,420 | 918,745 | 41,035,627 |
| Additions | 22,230 | 702,491 | 267,924 | - | 992,645 |
| Disposals | - | (6,272) | - | - | (6,272) |
| Reclassification | (19,300,000) | - | - | - | (19,300,000) |
| Balance at 31 December 2016 | <u>16,682,230</u> | <u>3,824,681</u> | <u>1,296,344</u> | <u>918,745</u> | <u>22,722,000</u> |
| Accumulated Depreciation | | | | | |
| Balance at 1 January 2016 | - | (1,763,321) | (821,932) | (375,740) | (2,960,993) |
| Additions | (359,372) | (451,073) | (106,935) | (160,129) | (1,077,509) |
| Disposals | - | <u>5,920</u> | - | - | <u>5,920</u> |
| Balance at 31 December 2016 | <u>(359,372)</u> | <u>(2,208,474)</u> | <u>(928,867)</u> | <u>(535,869)</u> | <u>(4,032,582)</u> |
| Net Carrying Amounts 2016 | <u>\$16,322,858</u> | <u>\$1,616,207</u> | <u>\$367,477</u> | <u>\$382,876</u> | <u>\$18,689,418</u> |
| | | | | | (Pages 3 & 11) |

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)
(Continued)

7 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Fair Value of Land and Buildings

Fair value of the Board's land and buildings was determined based on appraisals performed by an independent, professionally-qualified valuer, to determine the value of the land and buildings as at 31 December 2015. The valuation reports were completed as at 13 June 2016. There were no significant improvements to the buildings or properties from 31 December 2015 to the date of valuation.

The valuation was carried out using a market based approach which reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question including location, current condition and use, and the square footage. In some cases different approaches were used and comparison made between the results in arriving at the final value. The valuation processes and the fair value changes were reviewed by the Board of Directors who decided to adopt these values as at 31 December 2015. This valuation placed these assets in level 2 within the financial hierarchy (see note 19 (c) – Page 36).

In the opinion of the Directors, there have been no significant changes in market values of Properties at 31 December 2017. Therefore the current year's carrying amounts represent fair values.

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|--------------|--------------|
| Land and Buildings at valuation | \$14,054,556 | \$16,322,858 |

If land and buildings were measured using the historical cost, the carrying amounts would be as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------|-------------|-------------|
| Net Carrying Amount | \$6,317,315 | \$8,082,558 |

Reclassification

In accordance with the International Accounting Standard 40, it was decided during the year ended 31 December 2016 that the Pinney's Estate building be classified as Investment Property. Chapel Street property was also reclassified in 2017 to investment property due to the change in use. The Capital Revaluation Reserve and the Statement of Income and Expenditure Account were adjusted accordingly.

The Capital Revaluation Reserve comprises:

| <u>Property</u> | <u>Capital Revaluation Reserve at 1 January 2017</u> | <u>Adjustment to Capital Revaluation Reserve</u> | <u>Charged to Income & Expenditure</u> | <u>Capital Revaluation Reserve 31 December 2017</u> |
|-----------------------|--|--|--|---|
| Bay Road - St Kitts | 1,144,334 | - | - | 1,144,334 |
| Chapel Street – Nevis | <u>186,642</u> | - | (186,642) | - |
| TOTAL | <u>\$1,330,976</u> | <u>\$ -</u> | <u>\$(186,642)</u> (Page 5) | <u>\$1,144,334</u> (Page 6) |

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017(Expressed in Eastern Caribbean Dollars)
(Continued)

| | | | |
|---|--|----------------------|----------------------|
| 8 | INTANGIBLE ASSETS | <u>2017</u> | <u>2016</u> |
| | Computer Software and Development | | |
| | Cost at Beginning of Year | 1,600,148 | 1,485,032 |
| | Additions during the Year | <u>64,639</u> | <u>115,116</u> |
| | Cost at End of Year | <u>1,664,787</u> | <u>1,600,148</u> |
| | Accumulated Amortisation – Beginning of year | (1,287,414) | (1,179,206) |
| | Amortisation for the Year | <u>(106,711)</u> | <u>(108,208)</u> |
| | Accumulated Amortisation – End of Year | <u>(1,394,125)</u> | <u>(1,287,414)</u> |
| | Net Book Value (Page 3) | <u>\$270,662</u> | <u>\$312,734</u> |
| 9 | INVESTMENTS | <u>2017</u> | <u>2016</u> |
| | Investment Properties | | |
| | Butlers – Nevis | 76,000 | 76,000 |
| | Franklands – St Kitts | 11,100,000 | 11,100,000 |
| | Fountain Estate – St Kitts | 640,000 | 640,000 |
| | Saddle Hill – Nevis | 230,000 | 230,000 |
| | Scotch Bonnet SE Peninsula – St Kitts | 1,095,000 | 1,095,000 |
| | Douglas Estate – St Kitts | 9,927,656 | 10,161,999 |
| | Land – Pelican Resort – St Kitts | 25,560,000 | 25,560,000 |
| | Winter Forest Estate – Nevis | 4,780,000 | 4,780,000 |
| | Land – Church Street | 1,920,000 | 1,920,000 |
| | Pinney’s Estate Property | 19,300,000 | 19,300,000 |
| | Chapel Street Property | 1,918,578 | - |
| | Beacon Heights Development | <u>60,776,070</u> | <u>61,028,771</u> |
| | TOTAL INVESTMENT PROPERTIES (Page 3) | <u>\$137,323,304</u> | <u>\$135,891,770</u> |
| | Other Investments | <u>2017</u> | <u>2016</u> |
| | Available-for-Sale: | | |
| | Debt Securities: quoted at market value | 3,063,288 | 3,298,773 |
| | Equities: | | |
| | Quoted at market value | 76,568,067 | 53,861,341 |
| | Unquoted | <u>429,000</u> | <u>429,000</u> |
| | Total Available-for-Sale | <u>80,060,355</u> | <u>57,589,114</u> |

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

| | | | |
|---|--|----------------------|----------------------|
| 9 | INVESTMENTS (cont'd) | <u>2017</u> | <u>2016</u> |
| | Other Investments (cont'd) | | |
| | Held to Maturity: | | |
| | Fixed Deposits: | | |
| | British American Insurance (Anguilla) } See Note below – Page 27 | 1,154,332 | 1,298,208 |
| | British American Insurance (St Kitts) } | 890,063 | 1,000,000 |
| | SKNA National Bank Limited | 911,491,935 | 894,541,704 |
| | TDC Finance Company Limited | 8,321,764 | 8,321,764 |
| | Bank of Nevis Limited | 29,764,889 | 29,764,889 |
| | St. Kitts Credit Union | 2,297,553 | 2,297,553 |
| | Nevis Credit Union | 15,936,249 | 10,516,249 |
| | Development Bank of St Kitts and Nevis | <u>19,647,638</u> | <u>20,502,282</u> |
| | | <u>989,504,423</u> | <u>968,242,649</u> |
| | Call Accounts: | | |
| | R B C Dominion Securities | 778,037 | 1,117,772 |
| | Crown Agents | 416,884 | 95,310 |
| | SKNA National Bank Limited | 934,008 | 671,092 |
| | Bank of Nova Scotia | <u>453,742</u> | <u>420,111</u> |
| | | <u>2,582,671</u> | <u>2,304,285</u> |
| | Treasury Bills - St Kitts | 23,040,000 | 23,040,000 |
| | Treasury Bills - Nevis | <u>6,912,413</u> | <u>6,912,413</u> |
| | | <u>29,952,413</u> | <u>29,952,413</u> |
| | Debt Securities Unquoted | <u>25,845,654</u> | <u>26,095,653</u> |
| | Total Held to Maturity | <u>1,047,885,161</u> | <u>1,026,595,000</u> |
| | Loans Receivable: | | |
| | Government | 13,533,858 | 12,533,858 |
| | Statutory Corporations (See Note Below – Page 25) | 208,955,424 | 184,261,996 |
| | Staff Loans and Advances (Less Provision for Doubtful Accounts) | <u>10,650,901</u> | <u>9,941,800</u> |
| | Total Loans Receivable | <u>233,140,183</u> | <u>206,737,654</u> |
| | Total Other Investments – Carried Forward | 1,361,085,699 | 1,290,921,768 |

ST KITTS-NEVIS SOCIAL SECURITY BOARDNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

| | | | |
|---|---|-------------------------------|-------------------------------|
| 9 | INVESTMENTS (cont'd) | <u>2017</u> | <u>2016</u> |
| | Total Other Investments – Brought Forward | 1,361,085,699 | 1,290,921,768 |
| | Provision for Impairment | | |
| | Provision for impairment – CL Financial Group Investments (See Note below – Page 27) | (2,044,395) | (2,298,208) |
| | Provision for impairment – SKN Government Debts (See Note below – Page 26) | (56,177,406) | (56,177,406) |
| | TOTAL OTHER INVESTMENTS NET OF PROVISIONS FOR IMPAIRMENT (Page 3) | <u>\$1,302,863,898</u> | <u>\$1,232,446,154</u> |
| | Provision for impairment – SKN Government Debts comprises: | | |
| | | <u>2017</u> | <u>2016</u> |
| | - Nevis Island Administration | 9,367,729 | 9,367,729 |
| | - St Kitts Statutory Corporations | <u>46,809,677</u> | <u>46,809,677</u> |
| | TOTAL (See above – Page 25) | <u>\$56,177,406</u> | <u>\$56,177,406</u> |

Development Bank Loans

During the year ended 31 December 2016, management made the decision to provide an amount of \$6,263,145 in respect of differences in the loan balances between the Social Security Board and the Development Bank. The amount of \$6,263,145 was included in the schedule of Administration and Other Expenses (See Page 10).

The movement for the year on investments is as follows:

| | | |
|---|-----------------------------|-----------------------------|
| | <u>2017</u> | <u>2016</u> |
| Investment Property: | | |
| Balance at beginning of year | 135,891,770 | 136,267,000 |
| Additions | 273,904 | 1,326,530 |
| Cost Transfers/Sales Adjustments | (760,948) | (1,701,760) |
| Reclassification of Property | <u>1,918,578</u> | - |
| | <u>\$137,323,304</u> | <u>\$135,891,770</u> |
| Available for Sale Investments: | | |
| Balance at beginning of year | 57,589,114 | 54,692,170 |
| Additions | 18,908,133 | 6,492,506 |
| Matured Securities | (11,580,828) | (6,688,660) |
| Change in Market Value | 15,143,936 | 2,103,098 |
| Bonus Shares Received | - | <u>990,000</u> |
| Balance at end of year (Net of Provision for impairment) | <u>\$80,060,355</u> | <u>\$57,589,114</u> |

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017(Expressed in Eastern Caribbean Dollars)
(Continued)

| 9 | INVESTMENTS (cont'd) | <u>2017</u> | <u>2016</u> |
|---|---|------------------------|------------------------|
| | Held to Maturity: | | |
| | Balance at beginning of year | 1,024,296,792 | 960,827,415 |
| | Additions | 60,416,291 | 114,189,870 |
| | Retired | (38,872,317) | (57,681,050) |
| | Impairment Provision (C L Financial Group Investments) | - | <u>6,960,557</u> |
| | Balance at end of year (Net of Provision for impairment) | <u>\$1,045,840,766</u> | <u>\$1,024,296,792</u> |
| | Analysis of Provision for Impairment: | | |
| | Balance brought forward | 2,298,208 | 9,258,765 |
| | Reversal for the year (See Note Below – Page 27) | <u>(253,813)</u> | <u>(6,960,557)</u> |
| | TOTAL | <u>\$2,044,395</u> | <u>\$2,298,208</u> |
| | Loans Receivable: | | |
| | Balance at beginning of year | 150,560,248 | 161,586,161 |
| | Additions | 31,566,486 | 1,383,057 |
| | Amount Written Off | - | (6,263,145) |
| | Repayments | <u>(5,163,957)</u> | <u>(6,145,825)</u> |
| | Balance at end of year (Net of Provision for Impairment) | <u>\$176,962,777</u> | <u>\$150,560,248</u> |
| | Analysis of Provision for Impairment: | | |
| | Balance brought forward | 56,177,406 | 49,914,261 |
| | Charge for the year | - | <u>6,263,145</u> |
| | TOTAL | <u>\$56,177,406</u> | <u>\$56,177,406</u> |

Fixed Deposits:

Interest rates range between 3.0% and 6.5% (2016 = 3.0% and 7.5%) per annum with maximum maturity of three years up to October 10, 2020.

Call Accounts:

Interest rates range between zero to 0.1% (2016 = zero to 0.1%) per annum.

Treasury Bills:

Interest rate is between 4% and 6.5% (2016 = between 4% and 6.5%) per annum with terms between 91 days and 365 days.

Debt Securities Unquoted:

These securities earn interest at varying rates up to 7.5% (2016 = up to 7.5%) per annum and have maturity dates ranging between 2018 and 2057.

Loans Receivable:

The loans earn interest at rates ranging from 2% to 7% per annum and have maturity dates ranging from 2018 to 2054.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

9 INVESTMENTS (cont'd)

Collateral Security:

All the loans are secured by guarantees and/or mortgages over the assets of the respective borrowers except for NHC Affordable Homes Loan and Development Bank Student Loans.

CL Financial Group Investments:

During 2016, the Social Security Board received full settlement for its investment in the CLICO (Trinidad). The principal and outstanding interest which had been fully provided for and legal costs relating to the case were recovered (See Note 11 – Page 30). At the end of 2017, the amount of \$253,813 was also received in respect of the Board's investments in British American Insurance Ltd (Anguilla) and British American Insurance Company Limited (St Kitts). As at the end of the 2017 financial year, the following C L Financial Group Investments remain unrecovered:

| | Investment Amount | Amount Received | Provision 2017 | Provision 2016 | Maturity Date |
|--|----------------------|--------------------|--------------------|--------------------|---------------|
| British American Insurance Co Ltd (St Kitts) | 1,000,000 | 109,937 | 890,063 | 1,000,000 | March 6, 2009 |
| British American Insurance Co Ltd (Anguilla) | <u>1,298,208</u> | <u>143,876</u> | <u>1,154,332</u> | <u>1,298,208</u> | May 19, 2009 |
| | <u>\$2,298,208</u> | <u>\$253,813</u> | <u>\$2,044,395</u> | <u>\$2,298,208</u> | |

Revaluation of Investment Properties:

Investment properties which were revalued on 13 June 2016 by an independent valuer are stated at fair value. 'Fair Value' is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

These values are based on appraisals performed by an independent, professionally qualified valuer with recent experience in the location and the property valued.

The market based approach was used which involved the use of observable market data concerning the selling prices or rental income for similar properties and incorporated adjustments for factors specific to the properties in question including location, current condition and use, and the square footage. The valuation processes and the fair value changes were reviewed by the Board of Directors who decided to adopt these values as at 31 December 2015 since there were no significant improvements except to the Pinney's building which had additional work done in the value of \$1.8 million. This amount had been written off in 2016 (See Schedule II – Page 10). During the year under review, a final billing in respect of construction of this Pinney's building was settled in the amount of \$1,497,183. This has been written off to loss on revaluation of Land and Buildings in the Income and Expenditure Account in the current year. The use of observable market data resulted in the movement of the investment properties from level 3 to level 2 during the year ended 31 December 2016 (Note 19 (c) – Page 36).

The estimated fair market value of the Board's investment properties at 31 December 2017 is \$137,323,304 (2016 = \$135,891,770). The movement in investment property is due mainly to the sale of Douglas Estate land and Beacon Heights Development.

In the opinion of the Directors, there has been no significant changes in market values of investment properties at 31 December 2017. Therefore, the current year's carrying amounts represent fair values.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

9 INVESTMENTS (cont'd)

Revaluation of Investment Properties (cont'd):

During 2016, the Pinney's Estate Property, based on the level of owner occupancy, was reclassified from Property, Plant and Equipment to Investment Property. As a consequence \$1,050,126 representing a surplus of market value of the Pinney's land at 31 December 2016 was transferred from the Capital Reserve account to the Income Statement (See Note 5 – Page 19). A similar decision was made in 2017 in relation to the Chapel Street Property based on its change in use. This resulted in revaluation reserve of \$186,642 being credited to income in the current year. Rental Income from owner-occupied property was \$211,638 (2016 = \$194,576). Rental Income from Investment Properties was earned as follows:

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| Rental Income From Investment Properties | 636,126 | 300,082 |
| Rental Expense | (6,167) | (6,074) |
| Net Rental Income | <u>\$629,959</u> | <u>\$294,008</u> |

St Kitts and Nevis Government Debt

A number of Government Debts were restructured from 2012 to 2014 as follows:

- a) *St Kitts and Nevis Government Bonds* - In March 2012 a 10 year bond with interest rate of 7.5% and principal of \$28,688,000, and a 12 year \$15,000,000 bond, with interest rate of 8.5% and principal of \$12,884,610 were retired in exchange for a par bond of \$41,572,610 at an interest rate of 1.5% per annum for 45 years. There is a 15 year moratorium on principal with interest payable monthly throughout the life of the bond.
- b) *Nevis Island Administration and Statutory Bodies*:- In April 2013, four loans to the Nevis Island Administration and the Nevis Land and Housing Development Corporation (NHLDC) totalling \$26.9M were restructured, resulting in a loss provision of \$9.3M.

Loss Provision Details**Provision Amount**

| | |
|--|---------------------------|
| Nevis Housing & Land Development Corporation | 2,985,175 |
| Nevis Housing & Land Development Corporation | 2,032,980 |
| Nevis Island Administration - Capital Projects | 4,187,373 |
| Nevis Island Administration – Asphalt Plant | <u>162,201</u> |
| TOTAL | <u>\$9,367,729</u> |

- c) *St Kitts Statutory Corporations - 2014* - On 15 August 2014 the Social Security Board and the Development Bank of St Kitts and Nevis signed an agreement to give effect to the restructuring of eight loans. These restructured loans, including accrued interest, totalled \$45.9M.

On 11 November 2014, the Social Security Board and the National Housing Corporation (NHC) signed an agreement to give effect to the restructuring of five loans. These restructured loans, including accrued interest, totalled \$133.6M.

The loans in question were discounted, resulting in a total loan loss provision of \$40.5M. This amount shown below was included in the surplus reported in the year ended 31 December 2014.

Loan Loss Provision Details**Provision Amount**

| National Housing Corporation | <u>2017</u> | <u>2016</u> |
|---|--------------------------|--------------------------|
| National Housing Corporation-Affordable Homes | 15,711,911 | 15,711,911 |
| National Housing Corporation-Low Income Housing | 5,776,998 | 5,776,998 |
| National Housing Corporation-Starter Homes | 4,094,870 | 4,094,870 |
| National Housing Corporation-Town Houses | 1,268,270 | 1,268,270 |
| National Housing Corporation-Road Building Project | <u>689,430</u> | <u>689,430</u> |
| TOTAL - National Housing Corporation Provision | <u>27,541,479</u> | <u>27,541,479</u> |

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

9 INVESTMENTS (cont'd)

St Kitts and Nevis Government Debt (cont'd):

Loan Loss Provision Details (cont'd)

Provision Amount

| Development Bank | <u>2017</u> | <u>2016</u> |
|-------------------------------------|---------------------|---------------------|
| Development Bank-Middle Mortgage | 1,891,443 | 1,891,443 |
| Development Bank-New Product | 689,186 | 689,186 |
| Development Bank-Student | 10,914,431 | 10,914,431 |
| Development Bank-SS Housing | 1,590,190 | 1,590,190 |
| Development Bank- Building Mortgage | 2,716,105 | 2,716,105 |
| Development Bank – Civil Servants | <u>1,466,843</u> | <u>1,466,843</u> |
| Development Bank Provision | <u>19,268,198</u> | <u>19,268,198</u> |
| Total Provision | <u>\$46,809,677</u> | <u>\$46,809,677</u> |

| 10 CASH AT BANK AND IN HAND | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Cash at Bank - Current Accounts | | |
| Royal Bank of Canada | 53,647 | 53,807 |
| SKNA National Bank Limited (Benefits) | 2,425,545 | 2,855,082 |
| SKNA National Bank Limited (Social Services Levy & Protection of Employment Levy) | 519,053 | 1,290,534 |
| SKNA National Bank Limited (Administrative) | 7,905,219 | 10,084,588 |
| SKNA National Bank Limited (Beacon Heights) | <u>697,163</u> | <u>1,006,241</u> |
| | 11,600,627 | 15,290,252 |
| Cash at Bank - Savings Accounts | | |
| Royal Bank of Canada | 137,063 | 135,098 |
| SKNA National Bank Limited | 11,052,745 | 14,503,560 |
| SKNA National Bank Limited (Escrow) | 2,739 | 2,738 |
| Nevis Co-Operative Credit Union | 35 | 1,916 |
| Cash in Hand | <u>850,835</u> | <u>323,558</u> |
| TOTAL (Page 3) | <u>\$23,644,044</u> | <u>\$30,257,122</u> |

During the year under review, the savings accounts earned interest at rates of 0.1% and 2% per annum.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

| | | | |
|----|-----------------------------------|---------------------|---------------------|
| 11 | ACCRUED INTEREST RECEIVABLE | <u>2017</u> | <u>2016</u> |
| | Balance at Beginning of Year | 25,086,981 | 27,914,636 |
| | Interest Earned during the Year | 40,872,585 | 64,243,179 |
| | Interest Received during the Year | (44,532,711) | (67,070,834) |
| | Balance at End of Year (Page 3) | <u>\$21,426,855</u> | <u>\$25,086,981</u> |

As at 31 December 2017, the aging analysis of accrued interest is as follows:

| | <u>Total</u> | <u>Neither Past Due nor Impaired</u> | <u>Past Due but not Impaired 30 to 90 days</u> | <u>over 90 days</u> |
|------|---------------------|--|--|---------------------|
| 2017 | <u>\$21,426,855</u> | <u>\$21,426,855</u> | - | - |
| 2016 | <u>\$25,086,981</u> | <u>\$25,086,981</u> | - | - |

Statutory Corporations

A provision is made for interest due on Development Bank of St Kitts and Nevis Civil Servants' loans at the end of this financial period which remained unpaid.

| | | |
|--|--------------------|--------------------|
| Analysis of Provision for Impairment: | <u>2017</u> | <u>2016</u> |
| Balance carried forward | <u>\$5,691,020</u> | <u>\$5,691,020</u> |

Interest rates earned during the year are explained under Notes 9 and 10.

PROVISION FOR NON-COLLECTIBILITY OF INTEREST RECEIVABLE \$5,691,020 (2016 = \$5,691,020)

CLICO GROUP OF COMPANIES \$406,820 (2016 = \$406,820) (See Note 9 – Page 27 and above)

During the year ended 31 December 2010, CLICO (Trinidad) Limited, CLICO (Barbados) Limited, British American Insurance Company (Anguilla) and British American Insurance Company Limited (St Kitts) reported that these investee entities (all Members of C L Financial Limited Group) experienced liquidity problems which created a negative impact on their day to day operations and also resulted in their inability to satisfy their investors' expectations (See Note 9 – Page 27).

During 2016 the Board received full settlement for the investment in CLICO (Trinidad) Limited. The principal and outstanding interest which had been fully provided for and legal costs relating to the case were recovered.

STATUTORY CORPORATIONS \$5,284,200 (2016 = \$5,284,200)

A provision is made for interest due and remaining unpaid at year end for Development Bank of St Kitts and Nevis Civil Servants Loans.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

| | | | |
|----|---|---------------------|---------------------|
| 12 | ACCOUNTS RECEIVABLE AND PREPAYMENTS | <u>2017</u> | <u>2016</u> |
| | Non-Current: | | |
| | Advance Payment to Contractor | 9,706,000 | 9,874,200 |
| | Provision for Impairment (See Note Below) | <u>(9,706,000)</u> | <u>(9,874,200)</u> |
| | | ===== | ===== |
| | Current: | | |
| | Accounts Receivable | 2,084,360 | 2,054,414 |
| | Deposits and Related Expenses on Land Purchase (See Note Below) | 29,743,361 | 29,743,361 |
| | Prepayments | | |
| | Unassembled Furniture | - | 119,797 |
| | Prepaid Expenses | 451,453 | 218,566 |
| | Plant and Equipment | 50,432 | - |
| | Provision for Doubtful Debts | <u>(3,732,320)</u> | <u>(3,649,900)</u> |
| | TOTAL (Page 3) | <u>\$28,597,286</u> | <u>\$28,486,238</u> |
| | Analysis of Provision for Impairment: | | |
| | Balance brought forward (Non - Current and Current) | 13,524,100 | 5,768,205 |
| | Recoveries | (168,200) | (164,931) |
| | Charge for the year (See Note Below) | <u>82,420</u> | <u>7,920,826</u> |
| | TOTAL | <u>\$13,438,320</u> | <u>\$13,524,100</u> |
| | The \$13,438,320 is made up as follows: | | |
| | - Non – Current Provision | 9,706,000 | 9,874,200 |
| | - Current Provision | <u>3,732,320</u> | <u>3,649,900</u> |
| | | <u>\$13,438,320</u> | <u>\$13,524,100</u> |

Advance Payment to Contractor:

Included in Receivables is an amount of \$9,706,000 (2016 = \$9,874,200) being advance payment to a contractor in relation to the Beacon Heights Project. Management of the Social Security Board carried out a critical and objective review of the recoverability of this account during 2016. Based on this review, management has decided to make full provision for impairment of this account for the year ended 31 December 2016. This decision has resulted in an additional provision of \$6,185,371 against this account for the year ended 31 December 2016.

Deposits and Related Expenses on Land Purchase:

Deposits and Related Expenses on Land Purchase is an amount of \$29,743,361 (2016 = \$29,743,361) which represents deposits and related expenses paid on the purchase of land at Dale, Brighton, and Fountain Estates. Provision was made for \$1,914,444 (2016 = \$1,914,444) in relation to the Fountain Estate deposit. Subsequent to the year end, an amount of \$23,536,513 was expended to finalise the purchase of land at Brighton Estate (See Notes 17 and 23). Negotiation for the purchase of land at Dale Estate is still in progress and is expected to be completed in 2018.

Charge for the Year (\$82,420)

During the year, provision was made for SSMC (\$33,417 /2016 = \$1,666,782) and Benefits Receivable (\$49,003/ 2016 = \$68,673) which are considered uncollectible.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

| | | | |
|----|--------------------------------------|---------------------|---------------------|
| 13 | ALLOCATION OF NET SURPLUS | <u>2017</u> | <u>2016</u> |
| | Social Security Fund | | |
| | a) Long Term Benefits Fund (Page 4) | 25,519,321 | 34,028,751 |
| | b) Short Term Benefits Fund (Page 4) | 5,518,657 | 5,431,035 |
| | c) Injury Benefits Fund (Page 4) | <u>13,921,779</u> | <u>14,936,973</u> |
| | | <u>44,959,757</u> | <u>54,396,759</u> |
| | National Provident Fund | | |
| | a) Members' Account | 88,865 | 88,088 |
| | b) Reserve Fund | <u>773,062</u> | <u>924,560</u> |
| | Sub-Total (Page 4) | <u>861,927</u> | <u>1,012,648</u> |
| | NET SURPLUS FOR THE YEAR (Page 4) | <u>\$45,821,684</u> | <u>\$55,409,407</u> |

14 DISTRIBUTION OF INCOME AND EXPENDITURE

According to the financial and accounting regulations of the Social Security Fund, Income and Expenditure are distributed as follows:

1) Social Security Fund - Contribution Income:

The income from contributions shall be distributed among the benefit branches in the following proportion:

| | | |
|-----|----------------------------|------|
| (a) | Short Term Benefits Branch | 2/11 |
| (b) | Long Term Benefits Branch | 8/11 |
| (c) | Injury Benefits Branch | 1/11 |

2) Staff Supplemental Benefits - Contribution Income:

Contributions to the staff supplemental benefits reserve fund shall be credited to that benefits branch.

3) Investment Income:

The income from the investment of the reserves shall be allocated as follows:

- (a) the income from the investment of the Short-term Benefits Reserve shall be allocated to the Short-term Benefits Branch;
- (b) the income from the investment of the Long-term Benefits Reserve shall be allocated to the Long-term Benefits Branch;
- (c) the income from the investments belonging to the Injury Benefits Reserve Fund, shall be allocated to the Injury Benefits Branch;
- (d) the income from the investment of the National Provident Reserve Fund, shall be allocated to the Provident Fund Branch;
- (e) the income from the investment of the Staff Supplemental Reserve shall be allocated to the Staff Supplemental Benefits Reserve Branch.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

14 DISTRIBUTION OF INCOME AND EXPENDITURE (cont'd)

4) Other Income:

Any income of the Fund which cannot be identified with any specific branch shall be allocated to the Short-term, Long-term and Injury Benefits Branches in equal shares.

5) Distribution of Expenditure:

a) Benefits and Assistance:

All expenditure of the Fund on benefits and assistance shall be debited to the account of the appropriate branch.

b) Administration Expenditure:

The administration expenditure of the Board shall be distributed between the benefits branches in such a manner that the proportion allocated to a particular branch shall be equal to the proportion which the sum of the contribution income and benefits expenditure shown in the Income and Expenditure Account of that Branch bears to the sum of the contribution income and benefits expenditure of the Fund as a whole.

c) Other Expenditure:

All other expenditure of the Board which is not attributable to any specific branch shall be distributed between the benefits branches in equal shares.

| | | | |
|----|-------------------------------|--------------------|--------------------|
| 15 | SUNDRY CREDITORS AND ACCRUALS | <u>2017</u> | <u>2016</u> |
| | Sundry Payables | 5,412,575 | 6,006,562 |
| | Accruals | 843,727 | 702,938 |
| | Provisions | <u>501,201</u> | <u>594,089</u> |
| | TOTAL (Page 3) | <u>\$6,757,503</u> | <u>\$7,303,589</u> |

16 CONTRIBUTIONS AND FINES RECEIVABLE

At 31 December 2017, contributions and fines due from employers amounted to \$63,450,473 (2016 = \$58,445,236). Details are set out hereunder:

| | | |
|--------------------------------|---------------------|---------------------|
| <u>Particulars</u> | <u>2017</u> | <u>2016</u> |
| Contributions due by Employers | 11,425,298 | 10,044,429 |
| Fines due by Employers | <u>52,025,175</u> | <u>48,400,807</u> |
| TOTAL DUE TO THE BOARD | <u>\$63,450,473</u> | <u>\$58,445,236</u> |

These amounts are stated for memorandum purposes only and are not included in these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

17 CAPITAL COMMITMENTS

At 31 December 2017, the Social Security Board of Directors approved capital expenditure for the ensuing year in the amount of \$1.7 million (2016 = \$1.8 million).

The Board has also committed to the following:

- i) EC \$18,900,000 (US \$7,000,000) in a syndicated loan for the purpose of constructing a second pier at the St Christopher Air and Sea Ports Authority (SCASPA) located at Port Zante.
- ii) The St Christopher and Nevis Social Security Board signed a loan agreement with the National Housing Corporation (NHC) for further funding to the tune of EC\$50,000,000 for the purpose of affordable houses to qualifying recipients.
- iii) A loan agreement in the amount of EC\$10,000,000 to the Nevis Housing and Land Development Corporation (NHLDC) for the construction of 32 affordable homes in Maddens Estate and for purchasing equipment at the Nevis Island Administration owned New River Quarry.
- iv) EC\$23,536,513 for finalizing the purchase of land at Brighton Estate (See Notes 12 & 23). Purchase of land at Dale Estate is still being negotiated (See Notes 12 and 23).

18 RELATED PARTY TRANSACTIONS

Section 4 subsection 3 of the Social Security Act, 1977 indicates that the members of the Board shall be appointed by the Minister in the Government of St Kitts-Nevis with responsibility for Social Security. The Government of St Kitts-Nevis has majority shareholding interest in St Kitts-Nevis-Anguilla National Bank and appoints the Board Members of the following Statutory Corporations:

National Housing Corporation
Development Bank of St Kitts and Nevis

The above Corporations and Companies along with the Federal Government of St Kitts-Nevis are therefore considered to be related parties of the Social Security Board.

Loans to Government and Statutory Corporations

The balances owed by the Statutory Corporations have been guaranteed by the Government of St Kitts and Nevis. During 2016, an amount of \$6,263,145 was provided for in respect of Development Bank Loan differences.

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|----------------------|----------------------|
| Balance at Beginning of Year | 200,961,797 | 208,110,144 |
| Loans advanced during the year | 12,000,000 | - |
| Loan Repayment received | (2,712,637) | (1,205,774) |
| Interest Income | 6,316,892 | 6,473,461 |
| Amounts Provided for during the year | - | (6,263,145) |
| Interest Received | (5,778,108) | (6,152,889) |
| Balance at End of Year | <u>\$210,787,944</u> | <u>\$200,961,797</u> |

Fixed Deposits, Bank Accounts and Treasury Bills with Related Parties

| | <u>2017</u> | <u>2016</u> |
|------------------------------|----------------------|----------------------|
| | | (Restated) |
| Balance at Beginning of Year | 991,681,922 | 912,480,017 |
| Net Advances | 9,217,423 | 81,786,614 |
| Interest Income | 33,792,477 | 38,983,623 |
| Interest Received | (38,004,606) | (41,568,332) |
| Balance at End of Year | <u>\$996,687,216</u> | <u>\$991,681,922</u> |

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Eastern Caribbean Dollars)

(Continued)

18 RELATED PARTY TRANSACTIONS (cont'd)

| Amount Owing By Directors | <u>2017</u> | <u>2016</u> |
|----------------------------------|-----------------|-------------|
| Beginning of Year | - | - |
| Loans Advanced during the year | 48,000 | - |
| Loan Repayment Received | (10,500) | - |
| Interest Income | 1,616 | - |
| Interest Received | <u>(1,616)</u> | <u>-</u> |
| | <u>\$37,500</u> | <u>-</u> |

Key Management Compensation

The salaries and benefits paid to key management personnel of the Board during the year amounted to \$939,652 (2016 = \$867,319).

19 FINANCIAL INSTRUMENTS

a) Price Risk:

(i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantially all the Board's transactions and assets and liabilities are denominated in Eastern Caribbean Dollars or United States Dollars. Therefore, the Board has no significant exposure to currency risk.

(ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Board is primarily exposed to interest rate risk with respect to its fixed rate government debentures, securities and bonds.

(iii) Market risk:

Market risk is the risk that a financial instrument will fluctuate as a result of changes in market prices. The Board is mainly exposed to market risk with respect to its investments in quoted equities.

b) Credit Risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Board is mainly exposed to credit risk with respect to its mortgage portfolio. The Board granted mortgages based on evaluations of the mortgagors' financial situation, and continually monitors the exposure of potential losses from mortgages. Management believes that the provision at 31 December 2017 is adequate.

c) Fair Value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The carrying amounts of the following financial assets and liabilities approximate their fair value: cash and bank balances, accrued interest receivable, accounts receivable, investments, accounts payable and sundry creditors.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017(Expressed in Eastern Caribbean Dollars)
(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

c) Fair Value (cont'd):

Fair value measurements:

Fair value measurement hierarchy for assets at 31 December 2017:

| | <u>Date of Valuation</u> | <u>Total</u> | <u>Quoted prices in active markets (Level 1)</u> | <u>Significant Observable inputs (Level 2)</u> | <u>Significant Unobservable inputs (Level 3)</u> |
|---|------------------------------|--------------|--|--|--|
| Assets at fair value: | | | | | |
| Investment properties | 31 December 2017 | 137,323,304 | - | 137,323,304 | - |
| Available-for-sale financial assets: | | | | | |
| Quoted equity shares | 31 December 2017 | 76,568,067 | 76,568,067 | - | - |
| Quoted debt securities | | | | | |
| Corporate bonds | 31 December 2017 | 3,063,288 | 3,063,288 | - | - |
| Lands and buildings | 31 December 2017 | 14,054,556 | - | 14,054,556 | - |

Fair value measurement hierarchy for assets at 31 December 2016:

| | <u>Date of Valuation</u> | <u>Total</u> | <u>Quoted prices in active markets (Level 1)</u> | <u>Significant Observable inputs (Level 2)</u> | <u>Significant Unobservable inputs (Level 3)</u> |
|---|------------------------------|--------------|--|--|--|
| Assets at Fair Value: | | | | | |
| Investment properties | 31 December 2016 | 135,891,770 | - | 135,891,770 | - |
| Available-for-sale financial assets: | | | | | |
| Quoted equity shares | 31 December 2016 | 53,861,341 | 53,861,341 | - | - |
| Quoted debt securities: | | | | | |
| Corporate bonds | 31 December 2016 | 3,298,773 | 3,298,773 | - | - |
| Lands and buildings | 31 December 2016 | 16,322,858 | - | 16,322,858 | - |

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

c) Fair Value (cont'd):

Unquoted debt securities, held-to-maturity investments and loans receivable

Unquoted debt securities, held-to-maturity investments and loans receivable are carried at cost less provision for diminution in value. In the opinion of the Board, the carrying amounts of these investments approximate fair values.

Fair value of the Board's non-financial assets

The carrying value of the Board's Investment properties and land and buildings are stated at fair value. Fair value of these assets approximate the stated carrying values based on the appraisal done by professional valuers and the Board of Directors in consultation with the Investment Committee.

As stated in Note 9 (Page 27) the valuer adopted a market based approach which involved the use of observable market data concerning the selling prices or rental income for similar properties and incorporated adjustments for factors specific to the properties in question including location, current condition and use, and the square footage. The valuation processes and the fair value changes were reviewed by the Board of Directors who decided to adopt these values as at 31 December 2015. The use of observable market data resulted in the movement of the investment properties and lands and buildings from level 3 to level 2 in 2016. There have been no transfers between levels 1, 2 or 3 during 2017.

In the opinion of the Directors, there has been no significant changes in the market values of the non-financial assets and investment properties at 31 December 2017.

d) Liquidity Risk:

In order to manage liquidity risk, management seeks to maintain sufficient levels of cash and cash equivalents to finance its operations and ongoing projects.

The following table summarises the maturity profile of the Board's financial assets and liabilities analysed into groupings based on the remaining periods from the Statement of Financial Position date to the contractual maturity dates.

Assets:

Year Ended 31 December 2017:

| | Due within 1 Year | >1 Yr to 5 Yrs | >5 Years | Total |
|---|----------------------|----------------|-------------|---------------|
| Cash at Bank and in Hand | 23,644,044 | - | - | 23,644,044 |
| Accrued Interest Receivable | 21,426,855 | - | - | 21,426,855 |
| Accounts Receivable and Prepaid Expenses | 28,597,286 | - | - | 28,597,286 |
| Investment Securities | - | 1,080,931,796 | 359,255,406 | 1,440,187,202 |
| Total Assets | 73,668,185 | 1,080,931,796 | 359,255,406 | 1,513,855,387 |

Liabilities:

Year Ended 31 December 2017:

| | | | | |
|-------------------|--------------|-----------------|---------------|-----------------|
| Accounts Payable | 864,359 | - | - | 864,359 |
| Other Payables | 6,757,503 | - | - | 6,757,503 |
| Total Liabilities | 7,621,862 | - | - | 7,621,862 |
| Net Liquidity Gap | \$66,046,323 | \$1,080,931,796 | \$359,255,406 | \$1,506,233,525 |

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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19 FINANCIAL INSTRUMENTS (cont'd)

d) Liquidity Risk: (cont'd)

Assets:

Year Ended 31 December 2016:

| | Due within 1 Year | >1 Yr to 5 Yrs | >5 Years | Total |
|---|----------------------|----------------|-------------|---------------|
| Cash at Bank and in Hand | 30,257,122 | - | - | 30,257,122 |
| Accrued Interest Receivable | 25,086,981 | - | - | 25,086,981 |
| Accounts Receivable and Prepaid Expenses | 28,486,238 | - | - | 28,486,238 |
| Investment Securities | - | 1,053,268,097 | 315,069,827 | 1,368,337,924 |
| Total Assets | 83,830,341 | 1,053,268,097 | 315,069,827 | 1,452,168,265 |

Liabilities:

Year Ended 31 December 2016:

| | | | | |
|-------------------|--------------|-----------------|---------------|-----------------|
| Accounts Payable | 724,201 | - | - | 724,201 |
| Other Payables | 7,303,589 | - | - | 7,303,589 |
| Total Liabilities | 8,027,790 | - | - | 8,027,790 |
| Net Liquidity Gap | \$75,802,551 | \$1,053,268,097 | \$315,069,827 | \$1,444,140,475 |

20 CONTINGENCIES

Civil Claims

Civil Claim No. SKBHCV2015/0233 is claim for Specific Performance where the claimant wants the Social Security Board to conclude a Sale and Purchase Agreement which has been rescinded by the Board. This matter has not been settled to date.

Claim No. SKBHCV/233 against the Social Security Board for loss and damage in connection with an Agreement for sale of 116.45 acres remains unsettled. A provision of \$1,881,044 for the impairment was made in 2014 financial statements, additional expenses related to the transaction were included in 2015 bringing the full provision at 31 December 2015 to \$1,914,444.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

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(Continued)

21 INCOME TAX EXEMPTION

The Social Security Board is exempt from Income tax in accordance with Income Tax Ordinance No. 17 of 1966 section 5 (i) (p) and 5 (i) (q).

22 RESERVE FUND

The following describes the nature and purpose of each reserve within the reserve fund:

| <u>Reserve:</u> | <u>Description and Purpose:</u> |
|---|---|
| Long Term Benefits Fund | Invalidity, Age, Survivors and Assistance benefits to be paid out in accordance with Social Security Act, 1977; |
| Short Term Benefits Fund | Sickness, Maternity and Funeral Grants to be paid out in accordance with Social Security Act, 1977; |
| Injury Benefits Fund | Injury, disablement and death benefits to be paid out in accordance with Social Security Act, 1977; |
| National Provident Fund - Members Accounts | Surplus and transactions under National Provident Fund; |
| National Provident Fund - Reserve Account | Under National Provident Act 1968, this represents fines and penalties collected, contributions by employers or workers which may not be allocated to individual accounts and any other monies authorized to be paid into the fund; |
| Revaluation Reserve | Gains and losses on revaluation of the Board's freehold properties, and realised gains/losses on available-for-sale investments; |
| Staff Supplemental Benefit Reserve | Staff supplemental benefits to be paid to the Board's staff members; |
| Unrealised Holding Gains | Unrealised gains/losses on available-for-sale investments. |

23 SUBSEQUENT EVENTS

Subsequent to the year end, the Board expended \$23,536,513 to finalise the purchase of land at Brighton Estate. (See Notes 12 & 17)