

Financial Statements of

**CAYMAN ISLANDS HEALTH
SERVICES AUTHORITY**

30 June 2015

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Table of contents

Statement of Responsibility for the Financial Statements	3-4
Auditor General's Report	5-7
Statement of Financial Position	8
Statement of Comprehensive Income	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Notes to Financial Statements	12-40

95 Hospital Road, PO Box 915
Grand Cayman KY1-1103, CAYMAN ISLANDS

August 17, 2016

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

These financial statements have been prepared by the Cayman Islands Health Services Authority ("Health Authority") in accordance with the provisions of the *Public Management and Finance Law (2013 Revision)*, and *International Financial Reporting Standards*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2013 Revision)*, and *International Financial Reporting Standards*.

As the Chief Executive Officer and Chairman of the Board of Directors of the Health Authority, we are responsible for establishing, and have established and maintained, a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Health Authority.

As Chief Executive officer and Chief Finance Officer, we are responsible for the preparation of the Health Authority's financial statements and for the judgements and estimates made in them.

Except for the effects of weaknesses in internal control over completeness of patient revenues, and the impact this has on our ability to provide assurance over the completeness of patient receivables, we confirm that these financial statements fairly present the financial position, comprehensive income, and cash flows of the Health Authority for the financial year ended 30 June 2015.

To the best of our knowledge, and subject to the exceptions noted in the preceding paragraph, we represent that these financial statements:

- (a) completely and reliably reflect the financial transactions of Health Authority for the year ended 30 June 2015;
- (b) fairly reflect the financial position as at 30 June 2015 and comprehensive income for the year then ended; and
- (c) comply with the provisions of the *Public Management and Finance law (2013 Revision)*, and *International Financial Reporting Standards*.

The Office of the Auditor General has conducted an independent audit and has expressed an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.


Lizzette Yearwood
Chief Executive Officer

Date: 7 September 2016


Chairman
HSA Board

Date: 7 September 2016


Heather Boothe
Chief Financial Officer

Date: 7 September 2016

AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Islands Health Services Authority

I have audited the accompanying financial statements of the Cayman Islands Health Services Authority (the "Authority" or the "HSA"), which comprise the statement of financial position as at 30 June 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 12 to 41 in accordance with the provisions of Section 24(1)(a) of the *Health Services Authority Law (2010 Revision)* and Section 60(1)(a) of the *Public Management and Finance Law (2013 Revision)*.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

AUDITOR GENERAL'S REPORT (continued)

Basis for Qualified Opinion

Patient service fees

I was unable to satisfy myself that the reported amount for patient service fees of \$89.9 million is fairly stated on the statement of comprehensive income. The Authority could not represent to me that the controls for the recording of patient service fees are effective to ensure that reported revenues are complete. Furthermore, I was unable to perform sufficient audit procedures because of the lack of internal controls.

Patient related accounts receivable

I was unable to satisfy myself that the net amount of accounts receivable of \$23.7 million as shown on the statement of financial position is fairly stated. As the amount reported for patient related accounts receivable is directly related to our concerns relating to the amount reported for revenues, I was also unable to perform sufficient audit procedures for this amount. My review of subsequent receipts from patients to satisfy myself of the provision for bad debts at 30 June 2015 was also impaired for the same reason.

In addition, as at 30 June 2015, the Authority had recorded \$2.2 million of funds received from CINICO that it could not reconcile to individual receivables in its revenue system.

Due to the concerns I have regarding the amount reported for patient related accounts receivable, I was unable to satisfy myself that the amount of \$69.1 million reported as the accumulated deficit in the net worth section of the statement of financial position was accurately reported.

Post-employment healthcare costs

As discussed in Note 20, the Authority did not estimate the liability for its post-employment healthcare plan as no actuarial valuation was completed. Therefore, the Authority did not record the liability on the statement of financial position or provide disclosures in the notes to the financial statements. Personnel costs and other comprehensive gains/losses are also understated on the statement of comprehensive income for the current and past service costs relating to the liability for the post-employment healthcare plan.

Accumulated deficit

Accumulated deficit is also understated to the extent of the current and past service cost relating to the non-recognition of the post-employment healthcare plan as discussed in the preceding paragraph.

Qualified Opinion

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion the financial statements present fairly, in all material respects, the financial position of Cayman Islands Health Services Authority as at 30 June 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

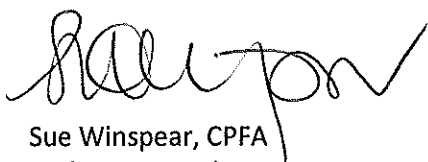
AUDITOR GENERAL'S REPORT (continued)

Other Matter

Breaches related to the Health Services Authority Law

As at 30 June 2015, total cash and cash equivalents amounted to \$6.6 million. Under sections 7(1) and 18(3)(c) of the HSA Law, the Authority is required to maintain a cash reserve at a level no less than its estimated expenses for 90 days, which I have determined to be \$25.9 million. As a result, the Authority's cash reserve is determined to be \$19.2 million short in meeting this requirement.

My opinion is not qualified in respect of this matter.



Sue Winspear, CPFA
Auditor General

7 September 2016
Cayman Islands

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of Financial Position

As at June 30, 2015

(stated in Cayman Islands dollars)

	Note	2015	Budget	2014
Current assets				
Cash and cash equivalents	4	\$6,633,017	\$3,587,549	\$17,677,127
Accounts receivable - net	5	23,729,932	23,423,933	11,650,962
Other receivables - net	6	1,940,774	223,141	1,427,724
Inventory - net	7	6,113,235	7,820,421	8,745,573
Advances to suppliers		1,684,651	571,740	1,660,585
Prepaid expenses		105,676	-	60,000
Total current assets		40,207,285	35,626,784	41,221,971
Non-current assets				
Fixed assets	8	63,117,364	60,726,648	62,125,109
Total assets		\$103,324,649	\$96,353,432	\$103,347,080
Current liabilities				
Accounts payable and accrued expenses	9, 21	\$12,864,240	\$5,340,984	\$12,983,790
Unfunded pension obligation	15	10,220,000	4,626,000	10,239,000
Loans payable	10	243,295	245,511	235,079
Provision	16	-	600,000	-
Total current liabilities		23,327,535	10,812,495	23,457,869
Non-current liabilities				
Loans payable	10	1,388,017	1,375,370	1,631,312
Total liabilities		\$24,715,552	\$12,187,865	\$25,089,181
Net assets		\$78,609,097	\$84,165,567	\$78,257,899
Represented by:				
Contributed capital		\$131,225,222	\$131,728,154	\$130,377,722
Accumulated deficit		(69,092,883)	(63,654,345)	(67,387,581)
Other comprehensive income		385,000	-	(824,000)
Asset revaluation	8	16,091,758	16,091,758	16,091,758
Net worth		\$78,609,097	\$84,165,567	\$78,257,899

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of Comprehensive Income

For the year ended June 30, 2015

(stated in Cayman Islands dollars)

	Note	2015	Budget	2014
Revenue				
Patient services fees	11	\$89,901,512	\$89,073,846	\$80,994,013
Government programme	12	13,327,533	13,327,626	14,465,166
Other income		1,122,324	217,560	891,773
		104,351,369	102,619,032	96,350,952
Operating expenses				
Staff costs	13	57,986,073	56,716,811	52,991,165
Provision for bad debts		16,991,857	14,031,744	11,353,203
Supplies and materials	7	13,530,794	11,324,650	10,845,103
Other operating expense	14	7,254,243	6,936,360	7,132,466
Utilities		3,265,871	3,601,203	3,458,827
Depreciation	8	2,886,657	3,436,688	2,802,773
Insurance		2,616,330	3,720,000	3,211,891
Inventory write-downs	7	612,075	-	341,688
Legal and professional fees		377,491	747,150	732,467
Provision for (recovery of) losses	16	-	600,000	(432,141)
Travel and subsistence		305,720	548,381	266,202
Training		181,182	304,700	106,542
Reference materials		48,378	42,548	5,287
		106,056,671	102,010,235	92,815,473
Net (loss) income for the year		(1,705,302)	608,797	3,535,479
Other comprehensive income (loss)				
Re-measurement of defined benefit pension	15	1,209,000	-	(1,671,000)
Total comprehensive (loss) income for the year		(\$496,302)	\$608,797	\$1,864,479

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of Changes in Equity

For the year ended June 30, 2015
(stated in Cayman Islands dollars)

	Note	Contributed capital	Accumulated deficit	Other comprehensive income	Asset revaluation	Total
Balance, 1 July 2013		\$129,528,155	(\$70,923,060)	\$847,000	\$16,091,758	\$75,543,853
Net income for the year		-	3,535,479	-	-	3,535,479
Other comprehensive loss for the year		-	-	(1,671,000)	-	(1,671,000)
Capital contribution during the year	18	849,567	-	-	-	849,567
Balance, 30 June 2014		130,377,722	(67,387,581)	(824,000)	16,091,758	78,257,899
Net loss for the year		-	(1,705,302)	-	-	(1,705,302)
Other comprehensive income for the year		-	-	1,209,000	-	1,209,000
Capital contribution during the year	18	847,500	-	-	-	847,500
Balance, 30 June 2015		\$131,225,222	(\$69,092,883)	\$385,000	\$16,091,758	\$78,609,097

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of Cash Flows

For the year ended June 30, 2015
(stated in Cayman Islands dollars)

	Note	2015	Budget	2014
Cash provided by/(applied in):				
Operating activities				
Net (loss) income for the year		(\$1,705,302)	\$608,798	\$3,535,479
Add item not affecting working capital:				
Provision for bad debts	5, 6	16,991,857	14,031,744	11,353,203
Depreciation	8	2,886,657	3,436,688	2,802,773
Inventory write-downs	7	612,075	-	341,688
Other comprehensive gain (loss) for the year	15	1,209,000	-	(1,671,000)
Net changes in non-cash working capital				
balances relating to operations:				
Accounts receivable, net, increase		(29,070,827)	(15,142,380)	(7,788,721)
Other receivables, increase		(513,050)	-	(405,289)
Inventory, net, (increase) decrease		2,020,263	-	(1,130,454)
Advances to suppliers, increase		(24,066)	-	(1,321,522)
Prepaid expenses, increase		(45,676)	-	(60,000)
Accounts payable and accrued expenses, increase		(119,550)	1,497,774	2,205,176
Unfunded pension obligation, increase (decrease)	15	(19,000)	-	2,475,000
Provision, increase	16	-	-	(432,141)
Net cash (used in) generated from operating activities		(7,777,619)	4,432,624	9,904,192
Investing activities				
Cost of fixed assets purchased - net	8	(3,878,912)	(3,810,896)	(1,895,874)
Financing activities				
Capital contribution from Government	18	847,500	850,000	849,567
Loans payable, net of payment	10	(235,079)	(245,510)	(245,511)
Net cash generated from financing activities		612,421	604,490	604,056
(Decrease) increase in cash during the year		(11,044,110)	1,226,218	8,612,374
Cash and cash equivalents at beginning of year		17,677,127	2,361,331	9,064,753
Cash and cash equivalents at end of year		\$6,633,017	\$3,587,549	\$17,677,127

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

1. Background information

The Cayman Islands Health Services Authority (the "Health Authority") is a statutory body established on July 1, 2002 under the Health Services Authority Law. The purpose of the Health Authority is to provide health care services and facilities in the Cayman Islands in accordance with the National Strategic Plan for Health prepared by the Cayman Islands Government (the "Government").

The Health Authority is comprised of the following health care agencies:

- Cayman Islands Hospital
- Faith Hospital
- Community-based service:
 - Little Cayman Health Centre
 - George Town General Practice Clinic
 - West Bay Health Centre
 - Bodden Town Health Centre
 - East End Health Centre
 - North Side Health Centre
 - Public Health Unit
 - Lions Eye Clinic
 - George Town Dental Clinic
 - Merren's Dental Clinic
 - Cayman Brac Dental Clinic

The Health Authority is located on Hospital Road, PO Box 915, Grand Cayman, KY1-1103 Cayman Islands.

2. Changes in Accounting Standards/ IFRS

Below are several new standards and amendments that have been issued but are not yet effective. They do not impact the annual financial statements of the Health Authority. The nature and impact of each new standard/amendment is described below:

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

2. Changes in Accounting Standards/ IFRS (continued)

- (i) *IFRS 15 Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2017).*

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using a five-step model: 1. Identify the contract(s) with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognise revenue when (or as) the entity satisfies a performance obligation. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licences of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

- (ii) *IAS 1 Disclosure Initiative – Amendments to IAS 1 (Effective for annual periods beginning on or after 1 January 2016.)*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify: • The materiality requirements in IAS 1 • That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated • That entities have flexibility as to the order in which they present the notes to financial statements • That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

2. Changes in Accounting Standards/ IFRS (continued)

(iii) *IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (Effective for annual periods beginning on or after 1 January 2016.)*

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

3. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted by the Health Authority are as follows:

(a) *Basis of accounting*

The financial statements of the Health Authority are prepared on an accrual basis under the historical cost convention except for: (1) the annual revaluation of land and buildings [see (d) below] and (2) unfunded pension obligation [see (j) below].

(b) *Use of estimates*

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year of the revision and future years, where applicable.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) Financial instruments

(i) Classification

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise cash and cash equivalents, other receivables and accounts receivable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise accounts payable and accrued expenses, unfunded pension obligation, loans payable and provision.

(ii) Recognition

The Health Authority recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

(iii) Measurement

Financial instruments are measured initially at cost, which is the fair value of the consideration given or received. Financial assets are carried at historical cost, which is considered to approximate fair value due to the short-term or immediate nature of these instruments.

(iv) Specific instruments

Cash and cash equivalents

For the purposes of the statement of cash flows, the Health Authority considers cash on hand and in banks to be cash and cash equivalents, as well as fixed deposits with original maturities of six months or less. Bank accounts held at same institution are presented at net amount.

Accounts receivables

A non-derivative financial asset with fixed or determinable payments and not quoted in an active market is classified as accounts receivables.

Accounts payable and accrued expenses

Accounts payable and accrued expenses will be classified as financial liability and are measured at fair value when goods or services have been received or invoiced, with any adjustments to the carrying amount going through the statement of comprehensive income.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) *Financial instruments (continued)*

(v) *Derecognition*

A financial asset is derecognised when the Health Authority realises the rights to the benefits specified in the contract or the Health Authority loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is, when the obligation is discharged, cancelled or expired.

(d) *Fixed assets and depreciation*

Land and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the statement of financial position date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in net worth to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in statement of comprehensive income, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to statement of comprehensive income to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to statement of comprehensive income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings (deficit). No transfer is made from the revaluation reserve to retained earnings (deficit) except when an asset is derecognised.

Properties in the course of construction for the main healthcare business, administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Health Authority's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Medical equipment and other fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(d) Fixed assets/depreciation (continued)

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Depreciation is charged to the statement of comprehensive income on a straight-line basis on the basis of the following periods estimated to write off the cost of the assets over their expected useful lives:

Buildings	50 years
Medical equipment	8-15 years
Other fixed assets	3-15 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in statement of comprehensive income.

(e) Impairment

The carrying amount of the Health Authority's assets other than inventory (see note 3(h)) is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(f) Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Cayman Islands dollars at the exchange rate ruling at the statement of financial position date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Cayman Islands dollars at the foreign currency exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the Cayman Islands dollars at the foreign exchange rates ruling at the dates that the values were determined.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(g) Allowance for bad debts

The allowance for bad debts is established through a provision for bad debts charged to expenses. Accounts receivable are written off against the allowance when management believes that the collectability of the account is unlikely. The allowance is an amount that management believes will be adequate to cover any bad debts, based on an evaluation of collectability and prior bad debts experience.

(h) Inventory

Inventory is valued at the lower of net realisable value or cost, on a moving average basis. Inventory is recorded net of obsolete and expired.

(i) Revenue recognition

Patient revenue is recognized on the day services are provided.

Revenue from sale of goods and services such as Government programmes is recognized when invoiced. Other income such as donation, rental and other miscellaneous income are recognized when a grant is received or when services are provided.

(j) Employee benefits

The Health Authority employees and their dependants receive free medical benefits of which a portion is provided by the Health Authority. The portion provided by the Health Authority is valued at \$4,174,267 (2014: \$3,976,791) are netted against revenue as this is considered as contractual adjustments.

The Health Authority provides post-employment benefits through defined benefit and defined contribution plan.

Defined benefit plans

The Health Authority's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, and mortality rates. When the calculation results in a net benefit asset, the recognised assets is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(j) *Employee benefits (continued)*

Defined benefit plans (continued)

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income (loss). The net interest expense on the net defined benefit liability for the period is determined by applying the discount rate applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

The discount rate used to value the defined benefit obligation is based on a combination of high quality corporate bonds, in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations and the long-term rate of return of plan assets.

Defined Contribution Plans:

The Health Authority's obligations for contributions to employee defined contribution pension plans are recognized in the statement of comprehensive income in the periods during which services are rendered by employees.

(k) *Provisions*

Provisions are recognised when Health Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that the Health Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

4. Cash and cash equivalents

	2015	2014
Petty cash	\$8,700	\$8,700
Bank accounts	6,624,317	17,668,427
	<u>\$6,633,017</u>	<u>\$17,677,127</u>

At 30 June 2015, out of the \$1.9 million unsecured bank overdraft facility which is reviewed annually, \$212,155 (2014: \$245,328) was used most recently.

5. Accounts receivable - net

	2015	2014
Gross accounts receivable	\$100,496,205	\$68,740,553
Allowance for bad debts	(76,766,273)	(57,089,591)
	<u>\$23,729,932</u>	<u>\$11,650,962</u>

Allowance for bad debts movement:

	2015	2014
Balance at 1 July	\$57,089,591	\$45,533,298
Additional provisions	16,741,946	10,388,123
Provisions (contractual adjustments)	5,237,068	4,776,484
Write-offs	(2,302,332)	(3,608,314)
	<u>\$76,766,273</u>	<u>\$57,089,591</u>

Below is the ageing profile of accounts receivable as at 30 June 2015 and 30 June 2014:

	2015	2014
1 – 30 days	\$8,839,944	\$9,023,009
31 – 90 days	8,370,685	4,379,205
91 – 365 days	24,888,172	13,503,163
Over 365 days	58,397,404	41,835,176
	<u>\$100,496,205</u>	<u>\$68,740,553</u>

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

6. Other receivables - net

	2015	2014
Cabinet receivable	\$3,129,549	\$2,611,447
Other accounts receivable	503,446	243,221
Salary advance	35,278	50,645
	3,668,273	2,905,313
Less allowance for bad debts	1,727,499	1,477,589
	\$1,940,774	\$1,427,724

7. Inventory - net

	2015	2014
Pharmaceutical supplies	\$3,349,901	\$4,879,064
Medical supplies	2,848,593	3,623,875
Other supplies	385,738	369,011
	6,584,232	8,871,950
Less allowance for inventory impairment	470,997	126,377
	\$6,113,235	\$8,745,573

The cost of inventories recognized as operating expenses during the period was \$13,530,794 (2014: \$10,845,103). The inventory write-downs presented in the Statement of comprehensive income as at 30 June 2015 amounts to \$612,075 (2014: \$341,688) and this represent the write-off for expired drugs and inventory adjustments after year end count.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

8. Fixed assets

For the year ended June 30, 2015	Land	Buildings	Medical equipment	Other assets	Total
Cost:					
At beginning of year	8,253,125	52,813,008	14,484,902	12,935,897	88,486,932
Additions during year	-	183,102	2,309,349	1,390,389	3,882,840
Derecognition during year	-	-	(789,260)	(50,736)	(839,996)
At end of year	8,253,125	52,996,110	16,004,991	14,275,550	91,529,776
Accumulated depreciation:					
At beginning of year	-	5,274,154	10,786,560	10,301,109	26,361,823
Charge for year	-	1,356,461	1,068,730	461,466	2,886,657
Derecognition during year	-	-	(771,662)	(64,406)	(836,068)
At end of year	-	6,630,615	11,083,628	10,698,169	28,412,412
Carrying value:					
At June 30, 2015	\$8,253,125	\$46,365,495	\$4,921,363	\$3,577,381	\$63,117,364
For the year ended June 30, 2014	Land	Buildings	Medical equipment	Other assets	Total
Cost:					
At beginning of year	8,253,125	52,505,661	14,013,482	11,899,954	86,672,222
Additions during year	-	307,347	532,836	1,071,394	1,911,577
Derecognition during year	-	-	(61,416)	(35,451)	(96,867)
At end of year	8,253,125	52,813,008	14,484,902	12,935,897	88,486,932
Accumulated depreciation:					
At beginning of year	-	3,927,501	9,887,761	9,824,952	23,640,214
Charge for year	-	1,346,653	947,076	509,044	2,802,773
Derecognition during year	-	-	(48,277)	(32,887)	(81,164)
At end of year	-	5,274,154	10,786,560	10,301,109	26,361,823
Carrying value:					
At June 30, 2014	\$8,253,125	\$47,538,854	\$3,698,342	\$2,634,788	\$62,125,109

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

8. Fixed assets (continued)

Included in other fixed assets are: cost of buildings under construction, computer hardware & software, furniture & fittings, motor vehicles and office equipment. The cost of buildings under construction as at 30 June 2015 amounts to \$1,320,084 (2014: \$737,827).

Under the Health Services Authority Law, the Cayman Islands Government vested in the Health Authority's various health care facilities in the Cayman Islands. These properties were valued on January 1, 2001 and June 17, 2011 by the Department of Lands & Survey and DDL Studio Ltd., an independent appraiser, respectively on depreciated replacement cost basis. The June 30, 2010 balance of fixed assets has been restated to include the result of recent asset revaluation which amounts to \$16,091,758 and this amount is also presented in the net worth.

9. Accounts payable and accrued expenses

	2015	2014
Accounts payable	\$7,454,904	\$7,341,451
Accrued expenses	4,917,674	4,926,536
Employee benefits (Note 3 (j))	491,662	715,803
	\$12,864,240	\$12,983,790

10. Loans payable

	2015	2014
Current	\$243,295	\$235,079
Non-current	1,388,017	1,631,312
	\$1,631,312	\$1,866,391

Health Authority purchased seven units at the Lemon Grove Apartments located in George Town at a purchase price of \$990,000 including chattels on 25 February 2011 to serve as housing for locums, visiting specialist, newly recruited employees and all other guests who needs temporary housing. This was funded by a secured loan of \$800,000 obtained from First Caribbean International Bank (FCIB) at an interest rate of 3.75% for 10 years. A building with carrying amount of \$895,551 (2014: \$920,444) is subject to a first charge to secure the loan.

On 4 November 2011, Health Authority purchased also a 1.53 acre piece of land located at the corner of Hospital Road and Smith Road at a purchase price of \$1.7 million. This was funded by a secured loan of \$1.7 million obtained from FCIB at an interest rate of 3.75% for 10 years. A land with carrying amount of \$1,739,125 (2014: \$1,739,125) is subject to a first charge to secure the loan.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

10. Loans payable (continued)

With these two loans obtained from FCIB the overdraft facility was reduced to \$1.539 million from \$4 million and each repayment of loan will be added back to the overdraft facility every year based on the bank agreement signed on 21 October 2011. As at 30 June 2015, the overdraft facility has been restored to a balance of \$1.906 million from \$1.539 million. The finance charge paid for both of these loans as at 30 June 2015 amounts to \$61,585 (2014: \$75,875).

11. Patient services fees

	2015	2014
Fees from the rendering of services-net	\$68,773,365	\$61,388,093
Fees from sale of goods	21,128,147	19,605,920
	<u>\$89,901,512</u>	<u>\$80,994,013</u>

The amounts disclosed above for fees from sale of goods are derived from the sale drugs at pharmacy stores, district clinics, wards and all other locations. Patient services sold to the Government under Purchase Agreement such as medical care for beyond insurance coverage and indigent are included in the above.

The amount netted against fees from rendering of services, represent the medical benefit of employees and their dependants that has been provided by Health Authority and public health revenues.

12. Government programmes

	2015	2014
Faith Hospital	\$3,445,158	\$3,365,060
Ambulance	2,247,293	2,588,562
District Clinics	2,242,947	2,512,626
Mental Health	2,231,204	2,644,374
Public Health	1,330,576	1,106,822
Special Needs	1,050,248	-
School Health	626,980	1,913,774
Medical Internship	153,127	333,948
	<u>\$13,327,533</u>	<u>\$14,465,166</u>

The amount reported as government programmes includes \$249,910 (2014: \$915,539) (Note 18) budget shortfall for medical internship and special needs outputs which are not collectible from the Government and agreed by the Health Authority to provide an allowance for bad debts.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

12. Government programmes (continued)

The above including the medical care for beyond insurance coverage and indigent are all presented in the Annual Report – Purchase Agreement and reported to the Government as prescribed in *Public Management and Finance Law*.

13. Staff costs

	2015	2014
Salaries & Wages (including overtime)	\$45,912,625	\$43,482,919
Health Care – Overseas/Local	4,534,594	3,050,004
Pension Contribution	2,691,149	2,614,631
Allowances	2,126,939	1,602,341
Other Staff Cost	1,530,765	1,437,270
Unfunded Defined Benefit, net of re-measurement	1,190,000	804,000
	\$57,986,073	\$52,991,165

14. Other operating expenses

	2015	2014
Custom duties	\$1,671,139	\$1,160,671
Software licensing fees	1,072,076	1,361,678
Freight and shipping	1,021,562	748,062
Repairs and maintenance	943,269	761,616
Overseas laboratory tests	744,057	617,973
AIS transaction fees	343,025	1,010,247
Public relations and publicity	302,391	192,173
Computer maintenance	233,902	163,540
Mail courier service	178,442	348,449
Bank charges	112,848	91,111
Advertising	110,867	33,423
Finance charges (Note 10)	61,585	75,875
Miscellaneous	459,080	567,648
	\$7,254,243	\$7,132,466

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

15. Pension

(a) Defined Benefit Plan

The Public Services Pension Plan (the “Plan”) is managed by the Public Services Pension Board (the “PSPB”). The PSPB is responsible for, among other things, administering the Public Service Pensions Fund (the “Fund”), communicating with plan participants and employers, prescribing contribution rates in accordance with the latest actuarial valuation and recommending amendments to the Plan as needed.

In March 2005, the Financial Secretary of the Government informed the Health Authority that the decision to keep the unfunded defined benefit liability a central liability of the Government has been reversed and the Health Authority is expected to recognize the unfunded defined benefit liability on its financial statements.

Contributions towards benefits accruing in respect of the current service (i.e. for the period since the employee was enrolled in the plan) are funded at rates periodically advised to Health Authority by the Pensions Board and are recognised as an expense in the period incurred. The Health Authority is also required to make payments to the plan to fund benefits accruing in respect of past service (the “past service funding liability”).

This past service funding liability, which is generally equivalent to the actuarially determined present value of the defined benefit obligations less the value of the assets available to meet such obligations, is calculated periodically by the Plan actuaries and reported to the Health Authority by the Pensions Board.

The Health Authority recognizes changes in the past service funding liability, adjusted for funding payments made, as an expense or gain in the period in which such changes are incurred. In the absence of formal notification from the Pensions Board, the Health

Authority has no reliable way to quantify its liability to the Plan in respect of unfunded past service benefits.

To determine the defined benefit obligation of the Health Authority under the Plan, a professional actuary of PSPB was engaged to conduct annual studies. The most recent provisional actuarial estimate was performed as of June 30, 2015 by the PSPB indicated a plan deficit attributable to the Health Authority of \$10,220,000 (2014: \$10,239,000). The Health Authority has engaged the PSPB and the new actuaries, Mercer, in discussions concerning the basis appropriateness of the calculation of the defined benefit liability and basis on which the obligation was assigned to the entity.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

15. Pension (continued)

(a) Defined Benefit Plan (continued)

Pension Expense and Reconciliation of Defined Pension Liability

	<u>30.06.15</u>	<u>30.06.14</u>
	CIS(000)	CIS(000)
Provision at the beginning of the year	10,239	7,764
Pension expense for the year	274	2,854
Employer contributions	(293)	(379)
Provision at end of year	<u>10,220</u>	<u>10,239</u>

Reconciliation of Funded Status:

Company's share of defined benefit obligation	20,346	19,177
Less: Fair value of plan assets	10,126	8,938
Defined benefit liability	<u>10,220</u>	<u>10,239</u>

Components of Defined Benefit Cost for the year:

Current service cost	1,039	808
Total net interest cost	444	375
Administrative expenses and taxes	-	-
Defined benefit cost included in P&L	1,483	1,183
Remeasurement Included in Other Comprehensive Income (OCI):		
Demographic assumptions change	(6)	-
Financial assumptions change	1,058	2,583
Experience adjustments	80	8
Return on plan asset (excluding interest)	(225)	(920)
Total remeasurement included in OCI	(1,209)	1,671
Pension Expense for the year	<u>274</u>	<u>2,854</u>

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

15. Pension (continued)

(a) Defined Benefit Plan (continued)

The change in fair value of plan assets is as follows:

	<u>30.06.15</u>	<u>30.06.14</u>
	<u>\$000</u>	<u>\$000</u>
Fair value of plan assets at beginning of year (negative)	8,938	7,098
Interest income	419	393
Cash flows		
Employer and participant contributions	544	704
Benefit payments from plan	-	(177)
Administrative expenses paid from plan assets	-	-
Remeasurements – return on plan assets (excluding interest income)	225	920
Fair value of plan assets at end of year (negative)	10,126	8,938

The defined benefit liability reconciliation is as follows:

	<u>30.06.15</u>	<u>30.06.14</u>
	<u>\$000</u>	<u>\$000</u>
Defined benefit obligation at beginning of year	19,177	14,862
Current service cost	1,039	808
Interest expense	863	768
Effect of changes in demographic assumptions	(6)	-
Effect of changes in financial assumptions	(1,058)	2,583
Effect of changes in experience adjustments	80	8
Cash flows	251	148
Defined benefit obligation at end of year	20,346	19,177

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

15. Pension (continued)

(a) Defined Benefit Plan (continued)

The sensitivity analysis on defined benefit obligation is shown below:

	<u>30.06.15</u>	<u>30.06.14</u>
1. Discount rate		
a. Discount rate - 25 basis points	21,404	20,203
b. Discount rate + 25 basis points	19,364	18,226
2. Inflation rate		
a. Inflation rate - 25 basis points	19,282	18,221
b. Inflation rate + 25 basis points	21,490	20,204
3. Mortality		
a. Mortality - 10% of current rates	20,720	19,500
b. Mortality +10% of current rates	20,002	18,878

The expected cash flow for the following year is as follows:

	<u>30.06.15</u>	<u>30.06.14</u>
	<u>\$000</u>	<u>\$000</u>
Expected employer contributions	303	390

The significant actuarial assumptions are presented below:

<i>Weighted-average assumptions to determine benefit obligations</i>	<u>30.06.15</u>	<u>30.06.14</u>
1. Discount rate	4.75%	4.50%
2. Rate of salary increase	3.50%	3.50%
3. Rate of price inflation	2.50%	2.50%
4. Rate of pension increases	2.50%	2.50%
5. Post-retirement mortality table	UP-94 projected on a generational basis using MP-2014	UP-94 projected on a generational basis using Scale BB
6. Cost Method	Projected Unit Credit	Projected Unit Credit
7. Asset valuation method	Market Value	Market Value

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

15. Pension (continued)

(a) Defined Benefit Plan (continued)

<i>Weighted-average assumptions to determine defined benefit cost</i>	30.06.15	30.06.14
1. Discount rate	4.50%	5.20%
2. Rate of salary increase	3.50%	3.50%
3. Rate of price inflation	2.50%	2.50%
4. Rate of pension increases	2.50%	2.50%
5. Post-retirement mortality table	UP-94 projected on a generational basis using Scale BB	UP-94 projected on a generational basis using Scale BB

Plan Assets

The Defined Benefit assets as well as Defined Contribution assets of the Plan are held as part of the Fund and managed by the PSPB. The assets of two other pension plans are pooled together to constitute the Fund.

The assets are notionally allocated to each of the three participating pension plans through an international accounting mechanism that tracks, for each accounting period, actual cash flows and allocates investment income based on the rate of return earned by the Fund. Based on the data provided, the gross rate of return earned by the Fund for the 2014/2015 fiscal year was 6.69%. Similar internal accounting is used for developing each participating entity's share of the asset portfolio of the Fund.

The valuations are based on the asset values as at June 30, 2015 provided by the PSPB, along with cash flow and other supplemental asset information. The assets are held in trust by CIBC Mellon. The data provided by the PSPB had been relied without further audit.

The Fund currently has investment policy with a target asset mix of 80% equities and 20% bonds. As at June 30, 2015, the Fund was invested as follows:

Plan Assets by Asset Category	30.06.15		30.06.14	
	(\$000)	Percentage	(\$000)	Percentage
Global equities securities	411,606	80%	381,162	79%
Debt securities	97,807	19%	95,602	20%
Real estate / Infrastructure	-	-	-	-
Cash	6,312	1%	6,871	1%
Total	515,725	100%	483,635	100%

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

15. Pension (continued)

(a) Defined Benefit Plan (continued)

The share of the Fund that has been notionally allocated to the Health Authority with regards to its participation in the Defined Benefit Part of the Plan is \$10,083,000 as at June 30, 2015 (2014 :\$ 8,938,000).

The Actuarial Assumptions

The actuarial assumptions have been approved by the Financial Secretary, the main sponsor of the Plan on July 17, 2015. The principal financial and demographic assumptions used at June 30, 2015 and June 30, 2014 are shown in the table below. The assumptions as at the reporting date are used to determine the present value of the benefit obligation at that date and the pension expense for the following year.

Measurement Date	30.06.2015	30.06.2014
Discount rate		
- BOY disclosure and current year expense	4.50% per year	5.20% per year
- EOY disclosure and following year expense	4.75% per year	4.50% per year
Increases in pensionable earnings	3.50% per year	3.50% per year
Rate of Pension Increases	2.50% per year	2.50% per year
Rate of Indexation	2.50% per year	2.50% per year
Expected long-term rate of return on assets (net of expenses) for purposes of IFRIC only	7.00% per year	7.00% per year
Mortality		
- BOY disclosure and current year expense	UP-94 generationally projected using Scale BB	UP-94 generationally projected using Scale BB
- EOY disclosure and following year expense	RP-2014 generationally projected using Scale MP-2014	UP-94 generationally projected using Scale BB
Disability	None	None
Turnover Rates	Age related table	Age related table

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

15. Pension (continued)

(a) Defined Benefit Plan (continued)

Measurement Date	30.06.2015	30.06.2014
Retirement	Age 57 and 10 years of service	Age 57 and 10 years of service
Assumed life expectations on retirement	Retiring today (member age 57):30.12	Retiring today (member age 57):29.93
	Retiring in 25 years (at age 57): 32.40	Retiring in 25 years (at age 57): 32.43
Liability Cost Method	Projected unit credit method	Projected unit credit method
Asset Value Method	Market Value of Assets	Market Value of Assets
Commutation of pension	All members commute 25% at retirement	All members commute 25% at retirement
<i>Turnover Rates at sample ages:</i>		
	Age	Males Females
	20	7.5% 12.5%
	25	5.0% 12.5%
	30	3.5% 7.5%
	35	2.5% 4.5%
	40	1.5% 2.5%
	45	0.5% 5.0%
	50	0.0% 0.0%

Except for the discount rate and mortality assumptions, there have been no changes in actuarial assumptions since the prior valuation. Recent mortality studies in the US and Canada show that people are living longer. New mortality tables have been issued by US and Canada. The mortality assumption was updated to reflect the new mortality tables, RP-2014 and improvement scale, MP-2014, released by the Society of Actuaries, in its RP-2014 Mortality Tables Report, dated October 2014 (revised November 2014). These tables form the new standard basis for the measurement of retirement program obligations in the United States.

The discount rate as at June 30, 2015 and June 30, 2014 were determined in accordance with IAS 19. In accordance with IAS 19R paragraph 83, determined by reference to market yields on high quality corporate bonds (consistent with the term of the benefit obligations) at the fiscal year end date. The Mercer US Above Mean Yield Curve (referencing US corporate bond yields) was used to determine discount rates due to strong economic and currency links between the US and Cayman Islands.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

15. Pension (continued)

(a) Defined Benefit Plan (continued)

Participant Data

The defined benefit obligation at 30 June 2015 of the Health Authority as it relates to its participation in the Plan is based on the member data as at 1 January 2014 (92 active members). The same data was used for the calculation of the defined benefit obligation at 30 June 2014.

b) Defined contribution plan

Employees who are not participants in the defined benefit part of the Plan are enrolled in defined contribution part of the Plan. The total number of employees enrolled in the defined contribution with the PSPB at 30 June 2015 is 661 (2014: 624).

During the year ended 30 June 2015, the Authority and its employees contributed to the fund 7% and 6%, respectively (2014: 7% and 6%, respectively).

The total amount recognised as a pension expense for the year ended 30 June 2015, inclusive of both defined benefit and defined contribution parts, was \$3,881,149 (2014: \$3,418,631).

16. Provision

The Health Authority is a defendant to several claims that have been brought against it by patients and employees as a result of its medical operations. Estimated liability for the lawsuits as of 30 June 2015 is nil (2014: nil). As of 30 June 2015, \$14,527 (2014: \$118,500) was paid out as settlement for medical malpractice claims and employee claim, respectively.

Below is the movement of provisions for legal claims:

	2015	2014
Balance at 1 July	\$-	\$432,141
Recovery of losses	-	(432,141)
Balance at 30 June	\$-	\$-

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

17. Contingencies and commitments

(a) Contingent legal claims

The Health Authority believes that the outflow of funds for the malpractice and employee related legal claims amounting to \$6,417,000 and nil (2014: \$6,415,000 and nil), respectively are less than probable to be successful and are covered by insurance in excess of deductible; accordingly, no provisions were recognized for possible losses.

There are a number of claims outstanding that relate to services provided prior to the establishment of the Health Authority or prior to 1 July 2002. Neither provision nor contingent liability has been made for these claims in the financial statements, as the Health Authority believes any costs encountered [that are not covered by insurance] will be met by the Ministry of Health and Human Services (the "Ministry").

(b) Capital and operating commitments

Type	One year or less	One to five years	Over five years	Total
Capital Commitments				
Land and buildings	\$ -	\$ -	\$ -	\$ -
Other fixed assets	202,201	-	-	202,201
Total Capital Commitments	202,201	-	-	202,201
Operating Commitments				
Non-cancellable contracts for the supply of goods and services	1,225,239	281,445	-	1,506,684
Total Operating Commitments	1,225,239	281,445	-	1,506,684
Total Commitments	\$ 1,427,441	\$ 281,445	\$ -	\$ 1,708,886

The outstanding capital commitment for the completion of generators project amounts to \$202,201 (2014: \$1,068,739) with JML International Ltd and Mepco Ltd.

In addition, the Health Authority has entered into various operating commitments with terms less than one year to over five years term amounting to \$1,506,684 (2014: \$3,647,439). A substantial part of this amount pertains to the contract with Cerner Corporation for the off-site storage and management of clinical and financial electronic data which is just renewed after it expired in 28 June 2013 for another three-year contract totaling US\$2.8 million. This new contract will expire on 30 June 2016.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

18. Related party transactions

The Health Authority is directly controlled by the Government and has transactions with entities directly or indirectly controlled by the Government through its government authorities, agencies, affiliations and other organizations (collectively referred to as "government-related entities"). The Health Authority has transactions with other government-related entities but not limited to the sale and purchase of goods and ancillary materials, rendering and receiving services, lease of assets, depositing money, and use of public utilities.

These transactions are conducted in the ordinary course of Health Authority's business on terms comparable with other entities that are not government-related. The Health Authority has established procurement policies, pricing strategy and approval process for purchases and sales of goods and services, which are independent of whether the counterparties are government-related entities or non-government-related entities.

For the year ended 30 June 2015, management estimates that the aggregate amount of Health Authority's transactions with government-related entities are at least 72% (2014:73%) of its revenue and between 5-10% (2014:5-10%) of its operating expenditures. Significant transactions with the government-related entities are discussed as follows:

- The Health Authority provides health care for a large portion of the employees of the Government and their dependants including other ancillary services to other government related-entities and reported this as revenue in the amount of \$45,045,266. (2014:\$39,213,690). The Health Authority is reimbursed by Cayman Islands National Insurance Company (CINICO) for the services provided to the employees of the Government and their dependants.
- The Health Authority has drawn equity injection during the year amounting to \$847,500 (2014: \$849,567) from the Government's Cabinet and whole amount was collected. These payments do not have to be repaid and are composed as follows:

	30 June 2015	30 June 2014
Subsidy for Capital expenditures	\$847,500	\$849,567
	<u>\$847,500</u>	<u>\$849,567</u>

- Pursuant to the general and supplemental appropriation for the year ended 30 June 2015, the Health Authority billed the Government's Cabinet \$25,907,058 (2014: \$31,527,400) during the year for the outputs that have been purchased by the Government to provide medical care for indigent persons and under/un-insured children (included in patient services fees) and other government programmes totalling \$13,327,533 (2014: \$14,465,166) and the maintenance of Faith Hospital in the amount of \$3,445,158 (2014: \$3,365,060). The amount outstanding as overall cabinet receivable as of 30 June 2015 amounts to \$3,129,549 (2014: \$4,470,513) were duly included in the supplemental budget requests of Government's Cabinet.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

18. Related party transactions (continued)

- Below is the cost incurred by Health Authority for the other government programmes delivered to the Government and the budget amount:

	Billed	Budget
Faith Hospital	\$3,445,158	\$3,445,158
Mental Health	2,231,204	2,231,204
Ambulance	2,247,293	2,247,293
District Clinics	2,242,947	2,242,947
School Health	626,980	688,785
Special Needs	1,050,248	741,660
Public Health	1,330,576	1,330,576
Medical Internship	153,127	150,000
	<u>\$13,327,533</u>	<u>\$13,077,623</u>

The remuneration of directors and other members of key management mainly included as staff costs including pension during the year was as follows:

	2015	2014
Short-term benefits:		
Senior management	\$1,675,438	\$1,776,871
Board of directors	16,800	23,151
	<u>\$1,692,238</u>	<u>\$1,800,022</u>

As at 30 June 2015 the Health Authority had incurred a medical cost of \$29,628 (2014: \$24,719) for its key management and provided in its own facility.

The Health Authority also had transactions with members of key management or with their family such as lease of apartment, official travel reimbursements et al with an annual disbursement of \$26,237 (2014: \$26,237) and salary of other related party amounting to \$219,389 (2014: \$219,389).

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

19. Financial instruments and associated risks

For certain of the Health Authority's financial instruments, including cash and cash equivalents, other receivables, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The Health Authority's activities expose it to various types of risk. The most important type of financial risks to which the Health Authority is exposed are as follows:

19.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. To reduce exposure to credit risk, the Health Authority performs ongoing credit evaluations of the financial condition of its customers but generally does not require collateral and parties who had defaulted despite repetitive collection efforts are referred to collection agency or to legal counsel. The Health Authority is exposed to credit-related losses in the event of non-performance by counter parties to these financial instruments. Most importantly, the Health Authority has escalated the credit risk concentration to the Ministry for policy changes to reduce bad debts.

Accounts receivable consist of a large number of customers and these customers would either have health insurance policy with CINICO or with various commercial insurance or no insurance coverage at all. Concentration of credit risk belongs to the group of customers known as "self-pay". These amounts are owed by customers who have neither insurance coverage nor sufficient coverage which are estimated to be 75% - 100% uncollectible.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

19. Financial instruments and associated risks (continued)

19.1 Credit risk (continued)

The carrying amount of financial assets recorded in the financial statements as accounts receivable from “self-pay” group of customers, which is net of allowance for bad debts, represents the maximum exposure to credit risk:

	Less than 1 month	1-3 months	3 months to 1 year	1 year over	Total
	\$000	\$000	\$000	\$000	\$000
2015					
Gross accounts receivable	1,355	1,354	7,795	41,727	52,231
Allowance for bad debts	1,016	1,151	7,529	41,606	51,302
	<u>339</u>	<u>203</u>	<u>266</u>	<u>121</u>	<u>929</u>
2014					
Gross accounts receivable	1,125	1,447	7,410	33,188	43,170
Allowance for bad debts	844	1,230	7,162	33,067	42,303
	<u>281</u>	<u>217</u>	<u>248</u>	<u>121</u>	<u>867</u>

19.2 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Health Authority’s funding and liquidity management requirements. The Health Authority manages liquidity risk by maintaining the \$1.9 million credit facility, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the financial statements as of 30 June 2015 and 30 June 2014.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

19. Financial instruments and associated risks (continued)

19.2 Liquidity risk (continued)

	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
30 June 2015							
Financial assets							
Cash and cash equivalents	\$6,633,017		\$6,633,017	\$ -	\$ -	\$ -	\$ -
Accounts receivable, net	23,729,932		23,729,932				
Other receivables	1,940,774		1,940,774				
	32,303,723	-	32,303,723	-	-	-	-
Financial liabilities							
Accounts payable and accrued expenses	12,864,241		12,864,241				
Unfunded pension obligation	10,220,000		10,220,000				
Loans payable	1,631,312		243,295	243,295	243,295	243,295	658,132
	24,715,553	-	23,327,536	243,295	243,295	243,295	658,132
Difference in contractual flows	\$7,588,170	-	\$8,976,187	(\$243,295)	(\$243,295)	(\$243,295)	(\$658,132)

	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
30 June 2014							
Financial assets							
Cash and cash equivalents	\$17,677,127		\$17,677,127	\$ -	\$ -	\$ -	\$ -
Accounts receivable, net	11,650,962		11,650,962				
Other receivables	1,427,724		1,427,724				
	30,755,813	-	30,755,813	-	-	-	-
Financial liabilities							
Accounts payable and accrued expenses	12,983,790		12,983,790				
Unfunded pension obligation	10,239,000		10,239,000				
Loans payable	1,866,391		245,511	245,511	245,511	245,511	884,347
	25,089,181	-	23,468,301	245,511	245,511	245,511	884,347
Difference in contractual flows	\$5,666,632	-	\$7,287,512	(\$245,511)	(\$245,511)	(\$245,511)	(\$884,347)

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 30 June 2015
(stated in Cayman Islands dollars)

19. Financial instruments and associated risks (continued)

19.3 Interest risk

Interest rate risk – The Health Authority is exposed to interest rate risk for the \$1.9 million credit facility with First Caribbean International Bank (Cayman) Ltd (“FCIB”) at a prime rate plus 0.25% per annum. This interest rate will fluctuate from time to time in line with the general level of interest rates. The risk is managed by the Health Authority by maintaining a short-term credit agreement that is renewable every year to have a negotiable and preferred rate. In addition, the Health Authority is limiting the usage of the credit facility by continuously monitoring the daily cash position which management views as likely to result into a bank preferred interest rate on the renewal of the agreement. The Health Authority has a minimal exposure on interest risk as none of the other financial instruments is exposed to this type of risk.

20. Post employment benefit

Starting April 2010, the Health Authority has paid for medical bills of its retirees whose medical coverage was dropped by the Portfolio of the Civil Service (POCS). The continued payment of these medical bills constitutes a constructive obligation on the Health Authority to be liable for future medical bills of such retirees although there is no policy decision yet issued by the POCS as to who should be liable for the medical costs of these retirees. Subsequent to this, the Board has made a policy decision that all new employees hired starting November 1, 2010 and on wards will no longer have a lifetime medical benefits. Such liability has not been estimated or recognized in these financial statements and the Health Authority is currently trying to engage an insurance company to cover the retiree’s medical benefits.

21. Subsequent events

The Health Authority owed the Government a property insurance premiums with an arrears of four (4) years covering the periods April 2011 to March 2015 and with a total value of \$6,415,060. As at 28 July 2016, Health Authority received an e-mail notification from the Ministry of Finance & Economic Development requesting the Health Authority to write-off this total amount in 30 June 2016 financial period. Health Authority is still waiting for the official memorandum from the Government relating to this write-off to finalize the accounting treatment and presentation thereof in 30 June 2016 Financial Statements.