OWNERSHIP AGREEMENT ANNUAL REPORT

For

Cayman Islands Health Services Authority

For the year ended 30 June 2006

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Appendix: Financial Statements and the Report of the Auditor General

1. Chairman's Statement

In accordance with Section 52 of the Public Management and Finance Law (2005 Revision) the Health Services Authority (HSA) has submitted to the Auditor General the fina ncial statements for the year ended 30 June 2006 of which a disclaimer of opinion was issued by the Auditor General.

Continued implementation of the strategies initiated in the previous financial year and stringent management of the Authority's finances have resulted in continued improvement in the HSA's financial position which has resulted in the elimination of the need for government's equity injection to cover operating losses as represented below:

Equity Injection (Operating Loss and Capital Subsidies)

	Capital Subsidy	Operating Loss Subsidy	Total Subsidy
2005/6	nil	11.9 million	11.9 million
2006/7	2.5 million	14.2 million	16.7 million
2007/8	3.8 million	9.6 million	13.4 million
2008/9	2.7 million	6.4 million	9.1 million
2009/10	2.2 million	nil	2.2 million

The Board and management approved the implementation of a five year strategic plan with six key strategic goals to achieving financial sustainability:

1. establish policies and procedures to ensure fiscal accountability and responsibility throughout the Health Services Authority;
2. establish a competitive fee structure for all services provided;
3. establish effective information systems to support management decisions;
4. establish procedures to ensure fees for all services are collected;
5. develop programmes to enhance revenue; and
6. establish a Charitable Foundation as a conduit for donations to the HSA.

Significant strides have been undertaken in implementing many of these initiatives which have also been acknowledged by the Auditor General in his commentary on our financial reporting:

> *"the Authority has made considerable progress to address matters raised in previous audits and that by addressing many of the fundamental financial accounting and reporting issues, the Authority was able to improve its overall control environment."*

The Board and management acknowledge that some gaps remain and these will require consistent and intense efforts to improve, but in the context of the Authority's prior challenges, the achievements made in the three year period between 2002 and 2005 are remarkable. We have already implemented several initiatives which will further improve our financial performance, create operational efficiencies and improve clinical outcomes; and therein reduce the HSA's risk exposure.

Some of the initiatives are:

Improvements to processing and control management

The management of the Authority has implemented management procedures and control to include the creation of a Procurement Department that has effectively streamlined the purchasing, control of supplies, materials and equipment. Additionally, the Materials Management Division is being restructured into distinct units responsible for inventory control, receiving, customs clearance and stock control. We are also exploring the idea of acquiring an electronic purchasing and inventory management system as part of our operational plan to enhance processing and control management.

Functioning audit committee

The Board supports the recommendation for continued oversight of the finances of the HSA and has appointed an Audit Committee. This committee primary role will be to review the:

1. Integrity of the financial statements and its conformity with standards, laws and regulations;
2. Accountability with legal and regulatory compliance; and
3. Oversight of the external and internal audits, including the scope of work and dealing with the findings.

Strengthening the financial function

As alluded to earlier, the financial functions have been redefined to ensure the development of "fairly presented financial statements." This re-definition of the function commenced in the last three years and has already resulted in substantial improvements with our financials.

Enhanced risk management

The Authority maintains a robust risk management program which is continually being enhanced to mitigate and minimize operational risks. This includes semi-annual independent audits conducted by our external risk assessors as well as the organization's own internal policies and controls to ensure compliance with local regulations and international best practices for healthcare operations.

The Board and management of the HSA takes seriously our obligations as specified in the Law and are fully committed to judiciously manage the organization and the public funds in a manner that will engender the continued confidence of the people of the Cayman Islands, legislators and the appropriate regulatory agencies. The Board is confident that the necessary steps are being taken to put in place the measures needed to improve the financial reporting of the Authority.

Canover Watson
Chairman of the Board of Directors
June, 2010

2. Purpose

This annual report details the performance of the *Cayman Islands Health Services Authority* for the fiscal year ending 30 June 2006.

It includes information about the actual performance delivered during the year as compared to the planned performance documented in the Ownership Agreement for *Cayman Islands Health Services Authority* for 2005/6, or as amended through the supplementary appropriation process.

3. Nature and Scope of Activities

This section outlines the Nature and Scope of Activities within which Cayman Islands Health Services Authority operated during the year.

Approved Nature and Scope of Activities

General Nature of Activities

The Cayman Islands Health Services Authority (HSA) is responsible for the provision of health care services in the Cayman Islands.

Scope of Activities

The Cayman Islands Health Services Authority provides prehospital, primary and secondary levels of healthcare services, as well as public health functions for the residents of the Cayman Islands in accordance with the National Strategic Plan for Health as agreed with the Ministry of Health from time to time.

The HSA operates two hospitals, the Cayman Islands Hospital (CIH) in Grand Cayman and Faith Hospital (FH) in Cayman Brac. The CIH provides inpatient care in the areas of medicine and surgery, maternity, paediatric, mental health, critical care, neonatal intensive care and operating theatre. The following outpatient and support services are also provided: ambulatory care, dialysis, physiotherapy, radiology (including ultrasound and CT scans) and laboratory/pathology services; inpatient and outpatient pharmacy, morgue and a forensic and drug testing laboratory as well as specialist sevices such as: surgery, gynaecology & obstetrics, paediatrics, internal medicine, dermatology, anaesthesiology, public health, orthopaedics, psychiatry, radiology, ophthalmology, ear, nose & throat, periodontology, dentistry, reconstructive surgery, urology and on visiting basis, cardiology, neurology, and faciomaxillary surgery.

Faith Hospital provides general practice service and inpatient services which includes medical-surgical services, paediatrics, obstetric & gynaecology, 24-hour emergency service and pre-hospital care. This service being rendered through a purchase agreement with the Ministry of Health.

The emergency service is staffed with specially trained nurses, doctors, and prehospital emergency medical technicians and paramedics who provide 24-hour emergency services seven-days-a-week.

The Cayman Islands Health Services Authority through the Public Health Department is responsible for public health programmes under a purchase agreement with the Ministry of Health. A team of public health nurses, a public health surveillance officer, a health promotion officer, a genetics counsellor, a nutritionist and administrative staff provides this service under the direction of the Medical Officer of Health.

Public Health services include:

- Health advice and vaccines for international travellers;
- Health assessment, including vision and hearing tests for children;
- Nutrition and dietary counselling;
- Child growth and development monitoring;
- Communicable disease screening; and
- Disease control programmes, including immunization.

Customers and Location of Activities

The Cayman Islands Health Services Authority provides services to all members of the community and visitors. It serves as the primary source of healthcare services to groups of people entitled to healthcare by the Cayman Islands Government. This includes civil servants and their dependants, public office pensioners and their dependents, school age children, seamen and veterans, indigents and prisoners.

The Cayman Islands Health Services Authority owns and operates two hospitals (in Grand Cayman the Cayman Islands Hospital and in Cayman Brac the Faith Hospital), a public health unit (which provides services in the community setting), five district health centres and a general practice clinic at the Cayman Islands Hospital, a dental clinic (including school dental services), the Lions Eye Clinic and a clinic in Little Cayman.

Compliance during the Year

The Cayman Islands Health Services Authority has maintained operation of its facilities in accordance with the scope of activities as specified in the 2005/2006 ownership agreement. A few of its strategic goals and objectives had to be modified during the course of the year due to turnover of key leadership positions.

4. Strategic Goals and Objectives

Approved Strategic Goals and Objectives

The approved key strategic goals and objectives (from an ownership perspective) for the Cayman Islands Health Services Authority for the 2005/6 financial year are as follows:

A. Raise the profile of the Cayman Islands Hospital as a medical centre of excellence in the Caribbean by expanding and enhancing the range of services offered and partnering with major international medical centres.
B. Increase collaboration with the private sector to provide seamless care and treatment options for all patients in the Cayman Islands
C. Partnership with St. Matthew's University to have the Cayman Islands Hospital recognised and accredited internationally as a teaching hospital, thereby enhancing its profile and creating a source for medical research and continuing education.
D. Ensure the provision of patient focused care that complies with internationally accepted standards.
    1. Improve all customer service aspects by focusing on customer service programs for staff.
    2. Improve access to services being offered
    3. Improve clinical outcomes of the services by retaining staff who are clinically competent, motivated and caring.
    4. Develop clinical protocols and policies for standards of practice
    5. Upgrade and introduce new equipment and supplies for service enhancement

E. Improve financial/cost effectiveness of the Cayman Islands Health Services Authority and the services it provides.
    1. Continue to improve the financial independence of the Authority by establishing cost based charges for services currently provided which are not on the Charge Master list.
    2. Strengthen the financial management and control functions within the Authority utilising recommendations in audit reports
    3. Development of new cost effective medical services on island reducing the need for patients to travel overseas and lowering the cost of overseas medical care paid for by the Ministry and these patients.
    4. Compliance with the Cabinet fiscal directive: an equity injection to subsidise the HSA of **$12 million** in 2005/6, **$6.526 million** in 2006/7 and **$6.526 million** in 2007/8. There will be no subsidy in 2008/9.The Cabinet has also specified as part of their fiscal strategy that the losses of the HSA should be limited to a maximum of **$7.139 million** in 2005/6, **$6.526 million** in 2006/7 and **$6.526 million** in 2007/8. It is anticipated that at a minimum a break-even point will be achieved in subsequent years.
    5. Prepare a plan, within the next three months, outlining what the Board is going to do to solve the existing financial problems and to move towards financial sustainability.

F. Create a stable, motivated and empowered workforce.
    1. Establish a Human Resource Program which will ensure recruitment and retention of staff committed to the organisation's mission.
    2. Implement a performance incentive/reward system
    3. Complete the salary review process ensuring the availability of competitive salaries for recruitment and retention of staff
    4. Provide a robust continuing education program for all staff

Achievement during the Year

A. Raise the profile of the Cayman Islands Hospital as a medical centre of excellence

The Authority continues efforts at getting the Cayman Islands Hospital accredited with an international body either in the United States or Canada which will further establish our position as a quality health care provider equal to any hospital in North America or Europe.

It is also our goal to further expand and enhance the range of services currently offered through partnerships with major international medical centers to meet the needs of residents and visitors while offering a high standard of medical care.

B. Increase collaboration with the private sector

New and creative means of partnering with the private sector in a collaborative approach to providing a comprehensive array of services on island were implemented, alleviating the inconvenience and costs associated with patients travelling overseas for medical care while combining the skills and resources of the public and private sector for the advancement of patient care.

C. Partnership with St. Mathews University for mutual educational opportunities

Our partnership with St. Mathews University enhanced the reputation of the Cayman Islands Hospital as a teaching hospital and a source for medical research and continuing education.

D. Ensure the provision of patient-focused care.

The HSA's primary business is patient care which is embodied in our mission statement - "to optimize the wellness of all people in our Islands, by delivering accessible, cost-effective, patient-focused care through visionary leadership, operational efficiency and compassionate staff"

During the last year the following achievements have been realised:

- Reduction in patient complaints and liability claims
- The establishment of a comprehensive quality improvement programme and ensuring that that all sections and services have documented policies and procedures to support quality improvement
- Implementation of a patient's charter that clearly outlines their rights and responsibilities.
- Initiatives to reduce waiting times in all clinics, with a proposal for extended clinic hours in some areas, including Dental Clinic which currently operates extended week-day hours.
- Improved patient scheduling and response with the implementation of a voice and email system providing patients with greater flexibility for booking appointments. All requests for appointments are responded to within 24-hours.
- Comprehensive customer service training program for all frontline employees with mechanism for ongoing evaluation and further training to ensure expectations and standards are met at all levels.

Achievement during the Year (continued)

E. Despite an unplanned turnover of senior leadership including the Chief Executive Officer, and Human Resources Director which created a very unsettled workforce, the HSA was able to realise its main goals and objectives.

- Creation of a financial report and five-year budget
- Implementation of a programme towards being financially self-sufficient by 2009.
- Continual development of effective financial controls, policies and procedures throughout all areas of the Hospital's operations to ensure fiscal accountability and responsibility and revenue enhancement.
- Establish procedures to ensure that all fees are properly captured and collected.
- Implementation of an effective information systems to support management decisions, and
- development of new programmes to enhance revenue.

F. Create a stable and motivated workforce

Among the several initiatives undertaken to ensure that the HSA retains the best qualified and skilled professionals in health care in these Islands are:

- Launch of a comprehensive Job Evaluation
- Staff Employee Satisfaction survey
- Cost of living increase
- Redefined and strengthened the roles and responsibilities of the Staff Relations Committee
- Increased representation from all sections and levels of the organization in organisational development and decision making
- Career advancement tuition assistance through the Training Committee provides career advancement opportunities to staff.
- Cross training of staff through work opportunities in other areas, eg. registration officers and Cashiers are crossed trained.
- Empowerment of staff by management sharing. Staff provided with opportunities to act while Managers are out of office on vacation, education or sick leave.
- Part-time employment and job sharing opportunities. Creation of additional opportunities for staff to do part-time work outside of their normal hours in switchboard, insurance, collections etc.

5. Ownership Performance Targets

The ownership performance targets achieved as specified in schedule 5 to the Public Management and Finance Law (2005 Revision) for *Cayman Islands Health Services Authority* for the 2005/6 financial year are as follows.

Financial Performance

Financial Performance Measure	2005/6 Actual $	2005/6 Budget $	Annual Variance $
Revenue from Cabinet	11,952,039	10,402,016	1,550,023
Revenue from ministries, portfolios, statutory authorities and government companies	16,243,355	24,101,566	(7,858,211)
Revenue from other persons or organisations	19,304,657	16,133,001	3,171,656
Surplus/deficit from outputs	Not determined	Not determined	Not determined
Other expenses	62,511,340	57,549,583	4,961,757
Net Surplus/Deficit	(15,011,289)	(6,912,999)	(8,098,290)
Total Assets	53,653,698	75,096,039	(21,442,341)
Total Liabilities	8,844,111	1,596,481	7,247,630
Net Worth	44,809,587	73,499,558	(28,689,971)
Cash flows from operating activities	(10,472,984)	(7,571,241)	(2,901,743)
Cash flows from investing activities	(2,503,913)	(4,202,759)	1,698,846
Cash flows from financing activities	11,993,610	12,000,000	(6,390)
Change in cash balances	(983,287)	226,000	(1,209,287)

Financial Performance Ratio	2005/6 Actual	2005/6 Budget	Annual Variance
Current Assets: Current Liabilities	1.34	17.97	(16.63)
Total Assets: Total Liabilities	6.07	47.04	(40.97)

Maintenance of Capability

Human Capital Measures	2005/6 Actual	2005/6 Budget	Annual Variance
Total full time equivalent staff	698	673	25
Staff turnover (%)	12.1%	10%	2.1
Average length of service (Number) Senior management Professional staff Administrative staff	 13.89 yrs 7.73 yrs 6.45 yrs	 13.75 yrs 6.74 yrs 6.67 yrs	 0.14 0.99 (0.22)
Significant changes to personnel management system	None	Performance related pay increases and attendance system	

Physical Capital Measures	2005/6 Actual $	2005/6 Budget $	Annual Variance $
Value of total assets [cost]	54,125,672	55,476,629	(1,350,957)
Asset replacements: total assets	4.00%	8.00%	(4.00%)
Book value of depreciated assets: initial cost of those assets (less land)	76.17%	82.00%	(5.83%)
Depreciation: Cash flow on asset purchases	82.35%	55.00%	27.35%
Changes to asset management policies	None	None	None

Major Capital Expenditure Projects	2005/6 Actual $	2005/6 Budget $	Annual Variance $
Equipment associated with the Hospital Information System (Cerner) (Upgrades, Support, Agreement)	0	In Progress. Approximately $ 3,000,000	($3M)
Re roofing Materials Management	0	160,000	($160,000)
Security Equipment	0	259,759	($259,759)
Dialysis Flooring	0	29,000	($29,000)
Medical Equipment	0	130,000	($130,000)
Other Equipment (Telephone, Signage , Photocopier)	0	173,000	($173,000)

Variance Explanation:
For 2005/6, the Health Authority didn't receive any equity injection for capital expenditures out of the $3.75 million planned major capital expenditure projects as shown above where the Ministry is supposed to subsidize. The $11,993,610 capital contribution received for 2005/6 pertains only to operating loss subsidy.

Most of the $2.5 million fixed assets additions as shown in the attached financial statements were reimbursement from insurance for refurbishment of buildings damaged by Hurricane Ivan.

Risk Management

Key risks	Actions to be taken during 2005/6 to Manage risk	Status of Risk as at 30 June 2006	Financial Value of risk
Key Staff vacancies	Recruit Chief Executive Officer Recruit Chief Financial Officer Recruit Director, Human Resources.	Vacancy: CEO, CFO and HR Director	unquantifiable
Loss of key Staff	Introduction of renewal bonuses for staff Proposal to carry out Salary Review Review organisational structure Nurse Training Course Increase training budget	No salary structure Loss of clinical staff	$150,000 $1.2M
Natural Disaster – Loss of Vital Information	Ensure contingency plan is in place for electronic and paper documents	Building downtime procedure	unquantifiable
Natural Disaster – Loss of Communication	Ensure contingency plan is in place for communications	No communication redundancy plan	unquantifiable
Security Risk	Improve security system, enclose open areas, restrict entry points to George Town Hospital	Pending	$85,000
Inadequate Accounting skills	Recruit new staff and train existing staff	Strengthen processes, policies and procedures	$40,000
Information systems inadequate to provide financial management information in a timely manner	Plan to be established	In process	$200,000
Financial Sustainability	Streamline collections Monitor expenditure on a monthly basis Monitor revenue collections on a monthly basis	In process	Bad debts - $4.2M

6. Summarised Financial Statements

A full set of financial statements for *Cayman Islands Health Services Authority* is provided in the Appendix to this Ownership Agreement Report.

A summary of those is as follows.

Operating Statement	2005/6 Actual $	2005/6 Budget $	Annual Variance $
Revenue	47,500,051	50,636,583	(3,136,532)
Operating Expenses	62,511,340	57,549,582	4,961,757
Net Surplus/Deficit	(15,011,289)	(6,912,999)	(8,098,290)

Balance Sheet	2005/6 Actual $	2005/6 Budget $	Annual Variance $
Assets	53,653,698	75,096,039	(21,442,341)
Liabilities	8,844,111	1,596,481	7,247,630
Net Worth	44,809,587	73,499,558	(28,689,971)

Statement of Cash Flows	2005/6 Actual $	2005/6 Budget $	Annual Variance $
Net cash flows from operating activities	(10,472,984)	(7,571,241)	(2,901,743)
Net cash flows from investing activities	(2,503,913)	(4,202,759)	1,698,846
Net cash flows from financing activities	11,993,610	12,000,000	(6,390)

7. Other Financial Information

Detailed below is information about specific financial transaction required to be included in the Ownership Agreement by the Public Management and Finance Law (2005 Revision).

Transaction	2005/6 Actual $	2005/6 Budget $	Annual Variance $
Equity Investments into Cayman Islands Health Services Authority.	11,993,610	12,000,000	(6,390)
Capital Withdrawals from Cayman Islands Health Services Authority.	0	0	0
Dividend or Profit Distributions to be made by Cayman Islands Health Services Authority.	0	0	0
Government Loans to be made to Cayman Islands Health Services Authority.	0	0	0
Government Guarantees to be issued in relation to Cayman Islands Health Services Authority.	0	0	0
Related Party Payments (Non Remuneration) made to Key Management Personnel[1]	0	0	0
Remuneration[2] Payments made to Key Management Personnel	1,250,890	1,168,504	(82,386)
Remuneration Payments made to Senior Management	1,240,190	1,136,104	(104,086)

	2005/6 Actual	2005/6 Budget
No of Key Management Personnel	17	28
No of Senior Management	10	13

[1] Key Management Personnel as defined by International Public Sector Accounting Standards No 20, eg Minister, Board Member and Senior Management Team

[2] Remuneration as defined by International Public Sector Accounting Standards No 20 Par 34(a)

8. Agreement

We jointly agree that this Ownership Agreement accurately documents the ownership performance that *Cayman Islands Health Services Authority* achieved for the 2005/6 financial year

Signature]

Ministry of Health and Human Services

on behalf of the Cabinet

[Signature]

Chairman of the Board

Cayman Islands Health Services Authority

Date 2006

Financial Statements of

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

June 30, 2006

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

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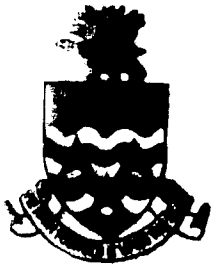

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AUDITOR GENERAL'S REPORT

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

I was engaged to audit the accompanying financial statements of the Cayman Islands Health Services Authority ("the Authority"), which comprise the balance sheet as at 30 June 2006, and the statement of revenue and expenses, statement of changes in general reserve and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes, in accordance with the provisions of Section 24(1)(a) of the *Health Services Authority Law (2005 Revision)* and Section 52(3) of the *Public Management and Finance Law (2005 Revision)*.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility for the Financial Statements
I was engaged to conduct my audit in accordance with International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs below, I do not express an opinion on the financial statements.

Basis for Disclaimer of Opinion

There were seven significant matters that prevented me from completing my audit:

1. Incomplete records relating to the opening balances of the financial statement accounts
2. Inadequate accounting records for reconciling items in bank reconciliation reports
3. Incomplete records relating to patient revenues
4. Incomplete records to value accounts receivable and reasonableness of bad debt expense
5. Incomplete records for the reporting and disclosure of fixed assets and reasonableness of depreciation expense
6. Incomplete information to determine completeness and disclosure of provisions and contingent liabilities
7. Absence of invoices/schedules to substantiate a wide range of operating expense items.

These significant matters are further described in the paragraphs below.

Incomplete records relating to the opening balances of the financial statement accounts
The Authority was unable to provide financial statements for the years ending 30 June 2004 and 2005 as no credible records were available to prepare the prior period financial statements. I could not determine the accuracy of the beginning balances of all the balance sheet accounts, including general reserves and the consistent application of accounting principles reported for the year ending 30 June 2006.

Inadequate accounting records for reconciling items in bank reconciliation reports
The Authority was unable to provide supporting documents and schedules to support $47 million worth of adjustments made in cash and cash equivalents against general reserve to agree the amounts of the bank balances and Authority's records as at 30 June 2006. I could not determine whether these adjustments made by the Authority resulting from the bank reconciliation prepared for the year ending 30 June 2006 were appropriate.

In addition, I was unable to determine the completeness, existence, and valuation of cash and cash equivalents as there were inadequate supporting documents to support all the reconciling items for the opening and ending cash in bank to verify the accuracy of the bank reconciliation statements for accounts amounting to a negative $2.2 million (overdraft).

Incomplete records relating to patient revenues
The completeness and accuracy of the gross patient services fees of $44 million reported in the statement of revenues and expenses could not be determined as I was unable to satisfy myself by the tests I performed. My tests of the controls to ensure that all patient service fees are recorded in the revenue accounting system identified significant weaknesses such as cut-off errors and missing documents.

In addition, controls were also not in place to ensure that government regulations fixing the service charge rate including the higher rates for overseas patients, and imposing certain fees such as for failed appointments, are implemented.

Incomplete records to value accounts receivable and reasonableness of bad debt expense
I was unable to determine the completeness, existence, and valuation of the accounts receivable of $47.3 million and the related allowance for bad debts of $39.6 million (accounts receivable, net $7.7 million as reported on the balance sheet) because of:

- the similar reasons as reported for patient revenues;
- the lack of individual subsidiary ledgers of the accounts receivable from the revenue accounting system;
- the exclusion of accounts receivable balances from a legacy revenue accounting system; and
- management not having appropriate policies and systems in place to compute the allowance for bad debts and not being able to provide sufficient, appropriate audit evidence to support its accounting estimate of the allowance for bad debts and the related bad debt expense of $4.2 million.

Incomplete records for the reporting and disclosure of fixed assets and reasonableness of depreciation expense
I was unable to determine the completeness, existence, and valuation of fixed assets reported on the balance sheet in the amount of $41.8 million due to the lack of appropriate accounting records. The Authority did not maintain proper accounting records for its fixed assets that would

identify all its assets and their location, cost, when they were acquired and if they are still in use. The accounting records are not maintained in a manner that would allow me to gather sufficient, appropriate audit evidence.

Because of the lack of information regarding the fixed assets of the Authority, I am also unable to satisfy myself with accuracy of the amount reported ($2.1 million) as depreciation expense in the statement of revenue and expenses.

Incomplete information to determine completeness and disclosure of provisions and contingent liabilities

I was unable to determine whether the Authority recognized all provisions and disclosed all contingent liabilities such as lawsuits, claims from former employees and by third parties as required by the accounting standards. The Authority is required to assess and determine a best estimate of the potential losses resulting from these claims. By not conducting this assessment of potential losses, the Authority did not record an amount as a provision (an expense) in the statement of revenue and expenses. I was unable to satisfy myself through a review of the Authority's records as to the possible effect of the provisions and contingent liabilities on the financial statements.

Absence of invoices/schedules to support a wide range of operating expenses items

I was unable to determine the accuracy and occurrence of major operating expenses due to the lack of supporting invoices. This included Drugs, Laboratory Supplies, Medical & Health Supplies, Equipment Spares, Electricity, Telephone Charges, Maintenance Building and Miscellaneous Supplies, and certain portions of Professional fees. Furthermore, I have not been given adequate explanation on the unusual magnitude of $1 million expensed as Miscellaneous Supplies.

In addition to the seven matters above, there are several other matters that factored into my disclaimer of opinion.

Other Matters that were a Factor in the Disclaimer of Opinion

There were several other instances where information was unavailable for me to gather sufficient, appropriate audit evidence for me to adequately conduct my audit. The following items were also identified as significant:

1. There were no inventory records for drugs in stock in the pharmacy outlets operated by the Authority resulting in the amount excluded from the inventories balance at year-end. The practice of the Authority to exclude the drugs understates the inventory balance by an amount I cannot determine. In addition, I was not provided with a reconciliation to explain the difference in the value of inventory amounting to $1.3 million between the balance reported in the financial statements and the total of detailed items in subsidiary ledgers.
2. Difference of $510 thousand between the general ledger and payroll subledger was not adequately explained.
3. Lands and Surveys documentation to determine the value of the Authority's land and buildings was not available for my audit.
4. Inability to review revenue-related transactions such as adjustments to patient fees and accounts receivable write-offs processed in the Authority's revenue accounting system.
5. The Authority did not evaluate certain assets, especially fixed assets, to determine possible impairment of its reported values. As a result, there have been no adjustments and disclosures in the financial statements.

6. Appropriate records were not provided for:
    - detailed inventory valuation reports at 30 June 2006;
    - transactions and balances relating to the damages incurred from Hurricane Ivan, including claims and recoveries made, and replacement costs;
    - invoices for sample selections of equipment purchases;
    - discrepancy in revenues from outputs delivered between the figure reported in the financial statements and the supporting schedules by $783 thousand;
    - overseas medical benefits provided to employees amounting to $732 thousand; and
    - certain employment contracts, personnel files and other human resources documents.

I was therefore unable to verify the completeness, existence, valuation and the appropriateness of the presentation and disclosures of the related balance sheet accounts, and similarly with the accuracy, completeness and occurrence of income and expenses affected by the lack of appropriate documentation.

There were several other matters where the financial statements are not prepared in accordance with International Financial Reporting Standards.

Other Errors and Lack of Disclosure

Inconsistent and inappropriate accounting policies

I found significant departures from the accounting standards used to prepare these financial statements and situations where the accounting policies used were not appropriately implemented for certain transactions and balances. The following are the significant issues noted:

1. Expenses were recorded when paid, and not when the related goods and services are received, in contravention of the accrual basis of accounting required under IFRS.
2. Inappropriate accounting policy for (ancillary) cost elements of fixed assets, and inventory (such as transport, handling, duties and other fees) that are required by financial reporting standards to be capitalized, but are being expensed in the year incurred.
3. Valuation of the land and buildings originally transferred by the Government of the Cayman Islands is on the depreciated replacement cost method. The accounting policy specifies existing use method.

Other significant presentation and disclosures matters

The financial statements do not disclose certain information required or in a specific manner that is required by IFRS. The more significant items of these are:

1. Related party balances and transactions including claims receivable from CINICO, other accounts due from other government agencies for medical services provided and to those agencies for services such as computer maintenance, legal and postal, and the required disclosures for key management personnel remuneration and balances due to or from the Authority
2. The risks and other information relating to financial assets and liabilities, including financial risk, management objectives and policies, and credit concentration
3. The value of assets under construction included in the balance sheet
4. Contractual commitments
5. Inventory amounts charged to operations during the year
6. Software is included in fixed assets, when it should be reported as part of intangibles.

7. Balances and amounts related to contributed capital and accumulated deficit required to be presented separately and a description of the reserves
8. Pharmacy revenues (sales of goods), distinct from patient revenues (sales of services)
9. Employee medical benefits involving services providing with the Authority (as opposed to overseas or other healthcare facilities) are classified as a direct charge affecting net revenue, when the charge should have been to staff cost.

Cut-off issues

I have noted $3.4 million worth of expenses charged to the year ended 30 June 2006 relate to prior years and expenses of $1.9 million were not recorded for the year ending 30 June 2006 until the succeeding financial year. I also noted bi-weekly payroll cut-off issues.

In addition, there are cut-off problems with regards to construction-in-progress with $188 thousand not recognized in the 30 June 2006 financial statements that should have been, and another $198 thousand where at least part of the work was completed as of 30 June 2006 and should have been recognized in the 30 June 2006 financial statements.

Accuracy of insurance expenses

The calculation of insurance charged to the current year has not been corrected for an error arising from calculation amounting to $681 thousand, in addition to the lack of actual policies being provided to us.

Disclaimer of Opinion

Because of the significance of the matters discussed in the preceding paragraphs, I have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I also draw attention to the following matter in regards to the fact that the form and content of the financial statements of the Authority is governed by provisions of the *Health Services Authority Law (2005 Revision)*, which requires the inclusion of budget amounts and explanation for significant variances. These budget figures were omitted from the financial statements.

Dan Duguay

Dan Duguay, MBA, FCGA
Auditor General

Cayman Islands
27 January 2010

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Balance sheet

As at June 30, 2006
(stated in Cayman Islands dollars)

	Note	
Current assets		
Cash and cash equivalents	3	(2,684,506)
Other receivables	4	4,007,453
Accounts receivable, net	5	7,742,813
Inventory	6	2,811,735
		11,877,495
Current liabilities		
Accounts payable and accrued expenses		(8,613,111)
Unfunded defined benefit obligation	9	(231,000)
		(8,844,111)
Net current assets		3,033,384
Non-current assets		
Fixed assets		
Land	7	2,303,750
Buildings, net	7	35,531,494
Medical equipment, net	7	981,675
Other fixed assets, net	7	2,959,284
		41,776,203
Net assets		$44,809,587
Represented by		
General reserve		$44,809,587

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of revenue and expenses

For the year ended June 30, 2006
(stated in Cayman Islands dollars)

	Note	
Operating income		
Gross patient services fees		
Inpatient/outpatient		$44,193,160
Less: Contractual adjustments – Health Authority staff		1,929,889
Other		42,263,271
		324,162
		42,587,433
Government Programme	8	4,750,005
Other income		
Rental income		4,500
Donations		158,113
		162,613
Operating expense		47,500,051
Staff costs		37,687,843
Other operating expense		6,241,107
Supplies & materials		5,297,772
Utilities		3,057,460
Insurance		2,351,642
Legal & professional fees		970,049
Travel & subsistence		350,356
Training		225,901
Reference materials		35,474
		56,217,604
Net operating loss		**(8,717,553)**
Other expenses		
Depreciation		
Buildings	7	779,494
Medical equipment	7	498,401
Other fixed assets	7	784,176
Provision for bad debts		2,062,071
		4,231,665
Net loss for the year		6,293,736
		$(15,011,289)

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of changes in general reserve

For the year ended June 30, 2006
(stated in Cayman Islands dollars)

	Note	
General reserve at beginning of year		$47,827,266
Net loss for the year		(15,011,289)
Capital contributed by Government	11	11,993,610
General reserve at end of year		$44,809,587

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of cash flows

For the year ended June 30, 2006
(stated in Cayman Islands dollars)

	Note	
Cash provided by/(applied in):		
Operating activities		
Net loss for the year		$(15,011,289)
Add items not affecting working capital:		
Depreciation		2,062,071
Net changes in non-cash working capital balances relating to operations:		
Accounts receivable, net, increase		(2,170,945)
Other receivables, decrease		3,126,019
Inventory, increase		(1,514,441)
Accounts payable and accrued expenses, increase		2,662,601
Unfunded defined benefit obligation, increase		373,000
		(10,472,984)
Investing activities		
Cost of fixed assets purchased	7	(2,503,913)
Financing activities		
Capital contributed by Government	11	11,993,610
Decrease in cash and cash equivalents during the year		(983,287)
Cash and cash equivalents at beginning of year		(1,701,219)
Cash and cash equivalents at end of year		$(2,684,506)

See accompanying notes to financial statements.

1. Background information

The Cayman Islands Health Services Authority (the "Authority" or 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 (formerly, George Town 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
  - Cayman Brac Dental Clinic

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

Prior year financial statements

Financial statements as of and for the years ended 30 June 2005 and 2004 have not been prepared by the Authority. As a result, corresponding figures for the year ended 30 June 2005 cannot be presented.

2. 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:

2. Significant accounting policies (continued)

(a) Basis of accounting

The financial statements of the Health Authority are prepared on an accruals basis under the historical cost convention.

(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.

(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, accounts receivable and other receivables and assets.

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.

(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 and current accounts to be cash and cash equivalents.

2. 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/depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the statement of income on a straight-line basis at the following rates 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

(e) Impairment

The carrying amount of the Health Authority's assets other than inventories (see note 2(h)) are reviewed at each balance sheet 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 balance sheet date. Foreign exchange differences arising on translation are recognised in the statement of revenue and expenses. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated 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.

2. **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 an allowance for obsolete and slow-moving items. Any change in the allowance for obsolescence is reflected in the statement of revenue and expenses in the year of change.

(i) Revenue recognition

Patient revenue is recognized on the day 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 said institution (see statement of revenue & expenses). The portion provided by the institution is considered a contractual adjustment against gross revenue.

Contributions to defined contribution part of the Public Service Pension Plans (the "Plan") are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit part of the Plan, the cost of providing benefits is determined using Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Health Authority's defined benefit obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The unfunded defined benefit liability recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

3. Cash and cash equivalents

Petty cash	$6,700
Bank accounts	(2,691,206)
	$(2,684,506)

4. Other receivables

Other accounts receivable	$3,980,666
Salary advance	26,787
	$4,007,453

5. Accounts receivable

Accounts receivable	$47,357,093
Allowance for bad debts	(39,614,280)
	$7,742,813

6. Inventory

Medical supplies	$1,447,634
Pharmaceutical supplies	1,364,101
	$2,811,735

7. Fixed assets

For the year ended June 30, 2006	Land	Buildings	Medical equipment	Other fixed assets	Total
Cost:					
At beginning of year	$2,303,750	$37,882,866	$5,868,436	$5,566,707	$51,621,759
Additions during year	-	1,825,903	157,235	520,775	2,503,913
Disposals during year	-	-	-	-	-
At end of year	2,303,750	39,708,769	6,025,671	6,087,482	54,125,672
Accumulated depreciation:					
At beginning of year	-	3,397,781	4,545,595	2,344,022	10,287,398
Disposals during year	-	-	-	-	-
Charge for year	-	779,494	498,401	784,176	2,062,071
At end of year	-	4,177,275	5,043,996	3,128,198	12,349,469
Net book value:					
At June 30, 2006	$2,303,750	$35,531,494	$981,675	$2,959,284	$41,776,203

7. Fixed assets (continued)

Included in other fixed assets: Construction in progress, implementation of new computer system, furniture & fittings, motor vehicles and office equipment.

Under the Health Services Authority Law, the Cayman Islands Government vested in the Health Authority various health care facilities in the Cayman Islands. These properties were valued on January 1, 2001 by the Department of Lands & Survey on the basis of existing use value.

8. Government programmes

Public health	$2,750,005
Faith Hospital	2,000,000
	$4,750,005

9. Pension

(a) Defined Benefit Plan

The Public Services Pension Plan (the "Plan") is managed by the Government through the Public Services Pension Board ("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 Authority that the decision to keep the unfunded defined benefit liability a central liability of the Government has been reversed and the Authority is expected to recognize the unfunded defined benefit liability on its financial statements.

To determine the defined benefit obligation of the Authority under the Plan, a professional actuary was engaged to conduct annual studies. The most recent report of the independent professional actuary was completed as at 30 June 2006 (dated 14 March 2008) which identified the Authority's unfunded defined benefit pension liability as at that date and the expenses associated with the plan participation for the financial year then ended.

The net liability arising from defined benefit obligation as at 30 June 2006 is as follows:

	$000
Net present value of funded obligation	(4,798)
Fair value of Plan assets	4,621
	(177)
Unrecognised actuarial net gains	(54)
Net liability arising from defined benefit obligation	(231)

9. Pension (continued)

The movement in the present value of the funded obligation was as follows:

	$000
Defined benefit obligation, beginning of year	4,253
Current service cost	1,009
Interest cost	221
Plan participant contributions	370
Net actuarial gain on obligations	(830)
Transfers between other participating entities	(225)
Defined benefit obligation, end of year	4,798

The movement in the fair value of the Plan assets allocated to the Health Authority during the year was as follows:

	$000
At the beginning of year	3,570
Employer and participant contributions	975
Expected return on assets net of expense	278
Actuarial gain on plan assets	23
Transfers between other participating Entities	(225)
At the end of year	4,621

Reconciliation showing movement of unfunded liability during the period:

	$000
Balance (surplus) as at 31 December 2004	753
Reconciliation of unfunded liability, 30 June 2005	(611)
Reconciliation of unfunded liability, 30 June 2006	(373)
Balance (unfunded) as at 30 June 2006	(231)

As a result of the past service liability not being fully recognized in the past years due to delays in the actuarial valuations, there was an increase of $373 thousand to the unfunded pension liability. This amount was recognized as an expense in the statement of revenue & expenses as at 30 June 2006.

The amount recognized in the statement of revenue and expenses under staff costs for the year ended 30 June 2006 in respect of the defined benefit plan are as follows:

	$000
Current service cost, net of employee contributions	1,009
Interest cost	221
Expected return on assets	(278)
Recognition of net loss	26
Pension Expense	978

9. Pension (continued)

The distribution of the Plan assets per major category administered by the PSPB as at 30 June 2006 was as follows:

	$000
Global equities	$106,371
US equities	Nil
Bonds	66,967
Other	6,742
Cash	1,041
Cash term deposits	Nil

The assumptions made for the expected rates of return on assets have been derived by considering best estimates for the expected long-term real rates of return from the main asset classes and the investment policy targets. This assumption reflects the expected long-term rate of return on assets, net of investment and administrative expenses.

The principal actuarial assumptions at the date of valuation:

A. Cost method - projected unit credit

B. Economic Assumptions used to determine the net Benefit Obligations as at:

Discount rate	6.25%
Expected long-term rate of return (net of expense)	7.00%
Salary increase	4.00%
Future pension increases	2.50%
Inflation rate	2.50%
Expected remaining working lives (years)	10.92

C. Other assumptions –

1. Mortality – standard U.S. mortality rates
2. Retirement age – completion of age 57 and 10 years of service

D. Asset valuation –Fair (market) value

The Health Authority expects to make a contribution of $632,000 to the fund during the next financial year. The current number of Health Authority employees enrolled under the defined benefit plan with the Public Service Pension Fund is 176.

9. Pension (continued)

b) Defined Contribution Plan

Employees who are not participants in the defined benefit part of the plan are enrolled in the defined contribution pension part of the plan. The total employees enrolled in the defined contribution plan with the local defined contribution pension plan at 30 June 2006 is 471.

During the year ended 30 June 2006, the Authority and its employees contributed to the fund 7% and 6%, respectively.

The total amount recognised as a pension expense for the year ended 30 June 2006, inclusive of both defined benefit and defined contribution parts, was $2,630,023.

10. Contingencies and commitments

(a) Legal claims

The Health Authority is a defendant to several claims that have been brought against it over the year as a result of its medical operations. The Health Authority believes these claims are without merit or are covered by insurance and accordingly has not made any provision for losses in their financial statements. Settlements, if any, in excess of insurance coverage, would be accounted for as a charge against operations in the year in which settlement arise.

There are a number of claims outstanding that relate to services provided prior to the establishment of the Health Authority. No provision 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) Scholarships and education funding

The Health Authority provides scholarships and education funding to employees. Training costs are recognised in the statement of income in the year in which the expenses arise.

11. Related party transactions

The Health Authority received subsidies during the year of $11,993,610 from the Ministry. These payments do not have to be repaid and have been treated as a cash injection into the Health Authority (2006: nil Capital drawdown & $11,993,610 Equity drawdown).

The Health Authority received $2,750,005 during the year from the Ministry to provide public health programmes. This income has been recorded under government programmes.

The Health Authority provides health care for employees of the Government, their dependants and indigent persons. The Health Authority is reimbursed by the Ministry for the services to the indigent persons. The Authority received $2,000,000 for the year from the Government to maintain the Faith Hospital.

12. Financial instruments and associated risks

For certain of the Health Authority's financial instruments, including cash and cash equivalents, accounts receivable, other receivables, 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 risk to which the Health Authority is exposed is credit risk.